

GlaxoSmithKline Pakistan Limited  
First Quarter Report 2014



do more  
feel better  
live longer

# Delivering sustainable profitable growth



# Corporate Information



## Board of Directors

**Mr. M. Salman Burney**  
Chairman / Chief Executive

**Mr. Rafique Dawood**  
Non-Executive Director

**Mr. Husain Lawai**  
Non-Executive Director

**Mr. Mehmood Mandviwalla**  
Non-Executive Director

**Mr. Dave Cooper**  
Non-Executive Director

**Ms. Fariha Salahuddin**  
Non-Executive Director

**Ms. Erum S. Rahim**  
Non-Executive Director

**Mr. Maqbool ur Rehman**  
Non-Executive Director

**Mr. Shahid Mustafa Qureshi**  
Executive Director / Company Secretary

**Mr. Yahya Zakaria**  
Director Finance

## Audit Committee

**Mr. Rafique Dawood**  
Chairman

**Mr. Husain Lawai**  
Member

**Mr. Mehmood Mandviwalla**  
Member

## Human Resource & Remuneration Committee

**Mr. Husain Lawai**  
Chairman

**Mr. Rafique Dawood**  
Member

**Mr. Mehmood Mandviwalla**  
Member

**Mr. M. Salman Burney**  
Member

**Ms. Fariha Salahuddin**  
Member

## Management Committee

**Mr. M. Salman Burney**  
Chairman / Chief Executive

**Mr. Shahid Mustafa Qureshi**  
Executive Director / Company Secretary

**Mr. Yahya Zakaria**  
Director Finance

**Mr. Sohail Matin**  
Country Manager - Consumer Healthcare

**Ms. Pouruchisty Sidhwa**  
Director Human Resources

**Dr. Khawar Saeed Khan**  
Director Medical Affairs

**Dr. Naved Masoom Ali**  
Business Unit Head

**Mr. Khalid Mehmood Sethi**  
Business Unit Head

## Company Secretary

Mr. Shahid Mustafa Qureshi

## Chief Financial Officer

Mr. Yahya Zakaria

## Chief Internal Auditor

Ms. Ayesha Muharram

## Bankers

Citibank NA

Standard Chartered Bank  
(Pakistan) Limited

HSBC Bank Middle East Limited

Habib Bank Limited

Deutsche Bank A.G.

Barclays Bank PLC Pakistan

## Auditors

A. F. Ferguson & Co.  
Chartered Accountants

## Legal Advisors

Rizvi, Isa, Afridi & Angell  
Mandviwalla & Zafar  
Orr, Dignam & Co.  
Surridge & Beecheno  
Vellani & Vellani

## Registered Office

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

Tel: 92-21-111-475-725  
(111-GSK-PAK)

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# Chairman/Chief Executive Review

I am pleased to present the un-audited financial information of your Company for the period ended March 31, 2014. This financial information is submitted in accordance with Section 245 of the Companies Ordinance, 1984.

## Review of Operating Results

Your Company continued to deliver strong performance in the period under review despite challenging regulatory, economic and security environment for businesses operating in the country. Net sales for the quarter were recorded at Rs 7,143 million, an increase of Rs 791 million (12.5%) over the corresponding period last year. The pharma business grew by 13.2% driven mainly by portfolios such as Antibiotics, Dermatologicals, Anthelmintics, Anti Virals, Anti-Diarrhoeals, Cardio-Vasculars, Eye/Ear, Haematinics, and Vitamins.

Despite supply constraints and an ongoing delay in the allocation of pseudoephedrine quota by the Narcotics Board, the Consumer Health Care segment achieved overall sales of Rs 1,147 million, which was 8.9 % higher than the corresponding quarter last year. Key brands such as Horlicks and Sensodyne witnessed strong double digit growth. The business continued to focus and

invest for growth with a view to further increasing market share and establishing a strong base for the future. Certain brands were realigned within business segments based on the nature of the brands in line with global strategy which will help these products achieved better market penetration.

