



PHILIP MORRIS
(PAKISTAN) LIMITED

QUARTERLY REPORT

For the 1st quarter ended March 31, 2019
(Un-audited)

QUARTERLY REPORT

For the 1st quarter ended March 31, 2019
(Un-audited)



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COMPANY INFORMATION

BOARD OF DIRECTORS

KAMRAN Y. MIRZA	(Chairman)
JOAO MANUEL	(Chief Executive)
MICHAEL SCHARER	
SHARMEN KARTHIGASU	
ANTON STANKOV	(until February 11, 2019)
MUHAMMAD ZEESHAN	(from February 11, 2019)
EE WON CHEN	
LT. GEN. (R) TARIQ KHAN	

COMPANY SECRETARY

MUSTAFA KAMAL ZUBERI

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN	(Chairman)
SHARMEN KARTHIGASU	
EE WON CHEN	
MUSTAFA KAMAL ZUBERI	(Secretary)

HUMAN RESOURCE & REMUNERATION COMMITTEE

KAMRAN Y. MIRZA	(Chairman)
JOAO MANUEL	
MICHAEL SCHARER	

AUDITORS

A. F. FERGUSON & CO.
Chartered Accountants

BANKERS

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

REGISTERED OFFICE

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

FACTORIES

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

SHARE REGISTRAR

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

Website : www.philipmorrispakistan.com.pk

Email : pmpk.info@pmi.com



DIRECTORS' REVIEW

The Directors of the Company would like to report on the Company's performance for the three months period ended March 31, 2019.

During the period, the Company's gross turnover increased by 33% compared to the same period of 2018, mainly attributable to higher cigarette prices driven by increase in excise rates as per the Finance Supplementary bill issued in September, 2018 combined with higher volume due to trade inventory replenishment.

The introduction of the third excise tier arrested the exponential growth of non-tax paid cigarette segment ("Illicit trade"), providing a more level playing field by narrowing the price gap between tax paid and non-tax paid cigarettes. While the overall cigarette consumption has remained relatively static, there was a gradual shift in volumes from the illicit cigarette segment towards tax paid products. However, the Finance Supplementary bill dated September 18, 2018 imposed ~46% increase in the excise rates for the third excise tier, which led to a tax-driven price increase and has again widened the price gap between the tax paid and non-tax paid cigarettes.

The Company continued to invest in marketing activities to enhance its brand portfolio. The Company launched in the market its international brand Parliament in Q3'18 as a value offering to adult smokers in the mid-tier. The Company recorded an Operating Loss before tax of PKR 1,736 million for the three months period ended March 31, 2019, compared to an Operating Profit before tax of PKR 619 million for the same period of 2018, mainly due to the management decision to reorganize its operational footprint by closing its factory in Kotri.

During the period, the Company's contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies, was PKR 6,927 million, as compared to PKR 4,437 million for the same period in 2018. The third excise tax tier has provided a wider and more sustainable base for the growth of government revenues which would have seen a significant decline had the third excise tax tier not been introduced.

The company is supporting Government policies and actions to address the issue of smuggled and non-tax paid cigarettes including enhanced enforcement through the Inland Revenue Force of the Federal Board of Revenue ("FBR"). The third excise tax tier provided a wider and more sustainable base for the growth of government revenues which would have otherwise seen a significant decline.

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

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

On behalf of the Board of Directors,

KAMRAN Y. MIRZA
Chairman

JOAO MANUEL
Chief Executive

Karachi: April 25, 2019



ڈائریکٹرز رپورٹ

کمپنی کے ڈائریکٹرز، 31 مارچ 2019ء کو ختم ہونے والی سہ ماہی کے لیے کمپنی کی کارکردگی کے بارے میں رپورٹ پیش کر رہے ہیں۔

زیر جائزہ عرصے کے دوران، سنہ 2018ء میں، اسی عرصے کے مقابلے میں، کمپنی کے مجموعی محصولات میں 33 فیصد اضافہ ہوا جس کی بنیادی وجہ، ستمبر، 2018ء میں، ضمنی مالی بل میں ایکسائز کی شرحوں میں اضافہ تھا، اور اسی کے ساتھ، ٹریڈ انویٹری کے دوبارہ معمول پر آنے سے بلند حجم تھا، جو گریٹ کی قیمتوں میں اضافے کی وجہ بنا۔

