



PHILIP MORRIS
(PAKISTAN) LIMITED

HALF YEARLY REPORT

For the half year ended June 30, 2019
(Un-audited)

HALF YEARLY REPORT

For the half year ended June 30, 2019
(Un-audited)



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COMPANY INFORMATION

BOARD OF DIRECTORS

KAMRAN Y. MIRZA	(Chairman)
JOAO MANUEL	(Chief Executive)
MICHAEL SCHARER	
SHARMEN KARTHIGASU	(until June 15, 2019)
LIM KHANG WEI	(from June 18, 2019)
MUHAMMAD ZEESHAN	
EE WON CHEN	(until June 15, 2019)
PATTARAPORN AUTTAPHON	(from June 18, 2019)
LT. GEN. (R) TARIQ KHAN	

COMPANY SECRETARY

MUSTAFA KAMAL ZUBERI

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN	(Chairman)
SHARMEN KARTHIGASU	(until June 15, 2019)
LIM KHANG WEI	(from June 18, 2019)
EE WON CHEN	(until June 15, 2019)
PATTARAPORN AUTTAPHON	(from June 18, 2019)
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.philipmorriskarachi.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 six months period ended June 30, 2019.

During the period, the tax paid industry faced challenges from the illicit sector, currently at 33.3% of the total tobacco market (June 2019 - Retail Audit). This is mainly attributable to the two excise tax increases (56% aggregate) in 2018, stretching the price gap between illicit and tax paid segment. 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. These excessive excise tax increases poses serious threats on the sustainability of the tax paid industry volume base and are detrimental for the Government revenues in the long run. Therefore strict implementation of enforcement measures is necessary to restrict illicit sector while ensuring sustainability of tax paid industry and Government revenue growth through predictable moderate excise tax increases.

Despite the challenges of the fiscal environment, the Company's contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies, was PKR 15,785 million, as compared to PKR 9,186 million for the same period in 2018, an increase of 67%.

The Company's gross turnover increased by 60% and 47% for second quarter and six months ended June 30th, 2019 compared to the same period of 2018, attributable to excise driven price increase in September, 2018 coupled with higher sales volume due to favorable trade inventory movements in anticipation of excise driven price increase in June, 2019.

The Company recorded an Operating Profit before tax of PKR 1,218 million for the three months period ended June 30th, 2019, whereas an Operating Loss before tax of PKR 517 million for the six months period ended June 30th, 2019 compared to an Operating Profit before tax of PKR 391 million and PKR 1,010 million for the same period of 2018. The six months period ended June 30th, 2019 Operating loss before tax was mainly due to the management decision to reorganize its operational footprint by closing its factory in Kotri, which was essential to ensure long term sustainability of the business in Pakistan considering the unpredictable fiscal environment.

Excluding the one off impairment and employee separation costs which was the result of the closure of the Kotri factory, the Company would have recorded an Operating Profit before tax of PKR 2,041 million for the six months period ended June 30th, 2019, instead of the six month Operating loss before tax as mentioned above.

The management team continues to be committed to 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,

LT. GEN. (R) TARIQ KHAN
Director

JOAO MANUEL
Chief Executive

Karachi: August 22, 2019

ڈائریکٹرز رپورٹ

کمپنی کے ڈائریکٹرز 30 جون 2019ء کو ختم ہونے والی ششماہی کے لیے کمپنی کی کارکردگی کے بارے میں رپورٹ پیش کر رہے ہیں۔

زیر جائزہ عرصے کے دوران، بلیکس ادا کرنے والی انڈسٹری کو غیر قانونی ٹیکس کی جانب سے چیلنجوں کا سامنا رہا، جو اس وقت تک کوئی کل مارکیٹ کا 33.33 فیصد ہے (جون 2019 - ریشیل آؤٹ)۔ اس کی بنیادی وجہ سنہ 2018ء میں بلیکس میں دوسرے اضافہ ہے (مجموعی طور پر 56 فیصد) جس سے غیر قانونی اور بلیکس ادا کرنے والے شعبوں کے درمیان فرق بڑھ گیا۔ مزید برآں، وفاقی بجٹ برائے 2020-2019 میں بلیکس کی درمیانی سطح ختم کر دی گئی اور اس کی جگہ قیمت کی سطح پر ایکسائز کی شرح میں مزید 32 فیصد اضافہ کر دیا گیا جس سے قیمتوں میں فرق اور بھی زیادہ ہو گیا۔ ایکسائز بلیکس میں اس اضافے نے بلیکس ادا کرنے والی انڈسٹری کے حجم کے برقرار رہنے کے لیے شدید خطرات پیدا کر دیئے اور آنے والے وقت میں یہ سرکاری محصولات میں کمی کا باعث ہو گئے۔ لہذا، ایکسائز بلیکس میں، اعتبار ال کے ساتھ قابل پیش گوئی اضافے کے ذریعے، بلیکس ادا کرنے والی انڈسٹری کی پائیداری اور سرکاری محصولات میں اضافہ یقینی بنانے کے علاوہ غیر قانونی ٹیکس کے خاتمے کے لیے سرکاری اقدامات پر توجہ سے عمل درآمد کرنے کی ضرورت ہے۔

