



engro polymer & chemicals

Financial Information for the Quarter
and Nine Months ended September 30, 2012

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COMPANY INFORMATION

Chairman	Mohammad Aliuddin Ansari
President and Chief Executive	Khalid S. Subhani
Directors	Asif Qadir Isar Ahmad Kimihide Ando Shahzada Dawood Shabbir Hashmi Waqar A. Malik Afnan Ahsan Takashi Yoshida
Company Secretary	Kaleem Uddin Ahmad
Chief Financial Officer	Haseeb Hafeezuddeen
Board Audit Committee	Isar Ahmad Kimihide Ando Shabbir Hashmi Asif Qadir
Bankers / Lenders	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.
Auditors	A. F. Ferguson & Co., Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi
Registered Office	16th Floor, The Harbour Front Building, HC-3, Marine Drive, Block 4, Scheme-5, Clifton, Karachi-75600, Pakistan. UAN: +111 411 411
Plant	EZ/1/P-II-1, Eastern Zone, Bin Qasim, Karachi
Share Registrar	FAMCO Associates (Private) Limited 1st Floor, State Life Building 1-A, I.I. Chundrigar Road Karachi - 74000 Tel: (92-21) 32427012, 32426597, 32425467
Website	www.engropolymer.com





engro polymer & chemicals
and its subsidiary company

**DIRECTORS' REVIEW &
UNAUDITED CONSOLIDATED CONDENSED
INTERIM FINANCIAL INFORMATION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**



**CERTIFICATE OF COMPLIANCE WITH THE PROVISIONS OF SECTION 241 OF THE
COMPANIES ORDINANCE, 1984**

This is to certify that the Chief Executive Officer of the Company is for the time being not in Pakistan due to professional engagements and so the undersigned Directors of the Company have signed the Balance Sheet and Profit and Loss Account for the quarter ended 30th September 2012, in compliance with the provisions of Section 241 of the Companies Ordinance, 1984.



Mohammad Aliuddin Ansari
Chairman

Karachi
October 22, 2012



Kimihide Ando
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
DIRECTORS' REVIEW TO THE SHAREHOLDERS
ON UNAUDITED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2012.

Business Review

The Company achieved revenue of Rs. 15,554 million giving a growth of 26% year-on-year which was mainly attributable to increased volumes on the back of improved production volumes and higher Caustic soda prices. The Company posted a profit after tax of Rs. 83 million for nine months ended September 30, 2012 as compared to loss after tax of Rs. 440 million during the same period last year. Profits includes an insurance claim proceed received on account of delayed start up resulting from the plant site fire incident in December 2009. During 3rd quarter 2012, the Company posted a profit after tax of Rs. 24 million as compared to loss after tax of Rs. 245 million in the same period last year mainly due to consistent integrated operating rate of the plant site during the current year.

International PVC prices gained upward momentum during the 3rd quarter and increased by \$170/ton on the back of higher demand in the region, coupled with cost-push inflation from increasing feedstock prices which increased by \$385/ton during the quarter as a result of geopolitical unrest in the Middle East.

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 500+ tons per day which is well above its integrated capacity. The Company also exported 9,000 tons of VCM during the quarter. Following table shows the operating performance of the Company:

Product	3rd Quarter (PTD)				9 Months (YTD)			
	Production (in 000 tons)		Sales (in 000 tons)		Production (in 000 tons)		Sales (in 000 tons)	
	2012	2011	2012	2011	2012	2011	2012	2011
VCM	41	22	9	-	108	57	12	-
PVC	37	30	45	28	107	82	112	85
Caustic Soda	28	26	22	22	81	72	72	65

PVC production was up by 30% over nine months 2011 mainly due to stable VCM production. The Company also exported 12,000 tons of PVC during nine months 2012 compared to 3,000 tons in the same period last year.

Caustic soda production during nine months ended September 30, 2012 was up by 13% and the Company was able to sell all its production net of in-house consumption.


Near Term Outlook

PVC demand is expected to remain stable. However, Caustic soda demand may be affected by winter natural gas supply issues in the northern parts of the country. The VCM plant is planned to be shutdown over a small duration for repair and maintenance during the fourth quarter, the PVC plant will continue to operate at desired levels during this period. Management will continue its focus on the smooth operations of the plant.



Mohammad Aliuddin Ansari
Chairman

Karachi
October 22, 2012



Kimihide Ando
Director



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

(Amounts in thousand)

	Note	(Unaudited) September 30, 2012	(Audited) December 31, 2011
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	17,944,368	18,537,582
Intangible assets	6	33,482	31,104
Long term loans and advances		48,541	37,803
Deferred taxation	7	949,432	902,138
		<u>18,975,823</u>	<u>19,508,627</u>
Current Assets			
Stores, spares and loose tools		1,357,961	1,098,891
Stock-in-trade	8	2,182,828	2,508,579
Trade debts - considered good	9	176,484	292,605
Loans, advances, deposits, prepayments and other receivables	10	264,080	324,406
Taxes recoverable	11	1,037,094	860,486
Short term investments		165,840	-
Cash and bank balances	12	93,302	114,435
		<u>5,277,589</u>	<u>5,199,402</u>
TOTAL ASSETS		<u><u>24,253,412</u></u>	<u><u>24,708,029</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(96,181)	(102,221)
Accumulated loss		(1,172,331)	(1,255,645)
		<u>6,330,205</u>	<u>6,240,851</u>
Non-Current Liabilities			
Long term borrowings	14	7,947,646	8,620,195
Derivative financial instruments	15	147,971	157,263
Retirement and other service benefit obligations		64,167	62,107
		<u>8,159,784</u>	<u>8,839,565</u>
Current Liabilities			
Current portion of long term borrowings		1,671,360	2,491,828
Short term borrowings	16	1,295,621	722,340
Trade and other payables	17	6,204,883	6,101,686
Accrued interest / mark-up		405,515	145,081
Provisions	18	186,044	166,678
		<u>9,763,423</u>	<u>9,627,613</u>
Commitments	19		
TOTAL EQUITY AND LIABILITIES		<u><u>24,253,412</u></u>	<u><u>24,708,029</u></u>

