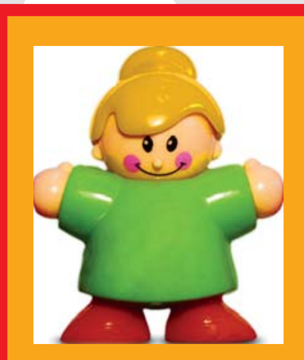
GlaxoSmithKline

GlaxoSmithKline Pakistan Limited

'08

THIRD QUARTER



2008 REPORT

Financial statements (Un-audited)

For the nine months ended September 30, 2008

Our Mission

Our Mission

Our quest is to improve the quality of
human life by enabling people to

do more
feel better
&
live
longer

Corporate Information

Board of Directors

Mr. M. Salman Burney	Chairman / Chief Executive
Mr. Tariq Iqbal Khan	Non-Executive Director
Mr. Rafique Dawood	Non-Executive Director
Mr. Ghulam Mustafa Aziz	Non-Executive Director
Mr. Shahid Mustafa Qureshi	Legal and Regulatory Affairs Director
Dr. Muzaffar Iqbal	Technical Director
Dr. Iffat Yazdani	Area Director Asia Pacific Clinical Operations

Audit Committee

Mr. Rafique Dawood	Chairman
Mr. Tariq Iqbal Khan	Member
Mr. M. Salman Burney	Member

Management Committee

Mr. M. Salman Burney	Chairman / Chief Executive
Dr. Muzaffar Iqbal	Technical Director
Mr. Shahid Mustafa Qureshi	Legal and Regulatory Affairs Director
Ms. Erum S. Rahim	Director Marketing and Business Development
Mr. Pervaiz Iqbal Awan	Sales Director
Mr. Maqbool ur Rehman	Sales Director
Mr. Javed Y. Ahmedjee	Director Finance, IT and Logistics
Mr. Sohail Matin	Country Manager - Consumer Healthcare
Dr. Atif Mirza	Director Medical Services
Dr. Z. U. Khan	Head of Quality
Haji Muhammad Hanif	Head of Procurement
Ms. Fariha Salahuddin	Head of HR & OD

Company Secretary
Mr. Shahid Mustafa Qureshi

Auditors
A. F. Ferguson & Co.
Chartered Accountants

Bankers
The Royal Bank of Scotland
Citibank NA
Habib Bank Limited
Standard Chartered Bank (Pakistan) Limited
HSBC Bank Middle East Limited

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

Registered Office
35 – Dockyard Road, West Wharf, Karachi – 74000.
Telephones: 111-475-725 (111-GSK-PAK)
Fax: 2314898 & 2311122

Website:
www.gsk.com.pk

Chairman/Chief Executive's Review

I am pleased to present the financial statements of your company for the period ended September 30, 2008. These financial statements are submitted in accordance with the Section 245 of the Companies Ordinance, 1984.

Operating Results

The Company achieved a good sales performance in the current challenging economic and political environment of the country. Aggregate turnover of Rs 9,858 million for the nine months ended September 30, 2008 depicted an increase of 23.7% compared to the corresponding period last year. Sales growth was mainly derived from government tenders, including a large order for Polio Vaccines and strong growth performance of key brands. The Antibiotics, Dermatology, Analgesics, and Vaccines portfolios achieved double digit growth during this period. Excluding the polio vaccine tender, net sales grew by 12.8%.

Export Sales during this period were Rs. 191.2 million, which is slightly lower by 2.4% over the previous period. The Consumer business showed good performance and achieved net sales of Rs 151.3 million, an increase of Rs. 74.4 million mainly due to changes in distributorship arrangements undertaken last year.

Gross margins during the period remained under serious pressure. Rising inflation and severe Rupee devaluation have now seriously eroded margins which declined from 38.2% to 30.3% in the same period last year. This decline in margins is attributable to:

- Rising raw and packaging material costs due to:
  - International price increases in response to an unprecedented commodity price hike,
  - Increase in local prices of virtually all inputs and materials due to high inflation, and
  - Continuous weakening of Rupee against major currencies i.e. USD by 26%, UK Pound Sterling by 13%, EURO by 22%, Indian Rupee by 7% and Chinese Yuan by 35%.
- Escalation of fuel, power and utilities costs (also a further increase of 31% effective July 1, 2008), and
- Lower margins on tenders business.

During the 3rd Quarter, Inflation has tripled up to 24.25 percent compared with 7.07 percent over the corresponding period last year

Despite high inflationary pressures and rising POL prices the company managed to control its selling, marketing and distribution cost at 952.5 million, increasing by 9.8%. Administrative expenses stood at Rs 388.8 million increasing by 14.4%.

