GlaxoSmithKline

GlaxoSmithKline Pakistan Limited

HALF YEARLY

REPORT 2008

Financial statements (Un-audited)

For the half year ended June 30, 2008

Our Mission

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

do more
feel better
&
live
longer

Contents

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. 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

Financial Controller
Mr. Yahya Zakaria

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

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

Registered Office
35 – Dockyard Road, West Wharf, Karachi – 74000.
Telephones: 2315478-82, 2316071-73 & 2315101-08
Fax: 2314898 & 2311122

Website:
www.gsk.com.pk

Key Operating and Financial Data

	Half year ended June 30,	
	2008	2007
	Rs in Million	
Net Sales	**6,729.0**	5,284.8
Operating Profit	**1,292.8**	1,336.7
Profit before Taxation	**1,228.0**	1,331.8
Taxation	**493.0**	497.0
Profit after Taxation	**735.0**	834.8
Paid - Up Capital	**1,706.7**	1,365.4
Shareholders' Equity	**7,563.9**	7,282.2

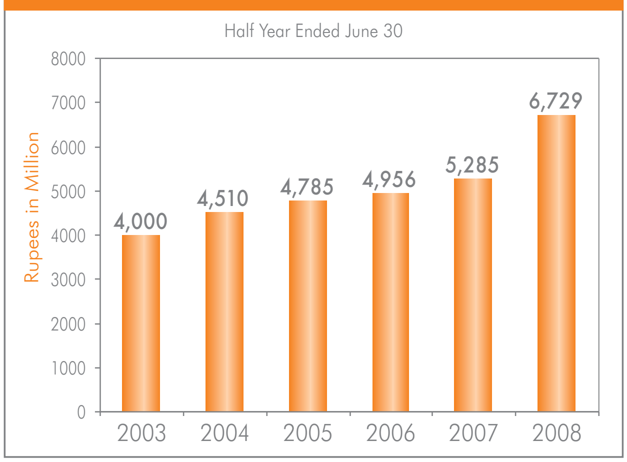
Chairman/Chief Executive's Review

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

Operating Results

GSK Pakistan achieved a good sales performance in the current challenging business environment. Turnover for first half totaled to Rs. 6,729.0 million, increasing by 27.3% compared to the corresponding period last year. This increase in pharmaceutical sales was driven by government tenders, including a large order for Polio Vaccines as well as good sales growth in key brands. Antibiotics, Respiratory, Gastrointestinal and Vaccines reflected good growth during this period. Excluding the polio vaccine tender, net sales grew by 11%.

Net Sales



Export Sales during this period were Rs. 108.0 million, which is lower by 13.7% over the previous year. The Consumer business showed good performance and achieved net sales of Rs. 91.4 million, an increase of Rs. 55.9 million mainly due to changes in distributorship arrangements undertaken last year.

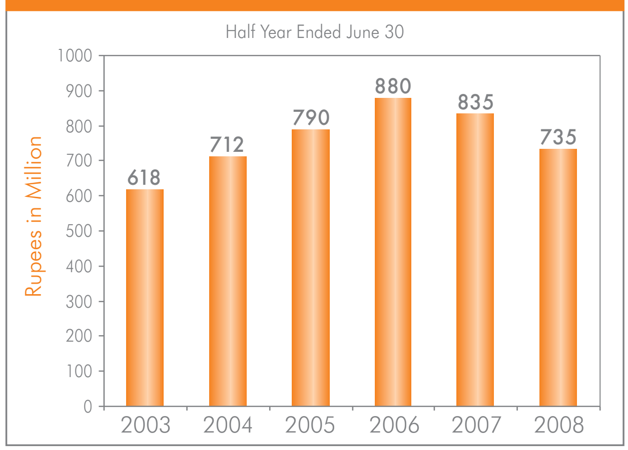
Gross margins during the period came under serious pressure from inflation and devaluation, and reduced significantly to 30.3% as compared to 38.0% in the corresponding period last year. This decrease in margins is attributable to increased cost of goods due to rising raw and packaging material costs both in local and international market, high fuel, power and utilities costs, devaluation of Rupee and also lower margins on tenders due to severe competition.

