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Transcending Boundaries

GlaxoSmithKline Pakistan Limited
First Quarter Report

2017

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 Matin
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

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 and Iran

Mr. Muhammad Imran Amin
Country Compliance Officer



Company Secretary

Syed Azeem Abbas Naqvi

Chief Financial Officer

Mr. Abdul Samad

Chief Internal Auditor

The position became vacant due to resignation of Chief Internal Auditor.

Bankers

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

Auditors

A. F. Ferguson & Co. Chartered Accountants

Legal Advisors

Mandviwalla & Zafar
Vellani & Vellani
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)
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Directors' Review

I am pleased to present the un-audited financial information of your Company for the period ended March 31, 2017. 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 quarter under review was recorded at Rs. 8.4 billion, which includes intercompany sales of Rs. 1 billion to GlaxoSmithKline Consumer Healthcare Pakistan Ltd on account of products manufactured by the company, pending transfer of market authorization. Excluding this amount our core Pharmaceutical business delivered net sales of Rs. 7.4 billion reflecting a strong start for the year with underlying growth of 21%. Sales growth during the quarter is also driven by sales to Punjab Government on account of primary and secondary health tender. All our major portfolios: Antibiotics, Respiratory, Analgesics, and Dermatological delivered strong growth.

Gross profit of your company over this period was 26.9%. The absolute growth was higher by Rs. 446 million as compared to same period last year, an increase of 24.7%.

Selling, marketing and distribution expenses at Rs. 746 million increased by Rs. 87 million in the current period mainly due to investment for promotion of core and new brands, general inflation and increased freight cost. Administrative expenses were recorded at Rs. 238 million; a decrease of 2.9% over the corresponding period last year mainly reflecting tight control on ongoing costs.

Overall, your Company reported a net profit after tax of Rs. 819 million, an increase of 17.5% over the corresponding period last year, primarily due to reasons elucidated in the preceding paragraphs.

Capital expenditure of Rs. 401 million was incurred during the current period (March 31, 2016: Rs. 446.2 million). During this period, the Company invested on plant up-gradation, capacity enhancement initiatives and consolidation of operations.

The surplus funds of the company decreased by Rs. 651 million during this period as compared to the year end balance at December 31st 2016, mainly due to increase in trade debtors

Future outlook and Challenges:

Your company is fully committed to build on its success through execution of strategic priorities. These include investing in development of new products as well as sustained investment to maintain the equity of its existing diverse portfolio.

Our value led commercialization model is a big departure from the traditional ways that pharmaceutical companies engage with health care professionals. While we have positive recognition and acceptance from a large number of stakeholders for our ethical stance, a change of this scale comes with significant challenges that your company is addressing effectively.

The market we operate in continues to offer opportunities in terms of growth, revenue and employment generation with a largely untapped opportunity to contribute more significantly to the GDP growth of Pakistan. The continued prosperity of the country will result in increased demand for quality medicines and vaccines for the millions of Pakistanis who seek good medical care. The recent focus of both the federal and provincial authorities to provide quality healthcare at affordable prices is a positive sign for high quality manufacturers such as your company. Our commitment to provide access to quality GSK products fully complements the needs of the government.

In our quest to achieve the best balance of quality, affordability and sustainability, we continue to engage with the various organs of the Government including our regulators. There are many outstanding issues and it is important that we accelerate the resolution of these issues so that the pharma industry can confidently move on the path of productivity and sustainability while maintaining an unrelenting focus on quality. We are hopeful that in the coming months, positive progress will be made on these outstanding issues.

Acknowledgment:

On behalf of the Board I would like to place on record our appreciation for great commitment and passion demonstrated by the staff for the achievement of company's objectives in this period.

By order of the Board.