Other operating income at Rs.315.4 million decreased by 11.7% vs. same period last year owing to reduction in surplus funds which resulted in lower interest income. Financial charges were increased by Rs 65.8 million mainly due to exchange loss on account of weakening of local currency against major foreign currencies particularly US dollar against which the Pak Rupee weakened by 26%.

Profit after tax was Rs 1,009.5 million while earnings per share for the period were recorded at Rs 5.91, lower by 19% as compared to the last period.

Capital expenditure for the period was Rs.254.3 million (September 30, 2007: Rs 343.9 million) mainly on account of up-gradation of plant and machinery/manufacturing site rationalization and purchase of vehicles.

The cash position of the Company reduced by Rs. 1,223.9 million compared to year ended December 31, 2007 due to the final dividend payment of 2007, capital expenditure and increase in working capital mainly on account of inventory and receivables on Government tenders.

Future Outlook

We are responding to the challenges faced by your company and continue to seek opportunities to drive growth in our existing portfolio. The company has a good pipeline of innovative new medicines together with the sustained availability of existing products, many of which are the most cost effective treatment options available to doctors and patients. In broader terms, it is clear that the company can, and must, do more to improve shareholder value.

However, the pharmaceutical industry is now facing very serious challenges to manage business operations in this high inflationary environment without price relief. Prices of pharmaceuticals products have now remained unchanged since 2001. The rising trend in local and imported raw and packaging material costs, coupled with the continuous weakening of Rupee and soaring domestic inflation have put tremendous pressure on the profitability of your Company despite all initiatives taken for cost containment and improvement in manufacturing/ commercial operations.

This is clearly unsustainable for any business and a price increase is now inevitable for business survival. The criticality of the issue has been highlighted to the government and we urge the government to take immediate steps to address the issue.

The pharmaceutical industry has great potential for growth, however, its future and success depends on a regulatory environment which is able to balance the interests of this research based industry, with the need for affordable healthcare.

Acknowledgment

Throughout the period under review, industrial relations climate remained cordial and all employees continued to perform with commitment for the achievement of company's objectives. On behalf of the Board, I would like to acknowledge the contribution of all employees towards the continued success of the company.

M. Salman Burney
Chairman / Chief Executive
Karachi
October 22, 2008

Condensed Interim Balance Sheet
as at September 30, 2008

	Note	Un-audited September 30, 2008	Audited December 31, 2007
		Rupees '000	
SHARE CAPITAL AND RESERVES			
Authorised capital			
250,000,000			
ordinary shares of Rs. 10 each		2,500,000	2,500,000
Issued, subscribed and paid-up capital		1,706,719	1,706,719
Reserves		5,704,258	6,410,922
		7,410,977	8,117,641
NON-CURRENT LIABILITIES			
Staff retirement benefits - staff gratuity		57,417	23,192
Deferred taxation		277,361	262,458
		334,778	285,650
CURRENT LIABILITIES			
Trade and other payables		3,118,747	1,698,374
Taxation		13,279	62,844
		3,132,026	1,761,218
CONTINGENCIES AND COMMITMENTS	3		
		10,877,781	10,164,509

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director

	Note	Un-audited September 30, 2008	Audited December 31, 2007
		Rupees '000	
NON-CURRENT ASSETS			
Fixed assets - property, plant and equipment	4	2,278,484	2,236,720
Long-term loans to employees		61,050	53,755
Long-term deposits		6,788	6,808
Investments		158,914	346,824
CURRENT ASSETS			
Stores and spares		113,080	107,199
Stock-in-trade		3,564,487	2,277,175
Trade debts		776,896	116,847
Loans and advances		186,773	81,039
Trade deposits and prepayments		86,466	84,348
Accrued return on investments and bank deposits		101,483	109,851
Refunds due from the government		16,302	14,898
Other receivables	5	227,089	378,071
Investments		271,152	98,229
Cash and bank balances		3,028,817	4,252,745
		8,372,545	7,520,402
		10,877,781	10,164,509

The annexed notes 1 - 10 form an integral part of this condensed interim financial information.