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



Mohammad Aliuddin Ansari
Chairman



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 PERIOD ENDED SEPTEMBER 30, 2012**

	Note	Quarter ended		Nine months ended	
		September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
		Rupees			
Net revenue	20	6,077,216	4,345,596	15,553,616	12,376,776
Cost of sales	21	(5,146,816)	(3,861,766)	(12,886,197)	(10,852,114)
Gross profit		<u>930,400</u>	<u>483,830</u>	<u>2,667,419</u>	<u>1,524,662</u>
Distribution and marketing expenses	22	(360,596)	(226,710)	(904,581)	(623,556)
Administrative expenses	23	(138,794)	(94,318)	(391,930)	(268,333)
Other operating expenses	24	(79,113)	(54,039)	(444,112)	(84,357)
Other operating income	25	<u>14,924</u>	<u>6,095</u>	<u>429,989</u>	<u>40,255</u>
Operating profit/ (loss)		<u>366,821</u>	<u>114,858</u>	<u>1,356,785</u>	<u>588,671</u>
Finance cost - net	26	(314,729)	(481,856)	(1,227,895)	(1,257,028)
(Loss) / Profit before taxation		<u>52,092</u>	<u>(366,998)</u>	<u>128,890</u>	<u>(668,357)</u>
Taxation		(27,862)	121,876	(45,576)	228,136
(Loss) / Profit for the period		<u>24,230</u>	<u>(245,122)</u>	<u>83,314</u>	<u>(440,221)</u>
(Loss) / Profit per share					
- basic and diluted		<u>0.04</u>	<u>(0.37)</u>	<u>0.13</u>	<u>(0.66)</u>

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



(Amounts in thousand)

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

	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees			
Profit / (loss) for the period	24,230	(245,122)	83,314	(440,221)
Other comprehensive profit / (loss):				
Hedging reserve				
Profit / (loss) arising during the period	2,716	(59,223)	(25,818)	(74,887)
Reclassification adjustments for losses on interest rate swaps included in profit and loss	3,479	8,182	35,110	12,374
Income tax relating to hedging reserve	(2,168)	17,864	(3,252)	21,880
Other comprehensive gain / (loss) for the period - net of tax	4,027	(33,177)	6,040	(40,633)
Total comprehensive profit / (loss) for the period	<u>28,257</u>	<u>(278,299)</u>	<u>89,354</u>	<u>(480,854)</u>

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



(Amounts in thousand)

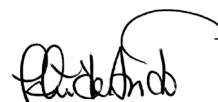
**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

	RESERVE					Total
	Share Capital	CAPITAL			REVENUE	
		Share Premium	Employees' Share Compensation Reserve	Hedging Reserve	Accumulated Loss	
Rupees						
Balance as at January 1, 2011 (Audited)	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 nine months ended September 30, 2011	-	-	-	(40,633)	(440,221)	(480,854)
Balance as at September 30, 2011 (Unaudited)	<u>6,634,688</u>	<u>964,029</u>	<u>8,290</u>	<u>(112,695)</u>	<u>(989,306)</u>	<u>6,505,006</u>
Vested share options lapsed during the period	-	-	(8,290)	-	-	(8,290)
Total comprehensive loss for the three months ended December 31, 2011	-	-	-	10,474	(266,339)	(255,865)
Balance as at December 31, 2011 (Audited)	<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 nine months ended September 30, 2012	-	-	-	6,040	83,314	89,354
Balance as at September 30, 2012 (Unaudited)	<u>6,634,688</u>	<u>964,029</u>	<u>-</u>	<u>(96,181)</u>	<u>(1,172,331)</u>	<u>6,330,205</u>

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



(Amounts in thousand)

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

	Note	Nine months ended	
		September 30, 2012	September 30, 2011
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	2,600,625	2,615,186
Finance costs paid		(740,698)	(802,387)
Long term loans and advances		(10,749)	(16,691)
Income tax paid		(272,730)	(202,771)
Net cash generated from operating activities		1,576,448	1,593,337
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(304,653)	(303,354)
Purchases of intangible assets		(10,364)	(16,249)
Proceeds from disposal of operating assets		18,171	5,509
Proceeds from sale of short term investments		143,970	393,503
Purchases of short term investments		(304,840)	(398,775)
Income on bank deposits		6,616	10,908
Net cash utilized in investing activities		(451,100)	(308,458)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowings		(1,719,780)	(743,355)
Proceeds / (repayments) of short term borrowings		600,000	(450,000)
Net cash utilized in financing activities		(1,119,780)	(1,193,355)
Net decrease in cash and cash equivalents		5,568	91,524
Cash and cash equivalents at beginning of the period		(607,905)	(647,494)
Cash and cash equivalents at end of the period	28	(602,337)	(555,970)

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 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 nine months ended September 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) September 30, 2012	(Audited) December 31, 2011
	Rupees	
5 PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value		
- notes 5.1 and 5.2	17,818,531	18,375,445
Capital work-in-progress	125,837	162,137
	<u>17,944,368</u>	<u>18,537,582</u>
5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	49,892	5,146
Plant and machinery	253,327	368,625
Furniture, fixtures and equipment	4,011	8,229
Vehicles	33,723	30,251
	<u>340,953</u>	<u>412,251</u>
5.2 During the period, assets costing Rs. 29,871(December 31, 2011: Rs. 34,962), having net book value of Rs. 15,657 (December 31, 2011: Rs. 15,899) were disposed off for Rs. 18,009 (December 31, 2011:Rs. 18,396) and assets costing Rs. 11,345 (December 31, 2011: Rs. 5,973) and having net book value of Rs. 7,107 (December 31, 2011: Rs. 5,368) were written-off. Insurance claim received against written-off assets was Rs. 162 (December 31, 2011: Rs. 3,379).		
6 INTANGIBLE ASSETS		
Additions made during the period amount to Rs. 10,364 (December 31, 2011: Rs. 18,790).		
	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
7 DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(4,193,081)	(4,195,902)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,473,321	4,520,417
- recoupable minimum turnover tax	454,736	377,524
- tax amortization	73	73
- unpaid liabilities and provision for certain retirement and other service benefits	50,929	38,835
- provision against custom duty and SED refundable	48,893	44,380
- provision for stocks and slow moving stores and spares	5,062	4,060
- fair value of hedging instruments and others	109,499	112,751
	<u>5,142,513</u>	<u>5,098,040</u>
	<u>949,432</u>	<u>902,138</u>



(Amounts in thousand)

7.1 The aggregate tax losses available for carry-forward as at September 30, 2012 amount to Rs. 12,780,918 (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. 12,780,918 (December 31, 2011: Rs. 12,660,060).

