



Engro Polymer & Chemicals Ltd.

Financial Statements for the  
Quarter and Three Months ended March 31, 2010

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## COMPANY INFORMATION

<b>Chairman</b>	Asad Umar
<b>President &amp; Chief Executive</b>	Asif Qadir
<b>Directors</b>	Isar Ahmad Shahzada Dawood Masaharu Domichi Takeshi Hagiwara Shabbir Hashmi Waqar A. Malik Khalid Mansoor Khalid S. Subhani
<b>Company Secretary</b>	Arshaduddin Ahmed
<b>Board Audit Committee</b>	Isar Ahmad Masaharu Domichi Shabbir Hashmi Khalid S. Subhani
<b>Bankers / Lenders</b>	Allied 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. (Formerly Crescent Commercial 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.
<b>Auditors</b>	A. F. Ferguson & Co., Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi.
<b>Registered Office</b>	First Floor, Bahria Complex I, 24 M.T. Khan Road, Karachi - 74000 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 [Formerly Ferguson 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 Ltd.

**DIRECTORS' REVIEW &  
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2010**

# **ENGRO POLYMER & CHEMICALS LIMITED**

## **DIRECTORS' REVIEW TO THE SHAREHOLDERS ON CONDENSED INTERIM FINANCIAL STATEMENTS**

### **FOR THE THREE MONTHS ENDED MARCH 31, 2010**

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we are pleased to present the Unaudited Condensed Interim Financial Statements of the Company for the first quarter ended March 31, 2010.

#### **Business Review**

Poly Vinyl Chloride (PVC) production during the quarter was 20K tons as compared to 26K tons in 1Q 2009. Post the fire incident in December 2009, efforts were made to procure VCM on spot basis, but as VCM supply in the international market was limited, only 15K tons of VCM could be procured. This combined with previous inventory resulted in PVC production of 20K tons.

Domestic PVC sales for 1Q 2010 was 22K tons as compared to sale of 38K tons same period last year. While domestic demand remained strong, decline in sales was due to production constraints. There were no PVC exports in 1Q 2010. International PVC prices firmed up and went well over \$1,000 during the quarter however; tight availability of VCM reduced the PVC-VCM margin for the quarter to \$135 per ton as compared to \$165 per ton in 4Q 2009.

Caustic soda production during the quarter was 19K tons. The plant operated at 73% operating rate. Low production was caused by operational problems at Ethylene Di Chloride (EDC) plant. Domestic demand for Caustic soda also remained strong and Company sold 16K tons. A total of 19K tons of EDC was produced in 1Q 2010 out of which the Company exported 14K tons through its subsidiary. Company also sold 5K tons of Sodium Hypochlorite in the domestic market. Surplus power of 7MW (average) was sold to Karachi Electric Supply Corporation (KESC) during the quarter. However, as a safety measure, supply of power to KESC was stopped in middle of March 2010 due to frequency fluctuations at KESC grid. Supply of power to KESC is expected to resume in 2Q 2010 once the frequency issues are adequately resolved.

VCM plant was started up in March and 2K tons of VCM was produced however the plant had to be shutdown due to power tripping caused by frequency fluctuation at KESC grid. Commissioning of the plant is currently underway and the revised outlook for commercial production is 2Q 2010 as against 1Q 2010 reported previously. Apart from the substantial effort put in the areas of safety and human resource training and development, the Company is in the process of arranging for Technical Support from international organizations with VCM operation expertise and also in engaging resource having VCM operations experience to work at the plant site. These steps would enhance the technical knowledge base in the organization and would provide support in achieving stable VCM plant operations.

Company incurred a loss after tax of Rs. 207 M during the quarter as compared to a loss after tax of Rs. 75 M in 1Q 2009. Primary reason for the loss was delay in VCM plant start-up which resulted in lower PVC-VCM margin.

#### **Future Outlook**

PVC and Caustic soda demand is expected to remain strong during second quarter. The Company is focused to continue to strengthen its relationship with its customers through product quality, competitive pricing and effective distribution network. International PVC prices are expected to remain stable based on raw material prices and supply demand situation. VCM supply will remain tight due to VCM plant turnarounds in the region. However, beyond 2Q 2010, Ethylene supply is expected to ease out on account of additional crackers coming online in Middle East.

Delay in VCM plant commissioning resulted in non compliance of couple of the loan agreement covenants. The Company is working to rectify the non compliance. Based on current outlook, the medium term projections issued at the time of announcement of Right issue are expected to remain intact.



Asif Qadir  
*President & Chief Executive*



Masaharu Domichi  
*Director*

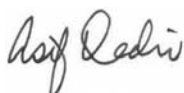
Karachi  
April 23, 2010



**ENGRO POLYMER & CHEMICALS LIMITED**  
**UNAUDITED CONDENSED INTERIM BALANCE SHEET**  
**AS AT MARCH 31, 2010**

	Note	(Unaudited) March 31, 2010	(Audited) December 31, 2009
Rupees			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	19,655,215	19,360,686
Intangible assets		12,782	11,816
Long term investment		50,000	50,000
Long term loans and advances		58,185	47,475
		<u>19,776,182</u>	<u>19,469,977</u>
<b>Current Assets</b>			
Stores, spares and loose tools		277,297	192,762
Stock-in-trade	6	1,942,325	1,605,218
Trade debts - considered good		673,609	336,242
Loans, advances, deposits, prepayments and other receivables	7	270,254	309,224
Taxes recoverable		503,649	452,548
Cash and bank balances		177,689	190,064
		<u>3,844,823</u>	<u>3,086,058</u>
<b>TOTAL ASSETS</b>		<u>23,621,005</u>	<u>22,556,035</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		5,203,677	5,203,677
Share premium		969,980	975,438
Employees' share compensation reserve		9,313	9,313
Hedging reserve		(48,107)	(12,958)
(Accumulated loss) / Unappropriated profit		(23,129)	184,203
		<u>6,111,734</u>	<u>6,359,673</u>
<b>Non-Current Liabilities</b>			
Long term borrowings	8	11,132,077	11,135,163
Derivative financial instruments		74,011	19,935
Deferred income tax liabilities	9	185,382	321,520
Retirement and other service benefit obligations		38,141	38,312
		<u>11,429,611</u>	<u>11,514,930</u>
<b>Current Liabilities</b>			
Current portion of long term borrowings		1,015,352	1,016,393
Trade and other payable	10	4,096,608	3,200,304
Short term borrowings		851,608	394,241
Provisions	11	116,092	70,494
		<u>6,079,660</u>	<u>4,681,432</u>
<b>Contingencies and Commitments</b>	12		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>23,621,005</u>	<u>22,556,035</u>

The annexed notes 1 to 24 form an integral part of these condensed interim financial statements.



