



PHILIP MORRIS
(PAKISTAN) LIMITED

QUARTERLY REPORT

For the 1st quarter ended March 31, 2020
(Un-audited)

QUARTERLY REPORT

For the 1st quarter ended March 31, 2020
(Un-audited)



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COMPANY INFORMATION

BOARD OF DIRECTORS

KAMRAN Y. MIRZA	(Chairman)
ROMAN YAZBECK	(Chief Executive)
MICHAEL SCHARER	
LIM KHANG WEI	
MUHAMMAD ZEESHAN	
PATTARAPORN AUTTAPHON	
LT. GEN. (R) TARIQ KHAN	

COMPANY SECRETARY

MUSTAFA KAMAL ZUBERI

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN	(Chairman)
LIM KHANG WEI	
PATTARAPORN AUTTAPHON	
MUSTAFA KAMAL ZUBERI	(Secretary)

HUMAN RESOURCE & REMUNERATION COMMITTEE

KAMRAN Y. MIRZA	(Chairman)
ROMAN YAZBECK	
MICHAEL SCHARER	
SARAH HASSAN	(Secretary)

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)

SHARE REGISTRAR

CENTRAL DEPOSITORY COMPANY OF PAKISTAN (CDC)
CDC HOUSE, 99-B, BLOCK-B, S.M.C.H.S.,
MAIN SHAHRAH-E-FAISAL, KARACHI -74400

Website : www.philipmorrispakistan.com.pk

Email : pmpk.info@pmi



DIRECTORS' REVIEW

In the first quarter of this year Pakistan reported its first case of COVID-19. When dealing with the pandemic our priority is to ensure the safety of our employees and stakeholders. Hence, the Company instituted a strict work from home policy discouraging physical meetings from the onset of the first case in Pakistan. To date, we are pleased to report that, to the best of our knowledge, no Company employee has tested positive. We have prioritized business continuity as the lock down situation persists and with the support of the management team in Philip Morris, Pakistan we are trying our level best to minimize adverse impact on our operations while prioritizing our employees safety and wellbeing of the communities.

The legally compliant tax paying cigarette industry faces challenges from the illicit cigarette sector, currently estimated at 34.7% of the total tobacco market (Dec 2019 - Retail Audit). This is mainly attributable to the two excise tax increases (56% aggregate) in 2018, stretching the price gap between illicit and legally compliant tax paying cigarette industry. Moreover, Federal Budget 2019/20 abolished the mid excise tier while imposing a further 32% increase in the excise rates of the value tier, which further widened the price gap.

The above excise tax increases has resulted in adult smokers choosing cheaper and readily available non-tax paid illicit cigarettes leading to a decline in volumes of legally compliant tax paid cigarette industry. Our Company has sold 2.4 billion sticks in Q1'20 compared to 3.7 billion sticks in 2019, resulting in a decrease of 35% compared to the same period last year. The decline in volume was also observed in 2019 when the Company sold full year volume of 12.0 billion compared to 13.1 billion sticks sold in 2018 which resulted in a decrease of 8.6%.

These excessive excise tax increases are a threat to the long term sustainability of the legally compliant tax paying cigarette industry volume base and are detrimental for the Government revenues. In our view, it is important the Government takes strict and sustainable implementation of enforcement measures to restrain illicit cigarette sector not only for ensuring Government's revenue growth but also for the sustainability of the legally compliant tax paid cigarette industry through predictable moderate excise tax increases and enforcement measures against illicit cigarette sector.

Despite the serious threat from the illicit cigarette sector and challenging fiscal environment where the legally compliant tax paid cigarette industry is striving for a level playing field, the Company's made a meaningful contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies to the tune of PKR 5,752 million. However, due to a very large illicit sector which resulted in a declining volume base for the legally compliant tax paid cigarette industry, our contribution saw a decrease of 17% compared to the same period last year.

The Company's gross profit decreased by 16% for the quarter ended March 31st, 2020 compared to the same period ended March 31st, 2019 due to a decline in volumes for reasons mentioned earlier.

