

BALANCE SHEET

As At December 31, 2017

	Note	2017 (Rupees '000)	2016
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital	3	<u>2,000,000</u>	<u>2,000,000</u>
Issued, subscribed and paid-up capital	4	979,003	979,003
Reserves - capital		459,761	414,380
- revenue		12,917,071	13,199,857
Total Equity		<u>14,355,835</u>	<u>14,593,240</u>
NON-CURRENT LIABILITY			
Deferred taxation	5	231,147	203,477
CURRENT LIABILITIES			
Trade and other payables	6	4,649,277	2,843,217
Taxation - net		-	5,250
Total Liabilities		<u>4,880,424</u>	<u>3,051,944</u>
CONTINGENCIES AND COMMITMENTS			
	7		
TOTAL EQUITY AND LIABILITIES		<u>19,236,259</u>	<u>17,645,184</u>

	Note	2017 (Rupees '000)	2016
ASSETS			
NON-CURRENT ASSETS			
Fixed assets			
- Property, plant and equipment	8	5,419,054	4,443,019
- Intangible assets	9	10,650	16,250
Long-term loans and advances	10	50,988	49,654
Long-term deposits	11	7,513	7,475
Long-term prepayments		4,117	6,635
Total Non-current Assets		5,492,322	4,523,033
CURRENT ASSETS			
Stores and spares	12	129,521	103,766
Stock-in-trade	13	3,475,745	3,575,927
Trade debts	14	914,972	880,297
Loans and advances	15	159,591	160,388
Trade deposits and short-term prepayments	16	326,296	285,443
Interest accrued		12,495	11,535
Other receivables	17	149,206	160,366
Taxation - net		4,390	-
Cash and bank balances	18	8,571,721	7,944,429
Total Current Assets		13,743,937	13,122,151
TOTAL ASSETS		19,236,259	17,645,184

The annexed notes 1 to 38 form an integral part of these financial statements.


Chief Executive


Director


Chief Financial Officer

PROFIT AND LOSS ACCOUNT

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
Sales - net	19	26,088,233	23,387,915
Cost of sales	20	15,999,247	14,020,416
Gross profit		10,088,986	9,367,499
Selling and distribution expenses	22	3,611,882	3,258,175
Administrative expenses	23	468,172	450,297
Other charges	24	602,244	486,064
Other income	25	445,317	420,937
		4,236,981	3,773,599
		5,852,005	5,593,900
Finance costs	26	10,060	6,759
Profit before taxation		5,841,945	5,587,141
Taxation	27	1,636,713	1,565,349
Profit for the year		4,205,232	4,021,792
		(Rupees)	
Earnings per share - basic / diluted	28	42.95	41.08

The annexed notes 1 to 38 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
Profit for the year		4,205,232	4,021,792
Other comprehensive income for the year			
- Actuarial (losses) / gains on defined benefit pension plan	21.1.2	(732,778)	687,372
- Tax on actuarial losses / (gains)		160,772	(160,597)
Other comprehensive (loss) / income - net of tax		(572,006)	526,775
Total comprehensive income for the year		3,633,226	4,548,567

The annexed notes 1 to 38 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

CASH FLOW STATEMENT

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	29	7,319,924	4,829,389
Income taxes paid		(1,556,561)	(1,714,877)
Long-term loans and advances		(1,334)	2,058
Long-term deposits		(38)	-
Long-term prepayments		2,518	2,975
Net cash inflow from operating activities		5,764,509	3,119,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(1,604,089)	(980,258)
Acquisition of intangible asset		-	(6,500)
Sale proceeds from disposal of property, plant and equipment		11,219	36,639
Interest income		370,638	391,882
Net cash outflow from investing activities		(1,222,232)	(558,237)
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance costs paid		(10,060)	(6,759)
Dividends paid		(3,904,925)	(2,931,033)
Net cash outflow from financing activities		(3,914,985)	(2,937,792)
Net increase / (decrease) in cash and cash equivalents		627,292	(376,484)
Cash and cash equivalents at the beginning of the year		7,944,429	8,320,913
Cash and cash equivalents at the end of the year		8,571,721	7,944,429

The annexed notes 1 to 38 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For The Year Ended December 31, 2017

	Capital Reserves			Reserves			
	Share Capital	Reserve Arising on Merger	Other- (Note 2.23)	General Reserve	Un-appropriated Profit	Total	Total Equity
	(Rupees ‘000)						
Balance as at January 1, 2016	979,003	46,097	335,848	5,338,422	6,249,877	11,970,244	12,949,247
Transactions with owners, recorded directly in equity							
Final dividend for the year ended December 31, 2015 @ Rs. 20 per share	-	-	-	-	(1,958,006)	(1,958,006)	(1,958,006)
Interim dividend for the year ended December 31, 2016 @ Rs. 10 per share	-	-	-	-	(979,003)	(979,003)	(979,003)
Capital contribution from Abbott Laboratories, USA	-	-	32,435	-	-	32,435	32,435
Total comprehensive income for the year ended December 31, 2016							
Profit for the year	-	-	-	-	4,021,792	4,021,792	4,021,792
Other comprehensive income for the year, net of tax	-	-	-	-	526,775	526,775	526,775
Total comprehensive income for the year	-	-	-	-	4,548,567	4,548,567	4,548,567
Balance as at December 31, 2016	979,003	46,097	368,283	5,338,422	7,861,435	13,614,237	14,593,240
Balance as at January 1, 2017	979,003	46,097	368,283	5,338,422	7,861,435	13,614,237	14,593,240
Transactions with owners, recorded directly in equity							
Final dividend for the year ended December 31, 2016 @ Rs. 30 per share	-	-	-	-	(2,937,009)	(2,937,009)	(2,937,009)
Interim dividend for the year ended December 31, 2017 @ Rs. 10 per share	-	-	-	-	(979,003)	(979,003)	(979,003)
Capital contribution from Abbott Laboratories, USA	-	-	45,381	-	-	45,381	45,381
Total comprehensive income for the year ended December 31, 2017							
Profit for the year	-	-	-	-	4,205,232	4,205,232	4,205,232
Other comprehensive income for the year, net of tax	-	-	-	-	(572,006)	(572,006)	(572,006)
Total comprehensive income for the year	-	-	-	-	3,633,226	3,633,226	3,633,226
Balance as at December 31, 2017	979,003	46,097	413,664	5,338,422	7,578,649	13,376,832	14,355,835

The annexed notes 1 to 38 form an integral part of these financial statements.



Chief Executive



Director



Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

1. THE COMPANY AND ITS OPERATIONS

Abbott Laboratories (Pakistan) Limited (the Company) is a public limited Company incorporated in Pakistan on July 02, 1948, and its shares are quoted on the Pakistan Stock Exchange Limited. The address of its registered office is opposite Radio Pakistan Transmission Centre, Hyderabad Road, Landhi, Karachi. The Company is principally engaged in the manufacture, import and marketing of research based pharmaceutical, nutritional, diagnostic, diabetes care, molecular devices, hospital and consumer products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. As per the requirements of circular No. 23/2017 dated October 04, 2017 issued by the Securities & Exchange Commission of Pakistan (SECP), companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984 (the repealed Ordinance). Accordingly, approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the repealed Ordinance, provisions of and directives issued under the repealed Ordinance. In case requirements differ, the provisions of or directives under the repealed Ordinance shall prevail.

2.1.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for defined benefit pension plan which is carried at present value of defined benefit obligation net of fair value of plan assets.

2.1.3 Adoption of standards and amendments effective during the year

New Standards, Interpretations and Amendments

The Company has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

Standard or Interpretation:

IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)

IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

The adoption of the above standards, amendments and improvements to accounting standards and interpretations did not have any effect on the financial statements.

2.1.4 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 2 - Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	01 January 2018
IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 4 - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	01 January 2018
IFRS 9 - Financial Instruments: Classification and Measurement	01 July 2018
IFRS 9 - Prepayment Features with Negative Compensation – (Amendments)	01 January 2019
IFRS 15 - Revenue from Contracts with Customers	01 July 2018
IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration	01 January 2018
IFRIC 23 - Uncertainty over Income Tax Treatments	01 January 2019

The above standards, amendments and interpretations are not expected to have any material impact on the Company's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016. Such improvements are generally effective for accounting periods beginning on or after 01 January 2018 and 01 January 2019. The Company expects that such improvements to the standards will not have any impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 16 – Leases	01 January 2019
IFRS 17 – Insurance Contracts	01 January 2021

The Company expects that above new standards will not have any material impact on the Company's financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers which will be effective for annual periods beginning on or after January 1, 2018, however, early application is permitted. During the year ended December 31, 2017, SECP vide S.R.O. 1007(1) / 2017 dated October 4, 2017, has also notified the adoption of IFRS 15 for annual periods beginning on or after July 1, 2018. The Company is in the process of assessing the impact of the adoption of these standards.

According to the new standard, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. IFRS 15 also includes guidance on the presentation of contract balances, that is, assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment. IFRS 15 supersedes IAS 11, Construction Contracts and IAS 18, Revenue as well as related interpretations. Currently, it is expected that the changes, if any, in the total amount of revenue to be recognized for a customer contract will be very limited. Besides, changes to the Statement of Financial Position are expected, e.g. separate line items for contract assets and contract liabilities are required, and qualitative disclosures are added.

2.1.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affects the application of policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates made by the management that may have a significant risk of material adjustments to the financial statements in the subsequent years are as follows:

- i) Useful lives of items of property, plant and equipment (note 2.3 and note 8.1);
- ii) Provision for slow moving and obsolete stock-in-trade (note 2.6 and note 13);
- iii) Provision for slow moving and obsolete stores and spares (note 2.5 and 12);
- iv) Provision for doubtful trade debts (note 2.7 and 14);
- v) Provision for doubtful other receivables (note 2.7 and 17);
- vi) Provision for doubtful trade deposits (note 2.8 and 16);
- vii) Estimates of receivables and payables in respect of staff retirement benefit schemes (note 2.15 and note 21);
- viii) Provision for taxation (note 2.10, note 5 and note 27);
- ix) Share based compensation (note 2.23 and 30); and
- x) Contingencies (note 7).

2.2 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Pakistani Rupees, which is also the Company's functional currency.

