



PHILIP MORRIS  
(PAKISTAN) LIMITED

## QUARTERLY REPORT

For the third quarter ended September 30, 2018  
(Un-audited)



# QUARTERLY REPORT

For the third quarter ended September 30, 2018  
(Un-audited)



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## COMPANY INFORMATION

### BOARD OF DIRECTORS

KAMRAN Y. MIRZA		(Chairman)
JOAO MANUEL	(From September 01, 2018)	(Chief Executive)
ALEXANDER REISCH	(Until August 31, 2018)	(Chief Executive)
SHARMEN KARTHIGASU		
ANTON STANKOV		
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	

### HUMAN RESOURCE & REMUNERATION COMMITTEE

KAMRAN Y. MIRZA	(Chairman)
JOAO MANUEL	
ALEXANDER REISCH	(Until August 31, 2018)

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

Email : [pmpk.info@pmi.com](mailto:pmpk.info@pmi.com)



## DIRECTORS' REVIEW

The Directors of the Company would like to report on the Company's performance for the nine months period ended September 30, 2018.

During the period, the Company's gross turnover increased by 25% compared to the same period of 2017, mainly attributable to normalization of trade inventory movements and partial recovery of sales volumes after the introduction of the third excise tax tier in the 2017/18 federal budget.

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 on the market its international brand Parliament in Q3'18 as a value offering to adult smokers in the mid-tier segment. Furthermore, we expanded the launch geographies for L&M, a world renowned brand, and introduced a new pack upgrade for Marlboro.

The Company recorded an Operating Profit before tax of PKR 1,194 million for the nine months period ended September 30, 2018, compared to an Operating Profit before tax of PKR 391 million for the same period of 2017.

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 13,648 million, as compared to PKR 11,429 million for the same period in 2017. 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 company is supporting all 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 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, and 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

October 18, 2018



## ڈائریکٹرز رپورٹ

کمپنی کے ڈائریکٹرز 30 ستمبر 2018 کو اختتام پذیر ہونے والے 9 ماہ کے عرصے میں کمپنی کی کارکردگی کی رپورٹ پیش کر رہے ہیں۔

اس عرصے کے مجموعی کاروباری حجم میں گزشتہ سال کے اسی عرصہ کے مقابلے میں 25 فیصد کا اضافہ دیکھنے میں آیا ہے۔ اس کی بڑی وجہ ٹریڈ انونٹری کا معمول پر آنا اور وفاقی بجٹ 2017/18 میں متعارف کروایا جانے والا تیسرے درجے کا ایکسائزنگس ہے جس کی وجہ سے سبز حجم میں جزوی اضافہ دیکھنے میں آیا۔

تیسرے درجے کا ایکسائزنگس متعارف کرنے سے غیر ٹیکس ادا شدہ سگریٹوں کے تیزی سے بڑھتے ہوئے کاروباری حجم (غیر قانونی تجارت) پر قابو پانے میں مدد ملی۔ اس سے ٹیکس ادا شدہ اور غیر ٹیکس ادا شدہ سگریٹوں کے درمیان قیمتوں میں فرق کم ہوا اور کاروبار کیلئے سازگار ماحول بنسبہ ہوا۔ غیر قانونی سگریٹ کی صنعت کا تجارتی حجم قانونی سگریٹ بنانے والوں کی جانب ہندرج منتقل ہو رہا ہے جبکہ سگریٹ کے استعمال کا مجموعی حجم اپنی جگہ قائم ہے۔ تاہم 18 ستمبر 2018 کو پیش کیے جانے والے فائنل سلیمنٹ میں بل میں تیسرے ایکسائز درجے کا ایکسائز ریٹ میں 46 فیصد کا نمایاں اضافہ کر دیا گیا ہے جس سے نہ صرف ٹیکسوں میں اضافہ ہو گیا ہے بلکہ ٹیکس ادا شدہ اور غیر ٹیکس ادا شدہ سگریٹوں کے درمیان قیمتوں میں فرق ایک مرتبہ بڑھ گیا ہے۔

کمپنی نے اپنے براہ مل پورٹفولیو کی تشہیر کیلئے متعدد مارکیٹنگ ذرائع کا استعمال جاری رکھا جس کیلئے اس ضمن میں سرمایہ کاری کی جاتی رہی۔ کمپنی نے رواں سال کی تیسری سہ ماہی میں درمیانے درجے کے لیگل صارفین کیلئے اپنا بین الاقوامی برانڈ Parliament متعارف کروایا۔ مزید یہ کہ دنیا کے مشہور و معروف برانڈ L & M کی لانچ کے دائرہ کار کو وسیع کیا اور Marlboro کا نیا پیک متعارف کیا۔

