



do more  
feel better  
live longer

# By Doing What Matters

Third Quarter Report **2016**  
GlaxoSmithKline Pakistan Limited

# Corporate Information

## Board of Directors

Mr. Dylan Jackson  
*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. Nicolas Ragot  
*Non-Executive Director*

Mr. Sohail Ahmed  
*Non-Executive Director*

## Audit Committee

Mr. Husain Lawai  
*Chairman*

Mr. Mehmood Mandviwalla  
*Member*

Mr. Nicolas Ragot  
*Member*

Mr. Dylan Jackson  
*Member*

## Human Resource & Remuneration Committee

Mr. Mehmood Mandviwalla  
*Chairman*

Mr. Husain Lawai  
*Member*

Mr. M. Azizul Huq  
*Member*

Mr. Dylan Jackson  
*Member*

## Management Committee

Mr. M. Azizul Huq  
*Chief Executive Officer*

Mr. Abdul Samad  
*Chief Financial Officer*

Syed Azeem Abbas Naqvi  
*Cluster Legal Director - Pakistan and Iran*

Dr. Naved Masoom Ali  
*Director Medical Pakistan*

Mr. Khalid Mehmood Sethi  
*Business Unit Director*

Dr. Tariq Farooq  
*Business Unit Director*

Ms. Zainab Hameed  
*Head of IT*

Syed Muhammad Salman Haider  
*Director Commercial Excellence and  
Speciality Business Unit*

Dr. Gohar Nayab Khan  
*Director Regulatory Affairs*

Mr. Abdul Haseeb Pirzada  
*Head of Corporate Affairs and Administration*

Mr. Muhammad Arif Tahir  
*Director Commercial Trade Channel*

Mr. Ahmad Ali Zia  
*HR Cluster Head - Pakistan & Iran*



### **Company Secretary**

Syed Azeem Abbas Naqvi

### **Auditors**

A. F. Ferguson & Co.  
Chartered Accountants

### **Chief Financial Officer**

Mr. Abdul Samad

### **Legal Advisors**

Mandviwalla & Zafar  
Orr, Dignam & Co.  
RIAA Barker Gillette  
Vellani & Vellani

### **Chief Internal Auditor**

Mr. Talal Javed Ahmed

### **Registered Office**

35 - Dockyard Road, West Wharf,  
Karachi - 74000.

### **Bankers**

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

Tel: 92-21-111-475-725  
(111-GSK-PAK)  
Fax: 92-21-32314898, 32311122

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

# Our Vision, Mission & Values

## Our Vision

GSK's vision is inspiring:

*“ The opportunity to make a difference to millions of lives everyday ”*

At GSK we perform in unison by following our strong value system and ethical guidelines as a source of direction and inspiration to help achieve our vision.

Each and every member of the GSK family plays a vital role in improving the quality of human life. GSK's growth and development can be attributed to the contribution of the skills, talents and ideas of its people.

GSK follows its core values of respect for people, patient focused, transparency and integrity. We are proud of our commitment that enables us to enhance the quality of peoples' lives and helps us to provide them with quality products.

## Our Mission

GSK's quest is to improve the quality of human life by enabling people to

*“ Do more, feel better, live longer ”*

At GSK our mission acts as an underlying principle to whatever we do. We follow a legacy of great science and innovative healthcare that provides people around the world with healthier and fulfilled lives, every single day.

## Our Values

### Respect for People

We believe that respecting each other is the key to progress and growth for our business, employees and customers. Our employment practices are designed to create a culture, in which all GSK employees feel valued, empowered and inspired to achieve our goals.

### Patient Focused

Our commitment to our purpose of improving the lives of billions ensures that all our efforts, be it research, manufacturing or distribution are geared towards improving patient access to quality health solutions.

### Transparency

As our business evolves to meet global challenges, so do our existing systems for which transparency is integral. By being transparent about what we do and how, we earn and build trust.

### Integrity

Our guiding principles go beyond complying with legal and ethical regulations. Each member of the GSK family takes pride in doing what is right for the patients and consumers, placing them at the heart of every decision we make. In doing so, we demonstrate integrity in action, at every level, every day.

