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GlaxoSmithKline Pakistan Limited
Half Yearly Report 2018

Strengthening our DNA

Corporate Information

Board of Directors

Mr. Andrew Aristidou	Chairman
Mr. M. Azizul Huq	Chief Executive Officer
Mr. Abdul Samad	Chief Financial Officer
Mr. Husain Lawai	Independent Director
Mr. Mehmood Mandviwalla	Non-Executive Director
Mr. Sohail Matin	Non-Executive Director
Mr. Mark Dawson	Non-Executive Director

Audit Committee

Mr. Husain Lawai	Chairman
Mr. Mehmood Mandviwalla	Member
Mr. Andrew Aristidou	Member
Mr. Mark Dawson	Member

Human Resource & Remuneration Committee

Mr. Mehmood Mandviwalla	Chairman
Mr. Husain Lawai	Member
Mr. M. Azizul Huq	Member
Mr. Andrew Aristidou	Member

Management Committee

Mr. M. Azizul Huq
Chief Executive Officer

Mr. Abdul Samad
Chief Financial Officer

Syed Azeem Abbas Naqvi
Cluster Legal Director - Pakistan, Iran & Bangladesh

Dr. Naved Masoom Ali
Business Unit Director -Primary Care

Dr. Tariq Farooq
Business Unit Director - Speciality

Khurram Amjad
Director Commercial Excellence

Dr. Gohar Nayab Khan
Director Regulatory Affairs

Mr. Abdul Haseeb Pirzada
Head of Corporate Affairs and Administration

Mr. Ahmad Ali Zia
HR Cluster Head - Pakistan and Iran

Mr. Muhammad Imran Amin
Country Compliance Officer

Dr. Yousuf Khan*
Director Medical

Company Secretary

Syed Azeem Abbas Naqvi

Chief Financial Officer

Mr. Abdul Samad

Chief Internal Auditor

Syed Ahsan Ejaz

Bankers

Citibank NA
Deutsche Bank A.G.
Habib Bank Limited
Meezan Bank Limited
Standard Chartered Bank (Pakistan) Ltd

Auditors

Deloitte Yousuf Adil & Co. Chartered Accountants

Legal Advisors

Mandviwalla & Zafar
Hashmi & Hashmi
Faisal, Mahmood Ghani and Co
Legal Consultancy Inc.

Registered Office

35 - Dockyard Road, West Wharf,
Karachi - 74000.
Tel: 92-21-111-475-725
(111-GSK-PAK)
Fax: 92-21-32314898, 32311122
Website: www.gsk.com.pk

*Mr. Yousuf Khan joined as Director Medical w.e.f Aprill 21, 2018 upon the resignation of Dr Yahya Jan as Medical Director


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Geographical Presence

- Biologicals
- Corporate
- Consumer Healthcare
- GMS
- Pharmaceuticals
- Research and Development

Directors' Report

I am pleased to present to you GSK Pakistan Limited's un-audited financial information for the half year ended June 30, 2018. This financial information is being submitted in accordance with Section 227 of the Companies Act, 2017.

Review of Operating Results:

The Company achieved net sales of Rs. 17.2 billion during this period despite a challenging economic environment. This includes intercompany sales of Rs. 2.1 billion to GlaxoSmithKline Consumer Healthcare Pakistan Ltd., on account of products manufactured by the company, pending transfer of market authorization. Excluding this sale, our core Pharmaceutical business delivered net sales of Rs. 15.1 billion with a growth of 5%. Our trade business achieved double digit growth and our key portfolios Antibiotics, Analgesics, Gastro-Intestinal and Dermatology, all delivered positive growth as well.

The gross profit margin of your company for the half year under review was 26.1%, which in absolute terms, increased by Rs. 115 million. We have also one-off severance provision, in this period, which will drive operation efficiencies in the long term. The gross margin however remains under pressure due to recent devaluation resulting in an increase in cost of goods sold.

Selling, marketing and distribution expenses were recorded at Rs. 1.7 billion, which represents an increase of Rs. 233 million a growth of 15.7%. The increase is mainly driven by one-off severance provision, increase in freight cost and a greater investment on our product promotion. Administrative expenses increased by Rs. 39 million, registering a growth of 8.1% over the corresponding period last year.

Other operating income totaled Rs. 232 million, which also includes insurance claim of Rs. 101 million against promotional material destroyed in Q4 2017 fire incident at a third-party warehousing facility.

Over all your company posted a net profit after tax of Rs. 1.3 billion, a decline of 6.7%. However, if one off cost that are unique to this period are excluded, our net profit shows a growth of 3.6%.

The Company continued to invest in plant up-gradation in line with current good manufacturing process (cGMP), as necessary for the business. The total capital expenditure incurred in this period is Rs. 464 million. Over this period the surplus funds of the company decreased by Rs 993 million which was mainly due to dividend payment.

Outlook and Challenges:

As mentioned in our previous quarterly reviews, GSK has high expectations both in terms of growth and profitability from the Pakistan business – being one of the key countries within GSK's Emerging Markets.

While the management is committed to deliver on this expectation, there are a host of challenges and evolution in the external environment that would define the progress of your company. We have already witnessed multiple foreign exchange rate adjustments during this period, which has impacted our cost base and margin.

Also, with recent general election resulting in a change in the Government, we would need to wait to see the vision and strategy adopted to stabilize the economy and support private sector growth.