Export sales of your Company also performed well and the Company achieved net sales of Rs 246 million in the quarter, verses Rs 169 million over the same period last year.

Gross Margins reduced further to 26.2% from 27.7% in Q1 2013. Gross margins have undergone constant attrition over the last many years mainly due to inflation, increasing raw and packing material prices, escalating costs of utilities, fuel and power coupled with volatility of Pak rupee against other currencies. These adverse factors have not been compensated by way of an adequate price increase.

Selling, marketing and distribution expenses were recorded at Rs 968 million, increasing by Rs 101 million (11.7%) over the corresponding period last year. The increase mainly represents inflation as well as higher freight costs due to rising sales volume.

The Company continued to invest on promotion in the Nutrition and Oral categories in the Consumer HealthCare business. Administrative expenses rose by 9.9% over the corresponding quarter to Rs 236 million in the current period reflecting inflationary pressures.

Other operating income increased by Rs 130 million over the same period last year mainly due to favorable movement in exchange rate as compared to the previous year.

Net profit after tax for the period was recorded at Rs 485 million, which was higher by 19.9% on account of factors highlighted in preceding paragraphs.

Capital expenditure was recorded at Rs 87 million (March 31, 2013: Rs 71 million) which was higher than that of first quarter last year. During 2014 the Company invested mainly on plant up-gradations, capacity enhancement initiatives, IT equipments and purchase of vehicles.

The surplus funds of the Company increased by Rs 127 million in the quarter as compared to year end balance at December 31, 2013, to Rs 2,224 million due to improvement in cash generated from operations.

## Future outlook and Challenges

The Pharmaceutical industry has suffered from an irrational pricing policy and a price freeze over the last decade, forcing it to internalize negative cost pressures without an offsetting adjustment whilst all other parts of the health sector have been allowed to operate under a market mechanism. Faced with this difficult situation, having to balance the requirement of providing affordable quality medicines to the public and at the same time sustain itself commercially, your company has endeavored to deliver its best through optimizing the portfolio mix, simplifying operational processes and introducing new, innovative and improved products. The Company also continues to invest in our leading Consumer brands in line with this growth diversification strategy.

The pharmaceutical industry has great potential for generating economic value to the country in terms of domestic value add, growth and exports, as well as generating revenue for the exchequer. The industry has however, as detailed earlier, for the past decade suffered from a regulatory framework which is not aligned with other countries in the region and which retards its

economic potential and value for the country.

It is hoped that the Government will take necessary steps to approve a pricing policy and a regulatory regime that safeguards the interest of the industry, supports the continuity of supplies of affordable and quality medicines and ensure the ongoing availability of numerous research based drugs which are now at risk.

## Acknowledgment

Throughout the period the industrial relations climate has remained congenial and all employees showed great dedication towards achievement of Company's objectives. On behalf of the Board, I would take this opportunity to record our appreciation for the passion and commitment shown by all the staff and our stakeholders for their continuing support.



M. Salman Burney  
Chairman / Chief Executive  
Karachi  
April 28, 2014

# Condensed Interim Balance Sheet

as at March 31, 2014

Rupees '000	Note	(Un-audited) March 31, 2014	(Audited) December 31, 2013
<b>NON-CURRENT ASSETS</b>			
Fixed assets	5	5,905,651	5,973,404
Intangible - goodwill		955,742	955,742
Long-term loans to employees		65,777	70,079
Long-term deposits		16,892	16,865
		6,944,062	7,016,090
<b>CURRENT ASSETS</b>			
Stores and spares		170,544	156,548
Stock-in-trade	6	5,854,974	6,271,405
Trade debts		432,781	349,950
Loans and advances		355,209	248,463
Trade deposits and prepayments		304,573	118,592
Interest accrued		30,781	9,753
Refunds due from government		13,847	46,951
Other receivables		425,432	392,202
Taxation - payments less provision		1,100,171	1,231,588
Investments		224,601	224,269
Cash and bank balances		1,999,433	1,872,999
		10,912,346	10,922,720
		17,856,408	17,938,810
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital		2,895,156	2,895,156
Reserves		8,939,005	8,454,157
		11,834,161	11,349,313
<b>NON-CURRENT LIABILITIES</b>			
Staff retirement benefits		274,875	250,977
Deferred taxation		609,112	612,012
		883,987	862,989
<b>CURRENT LIABILITIES</b>			
Trade and other payables		4,965,713	5,561,429
Provisions		172,547	165,079
		5,138,260	5,726,508
		6,022,247	6,589,497
<b>CONTINGENCIES AND COMMITMENTS</b>			
	7	17,856,408	17,938,810

