



PHILIP MORRIS
(PAKISTAN) LIMITED

HALF YEARLY REPORT

For the half year ended June 30, 2016
(Un-audited)

HALF YEARLY REPORT

For the half year ended June 30, 2016
(Un-audited)



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COMPANY INFORMATION

BOARD OF DIRECTORS

KAMRAN Y. MIRZA		(Chairman)
ALEXANDER REISCH	(From April 19, 2016)	(Chief Executive)
ALEJANDRO PASCHALIDES	(Until April 19, 2016)	(Chief Executive)
HEE KYUNG YUN	(From June 01, 2016)	
DANIEL FAHRNY	(Until May 31, 2016)	
NICOLAS FLOROS		
JOSEPH ZIOMEK	(Until January 31, 2016)	
ANTON STANKOV	(From February 1, 2016)	
CHARLES BENDOTTI		
LT. GEN. (R) TARIQ KHAN	(From March 2, 2016)	

COMPANY SECRETARY

FAIZA KAPADIA RAFFAY

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN	(From March 2, 2016)	(Chairman)
HEE KYUNG YUN	(From June 01, 2016)	
DANIEL FAHRNY	(Until May 31, 2016)	
NICOLAS FLOROS		

HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI		(Chairman)
ALEXANDER REISCH	(From April 19, 2016)	
ALEJANDRO PASCHALIDES	(Until April 19, 2016)	
HEE KYUNG YUN	(From June 01, 2016)	
DANIEL FAHRNY	(Until May 31, 2016)	
C. DAVID ESCARDA		(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. PLOT NO. 14-17, EXPORT PROCESSING ZONE, KARACHI
2. E/15, S.I.T.E., KOTRI, DISTRICT: DADU (SINDH)
3. QUADIRABAD, DISTRICT: SAHIWAL
4. ISMAILA, DISTRICT: SWABI

SHARE REGISTRAR

THK ASSOCIATES (PVT.) LTD.
SECOND FLOOR, STATE LIFE BUILDING - 3
DR. ZIAUDDIN AHMED ROAD, KARACHI - 75530

Website : www.philipmorriskarachi.com.pk

Email : pmpk.info@pmi.com



DIRECTORS' REVIEW

The Directors are pleased to report on the Company's performance for the six months period ended June 30, 2016.

The Company's gross turnover showed a slight decrease of 2.79% compared to the same period in 2015 primarily attributable to the decline in volumes partially off-set by higher selling prices. At the same time other expenses decreased, mainly due to one-off restructuring costs charged in 2015. The Company recorded a Profit before tax of PKR 2,199 million for the six months, compared to a profit before tax of PKR 852 million for the same period in 2015.

The share of legitimate tobacco industry continues to shrink with the growth of low price duty evaded tobacco products resulting in accelerated consumer down trading. Excise-driven price increases further drive the price differential between the tax-paid and low price duty-evaded tobacco products creating unfair competition for the compliant products. The Company is actively supporting all Government policies to address this issue.

The decision which was taken by the Inter-Ministerial Committee in July 2015 to implement the 50% Graphical Health Warning instead of 85% on all tobacco brands has still not been resolved and the Ministry of Health continues to extend implementation of the 85% SRO on a monthly basis which creates uncertainty for the business particularly in formalizing and planning future operations.

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 16,133 million, as compared to PKR. 17,052 million in the same period in 2015, a decrease of 5.39%.

The Company is focused on improving its manufacturing facilities and equipment for better productivity and improved product quality. In order to retire its liabilities to various lenders related to these initiatives and for the purpose of ensuring availability of sufficient working capital in 2016, the Company had received PKR 7,500 million against which 596,400,000 & 153,600,000 Class A Preference shares of PKR 10 each have been issued to the Holding Company and Associated Undertaking respectively.

The management team continues to be committed to improving the overall performance of the Company by utilizing global resources, pursuing initiatives such as new strategic marketing activities, 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 very challenging environment.

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

On behalf of the Board of Directors,

KAMRAN Y. MIRZA
Chairman

Karachi: August 19, 2016



ڈائریکٹرز کی رپورٹ

ڈائریکٹرز 30 جون 2016 کو اختتام پذیر ہونے والی ششماہی میں کمپنی کی کارکردگی کی رپورٹ پیش کرتے ہوئے مسرت کا اظہار کرتے ہیں۔ اس ششماہی کے مجموعی کاروباری حجم میں گزشتہ سال کے اسی عرصہ کے مقابلے میں 2.79 فیصد کمی دیکھنے میں آئی ہے۔ ابتدائی مشاہدے سے یہ بات سامنے آئی ہے کہ اس کی وجہ بڑھتی ہوئی قیمت خریدتے ہوئے کیونکہ اس سے ہمارا کاروباری حجم کسی حد تک متاثر ہوا ہے۔ دوسری جانب 2015 میں تنظیم نو کی لاگت کی بیشٹ عائد کیے جانے کی وجہ سے اس سال دیگر اخراجات میں کمی واقع ہوئی ہے۔ کمپنی نے اس ششماہی میں ٹیکس سے قبل 2,199 ملین روپے کا منافع حاصل کیا ہے جس کا موازنہ گزشتہ سال کی اسی ششماہی سے کیا جائے تو معلوم ہوتا ہے کہ اس دوران ٹیکس سے قبل 852 ملین روپے کا منافع ہوا تھا۔