مالی حالات میں درج پیش ان چیلنجوں کے باوجود، ایکسائز بلیکس، ہیلز بلیکس اور دیگر سرکاری محصولات کی صورت میں مجموعی خزانے میں کمپنی کا حصہ 15,785 ملین روپے تھا جو سنہ 2018ء میں، اسی عرصے کے دوران 9,186 ملین روپے تھا، اس طرح اس سال اس میں 67 فیصد اضافہ ہوا ہے۔

کمپنی کے مجموعی محصولات میں 30 جون 2019ء کو ختم ہونے والی سہ ماہی کے دوران 60 فیصد اور ششماہی کے دوران 47 فیصد اضافہ ہوا جو سنہ 2018ء میں اس عرصے کے مقابلے میں تھا، جس کی وجہ ستمبر 2018ء میں ایکسائز میں اضافے کی وجہ سے قیمت میں اضافہ اور اسی کے ساتھ جون 2019ء میں ایکسائز بلیکس کی وجہ سے قیمتوں میں متوقع اضافے کے باعث ٹریڈ انڈسٹری میں موافق حرکت کی وجہ سے بیلز کے حجم میں اضافہ تھا۔

مؤرخہ 30 جون 2019ء کو ختم ہونے والی سہ ماہی کے لیے کمپنی کو 1,218 ملین روپے قبل از ٹیکس آپریٹنگ منافع حاصل ہوا جبکہ 30 جون 2019ء کو ختم ہونے والی ششماہی کے دوران قبل از ٹیکس آپریٹنگ منافع 517 ملین روپے ہوا جو سنہ 2018ء میں، اسی عرصے کے لیے قبل از ٹیکس آپریٹنگ منافع 391 ملین روپے تھا اور قبل از ٹیکس آپریٹنگ منافع 1,010 ملین روپے تھا۔ مؤرخہ 30 جون 2019ء کو ختم ہونے والی ششماہی کے دوران قبل از ٹیکس منافع کی وجہ کوٹری میں واقع اپنی ٹیکسری بند کرنے کے بعد آپریٹنگ منافع پر پٹ کی تنظیم کو کرنے کا فیصلہ تھا جو پاکستان میں ناقابل پیش گوئی مالی حالات کے پیش نظر طویل المیعاد پائیداری کے لیے لازمی تھا۔

اگر کوٹری میں ٹیکسری کی بندش کے نتیجے میں ملازمت کی علیحدگی پر ہونے والے اخراجات اور ایک مرتبہ واقع ہونے والا نقصان الگ کر دیا جائے تو ایسی صورت میں، کمپنی نے 30 جون 2019ء کو ختم ہونے والے چھ ماہ کے دوران مذکورہ بالا قبل از ٹیکس آپریٹنگ منافع کی بجائے 2,041 ملین روپے قبل از ٹیکس منافع حاصل کیا ہوتا۔

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 اختتامیہ مجموعی کارکردگی میں بہتری لانے کیلئے پرعزم ہے۔ دشوار ماحول میں ہمارا بہتر 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 پارٹنرز اور دیگر اداروں، ان کے مسلسل اعتماد اور اور اعانت کے لیے شکریہ ادا کرتے ہیں۔

بورڈ آف ڈائریکٹرز کی جانب سے


جواد امین مینون
چیف ایگزیکٹو


لیفٹینینٹ جنرل (ر) طارق خان
ڈائریکٹر

بتاریخ: کراچی، 22 اگست، 2019ء



AUDITORS' REPORT

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Philip Morris (Pakistan) Limited

Report on review of Interim Financial Statements

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Philip Morris (Pakistan) Limited as at June 30, 2019 and the related condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows and notes to the financial statements for the six months period then ended (here-in-after referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

The figures of the condensed interim statement of profit or loss and other comprehensive income for the quarters ended June 30, 2019 and 2018 have not been reviewed, as we are required to review only the cumulative figures for the six months period ended June 30, 2019.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the review resulting in this independent auditor's report is Khurshid Hasan.



CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2019

	Note	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
ASSETS			
NON-CURRENT ASSETS			
Fixed Assets			
- Property, plant and equipment	5	5,267,845	7,323,760
- Intangibles		19,625	24,270
		5,287,470	7,348,030
Investment in a subsidiary company	6	1	1
Long term deposits and prepayments		57,111	50,545
Deferred taxation		791,813	659,761
		6,136,395	8,058,337
CURRENT ASSETS			
Stores and spares - net		219,780	226,899
Stock in trade - net	7	3,544,602	5,800,812
Advances		22,650	22,288
Prepayments		453,846	140,689
Other receivables		23,608	12,503
Income tax - net		837,970	878,983
Staff retirement benefits		60,196	52,412
Cash and bank balances		3,840,205	2,965,229
Non-current assets held for sale	8	-	-
TOTAL CURRENT ASSETS		9,002,857	10,099,815
TOTAL ASSETS		15,139,252	18,158,152
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
		11,079,803	11,079,803
Transaction cost on issuance of preference shares - net of tax		(33,911)	(33,911)
		11,045,892	11,045,892
Reserves		965,360	1,564,754
TOTAL EQUITY		12,011,252	12,610,646
NON-CURRENT LIABILITIES			
Lease liabilities		130,553	-
CURRENT LIABILITIES			
Trade and other payables	9	2,884,573	4,917,251
Current maturity of lease liabilities		78,739	-
Unclaimed dividend		34,012	34,608
Accrued mark-up on short borrowing		123	113
Sales tax and excise duty payable		-	595,534
TOTAL CURRENT LIABILITIES		2,997,447	5,547,506
TOTAL LIABILITIES		3,128,000	5,547,506
TOTAL EQUITY AND LIABILITIES		15,139,252	18,158,152
CONTINGENCIES AND COMMITMENTS			
	10		

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

LT. GEN. (R) TARIQ KHAN
Director

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: August 22, 2019



CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE QUARTER AND SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Note	Quarter ended		Six months period ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
----- (Rupees in thousand) -----					
Turnover - net	11	5,423,553	3,868,925	9,519,537	7,654,337
Cost of sales	12	3,437,774	2,269,973	5,778,394	4,163,808
Gross profit		1,985,779	1,598,952	3,741,143	3,490,529
Distribution and marketing expenses		605,658	766,817	1,236,783	1,682,379
Administrative expenses		367,699	340,124	683,209	658,600
Other expenses	13	(63,403)	149,671	2,598,673	251,254
Other income		(142,663)	(48,276)	(260,263)	(111,521)
		767,291	1,208,336	4,258,402	2,480,712
Operating profit / (loss)		1,218,488	390,616	(517,259)	1,009,817
Finance cost and bank charges		16,791	4,135	32,582	9,299
Profit / (loss) before taxation		1,201,697	386,481	(549,841)	1,000,518
Taxation charge	14	527,477	67,438	41,752	276,378
Profit / (loss) after taxation		674,220	319,043	(591,593)	724,140
Other comprehensive income		-	-	-	-
Total comprehensive income / (loss) for the year		674,220	319,043	(591,593)	724,140
----- (Rupees) -----					
Earnings / (loss) per share					
- Basic and diluted	15	10.95	(1.96)	(9.61)	4.62