2.3 Property, plant and equipment

a) Owned

These are stated at cost less accumulated depreciation and impairment loss, if any, except freehold land, which is stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

b) Leased

Leased asset comprises of leasehold land which is stated at cost less accumulated amortisation and accumulated impairment, if any.

c) Depreciation / amortisation

Depreciation is charged to profit and loss account applying the straight line method whereby the cost less residual value of an asset is allocated over its estimated useful life at the rates given in note 8.1. Depreciation on assets is charged from the month of addition to the month of disposal. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end. Amortisation on leasehold land is charged to profit and loss account equally over the period of the lease.

d) Gains or losses on disposal of fixed assets

Gains or losses on disposal of fixed assets are taken to the profit and loss account in the period in which they arise.

e) Subsequent costs

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements which increase the assets' remaining useful economic life or the performance beyond the current estimated levels are capitalized and the assets so replaced, if any, are retired.

f) Capital work-in-progress

This is stated at cost less impairment loss, if any, and consists of expenditure incurred and advances made in the course of construction and installation. These are transferred to specific assets as and when the assets are available for use.

2.4 Intangible assets

An intangible asset is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the entity and the cost of such asset can be measured reliably.

Intangible asset with finite life is measured initially at cost and subsequently stated at cost less accumulated amortisation and impairment losses, if any. It is amortised on a straight line basis over its estimated useful life at the rates given in note 9.

The amortisation period for intangible assets with finite useful lives is reviewed and adjusted at each financial year end.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

2.5 Stores and spares

These are valued at cost determined on weighted average basis. Cost in relation to items in transit comprises of invoice value and other charges incurred thereon up to the balance sheet date. Provision is made in the financial statements for obsolete and slow moving items based on estimates regarding their usability.

2.6 Stock-in-trade

Stock of raw and packing materials, work-in-process and finished goods are valued at the lower of cost, calculated on first-in-first-out basis, and net realisable value. Cost in relation to work-in-process and finished goods represent direct cost of materials, direct wages and an appropriate portion of production overheads. Cost in relation to items in transit represent invoice value and other charges incurred thereon up to the balance sheet date. Provision is made in the financial statements for obsolete and slow moving items based on estimates.

Net realisable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

2.7 Trade debts and other receivables

Trade debts and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment of trade debts is estimated when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit and loss account within 'other charges'. When a trade debt is uncollectible, it is written off against the allowance account for trade debts. Subsequent recoveries of amounts previously written off are credited to 'other income' in the profit and loss account.

2.8 Loans, advances, trade deposits and short-term prepayments

Loans, advances, trade deposits and short term prepayments are initially recognised at cost, which is the fair value of the consideration given. Subsequent to initial recognition, assessment is made at each balance sheet date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such indication exists, the estimated recoverable amount of that asset or group of assets is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying value.

2.9 Sample inventory

Sample inventory is classified as prepayment in the balance sheet and is carried at cost. The cost of sample inventory is charged to profit and loss account on issuance of samples to medical practitioners. Provision is made in the financial statements for obsolete and slow moving items based on estimates regarding their usability.

2.10 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of taxation in accordance with Income Tax Ordinance, 2001.

Deferred

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and the liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date and recognised after adjusting the impact of tax under FTR.

2.11 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand, bank balances and short term investments with a maturity of three months or less from the date of acquisition, net of short-term borrowings. The cash and cash equivalents are readily convertible to known amount of cash and are therefore subject to insignificant risk of changes in value.

2.12 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of consideration to be paid in the future, for goods and services to be received, whether or not billed to the Company.

2.13 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

2.14 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount can be reliably estimated. Provisions are reviewed at each balance sheet date to reflect the current best estimate.

2.15 Staff retirement benefits

Defined contribution plan

The Company operates a recognised provident fund (defined contribution plan) for all permanent employees who have completed six months' service. Equal monthly contributions are made by the Company and its employees at the rate of 10% of basic salary. The contribution of the Company is charged to profit and loss account as and when incurred.

Defined benefit plan

The Company operates an approved funded pension scheme covering all its permanent employees who have completed minimum qualifying period of service. The Company's obligation under the scheme is

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

determined through actuarial valuations carried out under the “Projected Unit Credit Method”. The latest actuarial valuation was carried out at 31 December 2017 and based on this, the Company has recognised the liability for retirement benefits and the corresponding expenses. Actuarial gains and losses that arise are recognised in other Comprehensive Income in the year in which they arise. Past service costs are recognised immediately in profit and loss account irrespective of the fact that the benefits are vested or non-vested. Current service costs and any past service costs together with the effect of the unwinding of the discount on plan liabilities are charged to profit and loss account.

The amount recognised in the balance sheet represents the present value of defined benefit obligation as reduced by the fair value of plan assets.

2.16 Liability for employees’ compensated absences

The Company accounts for the liability in respect of employees’ compensated absences in the year in which these are earned. Provisions to cover the obligations are made using the current salary levels of employees. No actuarial valuation of compensated absences is carried out as the management considers that the financial impact is not material.

2.17 Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Pakistani Rupees at the foreign currency rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the rates of exchange approximating those at the balance sheet date. Exchange differences are taken to the profit and loss account.

2.18 Revenue recognition

- Local sales are recognised as revenue upon transfer of significant risk and rewards of ownership, which coincides with delivery of goods to customers.
- Export sales are recognised as revenue upon transfer of significant risks and rewards of ownership, which coincides with date of shipment.
- Income on investments / deposits is accrued on a time proportionate basis, taking into account the effective interest rates.

2.19 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Non - Financial assets

The carrying amount of non-financial assets other than inventories are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. An impairment loss is recognised, as an expense in the profit and loss account, for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects the

current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

2.20 Financial instruments

All financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised at the time when the Company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled or expires. Any gains or losses on derecognition of financial assets and financial liabilities are taken to the profit and loss account currently.

2.21 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when the Company has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.22 Segment reporting

Segment reporting is based on the operating (business) segments of the Company. An operating segment is an identifiable component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, income tax assets / liabilities and related income and expenditure. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

The business segments are engaged in providing products or services which are subject to risks and rewards which differ from the risk and rewards of other segments. Segments reported are as follows:

Pharmaceutical

The Pharmaceutical segment is engaged in the manufacture, import and marketing of research based pharmaceutical products registered with the Drug Regulatory Authority of Pakistan.

Nutritional

The Nutritional segment is engaged in the import and marketing of pediatric nutritional products and medical nutritional products.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

Others

The Others segment represents the manufacture, import and marketing of diagnostic equipment, diabetes care, molecular devices, their testing kits and general healthcare products.

2.23 Share based compensation

The cost of awarding shares to employees is reflected by recording a charge in the profit and loss account equivalent to the fair value of shares on the grant date over the vesting period. Since awarded shares relate to the ultimate holding company, a corresponding reserve is created to reflect the equity component.

3. AUTHORISED CAPITAL

2017 Number of shares	2016		2017 (Rupees '000)	2016
<u>200,000,000</u>	<u>200,000,000</u>	Ordinary shares of Rs. 10 each	<u>2,000,000</u>	<u>2,000,000</u>

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2017 Number of shares	2016		2017 (Rupees '000)	2016
5,832,196	5,832,196	Ordinary shares of Rs. 10 each issued as fully paid for cash	58,322	58,322
18,479,640	18,479,640	Ordinary shares of Rs. 10 each, determined pursuant to merger of Abbott Laboratories (Pakistan) Limited with Knoll Pharmaceutical Limited in accordance with the swap ratio stipulated therein	184,796	184,796
73,588,466	73,588,466	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	735,885	735,885
<u>97,900,302</u>	<u>97,900,302</u>		<u>979,003</u>	<u>979,003</u>

As at December 31, 2017, Abbott Asia Investments Limited, UK (the holding company) held 76,259,454 shares (77.90%). The ultimate holding company is Abbott Laboratories, USA.

5. DEFERRED TAXATION

Deferred tax liability arising due to accelerated tax depreciation allowance
Deferred tax asset arising in respect of provisions

2017 (Rupees '000)	2016
311,649	251,835
(80,502)	(48,358)
<u>231,147</u>	<u>203,477</u>

	Note	2017 (Rupees '000)	2016
6. TRADE AND OTHER PAYABLES			
Creditors		435,963	86,358
Accrued liabilities		1,590,159	1,115,892
Bills payable	6.1	1,127,904	859,118
Advances from customers		189,740	265,021
Unclaimed dividends		33,126	22,039
Payable to related parties	6.2	103,797	41,104
Sales tax payable		48,149	52,384
Central Research Fund		58,374	59,388
Workers' Welfare Fund		92,550	104,652
Staff pension fund	21.1.1	667,262	-
Provision for Gas Infrastructure Development Cess		289,305	221,135
Others		12,948	16,126
		<u>4,649,277</u>	<u>2,843,217</u>

6.1 Bills payable include the following amounts payable to related parties:

Abbott Diagnostics GmbH	341,303	92,247
Abbott Logistics B.V.	191,427	368,883
Abbott Laboratories (Singapore) PTE Limited	19	-
Abbott Products Operation AG	19,463	235,912
Abbott International LLC., USA	154,644	71,334
Abbott GmbH & Co. KG.	11,913	4,192
Abbott Argentina S.A.	274	-
Abbott Diabetes Care Inc.	18,928	7,019
Abbott Diabetes Care Limited, UK	62,263	25,489
	<u>800,234</u>	<u>805,076</u>

6.2 Payable to related parties represents the following amounts payable to:

Abbott International LLC., USA	49,692	38,364
Abbott Mearo	2,060	-
Abbott B.V. Netherlands	34,376	-
Abbott GmbH & Co. KG.	6,890	2,740
Abbott Products Operation AG	10,779	-
	<u>103,797</u>	<u>41,104</u>

7. CONTINGENCIES AND COMMITMENTS

7.1 Contingencies

- 7.1.1** The taxation officer has contended that the Company has not deducted tax under the law on certain expenses. The order was passed and a demand of Rs. 20 million was raised against the Company for tax year 2014, however an appeal has been filed by the Company with the Appellate Tribunal Inland Revenue which is pending for adjudication.

Based on the legal advisor's opinion, management is of the view that the position of the Company is sound and the eventual outcome is expected to be in the Company's favour.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

- 7.1.2** The Commissioner Inland Revenue (CIR) has selected the case of the Company for audit of tax year 2012 (accounting year December 31, 2011) and tax year 2014 (accounting year December 31, 2013) and has requested various information from the Company. The Company believes that only the Federal Board of Revenue has the right to select the Company for audit based on defined criteria or through random balloting and the CIR does not have the right to select the Company for Audit. The Company has filed writ petition in the High Court of Sindh in this regard, which is pending for hearing.