تباہی کی قیمت اور غیر ٹیکس ادا شدہ مصنوعات میں اضافے کی وجہ سے قانونی سگریٹ انڈسٹری کے حجم میں بتدریج کمی واقع ہو رہی ہے۔ بڑھتی ہوئی ایکسائز ڈیوٹی کی وجہ سے ٹیکس ادا شدہ اور کم قیمت کی غیر ٹیکس ادا شدہ مصنوعات کے مابین قیمت کا فرق بڑھ گیا ہے جس سے قانونی مصنوعات کیلئے مقابلے کا غیر منصفانہ ماحول پیدا ہو گیا ہے۔ کمپنی اس مسئلہ کے حل کیلئے حکومت کی پالیسیوں کی بھرپور حمایت جاری رکھے ہوئے ہے۔

جولائی 2015 میں بین الاقوامی کمیٹی کی جانب سے تمام سگریٹ برانڈز کی ڈیویوں پر 85 فیصد بجائے 50 فیصد پر تصویری صحت کا انتہائی نالغ ہونے کے فیصلہ پر تاحال کوئی پیش رفت نہیں ہوئی ہے جبکہ وزارت صحت نے اس حوالے سے انڈسٹری کو ہر مہینے کے اختتام پر 85 فیصد SRO کی نئی توسیع جاری کر دیتی ہے۔ اس توسیع سے نہ صرف آپریٹرز بلکہ کاروبار کا مستقبل کا عمومی رجحان متعین کرنے میں دشواری کا سامنا ہوتا ہے اور کاروبار غیر یقینی صورت حال سے دوچار ہو جاتا ہے۔

اس ششماہی کے دوران کمپنی نے حکومتی خزانہ میں ایکسائز ٹیکس، سیلز ٹیکس اور دیگر سرکاری محصولات کی مد میں گزشتہ سال کی اسی ششماہی کے دوران جمع کرائے جانے والے 17,052 ملین روپے کے مقابلے میں 5.39 فیصد کمی کے ساتھ 16,133 ملین روپے جمع کرائے ہیں۔

کمپنی بہترین کوالٹی کی مصنوعات کے حصول کیلئے اپنے پیداواری یونٹس اور آلات کو جدید خطوط پر استوار کرنے کیلئے کوشاں ہے۔ اس ضمن میں متعدد قرض خواہوں کو ہماری واجبات کی ادائیگی اور 2016 میں ضرورت کے مطابق سرمائے کی دستیابی کیلئے کمپنی کو 7,500 ملین روپے ملے ہیں جس کے مقابلے میں 596,400,000 اور 153,600,000 کلاس اے ترجیحی حصص بحساب 10 روپے فی حصص بتدریج بولڈنگ کمپنی اور دیگر متعلقہ کمپنیوں کو جاری کیے گئے۔ دستیاب عالمی وسائل کو بروئے کار لاتے ہوئے مینجمنٹ ٹیم کمپنی کی مجموعی کارکردگی کو مزید بہتر بنانے، مارکیٹنگ کی جدید حکمت عملی سمیت مزید مواقعوں کی تلاش، مصنوعات کی بہتر کوالٹی کے حصول، متحکم طریقہ کار اور آپریشنل کارکردگی کے ساتھ وسائل کے بہتر استعمال اور موثر تقرری 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 ہیں گے۔

بورڈ آف ڈائریکٹرز کی جانب سے میں اپنے تمام ملازمین، شیئرز، ہولڈرز، کاروباری شراکت داروں اور دیگر اداروں کا ان کے اعتماد اور حمایت پر تہ دل سے مشکور ہوں۔

بورڈ آف ڈائریکٹرز کی جانب سے

کامران یوسف مرزا

چیئرمین

بتاریخ: 19 اگست 2016



AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed Interim balance sheet of Philip Morris (Pakistan) Limited as at June 30, 2016, the related condensed interim profit and loss account, condensed interim statement of changes in equity and condensed interim cash flow statement and notes to the accounts for the six-month period then ended (here-in-after referred to as the interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures included in the condensed interim profit and loss account for the quarters ended June 30, 2016 and 2015 and the notes to the accounts have not been reviewed as we are required to review only the cumulative figures for the six months period ended June 30, 2016.

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 the condensed interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

A.F. FERGUSON & CO.