ایکسائز ٹیکس کی تیسری سطح متعارف ہونے سے بنائیکس ادا شدہ سگریٹوں کے شعبے میں غیر معمولی اضافہ رک گیا جس سے ٹیکس ادا شدہ سگریٹوں اور بنائیکس ادا شدہ سگریٹوں کی قیمتوں میں فرق کم ہونے سے برابری کے مقابلے کی فضا پیدا ہو گئی۔ اگرچہ سگریٹوں کا استعمال نسبتاً سہولت رکھتا رہا، غیر قانونی سگریٹوں کے استعمال کے مقابلے میں ٹیکس ادا شدہ مصنوعات کے استعمال میں بتدریج تبدیلی واقع ہوئی۔ تاہم، مؤرخہ 18 ستمبر 2018ء، ضمنی مالی بل میں ایکسائز ٹیکس کی تیسری سطح میں کم و بیش 46 فیصد تک اضافہ کیا گیا جس سے بعد از ٹیکس قیمت میں اضافہ ہوا اور اس طرح ٹیکس ادا شدہ اور بنائیکس ادا شدہ سگریٹوں کی قیمتوں کے درمیان فرق ایک مرتبہ پھر بڑھ گیا۔

کمپنی نے اپنے برانڈ کا پورٹ فولیو بڑھانے کے لیے مارکیٹنگ کی سرگرمیوں میں سرمایہ کاری جاری رکھی۔ سنہ 2018ء کی تیسری سہ ماہی کے دوران، کمپنی نے مارکیٹ میں، اپنا اینڈ الا تو اس براڈ پارٹیکلنٹ (Parliament) متعارف کرایا۔ یہ برانڈ بالغ گریٹ نوشوں کے درمیانے طبقے کے لیے ہے۔ کمپنی کو 31 مارچ، 2019ء کو ختم ہونے والی سہ ماہی کے دوران 1,736 ملین روپے کا قبل از ٹیکس آپریٹنگ نقصان اٹھانا پڑا جبکہ سنہ 2018ء میں، اس عرصے کے دوران، یہ 619 ملین روپے کا قبل از ٹیکس آپریٹنگ منافع تھا جس کی بنیادی وجہ کوٹری میں فیئری بند کرنے کے بعد آپریٹنگ فٹ پرنٹ کے دوبارہ منظم کرنے کا فیصلہ تھا۔

اسی عرصے کے دوران، ایکسائز ٹیکس، سیلز ٹیکس اور دیگر سرکاری محصولات کی صورت میں، بنیادی طور پر خزانے میں، کمپنی کا حصہ، 6,927 ملین روپے تھا جو سنہ 2018ء کے دوران، اسی عرصے کے لیے 4,437 ملین روپے تھا۔ ایکسائز کی تیسری سطح نے سرکاری محصولات میں اضافے کے لیے زیادہ وسیع اور پائیدار بنیاد فراہم کی ہے۔ ٹیکس کی تیسری سطح، اگر متعارف نہ کرائی جاتی تو اس میں نمایاں کمی واقع ہو جاتی۔


کمپنی، حکومت کی ایسی تمام پالیسیوں اور اقدامات کی حمایت کرتی ہے جن سے اسمگل شدہ اور بنائیکس ادا شدہ سگریٹوں کے مسئلے سے نمٹا جاسکے۔ ان میں فیڈرل بورڈ آف ریونیو ("ایف آئی آر") کی ان لینڈ ریونیو فورس (Inland Revenue Force) کی اضافی اور مؤثر کارروائیوں کی بھی بھرپور حمایت کرتی ہے۔ ٹیکس کی تیسری سطح نے، سرکاری محصولات میں اضافے کے لیے ایک وسیع اور زیادہ پائیدار بنیاد فراہم کی ہے جو، بصورت دیگر، متزلی کا شکار تھا۔

مالی ڈھانچے، عالمی وسائل سے استفادہ، مارکیٹنگ کی سرگرمیوں کے لیے حکمت عملی پر عمل درآمد، مصنوعات کے معیار میں مسلسل بہتری، عملی اور طریقہ کار میں بہتری اور وسائل کی فراہمی اور استعمال کے ذریعے انتظامیہ کی مجموعی کارکردگی میں بہتری لانے کے پر عزم ہے۔ دشوار ماحول میں ہمارا بڑھتا ہوا مجموعی منافع اور اخراجات پر کنٹرول کمپنی کے منافع کو بہتر بنانے کے اہداف میں شامل ہیں۔