# Strategic Priorities

We are focused on the delivery of five strategic priorities to achieve our mission of helping people “Do more, Feel better, Live longer”.

Everyone at GSK has a role to play in delivering our strategic priorities:

## Grow a diversified, global business

We are creating a more balanced business with a wider global reach and broad portfolio. This expands access to our products and produces sustainable growth for our shareholders.



Grow a diversified, global strategy

## Create a culture of individual empowerment

We are building a culture where employees are empowered, united by our values and able to achieve great things.



Create a culture of individual empowerment

## Simplify the operating model

As our business continues to change shape, we are transforming how we operate so that we can reduce complexity and become more efficient. This is allowing us to free up resources to invest in other areas of the business and improve shareholder returns.



Simplify the operating model

## Deliver more products of value

We are investing in innovation to improve our ability to create new medicines, vaccines and consumer healthcare products that offer valuable improvements in treatment.



Deliver more products of value

## Building trust

We are committed to operating responsibly and ensuring that our behaviour and actions meet or exceed the expectations of society.



Build trust

# Chief Executive Officer's Review

*I am pleased to present your Company's un-audited financial information for the nine months ended September 30, 2016. This financial information is submitted in accordance with Section 245 of the Companies Ordinance, 1984.*

## Review of Operating Results

Net sales of the Company for the first nine months of 2016 was recorded at Rs. 19.9 billion, which includes sales of Rs 1.5 billion to GlaxoSmithKline Consumer Healthcare Pakistan Ltd on account of products manufactured by the Company, pending transfer of marketing authorization. Excluding this amount, our core pharmaceutical business delivered net sales of Rs 18.4 billion. Despite some supply challenges, the pharmaceutical business showed healthy underlying growth of 9%. This excludes export sales to Afghanistan, which were discontinued end December 2015.

Your Company's gross margin for these nine months was 26.8%. Excluding the impact of stock write off recorded in the previous quarter due to fire incident in June, the Gross margin showed improvement over the corresponding year on account of a better sales mix, consolidation of manufacturing operations and Hardship price increases.

Selling, marketing and distribution expenses were recorded at Rs 2 billion, a decrease of Rs 126 million, mainly due to a one-off provision for restructuring of our pharmaceutical business which was reported in 2015 and delivery of restructuring savings during this period.

Administrative expenses over this period were recorded at Rs 714m, a decrease by 1% over the corresponding period last year, mainly due to controlled spending and cost containment measures. Other income in this period was recorded at Rs 524 million, which primarily represents the insurance claim of stock loss due to the fire incident, as acknowledged by the Insurance Company. As compared to last year, other income declined by Rs 564 million. Higher other income reported in 2015 was mainly on account of sale of Lahore Factory.

Your Company posted a net profit after tax of Rs 1.6 billion. As stated above, the decrease in profit in the current year is mainly due to higher gain in the corresponding period last year from sales of Lahore factory. Excluding the gain from sale of the Lahore factory, the Company's net profit is showing an increase over last year.

Capital expenditure of Rs 1.3 billion was incurred over the current period (September 30, 2015: Rs 966 million). During this time, the Company invested in plant up-gradation and capacity enhancement initiatives at our Korangi manufacturing facility.

Over this period, the surplus funds of the company decreased by Rs 1.1 billion as compared to the year-end balance, mainly due to dividend payment of Rs.1.2 billion and payment of Rs. 0.8 billion to GlaxoSmithKline Consumer HealthCare Pakistan Ltd. This however was partly offset by an increase in cash from operations.

## Future outlook and Challenges

The Company maintained its focus on executing strategic priorities and will continue to invest in the development of new products as well as building on its diverse portfolio of existing brands.

As we have repeatedly mentioned, Pakistan's Pharma Industry is strategically positioned to contribute to the national interest by generating economic value in terms of providing quality medicines at affordable prices, domestic value addition, creating employment as well as significantly enhancing the country's export revenues.