Chartered Accountants

Audit Engagement Partner: Tahir Sharif

Karachi: August 29, 2016



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

AS AT JUNE 30, 2016

	Note	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
FIXED ASSETS			
Property, plant and equipment	4	8,300,851	8,025,683
Intangibles		17,025	22,708
		<u>8,317,876</u>	<u>8,048,391</u>
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		36,442	37,452
Deferred taxation	6	356,289	937,354
		<u>8,710,608</u>	<u>9,023,198</u>
CURRENT ASSETS			
Stores and spares - net		446,715	491,672
Stock in trade - net	7	6,362,483	8,468,495
Trade debts - net		66,622	95,928
Advances		42,757	52,960
Prepayments	8	1,048,090	215,757
Other receivables		13,521	26,253
Income tax - net		770,468	798,593
Staff retirement benefits		72,490	60,155
Cash and bank balances		74,652	74,610
		<u>8,897,798</u>	<u>10,284,423</u>
TOTAL ASSETS		<u>17,608,406</u>	<u>19,307,621</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	9	<u>12,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up capital			
- Ordinary shares	9	615,803	615,803
- Preference shares	9	5,964,000	-
Advance against issuance of preference shares	10	1,536,000	-
Transaction cost on issuance of preference shares - net of tax		(28,872)	-
		<u>8,086,931</u>	<u>615,803</u>
Reserves		6,193,321	6,201,852
Unappropriated loss		(2,623,784)	(4,168,328)
TOTAL EQUITY		<u>11,656,468</u>	<u>2,649,327</u>
CURRENT LIABILITIES			
Short term borrowings	11	3,998,469	13,538,365
Trade and other payables		1,911,160	3,053,270
Accrued mark-up on short term borrowings		42,309	66,659
TOTAL LIABILITIES		<u>5,951,938</u>	<u>16,658,294</u>
TOTAL EQUITY AND LIABILITIES		<u>17,608,406</u>	<u>19,307,621</u>
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The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 19, 2016



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

FOR THE QUARTER AND SIX MONTHS PERIOD ENDED JUNE 30, 2016

	Note	Quarter ended		Six months period ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(Rupees in thousand)					
Turnover - net	13	5,152,068	5,847,151	9,817,910	9,962,910
Cost of sales	14	2,716,487	3,389,799	4,948,137	5,890,547
Gross profit		2,435,581	2,457,352	4,869,773	4,072,363
Distribution and marketing expenses		716,947	939,248	1,556,274	1,601,902
Administrative expenses		331,853	373,876	671,119	693,242
Other expenses	15	162,337	146,504	208,438	636,537
Other income		30,249	(39,805)	(46,483)	(89,972)
		1,241,386	1,419,823	2,389,348	2,841,709
Operating profit		1,194,195	1,037,529	2,480,425	1,230,654
Finance cost and bank charges		42,291	140,960	281,002	378,826
Profit before taxation		1,151,904	896,569	2,199,423	851,828
Taxation	16	571,821	171,075	654,879	143,836
Profit after taxation		580,083	725,494	1,544,544	707,992
Earnings per share (Rupees)					
- Basic	17.1	9.31	11.78	24.61	11.50
- Diluted	17.2	8.74	11.78	24.01	11.50

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 19, 2016



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

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2016

	Issued, subscribed and paid-up capital		Advance against issuance of preference shares	Transaction cost on issuance of preference shares -net of tax	General reserve	Reserve for share based payments	Re-measurement of staff retirement gratuity plan	Sub-total Reserves	Unappropriated loss	Total
	Ordinary shares	Preference shares								
(Rupees in thousand)										
Balance as at January 1, 2015	615,803	-	-	-	6,347,000	16,025	(136,658)	6,226,367	(2,853,320)	3,988,850
<i>Transactions with owners</i>										
<i>Share-based payments</i>										
- expense	-	-	-	-	-	4,364	-	4,364	-	4,364
- recharge	-	-	-	-	-	(19,453)	-	(19,453)	-	(19,453)
	-	-	-	-	-	(15,089)	-	(15,089)	-	(15,089)
<i>Total comprehensive loss</i>										
Profit after taxation for the six months period ended June 30, 2015	-	-	-	-	-	-	-	-	707,992	707,992
	-	-	-	-	-	-	-	-	707,992	707,992
Balance as at June 30, 2015	615,803	-	-	-	6,347,000	936	(136,658)	6,211,278	(2,145,328)	4,681,753
Balance as at January 1, 2016	615,803	-	-	-	6,347,000	6,392	(151,540)	6,201,852	(4,168,328)	2,649,327
<i>Transactions with owners</i>										
<i>Advance against issuance of preference shares</i>										
Issuance of preference shares	-	5,964,000	7,500,000 (5,964,000)	-	-	-	-	-	-	7,500,000
Transaction cost on issuance of preference shares-net of tax	-	-	-	(28,872)	-	-	-	-	-	(28,872)
	-	5,964,000	1,536,000	(28,872)	-	-	-	-	-	7,471,128
<i>Share-based payments</i>										
- expense	-	-	-	-	-	7,626	-	7,626	-	7,626
- recharge	-	-	-	-	-	(16,157)	-	(16,157)	-	(16,157)
	-	-	-	-	-	(8,531)	-	(8,531)	-	(8,531)
<i>Total comprehensive income</i>										
Profit after taxation for the six months period ended June 30, 2016	-	-	-	-	-	-	-	-	1,544,544	1,544,544
	-	-	-	-	-	-	-	-	1,544,544	1,544,544
Balance as at June 30, 2016	615,803	5,964,000	1,536,000	(28,872)	6,347,000	(2,139)	(151,540)	6,193,321	(2,623,784)	11,656,468