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
8 STOCK-IN-TRADE		
Raw and packing materials - note 8.1 and 8.3	1,708,518	1,694,992
Work-in-process	19,311	24,258
Finished goods - own manufactured product - note 8.1 and 8.2	454,999	789,329
	<u>2,182,828</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:

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
Engro Vopak Terminal Limited, a related party	624,855	717,858
Dawood Hercules Corporation Limited, a related party	4,332	6,387
Al Rahim Trading Company (Private) Limited	426,788	342,984
	<u>1,055,975</u>	<u>1,067,229</u>

8.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 9,549 (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.

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
9 TRADE DEBTS - considered good		
Secured	128,528	271,304
Unsecured	47,956	21,301
	<u>176,484</u>	<u>292,605</u>

9.1 Includes amounts due from the following related parties:

- Engro Fertilizers Limited	6,890	-
- Engro Foods Limited	2,059	2,473
	<u>8,949</u>	<u>2,473</u>



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

Includes receivable from Engro Vopak Terminal Limited amounting to Rs. 5,951 (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.

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
12 CASH AND BANK BALANCES		
Cash in hand	661	719
Cash at bank on:		
- current accounts	78,334	92,456
- saving accounts	14,307	21,260
	92,641	113,716
	93,302	114,435

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
13 SHARE CAPITAL		
Authorized capital		
800,000,000 (2011: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
Issued, subscribed and paid-up capital		
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 September 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	September 30, 2012	December 31, 2011
				Rupees	
Syndicated term finance I	6 months KIBOR+2.25%	13 half yearly	November 2010	4,595,824	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	3,763,823	3,926,224
				9,619,006	11,112,023
Less: Current portion shown under current liabilities				(1,671,360)	(2,491,828)
				<u>7,947,646</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 September 30, 2012, all debt covenants have been complied with except for current ratio for which waivers have been applied for.

15 DERIVATIVE FINANCIAL INSTRUMENTS

15.1 As at September 30, 2012, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US\$ 8,564 , 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 September 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) September 30, 2012	(Audited) December 31, 2011
				Rupees	
Interest Rate Swap Agreements			Fixed Rate		
10,000	December 15, 2008	June 15, 2017	3.385	71,434	66,962
3,333	June 15, 2009	June 15, 2017	3.005	20,484	18,573
10,000	June 15, 2009	June 15, 2017	2.795	55,934	49,505
3,333	June 15, 2009	June 15, 2017	2.800	18,598	16,279
26,666				166,449	151,319
Cross Currency Interest Rate Swap Agreements			Floating Rate		
2,178	September 9, 2010	June 15, 2015	LIBOR+0.95	(5,342)	2,164
2,914	January 18, 2011	January 19, 2016	LIBOR+3.70	(8,441)	365
3,472	July 6, 2011	June 30, 2016	LIBOR+1.83	(4,695)	3,415
8,564				(18,478)	5,944
35,230				147,971	157,263
				(Unaudited) September 30, 2012	(Audited) December 31, 2011
				Rupees	

16 SHORT TERM BORROWINGS

Sub-ordinate loan from

Engro Corporation Limited - note 16.1

600,000

-

Running finance under mark-up
arrangements - note 16.2

695,621

722,340

1,295,621

72,2340

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 out of which Rs. 350,000 has been repaid. The loan is subordinated to the finances provided to the subsidiary by its banking creditors. 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 11.42% to 13.64% 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)

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
17 TRADE AND OTHER PAYABLES		
Trade and other creditors - note 17.1	4,174,450	4,461,867
Accrued liabilities - note 17.1	873,569	743,647
Advances from customers - note 17.1	1,047,282	803,243
Retention money against project payments	19,907	17,563
Security deposits	12,041	11,477
Workers' profits participation fund and workers' welfare fund	10,908	3,158
Sales tax and SED payable	55,770	45,295
Withholding tax payable	3,682	9,002
Others - note 17.1	7,274	6,434
	<u>6,204,883</u>	<u>6,101,686</u>

17.1 Includes amounts due to the following related parties:

- Engro Corporation Limited	12,333	6,344
- Mitsubishi Corporation	4,096,168	4,280,474
- Engro Fertilizers Limited	-	7,730
- DH Fertilizer Limited	24	24
- Engro Vopak Terminal Limited	74,600	81,264
	<u>4,190,686</u>	<u>4,375,836</u>

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
18 PROVISIONS		
Balance at beginning of the year	166,678	131,022
Add: Provision during the year - notes 18.1 & 18.2	19,366	35,656
Balance at end of the year	<u>186,044</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 15, 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. 88,218 (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 September 30, 2012 amount to Rs. 1,598,000 (December 31, 2011: Rs. 1,648,000). The amount utilized is Rs. 1,005,450. (December 31, 2011: Rs. 849,035).