Asif Qadir  
 President & Chief Executive

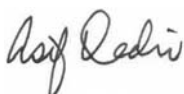


Masaharu Domichi  
 Director

**ENGRO POLYMER & CHEMICALS LIMITED**  
**UNAUDITED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Note	Three months ended March 31, 2010	Three months ended March 31, 2009 (Restated)
Rupees			
Net revenue		3,221,735	2,388,731
Cost of sales	13	<u>(3,074,833)</u>	<u>(2,294,793)</u>
<b>Gross profit</b>		146,902	93,938
Distribution and marketing expenses	14	(118,904)	(79,698)
Administrative expenses	15	(60,779)	(27,504)
Other operating expenses	16	(7,189)	(48,114)
Other operating income	17	<u>11,832</u>	<u>4,423</u>
<b>Operating loss</b>		(28,138)	(56,955)
Finance costs	18	<u>(277,359)</u>	<u>(58,364)</u>
<b>Loss before taxation</b>		(305,497)	(115,319)
Taxation		<u>98,165</u>	<u>40,362</u>
<b>Loss for the period</b>		<u><u>(207,332)</u></u>	<u><u>(74,957)</u></u>
<b>Loss per share - basic and diluted</b>		<u><u>(0.40)</u></u>	<u><u>(0.14)</u></u>

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Asif Qadir  
*President & Chief Executive*

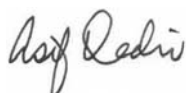


Masaharu Domichi  
*Director*

**ENGRO POLYMER & CHEMICALS LIMITED**  
**UNAUDITED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Share capital	Share premium	Employees' share compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
	Rupees					
<b>Balance as at January 1, 2009</b>	5,203,677	975,438	9,858	(39,100)	415,992	6,565,865
Total comprehensive loss for the three months ended March 31, 2009	-	-	-	(16,954)	(74,957)	(91,911)
<b>Balance as at March 31, 2009</b>	5,203,677	975,438	9,858	(56,054)	341,035	6,473,954
Total comprehensive income / (loss) for the nine months ended December 31, 2009	-	-	-	43,096	(156,832)	(113,736)
Unvested share options lapsed during the year	-	-	(545)	-	-	(545)
<b>Balance as at December 31, 2009</b>	5,203,677	975,438	9,313	(12,958)	184,203	6,359,673
Total comprehensive loss for the three months ended March 31, 2010	-	-	-	(35,149)	(207,332)	(242,481)
Share issuance cost, net	-	(5,458)	-	-	-	(5,458)
<b>Balance as at March 31, 2010</b>	<u>5,203,677</u>	<u>969,980</u>	<u>9,313</u>	<u>(48,107)</u>	<u>(23,129)</u>	<u>6,111,734</u>

The annexed notes 1 to 24 form an integral part of these condensed interim financial statements.



Asif Qadir  
 President & Chief Executive



Masaharu Domichi  
 Director

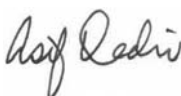




**ENGRO POLYMER & CHEMICALS LIMITED**  
**UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>Loss for the period</b>	(207,332)	(74,957)
<b>Other comprehensive loss:</b>		
<b>Hedging reserve</b>		
Loss arising during the period	(73,081)	(29,264)
Less:		
- Reclassification adjustments for losses included in Profit and Loss Account	14,939	330
- Adjustments for amounts transferred to initial carrying amount of hedged items	4,066	2,851
Income tax relating to hedging reserve	18,927	9,129
Other comprehensive loss for the period - net of tax	(35,149)	(16,954)
<b>Total comprehensive loss for the period</b>	<u>(242,481)</u>	<u>(91,911)</u>

The annexed notes 1 to 24 form an integral part of these condensed interim financial statements.



Asif Qadir  
*President & Chief Executive*



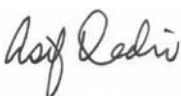
Masaharu Domichi  
*Director*



**ENGRO POLYMER & CHEMICALS LIMITED**  
**UNAUDITED CONDENSED INTERIM CASH FLOW STATEMENT**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Note	Three months ended March 31, 2010	Three months ended March 31, 2009
		Rupees	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	19	121,387	1,113,037
Finance costs paid		144	(81,623)
Long term loans and advances		(10,710)	5,944
Income taxes paid		(67,207)	(34,702)
<b>Net cash generated from operating activities</b>		<b>43,614</b>	<b>1,002,656</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of:			
- property, plant and equipment		(506,700)	(706,837)
- intangible assets		(1,646)	(1,495)
Retention money against project payments		-	(216,772)
Proceeds from disposal of property, plant and equipment		1,530	370
Income of short term investments and bank deposits		1,857	2,736
<b>Net cash utilized in investing activities</b>		<b>(504,959)</b>	<b>(921,998)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term borrowings		-	2,237,023
Share issuance cost		(8,397)	-
Repayments of long term borrowings		-	(100,000)
<b>Net cash (utilized) / generated from financing activities</b>		<b>(8,397)</b>	<b>2,137,023</b>
Net increase / (decrease) in cash and cash equivalents		(469,742)	2,217,681
Cash and cash equivalents at beginning of the period		(204,177)	(745,295)
Cash and cash equivalents at end of the period	20	<b>(673,919)</b>	<b>1,472,386</b>

The annexed notes 1 to 24 form an integral part of these condensed interim financial statements.