The Company recorded an Operating Profit before tax of PKR 561 million for the three months ended March 31st, 2020 compared to an Operating Loss before tax of PKR 1,736 million for the same period ended March 31st, 2019. This is mainly driven by the significant decrease in Other Expenses by PKR 2,537 million due to the one of impairment charge and employee separation cost recorded in the same period last year on account of closure of factory in Kotri. The Company is committed to continuously optimizing its cost base by ensuring effectiveness of its Distribution and Marketing expenses and allocating its resources for initiatives which can earn the best returns. Further, we continue to find efficiencies in our administrative expenses so that the overall increase remains under inflation rate.



DIRECTORS' REVIEW

The management team continues to be committed in improving the overall performance of the Company by 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

ROMAN YAZBECK
Chief Executive

Karachi: April 29, 2020



ڈائریکٹرز رپورٹ

غیر قانونی طور پر سگریٹ تیار کرنے والے شعبے کی جانب سے درپیش سنگین خطرے اور دشوار مالی ماحول کے باوجود، جس میں قانون کی پاسداری کرنے اور ٹیکس ادا شدہ سگریٹ بنانے والی انڈسٹری برابری کی سطح کے لیے کوششیں کر رہی ہے، کمپنی نے، ایکسائز ٹیکس اور دیگر سرکاری محاصل کی صورت میں قومی خزانے میں بامعنی حصہ دیا ہے جس کی مالیت 5,752 ملین روپے بنتی ہے۔ تاہم، سگریٹ تیار کرنے والے بہت بڑے شعبے کی وجہ سے، جس کے باعث قانونی طور پر اور ٹیکس ادا شدہ سگریٹوں کے حجم میں کمی واقع ہوئی ہے، ہمارے حصہ میں، گزشتہ برس کے مقابلے میں 17 فیصد کمی واقع ہوئی۔

مؤرخہ 31 مارچ، 2020ء کو ختم ہونے والی سہ ماہی کے دوران، اور 31 مارچ، 2019ء کی اسی سہ ماہی کے مقابلے میں، کمپنی کے مجموعی منافع میں 16 فیصد کمی ہوئی جس کی وجہ مذکور بالا وجوہات کی بنا پر حجم میں کمی تھی۔

کمپنی نے مؤرخہ 31 مارچ، 2020ء کو ختم ہونے والے تین ماہ کے دوران 561 ملین روپے بطور قفل از ٹیکس آپریٹنگ منافع حاصل کیا جبکہ مؤرخہ 31 مارچ، 2019ء کو ختم ہونے والے اسی عرصے کے دوران، 1,736 ملین روپے کا قفل از ٹیکس آپریٹنگ نقصان ہوا تھا۔ اس کی بنیادی وجہ 2,537 ملین روپے کے دیگر اخراجات (Other Expenses) میں ہونے والی کمی تھی جو گزشتہ برس کو ٹری میں واقع فیکٹری کی بندش کے موقع پر ملازمتین کی علیحدگی پر ہونے والے ایک مرتبہ واقع ہوئے تھے۔ کمپنی اپنے اخراجات میں کمی لانے کے لیے پرعزم ہے اور اس کے لیے وہ اپنے ڈسٹری بیوٹن اور مارکیٹنگ کے اخراجات کو مؤثر بنائے گی اور اپنے وسائل کو ایسے اقدامات کے لیے مخصوص کرے گی، جہاں سے زیادہ سے زیادہ منافع حاصل ہو سکے۔ مزید برآں، ہم اپنی اختطای اخراجات میں بھی بہتری لانے کی کوششیں جاری رکھیں گے تاکہ مجموعی اضافہ افراطر سے نیچے رہے۔

اختطای ٹیم عالمی وسائل کے استعمال، حکمت عملی پر مبنی مارکیٹنگ کی سرگرمیوں پر عمل درآمد، مصنوعات کے معیار میں مسلسل بہتری، پروسیس اور آپریشنز میں عہدگی اور ساتھ ہی وسائل کے استعمال اور اختصا کے ذریعے کمپنی کو مجموعی کارکردگی کو بہتر بنانے کے لیے پرعزم ہے۔ اپنے مجموعی منافع میں اضافے اور اخراجات پر قابو رکھنا، دشوار ماحول میں کمپنی کے منافع کمانے کی صلاحیت میں بہتری کے لیے اہم اہداف ہیں۔

