



PHILIP MORRIS
(PAKISTAN) LIMITED

HALF YEARLY REPORT

For the half year ended June 30, 2017

(Un-audited)

HALF YEARLY REPORT
For the half year ended June 30, 2017
(Un-audited)



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COMPANY INFORMATION

BOARD OF DIRECTORS

KAMRAN Y. MIRZA (Chairman)
 ALEXANDER REISCH (Chief Executive)
 HANNAH HEEKYUNG YUN
 JOAO MANUEL
 ANTON STANKOV
 EE WON CHEN
 LT. GEN. (R) TARIQ KHAN

COMPANY SECRETARY

FAIZA KAPADIA RAFFAY

AUDIT COMMITTEE

LT. GEN. (R) TARIQ KHAN (Chairman)
 HANNAH HEEKYUNG YUN
 EE WON CHEN

HUMAN RESOURCE & REMUNERATION COMMITTEE

JOAO MANUEL (Chairman)
 ALEXANDER REISCH
 HANNAH HEEKYUNG YUN
 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. 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.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, 2017.

During the period, the Company's gross turnover decreased significantly by 57.5% compared to the same period during 2016, attributable to the decline in sales volumes as a result of exponential increase of the non-tax paid cigarettes segment ("Illicit Trade") which continues to impact the underlying demand for our products. Additionally, in May 2017, shipment volumes were negatively impacted by a depletion of trade inventories in anticipation of a fiscal restructuring with the 2017/2018 budget. At the same time, the Company managed to reduce its Distribution, Marketing & Administration expenses by 20.3% as compared to same period last year. Other expenses decreased, mainly due to restructuring costs charged in 2016. The Company recorded a Loss before tax of PKR 478 million for the half year, compared to a Profit before tax of PKR 2,199 million for the same period in 2016.

The company appreciates the Federal Governments' two pronged approach of enforcement and creation of a level playing field to curb Illicit trade. In the 2017/18 budget, the Federal Government announced the introduction of a new tax tier and a reduction in minimum price of cigarettes in that tier to create a more level playing field to allow the compliant tobacco industry to compete more effectively with Illicit trade by reducing the price gap. The Company is actively supporting all government policies and actions to address the issue of smuggled and non-tax paid cigarettes. With this fiscal change and increased enforcement initiatives of the Federal Government, the Company expects a reduction in Illicit trade and a recovery of volumes.

Despite recommendation of the inter-ministerial committee in July 2015 to reduce the Graphical Health Warning to 50%, the Ministry of Health has not yet revised the 85% GHW regulations ("SRO") to reflect the committee's recommendation. Instead, the Ministry Of Health continues to extend the implementation of the SRO on a monthly basis which creates uncertainty for the business.

During the period, the Company's contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies, was PKR 6,644 million, as compared to PKR 16,133 million in the same period in 2016, a result of the decline of shipments for the period.

The management team continues to be committed to improving the overall performance of the Company by leveraging the new fiscal structure, 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,

ALEXANDER REISCH
Chief Executive

KAMRAN Y. MIRZA
Chairman

Karachi: August 25, 2017



ڈائریکٹرز رپورٹ

کمپنی کے ڈائریکٹرز 30 جون 2017 کو اختتام پزیر ہونے والے 6 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 57.5% کی نمایاں کمی دیکھنے میں آئی ہے۔ اس کمی کی بڑی وجہ غیر ٹیکس ادا شدہ سگریٹوں ("غیر قانونی کاروبار") کی تعداد میں نمایاں اضافہ ہے جس سے ہمارا کاروباری حجم کافی حد تک متاثر ہوا ہے۔ دوسری جانب مئی 2017 میں بجٹ 2017/2018 کی متوقع ایلیٹری سٹرکچرنگ کی بدولت تجارتی انونٹریز میں کمی واقع ہوئی جس سے پینٹ کے حجم پر منفی اثرات مرتب ہوئے۔ ساتھ ہی کمپنی نے گزشتہ سال کے اسی عرصہ کے دوران کے مقابلے میں ڈسٹری بیوٹن، مارکیٹنگ اور انتظامی اخراجات کی مد میں 20.3% کی کمی کی۔ 2016 کے تنظیم نو کے اخراجات عائد ہونے کی وجہ سے بھی دیگر اخراجات میں کمی واقع ہوئی۔ کمپنی نے اس عرصے میں قبل از ٹیکس 478 ملین روپے کا نقصان ریکارڈ کیا ہے جس کا موازنہ گزشتہ سال کے اسی عرصے سے کیا جائے تو معلوم ہوتا ہے کہ اس دوران قبل از ٹیکس 2,199 ملین روپے کا منافع حاصل کیا گیا تھا۔