Asif Qadir  
*President & Chief Executive*



Masaharu Domichi  
*Director*



**ENGRO POLYMER & CHEMICALS LIMITED**  
**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

**1. LEGAL STATUS AND OPERATIONS**

Engro Polymer & Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984 as a public unlisted Company. The Company is listed on Karachi, Lahore and Islamabad stock exchanges.

The Company is a subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited). The address of its registered office is 1st floor, Bahria Complex I, M. T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic Soda and other related chemicals.

**2. BASIS OF PREPARATION**

These condensed interim financial statements are unaudited and have been prepared in accordance with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting'. These condensed interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2009.

These condensed interim financial statements are unaudited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

**3. ACCOUNTING POLICIES**

3.1 Except as disclosed below, the accounting policies adopted in the preparation of the condensed interim financial statements are the same as those applied in the preparation of audited annual published financial statements of the Company for the year ended December 31, 2009.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2010). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The new amendment does not have any impact on the Company's condensed interim financial statements.
- IFRS 8 (Amendment), 'Disclosure of information about segment assets' (effective from January 1, 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The new guidance does not have any impact on the Company's condensed interim financial statements.
- IAS 39 (Amendment), 'Treating loan pre-payment penalties as closely related derivatives' (effective from January 1, 2010). This amendment clarifies pre-payment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from re-investment risk, should be considered closely related to the host debt contract. The new amendment does not have any impact on the Company's condensed interim financial statements.

**4. ACCOUNTING ESTIMATES**

The preparation of these condensed interim financial statements 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.

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to financial statements for the year ended December 31, 2009.



	(Unaudited) March 31, 2010	(Audited) December 31, 2009
	Rupees	
<b>5. PROPERTY, PLANT AND EQUIPMENT</b>		
Operating assets, at net book value		
- notes 5.1 & 5.2	13,912,960	14,112,080
Capital work-in-progress	<u>5,742,255</u>	<u>5,248,606</u>
	<u>19,655,215</u>	<u>19,360,686</u>

5.1 Additions to operating assets during the period / year were as follows:

Building on leasehold land	300	168,221
Plant and machinery	373	12,076,638
Pipelines	-	357,309
Furniture, fixtures and office equipment	2,323	16,820
Vehicles	<u>9,463</u>	<u>29,811</u>
	<u>12,459</u>	<u>12,648,799</u>

5.2 During the period, assets costing Rs. 4,078 (December 31, 2009: Rs. 13,591), having net book value of Rs. 1,328 (December 31, 2009: Rs. 4,560) were disposed off for Rs. 1,530 (December 31, 2009: Rs. 6,179).

	(Unaudited) March 31, 2010	(Audited) December 31, 2009
	Rupees	
<b>6. STOCK-IN-TRADE</b>		
Raw and packing materials - note 6.1	1,449,248	1,168,171
Work-in-process	-	17,579
Finished goods		
- own manufactured product	<span style="border: 1px solid black; padding: 2px;">493,077</span>	<span style="border: 1px solid black; padding: 2px;">410,653</span>
- purchased product	<span style="border: 1px solid black; padding: 2px;">-</span>	<span style="border: 1px solid black; padding: 2px;">8,815</span>
	<u>493,077</u>	<u>419,468</u>
	<u>1,942,325</u>	<u>1,605,218</u>

6.1 This includes stock-in-transit amounting to Rs. 664,924 (December 31, 2009: Rs. 248,065), stocks held at the storage facilities of related parties, namely, Engro Vopak Terminal Limited amounting to Rs. 435,915 (December 31, 2009: Rs. 595,104) and Dawood Hercules Chemicals Limited amounting to Rs. 706 (December 31, 2009: 1,635).

**7. TAXATION**

During the current period, the Company received a Notice of Demand of Rs. 213,172 in respect of Tax Year 2008. The Deputy Commissioner Inland Revenue has made various additions to income amounting to Rs. 207,370 and did not consider brought forward losses amounting to Rs. 974,770, resulting in a tax demand of Rs. 213,172. The additions to income are mainly on account of trading liabilities and financial charges relating to the expansion project.

The Company filed an appeal against the above additions to the Commissioner Inland Revenue (Appeals), which is currently pending. The Company also applied to the Deputy Commissioner for a rectification in the Order for certain disallowances and additions on the grounds that mistakes in Order were apparent from records. The application for rectification has been rejected and the Company, as an abundant precaution, intends to file another appeal against this rejection.

The management of the Company is confident that the ultimate outcome of the above would be in its favour and as such no effect for the same has been considered in these financial statements.

**8. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company has entered into interest rate swap agreements for notional amounts aggregating to US \$ 40,000, with banks 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. Details of the swap agreements are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Fixed Rate %	Fair value loss as at March 31, 2010	Fair value loss / (gain) as at December 31, 2009
				Rupees	
15,000	December 15, 2008	June 15, 2017	3.385	44,383	23,770
5,000	June 15, 2009	June 15, 2017	3.005	8,638	1,838
15,000	June 15, 2009	June 15, 2017	2.795	15,707	(4,570)
5,000	June 15, 2009	June 15, 2017	2.800	5,283	(1,103)
<b>40,000</b>				<b>74,011</b>	<b>19,935</b>



	(Unaudited) March 31, 2010	(Audited) December 31, 2009
	Rupees	
<b>9. DEFERRED INCOME TAX LIABILITIES</b>		
Credit balances arising due to:		
- accelerated tax depreciation	3,264,367	3,061,376
- net borrowing costs capitalized	237,173	207,133
	3,501,540	3,268,509
Debit balances arising due to:		
- recoupable carried forward tax losses	(3,067,327)	(2,725,269)
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	(40,747)	(46,581)
- provision for slow moving stores and spares	(1,692)	(1,353)
- provision against custom duty refundable	(6,454)	(6,454)
- fair value of hedging instruments	(25,904)	(6,977)
- share issuance cost, net to equity	(54,505)	(51,566)
- recoupable minimum turnover tax	(119,529)	(108,789)
	(3,316,158)	(2,946,989)
	<u>185,382</u>	<u>321,520</u>