An important development in the first half of the year was the notification of the 2018 Drug Pricing Policy, through which most of the anomalies that existed in the 2015 policy have been resolved. Some contentious areas however remain in the new policy and the industry will continue to work with the regulator to alleviate these.

In an ongoing Human Rights Case, the Supreme Court of Pakistan (SCP) earlier this year took cognizance in respect of matters pertaining to prices of medicines in Pakistan. Pursuant to a consensus roadmap that was agreed between the Regulator (DRAP) and the Industry, the SCP on 3rd August 2018 decided the matter by remanding outstanding Hardship cases back to DRAP with a direction to reconsider these under the 2018 policy.

As always, we will continue to engage with the new Government and relevant stakeholders for pragmatic policies that would enable us to meet our commitment to supply quality medicines and vaccines to health care professionals so that they can help their patients do more, feel better & live longer.

Acknowledgment:

On behalf of the Board, I would like to applaud the passion and commitment of the GSK staff. Their efforts and commitment have played an important part in achieving GSK's objectives for this period.

By order of the Board

M. Azizul Huq
Chief Executive Officer
Karachi
August 13, 2018

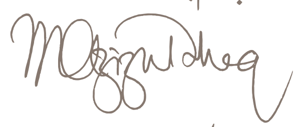
(SCP) نے اس سال کے آغاز میں پاکستان میں ادویات کے نرخ ناموں کے حوالے سے معاملات کا نوٹس لیا۔ ریگولیٹر (DRAP) اور انڈسٹری کے مابین طے پائے جانے والے متفقہ لائحہ عمل کے بموجب، SCP نے 3 اگست 2018 کو اس مسئلے کا فیصلہ کرتے ہوئے زیرِ التوا صعوبتی مقدمات (ہارڈ شپ کیسز) کھول کر دوبارہ DRAP کے حوالے کر دیے اور 2018 کی پالیسی کے تحت ان پر نظرِ ثانی کی ہدایت کی۔

ہمیشہ کی طرح، ہم نئی حکومت اور متعلقہ اسٹیک ہولڈرز کے ساتھ کارآمد پالیسیوں کے لیے شریکِ عمل رہیں گے۔ جس کی بدولت ہم صحتِ عامہ کے ماہرین و معالجین کو معیاری ادویات اور ویکسینز کی فراہمی کے اہل بن سکیں گے، تاکہ وہ اپنے مریضوں کے لیے بھرپور امید، تندرستی اور طویل زندگی کے حصول میں مدد دے سکیں۔

اعتراف نامہ:

بورڈ کی طرف سے، میں GSK اسٹاف کے عزم اور انتھک محنت کو خراجِ تحسین پیش کرتا ہوں۔ ان کی کاوشوں اور خلوص نے اس میعاد میں GSK کے مقاصد کی تکمیل میں اہم کردار ادا کیا۔

حسب الحکم بورڈ



ایم عزیز الحق

چیف ایگزیکٹو آفیسر

کراچی

13 اگست 2018

ڈائریکٹرز کا جائزہ:

میں GSK پاکستان لمیٹڈ کی غیر آڈٹ شدہ مالیاتی معلومات برائے نصف سال مختتمہ 30 جون 2018 کو پیش کرتے ہوئے انتہائی خوشی محسوس کر رہا ہوں۔ یہ مالیاتی معلومات، کمپنیز ایکٹ 2017 کے سیکشن 227 کے مطابق پیش کی جارہی ہیں۔

عملی کارکردگی کے نتائج کا جائزہ:

اس میعاد کے دوران، مشکل معاشی صورتحال کے باوجود کمپنی نے 17.2 بلین روپے کی خالص سیلز کا ہدف حاصل کیا۔ اس میں کمپنی کی جانب سے تخلیق کردہ پراڈکٹس، مارکیٹ سے منظوری کی زیرِ التوا منتقلی کے باعث گلیکسو اسمتھ کلائن کنزیومر ہیلتھ کیئر پاکستان لمیٹڈ کو، کی جانے والی 2.1 بلین روپے کی باہمی کمپنی کی سیلز شامل ہیں۔ اس سیلز سے قطع نظر، ہمارے بنیادی فارماسیوٹیکل بزنس نے 5 فیصد کی ترقی کے ساتھ 15.1 بلین روپے کی خالص سیلز حاصل کیں۔ ہمارے تجارتی کاروبار نے دُہرے اعداد کی گروتھ حاصل کی اور ہمارے اینٹی بایوٹکس، اینل جیسک، گیسٹر وانٹیسٹائنل اور ڈرمیٹالوجی کے بنیادی پورٹ فولیوز نے بھی مثبت گروتھ حاصل کی۔

زیرِ جائزہ ششماہی میں آپ کی کمپنی کے مجموعی منافع کی حد 26.1 فیصد رہی، جس میں مجموعی طور پر 115 ملین روپے کا اضافہ ہوا۔ ہمیں اس میعاد میں یکمشت ادائیگی کا تصفیہ بھی حاصل ہوا جو کہ طویل بنیادوں پر ہماری عملی کارکردگی کو مزید موثر بنانے میں اہم کردار ادا کرے گا۔ تاہم، فروخت شدہ اشیاء کی لاگت میں اضافے کے نتیجے میں حالیہ تخفیفِ مالیت کے باعث مجموعی منافع بدستور دباؤ کا حامل رہا۔

