



PHILIP MORRIS  
(PAKISTAN) LIMITED

## HALF YEARLY REPORT

For the half year ended June 30, 2015  
(Un-audited)



# HALF YEARLY REPORT

For the half year ended June 30, 2015  
(Un-audited)



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## COMPANY INFORMATION

### BOARD OF DIRECTORS

KAMRAN Y. MIRZA (Chairman)  
 ALEJANDRO PASCHALIDES (Chief Executive)  
 NICOLAS FLOROS  
 DANIEL FAHRNY  
 JOSEPH ZIOMEK  
 CHARLES BENDOTTI  
 ATHAR ABBAS

### COMPANY SECRETARY

MUJTABA HUSSAIN

### AUDIT COMMITTEE

ATHAR ABBAS (Chairman)  
 DANIEL FAHRNY  
 NICOLAS FLOROS

### HUMAN RESOURCE & REMUNERATION COMMITTEE

CHARLES BENDOTTI (Chairman)  
 ALEJANDRO PASCHALIDES  
 DANIEL FAHRNY  
 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  
 CITIBANK 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](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, 2015.

During the period, the Company's gross turnover increased by 23% compared to the same period in 2014. This increase is primarily attributable to higher selling prices to the trade. Increase in other expenses is mainly due to reorganizing costs including that of Mandra Factory.

The Company recorded a profit before taxation of Rs. 851.8 million for the six months compared to loss before taxation of Rs. 312.7 million in the same period last year. According to Nielsen, the non-tax paid tobacco industry continues to flourish. This illicit business activity adversely impacts the legitimate industry as a whole, including the Company's profitability. We actively support all efforts by the government to enforce regulation to stop the illicit trade of tobacco products.

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.17,052 million, as compared to Rs. 14,009 million in 2014.

In February 2015, the Federal Ministry for National Health Services, Regulations and Coordination ("MNHSRC") issued a Statutory Regulation Order ("SRO") increasing the size of graphical health warning ("GHW") on front and back of cigarette packs from 40% to 85%. The Company supports health warning requirements designed to inform consumers of the risks of smoking. In fact, where health warnings are not required, we place them on packaging voluntarily in the official language or languages of the country. We defer to governments on the content of warnings except for content that vilifies tobacco companies or does not fairly represent the actual effects of smoking. However, the Company opposes excessively large health warnings. Evidence suggests that disproportionately increasing the size of health warnings does not effectively reduce tobacco consumption. Also such health warnings impede our ability to compete in the market by leaving insufficient space for our distinctive trademarks and pack designs.

This development if implemented will adversely impact the Company's legal rights, including unjustifiably emasculating our intellectual property rights and may trigger the risk of fuelling the illicit cigarette trade. Following concerns raised by various stakeholders, including the Company, the Minister of Finance has directed the constitution of a committee for reviewing the SRO. The committee during its last meeting on July 24, 2015 agreed to reduce the size of the GHW from 85% to 50%. This decision was followed by a press release by the Minister of MNHSRC on July 25, 2015. As a result of the press release, two public interest petitions have been filed before the Islamabad High Court against this decision of the committee.

We firmly believe that the current GHW clearly communicates the health risks of smoking. A health warning doesn't have to totally dominate the pack to still be clear and very visible. GHW is neither mandated by Framework Convention for Tobacco Control ("FCTC") nor envisaged in Pakistan law and even in the case of textual health warning, FCTC does not make it compulsory to increase the size to more than 30 percent. Pakistan already has a 40 percent clear and legible GHW since 2010. The imposition of a 85% GHW would drastically exceed the recommendations of the FCTC and, in our views, its implementation would contravene a number of legal and regulatory requirements.

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, improving process and operational efficiency, developing and improving resource utilization and allocation. 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,

**KAMRAN Y. MIRZA**  
Chairman

Karachi: August 25, 2015



## 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, 2015, 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, 2015 and 2014 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, 2015.