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

Karachi: August 22, 2019


LT. GEN. (R) TARIQ KHAN
 Director


JOAO MANUEL
 Chief Executive


MUHAMMAD ZEESHAN
 Chief Financial Officer



CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Issued, subscribed and paid-up capital		Transaction cost on issuance of preference shares -net of tax	Reserves						Subtotal - Reserves	Total
				Capital Reserves			Revenue Reserves				
	Ordinary shares	Preference shares	Reserve for share based payments	Remeasurement of staff retirement gratuity plan -net of tax	Subtotal Capital Reserves	General reserve	Unappropriated loss	Subtotal Revenue Reserves			
(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 cash dividend for the year ended December 31, 2017	-	-	-	-	-	-	(747,390)	-	(747,390)	(747,390)	(747,390)
Share based payments											
- expense	-	-	-	8,938	-	8,938	-	-	-	8,938	8,938
- recharge	-	-	-	(18,086)	-	(18,086)	-	-	-	(18,086)	(18,086)
	-	-	-	(9,148)	-	(9,148)	-	-	-	(9,148)	(9,148)
<i>Total comprehensive income</i>											
Profit after taxation for the six months period ended June 30, 2018	-	-	-	-	-	-	-	724,140	724,140	724,140	724,140
	-	-	-	-	-	-	-	724,140	724,140	724,140	724,140
Balance as at June 30, 2018	615,803	10,464,000	(33,911)	(4,194)	(198,624)	(202,818)	4,676,610	(2,650,806)	2,025,804	1,822,986	12,868,878
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
Share based payments											
- expense	-	-	-	12,221	-	12,221	-	-	-	12,221	12,221
- recharge	-	-	-	(20,022)	-	(20,022)	-	-	-	(20,022)	(20,022)
	-	-	-	(7,801)	-	(7,801)	-	-	-	(7,801)	(7,801)
<i>Total comprehensive loss</i>											
Loss after taxation for the six months period ended June 30, 2019	-	-	-	-	-	-	-	(591,593)	(591,593)	(591,593)	(591,593)
	-	-	-	-	-	-	-	(591,593)	(591,593)	(591,593)	(591,593)
Balance as at June 30, 2019	615,803	10,464,000	(33,911)	(2,530)	(258,115)	(260,645)	4,676,610	(3,450,605)	1,226,005	965,360	12,011,252

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

Karachi: August 22, 2019


LT. GEN. (R) TARIQ KHAN
 Director


JOAO MANUEL
 Chief Executive


MUHAMMAD ZEESHAN
 Chief Financial Officer



CONDENSED INTERIM STATEMENT OF CASH FLOW

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Note	Six months period ended	
		June 30, 2019	June 30, 2018
(Rupees in thousand)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	17	1,377,950	842,732
Staff retirement gratuity paid		(33,640)	(28,300)
Finance cost paid		(32,572)	(9,262)
Profit received on savings accounts		178,941	36,713
Income taxes paid		(132,791)	(120,764)
Long term deposits and prepayments		(6,566)	(1,782)
Net cash generated from operating activities		<u>1,351,322</u>	<u>719,337</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(460,378)	(232,064)
Acquisition of intangibles		(500)	(7,275)
Proceeds from disposal of items of property, plant and equipment		65,653	70,716
Net cash used in investing activities		<u>(395,225)</u>	<u>(168,623)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(596)	(750,866)
Principal element of lease payments		(80,525)	-
Net cash paid for financing activities		<u>(81,121)</u>	<u>(750,866)</u>
Net increase / (decrease) in cash and cash equivalents during the period		<u>874,976</u>	<u>(200,152)</u>
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	<u>3,821,344</u>	<u>37,087</u>

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

Karachi: August 22, 2019


LT. GEN. (R) TARIQ KHAN
Director


JOAO MANUEL
Chief Executive


MUHAMMAD ZEESHAN
Chief Financial Officer



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

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/233/619/2002/361 dated January 17, 2019 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 6.

2. STATEMENT OF COMPLIANCE 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 Act; and
 - (b) Provisions of and directives issued under the Act.

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 2018 financial statements, except relating to the matters stated in notes 2.3 and 2.4 below.
- 2.3 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.
- 2.4 New standards, amendments and an interpretation to accounting and reporting standards which become effective during the period:



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

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

- (i) IFRS 9 – Prepayment Features with Negative Compensation – (Amendments)
- (ii) IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments)
- (iii) IAS 28 - Long-term Interests in Associates and Joint Ventures – (Amendments)
- (iv) IFRIC 23 - Uncertainty over Income Tax Treatments

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

In addition to the above, IFRS 16 'Leases' has become applicable to the Company effective January 1, 2019. IFRS 16 replaces guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a lease', SIC 15 'Operating leases - Incentive' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'. IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right of use of the underlying asset and a lease liability representing its obligations to make lease payments.

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 right-of-use assets for property leases were measured 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.