	(Unaudited) March 31, 2010	(Audited) December 31, 2009
	Rupees	
<b>10. TRADE AND OTHER PAYABLES</b>		
Trade and other creditors	1,885,192	1,221,829
Accrued liabilities	596,720	521,500
Advances from customers	267,284	399,002
Current portion of retention money	801,115	801,718
Accrued finance costs		
- long term borrowings	456,591	196,483
- short term borrowings	23,119	5,724
Security deposits	30,110	23,610
Workers' profits participation fund	29,570	28,659
Others	6,907	1,779
	<u>4,096,608</u>	<u>3,200,304</u>

## 11. PROVISIONS

### 11.1 Provision for SED on import of plant and machinery

As disclosed in the financial statements for the year ended December 31, 2009, the Company has made this provision on account of Special Excise Duty (SED) paid on import of Plant and Machinery. The provision amounts to Rs. 57,924 against SED which has been adjusted in the Sales Tax returns and Rs. 36,687 which could not be adjusted. In addition to this, provision for surcharge and penalty thereon amounting to Rs.18,063 (December 31, 2009: Rs. 12,570) has also been made, based on prudence.

During the period, the Company was granted a stay order from the Honourable High Court of Sindh against a recovery notice issued by the Additional Commissioner in respect of the demand raised earlier. In addition to this, the Company has also filed appeal against the Order issued by the Additional Commissioner, which is currently pending.

### 11.2 Provision for duty on import of raw material

The Company had received a letter from the Assistant Collector (Survey) Large Taxpayers Unit in 2009 inquiring about the utilization of concessionary import of raw materials under S.R.O. 565(l)/2006 dated June 5, 2006. The letter suggested that the Company had violated the provisions of the said S.R.O. by utilizing the concessionary imports in manufacturing and selling of intermediary product Ethylene Di Chloride (EDC) instead of utilizing the same in the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining the view that imports under the said S.R.O. were allowed for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products.

During the current period, the tax department responded to the letter, in which it disagreed with the Company's view and demanded further information, to which the Company has given a response. Although, a formal Order creating a demand has not been received by the Company, provision amounting to Rs. 40,105 (December 31, 2009: Nil) in respect of duty on such raw materials has been made in the financial statements, based on prudence.

## 12. CONTINGENCIES AND COMMITMENTS

### 12.1 Commitments

- Capital expenditure for the Project referred to in note 1, under the contracts signed as at March 31, 2010 but not yet incurred amounts to Rs. 350,300 (December 31, 2009: Rs. 721,859)
- Performance guarantees issued by banks on behalf of the Company as at March 31, 2010 amount to Rs. 430,450 (December 31, 2009: Rs. 405,450).



	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>13. COST OF SALES</b>		
Opening stock of work-in-process	17,579	21,293
Raw and packing materials consumed	2,157,179	1,392,160
Salaries, wages and staff welfare	92,560	43,299
Fuel, power and gas	375,943	104,264
Repairs and maintenance	40,853	23,580
Depreciation	209,134	69,788
Consumable stores	53,781	5,870
Purchased services	18,819	4,705
Storage and handling	154,802	42,819
Training and travelling expenses	2,638	727
Communication, stationery and other office expenses	1,596	243
Insurance	16,477	12,053
Other expenses	7,081	1,578
	3,130,863	1,701,086
Closing stock of work-in-process	-	(31,810)
Cost of goods manufactured	3,148,442	1,690,569
Opening stock of finished goods	419,468	810,355
Closing stock of finished goods	(493,077)	(206,131)
	(73,609)	604,224
Cost of sales		
- own manufactured product	3,074,833	2,294,793
	3,074,833	2,294,793
<b>14. DISTRIBUTION AND MARKETING EXPENSES</b>		
Salaries, wages and staff welfare	15,409	12,722
Advertising, sales promotion and entertainment	12,665	9,641
Product transportation and handling	86,313	50,761
Rent, rates and taxes	687	1,430
Purchased services	288	1,775
Insurance	223	270
Depreciation	896	1,058
Training and travelling expenses	1,172	1,058
Communication, stationery and other office expenses	651	493
Other expenses	600	490
	118,904	79,698





(Amounts in thousand)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>15. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and staff welfare	29,561	7,233
Rent, rates and taxes	3,735	3,255
Purchased services	6,242	4,378
Insurance	116	101
Depreciation and amortization	1,493	1,655
Training and travelling expenses	11,464	6,013
Communication, stationery and other office expenses	6,568	3,218
Other expenses	1,600	1,651
	<u>60,779</u>	<u>27,504</u>
<b>16. OTHER OPERATING EXPENSES</b>		
Legal and professional charges	4,355	-
Auditors' remuneration	289	-
Donations	2,545	-
Foreign exchange loss - net	-	48,114
	<u>7,189</u>	<u>48,114</u>
<b>17. OTHER OPERATING INCOME</b>		
Income on bank deposits	1,857	3,649
Profit on disposal of property, plant and equipment	202	370
Scrap sales	725	404
Foreign exchange gain - net	9,048	-
	<u>11,832</u>	<u>4,423</u>
<b>18. FINANCE COSTS</b>		
Interest / Mark-up on:		
- long term borrowings	260,045	33,384
- short term borrowings	12,930	23,984
Interest on WPPF	911	-
Guarantee commission, bank charges and others	3,473	996
	<u>277,359</u>	<u>58,364</u>

(Amounts in thousand)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>19. CASH GENERATED FROM OPERATIONS</b>		
Loss before taxation	(305,497)	(115,319)
<b>Adjustments for non-cash charges and other items:</b>		
Provision for staff retirement and other service benefits	(171)	(2,766)
Provisions	45,598	2,519
Depreciation and amortization	211,523	79,616
Amortization of deferred employees' compensation expense	-	1,095
Income on bank deposits	(1,857)	(3,658)
Finance costs	277,359	58,364
Profit on disposal of property, plant and equipment	(202)	(370)
Working capital changes - note 19.1	<u>(105,366)</u>	<u>1,093,556</u>
	<u>121,387</u>	<u>1,113,037</u>
<b>19.1 Working capital changes (Increase) / Decrease in current assets:</b>		
Stores, spares and loose tools	(84,535)	(26,862)
Stock-in-trade	(337,107)	251,920
Trade debts - considered good	(337,367)	(14,394)
Loans, advances, deposits, prepayments and other receivables - net	<u>38,970</u>	<u>33,636</u>
	(720,039)	(244,300)
<b>Increase in current liabilities:</b>		
Trade and other payables	<u>614,673</u>	<u>849,256</u>
	(105,366)	1,093,556
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	Rupees	
<b>20. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	177,689	190,064
Short term borrowings	<u>(851,608)</u>	<u>(394,241)</u>
	<u>(673,919)</u>	<u>(204,177)</u>