### 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 25, 2015



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

**AS AT JUNE 30, 2015**

	Note	June 30, 2015 (Un-audited)	December 31, 2014 (Audited)
(Rupees in thousand)			
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant and equipment	4	7,710,779	7,393,065
Intangibles		<u>27,726</u>	<u>23,447</u>
		7,738,505	7,416,512
Investment in a subsidiary company	5	1	1
Long term deposits and prepayments		39,562	36,760
Deferred taxation	6	<u>391,611</u>	<u>527,615</u>
		8,169,679	7,980,888
<b>CURRENT ASSETS</b>			
Stores and spares - net		558,888	593,690
Stock in trade - net	7	6,086,092	7,960,101
Trade debts - net		14,216	225,182
Loans and advances		53,210	49,280
Prepayments		121,104	315,792
Other receivables	8	19,476	598,446
Income tax - net		834,897	747,423
Cash and bank balances		<u>183,234</u>	<u>36,763</u>
		7,871,117	10,526,677
<b>TOTAL ASSETS</b>		<u><b>16,040,796</b></u>	<u><b>18,507,565</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		6,211,278	6,226,367
Unappropriated loss		<u>(2,145,328)</u>	<u>(2,853,320)</u>
<b>TOTAL EQUITY</b>		4,681,753	3,988,850
<b>CURRENT LIABILITIES</b>			
Short term borrowings		9,037,438	11,090,651
Trade and other payables		2,002,188	2,388,492
Accrued mark-up on short term borrowings		26,850	65,760
Sales tax and excise duty payable		<u>292,567</u>	<u>973,812</u>
<b>TOTAL LIABILITIES</b>		<u><b>11,359,043</b></u>	<u><b>14,518,715</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>16,040,796</b></u>	<u><b>18,507,565</b></u>

### CONTINGENCIES AND COMMITMENTS 9

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 25, 2015



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

### FOR THE QUARTER AND SIX MONTHS PERIOD ENDED JUNE 30, 2015

	Note	Quarter ended		Six month period ended	
		June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
(Rupees in thousand)					
Gross turnover		<b>15,764,068</b>	12,581,429	<b>26,900,535</b>	21,792,019
Less: Sales tax		<b>2,393,122</b>	1,913,968	<b>4,080,395</b>	3,321,781
Excise duty		<b>7,523,795</b>	5,930,798	<b>12,857,230</b>	10,440,834
		<b>9,916,917</b>	7,844,766	<b>16,937,625</b>	13,762,615
Turnover - net of sales tax and excise duty		<b>5,847,151</b>	4,736,663	<b>9,962,910</b>	8,029,404
Cost of sales	10	<b>3,389,799</b>	3,548,062	<b>5,890,547</b>	5,823,047
Gross profit		<b>2,457,352</b>	1,188,601	<b>4,072,363</b>	2,206,357
Distribution and marketing expenses		<b>939,248</b>	988,160	<b>1,601,902</b>	1,825,835
Administrative expenses		<b>373,876</b>	299,322	<b>693,242</b>	582,151
Other expenses	11	<b>146,504</b>	8,464	<b>636,537</b>	25,703
Other income		<b>(39,805)</b>	(89,459)	<b>(89,972)</b>	(177,620)
		<b>1,419,823</b>	1,206,487	<b>2,841,709</b>	2,256,069
Operating profit / (loss)		<b>1,037,529</b>	(17,886)	<b>1,230,654</b>	(49,712)
Finance cost		<b>140,960</b>	48,246	<b>378,826</b>	262,978
Profit / (loss) before taxation		<b>896,569</b>	(66,132)	<b>851,828</b>	(312,690)
Taxation	12	<b>171,075</b>	(96,518)	<b>143,836</b>	(73,283)
Profit / (loss) after taxation		<b>725,494</b>	30,386	<b>707,992</b>	(239,407)
----- (Rupees) -----					
Earnings / (loss) per share - basic	13	<b>11.78</b>	0.49	<b>11.50</b>	(3.89)

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 25, 2015



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

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2015

	Issued, subscribed and paid-up capital	General reserve	Reserve for share based payments	Re-measurement of staff retirement gratuity plan	Sub-total Reserves	Unappropriated loss	Total
(Rupees in thousand)							
<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	-	-	(17,174)	-	(17,174)	-	(17,174)
	-	-	(9,864)	-	(9,864)	-	(9,864)
<i>Total comprehensive loss</i>							
Loss after taxation for the six months 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
<b>Balance as at January 1, 2015</b>	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
<b>Balance as at June 30, 2015</b>	615,803	6,347,000	936	(136,658)	6,211,278	(2,145,328)	4,681,753