On application of IFRS 16, the comparatives have not been restated, 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, the summary of which is as follows:

	2019 (Rupees in thousand)
Right-of-use assets – increased by	<u>314,576</u>
Prepayments – decreased by	<u>26,057</u>
Lease liabilities – increased by - current portion	149,307
- non-current portion	139,212
	<u>288,519</u>

The net impact on net assets as at January 1, 2019 was nil.



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

- 2.5 New standards, amendments and an interpretation to accounting and reporting standards which are not yet effective and have not been early adopted by the Company:

The following new standard and amendments to the accounting standards as applicable in Pakistan would be effective from the dates mentioned below:

Standard or amendments	Effective date (annual periods beginning on or after)
- IAS 1 – Presentation of Financial Statements (Amendments)	January 1, 2020
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)	January 1, 2020
- IFRS 17 - Insurance Contracts	January 1, 2021

The above standard and amendments are not expected to have any material impact on the Company's financial statements in the period of initial application.

3. BASIS OF PREPARATION

- 3.1 These condensed interim financial statements include the condensed interim statement of financial position as at June 30, 2019, 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 six months period then ended which have been subjected to a review and have not been audited. 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 June 30, 2019 which was not subjected to review.
- 3.2 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 six months period ended June 30, 2018 have been extracted from the condensed interim financial statements of the Company for the six months period then ended, which were subjected to review but were not audited.
- 3.3 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

- 4.1 The preparation of these condensed interim financial statements in conformity with



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

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.

- 4.2 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.
- 4.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2018 financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

	Note	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Operating property, plant and equipment	5.1 to 5.4	3,996,971	6,222,136
Capital work-in-progress (CWIP)	5.5	1,058,022	1,100,341
Right-of-use assets		209,056	-
Major capital spares and stand-by equipment		3,796	1,283
		<u>5,267,845</u>	<u>7,323,760</u>
5.1 Operating property, plant and equipment			
Book value at the beginning of the period / year		6,222,136	7,260,775
Transfers from CWIP during the period / year	5.2	494,328	714,823
		6,716,464	7,975,598
Disposals during the period / year			
- net book value	5.3	(21,252)	(47,431)
Write offs during the period / year			
- net book value		(152)	(14,071)
Impairment during the period / year			
- net book value	13	(1,057,977)	(131,624)
Transfer to held for sale	8	(1,137,304)	-
Depreciation charge during the period / year	5.4	(502,808)	(1,560,336)
		(2,719,493)	(1,753,462)
Book value at the end of the period / year		<u>3,996,971</u>	<u>6,222,136</u>



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

	Six months period ended	
	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	(Rupees in thousand)	
5.2 Transfers from CWIP during the period:		
Buildings on freehold land	18,839	15,381
Plant and machinery	328,742	188,132
Furniture and fixtures	-	5,159
Office equipment	4,830	-
Vehicles	112,953	62,880
Power and other installations	12,161	21,552
Computer equipment	16,803	8,537
	<u>494,328</u>	<u>301,641</u>
5.3 Disposals during the period - net book value		
Freehold land	46	13,221
Buildings on freehold land	-	10,958
Vehicles	21,206	10,462
	<u>21,252</u>	<u>34,641</u>
5.4 Depreciation charge during the period on property, plant and equipment	<u>502,808</u>	<u>601,745</u>
Depreciation charge during the period on right-of-use assets	<u>106,818</u>	<u>-</u>
5.5 Capital work-in-progress		
	June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
	(Rupees in thousand)	
Civil works	83,420	81,015
Plant and machinery	538,584	192,625
Power and other installations	332,999	568,971
Furniture and fixtures	40,342	70,929
Computer equipment pending installations	14,718	8,092
Advance to suppliers and contractors	47,959	178,709
	<u>1,058,022</u>	<u>1,100,341</u>

6. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in Laksonpremier



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

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 six months period ended June 30, 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 June 30, 2019 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the six months period then ended June 30, 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. STOCK IN TRADE - net

	Note	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Raw and packing materials	7.1 to 7.3	2,984,703	4,610,723
Work-in-process		191,745	143,281
Finished goods	7.3	<u>369,161</u>	<u>1,047,815</u>
		3,545,609	5,801,819
Provision for obsolete stocks	7.3	<u>(1,007)</u>	<u>(1,007)</u>
		<u>3,544,602</u>	<u>5,800,812</u>

7.1 Includes impact of seasonal purchases on account of harvest of tobacco crop during the months of July to September.

7.2 Include raw and packing materials in transit aggregating Rs 82.421 million (December 31, 2018: Rs 264.292 million).

7.3 During the current period, the Company has written off provision against raw and packing materials aggregating Rs Nil (December 31, 2018: Rs 6.789 million) and finished goods aggregating Rs Nil (December 31, 2018: Rs 36.914 million).