کمپنی نے 30 ستمبر 2018 کو اختتام پذیر ہونے والے 9 ماہ کے عرصے میں قبل از ٹیکس 1,194 ملین روپے کا آپریٹنگ منافع ریکارڈ کیا جس کا موازنہ گزشتہ سال کے اسی عرصے سے کیا جائے تو معلوم ہوتا ہے کہ اس دوران قبل از ٹیکس 391 ملین روپے کا آپریٹنگ منافع ریکارڈ کیا گیا تھا۔


اس عرصے کے دوران کمپنی نے قومی خزانہ میں ایکسائزنگس، ہلزنگس اور دیگر حکومتی محصولات کی مد میں 13,648 ملین روپے جمع کرائے جو کہ 2017 کے اسی عرصے کے دوران 11,429 ملین روپے تھے۔ تیسرے درجے کا ایکسائزنگس سے حکومتی محصولات میں اضافے کیلئے وسیع اور مزید پائیدار بنیاد بنسبہ ہوئی۔ تیسرے درجے کے ایکسائزنگس کے نہ ہونے کی صورت میں حکومتی محصولات میں واضح کمی دیکھنے میں آ سکتی تھی۔


کمپنی سگنل اور غیر ٹیکس ادا شدہ سگریٹوں کے مسئلے پر حکومت کی تمام پالیسیوں کی بھرپور حمایت جاری رکھے ہوئے ہے۔ کمپنی فیڈرل بورڈ آف ریونیو (ایف بی آر) کی ان لیڈر ریونیو فورس کی اضافی اور موثر کاروائیوں کی بھی بھرپور حمایت کرتی ہے۔

دستیاب عالمی وسائل کو بروئے کار لاتے ہوئے منجمنٹ ٹیم کمپنی کی مجموعی کارکردگی کو مزید بہتر بنانے، مارکیٹنگ کی جدید حکمت عملی سمیت مزید مواقع کی تلاش، مصنوعات کی بہتر کوالٹی کے حصول، مستحکم طریقہ کار اور آپریشنل کارکردگی کے ساتھ وسائل کے بہتر استعمال اور موثر تقریری کیلئے پُر عزم ہے۔ کٹھن حالات کے باوجود اپنے مجموعی منافع کو بڑھانا اور اخراجات پر قابو پانا کمپنی کے منافع میں اضافہ کے بنیادی عوامل رہیں گے۔

بورڈ آف ڈائریکٹرز کی جانب سے ہم اپنے تمام ملازمین، شیئرز، ہولڈرز، 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

  
جواو مینون  
سی ای او

  
کامران یوسف مرزا  
چیئر مین

تاریخ: 18 اکتوبر 2018ء



## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (Un-audited)

**AS AT SEPTEMBER 30, 2018**

	Note	September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
<b>(Rupees in thousand)</b>			
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant and equipment	4	7,113,245	7,798,935
Intangibles		<u>25,566</u>	<u>20,023</u>
		7,138,811	7,818,958
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		<u>52,077</u>	<u>45,825</u>
Deferred taxation	6	<u>534,729</u>	<u>678,585</u>
		7,725,618	8,543,369
<b>CURRENT ASSETS</b>			
Stores and spares - net	7	<u>238,362</u>	<u>238,690</u>
Stock in trade - net		<u>6,748,390</u>	<u>6,204,581</u>
Trade debts - net		<u>20,598</u>	<u>36,458</u>
Advances		<u>39,435</u>	<u>35,160</u>
Prepayments		<u>88,433</u>	<u>63,715</u>
Other receivables	8	<u>218,468</u>	<u>312,729</u>
Income tax - net		<u>641,764</u>	<u>614,001</u>
Staff retirement benefits		<u>70,149</u>	<u>97,048</u>
Cash and bank balances		<u>2,691,012</u>	<u>256,100</u>
		10,756,611	7,858,482
<b>TOTAL ASSETS</b>		<u>18,482,229</u>	<u>16,401,851</u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital		<u>12,000,000</u>	<u>12,000,000</u>
Issued, subscribed and paid-up capital			
- Ordinary shares		<u>615,803</u>	<u>615,803</u>
- Preference shares		<u>10,464,000</u>	<u>10,464,000</u>
		11,079,803	11,079,803
Transaction cost on issuance of preference shares - net of tax		<u>(33,911)</u>	<u>(33,911)</u>
		11,045,892	11,045,892
Reserves		<u>4,473,792</u>	<u>5,230,330</u>
Accumulated loss		<u>(2,493,523)</u>	<u>(3,374,946)</u>
<b>TOTAL EQUITY</b>		<u>13,026,161</u>	<u>12,901,276</u>
<b>CURRENT LIABILITIES</b>			
Short term running finance		<u>20,231</u>	<u>-</u>
Trade and other payables		<u>4,231,134</u>	<u>3,155,873</u>
Accrued mark-up on short term running finance		<u>110</u>	<u>33</u>
Sales tax and federal excise duty payable		<u>1,204,593</u>	<u>344,669</u>
<b>TOTAL LIABILITIES</b>		<u>5,456,068</u>	<u>3,500,575</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>18,482,229</u>	<u>16,401,851</u>