## 21. SEGMENT ANALYSIS

## 21.1 SEGMENT RESULTS

	Rupees			
	Three months ended March 31, 2010			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
<b>Net revenue</b>	<u>2,565,913</u>	<u>581,154</u>	<u>74,668</u>	<u>3,221,735</u>
<b>Segment profit / (loss) before unallocated expenses</b>	<u>(79,792)</u>	<u>97,970</u>	<u>9,820</u>	<u>27,998</u>
<b>Unallocated expenses</b>				
Administrative expenses				(60,779)
Other operating expenses				(7,189)
Other operating income				11,832
Finance costs				(277,359)
Taxation				98,165
<b>Loss after taxation</b>				<u>(207,332)</u>

## 21.2 SEGMENT ASSETS

	Rupees							
	March 31, 2010				December 31, 2009			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
Total segment assets	13,565,633	6,391,454	139,444	20,096,531	13,190,511	6,368,873	132,333	19,691,717
Unallocated assets				3,524,474				2,864,318
Total assets				<u>23,621,005</u>				<u>22,556,035</u>

21.3 Segment assets consist primarily of property, plant and equipment, stock-in-trade and trade debts.

**22. TRANSACTIONS WITH RELATED PARTIES**

Transactions with related parties other than those which have been disclosed elsewhere in these condensed interim financial statements are as follows:

Nature of relationship	Nature of transactions	Three months ended	Three months ended
		March 31, 2010	March 31, 2009
		Rupees	
<b>Holding company</b>	Purchase of services	749	1,150
	Sale of services	-	997
	Sale of steam and electricity	-	12,627
	Use of operating assets	787	872
	Pension fund contribution	998	937
	Provident fund contribution	749	701
<b>Subsidiary company</b>	Sale of goods	407,325	436,958
	Sale of services	68	-
<b>Associated companies</b>	Purchase of goods	1,750,933	1,494,315
<b>Related parties by virtue of common directorship</b>	Purchase of goods	4,467	2,470
	Purchase of services	247,304	89,288
	Sale of services	2,625	-
	Sale of steam and electricity	15,890	-
	Use of operating assets	1,358	-
<b>Directors' fee</b>		550	30
<b>Key management personnel</b>	Managerial remuneration	14,271	12,208
	Retirement benefit funds	1,034	884
	Other benefits	1,070	1,142

**23. DATE OF AUTHORISATION FOR ISSUE**

These condensed interim financial statements were authorised for issue on April 23, 2010 by the Board of Directors of the Company.

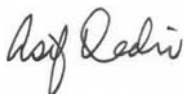


**24. CORRESPONDING FIGURES**

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet and condensed interim statement of changes in equity have 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 and the condensed interim cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

For better presentation, the following major classification in the corresponding figures has been made:

Description	Head of account of the financial statements for the three months ended March 31, 2009	Head of account of the financial statements for the three months ended March 31, 2010	Rupees
Supply of electricity	Other operating income	Net revenue	<u>9,444</u>



Asif Qadir  
President & Chief Executive



Masaharu Domichi  
Director





# Engro Polymer & Chemicals Ltd.

**AND ITS SUBSIDIARY COMPANY  
DIRECTORS' REVIEW AND  
UNAUDITED CONSOLIDATED CONDENSED  
INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2010**

# ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY DIRECTORS' REVIEW TO THE SHAREHOLDERS ON UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2010

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we are pleased to present the Unaudited Consolidated Condensed Interim Financial Statements of the Company for the first quarter ended March 31, 2010.

## Business Review

Poly Vinyl Chloride (PVC) production during the quarter was 20K tons as compared to 26K tons in 1Q 2009. Post the fire incident in December 2009, efforts were made to procure VCM on spot basis, but as VCM supply in the international market was limited, only 15K tons of VCM could be procured. This combined with previous inventory resulted in PVC production of 20K tons.

Domestic PVC sales for 1Q 2010 was 22K tons as compared to sale of 38K tons same period last year. While domestic demand remained strong, decline in sales was due to production constraints. There were no PVC exports in 1Q 2010. International PVC prices firmed up and went well over \$1,000 during the quarter however; tight availability of VCM reduced the PVC-VCM margin for the quarter to \$135 per ton as compared to \$165 per ton in 4Q 2009.

Caustic soda production during the quarter was 19K tons. The plant operated at 73% operating rate. Low production was caused by operational problems at Ethylene Di Chloride (EDC) plant. Domestic demand for Caustic soda also remained strong and Company sold 16K tons. A total of 19K tons of EDC was produced in 1Q 2010 out of which the Company exported 14K tons. Company also sold 5K tons of Sodium Hypochlorite in the domestic market. Surplus power of 7MW (average) was sold to Karachi Electric Supply Corporation (KESC) during the quarter. However, as a safety measure, supply of power to KESC was stopped in middle of March 2010 due to frequency fluctuations at KESC grid. Supply of power to KESC is expected to resume in 2Q 2010 once the frequency issues are adequately resolved.

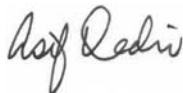
VCM plant was started up in March and 2K tons of VCM was produced however the plant had to be shutdown due to power tripping caused by frequency fluctuation at KESC grid. Commissioning of the plant is currently underway and the revised outlook for commercial production is 2Q 2010 as against 1Q 2010 reported previously. Apart from the substantial effort put in the areas of safety and human resource training and development, the Company is in the process of arranging for Technical Support from international organizations with VCM operation expertise and also in engaging resource having VCM operations experience to work at the plant site. These steps would enhance the technical knowledge base in the organization and would provide support in achieving stable VCM plant operations.