فروخت، مارکیٹنگ اور تقسیم کے اخراجات 1.7 بلین روپے ریکارڈ کیے گئے، جو کہ 15.7 فیصد کی گروتھ کے ساتھ 233 ملین روپے کا اضافہ ظاہر کرتے ہیں۔ یہ اضافہ، بنیادی طور پر یکمشت ادائیگی کے تصفیے، نقل وحمل کی لاگت میں اضافے اور ہماری پراڈکٹ کی تشہیر وفروغ پر کی گئی زیادہ سرمایہ کاری کے باعث ہوا۔ انتظامی اخراجات میں 39 ملین روپے کے اضافے کے ساتھ، پچھلے سال کی اسی میعاد کے مقابلے میں 8.1 فیصد کی گروتھ ریکارڈ کی گئی۔

دیگر آپریٹنگ آمدنی 232 ملین روپے رہی، جس میں 2017 کی چوتھی سہ ماہی میں ایک تھرڈ پارٹی کے گودام میں لگنے والی آگ کے باعث تباہ شدہ تشہیری سامان کے لیے 101 ملین روپے کے بیمے کا دعویٰ بھی شامل ہے۔

مجموعی طور پر آپ کی کمپنی نے 6.7 فیصد کی کمی کے ساتھ 1.3 بلین روپے کا بعد از ٹیکس منافع حاصل کیا۔ تاہم، اگر صرف اس میعاد میں شامل یکمشت لاگتوں کو خارج کر دیا جائے، تو ہمارے خالص منافع میں 3.6 فیصد کا اضافہ دیکھنے میں آیا۔

کمپنی، کاروباری ضرورت کے مطابق، حالیہ اشیاء کی تیاری کے طریقۂ کار (cGMP) سے ہم آہنگ رہتے ہوئے پلانٹ کے تجدیدی عمل کو جاری رکھے ہوئے ہے۔ اس میعاد میں مجموعی سرمایہ جاتی اخراجات 464 ملین روپے رہے۔ اس مدّت کے دوران کمپنی کے سرپلس فنڈز میں 993 ملین روپے کی کمی ہوئی جس کی بنیادی وجہ ڈیویڈنڈ کی ادائیگی تھی۔

آئندہ کا منظر نامہ اور پیش آمدہ معاملات

جیسا کہ ہمارے سابقہ سہ ماہی جائزوں میں بتایا جاچکا ہے، GSK کو ترقی وفروغ اور منافع کاری، دونوں لحاظ سے GSK کی ابھرتی ہوئی مارکیٹس میں ایک بنیادی ملک ہونے کے باعث پاکستان کے بزنس سے بلند توقعات وابستہ ہیں۔

مینجمنٹ ان توقعات پر پورا اترنے کے لیے تہِ دل سے کوشاں ہے۔ لہٰذا بیرونی کاروباری ماحول میں درجنوں ایسی مشکلات اور ارتقائی مراحل ہیں جو آپ کی کمپنی کی ترقی کا تعین کریں گے۔ ہم اس مدّت کے دوران پہلے ہی زرِ مبادلہ کی شرح میں مختلف النوع تصفیوں سے گزر چکے ہیں، جس نے ہماری پیداواری لاگت اور منافع پر اثر ڈالا ہے۔

اس کے علاوہ، حالیہ عام انتخابات کے نتیجے میں حکومت کی تبدیلی سے، ہمیں یہ دیکھنا ہوگا کہ معیشت کے استحکام اور نجی شعبے کی ترقی کے لیے کیا عزم اور حکمتِ عملی اپنائی جاتی ہے۔

سال کی پہلی ششماہی میں ایک اہم پیش رفت، ڈرگ پرائسنگ پالیسی برائے 2018 کا اعلامیہ تھا، جس کی بدولت 2015 کی پالیسی میں موجود بیشتر بے قاعدگیوں کو حل کرلیا گیا۔ تاہم بعض متنازع پہلوئی پالیسی میں برقرار ہیں اور ان میں تخفیف کے لیے انڈسٹری ریگولیٹر کے ساتھ کام کو جاری رکھے گی۔

عدالت میں جاری انسانی حقوق کے مقدمے میں، سپریم کورٹ آف پاکستان

INDEPENDENT AUDITORS' REVIEW REPORT TO THE MEMBERS OF GLAXOSMITHKLINE PAKISTAN LIMITED

Report on review of Interim Financial Statements

Introduction

We have reviewed the accompanying condensed interim statement of financial position of GlaxoSmithKline Pakistan Limited as at June 30, 2018 and the related condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity, and condensed interim statement of cash flows, and notes to the condensed interim financial statements for the half year then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review. The figures reported in the condensed interim statement of profit or loss and other comprehensive income for the quarter ended June 30, 2018 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2018.

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 interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Other matter

The interim financial statements for the half year ended June 30, 2017 and the annual financial statements of the Company for the year ended December 31, 2017 were reviewed and audited respectively by another firm of Chartered Accountants who expressed an unmodified conclusion and opinion respectively thereon vide their reports dated August 29, 2017 and March 22, 2018 respectively.

The engagement partner on the review resulting in this independent auditor's review report is Nadeem Yousuf Adil.