19.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Corporation 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) September 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	27,000	36,000
	<u>124,220</u>	<u>152,630</u>

	Unaudited			
	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees			
20 NET REVENUE				
Net local sales	4,921,419	3,986,157	13,754,618	11,598,770
Supply of electricity	14,164	5,230	32,431	20,081
Exports	1,141,633	354,209	1,766,567	757,925
	<u>6,077,216</u>	<u>4,345,596</u>	<u>15,553,616</u>	<u>12,376,776</u>
21 COST OF SALES				
Opening stock of work-in-progress	16,953	27,922	24,258	4,749
Raw and packing materials consumed	2,654,019	2,640,882	7,738,332	6,700,573
Salaries, wages and staff welfare	169,731	155,903	453,812	444,443
Fuel, power and gas	823,808	550,774	2,184,610	1,517,960
Repairs and maintenance	41,194	46,378	288,669	199,880
Depreciation	289,711	285,071	863,995	854,373
Consumable stores	77,071	72,042	171,850	186,826
Purchased services	16,928	10,992	38,872	29,648
Storage and handling	247,663	238,833	719,106	661,330
Training and travelling	2,430	1,827	6,830	8,902
Communication, stationery and other office expenses	1,137	1,952	3,215	5,372
Insurance	18,413	17,129	58,421	42,429
Other expenses	4,082	6,804	19,208	20,803
	4,346,187	4,028,587	12,546,920	10,672,539
Closing stock of work-in-progress	(19,311)	(10,660)	(19,311)	(10,660)
Cost of goods manufactured	4,343,829	4,045,849	12,551,867	10,666,628
Opening stock of finished goods	1,257,986	547,203	789,329	916,772
Closing stock of finished goods	(454,999)	(731,286)	(454,999)	(731,286)
	802,987	(184,083)	334,330	185,486
Cost of sales - own manufactured product	<u>5,146,816</u>	<u>3,861,766</u>	<u>12,886,197</u>	<u>10,852,114</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees			
22 DISTRIBUTION AND MARKETING EXPENSES				
Salaries, wages and staff welfare	34,976	17,440	68,136	48,783
Sales promotion	1,795	507	2,597	1,528
Dealers' commission	30,636	23,770	88,171	63,929
Product transportation and handling	277,009	175,993	702,525	477,653
Rent, rates and taxes	4,162	2,826	10,440	8,328
Purchased services	2,095	1,754	6,048	3,994
Insurance	223	274	913	949
Depreciation	1,409	1,145	4,185	3,323
Training and travelling	3,892	1,564	8,079	4,905
Communication, stationery and other office expenses	1,082	811	2,927	2,146
Others	3,317	626	10,560	8,018
	<u>360,596</u>	<u>226,710</u>	<u>904,581</u>	<u>623,556</u>
23 ADMINISTRATIVE EXPENSES				
Salaries, wages and staff welfare	65,612	46,676	195,156	132,146
Rent, rates and taxes	19,426	8,296	40,103	25,781
Purchased services	16,661	12,089	47,106	34,841
Insurance	457	525	1,592	675
Depreciation and amortization	5,364	4,130	14,909	12,305
Training and travelling expenses	19,013	16,279	59,960	40,584
Communication, stationery and other office expenses	5,732	4,400	14,717	13,454
Others	6,529	1,923	18,387	8,547
	<u>138,794</u>	<u>94,318</u>	<u>391,930</u>	<u>268,333</u>
24 OTHER OPERATING EXPENSES				
Legal and professional charges	11,090	3,166	26,728	8,692
Auditors' remuneration	631	60	1,752	822
Donations	815	-	815	1,449
Workers' profits participation fund	3,416	-	4,524	-
Workers' welfare fund	1,189	-	3,226	-
Foreign exchange loss - net	55,027	50,559	400,122	69,785
Damaged items of operating assets written-off	6,945	-	6,945	2,640
Others	-	254	-	969
	<u>79,113</u>	<u>54,039</u>	<u>444,112</u>	<u>84,357</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
25 OTHER OPERATING INCOME	Rupees			
Scrap sales	9,551	602	24,062	2,285
Profit on disposal of operating assets	1,747	4,473	2,352	1,565
Income on short term investments and bank deposits	3,613	1,020	11,586	24,222
Insurance claim - note 25.1	-	-	391,000	-
Others	13	-	989	-
Stores and spares written back - net	-	-	-	12,183
	<u>14,924</u>	<u>6,095</u>	<u>429,989</u>	<u>40,255</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 - net

Interest / Mark-up on:

- long term borrowings	250,270	359,552	881,018	1,060,453
- short term finances	45,810	43,598	111,007	88,893
Foreign exchange loss on borrowings	9,203	73,189	214,483	89,509
Guarantee commission	1,759	631	4,903	4,127
Bank charges and others	7,687	4,886	16,484	14,046
	<u>314,729</u>	<u>481,856</u>	<u>1,227,895</u>	<u>1,257,028</u>

27 CASH GENERATED FROM OPERATIONS

	Unaudited	
	September 30, 2012	September 30, 2011
Profit / (Loss) before taxation	128,890	(668,357)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	2,060	16,605
Provision against concessionary import duty on import of raw materials and Special Excise Duty	19,359	25,645
Provision for net realizable value of stock-in-trade	9,549	18,971
Provision for slow moving stores and spares	2,862	2,900
Write-off of damaged item of operating assets	6,945	2,640
Write-off of Off-Spec PVC	-	4,572
Depreciation and amortization	883,089	870,001
Income on short term investments and bank deposits	(6,616)	(14,233)
Realized gain on sale of short term investments	(4,119)	(9,152)
Unrealized fair value gain on short term investments	(851)	(837)
Loss on revaluation of IFC loan	212,080	89,920
Amortization of prepaid financial charges	14,683	13,514
Finance costs	1,001,132	1,167,519
Profit on disposal of operating assets	(2,352)	(1,565)
Working capital changes - note 27.1	333,914	1,097,043
	<u>2,600,625</u>	<u>2,615,186</u>



(Amounts in thousand)

Unaudited

	Nine months ended	
	September 30, 2012	September 30, 2011
	Rupees	
Decrease / (increase) in current assets		
Stores, spares and loose tools	(261,932)	(367,239)
Stock-in-trade	316,202	(293,977)
Trade debts - considered good	116,121	210,576
Loans, advances, deposits, prepayments and other receivables - net	60,326	125,492
	230,717	(325,148)
Increase in current liabilities		
Trade and other payables	103,197	1,422,191
	333,914	1,097,043

27.1 WORKING CAPITAL CHANGES**28 CASH AND CASH EQUIVALENTS**

Cash and bank balances	93,284	92,890
Running finance under mark-up arrangements	(695,621)	(822,880)
	(602,337)	(729,990)