Selling, marketing and distribution expenses were kept under tight control at Rs. 627.7 million, increasing by 7.3%. Despite such higher inflation, expenses increases under this head are impacted by higher freight costs due to increases in POL prices and rising inflation. Administrative expenses stood at Rs. 243.6 million increasing by 10.4%.

Other operating income at Rs. 233.8 million decreased by 5.5% due to reduction in surplus funds which resulted in lower interest income. Financial charges were increased by Rs. 59.9 million, mainly due to exchange loss on account of devaluation of Rupee in the 2nd quarter of this year.

Profit after tax was Rs. 735.0 million while earnings per share for the period were recorded at Rs. 4.31, lower by 12.0% as compared to the last period.

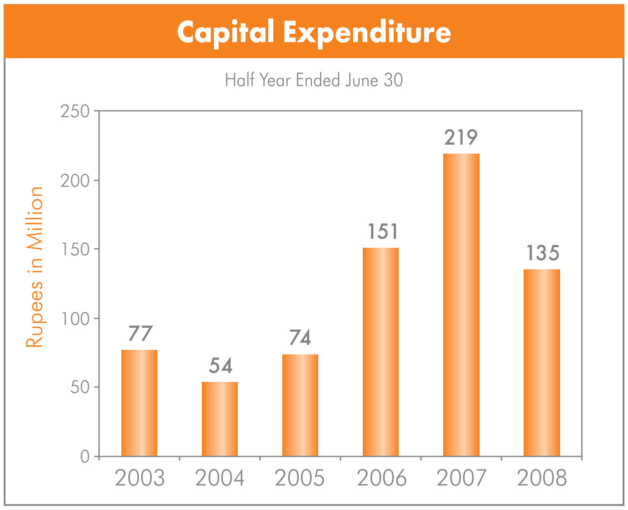
Profit after Tax



Capital expenditure for the period was Rs.135.5 million (June 30, 2007: Rs. 218.6 million) mainly on account of purchase of vehicles and manufacturing site rationalization.

The cash position of the company reduced by Rs.1,409.3 million compared to year ended December 31, 2007 due to the enhanced final

dividend payout of 2007 and an increase in working capital on account of receivables on government tenders.



Future Outlook

We continue to seek opportunities to drive growth in our existing portfolio and continue to make good progress on 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.

However, the pharma business is now under very severe pressure from declining margins due to no pricing relief in an environment of very high inflation and also devaluation. Prices of pharmaceutical products have now remained unchanged since 2001 and there has been no offset given to account for the adverse impact of increasing inflation (particularly in energy & fuel cost, transportation and freight), raw and packaging material costs and devaluation.

This is clearly unsustainable for any business and a price increase is now inevitable for business viability. 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 company continues to focus on the area of preventive healthcare and Vaccines. During the period particular focus was given to developing the Vaccine franchise which performed well. The potential to cost effectively prevent disease and protect health in Pakistan is still significant and the company sees this as an area of great opportunity for adding value to the healthcare situation in the country. 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.

Intellectual Property

The protection of intellectual capital and property is important to ensure returns for the very substantive costs of researching and commercializing new treatments.

In the recent past Pakistan has made some progress in this regard, by updating its IPR laws to the levels required by global conventions. At a practical level however, much more needs to be done to discourage both piracy and counterfeiting. Effective implementation will protect consumers, as well as industry and also lead to a quality and research-oriented culture which is vital for the future progress of this industry.

Acknowledgment

The Industrial Relations climate remained cordial and all employees performed with commitment for the achievement of company objectives. On behalf of the Board, I would like to acknowledge the employees contribution to its continued success.

M. Salman Burney
Chairman / Chief Executive

Karachi
August 12, 2008

Auditors' Report to the Members on Review of Interim Financial Information

Introduction

We have reviewed the accompanying condensed interim balance sheet of GlaxoSmithKline Pakistan Limited as at June 30, 2008 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended June 30, 2008 and 2007 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2008.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended June 30, 2008 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Afferguson & Co.

