



PHILIP MORRIS  
(PAKISTAN) LIMITED

## HALF YEARLY REPORT

For the half year ended June 30, 2014  
(Un-audited)



# HALF YEARLY REPORT

For the half year ended June 30, 2014  
(Un-audited)



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## COMPANY INFORMATION

### BOARD OF DIRECTORS

ARPAD KONYE (until January 31, 2014) (Chairman & Chief Executive)

ALEJANDRO PASCHALIDES  
(with effect from February 1, 2014) (Chairman & Chief Executive)

NICOLAS FLOROS

ANDREAS FRANZ KURALI (until June 30, 2014)

DANIEL FAHRNY (with effect from July 1, 2014)

JOSEPH ZIOMEK

CHARLES BENDOTTI

MUJTABA HUSSAIN

ASMER NAIM

### COMPANY SECRETARY

MUJTABA HUSSAIN

### AUDIT COMMITTEE

ASMER NAIM (Chairman)

ANDREAS FRANZ KURALI (until June 30, 2014)

DANIEL FAHRNY (with effect from July 1, 2014)

CHARLES BENDOTTI

MUJTABA HUSSAIN

### HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI (Chairman)

ARPAD KONYE (until January 31, 2014)

ALEJANDRO PASCHALIDES (with effect from February 1, 2014)

ANDREAS FRANZ KURALI (until June 30, 2014)

DANIEL FAHRNY (with effect from July 1, 2014)

DION LESWARA (Secretary)

### AUDITORS

A. F. FERGUSON & CO.

Chartered Accountants

### BANKERS

UNITED BANK LIMITED

BARCLAYS BANK PLC, PAKISTAN

STANDARD CHARTERED BANK PAKISTAN LIMITED

MCB BANK LIMITED

HABIB BANK LIMITED

CITIBANK N.A.

DEUTSCHE BANK A.G.

NATIONAL BANK OF PAKISTAN

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. VILLAGE: MANDRA, TEHSIL: GUJJAR KHAN, DISTRICT: RAWALPINDI
5. ISMAILA, DISTRICT: SWABI

Website : [www.philipmorriskarachi.com.pk](http://www.philipmorriskarachi.com.pk)

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



## DIRECTORS' REVIEW

The Directors are pleased to report on the Company's performance for the six month period ended June 30, 2014.

During the period, the Company's gross turnover decreased by 1.8% compared to the same period in 2013. Distribution, marketing and administrative expenses increased by 17.8% versus 2013, mainly due to increased investment for launch of new product.

The Company recorded a loss before taxation of Rs. 312.7 million for the six months compared to profit before taxation of Rs. 162.4 million in the same period last year. The non-tax paid tobacco industry continues to adversely impact the Company's profitability. The non-tax paid tobacco brands are increasingly damaging the Company, and the legitimate industry as a whole, as excise tax-driven price increases in 2014 provided the non-tax paid products with an incentive to flourish.

During the period, the Company's contribution to the National Exchequer, in the form of excise tax, sales tax and other government levies, was Rs. 14,009 million, as compared to Rs. 14,341 million in 2013. The strength and growth of the non-tax paid industry negatively affect the government's revenues. We actively support all efforts by the government to enforce regulation to stop illicit trade and establish a level playing field for the legitimate tobacco industry for the benefit of the National Exchequer.

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, improvements in product quality, technological advances by investment in operational capabilities and by developing its human resources. Growing volume and controlling the cost base remain key objectives for improving the Company's profitability.

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,

**ALEJANDRO PASCHALIDES**  
Chairman and Chief Executive

Karachi: August 28, 2014



## 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, 2014, 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, 2014 and 2013 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, 2014.

