



engro polymer & chemicals

Financial Information for the Half Year  
ended June 30, 2012



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## COMPANY INFORMATION

<b>Chairman</b>	Mohammad Aliuddin Ansari
<b>President and Chief Executive</b>	Khalid S. Subhani
<b>Directors</b>	Asif Qadir Isar Ahmad Kimihide Ando Shahzada Dawood Shabbir Hashmi Waqar A. Malik Afnan Ahsan Takashi Yoshida
<b>Company Secretary</b>	Kaleem Uddin Ahmad
<b>Board Audit Committee</b>	Isar Ahmad Kimihide Ando Shabbir Hashmi Asif Qadir
<b>Bankers / Lenders</b>	Allied Bank Ltd. Summit Bank Ltd. Askari Commercial Bank Ltd. Bank Al Falah Ltd. Bank Al Habib Ltd. Barclays Bank PLC., Pakistan Citibank N.A. Deutsche Bank AG Dubai Islamic Bank Ltd. Samba Bank Ltd. Faysal Bank Ltd. Habib Bank Ltd. Hongkong Shanghai Banking Corporation International Finance Corporation MCB Bank Ltd. Meezan Bank Ltd. National Bank of Pakistan NIB Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. United Bank Ltd. Silk Bank Ltd.
<b>Auditors</b>	A. F. Ferguson & Co., Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi
<b>Registered Office</b>	16th Floor, The Harbour Front Building, HC-3, Marine Drive, Block 4, Scheme-5, Clifton, Karachi-75600, Pakistan. UAN: +111 411 411
<b>Plant</b>	EZ/1/P-II-1, Eastern Zone, Bin Qasim, Karachi
<b>Share Registrar</b>	FAMCO Associates (Private) Limited 1st Floor, State Life Building 1-A, I.I. Chundrigar Road Karachi - 74000 Tel: (92-21) 32427012, 32426597, 32425467
<b>Website</b>	<a href="http://www.engropolymer.com">www.engropolymer.com</a>





engro polymer & chemicals  
and its subsidiary company

**DIRECTORS' REVIEW &  
UNAUDITED CONSOLIDATED CONDENSED  
INTERIM FINANCIAL INFORMATION  
FOR THE HALF YEAR ENDED JUNE 30, 2012**



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY  
DIRECTORS' REVIEW TO THE SHAREHOLDERS  
ON UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION  
FOR THE HALF YEAR ENDED JUNE 30, 2012**

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited (EPCL), we would like to present the unaudited Financial Information of the Company for the half year ended June 30, 2012.

**Business Review**

The Company achieved revenue of Rs. 9,476 million giving a growth of 18% over 1H 2011 which was mainly attributable to increased volumes and higher caustic prices. The Company posted a profit after tax of Rs. 59 million for 1H 2012 as compared to loss after tax of Rs. 195 million during 1H 2011. Profits were helped by insurance claim proceeds received on account of delayed start up claim resulting from the plant site fire incident in December 2009. During 2Q 2012, the Company posted a loss after tax of Rs. 355 million as compared to loss after tax of Rs. 136 million in the same period last year mainly due to lower Poly Vinyl Chloride (PVC) prices and higher FX losses resulted from higher Pak Rupee devaluation of 4.4% against 0.7% during 2Q 2011.

International PVC prices remained under pressure during the 2nd quarter on the back of lower demand in the region, coupled with falling Ethylene prices which decreased by \$300 per ton during the quarter as a result of lower oil prices and lower turnarounds as compared to 1Q 2012. PVC prices dropped by approx. \$200 per ton during the quarter, thereby impacting demand as customers adopted a wait and see approach in view of declining prices. However, with the beginning of the 3rd quarter prices have increased marginally and are expected to remain stable in the short term.

Subsequent to the annual planned turnaround that was taken at the end of March 2012, VCM plant has been consistently operating at a rate of 540+ tons per day which is well above its integrated capacity. The Company also exported 3K tons of VCM during the quarter. Following table shows the operating performance of the Company:

	2nd Quarter				1st Quarter			
	Production		Sales		Production		Sales	
	2012	2011	2012	2011	2012	2011	2012	2011
VCM	34	21	3	-	67	35	3	-
PVC	34	27	29	26	70	52	66	57
Caustic Soda	25	25	25	22	53	46	50	42

PVC production was up by 35% over 1H, 2011 mainly due to stable VCM production. The Company also exported 4K tons of PVC during 1H 2012 compared to 2K tons during 1H 2011.

Caustic soda production during 1H 2012 was up by 15% and the Company was able to sell all its production net off in house consumption.

**Near Future Outlook**

PVC prices are expected to remain stable in 3Q 2012; however uncertainty is expected to prevail due to regional demand/supply and Euro-zone crisis which may put pressure on Company's profitability during 2H. Keeping in view the current levels of production, the Company is optimistic about exporting surplus VCM. Caustic Soda demand is expected to remain stable. The management of the Company will continue its focus and commitment on safe and sustained operations of the integrated facility at desired operating level to obtain full economic benefits.



**Khalid Siraj Subhani**  
President & Chief Executive  
Karachi  
August 06, 2012



**Kimihide Ando**  
Director





**AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION**

**Introduction**

We have reviewed the accompanying consolidated condensed interim balance sheet of Engro Polymer and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited as at June 30, 2012 and the related consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows together with the notes forming part thereof (here-in-after referred to as the "consolidated condensed interim financial information"), for the half year then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review. The figures of the consolidated condensed interim profit and loss account and the consolidated condensed interim statement of comprehensive income for the quarters ended June 30, 2012 and 2011 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2012.

**Scope of Review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information as of and for the half year ended June 30, 2012 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

**Chartered Accountants  
Karachi  
Date: August 10, 2012**

**Engagement Partner: Sohail Hasan**

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**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY  
CONSOLIDATED CONDENSED INTERIM BALANCE SHEET  
AS AT JUNE 30, 2012**

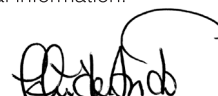
(Amounts in thousand)

	Note	(Unaudited) June 30, 2012	(Audited) December 31, 2011
		Rupees	
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	18,184,389	18,537,582
Intangible assets	6	36,138	31,104
Long term loans and advances		58,736	37,803
Deferred taxation	7	990,785	902,138
		<u>19,270,048</u>	<u>19,508,627</u>
<b>Current Assets</b>			
Stores, spares and loose tools		1,296,005	1,098,891
Stock-in-trade	8	3,062,616	2,508,579
Trade debts - considered good	9	208,352	292,605
Loans, advances, deposits, prepayments and other receivables	10	328,585	324,406
Taxes recoverable	11	940,522	860,486
Cash and bank balances	12	87,848	114,435
		<u>5,923,928</u>	<u>5,199,402</u>
<b>TOTAL ASSETS</b>		<u>25,193,976</u>	<u>24,708,029</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(100,208)	(102,221)
Accumulated loss		(1,196,561)	(1,255,645)
		<u>6,301,948</u>	<u>6,240,851</u>
<b>Non-Current Liabilities</b>			
Long term borrowings	14	7,938,367	8,620,195
Derivative financial instruments	15	154,166	157,263
Retirement and other service benefit obligations		58,947	62,107
		<u>8,151,480</u>	<u>8,839,565</u>
<b>Current Liabilities</b>			
Current portion of long term borrowings		1,670,000	2,491,828
Short term borrowings	16	2,316,673	722,340
Trade and other payables	17	6,427,787	6,101,686
Accrued interest / mark-up		146,514	145,081
Provisions	18	179,574	166,678
		<u>10,740,548</u>	<u>9,627,613</u>
<b>Commitments</b>	19		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>25,193,976</u>	<u>24,708,029</u>

The annexed notes 1 to 32 form an integral part of this consolidated condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director





[Amounts in thousand except for profit / (loss) per share]

**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY  
CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)  
FOR THE HALF YEAR ENDED JUNE 30, 2012**

	Note	Quarter ended		Half Year ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
		Rupees			
Net revenue	20	4,457,691	3,907,520	9,476,400	8,031,180
Cost of sales	21	(3,786,715)	(3,410,298)	(7,738,381)	(6,990,348)
<b>Gross profit</b>		670,976	497,222	1,738,019	1,040,832
Distribution and marketing expenses	22	(250,697)	(204,230)	(543,985)	(396,846)
Administrative expenses	23	(157,019)	(96,328)	(254,136)	(174,015)
Other operating expenses	24	(273,623)	(29,092)	(364,999)	(33,226)
Other operating income	25	8,758	25,404	415,065	37,068
<b>Operating (loss) / profit</b>		(1,605)	192,976	989,964	473,813
Finance cost	26	(552,510)	(402,418)	(913,166)	(775,172)
<b>(Loss) / Profit before taxation</b>		(554,115)	(209,442)	76,798	(301,359)
Taxation		198,940	73,236	(17,714)	106,260
<b>(Loss) / Profit for the period</b>		(355,175)	(136,206)	59,084	(195,099)
<b>(Loss) / Profit per share</b> - basic and diluted		(0.54)	(0.21)	0.09	(0.29)