Company incurred a loss after tax of Rs. 154 M during the quarter as compared to a loss after tax of Rs. 69 M in 1Q 2009. Primary reason for the loss was delay in VCM plant start-up which resulted in lower PVC-VCM margin.

## Future Outlook

PVC and Caustic soda demand is expected to remain strong during second quarter. The Company is focused to continue to strengthen its relationship with its customers through product quality, competitive pricing and effective distribution network. International PVC prices are expected to remain stable based on raw material prices and supply demand situation. VCM supply will remain tight due to VCM plant turnarounds in the region. However, beyond 2Q 2010, Ethylene supply is expected to ease out on account of additional crackers coming online in Middle East.

Delay in VCM plant commissioning resulted in non compliance of couple of the loan agreement covenants. The Company is working to rectify the non compliance. Based on current outlook, the medium term projections issued at the time of announcement of Right issue are expected to remain intact.



Asif Qadir  
President & Chief Executive



Masaharu Domichi  
Director

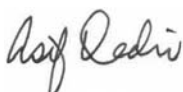
Karachi  
April 23, 2010



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**UNAUDITED CONSOLIDATED CONDENSED INTERIM BALANCE SHEET**  
**AS AT MARCH 31, 2010**

	Note	(Unaudited) March 31, 2010	(Audited) December 31, 2009
Rupees			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	19,655,215	19,360,686
Intangible assets		12,782	11,816
Long term loans and advances		58,185	47,475
		<u>19,726,182</u>	<u>19,419,977</u>
<b>Current Assets</b>			
Stores, spares and loose tools		277,297	192,762
Stock-in-trade	6	1,942,545	1,605,438
Trade debts - considered good		729,788	439,905
Loans, advances, deposits, prepayments and other receivables		372,104	410,881
Taxes recoverable	7	500,202	451,603
Short term investments		164,389	61,398
Cash and bank balances		201,237	217,531
		<u>4,187,562</u>	<u>3,379,518</u>
<b>TOTAL ASSETS</b>		<u>23,913,744</u>	<u>22,799,495</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		5,203,677	5,203,677
Share premium		969,980	975,438
Employees' share compensation reserve		9,313	9,313
Hedging reserve		(48,107)	(12,958)
Unappropriated profit		65,796	220,173
		<u>6,200,659</u>	<u>6,395,643</u>
<b>Non-Current Liabilities</b>			
Long term borrowings		11,132,077	11,135,163
Derivative financial instruments	8	74,011	19,935
Deferred income tax liabilities	9	185,382	321,520
Retirement and other service benefit obligations		38,141	38,312
		<u>11,429,611</u>	<u>11,514,930</u>
<b>Current Liabilities</b>			
Current portion of long term borrowings		1,015,352	1,016,393
Trade and other payable	10	4,100,422	3,207,794
Short term borrowings		1,051,608	594,241
Provisions	11	116,092	70,494
		<u>6,283,474</u>	<u>4,888,922</u>
<b>Contingencies and Commitments</b>	12		
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>23,913,744</u>	<u>22,799,495</u>

The annexed notes 1 to 24 form an integral part of these consolidated condensed interim financial statements.



Asif Qadir  
President & Chief Executive



Masaharu Domichi  
Director

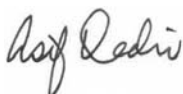


(Amounts in thousand except for loss per share)

**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**UNAUDITED CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Note	Three months ended March 31, 2010	Three months ended March 31, 2009 (Restated)
Rupees			
Net revenue		2,858,373	1,952,367
Export sales		425,381	456,415
		<u>3,283,754</u>	<u>2,408,782</u>
Cost of sales	13	<u>(3,074,833)</u>	<u>(2,294,853)</u>
<b>Gross profit</b>		208,921	113,929
Distribution and marketing expenses	14	(120,713)	(92,507)
Administrative expenses	15	(60,779)	(27,675)
Other operating expenses	16	(7,313)	(44,585)
Other operating income	17	<u>13,971</u>	<u>6,563</u>
<b>Operating profit / (loss)</b>		34,087	(44,275)
Finance costs	18	<u>(282,375)</u>	<u>(60,310)</u>
<b>Loss before taxation</b>		(248,288)	(104,585)
Taxation		93,911	35,763
<b>Loss for the period</b>		<u>(154,377)</u>	<u>(68,822)</u>
<b>Loss per share - basic and diluted</b>		<u>(0.30)</u>	<u>(0.13)</u>

The annexed notes 1 to 24 form an integral part of these consolidated condensed interim financial statements.



Asif Qadir  
President & Chief Executive



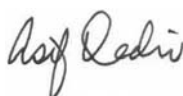
Masaharu Domichi  
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**UNAUDITED CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>Loss for the period</b>	(154,377)	(68,822)
<b>Other comprehensive loss:</b>		
<b>Hedging reserve</b>		
Loss arising during the period	(73,081)	(29,264)
Less:		
- Reclassification adjustments for losses included in Profit and Loss	14,939	330
- Adjustments for amounts transferred to initial carrying amount of hedged items	4,066	2,851
Income tax relating to hedging reserve	18,927	9,129
Other comprehensive loss for the period - net of tax	(35,149)	(16,954)
<b>Total comprehensive loss for the period</b>	<u>(189,526)</u>	<u>(85,776)</u>

The annexed notes 1 to 24 form an integral part of these consolidated condensed interim financial statements.