The realization of this potential is greatly dependent on the efficiency of the regulatory authority as well as pragmatic policies supported by both the government and regulators. As a sector that requires high investment in technological upgrades as well as capacity building of the human capital, policies and practices that address the sustainability of the industry are critical. Equally important is the fair and consistent application of such policies so that the industry can plan its investments. Other regional countries have progressed significantly on this journey. We hope that our policymakers will pick the best practices and even set new standards that would be adopted by others. For this to happen, industry consultation in an environment of trust and mutual respect is essential. We remain committed to contribute to any such dialogue that will foster the growth of this important sector and realize its economic potential for the country.

## Acknowledgment:

On behalf of the Board I would like to place on record our appreciation for the commitment and passion demonstrated by the staff to help achieve the Company's objectives over this period.

By order of the Board



**M. Azizul Huq**  
Chief Executive Officer  
Karachi  
October 26, 2016

# Condensed Interim Balance Sheet

as at September 30, 2016

Rupees '000	Note	Un-audited September 30, 2016	Audited December 31, 2015
<b>NON-CURRENT ASSETS</b>			
Fixed assets	5	7,841,078	7,154,446
Intangibles	6	1,039,072	1,039,072
Long-term loans to employees		61,978	49,212
Long-term deposits		21,955	21,955
		8,964,083	8,264,685
<b>CURRENT ASSETS</b>			
Stores and spares		193,382	158,564
Stock-in-trade		5,661,948	4,707,918
Trade debts		554,483	328,948
Loans and advances		197,451	340,491
Trade deposits and prepayments		186,285	123,223
Interest Accrued		4,528	10,908
Refunds due from government		72,864	109,125
Other receivables		569,147	313,127
Taxation		-	531,579
Investments		396,469	695,586
Cash and bank balances		2,087,000	2,946,612
		9,923,557	10,266,081
<b>Assets of disposal groups classified as held for sale / disposal</b>	7.2	174,383	1,589,416
		19,062,023	20,120,182
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital		3,184,672	3,184,672
Reserves		9,344,390	9,885,539
		12,529,062	13,070,211
<b>NON-CURRENT LIABILITIES</b>			
Staff retirement benefits		15,089	15,861
Deferred taxation		655,115	630,681
		670,204	646,542
<b>CURRENT LIABILITIES</b>			
Trade and other payables		5,561,742	5,255,587
Taxation		75,306	-
Provisions	8	182,541	187,113
		5,819,589	5,442,700
<b>Liabilities of disposal groups classified as held for sale / disposal</b>	7.2	43,168	960,729
		6,532,961	7,049,971
<b>Contingencies and commitments</b>	9	-	-
		19,062,023	20,120,182

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

  
**M. Azizul Huq**  
 Chief Executive Officer

  
**Abdul Samad**  
 Chief Financial Officer

# Condensed Interim Profit and Loss Account

For the nine months ended September 30, 2016 (Un-audited)

Rupees '000	Note	Quarter ended		Nine Months ended	
		September 30, 2016	September 30, 2015 (Re-stated)	September 30, 2016	September 30, 2015 (Re-stated)
<b>CONTINUING OPERATIONS:</b>					
Net sales	10	7,000,606	5,824,243	19,917,071	17,500,805
Cost of sales		(5,076,897)	(4,180,182)	(14,587,606)	(12,716,322)
Gross profit		1,923,709	1,644,061	5,329,465	4,784,483
Selling, marketing and distribution expenses	11	(691,430)	(670,113)	(2,046,798)	(2,173,099)
Administrative expenses		(223,507)	(250,955)	(714,320)	(723,199)
Other operating expenses		(113,268)	(122,787)	(251,189)	(230,629)
Other income	12	327,952	924,320	524,478	1,088,357
Operating profit		1,223,457	1,524,526	2,841,637	2,745,913
Financial charges		(5,633)	(44,138)	(14,231)	(54,066)
Profit before taxation		1,217,824	1,480,388	2,827,406	2,691,847
Taxation	13	(506,914)	(236,975)	(1,181,963)	(722,850)
Profit after taxation from continuing operations		710,909	1,243,413	1,645,442	1,968,997
<b>DISCONTINUED OPERATIONS:</b>					
Profit after taxation from discontinuing operations	7.1	5,777	55,309	144,593	162,614
		716,686	1,298,722	1,790,035	2,131,611
<b>Other comprehensive income</b>		-	-	-	-
<b>Total comprehensive income</b>		716,686	1,298,722	1,790,035	2,131,611
<b>Earnings per share - basic</b>					
- continuing operations	14	Rs. 2.23	Rs. 3.90	Rs. 5.17	Rs. 6.19
- discontinued operations		Re. 0.02	Re. 0.17	Re. 0.45	Re. 0.51
		Rs. 2.25	Rs. 4.07	Rs. 5.62	Rs. 6.70