The annexed notes 1 to 32 form an integral part of this consolidated condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director



(Amounts in thousand)

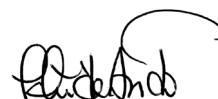
**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	Rupees			
<b>(Loss) / Profit for the period</b>	(355,175)	(136,206)	59,084	(195,099)
<b>Other comprehensive profit / (loss):</b>				
<b>Hedging reserve</b>				
Loss arising during the period	(25,408)	(30,677)	(28,534)	(15,664)
Reclassification adjustments for losses on interest rate swaps included in profit and loss	31,046	3,963	31,631	4,192
Income tax relating to hedging reserve	(1,973)	9,350	(1,084)	4,015
Other comprehensive gain / (loss) for the period - net of tax	3,665	(17,364)	2,013	(7,457)
<b>Total comprehensive (loss) / profit for the period</b>	<u>(351,510)</u>	<u>(153,570)</u>	<u>61,097</u>	<u>(202,556)</u>

The annexed notes 1 to 32 form an integral part of this consolidated condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director



(Amounts in thousand)

**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	RESERVE					Total
	Share Capital	CAPITAL			REVENUE	
		Share Premium	Employees' Share Compensation Reserve	Hedging Reserve	Accumulated Loss	
Rupees						
<b>Balance as at January 1, 2011 (Audited)</b>	6,634,688	964,029	8,384	(72,062)	(549,179)	6,985,860
Vested share options lapsed during the period	-	-	(94)	-	94	-
Total comprehensive loss for the six months ended June 30, 2011	-	-	-	(7,457)	(195,099)	(202,556)
<b>Balance as at June 30, 2011 (Unaudited)</b>	<u>6,634,688</u>	<u>964,029</u>	<u>8,290</u>	<u>(79,519)</u>	<u>(744,184)</u>	<u>6,783,304</u>
Vested share options lapsed during the period	-	-	(8,290)	-	-	(8,290)
Total comprehensive loss for the six months ended December 31, 2011	-	-	-	(22,702)	(511,461)	(534,163)
<b>Balance as at December 31, 2011 (Audited)</b>	<u>6,634,688</u>	<u>964,029</u>	<u>-</u>	<u>(102,221)</u>	<u>(1,255,645)</u>	<u>6,240,851</u>
Total comprehensive income for the six months ended June 30, 2012	-	-	-	2,013	59,084	61,097
<b>Balance as at June 30, 2012 (Unaudited)</b>	<u>6,634,688</u>	<u>964,029</u>	<u>-</u>	<u>(100,208)</u>	<u>(1,196,561)</u>	<u>6,301,948</u>

The annexed notes 1 to 32 form an integral part of this consolidated condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

(Amounts in thousand)

	Note	Half Year ended	
		June 30, 2012	June 30, 2011
		Rupees	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	27	1,232,751	2,272,769
Finance costs paid		(713,289)	(802,387)
Long term loans and advances		(20,933)	(16,691)
Income tax paid		(187,481)	(202,771)
<b>Net cash generated from operating activities</b>		<u>311,048</u>	<u>1,250,920</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(240,668)	(303,354)
Purchases of intangible assets		(10,364)	(16,249)
Proceeds from disposal of operating assets		13,191	5,509
Proceeds from sale of short term investments		143,119	393,503
Purchases of short term investments		(139,000)	(398,775)
Income on bank deposits		3,854	10,908
<b>Net cash utilized in investing activities</b>		<u>(229,868)</u>	<u>(308,458)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of long term borrowings		(1,702,100)	(663,773)
Proceeds / (repayments) of short term borrowings		950,000	(450,000)
<b>Net cash utilized in financing activities</b>		<u>(752,100)</u>	<u>(1,113,773)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(670,920)</u>	<u>(171,311)</u>
Cash and cash equivalents at beginning of the period		(607,905)	(647,494)
<b>Cash and cash equivalents at end of the period</b>	28	<u><u>(1,278,825)</u></u>	<u><u>(818,805)</u></u>

The annexed notes 1 to 32 form an integral part of this consolidated condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY  
NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE HALF YEAR ENDED JUNE 30, 2012**

**1 LEGAL STATUS AND OPERATIONS**

The Group consists of Engro Polymer and Chemicals Limited (the Company) and its wholly owned subsidiary company, Engro Polymer Trading (Private) Limited.

Engro Polymer & Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company was listed on the Karachi Stock Exchange in 2008 and the Islamabad and Lahore Stock Exchanges in 2009.

The Company is a subsidiary of Engro Corporation Limited. The address of its registered office is 16th Floor, Harbor Front Building, Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals. The Company is also engaged in supply of surplus power generated from its power plants to Engro Fertilizers Limited.

**2 BASIS OF PREPARATION**

This condensed interim financial information of the Company for the half year ended June 30, 2012 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 – 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2011.

**3 ACCOUNTING POLICIES**

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2011.

**4 ACCOUNTING ESTIMATES**

The preparation of this consolidated condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During the preparation of this consolidated condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to annual audited financial statements for the year ended December 31, 2011.



(Amounts in thousand)

	(Unaudited) June 30, 2012	(Audited) December 31, 2011
	Rupees	
<b>5 PROPERTY, PLANT AND EQUIPMENT</b>		
Operating assets, at net book value		
- notes 5.1 and 5.2	17,985,075	18,375,445
Capital work-in-progress	199,314	162,137
	<u>18,184,389</u>	<u>18,537,582</u>
<b>5.1</b> Additions to operating assets during the period / year were as follows:		
Building on leasehold land	399	5,146
Plant and machinery	181,687	368,625
Furniture, fixtures and equipment	1,767	8,229
Vehicles	19,638	30,251
	<u>203,491</u>	<u>412,251</u>
<b>5.2</b> During the period, assets costing Rs. 20,042 (December 31, 2011: Rs. 34,962), having net book value of Rs. 12,566 (December 31, 2011: Rs. 15,899) were disposed off for Rs. 13,149 (December 31, 2011: Rs. 18,396) and assets costing Rs. 307 (December 31, 2011: Rs. 5,973) and having net book value of Rs. 20 (December 31, 2011: Rs. 5,368) were written-off. Insurance claim received against written-off assets was Rs. 42 (December 31, 2011: Rs. 3,379)		
<b>6 INTANGIBLE ASSETS</b>		
Additions made during the period amount to Rs. 10,364 (December 31, 2011: Rs. 18,790).		
	(Unaudited)	(Audited)
	June 30, 2012	December 31, 2011
	Rupees	
<b>7 DEFERRED TAXATION</b>		
Credit balances arising due to:		
- accelerated tax depreciation	(4,189,928)	(4,195,902)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,499,660	4,520,417
- recoupable minimum turnover tax	476,493	377,524
- tax amortization	73	73
- unpaid liabilities and provision for certain retirement and other service benefits	39,197	38,835
- provision against custom duty and SED refundable	48,893	44,380
- provision for stocks and slow moving stores and spares	4,730	4,060
- fair value of hedging instruments and others	111,667	112,751
	<u>5,180,713</u>	<u>5,098,040</u>
	<u>990,785</u>	<u>902,138</u>



(Amounts in thousand)

**7.1** The aggregate tax losses available for carry-forward as at June 30, 2012 amount to Rs.12,856,171 (December 31, 2011: Rs.12,915,477), on which deferred income tax asset has been recognized. The component of losses attributable to unabsorbed tax depreciation amount to Rs. 12,856,171 (December 31, 2011: Rs. 12,660,060).

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
<b>8 STOCK-IN-TRADE</b>	<b>Rupees</b>	
Raw and packing materials - note 8.1 and 8.3	1,787,677	1,694,992
Work-in-process	16,953	24,258
Finished goods - own manufactured product - note 8.1 and 8.2	1,257,986	789,329
	<u>3,062,616</u>	<u>2,508,579</u>

**8.1** This includes stock-in-transit amounting to Nil (December 31, 2011: Rs. 131,830) and stocks held at storage facilities of the following parties:

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	<b>Rupees</b>	
Engro Vopak Terminal Limited, a related party	891,102	717,858
Dawood Hercules Chemicals Limited, a related party	10,234	6,387
Al Rahim Trading Company (Private) Limited	471,270	342,984
	<u>1,372,606</u>	<u>1,067,229</u>

**8.2** This includes carrying value of PVC resin, net of realizable value reduction of Rs. 24,228 (December 31, 2011: Rs. 14,931) and write-off of nil tons of PVC resin (December 31, 2011: 87 M tons of PVC resin amounting to Rs. 4,965).

**8.3** During the period, expired chemicals amounting to Nil (December 31, 2011: Rs. 200) have been written-off.

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	<b>Rupees</b>	
<b>9 TRADE DEBTS - considered good</b>		
Secured	158,874	271,304
Unsecured	49,478	21,301
	<u>208,352</u>	<u>292,605</u>

**9.1** Includes amounts due from the following related parties:

- Engro Foods Limited	<u>2,059</u>	<u>2,473</u>
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**10 LOANS, ADVANCES, DEPOSITS,  
PREPAYMENTS AND OTHER RECEIVABLES  
- considered good**

Includes receivable from Engro Vopak Terminal Limited amounting to Rs. 1,263 (2011: Nil).