مسلسل اعتماد اور تعاون کے لیے ہم بورڈ آف ڈائریکٹرز کی جانب سے ہم اپنے تمام ملازمین، متعلق فریقین، کاروباری شراکت داروں اور دیگر اداروں کا شکریہ ادا کرتے ہیں۔

بورڈ آف ڈائریکٹرز کی جانب سے

رومن باز بیک
چیف ایگزیکٹو

کامران یوسف مرزا
چیئرمین

بتاریخ: کراچی، 29 اپریل، 2020ء



ڈائریکٹرز رپورٹ

برائے پہلی سہ ماہی ختم نمبر 31 مارچ، 2020ء

اس سال کی پہلی سہ ماہی کے دوران پاکستان میں COVID-19 کا پھیلاؤ کم سامنے آیا۔ چنانچہ اس وبا سے نمٹنے کے دوران اپنے ملازمین اور متعلق فریقین کا تحفظ یقینی بنانا ہماری اولین ترجیح تھی۔ کمپنی نے پاکستان میں پہلے کیس کے منظر عام پر آنے کے وقت سے ہی ورک فرام ہوم (work from home) کی پالیسی اختیار کر لی تھی اور لوگوں کی ذاتی ملاقاتوں کی حوصلہ شکنی شروع کر دی تھی۔ آج ہمیں یہ رپورٹ دیتے ہوئے خوشی ہے کہ ہمارے بہترین علم و مشاء کے مطابق، ہماری کمپنی کے کسی بھی ملازم کا ٹیسٹ مثبت نہیں آیا ہے۔ تالا بندی کی جاری صورت حال میں کاروبار کا تسلسل ہماری ترجیح ہے اور فلپ مورس پاکستان کی انتظامی ٹیم کے تعاون سے ہم اس صورت حال کے اپنے کاروبار پر ہونے والے منفی اثرات کو کم سے کم رکھنے کی کوشش کر رہے ہیں اور اسی کے ساتھ اپنے ملازمین کے تحفظ اور جن آبادیوں میں ہم کام کرتے ہیں ان کی عافیت اور فلاح و بہبود کو بھی ترجیح دے رہے ہیں۔

قانون کی پاسداری کرنے اور ٹیکس ادا شدہ سگریٹ کی انڈسٹری کو غیر قانونی طور پر سگریٹ بنانے والے شعبے کی جانب سے دھواؤں کا سامنا ہے جس کا اس وقت تباہ کاریاں کل مارکیٹ میں حصہ 34.7 فیصد ہے۔ (ریٹیل آڈٹ - دسمبر، 2019)۔ اس کی بنیادی وجہ سنہ 2018ء میں ایکسائز ٹیکس میں دو مرتبہ اضافے ہیں جس کے باعث غیر قانونی طور پر سگریٹ تیار کرنے والے شعبے اور ٹیکس ادا شدہ اور قانونی انڈسٹری کی قیمتوں کے درمیان فرق بڑھ گیا۔ مزید برآں، وفاقی بجٹ 2019-20 میں ایکسائز ٹیکس کی درمیانی سطح ختم کر دی گئی اور قیمت کی سطح پر، ایکسائز کی شرح میں مزید 32 فیصد اضافہ کر دیا گیا جس سے قیمتوں کے درمیان فرق اور بھی بڑھ گیا۔

ایکسائز ٹیکس میں مذکورہ بالا اضافے کا نتیجہ یہ نکلا کہ سگریٹ پینے والے بالغ افراد نے سستی اور آسانی سے دستیاب، بنا ٹیکس ادا شدہ، غیر قانونی طور پر تیار کی گئی سگریٹوں کا انتخاب کرنا شروع کر دیا جس سے ٹیکس ادا شدہ اور قانونی طور پر سگریٹیں تیار کرنے والی انڈسٹری کے حجم میں کمی واقع ہو گئی۔ ہماری کمپنی نے سنہ 2020ء کی پہلی سہ ماہی کے دوران 2.4 ارب سگریٹیں فروخت کیں جبکہ سنہ 2019ء میں، اسی عرصے کے دوران، 3.7 ارب سگریٹیں فروخت ہوئیں تھیں اور اس طرح سگریٹوں کی فروخت میں گزشتہ برس کے مقابلے میں 35 فیصد کمی واقع ہوئی۔ حجم میں یہ کمی اس وقت بھی نظر آتی تھی جب پورے سال کے دوران کمپنی کی فروخت کردہ سگریٹوں کا حجم 12.0 ارب تھا جبکہ سنہ 2018ء میں یہ حجم 13.1 ارب تھا اور اس طرح اس میں 8.6 فیصد کمی نوٹ کی گئی تھی۔