کمپنی غیر قانونی سگریٹ کے کاروبار کی روک تھام اور سازگار کاروباری ماحول کی فراہمی کیلئے وفاقی حکومت کے دو متاخرہ نقطہ نظر کے نفاذ کو سراہتی ہے۔ بجٹ 2017/18 میں وفاقی حکومت نے نیا ٹیکس ٹیئر (درجہ) متعارف کرنے کا اعلان کیا تھا اور سازگار کاروباری ماحول کی فراہمی کیلئے اس ٹیئر (درجہ) میں سگریٹ کی کم سے کم قیمت میں کمی کا اعلان کیا تھا تاکہ قانونی سگریٹ انڈسٹری سگریٹ کے غیر قانونی کاروبار کی وجہ سے قیمتوں کے نمایاں فرق کا بھرپور مقابلہ کر سکے۔ کمپنی سمنگل اور غیر ٹیکس ادا شدہ سگریٹوں کے مسئلے پر حکومت کی تمام پالیسیوں کی بھرپور حمایت جاری رکھے ہوئے ہے۔ مذکورہ مالیاتی تبدیلیوں اور وفاقی حکومت کے اس ضمن میں اٹھائے جانے والے اضافی اقدامات کی بدولت کمپنی امید کرتی ہے کہ سگریٹ کے غیر قانونی کاروبار میں کمی اور ہمارے تجارتی حجم میں اضافہ ہوگا۔

جولائی 2015 میں بین الوزارتی کمیٹی کی جانب سے تمام سگریٹ برانڈز کی ڈیویوں کے 50% حصہ پر صحت کے تصویری انتخاب کے شائع کرنے کی سفارش کے باوجود وزارت صحت نے 85% کے SRO پر کوئی نظر ثانی نہیں کی ہے۔ جبکہ وزارت صحت اس حوالے سے انڈسٹری کو ہر مہینے کے اختتام پر SRO کی نئی توسیع جاری کر دیتی ہے جس سے کاروبار غیر یقینی صورت حال سے دوچار ہو جاتا ہے۔

اس عرصے کے دوران کمپنی نے حکومتی خزانہ کے محصولات میں وفاقی ایکسائز ٹیکس، سیلز ٹیکس اور باقی حکومتی محصولات کی مد میں 6,644 ملین روپے جمع کرائے جو کہ 2016 کے اسی عرصے کے دوران 16,133 ملین روپے تھے۔ اس کی بنیادی وجہ اس عرصہ کے دوران پینٹ کی کمی ہے۔

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 مواقع کی تلاش، مصنوعات کی بہتر کوالٹی کے حصول، مستحکم طریقہ کار اور آپریشنل کارکردگی کے ساتھ وسائل کے بہتر استعمال اور موثر تقرری کیلئے پرعزم 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 میں اپنے تمام ملازمین، شیئرز، ہولڈرز، کاروباری شراکت داروں اور دیگر اداروں کا ان کے مسلسل اعتماد اور حمایت پر تہہ ذل سے مشکور ہوں۔

بورڈ آف ڈائریکٹرز کی جانب سے

ایلیکٹریٹرز رپورٹ
سی ای او

کامران یوسف مرزا
چیئرمین

بتاریخ: کراچی، 25 اگست 2017ء



AUDITORS' REPORT

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, 2017, 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 months 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, 2017 and 2016 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, 2017.