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

8. NON-CURRENT ASSETS HELD FOR SALE

	Note	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Transferred from operating property, plant and equipment	5.1	1,137,304	-
Less: Impairment charged during the period	8.2 & 13	<u>(1,137,304)</u>	<u>-</u>
		<u>-</u>	<u>-</u>

8.1 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 reorganise its operational footprint by closing its factory in Kotri. The management believes that this decision will not impact the Company's ability to supply products to the market. The Company has closed the kotri factory and retrenched its workers employed at the factory. The Company is committed to complying with all applicable laws and, in this instance, has taken every possible measure to fulfil its legal obligations.

8.2 In view of the above, the related items of plant and machinery having a net book value of Rs. 1,137.304 million have been transferred to non-current assets held for sale. In accordance with the Company's policy, these items can not be disposed of except as scrap material, the proceeds of which are not expected to be material in the overall context of these condensed interim financial statements. Accordingly, the total net book value of assets has been recorded as an impairment charge during the period.

9. TRADE AND OTHER PAYABLES

	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Creditors	1,350,884	2,140,855
Bills Payable	540,202	844,122
Royalty payable to related party	55,731	118,742
Accrued expenses	600,419	879,568
Tobacco Development cess	-	33,550
Contractors' retention money	5,979	5,979
Advance from customers - unsecured	99,686	524,675
Workers' welfare fund	58,707	41,726
Others	172,965	328,034
	<u>2,884,573</u>	<u>4,917,251</u>



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

10. CONTINGENCIES AND COMMITMENTS

10.1 Guarantees

Indemnities given to banks for guarantees issued by them in the normal course of business aggregated Rs 119.961 million (December 31, 2018: Rs 69.565 million).

10.2 Commitments

	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Capital expenditure contracted for but not incurred	<u>658,293</u>	<u>572,399</u>
Post dated cheques	<u>58,508</u>	<u>31,876</u>
Letters of credit	<u>246,896</u>	<u>121,445</u>

10.3 Contingencies

10.3.1 There is no significant change in the status of the cases set out in notes 20.3 to 20.5 and 20.7 to the December 2018 financial statements.

10.3.2 The FBR issued two orders to the Company dated July 13, 2017 and one order dated October 16, 2017 and demanded an amount of Rs 1,765.008 million for alleged evasion of FED and sales tax along with penalties thereon which the Company believes to be unfounded. The Company filed appeals before the CIR Appeals who upheld the said demand through an order dated January 30, 2019.

On February 8, 2019, the Company filed appeals against the orders before the Tribunal and also obtained an automatic stay thereagainst by making payment equal to 15% of the FED demand and 100% of the sales tax demand amounting to Rs 241.867 million and Rs 152.561 million respectively.

On August 7, 2019, the automatic stay obtained by the Company lapsed due to which the Company submitted a stay application to the Tribunal requesting for extension of stay against recovery of tax demand. Since, no recovery notice had been issued to the Company, therefore, the Tribunal directed the FBR to issue fifteen days prior recovery notice to the Company before initiating any intended recovery measures. The next date of hearing has not been announced yet and no notice has been issued by the FBR to the Company till date.

The management continues to assess that the Company has sufficient documentary evidence to prove that it has discharged payment of all due duties and taxes in a timely manner and as such, ultimate decision in the appeal process will be in its favour. Accordingly, a provision has not been recognised in these financial statements.