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

  
**M. Azizul Huq**  
 Chief Executive Officer

  
**Abdul Samad**  
 Chief Financial Officer

# Condensed Interim Cash Flow Statement

For the nine months ended September 30, 2016 (Un-audited)

Rupees '000	Note	September 30, 2016	September 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	15	2,722,693	2,782,743
Staff retirement benefits paid		(68,311)	(63,030)
Taxes paid		(626,809)	(725,726)
(Increase)/Decrease in long-term loans to employees		(12,839)	6,825
Net cash generated from operating activities		2,014,734	2,000,812
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(1,274,279)	(966,249)
Proceeds from sale of operating assets		65,339	980,589
Net cash (used)/generated from investing activities		(1,208,940)	14,340
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(1,195,630)	(1,496,622)
Cash transferred to GlaxoSmithKline Consumer Healthcare Pakistan Limited		(768,893)	-
Net cash used in financing activities		(1,964,523)	(1,496,622)
Net (decrease)/increase in cash and cash equivalents		(1,158,729)	518,530
Cash and cash equivalents at the beginning of the period		3,642,198	2,652,111
Cash and cash equivalents at the end of the period	16	2,483,469	3,170,641

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

  
**M. Azizul Haq**  
 Chief Executive Officer

  
**Abdul Samad**  
 Chief Financial Officer

# Condensed *Interim* Statement of Changes in Equity

For the nine months ended September 30, 2016 (Un-audited)

	Share Capital	Reserves			Total
		Capital	Revenue		
			Reserve arising on amalgamation	General reserve	
Rupees '000					
<b>Balance as at January 1, 2015</b>	3,184,672	2,184,238	3,999,970	2,576,223	11,945,103
Final dividend for the year ended December 31, 2014 @ Rs. 5 per share	-	-	-	(1,592,335)	(1,592,335)
Total comprehensive income for the nine months ended September 30, 2015	-	-	-	2,131,611	2,131,611
Balance as at September 30, 2015	<u>3,184,672</u>	<u>2,184,238</u>	<u>3,999,970</u>	<u>3,115,499</u>	<u>12,484,379</u>
<b>Balance as at January 1, 2016</b>	3,184,672	2,184,238	3,999,970	3,701,331	13,070,211
Final dividend for the year ended December 31, 2015 @ Rs. 4 per share	-	-	-	(1,273,869)	(1,273,869)
Transfer to GlaxoSmithKline Consumer Healthcare Pakistan Limited pursuant to the Scheme - note 1.1 & 7.3	-	(1,057,315)	-	-	(1,057,315)
Total comprehensive income for the nine months ended September 30, 2016	-	-	-	1,790,035	1,790,035
<b>Balance as at September 30, 2016</b>	<u>3,184,672</u>	<u>1,126,923</u>	<u>3,999,970</u>	<u>4,217,497</u>	<u>12,529,062</u>

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.

  
**M. Azizul Huq**  
 Chief Executive Officer

  
**Abdul Samad**  
 Chief Financial Officer

# Selected Notes *to and* Forming Part of the Condensed Interim Financial Statements

*For the nine months ended September 30, 2016 (Un-audited)*

## 1. THE COMPANY AND ITS OPERATIONS

The Company is incorporated in Pakistan as a limited liability company and is listed on the Pakistan Stock Exchange. It is engaged in manufacturing and marketing of research based ethical specialties and other pharmaceutical products.