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 25, 2015



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

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2015

	Note	Six months period ended	
		June 30, 2015	June 30, 2014
(Rupees in thousand)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	15	3,452,143	2,135,168
Finance cost paid		(343,036)	(516,655)
Income taxes paid		(95,306)	(74,254)
Long term deposits and prepayments		(2,802)	89
<b>Net cash provided by operating activities</b>		<b>3,010,999</b>	<b>1,544,348</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures		(790,518)	(727,764)
Acquisition of intangible		(9,966)	(1,954)
Proceeds from disposal of items of property, plant and equipment		56,966	59,564
Profit received on savings accounts		7,138	43
<b>Net cash used in investing activities</b>		<b>(736,380)</b>	<b>(670,111)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(235)	-
Proceeds of loans obtained from associated undertaking		7,618,300	9,927,300
Repayment of loan from associated undertaking		(9,635,500)	(10,573,250)
<b>Net cash used in financing activities</b>		<b>(2,017,435)</b>	<b>(645,950)</b>
Net increase in cash and cash equivalent during the period		<b>257,184</b>	<b>228,287</b>
Cash and cash equivalents at the beginning of the period		<b>(2,494,388)</b>	<b>(2,944,881)</b>
Cash and cash equivalents at the end of the period	16	<b>(2,237,204)</b>	<b>(2,716,594)</b>

The annexed notes from 1 to 18 form an integral part of these condensed interim financial statements.

**ALEJANDRO PASCHALIDES**  
Chief Executive

**JOSEPH ZIOMEK**  
Director

Karachi: August 25, 2015



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

### FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2015

#### 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 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 months period ended June 30, 2015 have been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting which comprises 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 shall prevail. These interim financial statements should be read in conjunction with the financial statements for the year ended December 31, 2014 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, 2015, 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 listing regulations but have not been audited. These condensed interim financial statements also include the profit and loss account for the quarter ended June 30, 2015 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/233/619/2002-1426 dated June 2, 2015 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, 2014 has been extracted from the audited financial statements of the Company for the year then ended (December 2014 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, 2014 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, 2014 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 which become effective during the six months period ended June 30, 2015:

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 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 new standards and amendments to approved accounting standards that are mandatory for accounting periods beginning after January 1, 2015 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.

- 2.7 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 2014 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 2014 financial statements.
- 3.3 The Company's financial risk management objectives and policies are consistent with those disclosed in the December 2014 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, 2015 (Un-audited)	December 31, 2014 (Audited)
(Rupees in thousand)			
Operating property, plant and equipment	4.1 to 4.4	6,732,167	5,383,968
Capital work-in-progress	4.5	969,241	1,990,821
Major capital spares and stand-by equipment		9,371	18,276
		<u>7,710,779</u>	<u>7,393,065</u>
<b>4.1 Operating property, plant and equipment</b>			
Book value at the beginning of the period / year		5,383,968	4,286,803
Additions during the period / year		<u>1,821,003</u>	<u>1,878,206</u>
		7,204,971	6,165,009
Disposals during the period / year - net book value		(16,579)	(35,446)
Write offs during the period / year - net book value		-	(22,710)
Impairment during the period / year - net book value		(58,316)	(91,451)
Depreciation charge during the period / year		<u>(397,909)</u>	<u>(631,434)</u>
		(472,804)	(781,041)
Book value at the end of the period / year		<u>6,732,167</u>	<u>5,383,968</u>
<b>Six months period ended</b>			
		June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)
(Rupees in thousand)			
<b>4.2 Additions during the period</b>			
Buildings on freehold land		225,876	84,874
Plant and machinery		1,247,322	150,320
Furniture and fixtures		65,836	22,121
Vehicles		79,223	109,365
Buildings and leasehold improvements		-	46,616
Power and other installations		181,061	135,630
Computer equipment		21,685	32,006
		<u>1,821,003</u>	<u>580,932</u>
<b>4.3 Disposals during the period - net book value</b>			
Buildings on freehold land		-	574
Plant and machinery		60	-
Furniture and fixtures		-	327
Vehicles		16,391	12,914
Power and other installations		128	33
		<u>16,579</u>	<u>13,848</u>
<b>4.4 Depreciation charge during the period</b>			
		<u>397,909</u>	<u>295,810</u>