ایکسائز ٹیکس میں غیر ضروری اضافے ٹیکس ادا کرنے والی اور قانون کی پاسداری کرنے والی سگریٹ کی انڈسٹری کے حجم کے طویل المیعاد استحکام کے لیے خطرہ ہیں اور ساتھ ہی سرکاری محصولات کے لیے بھی نقصان دہ ہیں۔ ہماری رائے میں یہ بات بہت اہم ہے کہ حکومت سگریٹ کے غیر قانونی شعبے کو محدود کرنے کے لیے نافذ کیے گئے اقدامات پر سختی سے اور تسلسل کے ساتھ عمل درآمد کروائے، نہ صرف سرکاری محصولات میں اضافہ یقینی بنانے کے لیے بلکہ ایکسائز ٹیکس میں مناسب اور قابل پیش گوئی اضافے کے ذریعے ٹیکس ادا شدہ اور قانون کی پاسداری کرنے والی سگریٹ کی انڈسٹری کا استحکام بھی یقینی بنائے اور غیر قانونی طور پر سگریٹ تیار کرنے والے شعبے کے خلاف اقدامات سختی سے نافذ کرے۔



CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (Un-audited)

AS AT MARCH 31, 2020

	Note	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
FIXED ASSETS			
Property, plant and equipment	4	5,529,072	5,632,379
Right-of-use asset		451,781	471,194
Intangibles		4,833	5,975
		<u>5,985,686</u>	<u>6,109,548</u>
Investment in a subsidiary company	5	1	1
Long term deposits		57,361	57,361
Deferred taxation		1,269,650	1,399,704
		<u>7,312,698</u>	<u>7,566,614</u>
CURRENT ASSETS			
Stores and spares - net		159,903	158,875
Stock in trade - net	6	4,735,417	6,141,376
Advances		127,650	22,078
Prepayments		485,865	789,423
Other receivables		339,150	247,044
Income tax - net		972,625	992,250
Staff retirement benefits		109,878	109,878
Cash and bank balances		1,864,796	330,283
Assets held for disposal	7	-	-
		<u>8,795,284</u>	<u>8,791,207</u>
TOTAL ASSETS		<u>16,107,982</u>	<u>16,357,821</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital		<u>12,000,000</u>	<u>12,000,000</u>
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		(33,610)	(395,009)
TOTAL EQUITY		<u>11,012,282</u>	<u>10,650,883</u>
NON CURRENT LIABILITIES			
Lease liabilities		351,471	203,166
CURRENT LIABILITIES			
Short term borrowings		77,032	846,475
Trade and other payables		3,647,522	4,296,586
Current maturity of lease liabilities		133,827	307,541
Unclaimed dividend		33,906	33,935
Accrued mark-up on short term borrowings		74	1,275
Sales tax and excise duty payable		851,868	17,960
TOTAL CURRENT LIABILITIES		<u>4,744,229</u>	<u>5,503,772</u>
TOTAL LIABILITIES		<u>5,095,700</u>	<u>5,706,938</u>
TOTAL EQUITY AND LIABILITIES		<u>16,107,982</u>	<u>16,357,821</u>
CONTINGENCIES AND COMMITMENTS			

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The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

KAMRAN Y. MIRZA
Chairman

ROMAN YAZBECK
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: April 29, 2020