### 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 28, 2014



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

**AS AT JUNE 30, 2014**

	Note	June 30, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)			
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant and equipment	4	7,274,472	6,876,731
Intangible		<u>23,839</u>	<u>26,195</u>
		7,298,311	6,902,926
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		41,012	41,101
Deferred taxation	6	<u>544,258</u>	<u>379,978</u>
		7,883,582	7,324,006
<b>CURRENT ASSETS</b>			
Stores and spares - net		592,610	588,330
Stock in trade - net	7	5,179,323	7,431,233
Trade debts - net		464,086	996
Loans and advances		47,847	69,434
Prepayments		233,733	256,141
Other receivables		94,625	215,022
Income tax - net		654,199	670,942
Cash and bank balances		<u>128,621</u>	<u>12,753</u>
		7,395,044	9,244,851
<b>TOTAL ASSETS</b>		<u><b>15,278,626</b></u>	<u><b>16,568,857</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital		<u>1,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up capital		615,803	615,803
Reserves		6,238,777	6,248,641
Accumulated loss		<u>(1,610,272)</u>	<u>(1,370,865)</u>
		5,244,308	5,493,579
<b>CURRENT LIABILITIES</b>			
Short term borrowings		7,790,215	8,776,634
Trade and other payables		2,140,296	2,027,811
Accrued mark-up on short term borrowings		52,445	78,072
Sales tax and excise duty payable		<u>51,362</u>	<u>192,761</u>
<b>TOTAL LIABILITIES</b>		<u><b>10,034,318</b></u>	<u><b>11,075,278</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>15,278,626</b></u>	<u><b>16,568,857</b></u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	8		

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chairman and Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 28, 2014



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

### FOR THE QUARTER AND SIX MONTH PERIOD ENDED JUNE 30, 2014

	Note	Quarter ended		Six month period ended	
		June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
(Rupees in thousand)					
Gross turnover		<b>12,581,429</b>	12,514,596	<b>21,792,019</b>	22,191,971
Less: Sales tax		<b>1,913,968</b>	1,765,451	<b>3,321,781</b>	3,105,061
Excise duty		<b>5,930,798</b>	5,937,006	<b>10,440,834</b>	10,443,319
		<b>7,844,766</b>	7,702,457	<b>13,762,615</b>	13,548,380
Turnover - net of sales tax and excise duty		<b>4,736,663</b>	4,812,139	<b>8,029,404</b>	8,643,591
Cost of sales	9	<b>3,548,821</b>	3,515,153	<b>5,834,115</b>	6,288,520
Gross profit		<b>1,187,842</b>	1,296,986	<b>2,195,289</b>	2,355,071
Distribution and marketing expenses		<b>988,160</b>	876,295	<b>1,825,835</b>	1,487,033
Administrative expenses		<b>299,322</b>	282,315	<b>582,151</b>	557,929
		<b>1,287,482</b>	1,158,610	<b>2,407,986</b>	2,044,962
Operating (loss) / profit		<b>(99,640)</b>	138,376	<b>(212,697)</b>	310,109
Other expenses		<b>(228,474)</b>	120,312	<b>363,050</b>	126,538
		<b>128,834</b>	18,064	<b>(575,747)</b>	183,571
Other income		<b>(129,491)</b>	92,670	<b>405,670</b>	110,312
		<b>(657)</b>	110,734	<b>(170,077)</b>	293,883
Finance cost		<b>65,475</b>	(548)	<b>142,613</b>	131,495
(Loss) / profit before taxation		<b>(66,132)</b>	111,282	<b>(312,690)</b>	162,388
Taxation	10	<b>(96,518)</b>	76,960	<b>(73,283)</b>	74,435
(Loss) / profit after taxation		<b>30,386</b>	34,322	<b>(239,407)</b>	87,953
----- (Rupees) -----					
(Loss) / earnings per share - basic	11	<b>0.49</b>	0.56	<b>(3.89)</b>	1.43

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chairman and Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 28, 2014



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

### FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2014

Issued, subscribed and paid-up capital	Reserves				Accumulated Loss	Total	
	General reserve	Reserve for share based payments	Re-measurement of staff retirement gratuity plan	Sub-total Reserves			
(Rupees in thousand)							
<b>Balance as at January 1, 2013</b>	615,803	6,347,000	24,900	(105,211)	6,266,689	(929,407)	5,953,085
<i>Transactions with owners</i>							
<i>Share based payments</i>							
- expense	-	-	5,021	-	5,021	-	5,021
- recharge by the ultimate parent	-	-	(29,053)	-	(29,053)	-	(29,053)
	-	-	(24,032)	-	(24,032)	-	(24,032)
<i>Total comprehensive income</i>							
Profit after taxation for the six month period ended June 30, 2013	-	-	-	-	-	87,953	87,953
	-	-	-	-	-	87,953	87,953
<b>Balance as at June 30, 2013</b>	615,803	6,347,000	868	(105,211)	6,242,657	(841,454)	6,017,006
<b>Balance as at January 1, 2014</b>	615,803	6,347,000	13,230	(111,589)	6,248,641	(1,370,865)	5,493,579
<i>Transactions with owners</i>							
<i>Share based payments</i>							
- expense	-	-	7,310	-	7,310	-	7,310
- recharge by the ultimate parent	-	-	(17,174)	-	(17,174)	-	(17,174)
	-	-	(9,864)	-	(9,864)	-	(9,864)
<i>Total comprehensive loss</i>							
Loss after taxation for the six month period ended June 30, 2014	-	-	-	-	-	(239,407)	(239,407)
	-	-	-	-	-	(239,407)	(239,407)
<b>Balance as at June 30, 2014</b>	615,803	6,347,000	3,366	(111,589)	6,238,777	(1,610,272)	5,244,308