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: Khurshid Hasan

Karachi: August 28, 2017



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

AS AT JUNE 30, 2017

		June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
ASSETS			
NON CURRENT ASSETS			
(Rupees in thousand)			
Fixed Assets			
Property, plant and equipment	4	8,145,887	8,487,261
Intangibles		24,282	29,909
		8,170,169	8,517,170
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		46,793	39,762
Deferred taxation	6	887,238	761,323
		9,104,201	9,318,256
CURRENT ASSETS			
Stores and spares - net		372,336	379,229
Stock in trade - net	7	6,686,695	7,273,187
Trade debts - net		-	1,523
Advances		42,419	33,278
Prepayments	8	1,373,458	92,828
Other receivables		35,456	210,304
Income tax - net		521,101	578,775
Staff retirement benefits		38,540	31,538
Cash and bank balances		53,704	108,093
		9,123,709	8,708,755
TOTAL ASSETS		18,227,910	18,027,011
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
Transaction cost on issuance of preference shares - net of tax		(33,911)	(33,911)
		11,045,892	11,045,892
Reserves		6,124,102	6,137,315
Accumulated loss		(4,029,404)	(3,593,171)
TOTAL EQUITY		13,140,590	13,590,036
CURRENT LIABILITIES			
Short term running finance		2,641,625	1,338,557
Trade and other payables		2,437,764	2,643,360
Accrued mark-up on short term running finance		7,931	7,249
Sales tax and excise duty payable		-	447,809
TOTAL LIABILITIES		5,087,320	4,436,975
TOTAL EQUITY AND LIABILITIES		18,227,910	18,027,011
CONTINGENCIES AND COMMITMENTS	9		

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

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 25, 2017



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

FOR THE QUARTER AND SIX MONTHS PERIOD ENDED JUNE 30, 2017

	Note	Quarter ended		Six month period ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
----- (Rupees in thousand) -----					
Turnover - net	10	2,450,053	5,152,068	4,185,515	9,817,910
Cost of sales	11	1,520,901	2,716,487	2,843,416	4,948,137
Gross profit		<u>929,152</u>	2,435,581	<u>1,342,099</u>	4,869,773
Distribution and marketing expenses		<u>582,866</u>	716,947	<u>1,160,981</u>	1,556,274
Administrative expenses		<u>337,042</u>	331,853	<u>614,563</u>	671,119
Other expenses	12	<u>25,121</u>	162,337	<u>35,094</u>	208,438
Other income		<u>(51,576)</u>	30,249	<u>(55,814)</u>	(46,483)
		<u>893,453</u>	1,241,386	<u>1,754,824</u>	2,389,348
Operating (loss) / profit		<u>35,699</u>	1,194,195	<u>(412,725)</u>	2,480,425
Finance cost and bank charges		<u>32,501</u>	42,291	<u>65,071</u>	281,002
(Loss) / profit before taxation		<u>3,198</u>	1,151,904	<u>(477,796)</u>	2,199,423
Taxation	13	<u>166,214</u>	571,821	<u>(14,346)</u>	654,879
(Loss) / profit after taxation		<u>(163,016)</u>	580,083	<u>(463,450)</u>	1,544,544
----- (Rupees) -----					
(Loss) / earnings per share - basic and diluted	14	<u>(2.65)</u>	9.31	<u>(7.53)</u>	24.61

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

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 25, 2017



CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED-NOTE 2.2)