**11 TAXES RECOVERABLE**

**11.1 Tax Year 2008**

The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172. The demand arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand though adjustment against assessed refunds of Rs. 180,768 and paying balance of Rs. 32,404 'under protest'.

During the 2011, through an appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by the Company before the ATIR. The department has also filed an appeal against the said appellate order challenging the actions of the CIR(A).

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in the consolidated condensed interim financial information.

**11.2 Tax Year 2009**

The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for the retirement benefits of Rs. 14,239; disallowing provision against receivable of Special Excise Duty of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss as per the revised return as a consequence of the matters explained in note 11.3.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A).

During 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order has been filed before the ATIR. The department has also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

The management of the Company is confident that the ultimate outcome of the aforesaid appeal would be decided in its favour and consequently has not recognized the effects for the same in the consolidated condensed interim financial information.





(Amounts in thousand)

### 11.3 Assessment Year 2000-2001

While finalizing the assessment, the Taxation Officer had disallowed the First Year Allowance (FYA) claimed by the Company on the grounds that the Company had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. The Company had filed an appeal against the said disallowance before the CIR(A) which was decided in favor of the Company. The department, thereafter, filed second appeal before the ATIR. Although in case of assessment year 2001-2002, a similar issue was decided by the ATIR in the Company's favor, the ATIR, for assessment year 2000-2001 departing from the previous view, has decided the matter against the Company and maintained the disallowance of FYA amounting to Rs. 1,884,359.

This disallowance had resulted in tax deductible timing differences, the effects of which had been duly recognized by revising the income tax returns for the tax years 2003 to 2007 and 2009. Due to the aforesaid revision, a tax liability of Rs. 86,767 arose in tax year 2008 which has been settled by adjusting the recoupable minimum tax brought forward from prior years.

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>12 CASH AND BANK BALANCES</b>		
Cash in hand	718	719
Cash at bank on:		
- current accounts	75,896	92,456
- saving accounts	11,234	21,260
	87,130	113,716
	87,848	114,435

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>13 SHARE CAPITAL</b>		
<b>Authorized capital</b>		
800,000,000 (2011: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
<b>Issued, subscribed and paid-up capital</b>		
663,468,788 (2011: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash	6,634,688	6,634,688

**13.1** As at June 30, 2012, Engro Corporation Limited - the Holding Company, holds 372,809,989 ordinary shares of Rs. 10 each (December 31, 2011: 372,809,989 ordinary shares of Rs. 10 each).



(Amounts in thousand)

**14 LONG TERM BORROWINGS, secured**

Title	Mark-up rate per annum	Installments		(Unaudited)	(Audited)
		Number	Commencing from	June 30, 2012	December 31, 2011
				Rupees	
Syndicated term finance I	6 months KIBOR+2.25%	13 half yearly	November 2010	4,591,985	4,898,377
Syndicated term finance II	6 months KIBOR+3%	13 half yearly	June 2010	1,159,359	1,241,089
Syndicated term finance III	6 months KIBOR+2%	Single	June 2012	-	747,333
Master Istisna I	6 months KIBOR+1.5%	6 half yearly	May 2013	100,000	100,000
Master Istisna II	6 months KIBOR+2%	3 half yearly	June 2012	-	199,000
International Finance Corporation (IFC)	6 months LIBOR+2.6 to 3%	15 half yearly	June 2010	3,757,023	3,926,224
				9,608,367	11,112,023
Less: Current portion shown under current liabilities				(1,670,000)	(2,491,828)
				<u>7,938,367</u>	<u>8,620,195</u>

Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and syndicates of banks, the Company is required to comply with certain debt covenants. As at June 30, 2012, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

**15 DERIVATIVE FINANCIAL INSTRUMENTS**

**15.1** As at June 30, 2012, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US\$ 8,563, to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR plus margin where applicable on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually.

**15.2** As at June 30, 2012, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US\$ 26,666 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually.



(Amounts in thousand)

15.3 Details of the swap agreements are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Rate %	Fair Value	
				(Unaudited) June 30, 2012	(Audited) December 31, 2011
				Rupees	
<b>Interest Rate Swap Agreements</b>			<b>Fixed Rate</b>		
10,000	December 15, 2008	June 15, 2017	3.385	64,700	66,962
3,333	June 15, 2009	June 15, 2017	3.005	18,280	18,573
10,000	June 15, 2009	June 15, 2017	2.795	49,383	49,505
3,333	June 15, 2009	June 15, 2017	2.800	16,532	16,279
26,666				148,895	151,319
<b>Cross Currency Interest Rate Swap Agreements</b>			<b>Floating Rate</b>		
2,177	September 9, 2010	June 15, 2015	LIBOR+0.95	618	2,164
2,914	January 18, 2011	January 19, 2016	LIBOR+3.70	3,022	365
3,472	July 6, 2011	June 30, 2016	LIBOR+1.83	1,631	3,415
8,563				5,271	5,944
35,229				154,166	157,263
				(Unaudited) June 30, 2012	(Audited) December 31, 2011
				Rupees	

**16 SHORT TERM BORROWINGS**

Sub-ordinate loan from

Engro Corporation Limited - note 16.1

950,000

-

Running finance under mark-up  
arrangements - note 16.2

1,366,673

722,340

2,316,673

722,340

**16.1** During the period, the Company received a loan from Engro Corporation Limited (The Holding Company) amounting to Rs. 950,000 for meeting its working capital requirements. The loan is sub-ordinated to the finances provided to the subsidiary by its banking creditors. The loan is repayable in a lump sum on 25 June 2013 and renewable for four further periods of one year each. The loan carries markup at the rate of 15.47% payable quarterly.

**16.2** The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amount to Rs. 2,100,000 (December 31, 2011: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1% to relevant period KIBOR plus 1.5% (December 31, 2011: relevant period KIBOR plus 1.0% to relevant period KIBOR plus 1.5%). During the period, the mark-up rates, net of prompt payment rebate, ranged from 12.91% to 13.55% per annum (December 31, 2011: 12.92% to 15.29% per annum). These facilities are secured by a floating charge over stocks and book debts of the Company.



(Amounts in thousand)

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>17 TRADE AND OTHER PAYABLES</b>		
Trade and other creditors - note 17.1	4,707,159	4,461,867
Accrued liabilities - note 17.1	996,573	743,647
Advances from customers - note 17.1	673,180	803,243
Retention money against project payments	20,092	17,563
Security deposits	12,041	11,477
Workers' profits participation fund and workers' welfare fund	6,303	3,158
Sales tax and SED payable	-	45,295
Withholding tax payable	8,298	9,002
Others - note 17.1	4,141	6,434
	<u>6,427,787</u>	<u>6,101,686</u>
<b>17.1</b> Includes amounts due to the following related parties:		
- Engro Corporation Limited	9,452	6,344
- Mitsubishi Corporation	4,625,258	4,283,409
- Engro Fertilizers Limited	9,549	7,730
- DH Fertilizer Limited	24	24
- Engro Vopak Terminal Limited	71,000	81,264
- ICI Pakistan Limited	1,800	-
- EPCL Provident Fund	3,582	-
	<u>4,720,665</u>	<u>4,378,771</u>
	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>18 PROVISIONS</b>		
Balance at beginning of the year	166,678	131,022
Add: Provision during the year - notes 18.1 & 18.2	12,896	35,656
Balance at end of the year	<u>179,574</u>	<u>166,678</u>

**18.1 Provision for SED on import of plant and machinery**

The Company has paid Rs. 94,611 (December 31, 2011: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount, the Company had adjusted Rs. 57,924 (December 31, 2011: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by the Company.



The Company had approached the Federal Board of Revenue (FBR) to obtain a clarification in respect of the adjustment in the monthly sales tax returns. Pending clarification the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication), stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. During 2010, the Company was granted a stay order by the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand.

The Company filed an appeal with Commissioner Inland Revenue (Appeals) against the Order issued by the Additional Commissioner and the appeal was decided against the Company. The Company has now filed an appeal with the Income Tax Appellate Tribunal against the decision of Commissioner Inland Revenue (Appeals). During the period, Appellate Tribunal Inland Revenue issued an order on June 5, 2012 in favour of the Company. However, based on prudence the Company has not reversed the provision till the outcome of the appeal option available to the Department.

The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is carrying a provision in this respect. Further, a provision for surcharge and penalty thereon aggregating to Rs. 39,902 (December 31, 2011: Rs. 33,574) has also been made.

## **18.2 Provision for duty on import of raw material**

In 2009, the Company received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(1)/2006 on a concessionary basis from customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. However, the tax department has shown its disagreement with the Company's view and has demanded further information, to which the Company has responded.

Although, no formal order creating a demand has yet been received by the Company, however, based on prudence, a provision amounting to Rs. 81,748 (December 31, 2011: Rs. 75,180) in respect of custom duty on such raw materials has been made.

## **19 COMMITMENTS**

**19.1** The aggregate facility of performance guarantees issued by banks on behalf of the Company as at June 30, 2012 amount to Rs. 1,648,000 (December 31, 2011: Rs. 1,648,000). The amount utilized is Rs. 1,060,361 (December 31, 2011: Rs. 849,035).