Based on the legal advisor's opinion, management is of the view that the position of the Company is sound and the eventual outcome is expected to be in the Company's favour.

- 7.1.3** The Company is defending various suits filed against it in various courts in Pakistan related to its business operations. The Company's management is confident, based on the advice of its legal advisors, that these suits will be decided in Company's favor.

7.2 Commitments

- 7.2.1** Commitments for capital expenditure outstanding amounted to Rs. 234.129 million (2016: Rs. 371.248 million).

- 7.2.2** Commitments in respect of letters of credit outstanding as at balance sheet date amounted to Rs. 705.693 million (2016: Rs. 568.028 million).

- 7.2.3** The Company has given bank guarantees of Rs. 232.795 million (2016: Rs. 175.667 million) to the Customs Department, a utility company and other institutions against tenders.

- 7.2.4** The Company has obtained short-term financing facilities from various commercial banks amounting to Rs. 1,120 million (2016: Rs. 1,120 million). These facilities can be utilised for letters of credit, guarantees and running finance / short-term loans. However, the running finance / short-term loan utilisation cannot exceed Rs. 250 million (2016: Rs. 250 million). The running finance / short-term loan carries markup at rates ranging from KIBOR plus 1% to KIBOR plus 2% (2016: KIBOR plus 1% to KIBOR plus 2%) per annum and are secured against first joint pari passu hypothecation charge over stocks and book debts of the Company, ranking hypothecation charge over stocks and book debts of the Company, promissory notes, and counter guarantees. The Company has not borrowed any amount against running finance / short-term loan facilities at the balance sheet date.

	Note	2017 (Rupees '000)	2016
8. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	8.1	4,678,815	3,639,626
Capital work-in-progress	8.5	740,239	803,393
		<u>5,419,054</u>	<u>4,443,019</u>

8.1 Operating fixed assets

The following is a statement of operating fixed assets:

	Freehold land	Leasehold land	Buildings on freehold land	Buildings on leasehold land	Plant and machinery	Vehicles	Office equipment	Computers	Service equipment-note 8.2	Total
	(Rupees '000)									
At December 31, 2015										
Cost	20,679	2,718	429,870	66,683	3,814,968	430,644	107,181	272,741	1,218,195	6,363,679
Accumulated depreciation / amortisation	-	892	218,178	66,182	1,802,848	118,972	92,633	199,200	565,613	3,064,518
Net book value	20,679	1,826	211,692	501	2,012,120	311,672	14,548	73,541	652,582	3,299,161
Year ended December 31, 2016										
Opening net book value	20,679	1,826	211,692	501	2,012,120	311,672	14,548	73,541	652,582	3,299,161
Additions / transfers	-	-	17,649	1,890	540,100	88,739	15,641	17,612	213,476	895,107
Reclassification - cost	-	-	(1,782)	-	(85)	-	2,257	(390)	-	-
Disposals / write offs										
Cost	-	-	-	-	5,517	74,521	-	288	-	80,326
Depreciation	-	-	-	-	5,086	42,667	-	288	-	48,041
Depreciation / amortisation charge for the year	-	-	-	-	431	31,854	-	-	-	32,285
Reclassification - depreciation	-	29	15,506	858	234,085	62,194	5,149	37,636	166,900	522,357
	-	-	(7)	-	(1,178)	(62)	1,083	(7)	171	-
Closing net book value	20,679	1,797	212,060	1,533	2,318,797	306,425	26,214	53,134	698,987	3,639,626
At December 31, 2016										
Cost	20,679	2,718	445,737	68,573	4,349,466	444,862	125,079	289,675	1,431,671	7,178,460
Accumulated depreciation / amortisation	-	921	233,677	67,040	2,030,669	138,437	98,865	236,541	732,684	3,538,834
Net book value	20,679	1,797	212,060	1,533	2,318,797	306,425	26,214	53,134	698,987	3,639,626
Year ended December 31, 2017										
Opening net book value	20,679	1,797	212,060	1,533	2,318,797	306,425	26,214	53,134	698,987	3,639,626
Additions / transfers	-	-	18,506	-	1,183,566	46,458	9,390	11,000	398,323	1,667,243
Reclassification - cost	-	-	-	-	581	-	886	(1,467)	-	-
Disposals / write offs										
Cost	-	-	2,673	-	151,700	21,085	21,998	114,834	45,438	357,728
Depreciation	-	-	2,499	-	137,229	11,134	20,170	114,689	45,438	331,159
Depreciation / amortisation charge for the year	-	-	174	-	14,471	9,951	1,828	145	-	26,569
Reclassification - depreciation	-	28	17,890	102	294,189	64,048	6,014	27,628	191,586	601,485
	-	-	(178)	-	1,336	-	283	(1,441)	-	-
Closing net book value	20,679	1,769	212,680	1,431	3,192,948	278,884	28,365	36,335	905,724	4,678,815
At December 31, 2017										
Cost	20,679	2,718	461,570	68,573	5,381,913	470,235	113,357	184,374	1,784,556	8,487,975
Accumulated depreciation / amortisation	-	949	248,890	67,142	2,188,965	191,351	84,992	148,039	878,832	3,809,160
Net book value	20,679	1,769	212,680	1,431	3,192,948	278,884	28,365	36,335	905,724	4,678,815
Annual rate of depreciation / amortisation %										
2016	-	1.06	2-10	5-10	5-20	20-25	10-33	20-33	11-33	
2017	-	1.06	2-10	5-10	5-20	20-25	10-33	20-33	11-33	

8.2 Service equipment of the Company is in the possession of various hospitals and clinics.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
8.3 The depreciation / amortisation charge for the year has been allocated as follows:			
Cost of sales	20	320,746	259,311
Selling and distribution expenses	22	255,494	237,979
Administrative expenses	23	25,245	25,067
		<u>601,485</u>	<u>522,357</u>

8.4 Details of disposals of operating fixed assets having book value exceeding Rs. 50,000:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
		(Rupees '000)				
Vehicles						
	1,538	923	615	615	Company Policy	Arif Subhan Employee
	451	271	180	489	Open Market Auction	Muhammad Waqas House No. 24-Q, Block 2, PECHS, Karachi
	507	304	203	551	Open Market Auction	Mudassir Iqbal Quarter 11, Street No. 27, 36-B, Landhi-5, Karachi
	1,586	952	634	634	Company Policy	Baber Shahzad Ex-Employee
	1,673	1,004	669	669	Company Policy	Tahir Rasheed Ex-Employee
	2,303	489	1,814	1,957	Company Policy	Shabbir Najmee Ex-Employee
	1,560	936	624	624	Company Policy	M. Ali Employee
	1,683	863	820	820	Company Policy	Rafique Abdullah Ex-Employee
	1,763	903	860	953	Company Policy	Feroz Alam Shah Ex-Employee
	1,572	904	668	629	Company Policy	Atif Rafeeq Ex-Employee
	1,586	952	634	634	Company Policy	Mehar Elahi Ex-Employee
	1,628	692	936	1,350	Insurance Claim	Efu EFU House, M.A Jinnah Road.
	1,552	931	621	621	Company Policy	Tariq Zia Ex-Employee
	1,683	1,010	673	673	Company Policy	Noman Iftikhar Ex-Employee
	21,085	11,134	9,951	11,219		
Plant and machinery						
	1,613	1,451	162	-	Write-off	
	1,462	1,316	146	-	Write-off	
	5,181	4,663	518	-	Write-off	
	1,016	914	102	-	Write-off	
	1,660	1,494	166	-	Write-off	
	2,073	1,866	207	-	Write-off	
	4,987	4,488	499	-	Write-off	
	1,988	1,789	199	-	Write-off	
	1,087	978	109	-	Write-off	
	1,121	1,009	112	-	Write-off	
	1,485	1,337	148	-	Write-off	
	2,255	2,030	225	-	Write-off	
	1,615	1,454	161	-	Write-off	
	7,187	6,468	719	-	Write-off	
	1,536	1,382	154	-	Write-off	
	1,140	1,026	114	-	Write-off	
	2,527	2,274	253	-	Write-off	
	9,549	8,594	955	-	Write-off	
	1,684	1,516	168	-	Write-off	
	4,629	4,166	463	-	Write-off	
	3,169	2,852	317	-	Write-off	
	1,516	1,364	152	-	Write-off	
	2,287	2,059	228	-	Write-off	
	2,321	2,089	232	-	Write-off	
	1,224	1,102	122	-	Write-off	
	1,789	1,610	179	-	Write-off	
	505	455	50	-	Write-off	
	1,295	379	916	-	Write-off	
	3,355	3,019	336	-	Write-off	
	505	454	51	-	Write-off	
	530	477	53	-	Write-off	
	514	463	51	-	Write-off	
	521	469	52	-	Write-off	
	543	489	54	-	Write-off	

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
		(Rupees '000)				
Plant and machinery						
	550	495	55	-	Write-off	
	553	498	55	-	Write-off	
	558	503	55	-	Write-off	
	560	504	56	-	Write-off	
	578	520	58	-	Write-off	
	594	534	60	-	Write-off	
	246	181	65	-	Write-off	
	619	557	62	-	Write-off	
	650	585	65	-	Write-off	
	662	596	66	-	Write-off	
	666	599	67	-	Write-off	
	694	625	69	-	Write-off	
	694	625	69	-	Write-off	
	698	629	69	-	Write-off	
	700	630	70	-	Write-off	
	291	218	73	-	Write-off	
	291	225	66	-	Write-off	
	719	647	72	-	Write-off	
	725	653	72	-	Write-off	
	729	656	73	-	Write-off	
	748	673	75	-	Write-off	
	750	675	75	-	Write-off	
	757	681	76	-	Write-off	
	800	702	98	-	Write-off	
	800	702	98	-	Write-off	
	803	722	81	-	Write-off	
	806	726	80	-	Write-off	
	829	746	83	-	Write-off	
	841	757	84	-	Write-off	
	844	759	85	-	Write-off	
	848	763	85	-	Write-off	
	850	765	85	-	Write-off	
	875	788	87	-	Write-off	
	900	810	90	-	Write-off	
	903	813	90	-	Write-off	
	905	815	90	-	Write-off	
	935	842	93	-	Write-off	
	939	845	94	-	Write-off	
	388	291	97	-	Write-off	
	602	542	60	-	Write-off	
	975	878	97	-	Write-off	
	982	884	98	-	Write-off	
	502	452	50	-	Write-off	
	1,040	936	104	-	Write-off	
	430	309	121	-	Write-off	
	1,050	945	105	-	Write-off	
	388	233	155	-	Write-off	
	310	98	212	-	Write-off	
	709	292	417	-	Write-off	
	775	308	467	-	Write-off	
	829	746	83	-	Write-off	
	111,759	98,474	13,285			
Items having book value less than Rs. 50,000 each	224,884	221,551	3,333	-	Write-off	
Total - 2017	357,728	331,159	26,569	11,219		
- 2016	80,326	48,041	32,285	36,639		