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017

	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-net of tax	Subtotal Reserves	Unappropriated (Loss)	Total
	Ordinary shares	Preference shares								
----- (Rupees in thousand) -----										
Balance as at January 1, 2016	615,803	-	-	-	6,347,000	6,392	(151,540)	6,201,852	(4,168,328)	2,649,327
Transactions with owners										
Advance against issue of preference shares	-	-	7,500,000	-	-	-	-	-	-	7,500,000
Issuance of preference shares	-	5,964,000	(5,964,000)	-	-	-	-	-	-	-
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
Share-based payments										
- expense	-	-	-	-	-	7,626	-	7,626	-	7,626
- recharge	-	-	-	-	-	(16,157)	-	(16,157)	-	(16,157)
	-	-	-	-	-	(8,531)	-	(8,531)	-	(8,531)
Total comprehensive income										
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
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
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 - note 18	-	-	-	-	-	-	-	-	27,217	27,217
Total comprehensive loss										
Loss after taxation for the six months period ended June 30, 2017	-	-	-	-	-	-	-	-	(463,450)	(463,450)
	-	-	-	-	-	-	-	-	(463,450)	(463,450)
Balance as at June 30, 2017	615,803	10,464,000	-	(33,911)	6,347,000	(6,715)	(216,183)	6,124,102	(4,029,404)	13,140,590

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

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 25, 2017



CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED-NOTE 2.2)

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017

	Note	Six months period ended	
		June 30, 2017	June 30, 2016
		(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	16	(1,025,946)	3,133,907
Staff retirement gratuity paid		(36,745)	(24,670)
Finance cost paid		(64,389)	(318,252)
Income taxes paid		(53,895)	(33,274)
Long term deposits and prepayments		(7,031)	1,010
Net cash (used in) / generated from operating activities		(1,188,006)	2,758,721
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(180,103)	(721,755)
Acquisition of intangibles		(2,892)	-
Proceeds from disposal of items of property, plant and equipment		12,679	27,986
Profit received on savings accounts		865	4,134
Net cash used in investing activities		(169,451)	(689,635)
CASH FLOW FROM FINANCING ACTIVITIES			
Preference shares issued		-	5,964,000
Advance received against issue of preference shares		-	1,536,000
Transaction cost on issuance of preference shares paid		-	(41,287)
Dividend paid for prior years		-	(761)
Proceeds of loans obtained from associated undertaking		2,097,000	12,580,400
Repayment of loans to associated undertaking		(2,097,000)	(19,910,500)
Net cash generated from financing activities		-	127,852
Net (decrease) / increase in cash and cash equivalent during the period		(1,357,457)	2,196,938
Cash and cash equivalents at the beginning of the period		(1,230,464)	(6,120,755)
Cash and cash equivalents at the end of the period	17	(2,587,921)	(3,923,817)

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

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 25, 2017

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED-NOTE 2.2)****FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017****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 Companies Act, 2017) 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 products. Its registered office is situated at 19th Floor, The Harbour Front, Dolmen City, HC - 3, Block 4, Clifton, Karachi, Pakistan.
- 1.2 The consolidated financial statements of the group comprising the Company and its subsidiary, Laksonpremier Tobacco Company (Private) Limited, have not been prepared in view of the exemption granted by the Securities & Exchange Commission of Pakistan (the SECP) vide its letter No. EMD/233/619/2002/658 dated February 10, 2017 from the requirement of Section 237 of the Companies Ordinance, 1984 (now repealed). 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 disclosed in note 5 to these condensed interim financial statements.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

- 2.1 During the period, the Companies Act, 2017 has been promulgated with effect from May 30, 2017. However, as per the requirements of circular no. CLD/CCD/PR(11)/2017 and the related press release dated July 20, 2017 issued by the SECP, companies whose financial year, including quarterly and other interim period, closes on or before June 30, 2017, shall prepare their financial statements, including interim financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, these condensed interim financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting which comprise International Accounting Standard (IAS) 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.
- 2.2 These condensed interim financial statements include the condensed interim balance sheet as at June 30, 2017, 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 and 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, 2017 which was not subjected to review.
- 2.3 The comparative balance sheet presented in these condensed interim financial

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

statements as at December 31, 2016 has been extracted from the audited financial statements of the Company for the year then ended (December 2016 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, 2016 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. The comparative profit and loss account for the quarter ended June 30, 2016 is also included in these condensed interim financial statements which was not subjected to review.