### CONTINGENCIES AND COMMITMENTS

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The annexed notes from 1 to 19 form an integral part of these condensed interim financial statements.

**KAMRAN Y. MIRZA**  
Chairman

**JOAO MANUEL**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer

Karachi: October 18, 2018





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

### FOR THE QUARTER AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

		Quarter ended		Nine months period ended	
	Note	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
----- (Rupees in thousand)-----					
Turnover - net	10	3,502,849	4,234,272	11,157,186	8,419,787
Cost of sales	11	2,131,881	2,327,290	6,295,689	5,170,706
Gross profit		1,370,968	1,906,982	4,861,497	3,249,081
Distribution and marketing expenses		758,519	742,677	2,440,898	1,903,658
Administrative expenses		333,566	354,198	992,166	968,761
Other expenses	12	138,924	50,109	390,178	85,203
Other income		(44,523)	(43,654)	(156,044)	(99,468)
		1,186,486	1,103,330	3,667,198	2,858,154
Operating profit		184,482	803,652	1,194,299	390,927
Finance cost and bank charges		6,683	17,649	15,982	82,720
Profit before taxation		177,799	786,003	1,178,317	308,207
Taxation charge	13	20,516	243,261	296,894	228,915
Profit after taxation		157,283	542,742	881,423	79,292
----- (Rupees) -----					
Earnings per share					
- Basic and diluted	14	2.55	8.81	7.18	1.29

The annexed notes from 1 to 19 form an integral part of these condensed interim financial statements.

Karachi: October 18, 2018

**KAMRAN Y. MIRZA**  
Chairman

**JOAO MANUEL**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer



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

### FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

	Issued, subscribed and paid-up capital	Transaction cost on issuance of preference shares -net of tax	General reserve	Reserve for share based payments	Re-measure-ment of staff retirement gratuity plan - net of tax	Sub-total Reserves	Accumulated (Loss)	Total
	Ordinary shares	Preference shares						
----- (Rupees in thousand) -----								
Balance as at January 1, 2017	615,803	10,464,000	(33,911)	6,347,000	6,498	(216,183)	6,137,315	(3,593,171) 13,590,036
Transactions with owners								
Share based payments								
- expense	-	-	-	-	9,339	-	9,339	- 9,339
- recharge	-	-	-	-	(22,552)	-	(22,552)	- (22,552)
	-	-	-	-	(13,213)	-	(13,213)	- (13,213)
Reversal of unclaimed dividend	-	-	-	-	-	-	-	27,217 27,217
Total comprehensive income								
Profit after taxation for the nine months period ended September 30, 2017	-	-	-	-	-	-	-	79,292 79,292
	-	-	-	-	-	-	-	79,292 79,292
Balance as at September 30, 2017	615,803	10,464,000	(33,911)	6,347,000	(6,715)	(216,183)	6,124,102	(3,486,662) 13,683,332
Balance as at January 1, 2018	615,803	10,464,000	(33,911)	5,424,000	4,954	(198,624)	5,230,330	(3,374,946) 12,901,276
Transactions with owners								
- Final cash dividend for the Year ended December 31, 2017	-	-	-	(747,390)	-	-	(747,390)	- (747,390)
Share based payments								
- expense	-	-	-	-	8,938	-	8,938	- 8,938
- recharge	-	-	-	-	(18,086)	-	(18,086)	- (18,086)
	-	-	-	-	(9,148)	-	(9,148)	- (9,148)
Total comprehensive income								
Profit after taxation for the nine months period ended September 30, 2018	-	-	-	-	-	-	-	881,423 881,423
	-	-	-	-	-	-	-	881,423 881,423
Balance as at September 30, 2018	615,803	10,464,000	(33,911)	4,676,610	(4,194)	(198,624)	4,473,792	(2,493,523) 13,026,161

The annexed notes from 1 to 19 form an integral part of these condensed interim financial statements.