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chairman and Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 28, 2014



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

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2014

	Note	Six month period ended	
		June 30, 2014	June 30, 2013
(Rupees in thousand)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	13	2,088,803	1,695,368
Finance cost paid		(168,240)	(149,400)
Income taxes paid		(74,254)	(247,440)
Long term deposits and prepayments		89	3,177
<b>Net cash provided by operating activities</b>		<b>1,846,398</b>	<b>1,301,705</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures		(727,764)	(1,073,280)
Acquisition of intangible		(1,954)	-
Proceeds from disposal of items of property, plant and equipment		59,564	42,679
Income received from short term deposits		43	873
<b>Net cash used in investing activities</b>		<b>(670,111)</b>	<b>(1,029,728)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		-	(17)
Proceeds of loan from associated undertaking		9,927,300	5,886,700
Repayment of loan from associated undertaking		(10,875,300)	(6,842,200)
<b>Net cash used in financing activities</b>		<b>(948,000)</b>	<b>(955,517)</b>
Net increase / (decrease) in cash and cash equivalent during the period		<b>228,287</b>	(683,540)
Cash and cash equivalents at the beginning of the period		<b>(2,944,881)</b>	(2,961,548)
Cash and cash equivalents at the end of the period	14	<b>(2,716,594)</b>	<b>(3,645,088)</b>

The annexed notes from 1 to 16 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chairman and Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 28, 2014



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

### FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2014

#### 1. THE COMPANY AND ITS OPERATIONS

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 Karachi and Lahore Stock Exchanges. 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 month period ended June 30, 2014 have been prepared in accordance with the requirements of the 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 have been followed. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2013 as they provide an update of previously reported information.
- 2.2 These condensed interim financial statements include the condensed interim balance sheet as at June 30, 2014, 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 month period then ended which have been subjected to a review in accordance with the listing regulations but were not audited. These condensed interim financial statements also include the profit and loss account for the quarter ended June 30, 2014 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/233/619/02.39 dated July 3, 2014 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 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, 2013 has been extracted from the audited financial statements of the Company for the year then ended (December 2013 financial statements). The comparative profit and loss account, statement of changes in equity and cash flow statement for the six month period ended June 30, 2013 have been extracted from the condensed interim financial statements of the Company for the six month period then ended, which were subjected to review but were not audited. The comparative profit and loss account for the quarter ended June 30, 2013 is also



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

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 which become effective during the six month period ended June 30, 2014:

There were certain amendments to the approved accounting standards and a new interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC) which became effective during the period but are considered not to be relevant or have any significant effect on the Company's operations and are, therefore, not disclosed in these condensed interim financial statements.

- 2.6 New standards, amendments to approved accounting standards and new interpretations published but are not effective:

There are certain amendments to approved accounting standards that are mandatory for accounting periods beginning after January 1, 2014 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not detailed in these condensed interim financial statements.

- 2.7 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 2013 financial statements.

### **3. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT**

- 3.1 The preparation of these condensed interim financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.
- 3.2 During the preparation of these condensed interim financial statements, significant judgments made by management in applying the Company's accounting policies and key sources of estimation were the same as those applied in the Company's December 2013 financial statements.
- 3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended December 31, 2013.