2.4 New standards, amendments to approved accounting standards and new interpretations:

2.4.1 Standards and amendments to approved accounting standards which become effective during the six months period ended June 30, 2017:

There were certain new amendments to the approved accounting standards which became effective during the six months period ended June 30, 2017 but were considered not to be relevant or have any significant effect on the Company's financial reporting, therefore, have not been disclosed in these condensed interim financial statements.

2.4.2 New standards and amendments to approved accounting standards that are effective for the Company's accounting periods beginning on or after July 1, 2018:

There are certain new standards and amendments to the approved accounting standards that will be effective for the Company's annual accounting periods beginning on or after January 1, 2018. 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 statements. Further, the new standards are yet to be adopted by the SECP. In addition to the foregoing, the Companies Act, 2017 which is not effective on these condensed interim financial statements, has added certain disclosure requirements which will be applicable in the future.

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 2016 financial statements. These condensed interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2016 as they provide an update of reported information in those 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.



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

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 same as those applied in the Company's December 2016 financial statements.

3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2016 financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	Note	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
(Rupees in thousand)			
Operating property, plant and equipment	4.1 to 4.4	7,700,084	7,657,261
Capital work-in-progress (CWIP)	4.5	438,379	822,576
Major capital spares and stand-by equipment		7,424	7,424
		<u>8,145,887</u>	<u>8,487,261</u>
4.1 Operating property, plant and equipment			
Book value at the beginning of the period / year		7,657,261	6,368,729
Additions / transfers from CWIP during the period / year		564,300	2,278,607
		<u>8,221,561</u>	<u>8,647,336</u>
Disposals during the period / year - net book value		(11,103)	(27,441)
Write offs during the period / year - net book value		(15,976)	(5,246)
Impairment during the period / year - net book value		-	(60,644)
Depreciation charge during the period / year		(494,398)	(896,744)
		<u>(521,477)</u>	<u>(990,075)</u>
Book value at the end of the period / year		<u>7,700,084</u>	<u>7,657,261</u>
4.2 Additions / transfers from CWIP during the period			
Six months period ended			
		June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
(Rupees in thousand)			
Buildings on freehold land		79,841	96,703
Leasehold improvements		47,069	-
Plant and machinery		224,239	280,921
Furniture and fixtures		22,799	8,006
Office equipment		-	9,168
Vehicles		1,470	13,483
Power and other installations		109,365	24,747
Computer equipment		79,517	95,070
		<u>564,300</u>	<u>528,098</u>



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

	<u>Six months period ended</u>	
	June 30, 2017 (Un-audited) (Rupees in thousand)	June 30, 2016 (Un-audited)
4.3 Disposals during the period - net book value		
Plant and machinery	-	4,959
Furniture and fixtures	-	401
Vehicles	4,328	1,205
Buildings on leasehold land	6,775	-
	<u>11,103</u>	<u>6,565</u>
4.4 Depreciation charge during the period	<u>494,398</u>	<u>428,688</u>
	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
	(Rupees in thousand)	
4.5 Capital work-in-progress		
Civil works	22,019	22,886
Plant and machinery	250,876	324,384
Power and other installations	24,588	295,340
Furniture and fixtures	51,369	96,727
Computer equipment pending installation	82,911	51,965
Advance to suppliers and contractors	6,616	31,274
	<u>438,379</u>	<u>822,576</u>

5. INVESTMENT IN A SUBSIDIARY COMPANY

This represents the cost of 103 fully paid ordinary shares of Rs 10 each in Laksonpremier Tobacco Company (Private) Limited. Out of such 103 shares, two shares are in the name of the nominees. The profit and loss account of the subsidiary company for the six months period ended June 30, 2017 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, 2017 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the six months period ended June 30, 2017.

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, 2016.

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.