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 19, 2016



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

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2016

	Note	Six months period ended	
		June 30, 2016	June 30, 2015
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	19	3,133,907	3,498,023
Staff retirement gratuity paid		(24,670)	(45,880)
Finance cost paid		(318,252)	(343,036)
Income taxes paid		(33,274)	(95,306)
Long term deposits and prepayments		1,010	(2,802)
Net cash provided by operating activities		<u>2,758,721</u>	<u>3,010,999</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(721,755)	(790,518)
Acquisition of intangibles		-	(9,966)
Proceeds from disposal of items of property, plant and equipment		27,986	56,966
Profit received on savings accounts		4,134	7,138
Net cash used in investing activities		<u>(689,635)</u>	<u>(736,380)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Preference shares issued		5,964,000	-
Advance received against issuance of preference shares		1,536,000	-
Transaction cost on issuance of preference shares paid		(41,287)	-
Dividend paid for prior years		(761)	(235)
Proceeds of loans obtained from associated undertaking		12,580,400	7,618,300
Repayment of loan to associated undertaking		(19,910,500)	(9,635,500)
Net cash received from / (paid for) in financing activities		<u>127,852</u>	<u>(2,017,435)</u>
Net increase in cash and cash equivalent during the period		<u>2,196,938</u>	<u>257,184</u>
Cash and cash equivalents at the beginning of the period		(6,120,755)	(2,494,388)
Cash and cash equivalents at the end of the period	20	<u>(3,923,817)</u>	<u>(2,237,204)</u>

The annexed notes from 1 to 22 form an integral part of these condensed interim financial statements.

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 19, 2016



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

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2016

1. THE COMPANY AND ITS OPERATIONS

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 These condensed interim financial statements of the Company for the six months period ended June 30, 2016 have been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting which comprise International Accounting Standard 34, 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In cases where requirements differ, the provisions of or directives issued under the Ordinance shall prevail. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2015 as they provide an update of reported information in those financial statements.

2.2 These condensed interim financial statements include the condensed interim balance sheet as at June 30, 2016, the condensed interim profit and loss account, the condensed interim statement of changes in equity, the condensed interim cash flow statement and notes thereto for the six months period then ended which have been subjected to a review in accordance with the rule book of PSX but have not been audited. These condensed interim financial statements also include the condensed interim profit and loss account and notes thereto for the quarter ended June 30, 2016 which was not subjected to review.

2.3 The consolidated financial statements of the group comprising the Company and its subsidiary, Laksonpremier Tobacco Company (Private) Limited, have not been prepared due to the exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002-2159 dated May 4, 2016 from the requirement of Section 237 of the Ordinance. The exemption is, however, subject to the condition that any material and relevant details of the aforesaid subsidiary shall be prominently disclosed by the Company.

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

2.4 The comparative balance sheet presented in these condensed interim financial statements as at December 31, 2015 has been extracted from the audited financial statements of the Company for the year then ended (December 2015 financial statements). The comparative profit and loss account, statement of changes in equity and cash flow statement for the six months period ended June 30, 2015 have been extracted from the condensed interim financial statements of the Company for the



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

six months period then ended, which were subjected to review but were not audited. The comparative profit and loss account for the quarter ended June 30, 2015 is also included in these condensed interim financial statements which was not subjected to review.

2.5 New standards, amendments to approved accounting standards and new interpretations

2.5.1 Standards and amendments to approved accounting standards which become effective during the six months period ended June 30, 2016:

There were certain new standards and amendments to the approved accounting standards which became effective during the period but are considered not to be relevant or have no significant effect on the Company's operations and are, therefore, not disclosed in these condensed interim financial statements.

2.5.2 Amendments to approved accounting standards that are effective for the Company's accounting periods beginning on or after January 1, 2017:

There are certain amendments to approved accounting standards that are mandatory for accounting periods of the Company beginning on or after January 1, 2017 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not disclosed in these condensed interim financial statements.

2.6 The accounting policies adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the December 2015 financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT

3.1 The preparation of these condensed interim financial statements in conformity with approved accounting standards requires the use of certain 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 2015 financial statements.

3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2015 financial statements.