**KAMRAN Y. MIRZA**  
Chairman

**JOAO MANUEL**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer

Karachi: October 18, 2018



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

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

Note    Nine months period ended  
September 30, September 30,  
2018                      2017  
(Rupees in thousand)

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash generated from operations	16	3,680,767	2,449,611
Staff retirement gratuity paid		(42,450)	(55,119)
Finance cost paid		(15,905)	(81,207)
Income taxes paid		(180,801)	(164,781)
Long term deposits and prepayments		(6,252)	(6,603)
Net cash generated from operating activities		3,435,359	2,141,901

### CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditure	(410,909)	(354,659)
Acquisition of intangibles	(12,601)	(4,290)
Proceeds from disposal of items of property, plant and equipment	85,776	60,878
Profit received on savings accounts	67,922	1,245
Net cash used in investing activities	(269,812)	(296,826)

### CASH FLOWS FROM FINANCING ACTIVITIES

Dividend paid	(750,866)	-
Proceeds of loans obtained from associated undertaking	-	2,097,000
Repayment of loans to associated undertaking	-	(2,097,000)
Net cash used in financing activities	(750,866)	-
Net increase in cash and cash equivalents during the period	2,414,681	1,845,075
Cash and cash equivalents at the beginning of the period	237,239	(1,230,464)
Cash and cash equivalents at the end of the period	17    2,651,920	614,611

The annexed notes from 1 to 19 form an integral part of these condensed interim financial statements.

KAMRAN Y. MIRZA  
Chairman

JOAO MANUEL  
Chief Executive

ANTON STANKOV  
Chief Financial Officer

Karachi: October 18, 2018



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

### FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

#### 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 manufacturing and sale of cigarettes and tobacco products. Its registered office is situated at the 19th Floor, The Harbour Front, Dolmen City, HC - 3, Block 4, Clifton, Karachi, Pakistan.
- 1.2 In view of exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002-549 dated March 12, 2018 from the requirement of section 228(7) of the Companies Act, 2017, 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 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 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.

- 2.2 These condensed interim financial statements include the condensed interim statement of financial position as at September 30, 2018, the condensed interim statement of profit or loss and other comprehensive income, the condensed interim statement of changes in equity, the condensed interim statement of cash flows and notes thereto for the nine months period then ended. These condensed interim financial statements also include the condensed interim statement of profit or loss and other comprehensive income and notes thereto for the quarter ended September 30, 2018.



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

- 2.3 The comparative statement of financial position presented in these condensed interim financial statements as at December 31, 2017 has been extracted from the audited financial statements of the Company for the year then ended (December 2017 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 nine months period ended September 30, 2017 have been extracted from the condensed interim financial statements of the Company for the nine months period then ended. The comparative statement of profit or loss and other comprehensive income for the quarter ended September 30, 2017 is also included in these condensed interim financial statements.
- 2.4 New standards, amendments to approved accounting and reporting standards and new interpretations:
- 2.4.1 New standards, amendments to approved accounting and reporting standards and new interpretations which become effective during the nine months period ended September 30, 2018:

During the period, the SECP has adopted IFRS 15 'Revenue from contracts with customers' which shall be effective for periods beginning on or after July 1, 2018. However, the Company has early adopted IFRS 15 as of April 1, 2018 and applied with effect from the current period. The adoption does not impact the accounting policies of the Company nor did it have a material impact to its financial position, results of earnings or cashflows.

The third and fourth schedule to the Companies Act 2017 will become applicable on the Company for the first time for the preparation of the financial statements for the year ending December 31, 2018. The Companies Act, 2017 (including its third and fourth schedules) forms an integral part of the statutory financial reporting framework applicable on the company and amongst others, prescribes the nature and content of disclosures in relation to various elements of financial statements.