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

6. DEFERRED TAXATION

	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
	(Rupees in thousand)	
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	1,566	2,131
Unutilised tax losses and credit	1,623,081	1,448,262
Provision for spares	21,148	20,513
Provision for obsolete stocks	10,254	15,609
Provision for doubtful debts	834	809
	<u>1,656,883</u>	<u>1,487,324</u>
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	(769,209)	(726,001)
Amortisation of intangibles	(436)	-
	<u>(769,645)</u>	<u>(726,001)</u>
Deferred tax asset	<u>887,238</u>	<u>761,323</u>

- 6.1 The accumulated tax losses and tax credits of the Company as at June 30, 2017 aggregated Rs 5,410.269 million (December 31, 2016: Rs 4,909.884 million) and Rs Nil (December 31, 2016: Rs 19.485 million) respectively, in respect of which the Company has recognised deferred tax asset amounting to Rs 1,623.081 million (December 31, 2016: Rs 1,448.262 million). The existing unutilised tax losses mainly refer to tax depreciation which can be utilised for an indefinite period against future profits. The Company carries out periodic assessment to determine 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 projected taxable profits. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.



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

7. STOCK IN TRADE - net

	Note	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
(Rupees in thousand)			
Raw and packing materials	7.1 to 7.3	6,099,555	6,992,580
Work-in-process		128,242	124,732
Finished goods	7.3	<u>493,078</u>	<u>209,516</u>
		<u>6,720,875</u>	<u>7,326,828</u>
Provision for obsolete stocks	7.3	<u>(34,180)</u>	<u>(53,641)</u>
		<u>6,686,695</u>	<u>7,273,187</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 and packing materials in transit aggregating Rs 136.682 million (December 31, 2016: Rs 160.723 million).

7.3 During the period, the Company has written off provision against raw and packing materials aggregating Rs 19.461 million (December 31, 2016: Rs 33.640 million) and finished goods aggregating Rs Nil (December 31, 2016: Rs 15.180 million).

8. PREPAYMENTS

	Note	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
(Rupees in thousand)			
Federal Excise Duty and Sales Tax	8.1	1,317,650	-
Others		<u>55,808</u>	<u>92,828</u>
		<u>1,373,458</u>	<u>92,828</u>

8.1 This represents advance payments made to the government authorities in respect of Federal Excise Duty and Sales Tax.



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

9. CONTINGENCIES AND COMMITMENTS

9.1 Guarantees

Indemnities given to banks for guarantees issued in the normal course of business aggregated Rs 69.565 million (December 31, 2016: Rs 69.565 million).

9.2 Commitments

	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
	(Rupees in thousand)	
Capital expenditure contracted for but not incurred	<u>101,587</u>	<u>181,680</u>
Letters of credit	<u>93,191</u>	<u>-</u>

9.3 Contingencies

9.3.1 There is no significant change in the status of the cases set out in note 19.2.1 to 19.2.6 to the December 2016 financial statements.

9.3.2 During the period the Company received show cause notices from Large Tax Payers Unit (LTU), Karachi alleging non-payment of duty on cigarettes. . Detailed responses were submitted to the authorities along with corroborative evidence to establish that the Company has duly paid all the applicable taxes and duties due on its cigarette sales.

LTU subsequently issued two orders both dated July 13, 2017 disregarding the evidences and arguments provided by the Company to demand an amount aggregating to Rs 1,758.566 million for alleged evasion of excise duty, sales tax and penalties which the Company believes to be unfounded.

The Company has filed appeals against these orders with the Commissioner Inland Revenue (Appeals).

The Company's management believes that it 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 condensed interim financial statements.