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

8.5 Capital work-in-progress

	Plant and machinery	Vehicles	Building, office equipments and computers	Total
	(Rupees '000)			
At December 31, 2015	627,710	36,669	53,863	718,242
Additions	585,108	76,547	105,127	766,782
Transferred to operating fixed assets	(540,100)	(88,739)	(52,792)	(681,631)
At December 31, 2016	672,718	24,477	106,198	803,393
Additions	789,386	53,740	362,640	1,205,766
Transferred to operating fixed assets	(1,183,566)	(46,458)	(38,896)	(1,268,920)
At December 31, 2017	278,538	31,759	429,942	740,239

	Note	2017 (Rupees '000)	2016 (Rupees '000)
9. INTANGIBLE ASSETS			
Cost			
Opening balance		111,100	104,600
Additions		-	6,500
Balance as at December 31,		111,100	111,100
Accumulated amortisation			
Opening balance		94,850	82,617
Amortisation charge	22	5,600	12,233
Balance as at December 31,		100,450	94,850
Net book value			
Cost		111,100	111,100
Accumulated amortisation		(100,450)	(94,850)
Balance as at December 31,		10,650	16,250
		Years	
Useful life		4-5	4-5

	Note	2017 (Rupees '000)	2016
10. LONG-TERM LOANS AND ADVANCES - considered good, secured			
Long-term loans			
Due from:			
- Executives	10.1	29,653	24,172
- Employees		54,259	56,843
	10.2	83,912	81,015
Less: recoverable within one year			
- Executives		13,564	11,029
- Employees		21,779	22,812
	15	35,343	33,841
		48,569	47,174
Long-term advances			
- Employees		2,419	2,480
		50,988	49,654
10.1 Reconciliation of carrying amount of long-term loans to executives:			
Opening balance		24,172	21,657
Disbursements		13,298	10,776
Transfer of balances of employee cadre to executive cadre		10,440	5,418
Less: Repayments		18,257	13,679
Closing balance		29,653	24,172
10.2 Loans given to executives and employees are in accordance with the Company policy. These loans are interest free and are repayable in equal monthly installments within a maximum period of four years. These loans are carried at cost due to practicality and materiality of the amounts involved. These loans are for the purpose of purchase of refrigerators, scooters, vehicles and television sets. The loans for purchase of vehicles are secured by way of registration of vehicles purchased in the name of the Company.			
10.3 The maximum aggregate amount of loans due from executives at the end of any month during the year were Rs. 31.720 million (2016: Rs. 26.453 million), respectively.			
11. LONG-TERM DEPOSITS			
Represents deposits paid for utilities and gas cylinders. These deposits are interest free.			

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
12. STORES AND SPARES			
Stores		74,837	68,173
Spares [including spares-in-transit of Rs. 3.001 million (2016: Rs. 2.510 million)]		<u>98,733</u>	<u>76,386</u>
		173,570	144,559
Less: Provision for slow moving and obsolete items	12.1	<u>44,049</u>	<u>40,793</u>
		<u>129,521</u>	<u>103,766</u>
12.1 Provision for slow moving and obsolete items			
Opening provision		40,793	37,760
Charge for the year		<u>3,256</u>	<u>3,033</u>
Closing provision		<u>44,049</u>	<u>40,793</u>
13. STOCK-IN-TRADE			
Raw and packing materials [including stock-in-transit of Rs. 334.411 million (2016: Rs. 259.703 million)]	20	1,915,370	1,962,457
Work-in-process	20	312,100	226,490
Finished goods [including stock-in-transit of Rs. 203.197 million (2016: Rs. 228.197 million)]	20	<u>1,540,436</u>	<u>1,553,410</u>
		3,767,906	3,742,357
Less: Provision for slow moving and obsolete items	13.2	<u>292,161</u>	<u>166,430</u>
		<u>3,475,745</u>	<u>3,575,927</u>
13.1 Stock-in-trade includes items costing Rs. 135.881 million (2016: Rs. 106.688 million) valued at net realisable value of Rs. 122.926 million (2016: Rs. 85.953 million) resulting in a write down of Rs. 12.955 million (2016: Rs. 20.735 million).			
		2017 (Rupees '000)	2016
13.2 Provision for slow moving and obsolete items			
Opening provision		166,430	120,257
Charge for the year		218,591	123,282
Write offs during the year		(92,860)	(77,109)
Closing provision		<u>292,161</u>	<u>166,430</u>

	Note	2017 (Rupees '000)	2016
14. TRADE DEBTS			
Considered good:			
Secured		24,026	136,329
Unsecured			
- Due from a related party		-	43,911
- Others		890,946	700,057
		890,946	743,968
		914,972	880,297
Considered doubtful:			
Unsecured		28,152	18,788
		943,124	899,085
Less: Provision for doubtful debts	14.1	28,152	18,788
		914,972	880,297
14.1 Provision for doubtful debts			
Opening provision		18,788	10,639
Charge for the year	24	9,364	8,248
Write offs during the year		-	(99)
Closing provision		28,152	18,788
15. LOANS AND ADVANCES - unsecured			
Considered Good			
Current portion of long-term loans	10	35,343	33,841
Advances to:			
- Executives		13,961	7,535
- Employees		3,223	5,032
- Suppliers		107,064	113,980
		124,248	126,547
		159,591	160,388
Considered doubtful		794	794
		160,385	161,182
Less: Provision for doubtful advances		794	794
		159,591	160,388
15.1 These loans and advances are interest free.			

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
16. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS			
Considered good			
Trade deposits	16.1	161,369	102,383
Prepayments [including sample inventory Rs. 30.934 million (2016: Rs. 53.905 million)]		164,927	183,060
		<u>326,296</u>	<u>285,443</u>
Considered doubtful			
Trade deposits		16,434	2,161
		<u>342,730</u>	<u>287,604</u>
Less: Provision for doubtful trade deposits	16.2	<u>16,434</u>	<u>2,161</u>
		<u>326,296</u>	<u>285,443</u>
16.1 These trade deposits are interest free.			
16.2 Provision for doubtful trade deposits			
Opening provision		2,161	2,161
Charge for the year	24	14,273	-
Closing provision		<u>16,434</u>	<u>2,161</u>
17. OTHER RECEIVABLES			
Considered good			
Due from related parties	17.1	58,218	52,123
Receivable from customers		62,127	51,850
Insurance claim receivable		2,253	5,415
Staff Pension Fund	21.1.1	-	34,089
Workers' Profit Participation Fund	17.3	21,691	10,968
Others		4,917	5,921
		<u>149,206</u>	<u>160,366</u>
Considered doubtful		<u>4,182</u>	<u>3,673</u>
		<u>153,388</u>	<u>164,039</u>
Less: Provision for doubtful other receivables	17.2	<u>4,182</u>	<u>3,673</u>
		<u>149,206</u>	<u>160,366</u>

	Note	2017 (Rupees '000)	2016
17.1 Due from related parties			
Abbott Laboratories (Singapore) PTE Limited		-	436
Abbott International LLC., USA		-	1,009
Abbott Laboratories Malaysia		2,384	750
Zwolle Manufacturing		152	144
Abbott Laboratories Trading (Shanghai) Co. Ltd.		9,461	10,126
Abbott Laboratories Limited UK		1,105	-
Abbott GmbH & Co. KG.		45,116	39,658
		<u>58,218</u>	<u>52,123</u>
17.2 Provision for doubtful other receivables			
Opening provision		3,673	3,239
Charge for the year	24	509	434
Closing provision		<u>4,182</u>	<u>3,673</u>
17.3 Workers' Profit Participation Fund			
Opening balance		10,968	1,675
Allocation for the year	24	(293,309)	(299,032)
		(282,341)	(297,357)
Payment made during the year - net		304,032	308,325
Closing balance		<u>21,691</u>	<u>10,968</u>
18. CASH AND BANK BALANCES			
With banks			
Savings accounts:			
- Local currency	18.1	282,727	367,799
Deposit accounts:			
- Local currency	18.2	7,800,000	7,000,000
Current accounts:			
- Local currency		2,210	6,565
- Foreign currency		426,180	481,660
		<u>428,390</u>	<u>488,225</u>
In hand			
- Foreign currency		3,013	2,071
- Local currency		2,596	2,146
		<u>5,609</u>	<u>4,217</u>
Cheques and drafts in hand and in transit		54,995	84,188
		<u>8,571,721</u>	<u>7,944,429</u>

18.1 These savings accounts carry markup rate of 3.75% (2016: 3.75%) per annum.

18.2 These deposit accounts carry markup rate of 5.25% (2016: 5.10%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
19. SALES – NET			
Local		25,261,420	22,621,385
Export			
- to related parties	32	331,689	397,722
- to others		1,209,344	1,011,164
		1,541,033	1,408,886
		26,802,453	24,030,271
Less:			
Sales returns and discounts		179,507	149,888
Sales tax and excise duty		534,713	492,468
		714,220	642,356
		26,088,233	23,387,915
20. COST OF SALES			
Opening raw and packing materials		1,962,457	1,624,428
Purchases		8,781,015	8,223,611
		10,743,472	9,848,039
Closing raw and packing materials	13	(1,915,370)	(1,962,457)
Raw and packing materials consumed		8,828,102	7,885,582
Opening work-in-process		226,490	224,347
		9,054,592	8,109,929
Manufacturing expenses:			
Salaries, wages, allowances and staff welfare	20.1	1,520,095	1,443,329
Stores and spares consumed		82,957	81,205
Fuel and power		389,729	380,572
Depreciation	8.3	320,746	259,311
Repairs and maintenance		240,751	204,843
Technical service fee	32	161,285	143,964
Insurance		15,767	19,252
Printing and stationery		13,303	11,179
Travelling and entertainment		9,784	20,929
Rent, rates and taxes		1,946	1,619
Laboratory testing supplies		37,805	37,074
Computer expenses		17,183	8,619
Postage, telephone and telegram		12,529	11,724
Fees and purchased services		84,954	80,121
Recruitment and training expenses		1,350	1,183
Membership and subscription		782	742
Conference expenses		-	948
Other expenses		81,814	81,076
		2,992,780	2,787,690
		12,047,372	10,897,619
Closing work-in-process	13	(312,100)	(226,490)
Cost of goods manufactured		11,735,272	10,671,129

	Note	2017 (Rupees '000)	2016
Finished goods			
Opening stock		1,553,410	1,180,172
Purchases		4,251,001	3,722,525
		<u>17,539,683</u>	<u>15,573,826</u>
Closing stock	13	<u>(1,540,436)</u>	<u>(1,553,410)</u>
		<u>15,999,247</u>	<u>14,020,416</u>

20.1 These include a charge of Rs. 108.923 million - note 21.3 (2016: charge of Rs. 135.487 million) in respect of staff retirement benefits.