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

	June 30, 2015 (Un-audited)	December 31, 2014 (Audited)
4.5 Capital work-in-progress		
	(Rupees in thousand)	
Civil works	77,187	73,460
Plant and machinery	477,009	1,191,597
Power and other installations	230,344	424,526
Furniture and fixtures	97,890	77,241
Computer equipment pending installation	74,098	128,197
Advance to suppliers and contractors	12,713	95,800
	<u>969,241</u>	<u>1,990,821</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 months period ended June 30, 2015, 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, 2015 amounted to Rs Nil, in accordance with its unaudited condensed interim financial statements for the six months period ended June 30, 2015.

**6. DEFERRED TAXATION**

	June 30, 2015 (Un-audited)	December 31, 2014 (Audited)
	(Rupees in thousand)	
Deferred tax liability on taxable temporary differences:		
Tax depreciation allowance	(554,822)	(557,366)
Deferred tax asset on deductible temporary differences:		
Accrual for employees compensated absences	665	6,255
Amortisation of intangible	363	164
Unutilised tax loss and credit	943,122	1,059,074
Provision for spares	486	501
Provision for obsolete stocks	929	18,093
Provision for doubtful debts	868	894
	<u>946,433</u>	<u>1,084,981</u>
Deferred tax asset	<u>391,611</u>	<u>527,615</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, 2015 (Un-audited)	December 31, 2014 (Audited)
		(Rupees in thousand)	
Raw and packing materials	7.1 to 7.3	5,391,917	7,287,025
Work-in-process		51,128	82,817
Finished goods	7.3 & 7.4	646,026	646,492
		<u>6,089,071</u>	<u>8,016,334</u>
Provision for obsolete stocks		<u>(2,979)</u>	<u>(56,233)</u>
		<u>6,086,092</u>	<u>7,960,101</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 21.026 million (December 31, 2014: Rs 25.252 million).

7.3 During the current period, the Company has written off raw & packing material aggregating Rs 51.373 million (December 31, 2014: Rs 29.798 million) and finished goods aggregating Rs 2.997 million (December 31, 2014: Rs 99.090 million).

7.4 Finished goods include items costing Rs 8.148 million (December 31, 2014: Rs 108.28 million) which are stated at their net realisable value aggregating Rs 4.978 million (December 31, 2014: Rs 104.197 million). The amount charged to the profit and loss account in respect of stocks written down to their net realisable values is Rs 3.170 million (June 30, 2014: Rs 5.445 million).

**8. OTHER RECEIVABLES**

	June 30, 2015 (Un-audited)	December 31, 2014 (Audited)
	(Rupees in thousand)	
Receivable from 'associated undertakings'	9,662	593,078
Others	9,814	5,368
	<u>19,476</u>	<u>598,446</u>

**9. CONTINGENCIES AND COMMITMENTS**

9.1 Guarantees

Indemnities given to banks for guarantees issued by it in the normal course of business aggregated Rs 98.193 million (December 31, 2014: Rs 98.193 million).



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

9.2 Commitments

	<b>June 30, 2015 (Un-audited)</b>	<b>December 31, 2014 (Audited)</b>
	<b>(Rupees in thousand)</b>	
Capital expenditure contracted for but not incurred	<u>178,439</u>	<u>423,374</u>
Letters of credit	<u>8,823</u>	<u>103,667</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 leases are as follows:

	<b>June 30, 2015 (Un-audited)</b>	<b>December 31, 2014 (Audited)</b>
	<b>(Rupees in thousand)</b>	
Not later than 1 year	<u>155,554</u>	84,941
Later than 1 year and not later than 5 years	<u>269,757</u>	<u>92,107</u>
	<u>425,311</u>	<u>177,048</u>

9.3 Contingencies

9.3.1 Post dated cheques have been issued to custom authorities as a security against duties and taxes amounting to Rs 3.701 million (December 31, 2014: Rs 18.579 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.

9.3.2 There is no change in the status of cases as set out in note 19.3.2 to 19.3.7 to the December 2014 financial statements.