**19.2** The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:



(Amounts in thousand)

	(Unaudited) June 30, 2012	(Audited) December 31, 2011
	Rupees	
Not later than 1 year	39,620	59,030
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	30,000	36,000
	<u>127,220</u>	<u>152,630</u>

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	Rupees			
<b>20 NET REVENUE</b>				
Net local sales	4,047,235	3,785,327	8,833,199	7,612,613
Supply of electricity	9,387	7,652	18,267	14,851
Exports	401,069	114,541	624,934	403,716
	<u>4,457,691</u>	<u>3,907,520</u>	<u>9,476,400</u>	<u>8,031,180</u>

<b>21 COST OF SALES</b>				
Opening stock of work-in-progress	3,370	12,171	24,258	4,749
Raw and packing materials consumed	2,729,201	1,954,349	5,084,313	4,059,691
Salaries, wages and staff welfare	122,138	141,426	284,081	288,540
Fuel, power and gas	669,638	499,738	1,360,802	967,186
Repairs and maintenance	148,957	88,374	247,475	153,502
Depreciation	287,139	284,269	574,284	569,302
Consumable stores	51,238	48,150	94,779	114,784
Purchased services	13,327	3,145	21,944	18,656
Storage and handling	232,780	217,366	471,443	422,497
Training and travelling	887	3,794	4,400	7,075
Communication, stationery and other office expenses	855	2,100	2,078	3,420
Insurance	19,430	16,938	39,008	25,300
Other expenses	9,077	4,858	15,126	13,999
	4,284,667	3,264,507	8,199,733	6,643,952
Closing stock of work-in-progress	<u>(16,953)</u>	<u>(27,922)</u>	<u>(16,953)</u>	<u>(27,922)</u>
Cost of goods manufactured	4,271,084	3,248,756	8,207,038	6,620,779
Opening stock of finished goods	773,617	708,745	789,329	916,772
Closing stock of finished goods	<u>(1,257,986)</u>	<u>(547,203)</u>	<u>(1,257,986)</u>	<u>(547,203)</u>
	(484,369)	161,542	(468,657)	369,569
Cost of sales - own manufactured product	<u>3,786,715</u>	<u>3,410,298</u>	<u>7,738,381</u>	<u>6,990,348</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	Rupees			
<b>22 DISTRIBUTION AND MARKETING EXPENSES</b>				
Salaries, wages and staff welfare	15,516	15,742	33,160	31,343
Sales promotion	706	773	802	1,021
Dealers' commission	28,117	19,502	57,535	40,159
Product transportation and handling	192,447	154,292	425,516	301,660
Rent, rates and taxes	3,708	3,379	6,278	5,502
Purchased services	1,035	1,407	3,953	2,240
Insurance	413	349	690	675
Depreciation	1,649	1,194	2,776	2,178
Training and travelling	2,722	2,076	4,187	3,341
Communication, stationery and other office expenses	1,028	742	1,845	1,335
Others	3,356	4,774	7,243	7,392
	<u>250,697</u>	<u>204,230</u>	<u>543,985</u>	<u>396,846</u>
<b>23 ADMINISTRATIVE EXPENSES</b>				
Salaries, wages and staff welfare	80,024	44,858	129,544	85,470
Rent, rates and taxes	9,137	7,796	20,677	17,485
Purchased services	20,020	15,400	30,445	22,752
Insurance	1,155	141	2,135	150
Depreciation and amortization	5,861	4,095	9,545	8,175
Training and travelling expenses	25,540	13,954	40,947	24,305
Communication, stationery and other office expenses	6,847	5,958	8,985	9,054
Others	8,435	4,126	11,858	6,624
	<u>157,019</u>	<u>96,328</u>	<u>254,136</u>	<u>174,015</u>
<b>24 OTHER OPERATING EXPENSES</b>				
Legal and professional charges	7,176	(820)	15,638	5,526
Auditors' remuneration	605	465	1,121	762
Donations	-	975	-	1,449
Loss on disposal of operating assets	77	1,962	-	2,908
Workers' profits participation fund	(28,699)	-	1,108	-
Workers' welfare fund	(12,084)	-	2,037	-
Foreign exchange loss - net	306,548	23,466	345,095	19,226
Damaged items of operating assets written-off	-	2,640	-	2,640
Others	-	404	-	715
	<u>273,623</u>	<u>29,092</u>	<u>364,999</u>	<u>33,226</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>25 OTHER OPERATING INCOME</b>	<b>Rupees</b>			
Scrap sales	3,841	947	14,511	1,683
Profit on disposal of operating assets	-	-	605	-
Income on short term investments and bank deposits	4,917	12,274	7,973	23,202
Insurance claim - note 25.1	-	-	391,000	-
Others	-	-	976	-
Stores and spares written back - net	-	12,183	-	12,183
	<u>8,758</u>	<u>25,404</u>	<u>415,065</u>	<u>37,068</u>

**25.1** This represents insurance claim on account of loss of profit incurred as a result of fire incident at the Plant site in December 2009, which has been confirmed by the insurance companies.

## 26 FINANCE COST

Interest / Mark-up on:

- long term borrowings	329,479	352,564	630,748	700,901
- short term finances	41,985	12,241	65,197	45,295
Foreign exchange loss on borrowings	173,600	30,883	205,280	16,320
Guarantee commission	1,465	2,324	3,144	3,496
Bank charges and others	5,981	4,406	8,797	9,160
	<u>552,510</u>	<u>402,418</u>	<u>913,166</u>	<u>775,172</u>

	Unaudited	
	Half Year ended June 30, 2012	Half Year ended June 30, 2011
	<b>Rupees</b>	
<b>27 CASH GENERATED FROM OPERATIONS</b>		
<b>Profit / (Loss) before taxation</b>	76,798	(301,359)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	(3,160)	4,666
Provision against concessionary import duty on import of raw materials and Special Excise Duty	12,896	10,464
Provision for net realizable value of stock-in-trade	24,228	18,971
Provision for slow moving stores and spares	1,913	1,934
Write-off of damaged item of operating assets	-	2,640
Depreciation and amortization	586,605	579,655
Income on short term investments and bank deposits	(3,854)	(10,908)
Loss on revaluation of IFC loan	187,600	15,840
Amortization of prepaid financial charges	10,844	8,012
Realized gain on sale of short term investments	(4,119)	(8,891)
Unrealized fair value gain on short term investments	-	(763)
Finance costs	714,722	751,320
Profit on disposal of operating assets	(605)	2,908
Working capital changes - note 27.1	(371,117)	1,198,280
	<u>1,232,751</u>	<u>2,272,769</u>





(Amounts in thousand)

27.1 WORKING CAPITAL CHANGES	Unaudited	
	Half Year ended June 30, 2012	Half Year ended June 30, 2011
Decrease / (increase) in current assets		
Stores, spares and loose tools	(199,027)	(254,892)
Stock-in-trade	(578,265)	(157,041)
Trade debts - considered good	84,253	98,563
Loans, advances, deposits, prepayments and other receivables - net	(4,179)	42,043
	<u>(697,218)</u>	<u>(271,327)</u>
Increase in current liabilities		
Trade and other payables	326,101	1,469,607
	<u>(371,117)</u>	<u>1,198,280</u>
<b>28 CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	87,848	102,741
Running finance under mark-up arrangements	(1,366,673)	(921,546)
	<u>(1,278,825)</u>	<u>(818,805)</u>

**29 SEGMENT INFORMATION**

29.1 The basis of segmentation and reportable segments presented in This consolidated condensed interim financial information are same as disclosed in the annual financial statements of the Company for the year ended December 31, 2011.

	Unaudited June 30, 2012				Unaudited June 30, 2011			
	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total
	Rupees							
Revenue	<u>7,265,022</u>	<u>2,193,111</u>	<u>18,267</u>	<u>9,476,400</u>	<u>6,424,102</u>	<u>1,592,227</u>	<u>14,851</u>	<u>8,031,180</u>
<b>Profit/(loss) before unallocated expenses</b>	<u>412,528</u>	<u>779,735</u>	<u>1,771</u>	<b><u>1,194,034</u></b>	<u>132,849</u>	<u>511,808</u>	<u>(671)</u>	<b><u>643,986</u></b>
<b>Unallocated expenses</b>								
Administrative expenses				(254,136)				(174,015)
Other operating expenses				(364,999)				(33,226)
Other operating income				415,065				37,068
Finance costs				(913,166)				(775,172)
Taxation				(17,714)				106,260
<b>Profit / (loss) after taxation</b>				<b><u>59,084</u></b>				<b><u>(195,099)</u></b>

	Unaudited June 30, 2012				Audited December 31, 2011			
	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total
	Rupees							
Total segment assets	15,215,179	6,582,797	78,156	21,876,132	14,086,556	5,698,350	80,818	19,865,724
Unallocated assets				3,317,844				4,842,305
<b>Total assets</b>				<b><u>25,193,976</u></b>				<b><u>24,708,029</u></b>