21. STAFF RETIREMENT BENEFITS

21.1 Defined benefit scheme

As mentioned in note 2.15, the Company operates a funded pension scheme for all its permanent employees. Contributions are made to the scheme based on actuarial recommendations. The actuarial valuation was carried out as at December 31, 2017 using the Projected Unit Credit Method.

	Note	2017 (Rupees '000)	2016
21.1.1 Amounts recognised in the balance sheet:			
Present value of the defined benefit obligation	21.1.2	4,231,334	3,819,153
Less: Fair value of the plan assets	21.1.3	3,564,072	3,853,242
Deficit / (Surplus)	6 & 17	<u>667,262</u>	<u>(34,089)</u>

	Present value of defined benefit obligation	Fair value of plan assets	Total
	(Rupees '000)		
21.1.2 As at January 1, 2017	3,819,153	(3,853,242)	(34,089)
Current service cost	157,734	-	157,734
Interest cost / (income)	347,627	(359,297)	(11,670)
Company contributions	-	(177,491)	(177,491)
Benefits paid	(319,837)	319,837	-
Remeasurements recognised in other comprehensive income:			
- Loss due to changes in experience adjustment	141,277	-	141,277
- Loss due to changes in financial assumptions	85,380	-	85,380
- Remeasurement of fair value of plan assets	-	506,121	506,121
	<u>226,657</u>	<u>506,121</u>	<u>732,778</u>
As at December 31, 2017	<u>4,231,334</u>	<u>(3,564,072)</u>	<u>667,262</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	Present value of defined benefit obligation	Fair value of plan assets (Rupees '000)	Total
As at January 1, 2016	3,696,667	(3,085,696)	610,971
Current service cost	156,816	-	156,816
Interest cost / (income)	348,369	(296,891)	51,478
Company contributions	-	(165,982)	(165,982)
Benefits paid	(247,295)	247,295	-
Remeasurements recognised in other comprehensive income:			
- Loss due to changes in experience adjustment	130,071	-	130,071
- Gain due to changes in financial assumptions	(265,475)	-	(265,475)
- Remeasurement of fair value of plan assets	-	(551,968)	(551,968)
	(135,404)	(551,968)	(687,372)
As at December 31, 2016	3,819,153	(3,853,242)	(34,089)

	Note	2017 (Rupees '000)	2016
21.1.3 Plan assets are comprised as follows:			
Debt instruments		1,879,220	1,487,830
Equity instruments	21.1.7	1,612,996	2,159,720
Bank balances		71,856	205,692
		<u>3,564,072</u>	<u>3,853,242</u>
21.1.4 Amount recognised in profit and loss:			
Current service cost		157,734	156,816
Net interest		(11,670)	51,478
	21.3	<u>146,064</u>	<u>208,294</u>
21.1.5 Actual (loss) / return on plan assets		<u>(146,824)</u>	<u>848,859</u>
		<u>(Percent per annum)</u>	
21.1.6 Principal actuarial assumptions used were as follows:			
Discount rate	21.1.8	9.00	9.50
Future salary increases		7.00	7.50
Future pension increases		0.00	0.00

21.1.7 Pension plan assets include the Company's ordinary shares with a fair value of Rs. 306.034 million (2016: Rs. 419.865 million).

21.1.8 The discount rate of 9.00% is representative of yields on long-term Government Bonds.

21.1.9 Expected contributions to the plan for the year ending December 31, 2018 is Rs. 253.888 million.

21.1.10 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption (Rupees in '000)	Decrease in assumption
Discount rate	1%	(425,606)	508,186
Salary growth rate	1%	292,734	(262,505)
Pension growth rate	1%	244,093	(215,114)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

21.1.11 Expected maturity analysis of undiscounted retirement benefit plan:

	At December 31, 2017				
	Less than one year	Between one to two years	Between two to five years	Between five to ten years	Total
	(Rupees in '000)				
Retirement benefit plan	201,174	233,716	795,280	2,245,994	3,476,164

21.2 Defined contribution scheme

An amount of Rs. 84.761 million (2016: Rs. 77.848 million) has been contributed during the year in respect of the contributory provident fund maintained by the Company.

	Note	2017 (Rupees '000)	2016
21.3 Staff retirement benefit cost recognised in the profit and loss account			
Pension cost	21.1.4	146,064	208,294
Less: Reimbursement from related party	32	(1,662)	(2,614)
Provident fund contribution	32	84,761	77,848
Employees Old-Age Benefits Institution		12,558	13,482
		<u>241,721</u>	<u>297,010</u>

Allocated as:

Cost of sales	20.1	108,923	135,487
Selling and distribution expenses	22.1	107,120	130,875
Administrative expenses	23.1	25,678	30,648
		<u>241,721</u>	<u>297,010</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

- 21.4 The Company's staff retirement benefits includes provident fund - a defined contribution plan. The Company has established a separate provident fund. Following information of the provident fund has been derived from the unaudited (2016: audited) financial statements of the provident fund:

	2017	2016
Number of members	1,350	1,372
Size of provident fund (Rupees '000)	965,554	1,174,752
Cost of investments made (Rupees '000)	617,214	671,356
Percentage of investments made	63.92%	57.15%
Fair value of investment (Rupees '000)	946,187	1,178,763
Break-up of investments:		
- Balance in Government securities		
Amount of investment (Rupees '000)	358,612	422,194
Percentage of size of the fund	37.14%	35.94%
- Balance in equity shares in listed companies		
Cost of investment (Rupees '000)	86,544	86,544
Percentage of size of the fund	8.96%	7.37%
Unrealised gain on equity investment (Rupees '000)	321,140	471,800
Percentage of size of the fund	33.26%	40.16%
- Balance in term finance certificates		
Amount of investment (Rupees '000)	208	208
Percentage of size of the fund	0.02%	0.02%
- Balance in mutual funds & bank		
Cost of investment (Rupees '000)	171,850	162,410
Percentage of size of the fund	17.80%	13.83%
Unrealised gain on mutual funds (Rupees '000)	7,833	35,607
Percentage of size of the fund	0.81%	3.03%

- 21.4.1 As at December 31, 2017, investments out of provident fund have been made in accordance with the provisions of section 227 of the repealed Companies Ordinance, 1984 and the rules formulated for this purpose.

- 21.5 The average number of employees during the year and number of employees as at December 31, 2017 and 2016, respectively, are as follows:

	Note	2017 No. of employees	2016
Average number of employees during the year		1,407	1,445
Number of employees as at year end		1,416	1,433

		2017 (Rupees '000)	2016
22. SELLING AND DISTRIBUTION EXPENSES			
Salaries, wages, allowances and staff welfare	22.1	1,212,403	1,189,282
Rent, rates and taxes		53,688	49,048
Repairs and maintenance		29,852	25,053
Royalty		31,328	32,535
Insurance		11,126	16,522
Depreciation	8.3	255,494	237,979
Amortisation of intangible assets	9	5,600	12,233
Legal, professional and other services		30,708	29,435
Postage, telephone and telegram		35,487	38,459
Printing and stationery		9,629	6,207
Travelling and conveyance		379,638	318,057
Advertising, samples and sales promotion		856,368	702,472
Forwarding expenses		454,443	430,981
Utilities		25,677	25,335
Computer expenses		26,569	13,664
Training and development expenses		43,163	30,364
Packing and miscellaneous supplies		26,447	23,960
Distributors commission		94,044	67,151
Fees and purchased services		44,280	35,596
Warehousing Services		55,690	27,212
Security expenses		22,433	20,803
Membership and subscription		1,388	892
Other expenses		27,712	17,925
		<u>3,733,167</u>	<u>3,351,165</u>
Less: Reimbursement from related party	32	<u>121,285</u>	<u>92,990</u>
		<u>3,611,882</u>	<u>3,258,175</u>

- 22.1 These include a charge of Rs. 107.120 million - note 21.3 (2016: charge of Rs. 130.875 million) in respect of staff retirement benefits.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	Note	2017 (Rupees '000)	2016
23. ADMINISTRATIVE EXPENSES			
Salaries, wages, allowances and staff welfare	23.1	270,670	271,924
Rent, rates and taxes		14,876	13,999
Repairs and maintenance		7,159	5,905
Insurance		16,112	18,088
Depreciation	8.3	25,245	25,067
Legal, professional and other services		10,464	22,802
Postage, telephone and telegram		6,568	7,669
Printing and stationery		3,930	3,257
Travelling and conveyance		15,437	13,308
Utilities		5,828	5,550
Computer expenses		57,668	37,601
Training and development expenses		1,532	940
Miscellaneous office supplies		6,268	2,685
Fees and purchased services		5,699	2,116
Security expenses		15,582	11,119
Membership and subscription		8,084	6,958
Other expenses		7,208	7,493
		<u>478,330</u>	<u>456,481</u>
Less: Reimbursement from related party	32	<u>10,158</u>	<u>6,184</u>
		<u>468,172</u>	<u>450,297</u>

23.1 These include a charge of Rs. 25.678 million - note 21.3 (2016: charge of Rs. 30.648 million) in respect of staff retirement benefits.