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

### 10. COST OF SALES

	Note	Quarter ended		Six months period ended	
		June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)	June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)
<b>Raw and packing material consumed</b>					
Opening stock		<b>6,400,123</b>	5,404,042	<b>7,287,025</b>	6,314,446
Purchases, redrying and related expenses		<b>1,532,411</b>	1,362,707	<b>2,670,268</b>	2,334,344
Closing stock		<b>(5,391,917)</b>	(4,380,280)	<b>(5,391,917)</b>	(4,380,280)
		<b>2,540,617</b>	2,386,469	<b>4,565,376</b>	4,268,510
Government levies		<b>12,912</b>	9,324	<b>22,427</b>	17,259
Manufacturing expenses		<b>553,739</b>	535,697	<b>1,174,466</b>	1,016,076
		<b>3,107,268</b>	2,931,490	<b>5,762,269</b>	5,301,845
<b>Work-in-process</b>					
Opening stock		<b>43,639</b>	55,087	<b>82,817</b>	49,849
Closing stock		<b>(51,128)</b>	(113,108)	<b>(51,128)</b>	(113,108)
Sale of waste		<b>(6,058)</b>	(3,648)	<b>(11,590)</b>	(8,747)
		<b>(13,547)</b>	(61,669)	<b>20,099</b>	(72,006)
<b>Finished goods</b>					
Opening stock		<b>894,926</b>	1,296,342	<b>646,492</b>	1,120,668
Finished goods purchased		<b>47,178</b>	84,017	<b>107,713</b>	174,658
Closing stock		<b>(646,026)</b>	(702,118)	<b>(646,026)</b>	(702,118)
		<b>296,078</b>	678,241	<b>108,179</b>	593,208
		<b>3,389,799</b>	3,548,062	<b>5,890,547</b>	5,823,047

### 11. OTHER EXPENSES

Employee separation costs	11.1	<b>19,427</b>	759	<b>502,586</b>	11,068
Impairment charge on items of property, plant and equipment	4.1	<b>58,316</b>	8,084	<b>58,316</b>	10,756
Loss on disposal of plant and machinery		<b>9</b>	140	<b>120</b>	443
Worker's Profit Participation Fund		<b>45,797</b>	-	<b>45,797</b>	-
Worker's Welfare Fund		<b>18,319</b>	-	<b>18,319</b>	-
Miscellaneous expenses		<b>4,636</b>	(519)	<b>11,399</b>	3,436
		<b>146,504</b>	8,464	<b>636,537</b>	25,703



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

- 11.1 This includes costs incurred on reorganisation during the period ended June 30, 2015.
- 11.2 For better presentation certain reclassifications have been made which resulted in the following changes to the corresponding amounts:

From	To	Quarter ended June 30, 2014 (Un-audited) (Rupees in thousand)	Six months period ended June 30, 2014 (Un-audited)
Other income	'Exchange loss / (gain) on foreign currency loan - net' under Finance cost	218,950	(228,050)
Other expenses	'Exchange (gain) / loss on foreign currency swap derivatives' under Finance cost	(236,179)	348,415

### 12. TAXATION

	Quarter ended		Six months period ended	
	June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)	June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)
	(Rupees in thousand)			
Current				
- for the period	(49,968)	53,874	7,832	109,015
- for the prior period	-	(18,018)	-	(18,018)
	<u>(49,968)</u>	<u>35,856</u>	<u>7,832</u>	<u>90,997</u>
Deferred	<u>221,043</u>	<u>(132,374)</u>	<u>136,004</u>	<u>(164,280)</u>
	<u>171,075</u>	<u>(96,518)</u>	<u>143,836</u>	<u>(73,283)</u>

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

	Quarter ended		Six months period ended	
	June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)	June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)
	(Rupees in thousand)			
Profit / (loss) for the period after taxation	<u>725,494</u>	<u>30,386</u>	<u>707,992</u>	<u>(239,407)</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)			
Earnings / (loss) per share – basic	<u>11.78</u>	<u>0.49</u>	<u>11.50</u>	<u>(3.89)</u>

There were no convertible dilutive potential ordinary shares outstanding as at June 30, 2015 or 2014.