Deloitte Yousuf Adil
Chartered Accountants

Place: Karachi
Date: August 28, 2018

Condensed Interim Statement of Financial Position

As at June 30, 2018

Rupees '000	Note	(Un-audited) June 30, 2018	(Audited) December 31, 2017
ASSETS			
Non-current assets			
Fixed assets	4	8,992,482	8,865,334
Intangibles	5	1,039,072	1,039,072
Long-term loans to employees		80,350	91,422
Long-term deposits		22,204	22,204
		10,134,108	10,018,032
Current assets			
Stores and spares		197,501	219,613
Stock-in-trade	6	5,682,571	6,082,218
Trade debts		2,864,872	2,362,703
Loans and advances		401,188	453,116
Trade deposits and prepayments		240,917	131,920
Interest accrued		-	3,182
Refunds due from government		45,531	30,113
Other receivables		306,235	251,325
Investment at amortised cost	7	-	348,810
Cash and bank balances	8	1,175,137	1,818,900
		10,913,952	11,701,900
Assets of disposal groups classified as held for sale / disposal	9	8,000	154,000
Total assets		21,056,060	21,873,932
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital		3,184,672	3,184,672
Reserves		10,333,630	10,277,185
		13,518,302	13,461,857
LIABILITIES			
Non-current liabilities			
Staff retirement benefits		313,924	294,031
Deferred taxation	10	456,661	536,886
		770,585	830,917
Current liabilities			
Trade and other payables	11	5,986,199	6,627,166
Taxation - provision less payments		645,067	542,221
Provisions	12	135,907	411,771
		6,767,173	7,581,158
Liabilities directly associated with disposal groups classified as held for sale / disposal.	9	-	-
Total liabilities		7,537,758	8,412,075
Contingencies and commitments	13		
Total equity and liabilities		21,056,060	21,873,932

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

M. Azizul Huq	Abdul Samad	Sohail Matin
Chief Executive Officer	Chief Financial Officer	Director

Condensed Interim Statement of Profit or Loss Account and Other Comprehensive Income

For the half year ended June 30, 2018 (Un-audited)

Rupees '000	Note	Quarter ended June 30, 2018	Quarter ended June 30, 2017	Half year ended June 30, 2018	Half year ended June 30, 2017
Continuing Operations:					
Net sales	14	8,101,554	7,819,237	17,224,111	16,208,185
Cost of sales		(6,259,881)	(5,689,595)	(12,725,298)	(11,824,067)
Gross profit		1,841,673	2,129,642	4,498,813	4,384,118
Selling, marketing and distribution expenses	15	(822,312)	(731,795)	(1,710,735)	(1,478,058)
Administrative expenses		(275,015)	(244,454)	(521,954)	(482,952)
Other operating expenses		(81,059)	(114,013)	(204,042)	(222,013)
Other income	16	178,899	207,906	232,102	294,599
Operating profit		842,186	1,247,286	2,294,184	2,495,694
Financial charges		(22,088)	(5,549)	(71,239)	(9,761)
Profit before taxation		820,098	1,241,737	2,222,945	2,485,933
Taxation	17	(430,553)	(607,937)	(918,660)	(1,027,937)
Profit after taxation from continuing operations		389,545	633,800	1,304,285	1,457,996
Discontinued operations:					
Profit / (loss) after taxation from discontinued operations	9	26,029	(26,556)	26,029	(31,721)
Profit for the period		415,574	607,244	1,330,314	1,426,275
Other comprehensive income		-	-	-	-
Total comprehensive income		415,574	607,244	1,330,314	1,426,275
Earnings per share	18				
- continuing operations		Rs. 1.22	Rs. 1.99	Rs. 4.10	Rs. 4.58
- discontinued operations		Re. 0.08	Re. (0.08)	Re. 0.08	Re. (0.10)
		Rs. 1.30	Rs. 1.91	Rs. 4.18	Rs. 4.48

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

M. Azizul Huq
Chief Executive Officer

Abdul Samad
Chief Financial Officer

Sohail Matin
Director

Condensed Interim Statement of Cash Flows

For the half year ended June 30, 2018 (Un-audited)

Rupees '000	Note	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	19	1,399,277	711,710
Staff retirement benefits paid		(107,255)	(52,416)
Income taxes paid		(880,010)	(661,382)
Increase in long-term loans to employees		11,072	(21,064)
Net cash generated from / (used in) operating activities		423,084	(23,152)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(463,645)	(484,985)
Proceeds from sale of operating assets		183,473	51,830
Net cash used in investing activities		(280,172)	(433,155)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(1,135,485)	(387,544)
Net cash used in financing activities		(1,135,485)	(387,544)
Net decrease in cash and cash equivalents		(992,573)	(843,851)
Cash and cash equivalents at beginning of the period		2,167,710	4,309,511
Cash and cash equivalents at end of the period	20	1,175,137	3,465,660

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

M. Azizul Huq
Chief Executive Officer

Abdul Samad
Chief Financial Officer

Sohail Matin
Director

Condensed Interim Statement of Changes in Equity

For the half year ended June 30, 2018 (Un-audited)