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, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)			
Operating property, plant and equipment	4.1 to 4.4	4,537,712	4,286,803
Capital work-in-progress	4.5	2,728,444	2,583,090
Major capital spares and stand-by equipment		8,316	6,838
		<u>7,274,472</u>	<u>6,876,731</u>
4.1 Operating property, plant and equipment			
Book value at the beginning of the period / year		4,286,803	3,208,561
Additions during the period / year		580,932	1,646,368
		<u>4,867,735</u>	<u>4,854,929</u>
Disposals during the period / year - net book value		(13,848)	(45,136)
Write offs during the period / year - net book value		(20,365)	(38)
Depreciation charge during the period / year		(295,810)	(522,952)
		<u>(330,023)</u>	<u>(568,126)</u>
Book value at the end of the period / year		<u>4,537,712</u>	<u>4,286,803</u>
<b>Six month period ended</b>			
		June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)
(Rupees in thousand)			
4.2 Additions during the period			
Buildings on freehold land		84,874	29,395
Plant and machinery		150,320	453,497
Furniture and fixtures		22,121	10,406
Vehicles		109,365	166,395
Buildings and leasehold improvements		46,616	-
Power and other installations		135,630	-
Computer equipment		32,006	22,818
		<u>580,932</u>	<u>682,511</u>
4.3 Disposals during the period - net book value			
Buildings on freehold land		574	-
Plant and machinery		-	4,647
Furniture and fixtures		327	-
Vehicles		12,914	12,858
Power and other installations		33	-
		<u>13,848</u>	<u>17,505</u>
4.4 Depreciation charge during the period		<u>295,810</u>	<u>237,760</u>



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

	June 30, 2014 (Un-audited)	December 31, 2013 (Audited)
	(Rupees in thousand)	
4.5 Capital work-in-progress		
Civil works	572,714	530,288
Plant and machinery	1,352,424	1,262,194
Power and other installations	580,370	501,741
Furniture and fittings	14,491	46,150
Computer equipment pending installation	131,612	60,332
Advance to suppliers and contractors	76,833	182,385
	<u>2,728,444</u>	<u>2,583,090</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. During the six month period ended June 30, 2014, the subsidiary company has incurred loss after taxation amounting 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, 2014 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the six month period ended June 30, 2014.

#### 6. DEFERRED TAXATION

	June 30, 2014 (Un-audited)	December 31, 2013 (Audited)
	(Rupees in thousand)	
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	(508,960)	(499,663)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	926	1,350
Amortisation of intangible	199	115
Unutilised tax loss and credit	757,780	652,017
Minimum tax	277,535	207,440
Provision for spares	5,522	-
Provision for obsolete stocks	10,307	17,798
Provision for doubtful debts	949	921
	<u>1,053,218</u>	<u>879,641</u>
Deferred tax asset	<u>544,258</u>	<u>379,978</u>



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, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)			
Raw and packing materials	7.1 to 7.3	4,380,280	6,314,446
Work-in-process		113,108	49,849
Finished goods	7.2 to 7.4	702,118	1,120,668
		<u>5,195,506</u>	<u>7,484,963</u>
Less: Provision for obsolete stocks		(16,183)	(53,730)
		<u>5,179,323</u>	<u>7,431,233</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 26.160 million (December 31, 2013: Rs 80.411 million) and finished goods in transit aggregating Rs Nil (December 31, 2013: Rs 12.417 million).
- 7.3 During the current period, the Company has written off raw & packing material aggregating Rs 20.555 million (December 31, 2013: Nil) and finished goods aggregating Rs 25.716 million (December 31, 2013: Rs 2.237 million).
- 7.4 Finished goods include items costing Rs 78.976 million (December 31, 2013: Rs 99.427 million) which are stated at their net realisable value aggregating Rs 73.531 million (December 31, 2013: Rs 78.949 million). The amount charged to the profit and loss account in respect of stocks written down to their net realisable values is Rs 5.445 million (June 30, 2013: Rs 3.211 million).

**8. CONTINGENCIES AND COMMITMENTS**

**8.1 Guarantees**

Indemnities given to banks for guarantees issued by it in the normal course of business aggregated Rs 98.193 million (December 31, 2013: Rs 78.22 million).