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director

Condensed Interim Profit and Loss Account

for the nine months ended September 30, 2008 (Un-audited)

	Note	Quarter ended		Nine months ended	
		September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
		Rupees '000			
Net sales		3,128,829	2,682,278	9,857,819	7,967,085
Cost of goods sold		(2,172,957)	(1,645,487)	(6,865,345)	(4,923,311)
Gross profit		955,872	1,036,791	2,992,474	3,043,774
Selling, marketing and distribution expenses		(324,788)	(282,807)	(952,498)	(867,681)
Administrative expenses		(145,200)	(119,341)	(388,772)	(339,926)
Other operating expenses		(42,639)	(57,632)	(149,000)	(169,813)
Other operating income		81,561	109,672	315,407	357,076
Operating profit		524,806	686,683	1,817,611	2,023,430
Financial charges	6	(8,247)	(2,361)	(73,088)	(7,268)
Profit before taxation		516,559	684,322	1,744,523	2,016,162
Taxation		(242,000)	(273,500)	(735,000)	(770,500)
Profit after taxation		274,559	410,822	1,009,523	1,245,662
Earnings per share - basic and diluted	7	Rs. 1.60	Rs. 2.41	Rs. 5.91	Rs. 7.30

The annexed notes 1 - 10 form an integral part of this condensed interim financial information.

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director

Condensed Interim Cash Flow Statement

for the nine months ended September 30, 2008 (Un-audited)

	Note	September 30, 2008	September 30, 2007
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	8	1,043,225	1,514,528
Staff gratuity paid		(60)	(66,094)
Taxes paid		(764,565)	(706,912)
Increase in long-term loans to employees		(7,295)	(748)
Decrease in long-term deposits		20	-
Net cash from operating activities		271,325	740,774
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(254,253)	(343,892)
Proceeds from sale of operating assets		33,042	23,911
Investments purchased		-	(346,391)
Investments encashed		-	100,000
Return received on investments		-	12,405
Net cash used in investing activities		(221,211)	(553,967)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(1,274,042)	(1,097,381)
Net decrease in cash and cash equivalents		(1,223,928)	(910,574)
Cash and cash equivalents at the beginning of the period		4,252,745	4,666,470
Cash and cash equivalents at the end of the period		3,028,817	3,755,896

The annexed notes 1 - 10 form an integral part of this condensed interim financial information.

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director

Condensed Interim Statement of Changes in Equity

for the nine months ended September 30, 2008 (Un-audited)

	Share capital	Capital reserve: Share premium	Capital reserve: Exchange loss on issue of shares	Capital reserve: Reserve arising on amalgamation	Capital reserve: For issue of bonus shares	Fair value reserve	General reserve	Unappro- priated profit	Total
	Rupees '000								
Balance at January 1, 2007	1,365,375	1,409	9	375,563	-	(3,648)	3,999,970	1,798,240	7,536,918
Final dividend for the year ended December 31, 2006 @ Rs 8.00 per share	-	-	-	-	-	-	-	(1,092,300)	(1,092,300)
Profit after taxation for the nine months ended September 30, 2007	-	-	-	-	-	-	-	1,245,662	1,245,662
Transfer to reserve for issue of bonus shares	-	-	-	-	341,344	-	-	(341,344)	-
Surplus on revaluation of available-for-sale investments	-	-	-	-	-	2,204	-	-	2,204
Balance at September 30, 2007	1,365,375	1,409	9	375,563	341,344	(1,444)	3,999,970	1,610,258	7,692,484
Balance at January 1, 2008	1,706,719	1,409	9	375,563	-	(1,150)	3,999,970	2,035,121	8,117,641
Final dividend for the year ended December 31, 2007 @ Rs 7.50 per share	-	-	-	-	-	-	-	(1,280,039)	(1,280,039)
Profit after taxation for the nine months ended September 30, 2008	-	-	-	-	-	-	-	1,009,523	1,009,523
Interim dividend for the year ending December 31, 2008 @ Rs 2.50 per share	-	-	-	-	-	-	-	(426,680)	(426,680)
Deficit on revaluation of available-for-sale investments	-	-	-	-	-	(9,468)	-	-	(9,468)
Balance at September 30, 2008	1,706,719	1,409	9	375,563	-	(10,618)	3,999,970	1,337,925	7,410,977

The annexed notes 1 - 10 form an integral part of this condensed interim financial information.

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director

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

for the nine months ended September 30, 2008 (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 manufacture and marketing of research based ethical specialities, other pharmaceutical, animal health and consumer products.

The company is a subsidiary of Setfirst Limited UK, 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 are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi and Lahore Stock Exchanges.

The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the preceding annual financial statements of the company for the year ended December 31, 2007.

2.1 Standards, amendments and interpretation not yet effective but relevant

The following IFRS and IFRIC Interpretations have been issued by the IASB and may affect future annual reports, although none is expected to have a material impact on the results or the financial position of the company.