Rupees '000	Share capital	Reserves: Capital reserves: Reserve arising on Schemes of Arrangements	Reserves: Revenue Reserves: General reserve	Reserves: Revenue Reserves: Unappropriated profit	Total Reserves	Total
Balance as at January 1, 2017	3,184,672	1,126,923	3,999,970	5,231,220	10,358,113	13,542,785
Final dividend for the year ended December 31, 2016 @ Rs. 6 per share	-	-	-	(1,910,804)	(1,910,804)	(1,910,804)
Total comprehensive income for the half year ended June 30, 2017	-	-	-	1,426,275	1,426,275	1,426,275
Balance as at June 30, 2017	3,184,672	1,126,923	3,999,970	4,746,691	9,873,584	13,058,256
Balance as at January 1, 2018	3,184,672	1,126,923	3,999,970	5,150,292	10,277,185	13,461,857
Final dividend for the year ended December 31, 2017 @ Rs. 4 per share	-	-	-	(1,273,869)	(1,273,869)	(1,273,869)
Total comprehensive income for the half year ended June 30, 2018	-	-	-	1,330,314	1,330,314	1,330,314
Balance as at June 30, 2018	3,184,672	1,126,923	3,999,970	5,206,737	10,333,630	13,518,302

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

M. Azizul Huq	Abdul Samad	Sohail Matin
Chief Executive Officer	Chief Financial Officer	Director

1 THE COMPANY AND ITS OPERATIONS

1.1 GlaxoSmithKline Pakistan Limited (the Company) is incorporated in Pakistan as a limited liability company and is listed on the Pakistan Stock Exchange Limited. It is primarily engaged in the manufacturing and marketing of research based ethical specialties and other pharmaceutical products. The registered office of the Company is situated at 35 - Dockyard Road, West Wharf, Karachi-74000.

The Company is a subsidiary of S.R. One International B.V., Netherlands, whereas its ultimate parent company is GlaxoSmithKline plc, UK (GSK plc).

1.2 Due to the pending transfer of marketing authorisations and certain permissions for Over the Counter (OTC) products of GlaxoSmithKline Consumer Healthcare Pakistan Limited (GSK CH) with Drug Regulatory Authority of Pakistan (DRAP), the Company, for and on behalf of GSK CH is engaged in the procurement, manufacturing, marketing and managing the related inventory and receivable balances pertaining to such products against a service fee charged by the Company.

2. BASIS OF PREPARATION

2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard 34: 'Interim Financial Reporting' (IAS 34), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

The Companies Act, 2017 was enacted on May 30, 2017, and came into force at once. Subsequently, the Securities and Exchange Commission of Pakistan (the SECP) notified through Circular no. 23 of 2017 that companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Therefore, the Company has considered the requirements of the Companies Act, 2017 in the preparation of these condensed interim financial statements.

2.2 The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of IAS 34. These condensed interim financial statements do not include all the information and disclosures required in a full set of financial statements and should be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2017.

3. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES, ESTIMATES AND JUDGEMENTS

3.1 Significant accounting policies

3.1.1 The significant accounting policies and the methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual audited financial statements of the Company for the year ended December 31, 2017 except for the changes in accounting policies as stated in note 3.1.4 below.

3.1.2 Taxes on income are accrued using the average tax rate that is expected to be applicable to the full financial year.

3.1.3 Actuarial valuations are carried out on annual basis. The last actuarial valuation was carried out on December 31, 2017, therefore, no impact for actuarial gain / loss has been calculated for the current period and comparative condensed interim financial statements have also not been adjusted for the same reason.

3.1.4 Changes in accounting policies due to early adoption of certain standards

The following changes in accounting policies have taken place effective from January 1, 2018:

(a) IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments (IFRS 9) replaced the majority of IAS 39 - Financial Instruments: Recognition and Measurement

(IAS 39) and covers the classification, measurement and de-recognition of financial assets and financial liabilities and requires all fair value movements on equity investments to be recognised either in the profit or loss or in other comprehensive income, on a case-by-case basis, and also introduced a new impairment model for financial assets based on expected losses rather than incurred losses and provides a new hedge accounting model.

The Company has early adopted IFRS 9 by applying the modified retrospective approach according to which the Company is not required to restate the prior year results. There is no material impact of adoption of IFRS 9 on opening equity of the Company.

The impact of the adoption of IFRS 9 has been in the following areas:

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it replaces the previous IAS 39 categories for financial assets i.e. loans and receivables, fair value through profit or loss (FVTPL), available for sale and held to maturity with the categories such as amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVTOCI).

There is no significant impact of IFRS 9 on the classification and measurement of financial assets for the period ended June 30, 2018 other than that loans and receivables and held to maturity investments are classified under the category of amortised cost. Under IFRS 9, the classification of financial assets is based on the objective of the entity's business model that is the Company's objective is to hold assets only to collect cash flows, or to collect cash flows and to sell ("the Business Model test") and the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding ("the SPPI test").

(ii) Hedge accounting

IFRS 9 requires that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

There is no impact of the said change on these condensed interim financial statements as there is no hedge activity carried on by the Company during the period ended June 30, 2018.

(iii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model of IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either of the following basis:

– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company has elected to measure provision against financial assets on the basis of lifetime ECLs.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due in case of private sector customers and 720 days in case of public sector customers. Further, the Company considers the impact of forward looking information (such Company's internal factors and economic environment of the country of customers) on ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity and the cash flows that the Company expects to receive).

Presentation of impairment

Provision against financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the new impairment model

For assets within the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at January 01, 2018 does not have a material impact on provision for doubtful debts measured under IAS 39.