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

4. PROPERTY, PLANT AND EQUIPMENT

	Note	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
(Rupees in thousand)			
Operating property, plant and equipment	4.1 to 4.4	6,450,240	6,368,729
Capital work-in-progress (CWIP)	4.5	1,834,829	1,650,223
Major capital spares and stand-by equipment		15,782	6,731
		<u>8,300,851</u>	<u>8,025,683</u>
4.1 Operating property, plant and equipment			
Book value at the beginning of the period / year		6,368,729	5,383,968
Additions / transfers from CWIP during the period / year		528,098	2,277,553
		<u>6,896,827</u>	<u>7,661,521</u>
Disposals during the period / year - net book value		(6,565)	(216,567)
Write offs during the period / year - net book value		(4,510)	(164)
Impairment during the period / year - net book value		(6,824)	(209,666)
Depreciation charge during the period / year		(428,688)	(866,395)
		<u>(446,587)</u>	<u>(1,292,792)</u>
Book value at the end of the period / year		<u>6,450,240</u>	<u>6,368,729</u>
Six months period ended			
		June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
(Rupees in thousand)			
4.2 Additions / transfers from CWIP during the period			
Buildings on freehold land		96,703	225,876
Plant and machinery		280,921	1,247,322
Furniture and fixtures		8,006	65,836
Office equipment		9,168	-
Vehicles		13,483	79,223
Power and other installations		24,747	181,061
Computer equipment		95,070	21,685
		<u>528,098</u>	<u>1,821,003</u>
4.3 Disposals during the period - net book value			
Plant and machinery		4,959	60
Furniture and fixtures		401	-
Vehicles		1,205	16,391
Power and other installations		-	128
		<u>6,565</u>	<u>16,579</u>
4.4 Depreciation charge during the period			
		<u>428,688</u>	<u>397,909</u>



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

	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
	(Rupees in thousand)	
4.5 Capital work-in-progress		
Civil works	50,998	110,077
Plant and machinery	1,264,750	1,101,133
Power and other installations	329,958	286,657
Furniture and fixtures	75,861	54,039
Computer equipment pending installation	65,653	61,321
Advance to suppliers and contractors	47,609	36,996
	<u>1,834,829</u>	<u>1,650,223</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 accounts of the subsidiary company for the six months period ended June 30, 2016 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, 2016 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the six months period ended June 30, 2016.

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, 2015.

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.

	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
	(Rupees in thousand)	
6. DEFERRED TAXATION		
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	1,181	2,696
Amortisation of intangibles	52	99
Unutilised tax losses and credit	906,974	1,457,432
Provision for spares	49,030	49,283
Provision for obsolete stocks	4,493	12,845
Provision for doubtful debts	809	813
	<u>962,539</u>	<u>1,523,168</u>
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	(606,250)	(585,814)
Deferred tax asset	<u>356,289</u>	<u>937,354</u>



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

6.1 The accumulated tax losses of the Company as at June 30, 2016 aggregated Rs 4,925.601 million (December 31, 2015: Rs 4,921.432 million) in respect of which the Company has recognised deferred tax asset amounting to Rs 906.974 million (December 31, 2015: Rs 1,457.432 million). The Company carries out periodic assessment to assess the benefit of these losses 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. 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 taxable profits. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

7. STOCK IN TRADE - net

	Note	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
(Rupees in thousand)			
Raw and packing materials	7.1 to 7.3	5,970,433	7,934,418
Work-in-process		101,503	74,011
Finished goods	7.3	<u>305,988</u>	<u>503,983</u>
		6,377,924	8,512,412
Provision for obsolete stocks		<u>(15,441)</u>	<u>(43,917)</u>
		<u>6,362,483</u>	<u>8,468,495</u>

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

7.2 Includes raw & packing material in transit aggregating Rs 35.311 million (December 31, 2015: Rs 111.636 million).

7.3 During the current period, the Company has written off against provision, raw & packing material aggregating Rs 29.305 million (December 31, 2015: Rs 44.490 million) and finished goods aggregating Rs 1.011 million (December 31, 2015: Rs 17.971 million).



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

8. PREPAYMENTS

	Note	June 30, 2016 (Un-audited) (Rupees in thousand)	December 31, 2015 (Audited) (Rupees in thousand)
Federal Excise Duty and Sales Tax	8.1	940,668	-
Others		<u>107,422</u>	<u>215,757</u>
		<u>1,048,090</u>	<u>215,757</u>

8.1 This represents advance payments made to the government authorities in respect of excise duties and sales tax during the month of June 2016.

9. SHARE CAPITAL

9.1 Authorised capital

	June 30, 2016 (Number of shares)	December 31, 2015 (Number of shares)		June 30, 2016 (Un-audited) (Rupees in thousand)	December 31, 2015 (Audited) (Rupees in thousand)
	<u>1,200,000,000</u>	<u>100,000,000</u>	Shares of Rs 10 each	<u>12,000,000</u>	<u>1,000,000</u>

9.2 Issued, subscribed and paid-up capital

	June 30, 2016 (Number of shares)	December 31, 2015 (Number of shares)		June 30, 2016 (Un-audited) (Rupees in thousand)	December 31, 2015 (Audited) (Rupees in thousand)
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9.2.1 Ordinary shares