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

11. TURNOVER - net

	Quarter ended		Six months period ended	
	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	(Rupees in thousand)			
Gross turnover	13,944,557	8,737,731	24,954,750	17,019,897
Less: Trade discount	267,237	273,271	531,429	507,995
Sales tax	2,069,000	1,333,937	3,732,268	2,605,687
Excise duty	6,184,767	3,261,598	11,171,516	6,251,878
	8,521,004	4,868,806	15,435,213	9,365,560
	<u>5,423,553</u>	<u>3,868,925</u>	<u>9,519,537</u>	<u>7,654,337</u>

12. COST OF SALES

Raw and packing materials consumed

Opening stock	3,739,654	5,107,948	4,610,723	5,747,841
Purchases, redrying and related expenses	942,290	884,680	2,316,810	2,062,091
	<u>4,681,944</u>	<u>5,992,628</u>	<u>6,927,533</u>	<u>7,809,932</u>
Closing stock	(2,984,703)	(4,443,344)	(2,984,703)	(4,443,344)
	<u>1,697,241</u>	<u>1,549,284</u>	<u>3,942,830</u>	<u>3,366,588</u>
Government levies	10,822	8,649	22,834	19,301
Manufacturing expenses	518,032	596,301	1,183,718	1,122,694
	<u>2,226,095</u>	<u>2,154,234</u>	<u>5,149,382</u>	<u>4,508,583</u>

Work-in-process

Opening stock	125,519	110,432	143,281	107,962
Closing stock	(191,745)	(108,376)	(191,745)	(108,376)
Sale of waste	(467)	(1,705)	(1,178)	(3,160)
	<u>(66,693)</u>	<u>351</u>	<u>(49,642)</u>	<u>(3,574)</u>

Cost of goods manufactured	<u>2,159,402</u>	<u>2,154,585</u>	<u>5,099,740</u>	<u>4,505,009</u>
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Finished goods

Opening stock	1,647,533	843,368	1,047,815	386,779
Closing stock	(369,161)	(727,980)	(369,161)	(727,980)
	<u>1,278,372</u>	<u>115,388</u>	<u>678,654</u>	<u>(341,201)</u>

	<u>3,437,774</u>	<u>2,269,973</u>	<u>5,778,394</u>	<u>4,163,808</u>
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NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

	Note	Quarter ended		Six months period ended	
		June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
(Rupees in thousand)					
13. OTHER EXPENSES					
Employee separation cost		3,491	-	367,254	-
Impairment (reversal) / charge on items of property, plant and equipment	13.1	(171,529)	39,219	1,057,977	58,605
Impairment charge on non - current assets held for sale	8.2	89,044	-	1,137,304	-
Property, plant and equipment written off		-	13,981	152	13,981
Loss on disposal of property, plant and equipment		-	-	-	1,633
Capital work-in-progress written off		5,856	917	5,856	5,738
Workers' profit participation fund		-	44,062	-	53,734
Workers' welfare fund		16,981	16,549	16,981	20,418
Exchange loss - net		(14,956)	30,025	-	82,344
Miscellaneous expenses		7,710	4,918	13,149	14,801
		<u>(63,403)</u>	<u>149,671</u>	<u>2,598,673</u>	<u>251,254</u>

- 13.1 As part of the Company's strategic review relating to closure of factory in Kotri (note 8.1), the related building and building equipment having a net book value of Rs 1,351.106 million as at March 1, 2019 have been written down to their recoverable amount, resulting in an impairment charge of Rs 1,057.977 million. The recoverable amount has been determined on the basis of fair value less cost of disposal by engaging external valuers as mentioned in note 13.1 to the Company's March 2019 condensed interim financial statements.

	Quarter ended		Six months period ended	
	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
(Rupees in thousand)				
14. TAXATION				
Current				
- for the period	116,868	48,786	141,329	95,001
- for the prior period	32,475	-	32,475	-
	<u>149,343</u>	<u>48,786</u>	<u>173,804</u>	<u>95,001</u>
Deferred	<u>378,134</u>	<u>18,652</u>	<u>(132,052)</u>	<u>181,377</u>
	<u>527,477</u>	<u>67,438</u>	<u>41,752</u>	<u>276,378</u>



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

15. EARNINGS / (LOSS) PER SHARE – BASIC

	Quarter ended		Six months period ended	
	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	(Rupees in thousand)			
15.1 Basic earnings / (loss) per share				
Profit / (loss) for the period after taxation	674,220	319,043	(591,593)	724,140
Less: dividend on non-cumulative preference shares paid during the period	-	(439,488)	-	(439,488)
Profit / (loss) attributable to ordinary ordinary shareholders	<u>674,220</u>	<u>(120,445)</u>	<u>(591,593)</u>	<u>284,652</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 / (loss) per share – basic	<u>10.95</u>	<u>(1.96)</u>	<u>(9.61)</u>	<u>4.62</u>

15.2 The 1,046,400,000 preference shares are not included in the calculation of diluted earnings per share because these are antidilutive for both the periods ended June 30, 2019 and June 30, 2018. These preference shares could potentially dilute basic earnings per share in the future.