(b) IFRS 15 - Revenue from contracts with customers

IFRS 15 - Revenue from contracts with customers (IFRS 15) replaced IAS 18 - Revenue, IAS 11 - Construction contracts, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue - Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers and focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations in a contract are satisfied. The Company has early adopted IFRS 15 by applying the modified retrospective approach according to which the Company is not required to restate the prior year results. However, the adoption of IFRS 15 does not have any impact on the reported revenue of the Company for the period ended June 30, 2018.

3.2 Financial risk management

The Company's financial risk management objective and policies are consistent with those disclosed in the annual audited financial statements of the Company for the year ended December 31, 2017.

3.3 Fair value of financial assets and liabilities

The carrying value of financial assets and financial liabilities reported in these condensed interim financial statements approximates their fair values.

3.4 Estimates and judgments

Estimates and judgments made by management in the preparation of these condensed interim financial statements are same as those applied in the preparation of the annual audited financial statements of the Company for the year ended December 31, 2017.

Rupees '000	(Un-audited) June 30, 2018	(Audited) December 31, 2017
4. FIXED ASSETS		
Operating assets	6,207,094	6,270,004
Capital work-in-progress	2,617,326	2,487,470
Major spare parts and standby equipments	168,062	107,860
	8,992,482	8,865,334

4.1 Details of additions to and disposals of fixed assets are as follows:

		Half year ended June 30, 2018		Half year ended June 30, 2017	
		Un-audited		Un-audited	
Rupees '000		Additions - at cost	Disposals - at net book value	Additions - at cost	Disposals - at net book value
Operating assets					
Improvements on buildings		30,261	48	38,772	223
Plant and machinery		108,933	1,010	147,856	7,631
Furniture and fixtures		11,058	-	13,820	-
Vehicles		67,269	15,496	98,038	26,810
Office equipments		56,066	423	46,842	883
		273,587	16,977	345,328	35,547
Capital work-in-progress	4.1.1	129,856	-	107,800	-
Major spare parts and stand-by equipments	4.1.1	60,202	-	30,529	15,511
		463,645	16,977	483,657	51,058

4.1.1 Additions are net of transfers.

Rupees '000	(Un-audited) June 30, 2018	(Audited) December 31, 2017
5. INTANGIBLES		
Goodwill	955,742	955,742
Marketing authorisation rights	83,330	83,330
	1,039,072	1,039,072
6. STOCK-IN-TRADE		
Raw and packing materials	3,457,457	3,528,994
Work-in-process	449,744	566,707
Finished goods	2,158,560	2,304,420
	6,065,761	6,400,121
Less: Provision for slow moving, obsolete and damaged stock	(383,190)	(317,903)
	5,682,571	6,082,218

6.1 Stock-in-trade includes items costing Rs. 2.05 billion (December 31, 2017: Rs. 1.87 billion) valued at net realisable value of Rs. 1.89 billion (December 31, 2017: Rs. 1.61 billion).

6.2 Stock of Rs. 19.4 million (December 31, 2017: Rs. 90.03 million) have been written off against provision during the period.

Rupees '000	Un-audited June 30, 2018	Audited December 31, 2017
7. INVESTMENT AT AMORTISED COST		
3 months treasury bills - at amortised cost	-	348,810
8. CASH AND BANK BALANCES		
With banks		
- on deposit accounts	-	1,250,000
- on PLS savings accounts	815,461	463,306
- on current accounts	251,783	105,384
	1,067,244	1,818,690
Cash and cheques in hand	107,893	210
	1,175,137	1,818,900

9. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

9.1 Profit / (loss) after taxation from discontinued operations:

		Quarter ended - Un-audited		Half year ended - Un-audited	
Rupees '000	Note	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net sales		-	3,477	-	60,648
Cost of sales		-	(26,307)	-	(82,232)
Gross loss		-	(22,830)	-	(21,584)
Selling marketing and distribution expenses		-	-	-	(6,411)
Other operating income	9.1.1	10,000	-	10,000	-
Profit / (loss) before taxation		10,000	(22,830)	10,000	(27,995)
Taxation		16,029	(3,726)	16,029	(3,726)
Profit / (loss) after Taxation		26,029	(26,556)	26,029	(31,721)

9.1.1 This represents gain on the sale of land along with building and other assets located at Sundar Industrial Estate, Lahore at a total negotiated sale proceed of Rs.164 million.

9.2 Assets and liabilities of disposal group classified as discontinued operations:

Rupees '000	Un-audited June 30, 2018	Audited December 31, 2017
Assets		
Fixed assets	-	154,000
Other receivables	8,000	-
Total assets / Net assets	8,000	154,000

Rupees '000	Un-audited June 30, 2018	Un-audited June 30, 2017
9.3 Cash flows relating to discontinued operations for the half year ended:		
Net cash (used in) / generated from operating activities	(8,000)	6,823
Net cash generated from investing activities	164,000	-

Rupees '000	Un-audited June 30, 2018	Audited December 31, 2017
10. DEFERRED TAXATION		
Deferred tax liability on taxable temporary differences		
Accelerated tax depreciation allowances	707,225	786,812
Deferred tax asset on deductible temporary differences		
Provision for doubtful debts, other receivables and refunds due from government	(63,505)	(65,488)
Provision for trade deposits and doubtful advances	(14,243)	(15,114)
Provision for slow moving & obsolete stock and stores & spares	(93,212)	(90,199)
Staff retirement benefits	(79,604)	(79,125)
	(250,564)	(249,926)
	456,661	536,886
11. TRADE AND OTHER PAYABLES		
Creditors and bills payable	1,588,852	1,768,690
Accrued liabilities	2,555,634	3,451,541
Others	1,841,713	1,406,935
	5,986,199	6,627,166

11.1 This includes amount due to associated companies amounting to Rs. 891.92 million (December 31, 2017: Rs. 1,289 million) respectively.