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

بورڈ آف ڈائریکٹرز کی جانب سے


جواؤ مینوٹ
چیف ایگزیکٹو


کامران یوسف مرزا
چیئر مین

بتاریخ: کراچی، 25 اپریل 2019



CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (Un-audited)

AS AT MARCH 31, 2019

	Note	March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
FIXED ASSETS			
Property, plant and equipment	5	5,294,537	7,323,760
Intangibles		21,727	24,270
		<u>5,316,264</u>	<u>7,348,030</u>
Investment in a subsidiary company	6	1	1
Long term deposits and prepayments		51,445	50,545
Deferred taxation	7	1,169,947	659,761
		<u>6,537,657</u>	<u>8,058,337</u>
CURRENT ASSETS			
Stores and spares - net		222,088	226,899
Stock in trade - net	8	5,511,699	5,800,812
Advances		22,871	22,288
Prepayments		108,924	140,689
Non-current assets held for sale	9	-	-
Other receivables		26,141	12,503
Income tax - net		963,562	878,983
Staff retirement benefits		52,412	52,412
Cash and bank balances		2,075,607	2,965,229
		<u>8,983,304</u>	<u>10,099,815</u>
TOTAL ASSETS		<u>15,520,961</u>	<u>18,158,152</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital		12,000,000	12,000,000
Issued, subscribed and paid-up capital			
- Ordinary shares		615,803	615,803
- Preference shares		10,464,000	10,464,000
		<u>11,079,803</u>	<u>11,079,803</u>
Transaction cost on issuance of preference shares - net of tax		(33,911)	(33,911)
		<u>11,045,892</u>	<u>11,045,892</u>
Reserves		298,941	1,564,754
TOTAL EQUITY		<u>11,344,833</u>	<u>12,610,646</u>
NON CURRENT LIABILITIES			
Lease liabilities		144,928	-
CURRENT LIABILITIES			
Trade and other payables		3,390,026	4,917,251
Lease liabilities		111,906	-
Unclaimed dividend		34,309	34,608
Accrued mark-up on short term running finance		140	113
Sales tax and excise duty payable		494,819	595,534
TOTAL LIABILITIES		<u>4,031,200</u>	<u>5,547,506</u>
TOTAL EQUITY AND LIABILITIES		<u>15,520,961</u>	<u>18,158,152</u>
CONTINGENCIES AND COMMITMENTS	10		

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

Karachi: April 25, 2019

KAMRAN Y. MIRZA
Chairman

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer



CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Un-audited)

FOR THE QUARTER ENDED MARCH 31, 2019

	Note	Quarter Ended	
		March 31, 2019 (Un-audited) (Rupees in thousand)	March 31, 2018 (Un-audited)
Turnover - net	11	4,095,984	3,785,412
Cost of sales	12	2,340,620	1,893,835
Gross profit		1,755,364	1,891,577
Distribution and marketing expenses		631,125	915,562
Administrative expenses		315,510	318,476
Other expenses	13	2,662,076	101,583
Other income		(117,600)	(63,245)
		3,491,111	1,272,376
Operating (loss) / profit		(1,735,747)	619,201
Finance cost and bank charges		15,791	5,164
(Loss) / Profit before taxation		(1,751,538)	614,037
Taxation	14	(485,725)	208,940
(Loss) / Profit after taxation		(1,265,813)	405,097
..... (Rupees)			
(Loss) / Earnings per share			
- Basic and Diluted	15	(20.56)	6.58