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

### 1.1. DISCONTINUED OPERATION

Consequent to the submission of order of the High Court approving the Scheme of Arrangement for de-merger of the Company to the Registrar of Companies on April 1, 2016, assets and liabilities of Consumer Healthcare Division as at March 31, 2016, as detailed in note 7.3 to this condensed interim financial information, were transferred to GlaxoSmithKline Consumer Healthcare Pakistan Limited. Accordingly the same is presented as discontinued operations for the period January 1 to March 31, 2016 in this condensed interim financial information.

## 2 BASIS OF PREPARATION

This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

The condensed interim financial information should be read in conjunction with the financial statements for the year ended December 31, 2015.

### 2.1 CHANGES IN ACCOUNTING STANDARDS, INTERPRETATIONS AND PRONOUNCEMENTS

#### a) Standards, interpretations and amendments to published approved accounting standards that are effective and relevant

Following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after January 1, 2016, and are considered to be relevant to the Company's operations.

IAS 1, 'Presentation of financial statements' aims to improve presentation and disclosure in financial statements by emphasising the importance of understandability, comparability and clarity in presentation.

The amendments provide clarification on a number of issues, including:

- Materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- Other Comprehensive Income (OCI) - arising from investments accounted for under the equity method - the share of the OCI arising from equity - accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of comprehensive income.

The change will impact the disclosures of the Company's annual financial statements.

**b) Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant**

Except as stated above, the new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2016, are considered not to be relevant for Company's financial statements and hence have not been detailed here.

**c) Standards, interpretations and amendments to published approved accounting standards that are not effective**

The new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2017, are considered not to be relevant for Company's financial statements and hence have not been detailed here.

**3. ACCOUNTING POLICIES**

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2015.

- 3.1** Taxes on income are accrued using tax rate that would be applicable to the full financial year.
- 3.2** Actuarial valuations are carried out on annual basis. The last actuarial valuation was carried out on December 31, 2015, therefore, no impact has been calculated for the current period and comparative condensed financial information has also not been adjusted for the same reason.
- 3.3** Non-current assets (or disposal groups) are classified as assets held for sale when sale / distribution is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

**4. ACCOUNTING ESTIMATES, JUDGEMENTS AND FINANCIAL RISK MANAGEMENT**

The preparation of condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgements and estimates made by the management in the preparation of this condensed interim financial information are the same as those that were applied to financial statements as at and for the year ended December 31, 2015.

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, 2015.

Rupees '000	Un-audited September 30, 2016	Audited December 31, 2015
<b>5. FIXED ASSETS</b>		
Operating assets - note 5.1	5,614,851	5,387,352
Capital work-in-progress	2,146,531	1,686,580
Major spare parts and stand-by equipments - note 5.1	79,696	80,514
	7,841,078	7,154,446

# Selected Notes to and Forming Part of the Condensed Interim Financial Statements

For the nine months ended September 30, 2016 (Un-audited)

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

Rupees '000	Additions (at cost)		Disposals (at net book value)	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Improvements on buildings	41,268	25,959	-	-
Plant and machinery	451,917	120,926	7,995	5,391
Furniture and fixtures	12,048	1,615	1,185	9
Vehicles	168,604	114,444	38,738	69,987
Office equipments	26,245	23,134	74	1,994
Major spare parts and standby equipments	6,307	24,045	8,023	27,106
	706,389	310,123	56,015	104,487

## 6. INTANGIBLES

Rupees '000	Un-audited September 30, 2016	Audited December 31, 2015
Goodwill	955,742	955,742
Marketing authorisation rights	83,330	83,330
	1,039,072	1,039,072