			Ordinary shares of Rs 10 each fully paid in cash	55,414	55,414
	5,541,429	5,541,429	Ordinary shares of Rs 10 each issued as fully paid bonus shares	477,229	477,229
	47,722,912	47,722,912	Ordinary shares of Rs 10 each issued for consideration other than cash	<u>83,160</u>	<u>83,160</u>
	<u>8,316,000</u>	<u>8,316,000</u>		<u>615,803</u>	<u>615,803</u>
	<u>61,580,341</u>	<u>61,580,341</u>			

9.2.2 Preference shares

			Preference shares of Rs 10 each fully paid in cash (note 9.4 and 9.5)	5,964,000	-
	596,400,000	-		<u>5,964,000</u>	<u>-</u>
	<u>596,400,000</u>	<u>-</u>			



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

9.3 As at June 30, 2016, the number of ordinary shares of Rs 10 each held by Philip Morris Investments B.V. (the parent company) and Philip Morris Brands S.a.r.l., both subsidiaries of Philip Morris International Inc., were 47,819,356 and 12,316,061 respectively (December 31, 2015: 47,819,356 and 12,316,061 respectively).

9.4 During the current period, the Company has received Rs 7,500 million against irredeemable, non-voting, non-cumulative and convertible class A preference shares at the price of Rs 10 per share otherwise than by way of rights issue, from Philip Morris Investments B.V., and Philip Morris Brands S.a.r.l., in the ratio of 79.52% and 20.48% respectively. As at June 30, 2016, 596,400,000 shares were credited in the Central Depository Company (CDC) account of Philip Morris Investments B.V., while the remaining amount of Rs 1,536 million received from Philip Morris Brands S.a.r.l., is being classified as 'advance against issuance of preference shares' as at June 30, 2016 awaiting finalisation of the account opening formalities and credit of these preference shares in their CDC account. Subsequent to the period ended June 30, 2016, 153,600,000 shares have been credited in the CDC account of Philip Morris Brands S.a.r.l.

9.5 The conversion option is exercisable by the holder at any time after the 10th anniversary of the issue date but not later than the 15th anniversary. At the 15th anniversary all the unconverted class A preference shares will mandatorily be converted into ordinary shares of the Company. The proceeds received against the aforementioned preference shares, shall be converted fully or partially, at the conversion ratio defined in the terms of agreement.

The holders are entitled to a non-cumulative dividend subject to available distributable profits, as declared by the Board from time to time, at a maximum rate of KIBOR + 1% spread on the face value of the shares.

These have been treated as part of equity on the following basis:

- The shares were issued under the provisions of section 86 of the Ordinance read with section 90 of the Ordinance and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000.
- The issue of the shares were duly approved by the members of the Company at the Extra Ordinary General Meeting held on October 28, 2015.
- The requirements of the Ordinance takes precedence over the requirements of the approved accounting standards as applicable in Pakistan.
- The preference shareholders have the right to convert these shares into ordinary shares.



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

10. ADVANCE AGAINST ISSUANCE OF PREFERENCE SHARES

	Note	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
(Rupees in thousand)			
Advance received against issuance of preference shares	9.4	7,500,000	-
Less: preference shares issued	9.4	5,964,000	-
		<u>1,536,000</u>	<u>-</u>

11. SHORT TERM BORROWINGS

Secured			
Running finance under mark-up arrangements		3,998,469	6,195,365
Unsecured			
Loans from an associated undertaking		-	7,343,000
		<u>3,998,469</u>	<u>13,538,365</u>

12. CONTINGENCIES AND COMMITMENTS

12.1 Guarantees

Indemnities given to banks for guarantees issued in the normal course of business aggregated Rs 103.193 million (December 31, 2015: Rs 133.193 million).

12.2 Commitments

	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
(Rupees in thousand)		
Capital expenditure contracted for but not incurred	<u>240,422</u>	<u>581,294</u>
Letters of credit	<u>62,071</u>	<u>251,287</u>

12.3 Contingencies

12.3.1 There is no significant change in the status of the cases set out in note 19.3.1, 19.3.2, 19.3.4 to the December 2015 financial statements.

12.3.2 In relation to the assessment relating to tax year 2011 (accounting year December 31, 2010) for the original tax demand of Rs 100.927 million, during the period a rectification order dated April 14, 2016 for Rs 43.137 million has been received by the Company, thus reducing the tax demand to Rs 57.790 million. In respect of the aggregate demand of Rs 57.790 million the management has filed an appeal with the tax authorities and is confident that the ultimate decision of the appeal shall be in its favour.



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

12.3.3 Further to the matter stated in note 19.3.5 to the December 2015 financial statements, the Company on May 11, 2016, received a ruling in its favour from Appellate Tribunal Inland Revenue, which has cancelled and set aside the tax authorities' demand ('Tribunal Order'). The tax authorities have 90 days to file a reference appeal before the High Court to challenge the Tribunal Order from the date of receipt of the certified original copy of the Tribunal's Order. As the orders of the tax authorities are now set aside, the Company shall withdraw the suit filed before High Court as it is now infructuous. The Company will continue to monitor whether the tax authorities file a reference appeal within the limitation period. Nonetheless even if an appeal is filed by the tax authorities, the Company believes the likelihood of loss in this matter is remote on the basis that the orders of tax authorities are now set aside and the tribunal order has been decided in the Company's favour.