A. F. Ferguson & Co.
Chartered Accountants

Karachi
Date: August 12, 2008

Financial Statements

(Un-audited)

for the half year ended
June 30, 2008

- **Condensed Interim Balance Sheet**
- **Condensed Interim Profit and Loss Account**
- **Condensed Interim Cash Flow Statement**
- **Condensed Interim Statement of Changes in Equity**
- **Selected Notes to and Forming Part of the Condensed Interim Financial Information**

Condensed Interim Balance Sheet

as at June 30, 2008

	Note	Un-audited June 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		5,857,229	6,410,922
		7,563,948	8,117,641
NON-CURRENT LIABILITIES			
Staff retirement benefits - staff gratuity		45,724	23,192
Deferred taxation		239,023	262,458
		284,747	285,650
CURRENT LIABILITIES			
Trade and other payables		2,732,906	1,698,374
Taxation		94,535	62,844
		2,827,441	1,761,218
CONTINGENCIES AND COMMITMENTS	3		
		10,676,136	10,164,509

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director

	Note	Un-audited June 30, 2008	Audited December 31, 2007
		Rupees '000	
NON-CURRENT ASSETS			
Fixed assets - property, plant and equipment	4	2,217,948	2,236,720
Long-term loans to employees		60,390	53,755
Long-term deposits		6,789	6,808
Investments		161,171	346,824
CURRENT ASSETS			
Stores and spares		105,029	107,199
Stock-in-trade		3,214,643	2,277,175
Trade debts		1,221,813	116,847
Loans and advances		128,923	81,039
Trade deposits and prepayments		82,761	84,348
Accrued return on investments and bank deposits		141,979	109,851
Refunds due from the government		17,199	14,898
Other receivables	5	203,680	378,071
Investments		270,344	98,229
Cash and bank balances		2,843,467	4,252,745
		8,229,838	7,520,402
		10,676,136	10,164,509

The annexed notes 1-11 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 half year ended June 30, 2008 (Un-audited)

	Note	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Half year ended June 30, 2008	Half year ended June 30, 2007
		Rupees '000			
Net sales		3,806,697	2,717,485	6,728,990	5,284,807
Cost of goods sold		(2,857,974)	(1,664,705)	(4,692,388)	(3,277,824)
Gross profit		948,723	1,052,780	2,036,602	2,006,983
Selling, marketing and distribution expenses		(326,398)	(299,989)	(627,710)	(584,874)
Administrative expenses		(124,490)	(98,816)	(243,572)	(220,585)
Other operating expenses		(43,529)	(59,250)	(106,361)	(112,181)
Other operating income		100,781	108,919	233,846	247,404
Operating profit		555,087	703,644	1,292,805	1,336,747
Financial charges	6	(56,733)	(1,656)	(64,841)	(4,907)
Profit before taxation		498,354	701,988	1,227,964	1,331,840
Taxation		(210,000)	(267,000)	(493,000)	(497,000)
Profit after taxation		288,354	434,988	734,964	834,840
Earnings per share - basic and diluted	7	Rs. 1.69	Rs. 2.55	Rs. 4.31	Rs. 4.89

The annexed notes 1-11 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 half year ended June 30, 2008 (Un-audited)

	Note	June 30, 2008	June 30, 2007
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	8	468,949	559,253
Staff gratuity paid		(60)	-
Taxes paid		(480,104)	(421,334)
(Increase) / Decrease in long-term loans to employees		(6,635)	1,578
Decrease in long-term deposits		19	-
Net cash (used in)/from operating activities		(17,831)	139,497
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(135,476)	(218,650)
Proceeds from sale of operating assets		16,381	9,399
Investments purchased		-	(346,391)
Investments encashed		-	100,000
Return received on investments		-	12,405
Net cash used in investing activities		(119,095)	(443,237)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(1,272,352)	(1,084,505)
Net decrease in cash and cash equivalents		(1,409,278)	(1,388,245)
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		2,843,467	3,278,225

The annexed notes 1-11 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 half year ended June 30, 2008 (Un-audited)

	Share capital	CAPITAL RESERVE Share premium	Exchange loss on issue of shares	Reserve arising on amalgamation	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 half year ended June 30, 2007	-	-	-	-	-	-	834,840	**834,840**
Surplus on revaluation of available-for-sale investments	-	-	-	-	2,785	-	-	**2,785**
Balance at June 30, 2007	1,365,375	1,409	9	375,563	(863)	3,999,970	1,540,780	**7,282,243**
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 half year ended June 30, 2008	-	-	-	-	-	-	734,964	**734,964**
Deficit on revaluation of available-for-sale investments	-	-	-	-	(8,618)	-	-	**(8,618)**
Balance at June 30, 2008	**1,706,719**	**1,409**	**9**	**375,563**	**(9,768)**	**3,999,970**	**1,490,046**	**7,563,948**

The annexed notes 1-11 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 half year ended June 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.