Rupees '000	Un-audited June 30, 2018	Audited December 31, 2017
12. PROVISIONS		
Balance at beginning of the period / year	411,771	192,739
Charge for the period	195,605	352,556
Payments during the period	(471,469)	(133,524)
Balance at end of the period / year	135,907	411,771

12.1 Provisions include restructuring costs and government levies of Rs. 59.37 million and Rs. 76.54 million (December 31, 2017: Rs. 244.01 million and Rs. 167.76 million) respectively.

13. CONTINGENCIES AND COMMITMENTS

13.1 Following is the change in the status of contingencies as reported in note 22.1 of the annual financial statements for the year ended December 31, 2017:

(i) In respect of the matter reported in note 22.1 (a) (ix), the Commissioner Inland Revenue - Appeals (CIR-A) on Company's appeal has annulled the set-aside order and demand for default of non-withholding of tax under section 156 along with default surcharge has been deleted. The tax department has filed an appeal before the Appellate Tribunal Inland Revenue (ATIR) against the decision of CIR-A which is pending for hearing.

(ii) In respect of tax years 2014 and 2015, the Deputy Commissioner Inland Revenue (DCIR) passed orders under section 161/205 to pay tax under section 137(2) for tax applicable under section 236(A) amounting to Rs. 6.9 million and Rs. 8 million respectively. The Company challenged the orders of DCIR in appeal before CIR-A which is pending for decision.

13.2 Commitments for capital expenditure outstanding as at June 30, 2018, amounted to Rs. 605.75 million (December 31, 2017: Rs. 506.19 million).

14. NET SALES

14.1 The net sales include sales of Over the Counter Products amounting to Rs. 2.16 billion (June 30, 2017: Rs. 1.89 billion) to GSK Consumer Healthcare Pakistan Limited being manufactured by the Company due to pending transfer of marketing authorisations by Drug Regulatory Authority of Pakistan ('DRAP') as disclosed in note 1.

14.2 During the year ended December 31, 2015, the Drug Regulatory Authority of Pakistan (DRAP) issued the Drug Pricing Policy 2015 (the Policy) through a notification dated March 5, 2015. Under the Policy, pending hardship cases were to be decided within a period of nine months from the date of notification of the Policy. Prior to the promulgation of the Policy, the Company had submitted applications for hardship price increase in respect of certain products.

The Company increased prices of its certain products since DRAP did not decide on the hardship cases within the stipulated period of nine months as per Drug Pricing Policy and filed a suit before the High Court of Sindh (SHC) in order to seek relief on the hardship price increase. The SHC passed an interim injunction order in this regard, and accordingly notified to DRAP and Federation of Pakistan not to take any coercive action against the Company in respect of hardship price increases.

On December 19, 2016, SHC passed Judgement in respect of the hardship price increase case (the Judgement). The DRAP, in pursuance of the said Judgement issued a letter on December 28, 2016 requiring the companies to recall all the products from the market on which the companies had availed the hardship price increase. The Company, based on legal advice, believes that there are certain ambiguities in the Judgment and has filed an Appeal against the Judgement before the SHC in respect of which the SHC has passed an interim injunction order and notified to DRAP and Federation of Pakistan not to take any coercive action against the Company. As a recent development, Supreme Court of Pakistan (SCP) had lifted all drug pricing related cases of all the companies from SHC and have passed the final order on August 3, 2018 in the following terms:

- All Hardship cases decided by DRAP order under the Drug pricing policy 2015 where no objection filed by the company is settled.

- Remaining hardship applications of the company shall be decided by DRAP within 10 weeks under the new Drug pricing policy 2018, which is already notified.

The management believes that there are strong grounds to support the stance of the Company on hardship price increase of the remaining applications.

15. SELLING, MARKETING AND DISTRIBUTION EXPENSES

This includes advertising and sales promotion expenses of Rs. 332.79 million (June 30, 2017: Rs. 320.13 million).

Notes to the Condensed Interim Financial Statements
For the half year ended June 30, 2018 (Un-audited)

16. OTHER INCOME

Rupees '000	Note	Quarter ended - Un-audited June 30, 2018	Quarter ended - Un-audited June 30, 2017	Half year ended - Un-audited June 30, 2018	Half year ended - Un-audited June 30, 2017
Income from financial assets		19,771	42,198	48,751	99,880
Gain on disposal of operating assets		1,251	14,927	1,251	16,426
Scrap sales		8,815	4,798	19,026	17,404
Liabilities no longer payable written back		8,119	145,983	8,119	145,983
Insurance claim recovery	16.1	127,042	-	127,042	-
Others		13,901	-	27,913	14,906
		178,899	207,906	232,102	294,599

16.1 This includes insurance claim recovery of Rs.101.51 million received in the current period against the promotional material destroyed in 2017 at one of the third party warehousing facilities.