There were certain amendments and an interpretation to the approved accounting and reporting standards which became effective during the period but are considered not to be relevant or have any significant effect on the Company's financial reporting and are, therefore, have not been disclosed in these condensed interim financial statements.

- 2.4.2 New standard and amendments of published approved accounting and reporting standards that are not yet effective:

There are certain new standards, amendments and an interpretation to the approved accounting and reporting standards that will be mandatory for the Company's annual accounting periods beginning on or after January 1, 2019. However, these amendments will not have a significant impact on the financial reporting of the Company and, therefore, have not been disclosed in these condensed interim financial



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

statements. During the current period, the SECP has adopted IFRS 9 'Financial Instruments' and IFRS 16 'Leases' which will not have a significant impact to the financial position, results of operations or cashflows. IFRS 17 'Insurance Contracts' is yet to be adopted by the SECP.

- 2.5 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 2017 financial statements. These condensed interim financial statements should be read in conjunction with the December 2017 financial statements 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 require the use of certain critical 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 2017 financial statements.
- 3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2017 financial statements.

### 4. PROPERTY, PLANT AND EQUIPMENT

		September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
	Note	(Rupees in thousand)	
Operating property, plant and equipment	4.1 to 4.4	6,645,161	7,260,775
Capital work-in-progress (CWIP)	4.5	465,634	538,160
Major capital spares and stand-by equipment		2,450	-
		<u>7,113,245</u>	<u>7,798,935</u>



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

	Note	September 30, 2018 (Un-audited) (Rupees in thousand)	December 31, 2017 (Audited)
4.1	Operating property, plant and equipment		
	Book value at the beginning of the period / year	7,260,775	7,657,261
	Transfers from CWIP during the period / year	473,032	937,179
		<u>7,733,807</u>	<u>8,594,440</u>
	Disposals during the period / year - net book value	(44,041)	(43,994)
	Write offs during the period / year - net book value	(14,072)	(105,876)
	Impairment during the period / year - net book value	(131,625)	(83,765)
	Depreciation charge during the period / year	(898,908)	(1,100,030)
		<u>(1,088,646)</u>	<u>(1,333,665)</u>
	Book value at the end of the period / year	<u>6,645,161</u>	<u>7,260,775</u>
<b>Nine months period ended</b>			
		September 30, 2018 (Un-audited)	September 30, 2017 (Un-audited)
4.2	Transfers from CWIP during the period:		
	Buildings on freehold land	22,532	109,318
	Plant and machinery	244,830	255,894
	Furniture and fixtures	6,375	36,320
	Vehicles	131,200	6,645
	Buildings and leasehold improvements	-	49,677
	Power and other installations	24,135	111,884
	Computer equipment	43,960	168,276
		<u>473,032</u>	<u>738,014</u>
4.3	Disposals during the period - net book value		
	Freehold land	15,164	3,295
	Buildings on freehold land	12,221	8,425
	Furniture and fixtures	334	-
	Vehicles	14,845	7,390
	Power and other installations	1,477	-
		<u>44,041</u>	<u>19,110</u>
4.4	Depreciation charge during the period	<u>898,908</u>	<u>801,572</u>



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

	September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
	(Rupees in thousand)	
4.5 Capital work-in-progress		
Civil works	33,437	14,190
Plant and machinery	175,210	163,683
Power and other installations	100,914	202,285
Furniture and fixtures	17,255	73,385
Computer equipment pending installations	2,681	7,137
Advance to suppliers and contractors	136,137	77,480
	<u>465,634</u>	<u>538,160</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 statement of profit or loss and other comprehensive income of the subsidiary company for the nine months period ended September 30, 2018 amounted to 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, 2018 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the nine months period ended September 30, 2018.

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, 2017.

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.

### 6. DEFERRED TAXATION

		September 30, 2018	December 31, 2017
	Note	(Un-audited)	(Audited)
(Rupees in thousand)			
Deferred tax asset on deductible temporary differences:			
Accrual for employees compensated absences		683	2,472
Unutilised tax losses	6.1	1,032,120	1,336,497
Provision for spares		27,607	25,149
Provision for obsolete stocks		1,062	11,400
Provision for doubtful debts		778	834
Worker's welfare fund		14,818	8,276
		<u>1,077,068</u>	<u>1,384,628</u>

Deferred tax liability on taxable temporary differences:

Tax depreciation allowance	<u>(542,339)</u>	<u>(706,043)</u>
Deferred tax asset	<u>534,729</u>	<u>678,585</u>