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
**M. Salman Burney**  
 Chairman / Chief Executive

  
**Yahya Zakaria**  
 Chief Financial Officer

# Condensed Interim Profit and Loss Account

## For the quarter ended March 31, 2014 (Un-audited)

Rupees '000	Note	March 31, 2014	March 31, 2013
Net sales		7,142,948	6,351,931
Cost of sales		(5,272,875)	(4,591,379)
Gross profit		1,870,073	1,760,552
Selling, marketing and distribution expenses		(967,512)	(866,974)
Administrative expenses		(236,089)	(214,689)
Other operating expenses		(67,000)	(56,393)
Other income (including exchange gain)	8	202,126	71,830
Operating profit		801,598	694,326
Financial charges		(3,650)	(9,852)
Profit before taxation		797,948	684,474
Taxation		(313,100)	(280,282)
Profit after taxation		484,848	404,192
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>484,848</b>	<b>404,192</b>
Earnings per share	9	Rs. 1.67	Rs. 1.40

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
**M. Salman Burney**  
 Chairman / Chief Executive

  
**Yahya Zakaria**  
 Chief Financial Officer

# Condensed Interim Cash Flows Statement

## For the quarter ended March 31, 2014 (Un-audited)

Rupees '000	Note	March 31, 2014	March 31, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	10	364,604	837,053
Income taxes paid		(184,583)	(212,415)
Decrease in long-term loans to employees		4,302	2,409
(Increase) / Decrease in long-term deposits		(27)	5,062
Net cash generated from operating activities		184,296	632,109
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(86,588)	(70,667)
Proceeds from sale of operating assets		29,156	14,468
Net cash used in investing activities		(57,432)	(56,199)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(98)	(60)
Net increase in cash and cash equivalents		126,766	575,850
Cash and cash equivalents at beginning of the year		2,097,268	2,315,744
Cash and cash equivalents at end of the period	11	2,224,034	2,891,594

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.



**M. Salman Burney**  
Chairman / Chief Executive



**Yahya Zakaria**  
Chief Financial Officer



# Condensed Interim Statement of Changes in Equity

## For the quarter ended March 31, 2014 (Un-audited)

Rupees '000	Share capital	Capital reserves		General reserve	Unappropriated profit	Total
		Reserve arising on amalgamation	Issue of bonus shares			
Balance as at January 1, 2013 - as restated	2,631,960	2,184,238	-	3,999,970	2,577,270	11,393,438
Total comprehensive income for the quarter ended March 31, 2013	-	-	-	-	404,192	404,192
Balance as at March 31, 2013	2,631,960	2,184,238	-	3,999,970	2,981,462	11,797,630
Balance as at January 01, 2014	2,895,156	2,184,238	-	3,999,970	2,269,949	11,349,313
Total comprehensive income for the quarter ended March 31, 2014	-	-	-	-	484,848	484,848
Balance as at March 31, 2014	2,895,156	2,184,238	-	3,999,970	2,754,797	11,834,161

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
**M. Salman Burney**  
 Chairman / Chief Executive

  
**Yahya Zakaria**  
 Chief Financial Officer

# Selected notes to and forming part of the Condensed Interim Financial Information

For the quarter ended March 31, 2014 (Un-audited)

## 1. THE COMPANY AND ITS OPERATIONS

The Company is incorporated in Pakistan as a limited liability company and is listed on the Karachi and Lahore Stock Exchanges. It is engaged in manufacturing and marketing of research based 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.

## 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 annual financial statements for the year ended December 31, 2013.