Asif Qadir  
President & Chief Executive



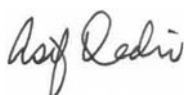
Masaharu Domichi  
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY**  
**UNAUDITED CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Share capital	Share premium	Employees' share compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
	Rupees					
<b>Balance as at January 1, 2009</b>	5,203,677	975,438	9,858	(39,100)	413,869	6,563,742
Total comprehensive loss for the three months ended March 31, 2009	-	-	-	(16,954)	(68,822)	(85,776)
<b>Balance as at March 31, 2009</b>	5,203,677	975,438	9,858	(56,054)	345,047	6,477,966
Total comprehensive income / (loss) for the nine months ended December 31, 2009	-	-	-	43,096	(124,874)	(81,778)
Unvested share options lapsed during the year	-	-	(545)	-	-	(545)
<b>Balance as at December 31, 2009</b>	5,203,677	975,438	9,313	(12,958)	220,173	6,395,643
Total comprehensive loss for the three months ended March 31, 2010	-	-	-	(35,149)	(154,377)	(189,526)
Share issuance cost, net	-	(5,458)	-	-	-	(5,458)
<b>Balance as at March 31, 2010</b>	5,203,677	969,980	9,313	(48,107)	65,796	6,200,659

The annexed notes 1 to 24 form an integral part of these consolidated condensed interim financial statements.



Asif Qadir  
President & Chief Executive



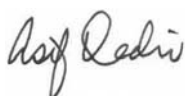
Masaharu Domichi  
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY  
UNAUDITED CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2010**

	Note	Three months ended March 31, 2010	Three months ended March 31, 2009
Rupees			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	19	230,791	1,073,942
Finance costs paid		(8,437)	(83,569)
Long term loans and advances		(10,710)	5,944
Income taxes paid		(68,958)	(39,348)
<b>Net cash generated from operating activities</b>		<b>142,686</b>	<b>956,969</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of:			
- property, plant and equipment		(506,700)	(706,837)
- intangible assets		(1,646)	(1,495)
Retention money against project payments		-	(216,772)
Short term investments		(102,991)	43,648
Proceeds from disposal of property, plant and equipment		1,530	370
Income on short term investments and bank deposits		1,857	5,763
<b>Net cash utilised in investing activities</b>		<b>(607,950)</b>	<b>(875,323)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term borrowings		-	2,237,023
Share issuance cost		(8,397)	-
Repayments of long term borrowings		-	(100,000)
<b>Net cash (utilized) / generated from financing activities</b>		<b>(8,397)</b>	<b>2,137,023</b>
Net increase / (decrease) in cash and cash equivalents		(473,661)	2,218,669
Cash and cash equivalents at beginning of the period		(376,710)	(743,183)
Cash and cash equivalents at end of the period	20	<b>(850,371)</b>	<b>1,475,486</b>

The annexed notes 1 to 24 form an integral part of these consolidated condensed interim financial statements.



Asif Qadir  
President & Chief Executive



Masaharu Domichi  
Director



**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY  
NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2010**

**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.

The Company was incorporated in Pakistan in 1997 as a public unlisted company under the Companies Ordinance, 1984. The Company is listed on Karachi, Lahore and Islamabad stock exchanges.

The Company is a subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited). The address of its registered office is 1st floor, Bahria Complex I, M. T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic Soda and other related chemicals.

**2. BASIS OF PREPARATION**

These consolidated condensed interim financial statements are unaudited and have been prepared in accordance with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting'. These consolidated condensed interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2009.

These consolidated condensed interim financial statements are unaudited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

**3. ACCOUNTING POLICIES**

3.1 Except as disclosed below, the accounting policies adopted in the preparation of these consolidated condensed interim financial statements are the same as those applied in the preparation of audited annual published financial statements of the Company for the year ended December 31, 2009.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2010). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The new amendment does not have any impact on the Company's consolidated condensed interim financial statements.
- IFRS 8 (Amendment), 'Disclosure of information about segment assets' (effective from January 1, 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The new guidance does not have any impact on the Company's consolidated condensed interim financial statements.
- IAS 39 (Amendment), 'Treating loan pre-payment penalties as closely related derivatives' (effective from January 1, 2010). This amendment clarifies pre-payment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from re-investment risk, should be considered closely related to the host debt contract. The new amendment does not have any impact on the Company's consolidated condensed interim financial statements.

**4. ACCOUNTING ESTIMATES**

The preparation of these consolidated condensed interim financial statements 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.

In preparing these consolidated condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to financial statements for the year ended December 31, 2009.



	(Unaudited) March 31, 2010	(Audited) December 31, 2009
	Rupees	
<b>5. PROPERTY, PLANT AND EQUIPMENT</b>		
Operating assets, at net book value - notes 5.1 & 5.2	13,912,960	14,112,080
Capital work-in-progress	5,742,255	5,248,606
	<u>19,655,215</u>	<u>19,360,686</u>
 5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	300	168,221
Plant and machinery	373	12,076,638
Pipelines	-	357,309
Furniture, fixtures and office equipment	2,323	16,820
Vehicles	9,463	29,811
	<u>12,459</u>	<u>12,648,799</u>
 5.2 During the period, assets costing Rs. 4,078 (December 31, 2009: Rs. 13,591), having net book value of Rs. 1,328 (December 31, 2009: Rs. 4,560) were disposed off for Rs. 1,530 (December 31, 2009: Rs. 6,179).		

	(Unaudited) March 31, 2010	(Audited) December 31, 2009
	Rupees	
<b>6. STOCK-IN-TRADE</b>		
Raw and packing materials - note 6.1	1,449,248	1,168,171
Work-in-process	-	17,579
Finished goods		
- own manufactured product	493,077	410,653
- purchased product	220	9,035
	<u>493,297</u>	<u>419,688</u>
	<u>1,942,545</u>	<u>1,605,438</u>



- 6.1 This includes stock-in-transit amounting to Rs. 664,924 (December 31, 2009: Rs. 248,065), stocks held at the storage facilities of related parties, namely, Engro Vopak Terminal Limited amounting to Rs. 435,915 (December 31, 2009: Rs. 595,104) and Dawood Hercules Chemicals Limited amounting to Rs. 706 (December 31, 2009: 1,635).

## 7. TAXATION

During the current period, the Company received a Notice of Demand of Rs. 213,172 in respect of Tax Year 2008. The Deputy Commissioner Inland Revenue has made various additions to income amounting to Rs. 207,370 and did not consider brought forward losses amounting to Rs. 974,770, resulting in a tax demand of Rs. 213,172. The additions to income are mainly on account of trading liabilities and financial charges relating to the expansion project.