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

- 6.1 The accumulated tax loss of the Company as at September 30, 2018 aggregated Rs 3,686.134 million (December 31, 2017: Rs 4,454.990 million), in respect of which the Company has recognised deferred tax asset amounting to Rs 1,032.12 million (December 31, 2017: Rs 1,336.497 million). The existing unutilised tax loss mainly attributable to tax depreciation can be utilised for an indefinite period against future profits. The Company carries out periodic assessment to determine the benefit of the loss that the Company would be able to set off against the taxable profits in future years. The amount of this benefit has been determined based on the projected taxable profits of the Company for future years and the expected applicable tax rate. The determination of projected taxable profits are most sensitive to certain key assumptions such as volume of cigarettes, gross margin percentage and inflation rates which have been considered in the preparation of these projected taxable profits.

### 7. STOCK IN TRADE - net

	Note	September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
		(Rupees in thousand)	
Raw and packing materials	7.1 to 7.3	<b>6,324,266</b>	5,747,841
Work-in-process		<b>92,759</b>	107,962
Finished goods	7.3	<b>335,158</b>	386,779
		<b>6,752,183</b>	6,242,582
Provision for obsolete stocks	7.3	<b>(3,793)</b>	(38,001)
		<b>6,748,390</b>	6,204,581

- 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 materials in transit aggregating Rs 85.956 million (December 31, 2017: Rs 181.608 million).
- 7.3 During the period, the Company has written off provision against raw and packing materials aggregating Rs Nil (December 31, 2017: Rs 33.073 million) and finished goods aggregating Rs 36.389 million (December 31, 2017: Rs 0.823 million).



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

### 8. OTHER RECEIVABLES

	September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
	(Rupees in thousand)	
Receivables from 'associated undertakings'	206,718	302,576
Others	11,750	10,153
	<u>218,468</u>	<u>312,729</u>

### 9. CONTINGENCIES AND COMMITMENTS

#### 9.1 Guarantees

Indemnities given to banks for guarantees issued by it in the normal course of business aggregated Rs 69.565 million (December 31, 2017: Rs 69.565 million).

#### 9.2 Commitments

	September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	371,056	547
Post dated cheques	28,445	-
Letters of credit	51,447	-

#### 9.3 Contingencies

9.3.1 There is no significant change in the status of the cases set out in notes 19.3 to 19.7 to the December 2017 financial statements.

9.3.2 While reviewing the tax return of the Company for the tax year 2015 (accounting year ended December 31, 2014), the Deputy Commissioner Inland Revenue passed an order dated June 27, 2018 under section 122(1) of the Income Tax Ordinance, 2001 disallowing certain deductions aggregating Rs 154.078 million having a tax impact of Rs 49.305 million. The Company has filed an appeal against the order before the Commissioner Inland Revenue Appeals dated July 6, 2018 which is pending adjudication.

Management is confident that the ultimate decision will be decided in the Company's favour and accordingly no provision has been made in these condensed interim financial statements.



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

### 10. TURNOVER - net

	Quarter ended September 30, 2018 (Un-audited)	Quarter ended September 30, 2017 (Un-audited)	Nine months period ended September 30, 2018 (Un-audited)	Nine months period ended September 30, 2017 (Un-audited)
	(Rupees in thousand)			
Gross turnover	8,132,410	9,056,865	25,152,307	20,158,364
Less: Trade discount	270,460	235,908	778,455	684,406
Sales tax	1,240,882	1,376,543	3,846,569	3,022,068
Excise duty	3,118,219	3,210,142	9,370,097	8,032,103
	4,629,561	4,822,593	13,995,121	11,738,577
	<u>3,502,849</u>	<u>4,234,272</u>	<u>11,157,186</u>	<u>8,419,787</u>