	Note	2017 (Rupees '000)	2016
24. OTHER CHARGES			
Workers' Profit Participation Fund	17.3	293,309	299,032
Auditors' remuneration	24.1	6,631	5,332
Donations	24.2	4,103	1,615
Workers' Welfare Fund		86,548	94,477
Central Research Fund		55,421	56,436
Provision for doubtful trade debts	14.1	9,364	8,248
Provision for doubtful trade deposits	16.2	14,273	-
Provision for doubtful other receivables	17.2	509	434
Exchange loss		63,762	20,490
Property, plant and equipment written off - net		15,350	-
Stamp duty		52,974	-
		<u>602,244</u>	<u>486,064</u>

24.1 Auditors' remuneration

Statutory audit fee	2,193	2,055
Tax advisory services	3,240	2,643
Special certifications	998	484
Out of pocket expenses	200	150
	<u>6,631</u>	<u>5,332</u>

24.2 Recipients of donations do not include any donee in which any director or his / her spouse had any interest.

	Note	2017 (Rupees '000)	2016
25. OTHER INCOME			
Income from financial assets			
Income from savings and deposits accounts		371,598	355,896
Income from non-financial assets			
Other income	25.1	37,808	38,948
Gain on disposal of property, plant and equipment - net		-	4,354
Scrap sales		35,911	21,739
		<u>445,317</u>	<u>420,937</u>

25.1 This represents income earned from Abbott GmbH & Co. KG., a related party at the rate of 10% (2016: 10%) of half of the written down value of assets deployed by the Company on their behalf in the Company's Diagnostic division in Pakistan.

	2017 (Rupees '000)	2016
26. FINANCE COSTS		
Bank charges	<u>10,060</u>	<u>6,759</u>
27. TAXATION - net		
Current		
- For the year	1,452,005	1,468,756
- Prior year	<u>157,038</u>	<u>112,260</u>
	<u>1,609,043</u>	<u>1,581,016</u>
Deferred	<u>27,670</u>	<u>(15,667)</u>
	<u>1,636,713</u>	<u>1,565,349</u>

27.1 Relationship between tax expense and accounting profit

Accounting profit before taxation	<u>5,841,945</u>	<u>5,587,141</u>
Tax rate	30%	31%
Tax on accounting profit	1,752,584	1,732,014
Tax for prior years	<u>157,038</u>	<u>112,260</u>
Tax effect of:		
- Expenses that are not deductible in determining taxable profit	14,845	10,556
- Applying lower tax rates to certain income	(173,780)	(244,686)
- BMR tax credit	(118,357)	(54,333)
- Tax rate adjustment	(34)	(32,686)
- Others (including the impact arising as a consequence of reversal of deferred tax liability and change in allocation ratio of revenue chargeable under FTR and Non-FTR)	<u>4,417</u>	<u>42,224</u>
	<u>1,636,713</u>	<u>1,565,349</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

	2017 (Rupees '000)	2016 (Rupees '000)
28. EARNINGS PER SHARE - BASIC / DILUTED		
Profit for the year	4,205,232	4,021,792
	Number of shares	
Weighted average number of ordinary shares in issue during the year	97,900,302	97,900,302
	(Rupees)	
Earnings per share	42.95	41.08

28.1 There is no dilutive effect on the basic earnings per share of the Company.

	2017 (Rupees '000)	2016 (Rupees '000)
29. CASH GENERATED FROM OPERATIONS		
Profit before taxation	5,841,945	5,587,141
Adjustment for:		
Depreciation / amortisation	601,485	522,357
Amortisation on intangible assets	5,600	12,233
Gain on disposal of property, plant and equipment	(1,268)	(4,785)
Property, plant and equipment written off	16,618	431
Interest income	(371,598)	(394,844)
Expense recognised in profit or loss in respect of equity-settled share-based compensation	45,381	32,435
Pension retirement benefit	(31,427)	42,312
Finance costs	10,060	6,759
Working capital changes	1,203,128	(974,650)
	7,319,924	4,829,389

29.1 Working capital changes

(Increase) / decrease in current assets net of provision

Stores and spares	(25,755)	36,303
Stock-in-trade	100,182	(667,237)
Trade debts	(34,675)	(403,894)
Loans and advances	797	(60,194)
Trade deposits and short-term prepayments	(40,853)	(53,546)
Other receivables	(22,929)	(28,782)
	(23,233)	(1,177,350)

Increase in current liabilities

Trade and other payables - net	1,226,361	202,700
	1,203,128	(974,650)

30. SHARE BASED COMPENSATION

Share-based compensation plans

As at December 31, 2017, the Company's equity settled share-based compensation plan includes restricted stock units plan.

Under the plan, the Company employees, eligible as per policy are awarded restricted stock units of Abbott Laboratories, USA (the ultimate holding company). The plan entitles eligible employees shares of the ultimate holding company which are vested equally over next three years, subject to certain vesting conditions.

In accordance with IFRS 2 (Share-Based Payments), services received from employees as consideration for stock units are recognised as an expense in the profit and loss account, with the corresponding entry recorded as equity. The expense corresponds to the fair value of the stock unit of the Abbott Laboratories, USA and is charged against income on a straight-line basis over the vesting period of the plan.

An expense of Rs. 45.381 million (2016: Rs. 32.435 million) was recognized for this plan during the year.

The fair value of restricted stock units plan is measured at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2016	2015	2014
Volatility	17.00%	17.00%	20.00%
Dividend yield	2.70%	2.00%	2.20%
Risk free interest rate	1.40%	1.80%	1.90%

Expected volatility is based on implied volatilities from traded options on Abbott Laboratories, USA's stock and historical volatility of Abbott Laboratories, USA's stock over the expected life of the option.

A summary of units outstanding is given below:

	2017		2016	
	Average exercise price per stock unit (USD)	Stock units	Average exercise price per stock unit (USD)	Stock units
At January 1,	40.55	7,821	44.38	10,221
Granted	44.29	15,120	38.78	13,447
Exercised / cancelled	43.06	10,031	41.52	15,847
At December 31,	42.98	12,910	40.55	7,821

Stock units outstanding at the end of the year have the following expiry date and exercise prices:

	2017		2016	
Vesting date	Stock units	Exercise Price (USD)	Stock units	Exercise Price (USD)
2017	-	-	4,824	41.79
2018	8,030	42.12	2,997	38.54
2019	4,880	44.38	-	-
	12,910	42.98	7,821	40.55

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

31. CAPACITY

The capacity and production of the Company's plants is indeterminable as these are multi-product plants involving varying processes of manufacture. The Company's production was according to market demand.

32. TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company comprise the holding company, ultimate holding company, group companies, employee retirement benefit plans, directors and key management personnel. Transactions with related parties are as follows:

	Note	2017 (Rupees '000)	2016
Group companies			
Sale of goods	19	331,689	397,722
Purchase of materials		4,388,401	4,201,481
Technical service fee	20	161,285	143,964
Reimbursements from a related parties on account of:			
Selling and distribution expenses	22	121,285	92,990
Administrative expenses	23	10,158	6,184
Pension Fund	21.3	1,662	2,614
Other income	25.1	37,808	38,948
Retirement fund:			
Contribution to Pension Fund	21.1.2	177,491	165,982
Contribution to Provident Fund	21.3	84,761	77,848
Key management personnel:			
Short-term employee benefits		247,517	190,961
Post-employment benefits		28,085	21,953

32.1 Disposals of property, plant and equipment to key management personnel are disclosed in note 8.4.

32.2 Outstanding balances in respect of related party sales and purchases, reimbursements and staff retirement benefits are included in notes 6, 14, 17 and 21.

32.3 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. The Company considers all members of their executive management team, including the chief executive and directors, to be key management personnel. Outstanding balances of loans and advances to key management personnel are disclosed in note 10 and note 15.

33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements in respect of remuneration, including all benefits to the chief executive, directors and executives of the Company were as follows:

	2017			2016		
	Chief Executive	Director	Executives	Chief Executive	Directors	Executives
	(Rupees '000)					
Short-term employee benefits						
Managerial remuneration	33,836	9,115	971,535	26,724	5,691	763,273
Leave passage / encashment	1,751	787	62,998	2,169	2,255	59,115
Medical expenses	244	6	34,894	404	39	30,335
Rent / utility / maintenance / furnishing	1,635	343	8,202	125	51	2,100
	37,466	10,251	1,077,629	29,422	8,036	854,823
Retirement benefits	4,361	1,406	149,761	3,854	927	119,296
	41,827	11,657	1,227,390	33,276	8,963	974,119
Number of persons	1	1	433	1	2	367

- 33.1 In addition, Rs. 45.381 million (2016: Rs. 32.435 million) has been charged in the profit and loss account in respect of share-based payments to chief executive, directors and certain executives of the Company as mentioned in notes 2.23 and 30.
- 33.2 Managerial remuneration includes Rs. 149.948 million (2016: Rs. 112.584 million) charged in the profit and loss account in respect of bonus to chief executive, directors and certain executives of the Company.
- 33.3 Directors and certain other executives are provided with free use of Company maintained cars, club membership and telephone facilities as per terms of employment.
- 33.4 The aggregate amount charged in these financial statements for fees to non-executive directors is Rs. 1.080 million (2016: Rs. 1.320 million).