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

FOR THE QUARTER ENDED MARCH 31, 2020

	Note	Quarter Ended	
		March 31, 2020 (Un-audited) (Rupees in thousand)	March 31, 2019 (Un-audited)
Turnover - net	9	4,198,286	4,095,984
Cost of sales	10	2,727,777	2,340,620
Gross profit		1,470,509	1,755,364
Distribution and marketing expenses		521,708	631,125
Administrative expenses		352,298	315,510
Other expenses	11	125,129	2,662,076
Other income		(89,590)	(117,600)
		909,545	3,491,111
Operating profit / (loss)		560,964	(1,735,747)
Finance cost and bank charges		12,104	15,791
Profit / (Loss) before taxation		548,860	(1,751,538)
Taxation	12	187,461	(485,725)
Profit / (Loss) after taxation		361,399	(1,265,813)
		(Rupees)	
Earnings / (Loss) per share			
- Basic and Diluted	13	5.87	(20.56)

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

Karachi: April 29, 2020

KAMRAN Y. MIRZA
Chairman

ROMAN YAZBECK
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer



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

FOR THE QUARTER ENDED MARCH 31, 2020

	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	Remeasurement of staff retirement gratuity plan-net of tax		Revenue Reserves				
	Ordinary shares	Preference shares	General reserve			Unappropriated loss	Subtotal Revenue Reserves				
----- (Rupees in thousand) -----											
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
Balance as at January 1, 2020	615,803	10,464,000	(33,911)	11,148	(243,756)	(232,608)	4,676,610	(4,839,011)	(162,401)	(395,009)	10,650,883
Total comprehensive income											
Profit after taxation for the three months period ended March 31, 2020	-	-	-	-	-	-	-	361,399	361,399	361,399	361,399
	-	-	-	-	-	-	-	361,399	361,399	361,399	361,399
Balance as at March 31, 2020	615,803	10,464,000	(33,911)	11,148	(243,756)	(232,608)	4,676,610	(4,477,612)	198,998	(33,610)	11,012,282

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

KAMRAN Y. MIRZA
Chairman

ROMAN YAZBECK
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: April 29, 2020



CONDENSED INTERIM STATEMENT OF CASH FLOW (Un-audited)

FOR THE QUARTER ENDED MARCH 31, 2020

		Quarter Ended	
		March 31, 2020	March 31, 2019
Note		(Un-audited)	(Un-audited)
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	15	2,430,623	(531,749)
Finance cost paid		(13,305)	(15,764)
Income taxes paid		(37,780)	(109,040)
Profit received on savings accounts		25,808	62,494
Long term deposits and prepayments		-	(900)
Net cash generated (used) / from in operating activities		2,405,346	(594,959)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(98,399)	(327,810)
Proceeds from disposal of items of property, plant and equipment		22,447	65,131
Net cash used in investing activities		(75,952)	(262,679)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(29)	(299)
Principal element of lease payments		(25,409)	(31,685)
Net cash used in financing activities		(25,438)	(31,984)
Net increase in cash and cash equivalents during the period		2,303,956	(889,622)
Cash and cash equivalents at the beginning of the period		(535,053)	2,946,368
Cash and cash equivalents at the end of the period	16	1,768,903	2,056,746

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

KAMRAN Y. MIRZA
Chairman

ROMAN YAZBECK
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: April 29, 2020



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

FOR THE QUARTER ENDED MARCH 31, 2020

1. THE COMPANY AND ITS OPERATIONS

- 1.1 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.
- 1.2 In view of the exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002/634 dated April 9, 2020 from the requirement of section 228(7) of the Companies Act, 2017 (the Act), 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.

In accordance with the requirements of the said exemption, financial highlights of the subsidiary are stated in note 5.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

- 2.2 The accounting policies and the methods of computation adopted in the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the December 2019 financial statements.
- 2.3 New standards, amendments and an interpretation to accounting and reporting standards which became effective during the period:

The following amendments and an interpretation to accounting and reporting standards became effective during the current period:

- (i) IAS 1 – Presentation of Financial Statements - (Amendments)



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

- (ii) IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - (Amendments)

Further, the adoption of IFRS 17 Insurance Contracts has been postponed until January 1, 2022.

However, these do not have any significant impact on the Company's financial reporting.

- 2.4 The comparative statement of financial position presented in these condensed interim financial statements as at December 31, 2019 has been extracted from the audited financial statements of the Company for the year then ended (December 2019 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 months period ended March 31, 2019 have been extracted from the condensed interim financial statements of the Company for the three months period then ended, which were not audited.
- 2.5 These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2019 as they provide an update of previously reported information.