17. TAXATION

17.1 This includes current period charge of super tax amounting to Rs. 54 million (June 30, 2017: Nil) and prior year charge amounting to Rs. 166.29 million (June 30, 2017: Rs. 159 million) imposed for the rehabilitation of temporarily displaced persons under section 4B of the Income Tax Ordinance, 2001 (as inserted by Finance Act 2015 and amended by Finance Act 2016, Finance Act 2017 and Finance Act 2018).

Rupees '000	Un-audited June 30, 2018	Un-audited June 30, 2017
18. EARNINGS PER SHARE		
Profit after taxation from continuing operations	1,304,285	1,457,996
Profit / (loss) after taxation from discontinued operation	26,029	(31,721)
	-------- Number of shares --------	
Weighted average number of shares outstanding during the period	318,467,278	318,467,278
Earnings per share - continuing operations	Rs. 4.10	Rs. 4.58
Earnings / (loss) per share - discontinued operation	Rs. 0.08	Re. (0.10)
Earnings per share - basic	Rs. 4.18	Rs. 4.48

18.1 A diluted earnings per share has not been presented as the Company did not have any convertible instruments in issue which would have any effect on the earnings per share if the option to convert is exercised.

Rupees '000	Un-audited June 30, 2018	Un-audited June 30, 2017
19. CASH GENERATED FROM OPERATIONS INCLUDING DISCONTINUED OPERATIONS		
Profit before taxation	2,232,945	2,457,938
Add / (less): Adjustments for non-cash charges and other items		
Depreciation and impairment	318,275	487,008
Provision for slow moving obsolete and damaged stock-in-trade net of stock written off	34,313	24,678
Gain on disposal of operating fixed assets	(11,251)	(16,283)
Provision for staff retirement benefits	127,148	105,345
Profit before working capital changes	2,701,430	3,058,686
Effect on cash flows due to working capital changes		
(Increase) / decrease in current assets:		
Stores and spares	22,112	(9,249)
Stock-in-trade	365,333	(335,010)
Trade debts	(502,168)	(1,022,697)
Loans and advances	51,928	(78,427)
Trade deposits and prepayments	(108,997)	(151,434)
Interest accrued	3,182	11,781
Refunds due from the government	(15,418)	19,049
Other receivables	(62,910)	(94,045)
	(246,938)	(1,660,032)
Increase / (decrease) in current liabilities		
Trade and other payables	(779,351)	(700,049)
Provisions	(275,864)	13,105
	(1,302,153)	(2,346,976)
	1,399,277	711,710

Rupees '000	Un-audited June 30, 2018	Audited December 31, 2017	Un-audited June 30, 2017
20. CASH AND CASH EQUIVALENTS			
Cash and bank balances	1,175,137	1,818,900	3,216,429
Investment at amortised cost	-	348,810	249,231
	1,175,137	2,167,710	3,465,660

Notes to the Condensed Interim Financial Statements
For the half year ended June 30, 2018 (Un-audited)

21. TRANSACTIONS WITH RELATED PARTIES

The related parties include associated companies, directors and key management personnel of the Company. The transactions with related parties are carried out in the normal course of business at contracted rates. Details of transactions with related parties and balances with them at period end, other than those which have been disclosed elsewhere in these financial statements, are as follows:

Rupees '000		Un-audited June 30, 2018	Un-audited June 30, 2017
21.1 Details of transactions carried out during the period with the related parties are as follows:			
Relationship	**Nature of transactions**		
Holding company	Dividend	1,052,119	1,578,179
Associated companies:	a. Royalty expense charged	155,470	102,245
	b. Purchase of goods	2,108,104	2,771,060
	c. Sale of goods	2,189,942	1,929,203
	d. Recovery of expenses	60,407	60,407
	e. Service fee	6,000	6,000
	f. Sales as an agent of GSK CH	2,956,794	2,853,342
Staff retirement funds:	a. Expense charged for retirement benefit plans	126,950	109,227
	b. Payments to retirement benefit plans	112,783	56,298
Key management personnel:	a. Salaries and other employee benefits	165,164	116,478
	b. Post employment benefits	9,824	7,467
	c. Proceeds from sale of fixed assets	1,620	3,102

Rupees '000	Un-audited June 30, 2018	Audited December 31, 2017
21.2 Details of outstanding balances as at period / year end with the related parties are as follows:		
Associated Companies:		
Trade debts	669,576	308,907
Other receivable	259,918	156,860
Trade and other payables	891,922	1,288,610
Staff retirement benefits (Payable)	313,924	294,031

22. FAIR VALUE MEASUREMENTS

IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of all the financial instruments reflected in these financial statements approximate their fair value. IFRS 13 requires categorization of fair value measurements into different levels of fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company does not have any financial assets and liabilities measured at fair value. The carrying values of all the financial assets and financial liabilities reported in the balance sheet approximate their fair values.

23. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were approved and authorised for issue by the Board of Directors of the Company on August 13, 2018.

M. Azizul Huq	Abdul Samad	Sohail Matin
Chief Executive Officer	Chief Financial Officer	Director

GlaxoSmithKline Pakistan Limited
35 - Dockyard Road, West Wharf, Karachi - 74000
GlaxoSmithKline Pakistan Limited of a member of
GlaxoSmithKline group of Companies.

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