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

34. SEGMENT WISE OPERATING RESULTS

	2017				2016			
	Pharma- ceutical	Nutritional	Others	Total	Pharma- ceutical	Nutritional	Others	Total
	(Rupees `000)							
Sales	19,687,162	4,805,839	2,309,452	26,802,453	17,382,379	4,355,413	2,292,479	24,030,271
Less: Sales returns and discounts	150,270	12,291	16,946	179,507	120,890	9,672	19,326	149,888
Less: Sales tax and excise duty	-	463,881	70,832	534,713	-	392,311	100,157	492,468
Sales - net	19,536,892	4,329,667	2,221,674	26,088,233	17,261,489	3,953,430	2,172,996	23,387,915
Cost of sales	11,728,904	2,863,021	1,407,322	15,999,247	10,276,084	2,538,892	1,205,440	14,020,416
Gross profit	7,807,988	1,466,646	814,352	10,088,986	6,985,405	1,414,538	967,556	9,367,499
Selling and distribution expenses	2,639,136	543,564	429,182	3,611,882	2,399,136	439,303	419,736	3,258,175
Administrative expenses	413,564	44,152	10,456	468,172	393,307	45,499	11,491	450,297
Segment result	4,755,288	878,930	374,714	6,008,932	4,192,962	929,736	536,329	5,659,027
Unallocated corporate expenses / income								
Other income				445,317				420,937
Other charges				602,244				486,064
Profit before finance costs and taxation				5,852,005				5,593,900
Finance costs				10,060				6,759
Profit before taxation				5,841,945				5,587,141
Taxation				1,636,713				1,565,349
				4,205,232				4,021,792
Other Information								
Segment assets employed	7,743,336	615,137	1,604,423	9,962,896	7,488,742	556,231	1,046,738	9,091,711
Unallocated corporate assets				9,273,363				8,553,473
Total assets				19,236,259				17,645,184
Segment liabilities	1,936,923	334,275	449,230	2,720,428	1,375,430	421,195	367,444	2,164,069
Unallocated corporate liabilities				2,159,996				887,875
Total liabilities				4,880,424				3,051,944
Capital expenditure during the year	1,201,926	3,840	398,323	1,604,089	729,541	18,336	232,381	980,258
Unallocated corporate capital expenditure				-				-
Total capital expenditure				1,604,089				980,258
Depreciation / amortisation	388,329	9,657	209,099	607,085	340,353	9,285	184,952	534,590
Unallocated depreciation / amortisation				-				-
Total depreciation / amortisation				607,085				534,590

	Note	2017 (Rupees '000)	2016
34.1 Geographical information			
Sales to external customers, net of returns, discounts, sales tax and excise duty			
Pakistan		24,547,200	21,979,029
Afghanistan		1,146,989	948,316
Srilanka		62,355	53,751
Netherland		-	-
Bangladesh		-	9,097
Switzerland	32	331,689	397,722
		<u>26,088,233</u>	<u>23,387,915</u>

34.2 Segment assets consist primarily of property, plant and equipment, trade debts and stock-in-trade. Segment liabilities comprise of trade creditors and an apportionment of accrued expenses. Assets and liabilities which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

35. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Company's overall risk management programme focuses on minimizing potential adverse effects on the Company's financial performance. The overall risk management of the Company is carried out by the Company's senior management team under policies approved by the Board of Directors. Such policies entail identifying, evaluating and addressing financial risks of the Company.

The Company's overall risk management procedures to minimize the potential adverse affects of financial market on the Company's performance are as follows:

35.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economical, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Credit risk of the Company arises principally from the trade debts, loans and advances, trade deposits, other receivables and balances with banks. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk on trade debts, the Company has developed a formal approval process, whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. The credit risk on liquid funds such as balances with banks is limited because the counter parties are banks with reasonably high credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

The maximum exposure to credit risk at the reporting date is as follows:

	Note	2017 (Rupees '000)	2016 (Rupees '000)
Loans and advances	10 & 15	103,515	96,062
Deposits	11 & 16	168,882	109,858
Trade debts	14	914,972	880,297
Interest accrued		12,495	11,535
Other receivables	17	87,079	74,427
Balances with banks	18	8,511,117	7,856,024
		<u>9,798,060</u>	<u>9,028,203</u>

The Company is not significantly exposed to concentrations of credit risk in respect of trade debts and bank balances because the Company's sales are primarily against advance payment / collection on delivery (COD) terms.

As at December 31, 2017, trade debts of Rs. 113.258 million (2016: Rs. 108.489 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging of trade debts past due but not impaired is as follows:

	2017 (Rupees '000)	2016 (Rupees '000)
61-90 days	48,974	31,849
91-180 days	28,931	22,440
181-360 days	35,353	21,591
Over 360 days	-	32,609
	<u>113,258</u>	<u>108,489</u>

The impaired trade debts and the basis of impairment are disclosed in notes 14 and 2.7 respectively.

The credit quality of balances with banks can be assessed with reference to external credit ratings as follows:

Name of Bank	Rating Agency	Ratings		Date of Rating	2017 (Rupees '000)	2016 (Rupees '000)
		Short-term	Long-term			
Deutsche Bank AG	Moody's Fitch	P-2 F2	A3 A-	May 2016 Sep 2017	37,092	3,016,371
MCB Bank Limited	PACRA	A1+	AAA	Dec 2017	192	185
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA	Dec 2017	2,453,687	1,827,726
The Bank of Tokyo- Mitsubishi UFJ Limited	S & P Moody's Fitch	A-1 P-1 F1	A A1 A	Nov 2017 Nov 2017 Nov 2017	6,000,032	3,000,569
Citibank N.A.	Moody's	P-1	A1	June 2017	63	63
National Bank of Pakistan	JCR-VIS PACRA	A-1+ A1+	AAA AAA	June 2017 Dec 2017	2,115	5,933
Faysal Bank Limited	PACRA JCR-VIS	A1+ A-1+	AA AA	Dec 2017 June 2017	206	199
Habib Bank Limited	JCR-VIS	A-1+	AA+	Sep 2017	17,730	4,978

Financial assets other than trade debts and bank balances, are not exposed to any material credit risk.

35.2 Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet commitments. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or encounters difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Company manages liquidity risk by maintaining sufficient cash / bank balance and the availability of funding through an adequate amount of committed credit facilities. As at December 31, 2017, the Company's financial liabilities of Rs. 3,593.024 million (2016: Rs. 2,359.026 million) are all current and due in next financial year.

35.3 Market risk

Market risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is not exposed to other price risk whereas the exposure to currency risk and interest rate risk is given below:

35.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates and arises where transactions are done in foreign currency. It arises mainly where receivables and payables exist due to transactions entered into foreign currencies.

The Company's exposure to foreign currency risk at the reporting date was as follows:

	2017		2016	
	Rupees	US Dollars	Rupees	US Dollars
	('000)			
Cash and cash equivalents	429,193	3,884	483,731	4,616
Due from related parties	58,218	527	96,034	916
Bills payable	(1,127,904)	(10,207)	(851,033)	(8,121)
Payable to related parties	(103,797)	(939)	(49,189)	(469)
	<u>(744,290)</u>	<u>(6,735)</u>	<u>(320,457)</u>	<u>(3,058)</u>

The following significant exchange rates were applied during the year:

	Balance sheet date rate		Average rate	
	2017	2016	2017	2016
	(Rupees)			
US Dollars	110.50	104.80	105.07	104.85

A ten percent strengthening / weakening of the Pakistani Rupee against the US Dollar at the reporting date would increase / decrease post tax profit for the year by Rs. 53.577 million (2016: Rs. 23.067 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the previous year.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2017

35.3.2 Interest rate risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from savings and deposit accounts with banks.

	2017	2016
	(Rupees '000)	
Fixed rate instruments		
Financial assets	8,082,727	7,849,459

As of the balance sheet date, the Company is not significantly exposed to any interest rate risk.

35.4 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability can be settled, between knowledgeable willing parties in an arm's length transaction. As of the balance sheet date, the carrying value of all financial assets and liabilities reflected in the financial statements approximate to their fair values.

As of the balance sheet date, the Company does not have any financial instruments measured at fair value.

36. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The current capital structure of the Company is equity based with no financing through borrowings.

37. NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

In their meeting held on February 26, 2018, the Board of Directors of the Company have proposed a final cash dividend for the year ended December 31, 2017 of Rs. 30.0 per share (2016: cash dividend of Rs. 30.0 per share). This is in addition to interim cash dividend of Rs. 10.0 per share (2016: Rs. 10.0 per share). The total dividend declared during the year and dividend per share have been summarised below:

	2017	2016
	(Rupees '000)	
Cash dividend	3,916,012	3,916,012
	(Rupees)	
Cash dividend per share	40.00	40.00

The Finance Act, 2017 introduced tax on every public company at the rate of 7.5% of accounting income before tax. However, this tax shall not be applied in case of a public company which distributes profit equal to 40% of its after tax profits within six months from the end of the year.

Based on the fact the Board of Directors of the Company has proposed / approved cash dividend amounting to Rs. 3,916.012 million for the year ended December 31, 2017 which exceeds the above prescribed minimum dividend requirement, the Company believes that it would not eventually be liable to pay tax on its undistributed profits as of December 31, 2017.

The financial statements for the year ended December 31, 2017 do not include the effect of the final cash dividend which will be accounted for in the financial statements for the year ending December 31, 2018.

38. **DATE OF AUTHORISATION**

These financial statements were authorised for issue on February 26, 2018 by the Board of Directors of the Company.



Chief Executive



Director



Chief Financial Officer

PATTERN OF SHAREHOLDING

As At December 31, 2017

Size of Holding Rs. 10 Shares		Number of Shareholders	Total Shares
1	100	915	36,750
101	500	614	169,459
501	1,000	240	182,697
1,001	5,000	495	1,059,415
5,001	10,000	96	690,358
10,001	15,000	26	326,195
15,001	20,000	7	116,353
20,001	25,000	9	198,480
25,001	30,000	4	113,500
30,001	35,000	3	99,004
35,001	40,000	4	144,777
40,001	45,000	6	256,751
50,000	55,000	2	103,100
60,000	65,000	4	244,650
65,001	70,000	1	66,572
75,000	80,000	1	75,000
80,001	85,000	1	82,050
95,001	100,000	5	493,750
105,001	110,000	1	109,850
110,001	115,000	1	110,200
115,001	120,000	1	118,650
130,001	135,000	2	267,400
135,001	140,000	1	139,150
145,001	150,000	2	293,103
155,000	160,000	1	155,000
180,001	185,000	1	184,200
190,001	195,000	1	191,500
200,001	205,000	1	201,750
225,001	230,000	1	227,390
270,001	275,000	1	273,310
290,001	295,000	1	294,400
335,001	340,000	1	336,834
340,001	345,000	1	342,889
380,001	385,000	1	380,122
400,001	405,000	1	403,083
435,001	440,000	1	438,689
440,001	445,000	1	442,105
490,001	495,000	1	490,926
650,001	655,000	1	650,200
745,001	750,000	1	746,093
830,001	835,000	1	830,624
1,070,001	1,075,000	1	1,071,977
1,075,001	1,080,000	1	1,075,918
1,085,001	1,090,000	2	2,176,914
1,165,001	1,170,000	1	1,169,850
1,450,001	1,455,000	1	1,452,175
2,605,001	2,610,000	1	2,607,688
76,255,001	76,260,000	1	76,259,451
TOTAL		2,466	97,900,302