29.2 Segment assets consist primarily of property, plant and equipment, stores & spares, stock-in-trade and trade debts.



(Amounts in thousand)

**30 TRANSACTIONS WITH RELATED PARTIES**

**30.1** Transactions with related parties other than those which have been disclosed elsewhere in this consolidated condensed interim financial information are as follows:

<b>Nature of relationship</b>	<b>Nature of transactions</b>	<b>Unaudited</b>	
		<b>June 30, 2012</b>	<b>June 30, 2011</b>
		<b>Rupees</b>	
<b>Holding company</b>	Purchase of services	8,294	1,759
	Markup on sub-ordinated loan	7,093	-
	Allocation of common expenditures	3,659	885
	Allocation of common expenditures	1,119	97
	Pension fund contribution	2,417	2,260
	Provident fund contribution	3,918	2,458
	Medical contribution	-	225
	Gratuity fund contribution	1,338	546
<b>Associated companies</b>	Purchase of goods	4,964,285	3,904,453
	Sale of goods	444,438	359,835
	Allocation of common expenditures	7,511	-
	Purchase of services	520	-
<b>Related parties by virtue of common directorship</b>	Purchase of goods	29,991	17,680
	Purchase of services	428,782	407,450
	Sale of goods	38,900	30,674
	Sale of services	252	4,515
	Sale of steam and electricity	22,971	21,860
	Use of operating assets	3,921	161
	Annual Subscription	121	64
	Allocation of common expenditures	14,393	4,091
	Allocation of common expenditures	14,508	183
Medical Contribution	-	4	
<b>Directors</b>	Fee	850	1,201
	Final settlement	11,530	-
<b>Key management personnel</b>	Managerial remuneration	40,062	32,112
	Retirement benefits	5,282	4,668
	Bonus	11,752	8,530
	Other benefits	6,470	6,484
<b>Contribution to staff retirement benefits</b>	Pension fund	7,781	6,190
	Provident fund	11,366	10,133
	Gratuity fund	3,148	2,816




**31 DATE OF AUTHORIZATION FOR ISSUE**

This consolidated condensed interim financial information was authorized for issue on August 06, 2012 by the Board of Directors of the Company.

**32 CORRESPONDING FIGURES**

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the consolidated condensed interim balance sheet has been compared with the balances of annual audited financial statements of preceding financial year, whereas the consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which is not material.



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**Khalid Siraj Subhani**  
President & Chief Executive



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**Kimihide Ando**  
Director





engro polymer & chemicals

**UNAUDITED CONDENSED  
INTERIM FINANCIAL INFORMATION  
FOR THE HALF YEAR ENDED JUNE 30, 2012**





**AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION**

**Introduction**

We have reviewed the accompanying condensed interim balance sheet of Engro Polymer & Chemicals Limited as at June 30, 2012 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information"), for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim profit and loss account and the condensed interim statement of comprehensive income for the quarters ended June 30, 2012 and 2011 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2012.

**Scope of Review**

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

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2012 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

**Chartered Accountants  
Karachi  
Date: August 10, 2012**

**Engagement Partner: Sohail Hasan**

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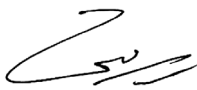


**ENGRO POLYMER & CHEMICALS LIMITED**  
**CONDENSED INTERIM BALANCE SHEET**  
**AS AT JUNE 30, 2012**


(Amounts in thousand)

	Note	(Unaudited) June 30, 2012	(Audited) December 31, 2011
		Rupees	
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	18,184,389	18,537,582
Intangible assets	6	36,138	31,104
Long term investment - at cost		50,000	50,000
Long term loans and advances		58,736	37,803
Deferred taxation	7	990,785	902,138
		<u>19,320,048</u>	<u>19,558,627</u>
<b>Current Assets</b>			
Stores, spares and loose tools		1,296,005	1,098,891
Stock-in-trade	8	2,550,005	2,469,563
Trade debts - considered good	9	408,454	213,674
Loans, advances, deposits, prepayments and other receivables	10	316,854	220,905
Taxes recoverable	11	940,257	859,971
Cash and bank balances	12	83,502	106,228
		5,595,077	4,969,232
		<u>24,915,125</u>	<u>24,527,859</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	13	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(100,208)	(102,221)
Accumulated loss		(1,341,030)	(1,357,965)
		6,157,479	6,138,531
<b>Non-Current Liabilities</b>			
Long term borrowings	14	7,938,367	8,620,195
Derivative financial instruments	15	154,166	157,263
Retirement and other service benefit obligations		58,947	62,107
		8,151,480	8,839,565
<b>Current Liabilities</b>			
Current portion of long term borrowings		1,670,000	2,491,828
Short term borrowings	16	2,316,673	722,340
Trade and other payables	17	6,294,287	6,024,183
Accrued interest / mark-up		145,632	144,734
Provisions	18	179,574	166,678
		10,606,166	9,549,763
<b>Commitments</b>			
	19		
		<u>24,915,125</u>	<u>24,527,859</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



**Khalid Siraj Subhani**  
 President & Chief Executive



**Kimihide Ando**  
 Director




[Amounts in thousand except for profit / (loss) per share]

**ENGRO POLYMER & CHEMICALS LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	Note	Quarter ended		Half Year ended	
		June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Rupees					
Net revenue	20	4,916,620	3,902,576	9,880,450	7,894,630
Cost of sales	21	(4,299,292)	(3,407,110)	(8,211,976)	(6,878,574)
<b>Gross profit</b>		617,328	495,466	1,668,474	1,016,056
Distribution and marketing expenses	22	(242,912)	(204,374)	(527,686)	(386,225)
Administrative expenses	23	(157,019)	(93,521)	(254,136)	(171,208)
Other operating expenses	24	(272,201)	(32,683)	(360,503)	(33,372)
Other operating income	25	5,077	22,289	408,982	24,774
<b>Operating (loss) / profit</b>		(49,727)	187,177	935,131	450,025
Finance costs	26	(550,039)	(402,089)	(908,958)	(769,422)
<b>(Loss) / Profit before taxation</b>		(599,766)	(214,912)	26,173	(319,397)
Taxation		204,941	75,472	(9,238)	112,249
<b>(Loss) / Profit for the period</b>		(394,825)	(139,440)	16,935	(207,148)
<b>Profit / (Loss) per share</b>					
- basic and diluted		(0.60)	(0.21)	0.03	(0.31)

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



**Khalid Siraj Subhani**  
 President & Chief Executive



**Kimihide Ando**  
 Director



(Amounts in thousand)

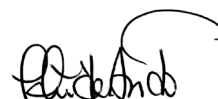
**ENGRO POLYMER & CHEMICALS LIMITED**  
**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	<u>Quarter ended</u>		<u>Half Year ended</u>	
	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
	<b>Rupees</b>			
<b>(Loss) / Profit for the period</b>	(394,825)	(139,440)	16,935	(207,148)
<b>Other comprehensive (loss) / profit :</b>				
<b>Hedging reserve</b>				
Loss arising during the period	(25,408)	(30,677)	(28,534)	(15,664)
Reclassification adjustments for losses on interest rate swaps included in profit and loss	31,046	3,963	31,631	4,192
Income tax relating to hedging reserve	(1,973)	9,350	(1,084)	4,015
Other comprehensive gain / (loss) for the period - net of tax	3,665	(17,364)	2,013	(7,457)
<b>Total comprehensive (loss) / profit for the period</b>	<u>(391,160)</u>	<u>(156,804)</u>	<u>18,948</u>	<u>(214,605)</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director





(Amounts in thousand)

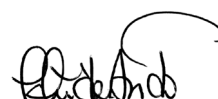
**ENGRO POLYMER & CHEMICALS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	RESERVE					Total
	Share Capital	CAPITAL			REVENUE	
		Share Premium	Employees' Share Compensation Reserve	Hedging Reserve	Accumulated Loss	
Rupees						
<b>Balance as at January 1, 2011 (Audited)</b>	6,634,688	964,029	8,384	(72,062)	(628,697)	6,906,342
Vested share options lapsed during the period	-	-	(94)	-	94	-
Total comprehensive loss for the six months ended June 30, 2011	-	-	-	(7,457)	(207,148)	(214,605)
<b>Balance as at June 30, 2011 (Unaudited)</b>	<u>6,634,688</u>	<u>964,029</u>	<u>8,290</u>	<u>(79,519)</u>	<u>(835,751)</u>	<u>6,691,737</u>
Vested share options lapsed during the period	-	-	(8,290)	-	-	(8,290)
Total comprehensive loss for the six months ended December 31, 2011	-	-	-	(22,702)	(522,214)	(544,916)
<b>Balance as at December 31, 2011 (Audited)</b>	<u>6,634,688</u>	<u>964,029</u>	<u>-</u>	<u>(102,221)</u>	<u>(1,357,965)</u>	<u>6,138,531</u>
Total comprehensive income for the six months ended June 30, 2012	-	-	-	2,013	16,935	18,948
<b>Balance as at June 30, 2012 (Unaudited)</b>	<u>6,634,688</u>	<u>964,029</u>	<u>-</u>	<u>(100,208)</u>	<u>(1,341,030)</u>	<u>6,157,479</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