IAS 1, 'Presentation of financial statements', issued in September 2007 and effective from January 1, 2009, revises the existing IAS 1 and requires, apart from changing the names of certain financial statements, presentation of transactions with owners in the statement of changes in equity and with non-owners in the Comprehensive Income Statement. Adoption of the above standard will only impact the presentation of the financial statements.

IFRS 7, ' Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements - Capital disclosures', (effective for periods beginning on or after April 28, 2008) introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the company's financial instruments.

IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be withdrawn.

Other standards, interpretations and amendments to approved accounting standards effective from accounting periods beginning on or after January 2008, are either not relevant or considered not to have any significant effect on the company's financial statements.

	September 30, 2008	December 31, 2007
	Rupees '000	

3. CONTINGENCIES AND COMMITMENTS

3.1 Contingencies

	September 30, 2008	December 31, 2007
(a) Claims against the company not acknowledged as debt	297,693	289,033

(b) There is no material change in the status of other contingencies as reported in the financial statements for the year ended December 31, 2007.

3.2 Commitments

Commitments for capital expenditure outstanding as at September 30, 2008 amounted to Rs. 215.54 million (December 31, 2007: Rs. 69.51 million).

4. FIXED ASSETS - property, plant and equipment

	Note	September 30, 2008	December 31, 2007
		Rupees '000	
Operating assets	4.1	2,064,432	1,959,774
Capital work-in-progress	4.2	214,052	276,946
		2,278,484	2,236,720

4.1 Details of additions to and disposals from operating assets during the nine months ended September 30, 2008.

	Additions (at cost)		Disposals (at net book value)	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	Rupees '000			
Buildings	8,347	38,763	11,455	-
Plant and machinery	200,680	59,568	17,430	10,702
Furniture and fixture	5,780	13,941	149	79
Vehicles	73,674	43,630	13,053	7,952
Office equipments	28,666	21,021	231	56
	317,147	176,923	42,318	18,789

	September 30, 2008	September 30, 2007
	Rupees '000	
4.2 Net (transfer from) / additions to capital work-in-progress	(62,894)	166,969

5. OTHER RECEIVABLES

These include Rs 91.75 million (December 31, 2007: Rs Nil) held by banks under margin accounts against letters of credit.

6. FINANCIAL CHARGES

These include net exchange loss amounting to Rs 66.24 million (September 30, 2007: Rs Nil).

7. EARNINGS PER SHARE - basic and diluted

For the purpose of calculating earnings per share, number of ordinary shares outstanding as at September 30, 2007 have been increased to reflect the bonus shares issued during last year.

	September 30, 2008	September 30, 2007
	Rupees '000	
8. CASH GENERATED FROM OPERATIONS		
Profit before taxation	1,744,523	2,016,162
Add / (Less): Adjustments for non-cash charges and other items		
Depreciation	168,693	125,817
Impairment loss	1,478	2,000
Loss / (Gain) on disposal of operating assets	9,276	(14,185)
Provision for staff gratuity	34,285	25,260
Return on investments	-	(24,920)
Amortisation of premium on investments	421	567
	214,153	114,539
Profit before working capital changes	1,958,676	2,130,701
EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES		
(Increase) / Decrease in current assets		
Stores and spares	(5,881)	(32,619)
Stock-in-trade	(1,287,312)	(385,150)
Trade debts	(660,049)	(36,538)
Loans and advances	(105,734)	(38,174)
Trade deposits and prepayments	(2,118)	(32,824)
Accrued return on investments and bank deposits	8,368	95,068
Refunds due from the government	(1,404)	-
Other receivables	150,982	12,863
	(1,903,148)	(417,374)
Increase / (Decrease) in trade and other payables	987,697	(198,799)
	(915,451)	(616,173)
	1,043,225	1,514,528

		September 30, 2008	September 30, 2007
		Rupees '000	

9. RELATED PARTY TRANSACTIONS

Relationship	**Nature of transactions**		
Holding company:	Dividend paid	1,008,402	860,503
Associated companies:	a. Purchase of goods, materials and services	2,505,454	1,545,101
	b. Sale of goods and services	55,235	36,983
	c. Recovery of expenses from related party	50,274	45,415
	d. Service fee	2,514	2,271
	e. Donation	120	653
	f. Sale of property, plant & equipment	-	947
Staff retirement funds:	Expense charged for retirement benefit plans	66,390	53,949
Key management personnel:			
	a. Salaries and other employee benefits	72,563	69,303
	b. Post-employment benefits	5,814	5,601
	c. Share based remuneration	12,631	14,603

10. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 22, 2008 by the Board of Directors of the company.

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director