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

### 8.2 Commitments

	<b>June 30, 2014 (Un-audited)</b>	<b>December 31, 2013 (Audited)</b>
	<b>(Rupees in thousand)</b>	
Capital expenditure contracted for but not incurred	<u><b>383,204</b></u>	<u>496,181</u>
Letters of credit	<u><b>28,698</b></u>	<u>24,728</u>
Operating lease commitments		

The Company leases various offices and warehouses under non-cancellable operating lease arrangements. The lease terms are between 1 to 5 years, and majority of these lease agreements are renewable at the end of the lease period. Commitments in respect of such operating lease are as follows:

	<b>June 30, 2014 (Un-audited)</b>	<b>December 31, 2013 (Audited)</b>
	<b>(Rupees in thousand)</b>	
Not later than 1 year	<b>30,169</b>	22,116
Later than 1 year and not later than 5 years	<u><b>220,289</b></u>	<u>176,108</u>
	<u><b>250,458</b></u>	<u>198,224</u>

### 8.3 Contingencies

8.3.1 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 24.640 million (December 31, 2013: Rs 20.025 million) in respect of goods imported for re-export. In the event the goods are not re-exported within the stipulated time period, cheques issued as a security shall be encashable.

8.3.2 There is no change in the status of cases as set out in note 21.3.2 & 21.3.4 to the December 2013 financial statements.

8.3.3 Further to the matters as set out in note 21.3.3 to the December 2013 financial statements, during the current period, the High Court of Sindh through its order dated August 19, 2014 has extended the interim injunction available to the Company



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

till the date of next hearing. Moreover, the appeal filed before the Appellate Tribunal Customs & Excise heard the matter on June 6, 2014 and reserved the matter for judgment. The management based on the merits of the case is confident that the ultimate decision shall be in its (the Company's) favour, therefore, a provision has not been made in these condensed interim financial statements.

8.3.4 Further to the matters as set out in note 21.3.5 to the December 2013 financial statements, in relation to the assessment order pertaining to tax year 2009, during the current period an amount of Rs 27.401 million out of the total rectification order amounting to Rs 43.023 million (which was received during the year ended December 31, 2013) has been adjusted by the tax authorities against the Company's liabilities pertaining to Federal Excise Duty (FED). For the remaining portion of the rectification order i.e. Rs 15.622 million, the management is of the view that the same shall also be allowed as adjustment towards the Company's tax liability (either pertaining to income tax, FED or sales tax) in due course. Further, for the pending appeal against the tax demand of Rs 57.502 million, the management is continuing with its view that the decision of the appeal shall be in the Company favour, therefore, a provision has not been recorded in these condensed interim financial statements.

8.3.5 Further to the matters as set out in note 21.3.6 to the December 2013 financial statements, an S.R.O 212(1) / 2014 dated March 26, 2014 has been issued by the Revenue Division, Government of Pakistan in accordance with which the said provincial sales tax on services has been allowed for the purpose of input under the Sales Tax Act, 1990 with effect from July 1, 2013, therefore, the constitutional petition filed earlier was withdrawn by the Company.

8.3.6 While reviewing the income tax return of the Company for the tax year 2013 (accounting year ended December 31, 2012) the Additional Commissioner Inland Revenue ('the assessing officer') has under section 122(1) of the Income Tax Ordinance, 2001 (the Tax Ordinance) served the Company with an order dated April 28, 2014 amending its assessment for that tax year and has disallowed certain deductions aggregating Rs 455.747 million, the tax impact of which is Rs 77.829 million. The Company has filed an appeal before the Commissioner Inland Revenue – Appeals III against the aforementioned order which is pending adjudication. The management is confident that the ultimate decision of the appeal shall be in its favour, therefore, a provision has not been recognised against the aforementioned disallowed deductions in these condensed interim financial statements.