**Khalid Siraj Subhani**  
 President & Chief Executive



**Kimihide Ando**  
 Director



(Amounts in thousand)

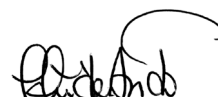
**ENGRO POLYMER & CHEMICALS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	Note	Half Year ended	
		June 30, 2012	June 30, 2011
		Rupees	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	27	1,230,796	2,395,860
Finance costs paid		(709,616)	(791,848)
Long term loans and advances		(20,933)	(16,691)
Income tax paid		(179,255)	(197,411)
<b>Net cash generated from operating activities</b>		<u>320,992</u>	<u>1,389,910</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(240,668)	(303,354)
Purchases of intangible assets		(10,364)	(16,249)
Proceeds from disposal of operating assets		13,191	5,509
Income on bank deposits		1,890	10,908
<b>Net cash utilized in investing activities</b>		<u>(235,951)</u>	<u>(303,186)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of long term borrowings		(1,702,100)	(663,773)
Proceeds / (repayments) of short term borrowings		950,000	(250,000)
<b>Net cash utilized in financing activities</b>		<u>(752,100)</u>	<u>(913,773)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<u>(667,059)</u>	<u>172,951</u>
Cash and cash equivalents at beginning of the period		(616,112)	(1,008,892)
<b>Cash and cash equivalents at end of the period</b>	28	<u><u>(1,283,171)</u></u>	<u><u>(835,941)</u></u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



**Khalid Siraj Subhani**  
President & Chief Executive



**Kimihide Ando**  
Director



**ENGRO POLYMER & CHEMICALS LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

**1 LEGAL STATUS AND OPERATIONS**

Engro Polymer & Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company was listed on the Karachi Stock Exchange in 2008 and the Islamabad and Lahore Stock Exchanges in 2009.

The Company is a subsidiary of Engro Corporation Limited. The address of its registered office is 16th Floor, Harbor Front Building, Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals. The Company is also engaged in supply of surplus power generated from its power plants to Engro Fertilizers Limited.

**2 BASIS OF PREPARATION**

This condensed interim financial information of the Company for the half year ended June 30, 2012 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 – 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2011.

**3 ACCOUNTING POLICIES**

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2011.

**4 ACCOUNTING ESTIMATES**

The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During the preparation of this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to annual audited financial statements for the year ended December 31, 2011.



(Amounts in thousand)

	(Unaudited) June 30, 2012	(Audited) December 31, 2011
	Rupees	
<b>5 PROPERTY, PLANT AND EQUIPMENT</b>		
Operating assets, at net book value		
- notes 5.1 & 5.2	17,985,075	18,375,445
Capital work-in-progress	199,314	162,137
	<u>18,184,389</u>	<u>18,537,582</u>
<b>5.1</b> Additions to operating assets during the period / year were as follows:		
Building on leasehold land	399	5,146
Plant and machinery	181,687	368,625
Furniture, fixtures and equipment	1,767	8,229
Vehicles	19,638	30,251
	<u>203,491</u>	<u>412,251</u>
<b>5.2</b> During the period, assets costing Rs. 20,042 (December 31, 2011: Rs. 34,962), having net book value of Rs. 12,566 (December 31, 2011: Rs. 15,899) were disposed off for Rs. 13,149 (December 31, 2011:Rs. 18,396) and assets costing Rs. 307 (December 31, 2011: Rs. 5,973) and having net book value of Rs. 20 (December 31, 2011: Rs. 5,368) were written-off. Insurance claim received against written-off assets was Rs. 42 (December 31, 2011: Rs. 3,379).		
<b>6 INTANGIBLE ASSETS</b>		
Additions made during the period amount to Rs. 10,364 (December 31, 2011: Rs. 18,790).		
	(Unaudited)	(Audited)
	June 30, 2012	December 31, 2011
	Rupees	
<b>7 DEFERRED TAXATION</b>		
Credit balances arising due to:		
- accelerated tax depreciation	(4,189,928)	(4,195,902)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,499,660	4,520,417
- recoupable minimum turnover tax	476,493	377,524
- tax amortization	73	73
- unpaid liabilities and provision for certain retirement and other service benefits	39,197	38,835
- provision against custom duty and SED refundable	48,893	44,380
- provision for stocks and slow moving stores and spares	4,730	4,060
- fair value of hedging instruments and others	111,667	112,751
	<u>5,180,713</u>	<u>5,098,040</u>
	<u>990,785</u>	<u>902,138</u>



(Amounts in thousand)

7.1 The aggregate tax losses available for carry-forward as at June 30, 2012 amount to Rs.12,856,171 (December 31, 2011: Rs.12,915,477), on which deferred income tax asset has been recognized. The component of losses attributable to unabsorbed tax depreciation amount to Rs. 12,856,171 (December 31, 2011: Rs. 12,660,060).

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>8 STOCK-IN-TRADE</b>		
Raw and packing materials - note 8.1 and 8.3	1,787,677	1,694,992
Work-in-process	16,953	24,258
Finished goods - own manufactured product - note 8.1 and 8.2	745,375	750,313
	<u>2,550,005</u>	<u>2,469,563</u>

8.1 This includes stock-in-transit amounting to Nil (December 31, 2011: Rs. 131,830) and stocks held at storage facilities of the following parties:

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
Engro Vopak Terminal Limited, a related party	824,469	717,858
Dawood Hercules Chemicals Limited, a related party	10,324	6,387
Al Rahim Trading Company (Private) Limited	471,270	342,984
	<u>1,306,063</u>	<u>1,067,229</u>

8.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 24,228 (December 31, 2011: Rs. 14,931) and write-off of Nil tons of PVC resin (December 31, 2011: 87 M tons of PVC resin amounting to Rs. 4,965).

8.3 During the period, expired chemicals amounting to Nil (December 31, 2011: Rs. 200) have been written-off.

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>9 TRADE DEBTS - considered good</b>		
Secured	358,976	149,259
Unsecured	49,478	64,415
	<u>408,454</u>	<u>213,674</u>

9.1 Includes amounts due from the following related parties:

- Engro Foods Limited	2,059	2,473
- Engro Polymer Trading (Private) Limited	246,420	43,114
	<u>248,479</u>	<u>45,587</u>



**10 LOANS, ADVANCES, DEPOSITS,  
PREPAYMENTS AND OTHER RECEIVABLES  
- considered good**

Includes receivable from Engro Vopak Terminal Limited amounting to Rs. 1,263 (2011: Nil).

**11 TAXES RECOVERABLE**

**11.1 Tax Year 2008**

The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172. The demand arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand though adjustment against assessed refunds of Rs. 180,768 and paying balance of Rs. 32,404 'under protest'.

During 2011, through an appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by the Company before the ATIR. The department has also filed an appeal against the said appellate order challenging the actions of the CIR(A).

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in the condensed interim financial information.

**11.2 Tax Year 2009**

The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for the retirement benefits of Rs. 14,239; disallowing provision against receivable of Special Excise Duty of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss as per the revised return as a consequence of the matters explained in note 11.3.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A).

During 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order has been filed before the ATIR. The department has also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

The management of the Company is confident that the ultimate outcome of the aforesaid appeal would be decided in its favour and consequently has not recognized the effects for the same in the condensed interim financial information.



(Amounts in thousand)

### 11.3 Assessment Year 2000-2001

While finalizing the assessment, the Taxation Officer had disallowed the First Year Allowance (FYA) claimed by the Company on the grounds that the Company had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. The Company had filed an appeal against the said disallowance before the CIR(A) which was decided in favor of the Company. The department, thereafter, filed second appeal before the ATIR. Although in case of assessment year 2001-2002, a similar issue was decided by the ATIR in the Company's favor, the ATIR, for assessment year 2000-2001 departing from the previous view, has decided the matter against the Company and maintained the disallowance of FYA amounting to Rs. 1,884,359.

This disallowance had resulted in tax deductible timing differences, the effects of which had been duly recognized by revising the income tax returns for the tax years 2003 to 2007 and 2009. Due to the aforesaid revision, a tax liability of Rs. 86,767 arose in tax year 2008 which has been settled by adjusting the recoupable minimum tax brought forward from prior years.

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>12 CASH AND BANK BALANCES</b>		
Cash in hand	718	719
Cash at bank on:		
- current accounts	75,500	91,275
- saving accounts	7,284	14,234
	82,784	105,509
	83,502	106,228

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	Rupees	
<b>13 SHARE CAPITAL</b>		
<b>Authorized capital</b>		
800,000,000 (2011: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
<b>Issued, subscribed and paid-up capital</b>		
663,468,788 (2011: 663,468,788) ordinary shares of Rs. 10 each, fully paid in ca/sh	6,634,688	6,634,688

**13.1** As at June 30, 2012, Engro Corporation Limited - the Holding Company, holds 372,809,989 ordinary shares of Rs. 10 each (December 31, 2011: 372,809,989 ordinary shares of Rs. 10 each).