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

Karachi: April 25, 2019

KAMRAN Y. MIRZA
Chairman

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer



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

FOR THE QUARTER ENDED MARCH 31, 2019

	Issued, subscribed and paid-up capital		Transaction cost on issuance of preference shares -net of tax	Capital Reserves		Subtotal Capital Reserves	Reserve			Subtotal-Reserves	Total
				Reserve for share based payments	Re-measure-ment of staff retirement gratuity plan-net of tax		Revenue Reserves				
	General reserve	Unappropriated loss					Subtotal Revenue Reserves				
Ordinary shares	Preference shares										
----- (Rupees in thousand) -----											
Balance as at January 1, 2018	615,803	10,464,000	(33,911)	4,954	(198,624)	(193,670)	5,424,000	(3,374,946)	2,049,054	1,855,384	12,901,276
Transactions with owners											
- Final preference cash dividend for the year ended December 31, 2017	-	-	-	-	-	-	(439,488)	-	(439,488)	(439,488)	(439,488)
Profit after taxation for the three months period ended March 31, 2018	-	-	-	-	-	-	-	405,097	405,097	405,097	405,097
	-	-	-	-	-	-	-	405,097	405,097	405,097	405,097
Balance as at March 31, 2018	615,803	10,464,000	(33,911)	4,954	(198,624)	(193,670)	4,984,512	(2,969,849)	2,014,663	1,820,993	12,866,885
Balance as at January 1, 2019	615,803	10,464,000	(33,911)	5,271	(258,115)	(252,844)	4,676,610	(2,859,012)	1,817,598	1,564,754	12,610,646
Total comprehensive loss											
Loss after taxation for the three months period ended March 31, 2019	-	-	-	-	-	-	-	(1,265,813)	(1,265,813)	(1,265,813)	(1,265,813)
	-	-	-	-	-	-	-	(1,265,813)	(1,265,813)	(1,265,813)	(1,265,813)
Balance as at March 31, 2019	615,803	10,464,000	(33,911)	5,271	(258,115)	(252,844)	4,676,610	(4,124,825)	551,785	298,941	11,344,833

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

Karachi: April 25, 2019

KAMRAN Y. MIRZA
Chairman

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer



CONDENSED INTERIM STATEMENT OF CASH FLOW (Un-audited)

FOR THE QUARTER ENDED MARCH 31, 2019

		Quarter Ended	
		March 31, 2019	March 31, 2018
Note		(Un-audited)	(Un-audited)
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	17	(531,749)	1,423,488
Finance cost paid		(15,764)	(4,960)
Income taxes paid		(109,040)	(62,311)
Profit received on savings accounts		62,494	11,481
Long term deposits and prepayments		(900)	-
Net cash generated (used) / from in operating activities		(594,959)	1,367,698
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(327,810)	(117,708)
Acquisition of intangible		-	(4,626)
Proceeds from disposal of items of property, plant and equipment		65,131	69,599
Net cash used in investing activities		(262,679)	(52,735)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(299)	-
Principal element of lease payments		(31,685)	-
Net cash generated used financing activities		(31,984)	-
Net increase in cash and cash equivalents during the period		(889,622)	1,314,963
Cash and cash equivalents at the beginning of the period		2,946,368	237,239
Cash and cash equivalents at the end of the period	18	2,056,746	1,552,202

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

KAMRAN Y. MIRZA
Chairman

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: April 25, 2019



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

FOR THE QUARTER ENDED MARCH 31, 2019

1. THE COMPANY AND ITS OPERATIONS

Philip Morris (Pakistan) Limited (the Company) was incorporated in Pakistan on February 10, 1969 as a public limited company under the Companies Act, 1913 (now the Companies Act, 2017). The Company is listed on the Pakistan Stock Exchange. The principal activity of the Company is the manufacturing and sale of cigarettes and tobacco products. Its registered office is situated at 19th Floor, The Harbour Front, Dolmen City, HC - 3, Block 4, Clifton, Karachi, Pakistan.

- 1.1 In view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002/361 dated January 17, 2019 from the requirement of section 228(7) of the repealed Companies Ordinance, 1984 (the Ordinance), the consolidated financial statements of the group comprising the Company and its subsidiary, Laksonpremier Tobacco Company (Private) Limited, have not been prepared. The exemption is, however, subject to the condition that any material and relevant details of the aforesaid subsidiary shall be prominently disclosed by the Company.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

- 2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

(a) International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

(b) Provisions of and directives issued under the Companies Act, 2017.

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

These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2018 as they provide an update of previously reported information.

- 2.2 The comparative statement of financial position presented in these condensed interim financial statements as at December 31, 2018 has been extracted from the audited financial statements of the Company for the year then ended (December 2018 financial statements). The comparative statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the three month period ended March 31, 2019 have been extracted from the condensed interim financial statements of the Company for the three month period then ended.



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

- 2.3 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 2018 financial statements, except as detailed in note 4 below.

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

- 3.1 The preparation of these condensed interim financial statements in conformity with approved accounting standards 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 2018 financial statements.
- 3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2018 financial statements.

4. CHANGE IN ACCOUNTING POLICY

- 4.1 Adoption of IFRS 16 'Leases'

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements and discloses the new accounting policies that have been applied from January 1, 2019.