M. Azizul Huq
Chief Executive Officer
Karachi
April 24, 2017

Condensed Interim Balance Sheet

as at March 31, 2017

Rupees '000	Note	(Un-audited) March 31, 2017	(Audited) December 31, 2016
NON-CURRENT ASSETS			
Fixed assets	5	8,384,346	8,318,434
Intangibles	6	1,039,072	1,039,072
Long-term loans to employees		58,552	49,369
Long-term deposits		21,955	21,955
		9,503,925	9,428,830
CURRENT ASSETS			
Stores and spares		212,389	201,037
Stock-in-trade		5,818,010	5,548,083
Trade debts		1,660,961	530,413
Loans and advances		199,645	177,653
Trade deposits and prepayments		194,709	134,335
Interest accrued		15,094	12,074
Refunds due from government		53,157	54,178
Other receivables		163,670	484,945
Investments		644,815	793,873
Cash and bank balances		3,014,080	3,515,638
		11,976,530	11,452,229
Assets of disposal groups classified as held for sale / disposal	7	318,468	284,048
		21,798,923	21,165,107
SHARE CAPITAL AND RESERVES			
Share capital		3,184,672	3,184,672
Reserves		11,177,144	10,358,113
		14,361,816	13,542,785
NON-CURRENT LIABILITIES			
Staff retirement benefits		-	78,014
Deferred taxation		630,301	645,171
		630,301	723,185
CURRENT LIABILITIES			
Trade and other payables		6,081,132	6,246,759
Taxation - provision less payments		512,457	391,727
Provisions		191,935	192,739
		6,785,524	6,831,225
Liabilities of disposal groups classified as held for sale / disposal	7	21,282	67,912
		7,437,107	7,622,322
CONTINGENCIES AND COMMITMENTS			
	8	21,798,923	21,165,107

The annexed notes 1 to 13 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 quarter ended March 31, 2017 (Un-audited)

Rupees '000	Note	March 31, 2017	March 31, 2016
Continuing operations:			
Net sales		8,388,948	6,112,337
Cost of sales		(6,134,472)	(4,304,096)
Gross profit		2,254,476	1,808,241
Selling, marketing and distribution expenses		(746,263)	(658,833)
Administrative expenses		(238,498)	(245,710)
Other operating expenses		(108,000)	(86,418)
Other income		86,693	101,580
Operating profit		1,248,408	918,860
Financial charges		(4,212)	(4,726)
Profit before taxation		1,244,196	914,134
Taxation		(420,000)	(341,234)
Profit after taxation from continuing operations		824,196	572,900
Discontinued Operations			
Profit after taxation from discontinued operations	7	(5,165)	124,288
		819,031	697,188
Other comprehensive income			
		-	-
Total comprehensive income		819,031	697,188
Earnings per share - basic			
	9		
- continuing operations		Rs. 2.59	Rs. 1.80
- discontinued operations		Re. -0.02	Re. 0.39
		Rs. 2.57	Rs. 2.19

The annexed notes 1 to 13 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 quarter ended March 31, 2017 (Un-audited)

Rupees '000	Note	March 31, 2017	March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	10	82,472	889,069
Payment for defined benefits obligations		(18,129)	-
Taxes paid		(314,140)	(152,598)
Increase in long-term loans to employees		(9,183)	(13,858)
Net cash (used in) / generated from operating activities		(258,980)	722,613
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(400,908)	(446,166)
Proceeds from sale of operating assets		9,348	23,730
Net cash used in investing activities		(391,560)	(422,436)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(76)	(291)
Net (decrease) / increase in cash and cash equivalents		(650,616)	299,886
Cash and cash equivalents at the beginning of the period		4,309,511	3,642,198
Cash and cash equivalents at the end of the period	11	3,658,895	3,942,084

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.


M. Azizul Huq
 Chief Executive Officer


Abdul Samad
 Chief Financial Officer

Condensed Interim Statement of Changes in Equity

For the quarter ended March 31, 2017 (Un-audited)

Rupees '000	Share capital	Capital reserves	Revenue reserves		Total
		Reserve arising on Schemes of Arrangements	General reserve	Unappropriated profit	
Balance as at January 1, 2016	3,184,672	2,184,238	3,999,970	3,701,331	13,070,211
Total comprehensive income including profit after taxation from discontinuing operations for the quarter ended March 31, 2016	-	-	-	697,188	697,188
Balance as at March 31, 2016	3,184,672	2,184,238	3,999,970	4,398,519	13,767,399
Balance as at January 1, 2017	3,184,672	1,126,923	3,999,970	5,231,220	13,542,785
Total comprehensive income including loss after taxation from discontinuing operations for the quarter ended March 31, 2017	-	-	-	819,031	819,031
Balance as at March 31, 2017	3,184,672	1,126,923	3,999,970	6,050,251	14,361,816