## 7. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Rupees '000	Quarter ended		Nine months ended	
	September 30, 2016	September 30, 2015 (Re-stated)	September 30, 2016	September 30, 2015 (Re-stated)
<b>7.1 Profit after taxation from discontinued operations:</b>				
Net Sales	55,950	1,418,720	1,772,466	4,083,681
Cost of sales	(46,383)	(984,189)	(1,125,758)	(2,815,740)
Gross profit	9,567	434,531	646,708	1,267,941
Selling, marketing and distribution expenses	-	(298,319)	(391,035)	(871,449)
Administrative expenses	-	(29,900)	(22,339)	(71,357)
Other operating expenses	(945)	(7,978)	(17,811)	(25,371)
Profit before taxation	8,622	98,334	215,523	299,764
Taxation	(2,845)	(43,025)	(70,930)	(137,150)
Profit after taxation	5,777	55,309	144,593	162,614

Rupees '000	Un-audited September 30, 2016	Audited December 31, 2015
<b>7.2 Assets and liabilities of disposal group classified as discontinued operations:</b>		
<b>ASSETS</b>		
Fixed assets	-	41,173
Long-term loans to employees	-	622
Deferred taxation	-	6,758
Stock-in-trade	174,383	1,245,385
Trade debts	-	191,322
Loans and advances	-	44,371
Other receivables	-	59,785
Total assets	<u>174,383</u>	<u>1,589,416</u>
<b>LIABILITIES</b>		
Trade and other payables	43,168	960,729
Net assets	<u>131,215</u>	<u>628,687</u>

**7.2.1** Net assets of the discontinued operations includes the Oncology business of the Company as at September 30, 2016. Net assets of the discontinued operations as at December 31, 2015 includes the Oncology business and the Consumer Healthcare Division as detailed in note 1.1.

**7.3** As mentioned in note 1.1, following assets and liabilities of Consumer Healthcare Division as at March 31, 2016 were transferred to GlaxoSmithKline Consumer Healthcare Pakistan Limited pursuant to the Scheme of Arrangements for de-merger of the Company:

	Audited March 31, 2016
<b>ASSETS</b>	
Fixed assets	71,237
Deferred taxation	11,993
Long-term loans to employees	695
Stock-in-trade	662,743
Trade debts	233,219
Loans and advances	2,752
Other receivables	15,665
Cash and bank balances	768,893
Total assets	<u>1,767,197</u>
<b>LIABILITIES</b>	
Trade and other payables	709,882
Net assets	<u>1,057,315</u>

# Selected Notes *to and* Forming Part of the Condensed Interim Financial Statements

For the nine months ended September 30, 2016 (Un-audited)

Rupees '000	September 30, 2016	September 30, 2015
<b>7.4 Cash flows relating to discontinued operations for the nine months ended:</b>		
Net cash generated from operating activities	1,632,549	110,017
Net cash used in investing activities	(37,443)	(1,856)

Rupees '000	Un audited September 30, 2016	Audited December 31, 2015
<b>8 PROVISIONS</b>		
Balance at the beginning of the period	187,113	177,536
Charge for the period	79,675	262,793
Payments during the period	(84,247)	(253,216)
Balance at the end of the period	182,541	187,113

**8.1** Provisions include restructuring costs and government levies of Rs. 6.33 million and Rs. 176.21 million (December 31, 2015: Rs. 32.54 million and Rs. 154.57 million) respectively.

## 9. CONTINGENCIES AND COMMITMENTS

**9.1** Following is the change in the status of contingencies as reported in the financial statements for the year ended December 31, 2015:

### a) Income Tax

- (i) While finalising the assessments of the Company for tax year 2014 (accounting year December 31, 2013), the Deputy Commissioner Inland Revenue (DCIR) issued an order raising tax demand amounting to Rs. 134 million on the contention that the Company had allegedly paid excessive amount on account of royalty and certain imported raw materials. The Company has filed an appeal with the Commissioner of Inland Revenue Appeals (CIRA) in respect of the said matter.
- (ii) The tax department has initiated the set-aside proceedings of monitoring of withholding tax for the tax year 2012. In the said order the tax demand has been restricted amounting Rs. 15.5 million. Such demand has been made on the contention that the Company has not deducted tax @ 20% at the time of making payment on account of meetings and symposia under section 156 of Income Tax Ordinance 2001. The Company has filed an appeal before CIRA against the order of DCIR.
- (iii) As a result of monitoring proceedings of withholding tax for the tax year 2015 Assistant Commissioner Inland Revenue (ACIR) issued a notice under section 161 (1A) / 205 of the Income Tax Ordinance, 2001. Such notice has been issued with the contention that the Company has allegedly not deducted applicable withholding taxes under section 149, 150, 152, 153, 156, 233 and 236 (A) of the said Ordinance. The Company has filed a civil suit before the Honourable Sindh High Court against the said notice. The Honourable Sindh High Court has granted stay against the recovery proceeding
- (iv) As a result of audit of former GlaxoSmithKline Pharmaceutical (Private) Limited for the tax year 2010 (accounting year December 31, 2009), the Deputy Commissioner issued the show case notice under section 122(9)/177 of the Income Tax Ordinance, 2001. The Notice has been issued on contention that the company has paid excessive amounts for importing certain raw material and proration of expenses etc. Against the show cause notice, the company has filed for the stay in Sindh High Court on the basis that 2010 has become time barred. Sindh High Court has granted stay against the proceedings.

The management, based on advice of its legal counsel, is confident that the ultimate decision in the above cases will be in favour of the Company, hence, no provision has been made in respect of the aforementioned tax demand.

**(b) Sales Tax**

- (i) During the period, Commissioner has raised a demand of Rs. 48.3 million for accounting year 2013, in respect of few products of Company on the ground that the products are neither medicines nor drugs which are exempt from levy of sales tax (as per SRO 551(I)/2008) etc. Company's appeal is pending with Commissioner Inland Revenue (Appeals).
- (ii) The company has received a show cause notice from Punjab Revenue Authority for the payment of Punjab Sales Tax on Royalty accrued from 2012 to 2015. Currently, the company is depositing the said amount in the Sindh Revenue Board. Against the show cause notice on company's appeal, Punjab High Court has granted stay against the proceedings.

The management is confident that the ultimate decision in the above case will be in favour of the Company, hence no provision has been made in respect of the aforementioned tax demand.

- 9.2** Commitments for capital expenditure outstanding as at September 30, 2016, amounted to Rs. 875 million (December 31, 2015: Rs. 704.18 million).

**10. NET SALES**

- 10.1** This includes sales of Over the Counter Products amounting to Rs. 1.5 billion to GSK Consumer Healthcare Pakistan Limited being manufactured by the Company due to pending transfer of marketing authorisations with Drug Regulatory Authority of Pakistan ('DRAP').
- 10.2** During the year ended December 31, 2015, the Drug Regulatory Authority of Pakistan (DRAP) issued the Drug Pricing Policy 2015 (the Policy) vide a notification dated March 5, 2015. Under the Policy, hardship cases of scheduled molecules submitted on specified form and complete in all respect were required to be decided within nine months from the date of notification of the Policy. Prior to the issuance of the Policy, the Company had submitted hardship cases for price increase and committee was formed to evaluate and recommend price increase for the products.

Since the Committee did not give any decision on the price increase within the stipulated nine months, in order to avail hardship price increase, the Company filed a suit before the High Court of Sindh ('SHC') against DRAP. The SHC has passed an interim order in this regard, and accordingly has notified to DRAP and Federation of Pakistan not to take any coercive action against the Company in respect of hardship price increases taken by the Company.

The management of the Company believes that there are strong grounds to support the Company's stance on the price increase matter and hardship cases will eventually be decided in favour of the Company.

**11. SELLING, MARKETING AND DISTRIBUTION EXPENSES**

This includes advertising and sales promotion expenses of Rs. 368 million (September 30, 2015: Rs. 349 million).

**12. OTHER INCOME**

This includes insurance claim of stock loss due to a fire incident occurred at one of the Company's third party warehouse in June 2016, which has been acknowledged by the insurance company.