The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on January 1, 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The weighted average Company's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 12.62 %.



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

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

	2019 (Rupees in thousand)
right-of-use assets – increased by	314,576
prepayments – decreased by	26,057
lease liabilities – increased by - current portion	149,307
- non-current portion	139,212
	288,519

The net impact on unappropriated profit as at January 1, 2019 was Nil.

The right-of-use assets for property leases as disclosed note 5 were measured on a retrospective basis as if the new rules had always been applied at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

5. PROPERTY, PLANT AND EQUIPMENT

	Note	March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
		(Rupees in thousand)	
Operating property, plant and equipment	5.1	3,948,404	6,222,136
Right-of-use assets	5.6	261,263	-
Capital work-in-progress (CWIP)	5.5	1,082,338	1,100,341
Major capital spares and stand-by equipment		2,532	1,283
		5,294,537	7,323,760

5.1 Operating property, plant and equipment

Book value at the beginning of the period / year		6,222,136	7,260,775
Additions / transfers from CWIP during the period / year	5.2	344,564	714,823
		6,566,700	7,975,598
Disposals during the period / year - net book value	5.3	(22,604)	(47,431)
Write offs during the period / year - net book value		(152)	(14,071)
Impairment during the period / year - net book value	13.1	(1,229,506)	(131,624)
Transfer to held for sale	9	(1,048,260)	-
Depreciation charge during the period / year	5.4	(317,774)	(1,560,336)
		(2,618,296)	(1,753,462)
Book value at the end of the period / year		3,948,404	6,222,136



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

	Quarter Ended	
	March 31, 2019 (Un-audited) (Rupees in thousand)	March 31, 2018 (Un-audited) (Rupees in thousand)
5.2 Additions / transfers from CWIP during the period		
Buildings on freehold land	3,692	665
Plant and machinery	266,864	9,606
Furniture and fixtures	-	4,242
Vehicles	72,194	12,648
Power and other installations	-	12,956
Computer equipment	1,814	6,691
	<u>344,564</u>	<u>46,808</u>
	Quarter Ended	
	March 31, 2019 (Un-audited) (Rupees in thousand)	March 31, 2018 (Un-audited) (Rupees in thousand)
5.3 Disposals during the period - net book value		
Freehold land	46	14,054
Building on freehold land	-	10,958
Vehicles	22,558	9,422
	<u>22,604</u>	<u>34,434</u>
5.4 Depreciation charge during the period on		
- property, plant and equipment	<u>317,774</u>	<u>289,583</u>
Depreciation charge during the period on		
- Right-of-use assets	<u>62,772</u>	<u>-</u>
	March 31, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited) (Rupees in thousand)
5.5 Capital work-in-progress		
Civil works	58,298	81,015
Plant and machinery	581,319	568,971
Power and other installations	274,358	192,625
Furniture and fixtures	76,210	70,929
Computer equipment pending installations	11,487	8,092
Advance to suppliers and contractors	80,666	178,709
	<u>1,082,338</u>	<u>1,100,341</u>
5.6 This recognized right-of-use assets relates to buildings.		



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

6. 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. The profit and loss account of the subsidiary company for the three months period ended March 31, 2019 amounted 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 March 31, 2019 amounted to Rs Nil, in accordance with the unaudited condensed interim financial statements for the three months period then ended March 31, 2019.

The auditors of the subsidiary company have expressed an unmodified audit opinion on the financial statements of the subsidiary company for the year ended December 31, 2018. The audited financial statements of the subsidiary company are available for inspection at the Company's registered office and are available to the members on request without any cost.

7. DEFERRED TAXATION

Note	March 31, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	946	2,459
Unutilised tax loss	940,324	1,043,353
Unutilised tax credits	14,595	14,595
Provision for spares	25,212	26,890
Provision for obsolete stocks	272	282
Provision for doubtful debts	751	778
Worker's welfare fund	11,266	11,684
	993,366	1,100,041
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	176,581	(440,280)
Deferred tax asset	1,169,947	659,761

8. STOCK IN TRADE - net

Raw and packing materials	8.1 and 8.2	3,739,654	4,610,723
Work-in-process		125,519	143,281
Finished goods	8.2	1,647,533	1,047,815
		5,512,706	5,801,819
Provision for obsolete stocks		(1,007)	(1,007)
		5,511,699	5,800,812



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

- 8.1 Includes raw & packing material in transit aggregating Rs 173.061 million (December 31, 2018: Rs 264.292 million)
- 8.2 During the current period, the Company has written off a provision against raw & packing material aggregating Rs Nil (December 31, 2018: Rs 6.789 million) and finished goods aggregating Rs Nil million (December 31, 2018: Rs 36.914 million).