### 11. COST OF SALES

	Quarter ended September 30, 2018 (Un-audited)	Quarter ended September 30, 2017 (Un-audited)	Nine months period ended September 30, 2018 (Un-audited)	Nine months period ended September 30, 2017 (Un-audited)
	(Rupees in thousand)			
<b>Raw and packing materials consumed</b>				
Opening stock	4,443,344	6,099,555	5,747,841	6,992,580
Purchases, redrying and related expenses	3,098,806	3,263,612	5,160,897	4,481,501
	<u>7,542,150</u>	<u>9,363,167</u>	<u>10,908,738</u>	<u>11,474,081</u>
Closing stock	(6,324,266)	(7,669,250)	(6,324,266)	(7,669,250)
	<u>1,217,884</u>	<u>1,693,917</u>	<u>4,584,472</u>	<u>3,804,831</u>
Government levies	5,754	8,242	25,055	17,277
Manufacturing expenses	504,269	518,795	1,626,963	1,529,934
	<u>1,727,907</u>	<u>2,220,954</u>	<u>6,236,490</u>	<u>5,352,042</u>
<b>Work-in-process</b>				
Opening stock	108,376	128,242	107,962	124,732
Closing stock	(92,759)	(159,247)	(92,759)	(159,247)
Sale of waste	(4,465)	(453)	(7,625)	(1,053)
	<u>11,152</u>	<u>(31,458)</u>	<u>7,578</u>	<u>(35,568)</u>
Cost of goods manufactured	<u>1,739,059</u>	<u>2,189,496</u>	<u>6,244,068</u>	<u>5,316,474</u>
<b>Finished goods</b>				
Opening stock	727,980	493,078	386,779	209,516
Closing stock	(335,158)	(355,284)	(335,158)	(355,284)
	<u>392,822</u>	<u>137,794</u>	<u>51,621</u>	<u>(145,768)</u>
	<u>2,131,881</u>	<u>2,327,290</u>	<u>6,295,689</u>	<u>5,170,706</u>



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

### 12. OTHER EXPENSES

Note	Quarter ended		Nine months period ended	
	September 30, 2018 (Un-audited)	September 30, 2017 (Un-audited)	September 30, 2018 (Un-audited)	September 30, 2017 (Un-audited)
	(Rupees in thousand)			
Employee separation cost	-	5,945	-	20,745
Impairment charge on items of property, plant and equipment	4.1 73,020	366	131,625	366
Property, plant and equipment written off	91	-	14,072	-
Loss on disposal of Property, plant and equipment	930	-	2,563	2,769
Capital work-in-progress written off	2,215	-	7,953	-
Worker's Profit Participation Fund	9,617	16,570	63,351	16,570
Worker's Welfare Fund	4,922	6,628	25,340	6,628
Exchange loss - net	40,545	11,509	122,889	21,239
Miscellaneous expenses	7,584	9,091	22,385	16,886
	<u>138,924</u>	<u>50,109</u>	<u>390,178</u>	<u>85,203</u>

### 13. TAXATION

Current				
- for the period	58,034	56,393	153,035	68,562
- for the prior period	-	-	-	99,400
	<u>58,034</u>	<u>56,393</u>	<u>153,035</u>	<u>167,962</u>
Deferred	(37,518)	186,868	143,859	60,953
	<u>20,516</u>	<u>243,261</u>	<u>296,894</u>	<u>228,915</u>

### 14. EARNINGS PER SHARE – BASIC

	Quarter ended		Nine months period ended	
	September 30, 2018 (Un-audited)	September 30, 2017 (Un-audited)	September 30, 2018 (Un-audited)	September 30, 2017 (Un-audited)
	(Rupees in thousand)			
14.1 Earnings per share				
Profit for the period after taxation	157,283	542,742	881,423	79,292
Less: dividend on non-cumulative preference shares paid during the period	-	-	(439,488)	-
Profit attributable to ordinary shareholders	<u>157,283</u>	<u>542,742</u>	<u>441,935</u>	<u>79,292</u>
	(Number of shares)			
Weighted average number of ordinary shares	<u>61,580,341</u>	<u>61,580,341</u>	<u>61,580,341</u>	<u>61,580,341</u>
	(Rupees)			
Earnings per share – basic	<u>2.55</u>	<u>8.81</u>	<u>7.18</u>	<u>1.29</u>



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

- 14.2 The 1,046,400,000 preference shares are not included in the calculation of diluted earnings per share because they are antidilutive for the nine months period ended September 30, 2018. These preference shares could potentially dilute basic earnings per share in the future.