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

- 3.1 The preparation of these condensed interim financial statements in conformity with approved accounting and reporting 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 2019 financial statements except as mentioned in note 3.3.
- 3.3 As a result of the global emergence of the Coronavirus disease (COVID-19) and the current economic environment, the Company has analyzed the impact of COVID-19 as at March 31, 2020. It has determined that the changes to its significant judgements and estimates did not have a material impact with respect to goodwill, intangible assets, long-lived assets and its hedge accounting activities. Additionally, the Company believes that the modification of certain customer payment terms has not changed its assessment of collectability and therefore, there has been no material impact on the Company's revenue recognition.



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

- 3.4 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2019 financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	Note	March 31, 2020 (Un-audited) (Rupees in thousand)	December 31, 2019 (Audited)
Operating property, plant and equipment	4.1	4,383,599	4,344,780
Capital work-in-progress (CWIP)	4.5	1,142,941	1,285,067
Major capital spares and stand-by equipment		2,532	2,532
		<u>5,529,072</u>	<u>5,632,379</u>

4.1 Operating property, plant and equipment

Book value at the beginning of the period / year		4,344,780	6,222,136
Additions / transfers from CWIP during the period / year	4.2	240,525	1,375,794
		<u>4,585,305</u>	<u>7,597,930</u>
Disposals during the period / year - net book value	4.3	(9,813)	(64,370)
Write offs during the period / year - net book value		(5,020)	(2,547)
Impairment during the period / year - net book value		-	(1,127,382)
Transfer to held for sale		-	(1,137,304)
Depreciation charge during the period / year	4.4	(186,873)	(921,547)
		<u>(201,706)</u>	<u>(3,253,150)</u>
Book value at the end of the period / year		<u>4,383,599</u>	<u>4,344,780</u>

Quarter Ended

March 31, 2020 (Un-audited)	March 31, 2019 (Un-audited)
(Rupees in thousand)	

4.2 Additions / transfers from CWIP during the period

Buildings on freehold land	34,904	3,692
Plant and machinery	70,672	266,864
Computer Equipment	-	1,814
Office equipments	9,109	-
Vehicles	120,803	72,194
Power and other installations	5,037	-
	<u>240,525</u>	<u>344,564</u>



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

	Quarter Ended	
	March 31, 2020 (Un-audited)	March 31, 2019 (Un-audited)
	(Rupees in thousand)	
4.3 Disposals during the period - net book value		
Freehold land	1,504	46
Building on freehold land	2,963	-
Vehicles	5,346	22,558
	<u>9,813</u>	<u>22,604</u>
4.4 Depreciation charge during the period on property, plant and equipment	<u>186,873</u>	<u>317,774</u>
Depreciation charge during the period on Right-of-use assets	<u>21,616</u>	<u>62,772</u>
	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
	(Rupees in thousand)	
4.5 Capital work-in-progress		
Civil works	65,622	95,587
Plant and machinery	659,109	653,169
Power and other installations	336,378	316,143
Furniture and fixtures	4,605	63,157
Computer equipment pending installations	6,233	3,762
Advance to suppliers and contractors	70,994	153,249
	<u>1,142,941</u>	<u>1,285,067</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. The profit and loss account of the subsidiary company for the three months period ended March 31, 2020 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, 2020 amounted to Rs Nil, in accordance with the unaudited condensed interim financial statements for the three months period then ended March 31, 2020.

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, 2019. 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.

The subsidiary company has filed an application dated August 30, 2019 with the Securities and Exchange Commission of Pakistan (SECP) for obtaining the status of an inactive company under section 424 of the Companies Act, 2017, however, response in this regard from SECP is awaited.