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

Continued

### 14. RELATED PARTIES DISCLOSURES

- 14.1 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 plans and members of the key management personnel. Transactions with related parties are as follows:

Relationship	Nature of transaction	Six months period ended	
		June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)
		(Rupees in thousand)	
Associated undertakings	Sale of goods and service	71,664	372,972
	Purchase of goods and service	250,950	317,459
	Loans received / roll forward	7,618,300	9,927,300
	Loans repaid / adjusted	9,635,500	10,573,250
	Mark-up on short term borrowings	44,846	35,959
	Royalty charges	27,345	23,255
	Share based payment expense	4,364	7,310
	Share based payment recharge	19,453	17,174
	Unrealised exchange loss on loans	17,900	17,000
Staff retirement benefit plans	Contribution to gratuity fund	45,879	41,333
	Contribution to provident fund	38,620	46,388
Key management personnel	Remuneration and benefits - note 14.1.1 to 14.1.4	10,161	36,666

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

- 14.1.1 The Company considers its chief executive and directors as key management personnel.
- 14.1.2 The chief executive and executive directors are provided with free use of the company maintained cars.
- 14.1.3 Certain executives are on secondment from the group undertakings and no remuneration is charged to the Company in respect of those executives.
- 14.1.4 The two independent directors were paid directors fee of Rs 1.6 million during the period (June 30, 2014: Rs Nil).



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

14.2 The amount due from related parties (which is classified under 'Trade debts and other receivables') comprises:

	<b>June 30, 2015 (Un-audited)</b>	<b>December 31, 2014 (Audited)</b>
	<b>(Rupees in thousand)</b>	
Group undertakings	<u>10,472</u>	<u>593,078</u>

14.3 The amount due to related parties comprises:

**Trade and other payables**

Group undertakings	253,951	408,602
Staff retirement plans	<u>17,135</u>	<u>-</u>
	<b>271,086</b>	<b>408,602</b>

**Short term borrowings**

Loans from an associated undertaking	<u>6,617,000</u>	8,559,500
	<b>6,888,086</b>	<b>8,968,102</b>

14.4 Investment in a subsidiary company

See note 5

### 15. CASH GENERATED FROM OPERATIONS

	Note	Six months period ended	
		June 30, 2015 (Un-audited)	June 30, 2014 (Un-audited)
		<b>(Rupees in thousand)</b>	
Profit / (loss) before taxation		851,828	(312,690)
Adjustments for:			
Depreciation		397,909	295,810
Amortisation		5,687	4,310
Expenses arising from equity-settled share-based payment plan		4,364	7,310
Provision for obsolete stocks		1,116	8,724
Stock in trade written down to net realisable value		3,170	5,445
Stores and spares written off		28,523	30,205
Impairment charge on items of property, plant and equipment		58,316	10,756
Profit on savings accounts		(7,138)	(43)
Unrealised exchange gain - others		(16,780)	(128,050)
Exchange loss / (gain) on loans from an associated undertaking - net (Included in finance cost)		74,700	(228,050)
Gain on disposal of items of property, plant and equipment		(40,387)	(45,716)
Property, plant and equipment written off		-	9,609
Finance cost		304,126	491,028
Working capital changes	15.1	<u>1,786,709</u>	<u>1,986,520</u>
		<b>3,452,143</b>	<b>2,135,168</b>



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

15.1 Working capital changes

Six months period ended  
June 30, 2015 (Un-audited)      June 30, 2014 (Un-audited)  
(Rupees in thousand)

Decrease in current assets

Stores and spares - net	6,279	(34,485)
Stock in trade - net	1,869,723	2,237,741
Trade debts - net	210,966	(463,090)
Loans and advances	(3,930)	21,587
Prepayments	194,688	22,408
Other receivables	578,970	120,397
	<u>2,856,696</u>	<u>1,904,558</u>

(Decrease) / increase in current liabilities

Trade and other payables	(388,742)	223,361
Sales tax and excise payable	(681,245)	(141,399)
	<u>(1,069,987)</u>	<u>81,962</u>
	<u>1,786,709</u>	<u>1,986,520</u>

16. CASH AND CASH EQUIVALENTS

Cash and bank balances	183,234	128,621
Short term borrowings - running finance under mark-up arrangements	(2,420,438)	(2,845,215)
	<u>(2,237,204)</u>	<u>(2,716,594)</u>

17. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on August 25, 2015 by the Board of Directors of the Company.

18. GENERAL

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

ALEJANDRO PASCHALIDES  
Chief Executive

JOSEPH ZIOMEK  
Director

Karachi: August 25, 2015





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