12.3.4 The audit of the Company for the tax year 2014 (accounting year ended December 31, 2013) has been selected through Random Computer Ballot. The Deputy Commissioner Inland Revenue (DCIR) issued a notice to obtain information or evidence under section 176(1) of the Income Tax Ordinance, 2001 dated October 26, 2015, in response to which, all requested information was furnished by the Company. Subsequently, the DCIR issued a show cause notice under section 122(9) dated June 27, 2016 and showed intension to disallow certain expenses aggregating to Rs 131.085 million. Thereafter, the DCIR passed an order dated June 28, 2016 under section 122(1) of the Income Tax Ordinance, 2001 confirming the disallowance of the aforementioned expenses. The management has filed an appeal before the CIR - Appeals against the order.

The management is confident that the ultimate decision shall be in its favour, therefore, a provision has not been recognised against the aforementioned disallowances deductions in these condensed interim financial statements.

13. TURNOVER - net

	Quarter ended		Six months period ended	
	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
 (Rupees in thousand)			
Gross turnover	13,683,697	15,764,068	26,149,470	26,900,535
Less: Trade discount	177,022	-	379,087	-
Sales tax	2,068,130	2,393,122	3,922,954	4,080,395
Excise duty	6,286,477	7,523,795	12,029,519	12,857,230
	8,531,629	9,916,917	16,331,560	16,937,625
	<u>5,152,068</u>	<u>5,847,151</u>	<u>9,817,910</u>	<u>9,962,910</u>



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

14. COST OF SALES

Raw and packing material consumed

	Quarter ended		Six months period ended	
	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
	(Rupees in thousand)			
Opening stock	6,419,771	6,400,123	7,934,418	7,287,025
Purchases, redrying and related expenses	656,922	1,532,411	1,634,853	2,670,268
	7,076,693	7,932,534	9,569,271	9,957,293
Closing stock	(5,970,433)	(5,391,917)	(5,970,433)	(5,391,917)
	1,106,260	2,540,617	3,598,838	4,565,376
Government levies	5,251	12,912	16,571	22,427
Manufacturing expenses	638,216	553,739	1,161,618	1,174,466
	1,749,727	3,107,268	4,777,027	5,762,269

Work-in-process

Opening stock	130,542	43,639	74,011	82,817
Closing stock	(101,503)	(51,128)	(101,503)	(51,128)
Sale of waste	6,379	(6,058)	(9,080)	(11,590)
	35,418	(13,547)	(36,572)	20,099
Cost of goods manufactured	1,785,145	3,093,721	4,740,455	5,782,368

Finished goods

Opening stock	1,237,330	894,926	503,983	646,492
Finished goods purchased	-	47,178	9,687	107,713
Closing stock	(305,988)	(646,026)	(305,988)	(646,026)
	931,342	296,078	207,682	108,179
	2,716,487	3,389,799	4,948,137	5,890,547

15. OTHER EXPENSES

Employee separation costs	(14,023)	19,427	26,235	502,586
Impairment charge on items of property, plant and equipment	4.1 6,824	58,316	6,824	58,316
Loss on disposal of plant and machinery	2,601	9	2,601	120
Worker's Profit Participation Fund	118,249	45,797	118,249	45,797
Worker's Welfare Fund	47,299	18,319	47,299	18,319
Miscellaneous expenses	1,387	4,636	7,230	11,399
	162,337	146,504	208,438	636,537



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

16. TAXATION

	Quarter ended		Six months period ended	
	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
	(Rupees in thousand)			
Current				
- for the period	42,143	(49,968)	97,492	7,832
- for the prior period	(23,678)	-	(23,678)	-
	<u>18,465</u>	<u>(49,968)</u>	<u>73,814</u>	<u>7,832</u>
Deferred	553,356	221,043	581,065	136,004
	<u>571,821</u>	<u>171,075</u>	<u>654,879</u>	<u>143,836</u>

17. EARNINGS PER SHARE

17.1 Basic earnings per share

Profit for the period after taxation	580,083	725,494	1,544,544	707,992
Less: transaction cost on issuance of preference shares - net of tax	(6,669)	-	(28,872)	-
	<u>573,414</u>	<u>725,494</u>	<u>1,515,672</u>	<u>707,992</u>

(Number of shares)

Weighted average number of ordinary shares in issue	61,580,341	61,580,341	61,580,341	61,580,341
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(Rupees)

Earnings per share – basic	9.31	11.78	24.61	11.50
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17.2 Diluted earnings per share

Profit for the period after taxation	580,083	725,494	1,544,544	707,992
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(Number of shares)

Weighted average number of ordinary shares in issue	61,580,341	61,580,341	61,580,341	61,580,341
Adjustment for convertible preference shares (note 17.3)	4,792,500	-	2,742,787	-
	<u>66,372,841</u>	<u>61,580,341</u>	<u>64,323,128</u>	<u>61,580,341</u>

(Rupees)

Earnings per share – diluted	8.74	11.78	24.01	11.50
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17.3 As the 'advance against issuance of preference shares' received during the current period is convertible into preference shares to be issued at par value, its impact has been considered while calculating 'earning per share - diluted'.