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

6. STOCK IN TRADE - net

	Note	March 31, 2020 (Un-audited) (Rupees in thousand)	December 31, 2019 (Audited)
Raw and packing materials	6.1	3,718,123	5,082,504
Work-in-process		155,663	177,687
Finished goods		<u>918,716</u>	<u>937,805</u>
		<u>4,792,502</u>	<u>6,197,996</u>
Provision for obsolete stocks		<u>(57,085)</u>	<u>(56,620)</u>
		<u>4,735,417</u>	<u>6,141,376</u>

- 6.1 Includes raw & packing material in transit aggregating Rs 28.565 million (December 31, 2019: Rs 188.895 million)

7. ASSETS HELD FOR DISPOSAL

	March 31, 2020 (Un-audited) (Rupees in thousand)	December 31, 2019 (Audited)
Transferred from property, plant and equipment		
Cost	1,847,039	1,984,775
Less: Accumulated depreciation	(771,029)	(847,471)
Less: Accumulated impairment	<u>(1,076,010)</u>	<u>(1,137,304)</u>
	<u>-</u>	<u>-</u>

8. CONTINGENCIES AND COMMITMENTS

8.1 Guarantees

Indemnities given to banks for guarantees issued by them in the normal course of business totaling Rs 146.166 million (2019: Rs 69.565 million).

8.2 Commitments

	March 31, 2020 (Un-audited) (Rupees in thousand)	December 31, 2019 (Audited)
Capital expenditure contracted for but not incurred	<u>319,852</u>	<u>202,333</u>
Post dated cheques	<u>31,143</u>	<u>31,143</u>
Letters of credit	<u>11,409</u>	<u>16,411</u>

8.3 Contingencies

There is no significant change in the status of the cases set out in notes 21.3 to 21.7 to the December 2019 financial statements. The next date of hearing for cases as mentioned in note 21.4 to 21.6 is to be fixed.



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

In addition to above, the Company received a Show cause notice dated June 30, 2019 issued by Additional Collector, Khyber Pakhtunkhwa Revenue Authority (KPRA) wherein it was alleged that the Company had short deducted / deposited taxes amounting to PKR 2.7 million on payments made to one its vendor during December 2015 till January 2019. The Company submitted its response to the show cause notice providing evidences of withholding tax deposited with KPRA, however the officer issued an order dated March 9, 2020 without taking into consideration the responses filed by the company and raised a demand of PKR 2.7 million along with default surcharge and penalty. The Company has decided to file an appeal against the order with Collector (Appeals), KPRA.

The management is confident that the matter will be eventually decided in the Company's favor and accordingly no provision on account of this matter has been made in these financial statements.

9. TURNOVER - net

	Quarter Ended	
	March 31, 2020 (Un-audited)	March 31, 2019 (Un-audited)
	(Rupees in thousand)	
Gross turnover	10,179,297	11,010,193
Less: Trade discount	270,081	264,192
Sales tax	1,382,715	1,663,268
Excise duty	4,328,215	4,986,749
	5,981,011	6,914,209
	<u>4,198,286</u>	<u>4,095,984</u>

10. COST OF SALES

Raw and packing materials consumed

Opening stock	5,082,504	4,610,723
Purchases, redrying and related expenses	872,976	1,374,520
	5,955,480	5,985,243
Closing stock	(3,718,123)	(3,739,654)
	2,237,357	2,245,589
Government levies	6,059	12,012
Manufacturing expenses	444,611	665,686
	<u>2,688,027</u>	<u>2,923,287</u>

Work-in-process

Opening stock	177,687	143,281
Closing stock	(155,663)	(125,519)
Sale of waste	(1,363)	(711)
	20,661	17,051
Cost of goods manufactured	<u>2,708,688</u>	<u>2,940,338</u>

Finished goods

Opening stock	937,805	1,047,815
Closing stock	(918,716)	(1,647,533)
	19,089	(599,718)
	<u>2,727,777</u>	<u>2,340,620</u>



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

11. OTHER EXPENSES

	Quarter Ended	
	March 31, 2020 (Un-audited)	March 31, 2019 (Un-audited)
	(Rupees in thousand)	
Exchange loss - net	59,167	14,956
Employee separation costs	-	363,763
Impairment charge on items of property, plant and equipment	-	1,229,506
Impairment charge on asset transferred to held for disposal	-	1,048,260
Property, plant and equipment written off	5,017	152
Workers' welfare fund	11,993	-
Workers' profit participation fund	29,981	-
Miscellaneous expenses	18,971	5,439
	<u>125,129</u>	<u>2,662,076</u>

12. TAXATION

Current	57,405	24,461
Deferred	130,056	(510,186)
	<u>187,461</u>	<u>(485,725)</u>