The annexed notes 1 to 13 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 Information

for the quarter ended March 31, 2017 (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, other pharmaceutical and consumer 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 OPERATIONS

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 7.2 to this condensed interim financial information, were transferred to GlaxoSmithKline Consumer Healthcare Pakistan Limited. Accordingly the same is presented as discontinued operations in the comparative period (for the period January 1 to March 31, 2016) in this condensed interim financial information

Due to the pending transfer of marketing authorisations and certain permissions for the Over the Counter (OTC) products of GlaxoSmithKline Consumer Healthcare 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

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, 2016.

2.1 Changes in accounting standards, interpretations and pronouncements

(a) Standards, interpretations and amendments to published approved accounting standards that are effective in the current year and are relevant

IAS 1 'Presentation of financial statements' these amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosures of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved.

(b) Standards, interpretations and amendments to published approved accounting standards that are effective in the current year but are not relevant

Except as stated in (a), 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 the Company's financial statements and hence have not been detailed here.

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

Amendments to IAS 7, 'Statement of cash flows' introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative.

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

2.2 Overall valuation policy

This condensed interim financial information has been prepared under the historical cost convention except as otherwise disclosed in the accounting policies below.

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, 2016.

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, 2016, 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 New standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2017 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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 judgments 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, 2016.

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, 2016.

Rupees '000	Un-audited March 31, 2017	Audited December 31, 2016
5. FIXED ASSETS		
Operating assets - note 5.1	5,408,765	5,594,858
Capital work-in-progress	2,881,728	2,634,193
Major spare parts and stand-by equipments	93,853	89,383
	8,384,346	8,318,434

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

for the quarter ended March 31, 2017 (Un-audited)

5.1 Details of additions to and disposals of operating fixed assets for the Company are as follows:

Rupees '000	Additions (at cost)		Disposals (at net book value)	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Improvements on buildings	36,387	15,084	-	-
Plant and machinery	61,580	3,238	-	2,309
Furniture and fixtures	1,234	223	-	-
Vehicles	55,918	56,536	7,975	13,522
Office equipments	23,871	9,146	18	223
	178,990	84,227	7,993	16,054

Rupees '000	Un-audited March 31, 2017	Audited December 31, 2016
6. INTANGIBLES		
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

7.1 Profit after taxation from discontinued operations includes Oncology business for the period, whereas prior period also includes Consumer Healthcare business as disclosed in note 1.1.

Rupees '000	March 31, 2017	March 31, 2016
Net sales	57,171	1,669,120
Cost of sales	(55,925)	(1,018,638)
Gross profit	1,246	650,482
Selling, marketing and distribution expenses	(6,411)	(393,763)
Administrative expenses	-	(19,383)
Other operating expenses	-	(16,282)
(Loss) / Profit before taxation	(5,165)	221,054
Taxation	-	(96,766)
(Loss) / Profit after taxation	(5,165)	124,288

7.2 Assets and Liabilities of disposal group classified as held for sale/ disposal:

Rupees '000	Note	Un-audited March 31, 2017	Audited December 31, 2016
ASSETS			
Fixed assets	7.3	200,492	200,492
Stock-in-trade - net of provision		117,976	83,556
		318,468	284,048
LIABILITIES			
Trade and other payables		21,282	67,912
Total net assets		297,186	216,136

7.3 This includes land having approximate area of 5.13 acres alongwith building and other assets at Sundar Industrial Estate, Lahore having net book value of Rs.200.49 million, which the company has decided to dispose off. The sale is expected to complete before December 31,2017.