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

18. RELATED PARTIES DISCLOSURES

18.1 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 members of the key management personnel.

Transactions with related parties are as follows:

Relationship	Nature of transaction	Six months period ended	
		June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and service	273,951	71,664
	Purchase of goods and service	155,481	250,950
	Loans received / roll forward	12,580,400	7,618,300
	Loans repaid / adjusted	19,910,500	9,635,500
	Mark-up on short term borrowings	24,605	44,846
	Advance received against issuance of preference shares (note 10)	7,500,000	-
	Issuance of preference shares	5,964,000	-
	Royalty charges	33,324	27,345
	Share based payment expense	7,626	4,364
	Share based payment recharge	16,157	19,453
	Unrealised exchange loss on loans	-	17,900
Staff retirement plans	Contribution to gratuity fund	24,670	45,880
	Contribution to provident fund	36,216	38,620
Key management personnel	Remuneration and benefits note 18.1.1 to 18.1.4	4,020	10,161

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

18.1.1 The Company considers its chief executive and directors as key management personnel.

18.1.2 The chief executive and executive directors are provided with free use of the Company maintained cars.

18.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.

18.1.4 The two independent directors were paid directors' fee of Rs 1.6 million during the period (June 30, 2015: Rs 1.6 million).



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

18.2 Balance outstanding with related parties are as follows:

	June 30, 2016 (Un-audited)	December 31, 2015 (Audited)
	(Rupees in thousand)	
Trade debts		
Group undertakings	<u>14,957</u>	<u>788</u>
Other receivables		
Group undertakings	<u>11,434</u>	<u>10,138</u>
Trade and other payables		
Group undertakings	195,858	288,232
Staff retirement plans	<u>16,296</u>	<u>-</u>
	<u>212,154</u>	<u>288,232</u>
Short term borrowings		
Loans from an associated undertaking	<u>-</u>	<u>7,343,000</u>
Investment in a subsidiary company		See note 5

	Six months period ended	
Note	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
	(Rupees in thousand)	

19. CASH GENERATED FROM OPERATIONS

Profit before taxation		2,199,423	851,828
Adjustments for:			
Depreciation		428,688	397,909
Amortisation		5,683	5,687
Staff retirement gratuity expense		12,335	45,880
Expenses arising from equity-settled share-based payment plan		7,626	4,364
Provision for obsolete stocks		1,840	1,116
Stock in trade written down to net realisable value		-	3,170
Stores and spares written off		-	28,523
Impairment charge on items of property, plant and equipment		6,824	58,316
Profit on savings accounts	19.1	(4,134)	(7,138)
Unrealised exchange loss / (gain) - others		42,389	(16,780)
Exchange (gain) / loss on loans from an associated undertaking - net		(12,900)	74,700
Profit on disposal of items of property, plant and equipment		(21,421)	(40,387)
Property, plant and equipment written off		4,510	-
Finance cost other than exchange (gain) / loss on loans from an associated undertaking		293,902	304,126
Working capital changes	19.2	<u>169,142</u>	<u>1,786,709</u>
		<u>3,133,907</u>	<u>3,498,023</u>



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

19.1 This represents profit earned on bank balances maintained under markup arrangement.

	Six months period ended	
	June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
	(Rupees in thousand)	
19.2 Working capital changes		
Decrease in current assets		
Stores and spares - net	44,957	6,279
Stock in trade - net	2,104,172	1,869,723
Trade debts - net	29,306	210,966
Advances	10,203	(3,930)
Prepayments	(832,333)	194,688
Other receivables	12,732	578,970
	<u>1,369,037</u>	<u>2,856,696</u>
Decrease in current liabilities		
Trade and other payables	(1,199,895)	(388,742)
Sales tax and excise payable	-	(681,245)
	<u>(1,199,895)</u>	<u>(1,069,987)</u>
	<u>169,142</u>	<u>1,786,709</u>

20. CASH AND CASH EQUIVALENTS

	Note	Six months period ended	
		June 30, 2016 (Un-audited)	June 30, 2015 (Un-audited)
		(Rupees in thousand)	
Cash and bank balances		74,652	183,234
Short term borrowings - running finance under mark-up arrangements		(3,998,469)	(2,420,438)
	20.1	<u>(3,923,817)</u>	<u>(2,237,204)</u>

20.1 These include bank balances maintained under mark up arrangement.

21. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 19, 2016 by the Board of Directors of the Company.

22. GENERAL

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

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 19, 2016



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