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

	Quarter Ended	
	March 31, 2020 (Un-audited)	March 31, 2019 (Un-audited)
	(Rupees in thousand)	
13.1 Basic earnings / (Loss) per share		
Earnings / (Loss) for the period after taxation	<u>361,399</u>	<u>(1,265,813)</u>
	(No. of shares)	
Weighted average number of ordinary shares	<u>61,580,341</u>	<u>61,580,341</u>
	(Rupees)	
Basic earnings / (Loss) per share	<u>5.87</u>	<u>(20.56)</u>

- 13.2 The 1,046,400,000 preference shares are not included in the calculation of diluted earnings per share because these are antidilutive for three month period ended March 31, 2020. These preference shares could potentially dilute basic earnings per share in the future.



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

14. RELATED PARTIES DISCLOSURES

- 14.1 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, 2020 (Un-audited)	March 31, 2019 (Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and services	965,533	15,984
	Purchase of goods and services	312,129	375,734
	Royalty charges	24,422	26,018
Staff retirement plans	Contribution to gratuity fund	16,720	16,820
	Contribution to provident fund	20,368	18,360
Key management personnel	Remuneration and benefits - note 14.1.1 to 14.1.3	10,387	21,972

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

- 14.1.1 The Company considers its chief executive and directors as key management personnel.
- 14.1.2 The chief executive, executive directors and certain executives are provided with free use of the company maintained cars.
- 14.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.
- 14.2 Balance outstanding with related parties are as follows:

Note	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
	(Rupees in thousand)	
Current assets		
Associated undertakings - Other receivables	19,182	12,112
Staff retirement plans	109,878	109,878
	<u>129,060</u>	<u>121,990</u>
Current liabilities		
Group undertakings	676,321	548,849
Provident fund payable	15,738	18,099
	<u>692,059</u>	<u>566,948</u>



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

14.3 Investment in a subsidiary company

See note 5

15. CASH GENERATED FROM OPERATIONS

	Note	Quarter ended	
		March 31, 2020 (Un-audited) (Rupees in thousand)	March 31, 2019 (Un-audited)
Profit / (loss) before taxation		548,860	(1,751,538)
Adjustments for non cash changes and other items:			
Depreciation		206,286	380,546
Amortisation		1,142	2,543
Provision for obsolete stocks		(465)	-
Profit on short term deposits		(25,808)	(62,494)
Profit on disposal of property, plant and equipment		(12,634)	(42,527)
Property, plant and equipment written off		5,020	152
Impairment charge on items of Property, Plant & Equipment		-	1,229,506
Impairment charge on asset transferred to held for disposal		-	1,048,260
Recognition of right-of-use of asset		-	(324,035)
Recognition of lease liability		-	288,519
Finance cost		12,104	15,791
Working capital changes	15.1	1,696,118	(1,316,472)
		<u>2,430,623</u>	<u>(531,749)</u>
15.1 Working capital changes			
Decrease / (increase) in current assets			
Stores and spares		(1,028)	4,811
Stock in trade		1,406,424	289,113
Advances		(105,572)	(583)
Prepayments		303,558	31,765
Other receivables		(92,106)	(13,638)
		<u>1,511,276</u>	<u>311,468</u>
Increase / (decrease) in current liabilities			
Trade and other payables		(649,066)	(1,527,225)
Sales tax and excise duty payable		833,908	(100,715)
		<u>184,842</u>	<u>(1,627,940)</u>
		<u>1,696,118</u>	<u>(1,316,472)</u>



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

16. CASH AND CASH EQUIVALENTS

	March 31, 2020 (Un-audited) (Rupees in thousand)	March 31, 2019 (Un-audited) (Rupees in thousand)
Cash and bank balances	1,864,796	2,075,607
Less: Amount held as security	(18,861)	(18,861)
	<u>1,768,903</u>	<u>2,056,746</u>

17. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on April 29, 2020 by the Board of Directors of the Company.

18. GENERAL

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

KAMRAN Y. MIRZA
Chairman

ROMAN YAZBECK
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: April 29, 2020



Philip Morris (Pakistan) Limited

19Th Floor, The Harbour Front, Dolmen City
HC-3, Block-4, Clifton Karachi-75600