### 15. RELATED PARTIES DISCLOSURES

- 15.1 Related parties comprise of Philip Morris Investments B.V., (the parent company) and Philip Morris Brands S.à.r.l., related group undertakings, subsidiary company - Laksonpremier Tobacco Company (Private) Limited, staff retirement funds and members of the key management personnel. Transactions with related parties are as follows:

Relationship	Nature of transaction	Nine months period ended	
		September 30, 2018	September 30, 2017
		(Un-audited)	(Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and services	27,323	515,658
	Purchase of goods and services	214,044	156,823
	Loans received	-	2,097,000
	Loans repaid / adjusted	-	2,097,000
	Mark-up on short term running finance	-	3,197
	Royalty charges	71,435	45,447
	Share based payment expense	8,938	9,339
	Share based payment recharge	18,086	22,552
Staff retirement benefit plans	Contribution to gratuity fund	42,450	55,118
	Contribution to provident fund	55,428	54,632
Key management personnel	Remuneration and benefits - note 15.1.1 to 15.1.4	4,868	4,248

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

- 15.1.1 The Company considers its chief executive and directors as key management personnel.
- 15.1.2 The chief executive and executive directors are provided with free use of the company maintained cars.
- 15.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.
- 15.1.4 The independent directors were paid director's fee of Rs 2.64 million during the period (September 30, 2017: 2.4 million).



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

15.2 Balance outstanding with related parties are as follows:

	September 30, 2018 (Un-audited)	December 31, 2017 (Audited)
	(Rupees in thousand)	
<b>Current assets</b>		
Associated undertakings - Other receivables	206,719	302,576
Staff retirement benefits	<u>70,149</u>	<u>97,048</u>
	<u>276,868</u>	<u>399,624</u>
<b>Current Liabilities</b>		
Group payables	151,679	140,424
Provident fund payable	<u>17,033</u>	<u>-</u>
	<u>168,712</u>	<u>140,424</u>

15.3 Investment in a subsidiary company

See note 5

### 16. CASH GENERATED FROM OPERATIONS

	Note	Nine months period ended September 30, 2018 (Un-audited)	September 30, 2017 (Un-audited)
		(Rupees in thousand)	
Profit before taxation		1,178,317	308,207
Adjustments for:			
- Depreciation		898,908	801,572
- Amortisation		7,058	11,077
Intangibles written off		-	1,260
Staff retirement gratuity expense		69,349	44,616
Expenses arising from equity-settled share-based payment plan		8,938	9,339
Provision for obsolete stocks		-	24,863
Stores and spares written off		-	104,860
Liabilities written back		(11,017)	-
Stock in trade written down to net realisable value		12,808	-
Impairment charge on items of property, plant and equipment		131,625	366
Profit on savings accounts		(67,922)	(1,245)
Unrealised exchange gain - others		69,453	18,725
Exchange loss on loans from an associated undertaking - net		-	5,200
Profit on disposal of items of property, plant and equipment - net		(41,735)	(41,768)
Property, plant and equipment written off		14,072	19,023
Capital work-in-progress written off		7,953	-
Finance cost other than exchange loss on loans from an associated undertaking		15,982	77,520
Working capital changes	16.1	<u>1,386,978</u>	<u>1,065,996</u>
		<u>3,680,767</u>	<u>2,449,611</u>



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

### 16.1 Working capital changes

	<b>Nine months period ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
	<b>(Un-audited)</b>	<b>(Un-audited)</b>
	<b>(Rupees in thousand)</b>	
(Increase) / Decrease in current assets		
Stores and spares - net	328	23,177
Stock in trade - net	(556,617)	(901,277)
Trade debts - net	15,860	(35,849)
Advances	(4,275)	(13,305)
Prepayments	(24,718)	28,864
Other receivables	94,261	133,691
	<u>(475,161)</u>	<u>(764,699)</u>
Increase in current liabilities		
Trade and other payables	1,002,215	1,096,386
Sales tax and excise payable	859,924	734,309
	<u>1,862,139</u>	<u>1,830,695</u>
	<u>1,386,978</u>	<u>1,065,996</u>

### 17. CASH AND CASH EQUIVALENTS

	<b>Nine months period ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
	<b>(Un-audited)</b>	<b>(Un-audited)</b>
	<b>(Rupees in thousand)</b>	
Cash and bank balances	2,691,012	614,611
Short term running finance	(20,231)	-
Less: Amount held as security	(18,861)	-
	<u>2,651,920</u>	<u>614,611</u>



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

### 18. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on October 18, 2018 by the Board of Directors of the Company.

### 19. GENERAL

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

Karachi: October 18, 2018

**KAMRAN Y. MIRZA**  
Chairman

**JOAO MANUEL**  
Chief Executive

**ANTON STANKOV**  
Chief Financial Officer





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