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 September 30, 2012				Unaudited September 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	12,261,958	3,259,227	32,431	15,553,616	9,851,188	2,505,507	20,081	12,376,776
Profit/(loss) before unallocated expenses	704,127	1,051,038	7,673	1,762,838	119,251	785,405	(3,550)	901,106
Unallocated expenses								
Administrative expenses				(391,930)				(268,333)
Other operating expenses				(444,112)				(84,357)
Other operating income				429,989				40,255
Finance costs				(1,227,895)				(1,257,028)
Taxation				(45,576)				228,136
Profit / (loss) after taxation				83,314				(440,221)

	Unaudited September 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	12,499,948	8,451,898	66,504	21,018,350	14,086,556	5,698,350	80,818	19,865,724
Unallocated assets				3,235,062				4,842,305
Total assets				24,253,412				24,708,029

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:

<u>Nature of relationship</u>	<u>Nature of transactions</u>	<u>Unaudited</u>	
		<u>September 30, 2012</u>	<u>September 30, 2011</u>
		Rupees	
Holding company	Purchase of services	12,430	2,452
	Markup on sub-ordinated loan	41,647	-
	Reimbursements made	4,753	1,560
	Reimbursements received	1,222	187
	Pension fund contribution	3,916	3,517
	Provident fund contribution	6,330	4,282
	Medical contribution	-	225
	Gratuity fund contribution	1,854	832
Associated companies	Purchase of goods	7,053,246	6,257,486
	Sale of goods	1,140,895	552,113
	Reimbursements made	7,511	-
	Purchase of services	968	-
Related parties by virtue of common directorship	Purchase of goods	46,755	31,254
	Purchase of services	655,245	612,121
	Sale of goods	58,673	46,766
	Sale of services	252	1,275
	Sale of steam and electricity	40,641	30,636
	Use of operating assets	6,259	465
	Annual Subscription	121	527
	Reimbursements made	20,915	7,828
	Reimbursements received	21,042	499
Medical Contribution	-	4	
Directors	Fee	2,250	1,751
	Final settlement	11,530	-
Key management personnel	Managerial remuneration	55,920	51,234
	Retirement benefits	7,846	7,388
	Bonus	17,669	14,494
	Other benefits	9,837	9,586
Contribution to staff retirement benefits	Pension fund	14,123	9,284
	Provident fund	20,942	15,804
	Gratuity fund	5,715	4,223



31 DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on October 22, 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.



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director





engro polymer & chemicals

**UNAUDITED CONDENSED
INTERIM FINANCIAL INFORMATION
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**



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

(Amounts in thousand)

	Note	(Unaudited) September 30, 2012	(Audited) December 31, 2011
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	17,944,368	18,537,582
Intangible assets	6	33,482	31,104
Long term investment - at cost		50,000	50,000
Long term loans and advances		48,541	37,803
Deferred taxation	7	949,432	902,138
		<u>19,025,823</u>	<u>19,558,627</u>
Current Assets			
Stores, spares and loose tools		1,357,961	1,098,891
Stock-in-trade	8	2,182,794	2,469,563
Trade debts - considered good	9	177,304	213,674
Loans, advances, deposits, prepayments and other receivables	10	251,878	220,905
Taxes recoverable	11	1,036,234	859,971
Cash and bank balances	12	83,357	106,228
		5,089,528	4,969,232
		<u>24,115,351</u>	<u>24,527,859</u>
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
Share capital	13	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(96,181)	(102,221)
Accumulated loss		(1,301,367)	(1,357,965)
		6,201,169	6,138,531
Non-Current Liabilities			
Long term borrowings	14	7,947,646	8,620,195
Derivative financial instruments	15	147,971	157,263
Retirement and other service benefit obligations		64,167	62,107
		8,159,784	8,839,565
Current Liabilities			
Current portion of long term borrowings		1,671,360	2,491,828
Short term borrowings	16	1,295,621	722,340
Trade and other payables	17	6,195,858	6,024,183
Accrued interest / mark-up		405,515	144,734
Provisions	18	186,044	166,678
		9,754,398	9,549,763
Commitments			
	19		
		<u>24,115,351</u>	<u>24,527,859</u>
TOTAL EQUITY AND LIABILITIES			

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



Mohammad Aliuddin Ansari
Chairman



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 PERIOD ENDED SEPTEMBER 30, 2012

	Note	Quarter ended		Nine months ended	
		September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
		Rupees			
Net revenue	20	5,533,898	4,337,176	15,414,348	12,231,806
Cost of sales	21	(4,634,239)	(3,862,945)	(12,847,215)	(10,741,519)
Gross profit		899,659	474,231	2,567,133	1,490,287
Distribution and marketing expenses	22	(330,980)	(220,586)	(858,666)	(606,811)
Administrative expenses	23	(138,794)	(94,270)	(391,930)	(265,478)
Other operating expenses	24	(77,065)	(53,440)	(437,568)	(83,904)
Other operating income	25	13,390	5,478	422,372	27,344
Operating profit		366,210	111,413	1,301,341	561,438
Finance cost - net	26	(309,119)	(480,237)	(1,218,077)	(1,249,659)
(Loss) / Profit before taxation		57,091	(368,824)	83,264	(688,221)
Taxation		(17,428)	122,685	(26,666)	234,934
(Loss) / Profit for the period		39,663	(246,139)	56,598	(453,287)
(Loss) / Profit per share					
- basic and diluted		0.06	(0.37)	0.09	(0.68)

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


Mohammad Aliuddin Ansari
 Chairman


Kimihide Ando
 Director

(Amounts in thousand)


ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2012

	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Profit / (loss) for the period	39,663	(246,139)	56,598	(453,287)
Other comprehensive profit/ (loss):				
Hedging reserve				
Profit / (loss) arising during the period	2,716	(59,223)	(25,818)	(74,887)
Reclassification adjustments for losses on interest rate swaps included in profit and loss	3,479	8,182	35,110	12,374
Income tax relating to hedging reserve	(2,168)	17,864	(3,252)	21,880
Other comprehensive gain / (loss) for the period - net of tax	4,027	(33,177)	6,040	(40,633)
Total comprehensive profit / (loss) for the period	<u>43,690</u>	<u>(279,316)</u>	<u>62,638</u>	<u>(493,920)</u>