9. NON-CURRENT ASSETS HELD FOR SALE

As part of a strategic review to optimize process efficiencies and operational effectiveness and to best position the Company for a strong and viable future growth, management of the Company has decided to reorganize its operational footprint by closing its factory in Kotri. The company has filed an application for closure of the factory and has retrenched workers employed by the Company in Kotri. PMPKL is committed to complying with all applicable laws and in this instance has taken every possible measure to fulfil its legal obligations.

		March 31, 2019 (Un-audited) (Rupees in thousand)
Transferred from property, plant and equipment	5.1	1,048,260
Less: impairment charge during the period	13.1	(1,048,260)
		<u>-</u>

10. CONTINGENCIES AND COMMITMENTS

10.1 Guarantees

Indemnities given to banks for guarantees issued by them in the normal course of business totaling Rs 119.961 million (2018: Rs 69.565 million).

10.2 Commitments

Note	March 31, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited) (Rupees in thousand)
Capital expenditure contracted for but not incurred	<u>549,740</u>	<u>572,399</u>
Post dated cheques	<u>31,876</u>	<u>31,876</u>
Letters of credit	<u>247,538</u>	<u>121,445</u>

10.3 Contingencies

There is no significant change in the status of the cases set out in note 20.3 to 20.7 to the December 2018 financial statements.



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

11. TURNOVER - net

	Quarter Ended	
	March 31, 2019 (Un-audited)	March 31, 2018 (Un-audited)
	(Rupees in thousand)	
Gross turnover	11,010,193	8,282,166
Less: Trade discount	264,192	234,724
Sales tax	1,663,268	1,271,750
Excise duty	4,986,749	2,990,280
	6,914,209	4,496,754
	<u>4,095,984</u>	<u>3,785,412</u>

12. COST OF SALES

Raw and packing materials consumed

Opening stock	4,610,723	5,747,841
Purchases, redrying and related expenses	1,374,520	1,177,411
	5,985,243	6,925,252
Closing stock	(3,739,654)	(5,107,948)
	<u>2,245,589</u>	<u>1,817,304</u>

Government levies	12,012	10,652
Manufacturing expenses	665,686	526,393
	<u>2,923,287</u>	<u>2,354,349</u>

Work-in-process

Opening stock	143,281	107,962
Closing stock	(125,519)	(110,432)
Sale of waste	(711)	(1,455)
	17,051	(3,925)
Cost of goods manufactured	<u>2,940,338</u>	<u>2,350,424</u>

Finished goods

Opening stock	1,047,815	386,779
Closing stock	(1,647,533)	(843,368)
	(599,718)	(456,589)
	<u>2,340,620</u>	<u>1,893,835</u>



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

	Note	Quarter ended	
		March 31, 2019 (Un-audited) (Rupees in thousand)	March 31, 2018 (Un-audited)
13. OTHER EXPENSES			
Exchange loss - net		14,956	52,319
Employee separation costs		363,763	-
Property, plant and equipment written off		152	-
Impairment charge on items of property, - plant and equipment	5.1 & 13.1	1,229,506	19,386
Impairment charge on asset held for sale	9 & 13.1	1,048,260	-
Capital work-in-progress written off		-	4,821
Workers' welfare fund		-	3,869
Workers' profit participation fund		-	9,672
Loss on disposal of Buildings on freehold land		-	1,633
Miscellaneous expenses		5,439	9,883
		<u>2,662,076</u>	<u>101,583</u>

- 13.1 The impairment of assets have been recorded due to the closure of the Company's manufacturing facility in Kotri based on the best estimates of the management. Management believes that this decision will not impact the Company's ability to supply products to the market. Furthermore, as at March 31, 2019, management has initiated a process of detailed valuation exercise and its impact, if any, will be incorporated upon completion of the exercise in the financial statements.