CATEGORIES OF SHAREHOLDERS

As At December 31, 2017

S.No	Shareholder's category	Number of shareholders	Number of shares held	%
1	Associated Companies, Undertakings and Related Parties	3	77,189,066	78.84
2	Mutual Funds	38	5,482,001	5.60
3	Directors and their spouse(s) and minor children	7	41,641	0.04
4	Executives	4	812	0.00
5	Public Sector Companies and Corporations	1	830,624	0.85
6	Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modaraba and Pension Funds	41	3,522,137	3.60
7	Others	102	1,671,502	1.71
8	Individuals	2,270	9,162,519	9.36
Total:		2,466	97,900,302	100.00

List of Associated Companies, Undertakings and Related Parties

S.No	Folio	Name	Holding
1	4502	M/S. ABBOTT ASIA INVESTMENTS LIMITED	76,259,451
2	03277-7217	TRUSTEES ABBOTT LABORATORIES (PAKISTAN) LIMITED STAFF PROVIDENT FUND	490,926
3	03277-2083	TRUSTEES ABBOTT LABORATORIES (PAKISTAN) LIMITED STAFF PENSION FUND	438,689
Total:			77,189,066

List of Mutual Funds

S.No	Folio	Name	Holding
1	3031	M/S. GOLDEN ARROW SELECTED STOCK	48
2	05371-28	CDC - TRUSTEE MCB PAKISTAN STOCK MARKET FUND	109,850
3	05645-24	CDC - TRUSTEE PICIC INVESTMENT FUND	118,650
4	05777-29	CDC - TRUSTEE PICIC GROWTH FUND	191,500
5	05819-23	CDC - TRUSTEE ALHAMRA ISLAMIC STOCK FUND	12,000
6	05959-27	CDC - TRUSTEE ATLAS STOCK MARKET FUND	60,550
7	05991-23	CDC - TRUSTEE MEEZAN BALANCED FUND	110,200
8	06130-25	CDC - TRUSTEE JS ISLAMIC FUND	22,500
9	06197-29	CDC - TRUSTEE ALFALAH GHP VALUE FUND	21,500
10	06411-21	CDC - TRUSTEE AKD INDEX TRACKER FUND	4,515
11	07062-23	CDC - TRUSTEE AL MEEZAN MUTUAL FUND	184,200
12	07070-22	CDC - TRUSTEE MEEZAN ISLAMIC FUND	1,169,850
13	09449-25	CDC - TRUSTEE ATLAS ISLAMIC STOCK FUND	27,550
14	09480-21	CDC - TRUSTEE NAFA STOCK FUND	139,150
15	09506-26	CDC - TRUSTEE NAFA MULTI ASSET FUND	10,300
16	10397-29	CDC - TRUSTEE MEEZAN TAHAFFUZ PENSION FUND - EQUITY SUB FUND	134,550
17	10710-28	CDC - TRUSTEE ALFALAH GHP ISLAMIC STOCK FUND	97,950
18	10801-27	CDC - TRUSTEE NAFA ISLAMIC ASSET ALLOCATION FUND	145,900
19	10900-25	CDC - TRUSTEE APIF - EQUITY SUB FUND	5,500
20	11486-27	CDC - TRUSTEE JS ISLAMIC PENSION SAVINGS FUND-EQUITY ACCOUNT	1,650
21	11809-26	CDC - TRUSTEE ALFALAH GHP STOCK FUND	24,500
22	11924-22	CDC - TRUSTEE ALFALAH GHP ALPHA FUND	20,850
23	12120-28	CDC - TRUSTEE NIT-EQUITY MARKET OPPORTUNITY FUND	40,050
24	12310-25	CDC - TRUSTEE FIRST HABIB STOCK FUND	950
25	12625-27	CDC - TRUSTEE NAFA ASSET ALLOCATION FUND	9,900
26	13698-29	CDC - TRUSTEE HBL IPF EQUITY SUB FUND	2,250
27	13714-25	CDC - TRUSTEE HBL PF EQUITY SUB FUND	2,750
28	14126-26	CDC - TRUSTEE FIRST HABIB ISLAMIC STOCK FUND	150
29	14415-21	CDC - TRUSTEE NAFA PENSION FUND EQUITY SUB-FUND ACCOUNT	8,000
30	14431-29	CDC - TRUSTEE NAFA ISLAMIC PENSION FUND EQUITY ACCOUNT	9,050
31	14902-21	CDC - TRUSTEE NATIONAL INVESTMENT (UNIT) TRUST	2,607,688
32	15719-23	CDC - TRUSTEE ALHAMRA ISLAMIC PENSION FUND - EQUITY SUB FUND	9,050
33	15727-22	CDC - TRUSTEE PAKISTAN PENSION FUND - EQUITY SUB FUND	1,550
34	15974-23	CDC - TRUSTEE NAFA ISLAMIC STOCK FUND	62,150
35	16139-23	CDC - TRUSTEE NIT ISLAMIC EQUITY FUND	61,950
36	16162-20	CDC - TRUSTEE NITIPF EQUITY SUB-FUND	4,300
37	16402-20	CDC - TRUSTEE NAFA ISLAMIC ACTIVE ALLOCATION EQUITY FUND	12,900
38	16501-27	CDC - TRUSTEE MEEZAN ASSET ALLOCATION FUND	36,050
Total:			5,482,001

CATEGORIES OF SHAREHOLDERS

As At December 31, 2017

List of Directors and their spouse(s) and minor children

S.No	Folio	Name	Holding
1	4487	MR. MUNIR A. SHAIKH	1
2	4607	SYED ANIS AHMED	1
3	4775	MS. SEEMA KHAN	1
4	03277-90453	MR. EHSAN ALI MALIK	3,900
5	03277-144	MR. KAMRAN Y. MIRZA	36,098
6	06122-5280	MR. SHAMIM AHMAD KHAN	1,140
7	04002-39038	MS. ZEHRA NAQVI	500
Total :			41,641

List of Executives

S.No	Folio	Name	Holding
1	2270	RIAZ UL HASAN	112
2	4535	NAJEEBUDDIN QURESHI	300
3	4538	MOHAMMAD HAMEED ULLAH	200
4	4616	MOHIUDDIN ANSARI	200
Total :			812

Public Sector Companies and Corporations

S.No	Folio	Name	Holding
1	02683-23	STATE LIFE INSURANCE CORPORATION OF PAKISTAN	830,624
Total :			830,624

Shareholders Holding 5% or more Voting Rights in the Listed Company

S.No	Folio	Name	Holding
1	4502	M/S. ABBOTT ASIA INVESTMENTS LIMITED	76,259,451
Total :			76,259,451

Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modaraba and Pension Funds

S.No	Folio	Name	Holding
1	2405	NATIONAL BANK OF PAKISTAN (TRUSTEE DEPARTMENT)	100
2	3137	UNITED INSURANCE CO OF PAK LTD	2
3	4171	N. B. P. TRUSTEE DEPARTMENT	880
4	00307-40281	INNOVATIVE INVESTMENT BANK LIMITED	1,000
5	00547-8677	UNILEVER PAKISTAN DC PENSION FUND (SUB FUND A)	9,550
6	00547-8685	UNILEVER PAKISTAN DC PENSION FUND (SUB FUND B)	6,750
7	00547-8693	UNILEVER PENSION PLAN	924
8	00695-10718	TRUSTEE PAK TOBACCO CO LTD STAFF DEFINED CONTRIBUTION PENSION FUND (1384-1)	3,300
9	00695-10759	TRUSTEE PAK TOBACCO CO LTD STAFF PENSION FUND [1390-2]	53,100
10	00695-14108	TRUSTEE - SHELL PAKISTAN DC PENSION FUND	13,500
11	00695-14116	TRUSTEE - SHELL PAKISTAN STAFF PENSION FUND	243
12	00695-14132	TRUSTEE - SHELL PAKISTAN MANAGEMENT STAFF PENSION FUND	17,900
13	01446-866	TRUSTEE - MCB EMPLOYEES PENSION FUND	201,750
14	02295-39	FAYSAL BANK LIMITED	96,000
15	02832-32	MEEZAN BANK LIMITED	99,800
16	03277-10526	HABIB INSURANCE CO.LIMITED	41,775
17	03277-1651	FIRST UDL MODARABA	100
18	03277-71690	ADAMJEE LIFE INSURANCE COMPANY LIMITED	100,000
19	03277-73165	PAK QATAR FAMILY TAKAFUL LIMITED	3,000
20	03277-73166	PAK QATAR FAMILY TAKAFUL LIMITED	2,950
21	03277-73168	PAK QATAR FAMILY TAKAFUL LIMITED	3,000
22	03277-78335	TRUSTEE NATIONAL BANK OF PAKISTAN EMPLOYEES PENSION FUND	227,390
23	03277-8372	EXCEL INSURANCE COMPANY LIMITED	15,000
24	03277-90405	DAWOOD FAMILY TAKAFUL LIMITED	7,150
25	03277-90406	DAWOOD FAMILY TAKAFUL LIMITED	6,700
26	03277-9371	JUBILEE LIFE INSURANCE COMPANY LIMITED	1,452,175
27	03889-28	NATIONAL BANK OF PAKISTAN	1,397
28	04010-28907	PAK-QATAR INVESTMENT (PVT.) LIMITED	1,500
29	04127-28	MCB BANK LIMITED	650,200
30	05132-26	ASKARI BANK LIMITED	33,650
31	07450-4077	CRESCENT STANDARD MODARABA	700
32	11320-25	B.R.R. GUARDIAN MODARABA	43,076
33	12666-882	HABIB INSURANCE COMPANY LIMITED	13,925
34	12690-1077	TRUSTEES SANOFI-AVENTIS PAK. SENIOR EXECUTIVE PENSION FUND	3,400
35	12690-830	TRUSTEES INDUS MOTOR COMPANY LIMITED EMPLOYEES PENSION FUND	4,000
36	12690-889	TRUSTEES ENGRO CORP LTD MPT EMPLOYEES DEF CONTR PENSION FUND	7,150
37	12690-996	IGI LIFE INSURANCE LIMITED	200
38	13748-592	TRUSTEE - MILLAT TRACTORS LTD. EMPLOYEES PENSION FUND	1,900
39	13748-667	TRUSTEE - THE KOT ADDU POWER CO. LTD. EMPLOYEES PENSION FUND	2,600
40	13755-21	ADAMJEE INSURANCE COMPANY LIMITED	294,400
41	16329-20	MCB ISLAMIC BANK LIMITED	100,000
Total:			3,522,137