## 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, 2013.

## 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 judgements 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, 2013, except for change in accounting estimate explained in note 5.2.

The company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended December 31, 2013.

Rupees '000	Un-audited March 31, 2014	Audited December 31, 2013
<b>5. FIXED ASSETS</b>		
Operating assets note 5.1	5,013,004	5,075,833
Capital work-in-progress	856,893	854,849
Major spare parts and stand-by equipments	35,754	42,722
	<u>5,905,651</u>	<u>5,973,404</u>

Rupees '000	Additions (at cost)		Disposals (at net book value)	
	March, 2014	March, 2013	March, 2014	March, 2012
<b>5.1 Details of additions and disposals to operating fixed assets are as follows:</b>				
Buildings	2,117	3,388	-	572
Plant and machinery	17,249	33,291	7,258	548
Furniture and fixture	1,553	2,395	-	53
Vehicles	41,035	20,881	15,134	9,549
Office equipments	9,629	3,797	498	156
	<b>71,583</b>	<b>63,752</b>	<b>22,890</b>	<b>10,878</b>

## 5.2 Change in accounting estimates

During the period, management has changed the useful life of certain plant and machinery from 10 years to 15 years, which has resulted in revision of depreciation rates. Management believes that the said changes in estimate reflects more accurately the useful life and pattern of consumption of economic benefits of the respective assets. These changes have been accounted for prospectively in accordance with the requirements of International Accounting Standards (IAS)-8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Had the Company not made the above referred changes in accounting estimates, profit for the period and reserves as at the quarter ended March 31, 2014 would have been lower by Rs. 10.91 million, and earnings per share would have been lower by Re. 0.04 per share.

## 6. STOCK-IN-TRADE

During the period ended March 31, 2014 stock in trade has been written-down to net realisable value by Rs. 16.87 million (March 31, 2013: Rs. 0.13 million)

## 7. CONTINGENCIES AND COMMITMENTS

**7.1** There has been no significant change in the status of contingencies as reported in the financial statements for the year ended December 31, 2013

**7.2** Commitments for capital expenditure outstanding as at March 31, 2014 amounted to Rs 191.47 million (December 31, 2013: Rs 232.34 million).

## 8. OTHER INCOME

This includes exchange gain of Rs. 95 million arising on settlement and revaluation of foreign currency import bills.

# Selected notes to and forming part of the Condensed Interim Financial Information

For the quarter ended March 31, 2014 (Un-audited)

Rupees '000	March 31, 2014	March 31, 2013
<b>9. EARNINGS PER SHARE</b>		
Profit after taxation	484,848	404,192
Weighted average number of outstanding shares	289,516	289,516
Earnings per share - basic	Rs. 1.67	Rs. 1.40

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, 2014	March 31, 2013
<b>10. CASH GENERATED FROM OPERATIONS</b>		
Profit before taxation	797,948	684,474
<b>Add / (less): Adjustments for non-cash charges and other items</b>		
Depreciation / amortisation	109,598	114,188
Gain on disposal of operating assets	(6,266)	(3,589)
Impairment Charge	(100)	-
Provision for staff retirement benefits	23,898	24,274
	127,130	134,873
Profit before working capital changes	925,078	819,347
<b>Effect on cash flow due to working capital changes</b>		
(Increase) / decrease in current assets		
Stores and spares	(13,996)	(7,028)
Stock-in-trade	416,431	(126,247)
Trade debts	(82,831)	(180,980)
Loans and advances	(106,746)	(95,192)
Trade deposits and prepayments	(185,981)	(215,116)
Interest accrued	(21,028)	(7,747)
Refunds due from government	33,104	(14,373)
Other receivables	(33,230)	109,542
	5,723	(537,141)
(Decrease) / Increase in current liabilities		
Provisions	7,468	(23,679)
Trade and other payables	(573,665)	578,526
	(560,474)	17,706
	364,604	837,053