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



(Amounts in thousand)


ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2012

	Share Capital	RESERVE				Total
		CAPITAL		REVENUE		
		Share Premium	Employees' Share Compensation Reserve	Hedging Reserve	Accumulated Loss	
Rupees						
Balance as at January 1, 2011 (Audited)	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 nine months ended September 30, 2011	-	-	-	(40,633)	(453,287)	(493,920)
Balance as at September 30, 2011 (Unaudited)	<u>6,634,688</u>	<u>964,029</u>	<u>8,290</u>	<u>(112,695)</u>	<u>(1,081,890)</u>	<u>6,412,422</u>
Vested share options lapsed during the period	-	-	(8,290)	-	-	(8,290)
Total comprehensive loss for the three months ended December 31, 2011	-	-	-	10,474	(276,075)	(265,601)
Balance as at December 31, 2011 (Audited)	<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 nine months ended September 30, 2012	-	-	-	6,040	56,598	62,638
Balance as at September 30, 2012 (Unaudited)	<u>6,634,688</u>	<u>964,029</u>	<u>-</u>	<u>(96,181)</u>	<u>(1,301,367)</u>	<u>6,201,169</u>

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



(Amounts in thousand)


ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2012

	Note	Nine months ended	
		September 30, 2012	September 30, 2011
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	2,411,251	2,731,572
Finance costs paid		(730,533)	(814,107)
Long term loans and advances		(10,738)	(11,774)
Income tax paid		(253,475)	(295,136)
Net cash generated from operating activities		1,416,505	1,610,555
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(304,653)	(432,992)
Purchases of intangible assets		(10,364)	(18,789)
Proceeds from disposal of operating assets		18,171	14,215
Income on bank deposits		3,969	11,311
Net cash utilized in investing activities		(292,877)	(426,255)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowings		(1,719,780)	(664,890)
Proceeds / (repayments) of short term borrowings		600,000	(250,000)
Net cash utilized in financing activities		(1,119,780)	(914,890)
Net increase in cash and cash equivalents		3,848	269,410
Cash and cash equivalents at beginning of the period		(616,112)	(1,008,892)
Cash and cash equivalents at end of the period	28	(612,264)	(739,482)

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



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director



ENGRO POLYMER & CHEMICALS LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 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 period ended September 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) September 30, 2012	(Audited) December 31, 2011
	Rupees	
5 PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value		
- notes 5.1 & 5.2	17,818,531	18,375,445
Capital work-in-progress	125,837	162,137
	<u>17,944,368</u>	<u>18,537,582</u>
5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	49,892	5,146
Plant and machinery	253,327	368,625
Furniture, fixtures and equipment	4,011	8,229
Vehicles	33,723	30,251
	<u>340,953</u>	<u>412,251</u>
5.2 During the period, assets costing Rs. 29,871(December 31, 2011: Rs. 34,962), having net book value of Rs. 15,657 (December 31, 2011: Rs. 15,899) were disposed off for Rs. 18,009 (December 31, 2011:Rs. 18,396) and assets costing Rs. 11,345 (December 31, 2011: Rs. 5,973) and having net book value of Rs. 7,107 (December 31, 2011: Rs. 5,368) were written-off. Insurance claim received against written-off assets was Rs. 162 (December 31, 2011: Rs. 3,379).		
6 INTANGIBLE ASSETS		
Additions made during the period amount to Rs. 10,364 (December 31, 2011: Rs. 18,790).		
	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
7 DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(4,193,081)	(4,195,902)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,473,321	4,520,417
- recoupable minimum turnover tax	454,736	377,524
- tax amortization	73	73
- unpaid liabilities and provision for certain retirement and other service benefits	50,929	38,835
- provision against custom duty and SED refundable	48,893	44,380
- provision for stocks and slow moving stores and spares	5,062	4,060
- fair value of hedging instruments and others	109,499	112,751
	<u>5,142,513</u>	<u>5,098,040</u>
	<u>949,432</u>	<u>902,138</u>



(Amounts in thousand)

7.1 The aggregate tax losses available for carry-forward as at September 30, 2012 amount to Rs. 12,780,918 (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. 12,780,918 (December 31, 2011: Rs. 12,660,060).

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
8 STOCK-IN-TRADE		
Raw and packing materials - note 8.1 and 8.3	1,708,518	1,694,992
Work-in-process	19,311	24,258
Finished goods - own manufactured product - note 8.1 and 8.2	454,965	750,313
	<u>2,182,794</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:

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
Engro Vopak Terminal Limited, a related party	624,855	717,858
Dawood Hercules Corporation Limited, a related party	4,332	6,387
Al Rahim Trading Company (Private) Limited	426,788	342,984
	<u>1,055,975</u>	<u>1,067,229</u>

8.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 9,549 (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.

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
9 TRADE DEBTS - considered good		
Secured	129,348	149,259
Unsecured	47,956	64,415
	<u>177,304</u>	<u>213,674</u>

9.1 Includes amounts due from the following related parties:

- Engro Foods Limited	2,045	2,473
- Engro Fertilizers Limited	6,890	-
- Engro Polymer Trading (Private) Limited	820	43,114
	<u>9,755</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. 5,951 (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.

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
12 CASH AND BANK BALANCES		
Cash in hand	661	719
Cash at bank on:		
- current accounts	77,115	91,275
- saving accounts	5,581	14,234
	82,696	105,509
	83,357	106,228

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
13 SHARE CAPITAL		
Authorized capital		
800,000,000 (2011: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
Issued, subscribed and paid-up capital		
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 September 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	September 30, 2012	December 31, 2011
				Rupees	
Syndicated term finance I	6 months KIBOR+2.25%	13 half yearly	November 2010	4,595,824	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	3,763,823	3,926,224
				9,619,006	11,112,023
Less: Current portion shown under current liabilities				(1,671,360)	(2,491,828)
				<u>7,947,646</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 September 30, 2012, all debt covenants have been complied with except for current ratio for which waivers have been applied for.