(Amounts in thousand)

**14 LONG TERM BORROWINGS, secured**

Title	Mark-up rate per annum	Installments		(Unaudited)	(Audited)
		Number	Commencing from	June 30, 2012	December 31, 2011
				Rupees	
Syndicated term finance I	6 months KIBOR+2.25%	13 half yearly	November 2010	4,591,985	4,898,377
Syndicated term finance II	6 months KIBOR+3%	13 half yearly	June 2010	1,159,359	1,241,089
Syndicated term finance III	6 months KIBOR+2%	Single	June 2012	-	747,333
Master Istisna I	6 months KIBOR+1.5%	6 half yearly	May 2013	100,000	100,000
Master Istisna II	6 months KIBOR+2%	3 half yearly	June 2012	-	199,000
International Finance Corporation (IFC)	6 months LIBOR+2.6 to 3%	15 half yearly	June 2010	3,757,023	3,926,224
				9,608,367	11,112,023
Less: Current portion shown under current liabilities				(1,670,000)	(2,491,828)
				<u>7,938,367</u>	<u>8,620,195</u>

Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and syndicates of banks, the Company is required to comply with certain debt covenants. As at June 30, 2012, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

**15 DERIVATIVE FINANCIAL INSTRUMENTS**

**15.1** As at June 30, 2012, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US\$ 8,563, to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR plus margin where applicable on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually.

**15.2** As at June 30, 2012, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US\$ 26,666 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually.





(Amounts in thousand)

15.3 Details of the swap agreements are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Rate %	Fair Value	
				(Unaudited) June 30, 2012	(Audited) December 31, 2011
				Rupees	
<b>Interest Rate Swap Agreements</b>			<b>Fixed Rate</b>		
10,000	December 15, 2008	June 15, 2017	3.385	64,700	66,962
3,333	June 15, 2009	June 15, 2017	3.005	18,280	18,573
10,000	June 15, 2009	June 15, 2017	2.795	49,383	49,505
3,333	June 15, 2009	June 15, 2017	2.800	16,532	16,279
26,666				148,895	151,319
<b>Cross Currency Interest Rate Swap Agreements</b>			<b>Floating Rate</b>		
2,177	September 9, 2010	June 15, 2015	LIBOR+0.95	618	2,164
2,914	January 18, 2011	January 19, 2016	LIBOR+3.70	3,022	365
3,472	July 6, 2011	June 30, 2016	LIBOR+1.83	1,631	3,415
8,563				5,271	5,944
35,229				154,166	157,263
				(Unaudited) June 30, 2012	(Audited) December 31, 2011
				Rupees	

**16 SHORT TERM BORROWINGS**

Sub-ordinate loan from Engro Corporation

Limited - note 16.1

950,000

-

Running finance under mark-up  
arrangements - note 16.2

1,366,673

722,340

2,316,673

722,340

**16.1** During the period, the Company received a loan from Engro Corporation Limited (The Holding Company) amounting to Rs. 950,000 for meeting its working capital requirements. The loan is subordinated to the finances provided to the subsidiary by its banking creditors. The loan is repayable in a lump sum on 25 June 2013 and renewable for four further periods of one year each. The loan carries markup at the rate of 15.47% payable quarterly.

**16.2** The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amount to Rs. 1,800,000 (December 31, 2011: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1% to relevant period KIBOR plus 1.5% (December 31, 2011: relevant period KIBOR plus 1.0% to relevant period KIBOR plus 1.5%). During the period, the mark-up rates, net of prompt payment rebate, ranged from 12.91% to 13.55% per annum (December 31, 2011: 12.92% to 15.29% per annum). These facilities are secured by a floating charge over stocks and book debts of the Company.



(Amounts in thousand)

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	<b>Rupees</b>	
<b>17 TRADE AND OTHER PAYABLES</b>		
Trade and other creditors - note 17.1	4,701,315	4,455,741
Accrued liabilities - note 17.1	996,533	743,131
Advances from customers - note 17.1	549,586	735,377
Retention money against project payments	20,092	17,563
Security deposits	12,041	11,477
Workers' profits participation fund	1,272	164
Workers' welfare fund	1,009	-
Sales tax and SED payable	-	45,295
Withholding tax payable	8,298	9,002
Others - note 17.1	4,141	6,433
	<u>6,294,287</u>	<u>6,024,183</u>

**17.1** Includes amounts due to the following related parties:

- Engro Corporation Limited	9,452	6,344
- Mitsubishi Corporation	4,625,258	4,280,474
- Engro Fertilizers Limited	9,549	7,730
- DH Fertilizer Limited	24	24
- Engro Vopak Terminal Limited	71,000	81,264
- ICI Pakistan Limited	1,800	-
- EPCL Provident Fund	3,582	-
	<u>4,720,665</u>	<u>4,375,836</u>

	<b>(Unaudited) June 30, 2012</b>	<b>(Audited) December 31, 2011</b>
	<b>Rupees</b>	
<b>18 PROVISIONS</b>		
Balance at beginning of the year	166,678	131,022
Add: Provision during the year - notes 18.1 & 18.2	12,896	35,656
Balance at end of the year	<u>179,574</u>	<u>166,678</u>

**18.1 Provision for SED on import of plant and machinery**

The Company has paid Rs. 94,611 (December 31, 2011: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount, the Company had adjusted Rs. 57,924 (December 31, 2011: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by the Company.



The Company had approached the Federal Board of Revenue (FBR) to obtain a clarification in respect of the adjustment in the monthly sales tax returns. Pending clarification the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication), stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. During 2010, the Company was granted a stay order by the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand.

The Company filed an appeal with Commissioner Inland Revenue (Appeals) against the Order issued by the Additional Commissioner and the appeal was decided against the Company. The Company has now filed an appeal with the Income Tax Appellate Tribunal against the decision of Commissioner Inland Revenue (Appeals). During the period, Appellate Tribunal Inland Revenue issued an order on June 5, 2012 in favour of the Company. However, based on prudence the Company has not reversed the provision till the outcome of the appeal option available to the Department.

The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is carrying a provision in this respect. Further, a provision for surcharge and penalty thereon aggregating to Rs. 39,902 (December 31, 2011: Rs. 33,574) has also been made.

## **18.2 Provision for duty on import of raw material**

In 2009, the Company received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(1)/2006 on a concessionary basis from customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. However, the tax department has shown its disagreement with the Company's view and has demanded further information, to which the Company has responded.

Although, no formal order creating a demand has yet been received by the Company, however, based on prudence, a provision amounting to Rs. 81,748 (December 31, 2011: Rs. 75,180) in respect of custom duty on such raw materials has been made.

## **19 COMMITMENTS**

**19.1** The aggregate facility of performance guarantees issued by banks on behalf of the Company as at June 30, 2012 amount to Rs. 1,215,000 (December 31, 2011: Rs. 1,215,000). The amount utilized is Rs. 640,450 (December 31, 2011: Rs. 640,450).

**19.2** The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:



(Amounts in thousand)

	(Unaudited) June 30, 2012	(Audited) December 31, 2011
	Rupees	
Not later than 1 year	39,620	59,030
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	30,000	36,000
	<u>127,220</u>	<u>152,630</u>

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	Rupees			

**20 NET REVENUE**

Net local sales	4,907,233	3,894,924	9,862,183	7,879,779
Supply of electricity	9,387	7,652	18,267	14,851
	<u>4,916,620</u>	<u>3,902,576</u>	<u>9,880,450</u>	<u>7,894,630</u>