7.4 Cashflow statement - discontinued operations

Rupees '000	March 31, 2017	March 31, 2016
Net cash (used) / generated from operating activities	(86,215)	232,130
Net cash used in investing activities	-	(31,871)

8. CONTINGENCIES AND COMMITMENTS

8.1 Following is the change, in addition to the status of contingencies as reported in the financial statements for the year ended December 31, 2016:

While finalizing the assessment of the Company for tax year 2014 (accounting year ended December 31, 2013), the Deputy Commissioner Inland Revenue (DCIR) had 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 filed an appeal with the Commissioner Inland Revenue-Appeals (CIRA) in respect of the said matter. During the period, the CIRA has decided the case on royalty in favor of the company and on raw material in favour of the tax department. The company is in the process of filing appeal before Appellate Tribunal Inland Revenue.

8.2 Commitments for capital expenditure outstanding as at March 31, 2017 amounted to Rs. 551.7 million (December 31, 2016: Rs. 517.6 million).

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

for the quarter ended March 31, 2017 (Un-audited)

Rupees '000	March 31, 2017	March 31, 2016
9. EARNINGS PER SHARE		
Profit after taxation from continuing operations	824,196	572,900
(Loss) / Profit after taxation from discontinued operations	(5,165)	124,288
Weighted average number of shares outstanding during the period	318,467	318,467
Earnings per share - continuing operations	Rs. 2.59	Rs. 1.80
(Loss) / Earnings per share - discontinued operations	Re. -0.02	Re. 0.39
Earnings per share - basic	Rs. 2.57	Rs. 2.19

- 9.1** 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	March 31, 2017	March 31, 2016
10. CASH GENERATED FROM OPERATIONS INCLUDING DISCONTINUED OPERATIONS		
Profit before taxation	1,239,031	1,135,188
Add / (less): Adjustments for non-cash charges and other items		
Depreciation	138,241	128,428
Impairment reversal (net) / charge	(58)	9,714
Gain on disposal of operating fixed assets	(1,355)	(7,676)
Provision for staff retirement benefits	52,370	24,397
Profit before working capital changes	1,428,229	1,290,051
Effect on cash flow due to working capital changes		
(Increase) / Decrease in current assets		
Stores and spares	(11,352)	(13,693)
Stock-in-trade	(304,347)	(504,894)
Trade debts	(1,108,648)	(79,945)
Loans and advances	(21,992)	72,991
Trade deposits and prepayments	(60,374)	(177,397)
Interest accrued	(3,020)	(4,908)
Refunds due from government	1,021	43,765
Other receivables	187,120	81,916
	(1,321,592)	(582,165)
(Decrease) / increase in current liabilities		
Trade and other payables	(23,361)	196,551
Provisions	(804)	(15,368)
	(1,345,757)	(400,982)
	82,472	889,069

Rupees '000	March 31, 2017	March 31, 2016
11. CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,014,080	3,097,383
Short term investments - Treasury bills	644,815	844,701
	3,658,895	3,942,084

12. TRANSACTIONS WITH RELATED PARTIES

Relationship	Nature of transactions	March 31, 2017	March 31, 2016
Rupees '000			
Associated companies:			
	a. Royalty expense charged	51,330	67,149
	b. Purchase of goods	982,806	1,384,578
	c. Sale of goods	1,017,166	10,570
	d. Recovery of expenses	-	2,933
	e. Service fee on clinical trial studies	-	223
	f. Service fees	3,000	-
	g. Sales as an agent of GlaxoSmithKline Consumer Healthcare Pakistan Limited	1,319,181	-
Staff retirement funds:			
	a. Expense charged for retirement benefit plans	52,370	48,984
	b. Payments to retirement benefit plans	18,129	24,586
Key management personnel:			
	a. Salaries and other employee benefits	82,747	81,492
	b. Post-employment benefits	3,634	4,457
	c. Proceeds from sale of fixed assets	-	3,570

13. 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 April 24, 2017.


M. Azizul Huq
 Chief Executive Officer


Abdul Samad
 Chief Financial Officer



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GlaxoSmithKline Pakistan Limited

35 - Dockyard Road, West Wharf, Karachi - 74000

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

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