16. RELATED PARTIES TRANSACTIONS

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 benefit funds and members of the key management personnel. The Company enters into transactions with related parties on the basis of mutually agreed terms. The transactions with related parties can be summarised as follows:



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

Relationship	Nature of transaction	Six months period ended	
		June 30, 2019 (Un-audited) (Rupees in thousand)	June 30, 2018 (Un-audited)
Associated undertakings	Sale of goods and services	258,640	19,068
	Purchase of goods and services	525,532	123,109
	Royalty charges	53,920	49,656
	Share based payment expense	12,221	8,938
	Share based payment recharge	20,022	18,086
Staff retirement benefit plans	Contribution to gratuity fund	33,640	28,300
	Contribution to provident fund	36,400	36,749
Key management personnel	Remuneration and benefits - notes 16.1.1 to 16.1.4	24,805	3,988

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 independent directors were paid director's fee of Rs 1.76 million during the period (June 30, 2018: Rs 1.76 million).

16.1.5 Balance outstanding with related parties are as follows:

	June 30, 2019 (Un-audited) (Rupees in thousand)	December 31, 2018 (Audited)
Current assets		
Associated undertakings - Other receivables	13,762	-
Staff retirement benefits	60,196	52,412
	<u>73,958</u>	<u>52,412</u>
Current Liabilities		
Group payables	295,206	495,242
Provident fund payable	15,475	128
Advance from customers - unsecured	-	33,174
	<u>310,681</u>	<u>528,544</u>

16.2 Investment in a subsidiary company

See note 6



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

17. CASH GENERATED FROM OPERATIONS

	Note	Six months period ended	
		June 30, 2019 (Un-audited) (Rupees in thousand)	June 30, 2018 (Un-audited)
(Loss) / profit before taxation		(549,841)	1,000,518
Adjustments for:			
- Depreciation on operating property, plant and equipment		502,808	601,745
- Depreciation on right-of-use asset		106,818	-
- Amortisation		5,145	4,592
Staff retirement gratuity expense		25,856	55,199
Provision for slow moving spares		21,577	-
Expenses arising from equity-settled share-based payment plan		12,221	8,938
Liabilities written back		(17,797)	(11,017)
Stock in trade written down to net realisable value		-	1,276
Impairment charge on items of property, plant and equipment		1,057,977	58,605
Impairment charge on non-current assets held for sale		1,137,304	-
Profit on savings accounts		(178,941)	(36,713)
Unrealised exchange gain - others		-	58,922
Profit on disposal of items of property, plant and equipment - net		(44,401)	(36,075)
Property, plant and equipment written off		152	13,981
Capital work-in-progress written off		5,856	5,738
Finance cost		32,582	9,299
Working capital changes	17.1	(739,366)	(892,276)
		<u>1,377,950</u>	<u>842,732</u>



NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS Continued

17.1 Working capital changes

	Six months period ended	
	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	(Rupees in thousand)	
Decrease / (increase) in current assets		
Stores and spares - net	(14,458)	(8,841)
Stock in trade - net	2,256,210	925,217
Trade debts - net	-	18,965
Advances	(362)	(27,645)
Prepayments	(339,214)	(1,059,290)
Other receivables	(11,105)	286,377
	<u>1,891,071</u>	<u>134,783</u>
Decrease in current liabilities		
Trade and other payables	(2,034,903)	(753,184)
Sales tax and excise payable	(595,534)	(273,875)
	<u>(2,630,437)</u>	<u>(1,027,059)</u>
	<u>(739,366)</u>	<u>(892,276)</u>

18. CASH AND CASH EQUIVALENTS

	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	(Rupees in thousand)	
Cash and bank balances	3,840,205	138,369
Short term running finance	-	(82,421)
Less: Amount held as security	(18,861)	(18,861)
	<u>3,821,344</u>	<u>37,087</u>

19. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 22, 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.

LT. GEN. (R) TARIQ KHAN
Director

JOAO MANUEL
Chief Executive

MUHAMMAD ZEESHAN
Chief Financial Officer

Karachi: August 22, 2019



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