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

10. TURNOVER - net

	Quarter ended		Six months period ended	
	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
	(Rupees in thousand)			
Gross turnover	6,419,845	13,683,697	11,101,499	26,149,470
Less: Trade discount	251,672	177,022	448,498	379,087
Sales tax	990,205	2,068,130	1,645,525	3,922,954
Excise duty	2,727,915	6,286,477	4,821,961	12,029,519
	3,969,792	8,531,629	6,915,984	16,331,560
	2,450,053	5,152,068	4,185,515	9,817,910

11. COST OF SALES

	Quarter ended		Six months period ended	
	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
	(Rupees in thousand)			
Raw and packing materials consumed				
Opening stock	6,436,089	6,419,771	6,992,580	7,934,418
Purchases, redrying and related expenses	532,225	656,922	1,217,889	1,634,853
	6,968,314	7,076,693	8,210,469	9,569,271
Closing stock	(6,099,555)	(5,970,433)	(6,099,555)	(5,970,433)
	868,759	1,106,260	2,110,914	3,598,838
Government levies	5,362	5,251	9,035	16,571
Manufacturing expenses	485,635	638,216	1,011,139	1,161,618
	1,359,756	1,749,727	3,131,088	4,777,027
Work-in-process				
Opening stock	277,762	130,542	124,732	74,011
Closing stock	(128,242)	(101,503)	(128,242)	(101,503)
Sale of waste	(265)	6,379	(600)	(9,080)
	149,255	35,418	(4,110)	(36,572)
Cost of goods manufactured	1,509,011	1,785,145	3,126,978	4,740,455
Finished goods				
Opening stock	504,968	1,237,330	209,516	503,983
Finished goods purchased	-	-	-	9,687
Closing stock	(493,078)	(305,988)	(493,078)	(305,988)
	11,890	931,342	(283,562)	207,682
	1,520,901	2,716,487	2,843,416	4,948,137



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

12. OTHER EXPENSES

	Quarter ended		Six months period ended	
	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
	(Rupees in thousand)			
Employee separation costs	14,800	(14,023)	14,800	26,235
Impairment charge on items of property, plant and equipment	-	6,824	-	6,824
Loss on disposal of property plant and equipment	-	2,601	2,769	2,601
Worker's Profit Participation Fund	-	118,249	-	118,249
Worker's Welfare Fund	-	47,299	-	47,299
Exchange loss - net	7,546	-	9,730	-
Miscellaneous expenses	2,775	1,387	7,795	7,230
	<u>25,121</u>	<u>162,337</u>	<u>35,094</u>	<u>208,438</u>

13. TAXATION

	Note	Quarter ended		Six months period ended	
		June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
		(Rupees in thousand)			
Current					
- for the period		10,573	42,143	12,169	97,492
- for the prior period	13.1	99,400	(23,678)	99,400	(23,678)
		<u>109,973</u>	<u>18,465</u>	<u>111,569</u>	<u>73,814</u>
Deferred		56,241	553,356	(125,915)	581,065
		<u>166,214</u>	<u>571,821</u>	<u>(14,346)</u>	<u>654,879</u>

13.1 The Finance Act, 2017 has introduced tax on every public company at the rate of 7.5% of its accounting profit before tax for the year. However, this tax shall not apply in case of a public company which distributes at least 40% of its after tax profits till the due date of filing of return. The Company has provided for the tax amount in these condensed interim financial statements.



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

14. EARNINGS PER SHARE - BASIC AND DILUTED

	Quarter ended		Six months period ended	
	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
	(Rupees in thousand)			
14.1 Basic (loss) / earnings per share				
(Loss) / profit after taxation	(163,016)	580,083	(463,450)	1,544,544
Less: transaction cost on issuance of preference shares - net of tax	-	(6,669)	-	(28,872)
	<u>(163,016)</u>	<u>573,414</u>	<u>(463,450)</u>	<u>1,515,672</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)			
(Loss) / earnings per share - basic and diluted	<u>(2.65)</u>	<u>9.31</u>	<u>(7.53)</u>	<u>24.61</u>

14.2 The 1,046,400,000 preference shares issued during the year ended December 31, 2016 are not included in the calculation of diluted earnings per share because they are antidilutive for the six months period ended June 30, 2017. 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:



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

Relationship	Nature of transaction	Six months period ended	
		June 30, 2017 (Un-audited) (Rupees in thousand)	June 30, 2016 (Un-audited)
Associated undertakings	Sale of goods and service	486,680	273,951
	Purchase of goods and service	76,751	155,481
	Loans received	2,097,000	12,580,400
	Loans repaid / adjusted	2,097,000	19,910,500
	Mark-up on short term borrowings	3,197	24,605
	Advance received against issuance of preference shares	-	7,500,000
	Issuance of preference shares	-	5,964,000
	Royalty charges	29,324	33,324
	Share based payment expense	9,339	7,626
	Share based payment recharge	22,552	16,157
Staff retirement plans	Contribution to gratuity fund	36,745	24,670
	Contribution to provident fund	36,286	36,216
Key management personnel	Remuneration and benefits note 15.1.1 to 15.1.4	3,430	4,020

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 two independent directors were paid directors' fee of Rs 1.6 million during the period (June 30, 2016: Rs 1.6 million).

15.2 Balances outstanding with related parties are as follows:

	June 30, 2017 (Un-audited)	December 31, 2016 (Audited)
	(Rupees in thousand)	
Current assets		
Associated undertakings - Other receivables	27,451	203,407
Staff retirement plans	38,540	31,538
	<u>65,991</u>	<u>234,945</u>
Current liabilities		
Associated undertakings	643,557	297,908
Staff retirement plans	15,730	-
	<u>659,287</u>	<u>297,908</u>

Investment in a subsidiary company

See note 5



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

16. CASH GENERATED FROM OPERATIONS

	Notes	Six months period ended	
		June 30, 2017 (Un-audited) (Rupees in thousand)	June 30, 2016 (Un-audited)
(Loss) / Profit before taxation		(477,796)	2,199,423
Adjustments for:			
Depreciation		494,398	428,688
Amortisation		7,257	5,683
Staff retirement gratuity expense		29,743	12,335
Expenses arising from equity-settled share-based payment plan		9,339	7,626
Liabilities written back		(44,919)	-
Provision for obsolete stocks		-	1,840
Impairment charge on items of property, plant and equipment		-	6,824
Profit on savings accounts		(865)	(4,134)
Unrealised exchange loss - others		10,363	42,389
Exchange loss / (gain) on loans from an associated undertaking - net		5,200	(12,900)
Profit on disposal of items of property, plant and equipment		(1,576)	(21,421)
Property, plant and equipment written off		15,976	4,510
Intangibles written off		1,262	-
Finance cost other than exchange loss on loans from an associated undertaking		59,871	293,902
Working capital changes	16.1	(1,134,199)	169,142
		<u>(1,025,946)</u>	<u>3,133,907</u>

16.1 Working capital changes

(Increase) / decrease in current assets			
Stores and spares - net		6,893	44,957
Stock in trade - net		586,492	2,104,172
Trade debts - net		1,523	29,306
Advances		(9,141)	10,203
Prepayments		(1,280,630)	(832,333)
Other receivables		174,848	12,732
		<u>(520,015)</u>	<u>1,369,037</u>
Decrease in current liabilities			
Trade and other payables		(166,375)	(1,199,895)
Sales tax and excise payable		(447,809)	-
		<u>(614,184)</u>	<u>(1,199,895)</u>
		<u>(1,134,199)</u>	<u>169,142</u>



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

17. CASH AND CASH EQUIVALENTS	Six months period ended	
	June 30, 2017 (Un-audited)	June 30, 2016 (Un-audited)
	(Rupees in thousand)	
Cash and bank balances	53,704	74,652
Short term running finance	<u>(2,641,625)</u>	<u>(3,998,469)</u>
	<u>(2,587,921)</u>	<u>(3,923,817)</u>

18. The Board of Directors of the company on their meeting held on March 10, 2017 resolved that under article 124 of the Articles of Association of the Company, the unclaimed dividend liability amounting to Rs 27.217 million be forfeited and therefore, the liability is reversed in these condensed interim financial statements.

19. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 25, 2017 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.

ALEXANDER REISCH
Chief Executive

ANTON STANKOV
Director

Karachi: August 25, 2017



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