Rupees '000		March 31, 2014	March 31, 2013
<b>11. CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		1,999,433	2,693,107
Short term investments - Treasury bills		224,601	198,487
		<u>2,224,034</u>	<u>2,891,594</u>
<b>12. TRANSACTIONS WITH RELATED PARTIES</b>			
<b>Relationship</b>	<b>Nature of transactions</b>		
Associated companies:	a. Purchase of goods	1,159,139	1,108,637
	b. Sale of goods	30,862	15,256
	c. Royalty expense charged	68,959	61,348
	d. Recovery of expenses	4,164	3,483
	e. Service fee on clinical trial studies	364	280
	f. Donations paid	-	83
	g. Payment on behalf of associated company	-	575
	h. Payment against services	73	662
Staff retirement funds:	a. Expense charged for retirement benefit plans	44,704	43,524
	b. Payments to retirement benefit plans	20,806	19,250
Key management personnel:	a. Salaries and other employee benefits	43,498	44,845
	b. Post employment benefits	2,991	3,814
	c. Proceeds from sale of fixed assets	-	416

**13. SEGMENT INFORMATION**

Management has determined the operating segments based on the information that is presented to the chief operating decision-maker of the company for allocation of resources and assessment of performance. Based on internal management reporting structure the company is organised into two operating segments being (i) pharmaceuticals and (ii) consumer healthcare.

Management monitors the operating results of above mentioned segments separately for the purpose of making decisions about resources to be allocated and for assessing performance.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.



# Selected notes to and forming part of the Condensed Interim Financial Information

For the quarter ended March 31, 2014 (Un-audited)

**13.1** The financial information regarding operating segments is as follows

Rupees '000.	Quarter ended March 31, 2014			Quarter ended March 31, 2013 (Re-stated)		
	Pharma-ceuticals	Consumer healthcare	Total	Pharma-ceuticals	Consumer healthcare	Total
Revenue	5,995,790	1,147,158	7,142,948	5,295,535	1,056,396	6,351,931
Cost of sales	(4,491,355)	(781,520)	(5,272,875)	(3,846,863)	(744,516)	(4,591,379)
Gross Profit	1,504,435	365,638	1,870,073	1,448,672	311,880	1,760,552
Selling, marketing and distribution expenses	(688,682)	(278,830)	(967,512)	(637,276)	(229,698)	(866,974)
Administrative expenses	(216,888)	(19,201)	(236,089)	(197,252)	(17,437)	(214,689)
Segment results	598,865	67,607	666,472	614,144	64,745	678,889
Other operating expenses			(67,000)			(56,393)
Other income			202,126			71,830
Finance charges			(3,650)			(9,852)
Profit before taxation			797,948			684,474

**13.2** There are no inter-segment sales.

**13.3** Analysis of segment's assets and liabilities and their reconciliation to total assets and liabilities:

Rupees '000.	As at March 31, 2014			As at December 31, 2013 (Re-stated)		
	Pharma-ceuticals	Consumer healthcare	Total	Pharma-ceuticals	Consumer healthcare	Total
Segment assets	13,430,719	1,053,809	14,484,528	13,685,915	897,421	14,583,336
Unallocated assets			3,371,880			3,355,474
Total assets			17,856,408			17,938,810
Segment liabilities	4,357,163	494,035	4,851,198	5,122,799	382,144	5,504,943
Unallocated liabilities			1,171,049			1,084,554
Total liabilities			6,022,247			6,589,497

**13.4** The Management has realigned certain brands from Pharmaceutical segment to Consumer healthcare segment, based on the nature of the brands in line with global strategy. The comparative figures have been restated to reflect such change.

- 14** The Board of Directors in its meeting held on February 07, 2014 proposed a cash dividend of Rs. 3.50 per share amounting to Rs. 1.01 billion and proposed a transfer of Rs. 289.52 million from “unappropriated profit” to “reserve for issue of bonus shares” for issuance of 10 bonus shares for every 100 shares held subject to approval by the members of the company in the annual general meeting to be held on April 28, 2014.

**15. 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 28, 2014.



**M. Salman Burney**  
Chairman / Chief Executive



**Yahya Zakaria**  
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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