	June 30, 2008	Dcember 31, 2007
	Rupees '000	

3. CONTINGENCIES AND COMMITMENTS

3.1 Contingencies

(a) Claims against the company not acknowledged as debt	291,508	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 June 30, 2008 amounted to Rs. 176.23 million (December 31, 2007: Rs. 69.51 million).

4. FIXED ASSETS - property, plant and equipment

	Note	June 30, 2008	December 31, 2007
		Rupees '000	
Operating assets	4.1	1,904,897	1,959,774
Capital work-in-progress	4.2	313,051	276,946
		2,217,948	2,236,720

4.1 Details of additions to and disposals from operating assets during the half year ended June 30, 2008.

	Additions (at cost)		Disposals (at net book value)	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
	Rupees '000			
Buildings	6,655	38,583	1,077	-
Plant and machinery	27,942	43,111	1,444	10,155
Furniture and fixture	4,769	12,132	26	76
Vehicles	43,834	24,768	8,111	3,030
Office equipments	16,171	11,595	101	8
	99,371	130,189	10,759	13,269

	June 30, 2008	June 30, 2007
	Rupees '000	
4.2 Net additions to capital work-in-progress	36,105	76,676

5. OTHER RECEIVABLES

These include Rs 68.81 million (December 31, 2007: Rs Nil) held by banks under margin accounts against letters of credit.

6. FINANCIAL CHARGES

These include exchange loss amounting to Rs 60.55 million (June 30, 2007: Rs Nil).

7. EARNINGS PER SHARE - basic and diluted

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

	June 30, 2008	June 30, 2007
	Rupees '000	
8. CASH GENERATED FROM OPERATIONS		
Profit before taxation	1,227,964	1,331,840
Add / (Less): Adjustments for non-cash charges and other items		
Depreciation	111,505	82,886
Impairment loss	31,984	2,000
Gain on disposal of operating assets	(5,622)	(4,645)
Provision for staff gratuity	22,592	22,618
Return on investments	-	(15,039)
Amortisation of premium on investments	280	426
	160,739	88,246
Profit before working capital changes	1,388,703	1,420,086
EFFECT ON CASH FLOW DUE TO WORKING CAPITAL CHANGES		
(Increase) / Decrease in current assets		
Stores and spares	2,170	(10,107)
Stock-in-trade	(937,468)	(407,170)
Trade debts	(1,104,966)	(133,421)
Loans and advances	(47,884)	(15,624)
Trade deposits and prepayments	1,587	(43,681)
Accrued return on investments and bank deposits	(32,128)	76,778
Refunds due from the government	(2,301)	1,119
Other receivables	174,391	13,318
	(1,946,599)	(518,788)
Increase / (Decrease) in trade and other payables	1,026,845	(342,045)
	(919,754)	(860,833)
	468,949	559,253

		June 30, 2008	June 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	1,615,117	1,008,287
	b. Sale of goods and services	34,105	29,138
	c. Recovery of expenses from related party	26,759	27,569
	d. Service fee	1,338	1,378
	e. Donation	110	153
	f. Sale of property, plant & equipment	-	947
Staff retirement funds:	Expense charged for retirement benefit plans	43,881	41,446
Key management personnel:			
	a. Salaries and other employee benefits	51,566	46,171
	b. Post-employment benefits	4,375	3,558
	c. Share based remuneration	8,799	9,767

10. DIVIDEND

The Board of Directors in its meeting held on August 12, 2008 proposed an interim cash dividend of Rs. 2.50 per share (2007: Nil) amounting to Rs. 426.68 million (2007: Nil).

11. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 12, 2008 by the Board of Directors of the company.

M. Salman Burney
Chairman / Chief Executive

Rafique Dawood
Director