15 DERIVATIVE FINANCIAL INSTRUMENTS

15.1 As at September 30, 2012, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US\$ 8,564 , 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 September 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) September 30, 2012	(Audited) December 31, 2011
				Rupees	
Interest Rate Swap Agreements			Fixed Rate		
10,000	December 15, 2008	June 15, 2017	3.385	71,434	66,962
3,333	June 15, 2009	June 15, 2017	3.005	20,484	18,573
10,000	June 15, 2009	June 15, 2017	2.795	55,934	49,505
3,333	June 15, 2009	June 15, 2017	2.800	18,598	16,279
26,666				166,449	151,319
Cross Currency Interest Rate Swap Agreements			Floating Rate		
2,178	September 9, 2010	June 15, 2015	LIBOR+0.95	(5,342)	2,164
2,914	January 18, 2011	January 19, 2016	LIBOR+3.70	(8,441)	365
3,472	July 6, 2011	June 30, 2016	LIBOR+1.83	(4,695)	3,415
8,564				(18,478)	5,944
35,230				147,971	157,263
				(Unaudited) September 30, 2012	(Audited) December 31, 2011
				Rupees	

16 SHORT TERM BORROWINGS

Sub-ordinate loan from

Engro Corporation Limited - note 16.1

600,000

-

Running finance under mark-up
arrangements - note 16.2

695,621

722,340

1,295,621

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 out of which Rs. 350,000 has been repaid. The loan is subordinated to the finances provided to the subsidiary by its banking creditors. 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 11.42% to 13.64% 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)

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
17 TRADE AND OTHER PAYABLES		
Trade and other creditors - note 17.1	4,169,213	4,455,741
Accrued liabilities - note 17.1	873,310	743,131
Advances from customers - note 17.1	1,047,282	735,377
Retention money against project payments	19,907	17,563
Security deposits	12,041	11,477
Workers' profits participation fund	4,688	164
Workers' welfare fund	2,691	-
Sales tax and SED payable	55,770	45,295
Withholding tax payable	3,682	9,002
Others - note 17.1	7,274	6,433
	<u>6,195,858</u>	<u>6,024,183</u>

17.1 Includes amounts due to the following related parties:

- Engro Corporation Limited	12,333	6,344
- Mitsubishi Corporation	4,096,168	4,280,474
- Engro Fertilizers Limited	-	7,730
- DH Fertilizer Limited	24	24
- Engro Vopak Terminal Limited	74,600	81,264
	<u>4,183,125</u>	<u>4,375,836</u>

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
	Rupees	
18 PROVISIONS		
Balance at beginning of the year	166,678	131,022
Add: Provision during the year - notes 18.1 & 18.2	19,366	35,656
Balance at end of the year	<u>186,044</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 15, 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. 88,218 (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 September 30, 2012 amount to Rs. 1,165,000 (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 Corporation 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) September 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	27,000	36,000
	<u>124,220</u>	<u>152,630</u>

	Unaudited			
	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees			
20 NET REVENUE				
Net local sales	5,519,734	4,139,167	15,381,917	12,018,946
Supply of electricity	14,164	5,230	32,431	20,081
Export Sales	-	192,779	-	192,779
	<u>5,533,898</u>	<u>4,337,176</u>	<u>15,414,348</u>	<u>12,231,806</u>
21 COST OF SALES				
Opening stock of work-in-progress	16,953	27,922	24,258	4,749
Raw and packing materials consumed	2,654,019	2,640,882	7,738,332	6,700,573
Salaries, wages and staff welfare	169,731	155,903	453,812	444,443
Fuel, power and gas	823,808	550,774	2,184,610	1,517,960
Repairs and maintenance	41,194	46,378	288,669	199,880
Depreciation	289,711	285,071	863,995	854,373
Consumable stores	77,071	72,042	171,850	186,826
Purchased services	16,928	10,992	38,872	29,648
Storage and handling	247,663	238,833	719,106	661,330
Training and travelling	2,430	1,827	6,830	8,902
Communication, stationery and other office expenses	1,137	1,952	3,215	5,372
Insurance	18,413	17,129	58,421	42,429
Other expenses	4,082	6,804	19,208	20,803
	4,346,187	4,028,587	12,546,920	10,672,539
Closing stock of work-in-progress	(19,311)	(10,660)	(19,311)	(10,660)
Cost of goods manufactured	4,343,829	4,045,849	12,551,867	10,666,628
Opening stock of finished goods	745,375	538,400	750,313	796,195
Closing stock of finished goods	(454,965)	(721,304)	(454,965)	(721,304)
	290,410	(182,904)	295,348	74,891
Cost of sales - own manufactured product	<u>4,634,239</u>	<u>3,862,945</u>	<u>12,847,215</u>	<u>10,741,519</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	Rupees			
22 DISTRIBUTION AND MARKETING EXPENSES				
Salaries, wages and staff welfare	34,976	17,440	68,136	48,783
Sales promotion	1,795	507	2,597	1,528
Dealers' commission	30,636	23,770	88,171	63,929
Product transportation and handling	247,555	170,413	657,993	461,456
Rent, rates and taxes	4,162	2,826	10,440	8,328
Purchased services	1,933	1,215	4,665	3,455
Insurance	223	274	913	949
Depreciation	1,409	1,145	4,185	3,323
Training and travelling	3,892	1,564	8,079	4,905
Communication, stationery and other office expenses	1,082	806	2,927	2,137
Others	3,317	626	10,560	8,018
	<u>330,980</u>	<u>220,586</u>	<u>858,666</u>	<u>606,811</u>
23 ADMINISTRATIVE EXPENSES				
Salaries, wages and staff welfare	65,612	46,676	195,156	132,146
Rent, rates and taxes	19,426	8,296	40,103	25,781
Purchased services	16,661	12,044	47,106	31,995
Insurance	457	525	1,592	675
Depreciation and amortization	5,364	4,130	14,909	12,305
Training and travelling expenses	19,013	16,279	59,960	40,584
Communication, stationery and other office expenses	5,732	4,400	14,717	13,454
Others	6,529	1,920	18,387	8,538
	<u>138,794</u>	<u>94,270</u>	<u>391,930</u>	<u>265,478</u>
24 OTHER OPERATING EXPENSES				
Legal and professional charges	5,433	1,476	14,742	6,967
Auditors' remuneration	611	87	1,702	839
Donations	815	-	815	1,449
Workers' profit participation fund	3,416	-	4,524	-
Workers' welfare fund	1,682	-	2,691	-
Foreign exchange loss - net	58,163	51,877	406,149	71,568
Damaged items of operating assets written-off	6,945	-	6,945	2,640
Others	-	-	-	441
	<u>77,065</u>	<u>53,440</u>	<u>437,568</u>	<u>83,904</u>