**21 COST OF SALES**

Opening stock of work-in-progress	3,370	12,171	24,258	4,749
Raw and packing materials consumed	2,729,201	1,954,349	5,084,313	4,059,691
Salaries, wages and staff welfare	122,138	141,426	284,081	288,540
Fuel, power and gas	669,638	499,738	1,360,802	967,186
Repairs and maintenance	148,957	88,374	247,475	153,502
Depreciation	287,139	284,269	574,284	569,302
Consumable stores	51,238	48,150	94,779	114,784
Purchased services	13,327	3,145	21,944	18,656
Storage and handling	232,780	217,366	471,443	422,497
Training and travelling	887	3,794	4,400	7,075
Communication, stationery and other office expenses	855	2,100	2,078	3,420
Insurance	19,430	16,938	39,008	25,300
Other expenses	9,077	4,858	15,126	13,999
	4,284,667	3,264,507	8,199,733	6,643,952
Closing stock of work-in-progress	<u>(16,953)</u>	<u>(27,922)</u>	<u>(16,953)</u>	<u>(27,922)</u>
Cost of goods manufactured	4,271,084	3,248,756	8,207,038	6,620,779
Opening stock of finished goods	773,583	696,754	750,313	796,195
Closing stock of finished goods	<u>(745,375)</u>	<u>(538,400)</u>	<u>(745,375)</u>	<u>(538,400)</u>
	28,208	158,354	4,938	257,795
Cost of sales - own manufactured product	<u>4,299,292</u>	<u>3,407,110</u>	<u>8,211,976</u>	<u>6,878,574</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	<b>Rupees</b>			
<b>22 DISTRIBUTION AND MARKETING EXPENSES</b>				
Salaries, wages and staff welfare	15,516	15,742	33,160	31,343
Sales promotion	706	773	802	1,021
Dealers' commission	28,117	19,502	57,535	40,159
Product transportation and handling	185,010	154,316	410,438	291,043
Rent, rates and taxes	3,708	3,379	6,278	5,502
Purchased services	687	1,527	2,732	2,240
Insurance	413	349	690	675
Depreciation	1,649	1,194	2,776	2,178
Training and travelling	2,722	2,076	4,187	3,341
Communication, stationery and other office expenses	1,028	738	1,845	1,331
Others	3,356	4,778	7,243	7,392
	<u>242,912</u>	<u>204,374</u>	<u>527,686</u>	<u>386,225</u>
<b>23 ADMINISTRATIVE EXPENSES</b>				
Salaries, wages and staff welfare	80,024	44,858	129,544	85,470
Rent, rates and taxes	9,137	7,796	20,677	17,485
Purchased services	20,020	12,599	30,445	19,951
Insurance	1,155	141	2,135	150
Depreciation and amortization	5,861	4,095	9,545	8,175
Training and travelling expenses	25,540	13,954	40,947	24,305
Communication, stationery and other office expenses	6,847	5,958	8,985	9,054
Others	8,435	4,120	11,858	6,618
	<u>157,019</u>	<u>93,521</u>	<u>254,136</u>	<u>171,208</u>
<b>24 OTHER OPERATING EXPENSES</b>				
Legal and professional charges	3,876	2,120	9,309	5,491
Auditors' remuneration	640	471	1,091	752
Donations	-	975	-	1,449
Loss on disposal of operating assets	77	1,962	-	2,908
Workers' profit participation fund	(28,699)	-	1,108	-
Workers' welfare fund	(12,919)	-	1,009	-
Foreign exchange loss - net	309,226	24,385	347,986	19,691
Damaged items of operating assets written-off	-	2,640	-	2,640
Others	-	130	-	441
	<u>272,201</u>	<u>32,683</u>	<u>360,503</u>	<u>33,372</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>25 OTHER OPERATING INCOME</b>				
Scrap sales	3,841	947	14,511	1,683
Profit on disposal of operating assets	-	-	605	-
Income on short term investments and bank deposits	1,236	9,159	1,890	10,908
Insurance claim - note 25.1	-	-	391,000	-
Others	-	-	976	-
Stores and spares written back - net	-	12,183	-	12,183
	<u>5,077</u>	<u>22,289</u>	<u>408,982</u>	<u>24,774</u>

**25.1** This represents insurance claim on account of loss of profit incurred as a result of fire incident at the Plant site in December 2009, which has been confirmed by the insurance companies.

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>26 FINANCE COST</b>				
Interest / Mark-up on:				
- long term borrowings	329,479	352,564	630,748	700,901
- short term finances	41,789	12,241	64,782	42,111
Foreign exchange loss on borrowings	173,600	30,884	205,280	16,320
Guarantee commission	1,199	1,411	2,599	2,583
Bank charges and others	3,972	4,989	5,549	7,507
	<u>550,039</u>	<u>402,089</u>	<u>908,958</u>	<u>769,422</u>

**26.1** During the half year ended June 30, 2012 the Company obtained a loan from Engro Polymer Trading (Private) Limited - wholly owned subsidiary amounting to Rs. 100,000 at the interest rate of 13.91%. The loan was repaid in May 2012.

(Amounts in thousand)

	Unaudited	
	Half Year ended June 30, 2012	Half Year ended June 30, 2011
	Rupees	

**27 CASH GENERATED FROM OPERATIONS**

<b>Profit / (Loss) before taxation</b>	26,173	(319,397)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	(3,160)	4,666
Provision against concessionary import duty on import of raw materials and Special Excise Duty	12,896	10,464
Provision for net realizable value of stock-in-trade	24,228	18,971
Provision for slow moving stores and spares	1,913	1,934
Write-off of damaged item of operating assets	-	2,640
Depreciation and amortization	586,605	579,655
Income on short term investments and bank deposits	(1,890)	(10,908)
Exchange loss on revaluation of IFC loan	187,600	15,840
Amortization of prepaid financial charges	10,844	8,012
Finance costs	710,514	745,570
Profit on disposal of operating assets	(605)	2,908
Working capital changes - note 27.1	(324,322)	1,335,505
	<u>1,230,796</u>	<u>2,395,860</u>

**27.1 WORKING CAPITAL CHANGES**

	Unaudited	
	Half Year ended June 30, 2012	Half Year ended June 30, 2011
	Rupees	
Decrease / (increase) in current assets		
Stores, spares and loose tools	(199,027)	(254,892)
Stock-in-trade	(104,670)	(268,815)
Trade debts - considered good	(194,780)	325,444
Loans, advances, deposits, prepayments and other receivables - net	(95,949)	6,976
	<u>(594,426)</u>	<u>(191,287)</u>
Increase in current liabilities		
Trade and other payables	270,104	1,526,792
	<u>(324,322)</u>	<u>1,335,505</u>

**28 CASH AND CASH EQUIVALENTS**

Cash and bank balances	83,502	85,605
Running finance under mark-up arrangements	(1,366,673)	(921,546)
	<u>(1,283,171)</u>	<u>(835,941)</u>



(Amounts in thousand)

**29 SEGMENT INFORMATION**

**29.1** The basis of segmentation and reportable segments presented in this condensed interim financial information are same as disclosed in the annual financial statements of the Company for the year ended December 31, 2011.

	Unaudited June 30, 2012				Unaudited June 30, 2011			
	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total
	<b>Rupees</b>							
Revenue	<u>7,672,455</u>	<u>2,189,728</u>	<u>18,267</u>	<u>9,880,450</u>	<u>6,287,552</u>	<u>1,592,227</u>	<u>14,851</u>	<u>7,894,630</u>
<b>Profit/(loss) before unallocated expenses</b>	<u>362,665</u>	<u>776,352</u>	<u>1,771</u>	<b><u>1,140,788</u></b>	<u>118,694</u>	<u>511,808</u>	<u>(671)</u>	<b><u>629,831</u></b>
<b>Unallocated expenses</b>								
Administrative expenses				(254,136)				(171,208)
Other operating expenses				(360,503)				(33,372)
Other operating income				408,982				24,774
Finance costs				(908,958)				(769,422)
Taxation				(9,238)				112,249
<b>Profit / (loss) after taxation</b>				<b><u>16,935</u></b>				<b><u>(207,148)</u></b>

	Unaudited June 30, 2012				Audited December 31, 2011			
	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total
	<b>Rupees</b>							
Total segment assets	14,902,670	6,582,797	78,156	21,563,623	14,007,625	5,698,350	80,818	19,786,793
Unallocated assets				3,351,502				4,741,066
<b>Total assets</b>				<b><u>24,915,125</u></b>				<b><u>24,527,859</u></b>

**29.2** Segment assets consist primarily of property, plant and equipment, stores & spares, stock-in-trade and trade debts.





(Amounts in thousand)

**30 TRANSACTIONS WITH RELATED PARTIES**

**30.1** Transactions with related parties other than those which have been disclosed elsewhere in this condensed interim financial information are as follows:

Nature of relationship	Nature of transactions	Unaudited	
		June 30, 2012	June 30, 2011
		Rupees	
<b>Holding company</b>	Purchase of services	8,294	1,759
	Sales of services	-	-
	Markup on Subordinated loan	7,093	-
	Allocation of common expenditures	3,659	885
	Allocation of common expenditures	1,119	97
	Pension fund contribution	2,417	2,260
	Provident fund contribution	3,918	2,458
	Medical contribution	-	225
	Gratuity fund contribution	1,338	546
<b>Subsidiary company</b>	Sale of goods	1,028,983	267,166
	Sale of services	377	890
	Allocation of common expenditures	13	-
	Mark up on working capital loan	686	-
<b>Associated companies</b>	Purchase of goods	4,964,285	3,904,453
	Allocation of common expenditures	7,511	-
	Purchase of services	520	-
<b>Related parties by virtue of common directorship</b>	Purchase of goods	29,991	17,680
	Purchase of services	428,782	407,450
	Sale of goods	38,900	30,674
	Sale of services	252	4,515
	Sale of steam and electricity	22,971	21,860
	Use of operating assets	3,921	161
	Annual subscription	121	64
	Allocation of common expenditures	14,393	4,091
	Allocation of common expenditures	14,508	183
Medical contribution	-	4	
<b>Directors</b>	Fee	850	1,201
	Final settlement	11,530	-
<b>Key management personnel</b>	Managerial remuneration	40,062	32,112
	Retirement benefits	5,282	4,668
	Bonus	11,752	8,530
	Other benefits	6,470	6,484
<b>Contribution to staff retirement benefits</b>	Pension fund	7,781	6,190
	Provident fund	11,366	10,133
	Gratuity fund	3,148	2,816



**31 DATE OF AUTHORIZATION FOR ISSUE**

This condensed interim financial information was authorized for issue on August 06, 2012 by the Board of Directors of the Company.

**32 CORRESPONDING FIGURES**

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet has been compared with the balances of annual audited financial statements of preceding financial year, whereas the condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which is not material.



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**Khalid Siraj Subhani**  
President & Chief Executive



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**Kimihide Ando**  
Director







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