**13. TAXATION**

- 13.1** This includes prior year charge of super tax amounting to Rs. 105.8 million (September 30, 2015: Rs. 114.4 million) imposed for rehabilitation of temporarily displaced persons under section 4B of the Income Tax Ordinance, 2001 (as inserted by Finance Act 2015 amended by Finance Act 2016).

# Selected Notes to and Forming Part of the Condensed Interim Financial Statements

For the nine months ended September 30, 2016 (Un-audited)

Rupees '000	September 30, 2016	September 30, 2015
<b>14 EARNINGS PER SHARE</b>		
Profit after taxation from continuing operations	1,645,442	1,968,997
Profit after taxation from discontinuing operations	144,593	162,614
Weighted average number of shares outstanding during the period	318,467	318,467
Earnings per share - continuing operations	Rs. 5.17	Rs. 6.19
Earnings per share - discontinuing operations	Re. 0.45	Re. 0.51
Earnings per share - basic	Rs. 5.62	Rs. 6.70

**14.1** 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	September 30, 2016	September 30, 2015
<b>15 CASH GENERATED FROM OPERATIONS</b>		
Profit before taxation	3,042,929	2,991,611
<b>Add / (less): Adjustments for non-cash charges and other items</b>		
Depreciation	390,595	371,327
Impairment charge / reversal (net)	15,012	(28,690)
Gain on disposal of operating fixed assets	(17,346)	(898,549)
Provision for staff retirement benefits	142,393	107,790
Profit before working capital changes	3,573,583	2,543,489
<b>Effect on cash flow due to working capital changes</b>		
(Increase) / decrease in current assets		
Stores and spares	(34,818)	(15,775)
Stock-in-trade	(545,772)	(512,880)
Trade debts	(267,432)	(143,215)
Loans and advances	184,659	38,171
Trade deposits and prepayments	(63,062)	(65,914)
Interest accrued	6,380	(3,927)
Refunds due from government	36,261	(20,227)
Other receivables	(286,754)	94,864
	(970,538)	(628,903)
(Decrease) / increase in current liabilities		
Trade and other payables	124,220	816,887
Provisions	(4,572)	51,270
	(850,890)	239,254
	2,722,693	2,782,743

Rupees '000	September 30, 2016	September 30, 2015
<b>16 CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	2,087,000	2,675,252
Short term investments - Treasury bills	396,469	495,389
	2,483,469	3,170,641

**17. TRANSACTIONS WITH RELATED PARTIES**

Rupees '000		September 30, 2016	September 30, 2015
<b>Relationship</b>	<b>Nature of transactions</b>		
Holding company:	Dividend paid	980,722	1,226,002
Associated companies:	a. Royalty expense charged	209,303	169,865
	b. Purchase of goods	4,129,788	3,912,245
	c. Purchase of property, plant and equipment	129,712	-
	d. Sale of goods	1,576,620	114,560
	e. Recovery of expenses	64,540	15,474
	f. Service fee on clinical trial studies	287	1,060
	g. Sales as an agent of GlaxoSmithKline Consumer Healthcare Pakistan Limited	2,258,776	-
Staff retirement funds:	a. Expense charged for retirement benefit plans	145,653	185,182
	b. Payments to retirement benefit plans	75,113	137,922
Key management personnel:	a. Salaries and other employee benefits	133,683	156,869
	b. Post-employment benefits	9,560	18,806
	c. Proceeds from sale of fixed assets	11,616	1,395

**18. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison, the effects of which is not material.

**19. DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was approved and authorised for issue by the Board of Directors of the Company on October 26, 2016.

  
**M. Azizul Huq**  
 Chief Executive Officer

  
**Abdul Samad**  
 Chief Financial Officer



do more  
feel better  
live longer

**GlaxoSmithKline Pakistan Limited**

35 - Dockyard Road, West Wharf, Karachi - 74000

GlaxoSmithKline Pakistan Limited is a member of  
GlaxoSmithKline group of Companies.

© GlaxoSmithKline Pakistan Limited