(Amounts in thousand)

	Unaudited			
	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
25 OTHER OPERATING INCOME	Rupees			
Scrap sales	9,551	602	24,062	2,285
Profit on disposal of operating assets	1,747	4,473	2,352	1,565
Income on short term investments and bank deposits	2,079	403	3,969	11,311
Insurance claim - note 25.1	-	-	391,000	-
Others	13	-	989	-
Stores and spares written back - net	-	-	-	12,183
	<u>13,390</u>	<u>5,478</u>	<u>422,372</u>	<u>27,344</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 - net

Interest / Mark-up on:

- long term borrowings	250,270	359,552	881,018	1,060,453
- short term finances	45,908	43,598	110,690	85,709
Foreign exchange loss/ (gain) on borrowings	9,203	73,189	214,483	89,509
Guarantee commission	1,205	1,544	3,804	4,127
Bank charges and others	2,533	2,354	8,082	9,861
	<u>309,119</u>	<u>480,237</u>	<u>1,218,077</u>	<u>1,249,659</u>

26.1 During the nine month ended September 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.

	Unaudited	
	Nine months ended	
	September 30, 2012	September 30, 2011
27 CASH GENERATED FROM OPERATIONS	Rupees	
Profit / (Loss) before taxation	83,264	(688,221)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	2,060	16,605
Provision against concessionary import duty on import of raw materials and Special Excise Duty	19,366	25,645
Provision for net realizable value of stock-in-trade	9,549	18,971
Provision for slow moving stores and spares	2,862	2,900
Write-off of damaged item of operating assets	6,945	2,640
Write-off of Off-Spec PVC	-	4,572
Depreciation and amortization	883,089	870,001
Income on short term investments and bank deposits	(3,969)	(11,311)
Exchange loss on revaluation of IFC loan	212,080	89,920
Amortization of prepaid financial charges	14,683	13,514
Finance costs	991,314	1,160,150
Profit on disposal of operating assets	(2,352)	(1,565)
Working capital changes - note 27.1	192,360	1,227,751
	<u>2,411,251</u>	<u>2,731,572</u>



(Amounts in thousand)

Unaudited

	Nine months ended	
	September 30, 2012	September 30, 2011
	Rupees	
27.1 WORKING CAPITAL CHANGES		
Decrease / (increase) in current assets		
Stores, spares and loose tools	(261,932)	(367,239)
Stock-in-trade	277,220	(404,572)
Trade debts - considered good	36,370	431,951
Loans, advances, deposits, prepayments and other receivables - net	(30,973)	90,648
	20,685	(249,212)
Increase in current liabilities		
Trade and other payables	171,675	1,476,963
	192,360	1,227,751

28 CASH AND CASH EQUIVALENTS

Cash and bank balances	83,357	83,398
Running finance under mark-up arrangements	(695,621)	(822,880)
	(612,264)	(739,482)

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 September 30, 2012				Unaudited September 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	12,126,073	3,255,844	32,431	15,414,348	9,706,218	2,505,507	20,081	12,231,806
Profit/(loss) before unallocated expenses	653,139	1,047,655	7,673	1,708,467	101,621	785,405	(3,550)	883,476
Unallocated expenses								
Administrative expenses				(391,930)				(265,478)
Other operating expenses				(437,568)				(173,413)
Other operating income				422,372				27,344
Finance costs				(1,218,077)				(1,160,150)
Taxation				(26,666)				234,934
Profit / (loss) after taxation				56,598				(453,287)

	Unaudited September 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	12,500,700	8,451,898	66,504	21,019,102	14,007,625	5,698,350	80,818	19,786,793
Unallocated assets				3,096,249				4,741,066
Total assets				24,115,351				24,527,859

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	
		September 30, 2012	September 30, 2011
		Rupees	
Holding company	Purchase of services	12,430	2,452
	Markup on Subordinated loan	41,647	-
	Reimbursements made	4,753	1,560
	Reimbursements received	1,222	187
	Pension fund contribution	3,916	3,517
	Provident fund contribution	6,330	4,282
	Medical contribution	-	225
	Gratuity fund contribution	1,854	832
Subsidiary company	Sale of goods	1,627,298	420,176
	Sale of services	555	982
	Allocation of common expenditures	21	-
	Mark up on working capital loan	686	-
Associated companies	Purchase of goods	7,053,246	6,257,486
	Sale of goods	-	192,278
	Reimbursements made	7,511	-
	Purchase of services	968	-
Related parties by virtue of common directorship	Purchase of goods	46,755	31,254
	Purchase of services	655,245	612,121
	Sale of goods	58,673	46,766
	Sale of services	252	1,275
	Sale of steam and electricity	40,641	30,636
	Use of operating assets	6,259	465
	Annual subscription	121	527
	Reimbursements made	20,915	7,828
	Reimbursements received	21,042	499
Medical contribution	-	4	
Directors	Fee	2,250	1,751
	Final settlement	11,530	-
Key management personnel	Managerial remuneration	55,920	51,234
	Retirement benefits	7,846	7,388
	Bonus	17,669	14,494
	Other benefits	9,837	9,586
Contribution to staff retirement benefits	Pension fund	14,123	9,284
	Provident fund	20,942	15,804
	Gratuity fund	5,715	4,223



31 DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on October 22, 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.



Mohammad Aliuddin Ansari
Chairman



Kimihide Ando
Director





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