14. TAXATION

Current	24,461	46,215
Deferred	(510,186)	162,725
	<u>(485,725)</u>	<u>208,940</u>

15. (LOSS) / EARNINGS PER SHARE – BASIC AND DILUTED

	Quarter ended	
	March 31, 2019 (Un-audited) (Rupees in thousand)	March 31, 2018 (Un-audited)
15.1 Basic (Loss) / earnings per share		
(Loss) / earnings for the period after taxation	<u>(1,265,813)</u>	<u>405,097</u>
	(No. of shares)	
Weighted average number of ordinary shares	<u>61,580,341</u>	<u>61,580,341</u>
	(Rupees)	
Basic (Loss) / earnings per share	<u>(20.56)</u>	<u>6.58</u>



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

- 15.2 The 1,046,400,000 preference shares are not included in the calculation of diluted earnings per share because they are antidilutive for three month period ended March 31, 2019. These preference shares could potentially dilute basic earnings per share in the future.

16. RELATED PARTIES DISCLOSURES

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

Transactions with related parties are as follows:

Relationship	Nature of transaction	Quarter ended	
		March 31, 2019 (Un-audited)	March 31, 2018 (Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and services	15,984	17,562
	Purchase of goods and services	375,734	60,384
	Royalty charges	26,018	23,210
Staff retirement plans	Contribution to gratuity fund	16,820	14,150
	Contribution to provident fund	18,360	17,962
Key management personnel	Remuneration and benefits - note 16.1.1 to 16.1.4	21,972	1,623

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

- 16.1.1 The Company considers its chief executive and directors as key management personnel.
- 16.1.2 The chief executive, executive directors and certain executives are provided with free use of the company maintained cars.
- 16.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.
- 16.1.4 The two independent directors were paid directors' fee of Rs. 0.880 million during the quarter (March 31, 2018: Rs. 0.880 million)



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

16.2 Balance outstanding with related parties are as follows:

	March 31, 2019 (Un-audited)	December 31, 2018 (Audited)
	(Rupees in thousand)	
Current assets		
Staff retirement plans	52,412	52,412
	<u>52,412</u>	<u>52,412</u>
Current liabilities		
Group undertakings	331,499	495,242
Staff retirement plans	-	128
	<u>331,499</u>	<u>495,370</u>

17. CASH GENERATED FROM OPERATIONS

	Quarter ended	
	March 31, 2019 (Un-audited)	March 31, 2018 (Un-audited)
Note	(Rupees in thousand)	
Profit / (loss) before taxation	(1,751,538)	614,037
Adjustments for non cash changes and other items:		
Depreciation	380,546	289,583
Amortisation	2,543	2,355
Provision for obsolete stocks	-	(1,248)
Profit on short term deposits	(62,494)	(11,481)
Loss/(Profit) on disposal of property, - plant and equipment	(42,527)	(35,165)
Property, plant and equipment written off	152	108
Impairment charge on items of Property, - Plant & Equipment	1,229,506	19,386
Impairment charge on asset held for sale	1,048,260	-
Recognition of right-of-use of asset	(324,035)	-
Recognition of lease liability	288,519	-
Finance cost	15,791	5,164
Working capital changes	(1,316,472)	540,749
	<u>(531,749)</u>	<u>1,423,488</u>

17.1



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

	Quarter ended	
	March 31, 2019 (Un-audited)	March 31, 2018 (Un-audited)
	(Rupees in thousand)	
17.1 Working capital changes		
Decrease / (increase) in current assets		
Stores and spares	4,811	(44,394)
Stock in trade	289,113	180,834
Trade debts	-	16,814
Advances	(583)	8,588
Prepayments	31,765	(36,372)
Other receivables	(13,638)	284,349
	<u>311,468</u>	<u>409,819</u>
Increase / (decrease) in current liabilities		
Trade and other payables	(1,527,225)	(307,828)
Sales tax and excise duty payable	(100,715)	438,758
	<u>(1,627,940)</u>	<u>130,930</u>
	<u>(1,316,472)</u>	<u>540,749</u>
18. CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,075,607	1,571,063
Less: Amount held as security	(18,861)	(18,861)
	<u>2,056,746</u>	<u>1,552,202</u>

19. DATE OF AUTHORISATION FOR ISSUE

19.1 These condensed interim financial statements were authorised for issue on April 25, 2019 by the Board of Directors of the Company.

20. GENERAL

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

KAMRAN Y. MIRZA
Chairman

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: April 25, 2019



Philip Morris (Pakistan) Limited

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