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

**9. COST OF SALES**

	Quarter ended		Six month period ended	
	June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)	June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)
	(Rupees in thousand)			
<b>Raw and packing material consumed</b>				
Opening stock	<b>5,404,042</b>	5,341,447	<b>6,314,446</b>	6,526,894
Purchases, redrying and related expenses	<b>1,582,456</b>	1,736,034	<b>2,738,687</b>	3,276,543
	<b>6,986,498</b>	7,077,481	<b>9,053,133</b>	9,803,437
Closing stock	<b>(4,380,280)</b>	(4,436,950)	<b>(4,380,280)</b>	(4,436,950)
	<b>2,606,218</b>	2,640,531	<b>4,672,853</b>	5,366,487
Government levies	<b>9,324</b>	8,792	<b>17,259</b>	17,466
Manufacturing expenses	<b>316,707</b>	321,565	<b>622,801</b>	756,128
	<b>2,932,249</b>	2,970,888	<b>5,312,913</b>	6,140,081
<b>Work-in-process</b>				
Opening stock	<b>55,087</b>	48,201	<b>49,849</b>	34,388
Closing stock	<b>(113,108)</b>	(58,542)	<b>(113,108)</b>	(58,542)
Sale of waste	<b>(3,648)</b>	(14,426)	<b>(8,747)</b>	(30,884)
	<b>(61,669)</b>	(24,767)	<b>(72,006)</b>	(55,038)
<b>Finished goods</b>				
Opening stock	<b>1,296,342</b>	721,468	<b>1,120,668</b>	279,877
Finished goods purchased	<b>84,017</b>	45,601	<b>174,658</b>	121,637
Closing stock	<b>(702,118)</b>	(198,037)	<b>(702,118)</b>	(198,037)
	<b>678,241</b>	569,032	<b>593,208</b>	203,477
	<b>3,548,821</b>	3,515,153	<b>5,834,115</b>	6,288,520

- 9.1 For better presentation and in accordance with the applicable financial reporting framework, green leaf and tobacco related expenses which appeared in the 'manufacturing expenses' have been reclassified in 'purchases, redrying and related expenses'. Accordingly, the corresponding figures amounting to Rs 379.192 million for the half year ended June 30, 2013 have been reclassified.



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

### 10. TAXATION

	Quarter ended		Six month period ended	
	June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)	June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)
	(Rupees in thousand)			
Current				
- for the period	53,874	38,439	109,015	60,914
- for the prior period	(18,018)	(13,360)	(18,018)	(13,360)
	<u>35,856</u>	<u>25,079</u>	<u>90,997</u>	<u>47,554</u>
Deferred	<u>(132,374)</u>	<u>51,881</u>	<u>(164,280)</u>	<u>26,881</u>
	<u>(96,518)</u>	<u>76,960</u>	<u>(73,283)</u>	<u>74,435</u>

10.1 In the case of another company, the Division Bench of the Sindh High Court in its decision dated May 7, 2013 on carry forward of 'minimum tax' to further years in the case of a taxable loss for the year, has interpreted Section 113(2)(c) of the Tax Ordinance that the benefit of carry forward of minimum tax paid by a Company is only available if the tax paid in a particular year is less than the minimum tax payable. Accordingly, if no tax is paid / payable by the Company due to a taxable loss the right to carry forward the minimum tax does not arise. However, the management based on the advice of its legal counsel is of the view that this matter is subject to appeal in the larger bench of the High Court as well as in the Supreme Court and valid legal grounds are available to substantiate the Company's case for carry forward of minimum tax, therefore, the deferred tax asset on 'minimum tax' aggregating Rs. 277.535 million (December 31, 2013: Rs 207.440 million) has been recognised in these condensed interim financial statements as at June 30, 2014.

### 11. (LOSS) / EARNINGS PER SHARE – BASIC

	Quarter ended		Six month period ended	
	June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)	June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)
	(Rupees in thousand)			
(Loss) / profit for the period after taxation	<u>30,386</u>	<u>34,322</u>	<u>(239,407)</u>	<u>87,953</u>
	(Number of shares)			
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	<u>0.49</u>	<u>0.56</u>	<u>(3.89)</u>	<u>1.43</u>

There were no convertible dilutive potential ordinary shares outstanding as at June 30, 2014 or 2013.



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

### 12. RELATED PARTIES DISCLOSURES

12.1 Related parties comprise of Philip Morris Investments B.V., (the parent company) and Philip Morris Brands Sarl, related group undertakings, subsidiary company i.e. LaksonPremier Tobacco Company (Private) Limited, staff retirement benefits plan and members of the key management personnel. Transactions with related parties are as follows:

Relationship	Nature of transaction	Six month period ended	
		June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and service	<b>372,972</b>	617,843
	Purchase of goods and service	<b>317,459</b>	332,948
	Loans received / roll forward	<b>9,927,300</b>	5,886,700
	Loans repaid / adjusted	<b>10,875,300</b>	6,842,200
	Mark-up on loan	<b>35,959</b>	10,189
	Royalty charges	<b>23,255</b>	16,047
	Share based payment expense	<b>7,310</b>	5,021
	Share based payment recharge	<b>17,174</b>	29,053
Staff retirement benefit plans	Contribution to gratuity fund	<b>41,333</b>	20,555
	Contribution to provident fund	<b>46,388</b>	40,626
Key management personnel	Remuneration and benefits - note 12.1.1 and 12.1.2	<b>36,666</b>	47,667

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

12.1.1 The Company considers its chief executive and directors as members of key management personnel.

12.1.2 The members of the key management personnel are provided with free use of the Company maintained cars.

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



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

Continued

	June 30, 2014 (Un-audited)	December 31, 2013 (Audited)
(Rupees in thousand)		
12.2 The amount due from related parties (which is classified under 'Trade debts and other receivables') comprises:		
Group undertakings	<b>55,056</b>	209,557
12.3 The amount due to related parties comprises:		
<b>Trade and other payables</b>		
Group undertakings	317,193	314,784
Staff retirement plans	<b>21,020</b>	-
	<b>338,213</b>	314,784
<b>Short term borrowings</b>		
Loans from an associated undertaking	<b>4,945,000</b>	5,819,000
	<b>5,283,213</b>	6,133,784
12.4 Investment in subsidiary company		See Note 5

### 13.CASH GENERATED FROM OPERATIONS

	Note	Six month period ended	
		June 30, 2014 (Un-audited)	June 30, 2013 (Un-audited)
(Rupees in thousand)			
(Loss) / profit before taxation		(312,690)	162,388
Adjustments for:			
Depreciation		295,810	237,760
Amortisation		4,310	4,008
Expenses arising from equity-settled share-based payment plan		7,310	5,021
Provision for obsolete stocks		8,724	-
Stock in trade written down to net realisable value		5,445	3,211
Provision / (reversal) for slow moving stores and spares		30,205	(3,726)
Profit on short term deposits		(43)	(873)
Unrealised exchange gain		(54,050)	(22,096)
Profit on disposal of property, plant and equipment		(45,716)	(25,174)
Property, plant and equipment written off		20,365	37
Finance cost		142,613	131,495
Working capital changes	13.1	<b>1,986,520</b>	1,203,317
		<b>2,088,803</b>	1,695,368



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

	<b>Six month period ended</b>	
	<b>June 30, 2014 (Un-audited)</b>	<b>June 30, 2013 (Un-audited)</b>
	<b>(Rupees in thousand)</b>	
13.1 Working capital changes		
Decrease / (increase) in current assets		
Stores and spares	<b>(34,485)</b>	(34,027)
Stock in trade	<b>2,237,741</b>	2,144,419
Trade debts	<b>(463,090)</b>	118,098
Loans and advances	<b>21,587</b>	(15,721)
Prepayments	<b>22,408</b>	72,088
Other receivables	<b>120,397</b>	33,086
	<b>1,904,558</b>	2,317,943
Increase / (decrease) in current liabilities		
Trade and other payables	<b>223,361</b>	(641,220)
Sales tax and excise payable	<b>(141,399)</b>	(473,406)
	<b>81,962</b>	(1,114,626)
	<b>1,986,520</b>	1,203,317

### 14. CASH AND CASH EQUIVALENT

	<b>Six month period ended</b>	
	<b>June 30, 2014 (Un-audited)</b>	<b>June 30, 2013 (Un-audited)</b>
	<b>(Rupees in thousand)</b>	
Cash and bank balances	<b>128,621</b>	19,292
Running finance under mark-up arrangements	<b>(2,845,215)</b>	(3,664,380)
	<b>(2,716,594)</b>	(3,645,088)

- 14.1 For better presentation and in accordance with the applicable financial reporting framework, 'loans obtained from an associated undertaking' have been reclassified from 'cash and cash equivalent' to financing activities, in the condensed interim cashflow statement. The corresponding figures for the half year ended June 30, 2013 have now been reclassified accordingly.

### 15. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 28, 2014 by the Board of Directors of the Company.

### 16. GENERAL

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

**ALEJANDRO PASCHALIDES**  
Chairman and Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 28, 2014



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**Philip Morris (Pakistan) Limited**  
19Th Floor, The Harbour Front, Dolmen City  
HC-3, Block-4, Clifton Karachi-75600

[www.philipmorriskarachi.com.pk](http://www.philipmorriskarachi.com.pk)