The Company filed an appeal against the above additions to the Commissioner Inland Revenue (Appeals), which is currently pending. The Company also applied to the Deputy Commissioner for a rectification in the Order for certain disallowances and additions on the grounds that mistakes in Order were apparent from records. The application for rectification has been rejected and the Company, as an abundant precaution, intends to file another appeal against this rejection.

The management of the Company is confident that the ultimate outcome of the above would be in its favour and as such no effect for the same has been considered in these financial statements.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into interest rate swap agreements for notional amounts aggregating to US \$ 40,000, with banks 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. Details of the swap agreements are as follows:

Notional Amount US \$	Effective Date	Termination Date	Fixed Rate %	Fair value loss as at March 31, 2010	Fair value (gain) / loss as at December 31, 2009
				Rupees	
15,000	December 15, 2008	June 15, 2017	3.385	44,383	23,770
5,000	June 15, 2009	June 15, 2017	3.005	8,638	1,838
15,000	June 15, 2009	June 15, 2017	2.795	15,707	(4,570)
5,000	June 15, 2009	June 15, 2017	2.800	5,283	(1,103)
<b>40,000</b>				<b>74,011</b>	<b>19,935</b>



	(Unaudited) March 31, 2010	(Audited) December 31, 2009
<b>9. DEFERRED INCOME TAX LIABILITIES</b>		
Credit balances arising due to:		
- accelerated tax depreciation	3,264,367	3,061,376
- net borrowing costs capitalized	237,173	207,133
	3,501,540	3,268,509
Debit balances arising due to:		
- recoupable carried forward tax losses	(3,067,327)	(2,725,269)
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	(40,747)	(46,581)
- provision for slow moving stores and spares	(1,692)	(1,353)
- provision against custom duty refundable	(6,454)	(6,454)
- fair value of hedging instruments	(25,904)	(6,977)
- share issuance cost, net to equity	(54,505)	(51,566)
- recoupable minimum turnover tax	(119,529)	(108,789)
	(3,316,158)	(2,946,989)
	185,382	321,520
	(Unaudited) March 31, 2010	(Audited) December 31, 2009
<b>10. TRADE AND OTHER PAYBLES</b>		
Trade and other creditors	1,842,924	1,223,536
Accrued liabilities	642,802	523,718
Advances from customers	267,284	399,002
Current portion of retention money	801,115	801,718
Accrued finance costs		
- long term borrowings	456,591	196,483
- short term borrowings	23,119	9,289
Security deposits	30,110	23,610
Workers' profits participation fund	29,570	28,659
Others	6,907	1,779
	4,100,422	3,207,794





## 11. PROVISIONS

### 11.1 Provision for SED on import of plant and machinery

As disclosed in the financial statements for the year ended December 31, 2009, the Company has made this provision on account of Special Excise Duty (SED) paid on import of Plant and Machinery. The provision amounts to Rs. 57,924 against SED which has been adjusted in the Sales Tax returns and Rs. 36,687 which could not be adjusted. In addition to this, provision for surcharge and penalty thereon amounting to Rs.18,063 (December 31, 2009: Rs.12,570) has also been made, based on prudence.

During the period, the Company was granted a stay order from the Honourable High Court of Sindh against a recovery notice issued by the Additional Commissioner in respect of the demand raised earlier. In addition to this, the Company has also filed appeal against the Order issued by the Additional Commissioner, which is currently pending.

### 11.2 Provision for duty on import of raw material

The Company had received a letter from the Assistant Collector (Survey) Large Taxpayers Unit in 2009 inquiring about the utilization of concessionary import of raw materials under S.R.O. 565(l)/2006 dated June 5, 2006. The letter suggested that the Company had violated the provisions of the said S.R.O. by utilizing the concessionary imports in manufacturing and selling of intermediary product Ethylene Di Chloride (EDC) instead of utilizing the same in the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining the view that imports under the said S.R.O were allowed for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products.

During the current period, the tax department responded to the letter, in which it disagreed with the Company's view and demanded further information, to which the Company has given a response. Although, a formal Order creating a demand has not been received by the Company, provision amounting to Rs. 40,105 (December 31, 2009: Nil) in respect of duty on such raw materials has been made in the financial statements, based on prudence.

## 12. CONTINGENCIES AND COMMITMENTS

### 12.1 Commitments

- Capital expenditure for the Project referred to in note 1, under the contracts signed as at March 31, 2010 but not yet incurred amounts to Rs. 350,300 (December 31, 2009: Rs. 721,859)
- Performance guarantees issued by banks on behalf of the Company as at March 31, 2010 amount to Rs. 681,415 (December 31, 2009: Rs. 581,111).

(Amounts in thousand)

	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>13. COST OF SALES</b>		
Opening stock of work-in-process	17,579	21,293
Raw and packing materials consumed	2,157,179	1,392,285
Salaries, wages and staff welfare	92,560	43,299
Fuel, power and gas	375,943	104,264
Repairs and maintenance	40,853	23,580
Depreciation	209,134	69,788
Consumable stores	53,781	5,870
Purchased services	18,819	4,705
Storage and handling	154,802	42,819
Training and travelling expenses	2,638	727
Communication, stationery and other office expenses	1,596	243
Insurance	16,477	12,053
Other expenses	7,081	1,578
	3,130,863	1,701,211
Closing stock of work-in-process	-	(31,810)
Cost of goods manufactured	3,148,442	1,690,694
Opening stock of finished goods	419,688	810,510
Closing stock of finished goods	(493,297)	(206,351)
	(73,609)	604,159
Cost of sales		
- own manufactured product	3,074,833	2,294,853
	3,074,833	2,294,853

**14. DISTRIBUTION AND MARKETING EXPENSES**

Salaries, wages and staff welfare	15,409	12,722
Advertising, sales promotion and entertainment	12,665	9,641
Product transportation and handling	88,122	63,570
Rent, rates and taxes	687	1,430
Purchased services	288	1,775
Insurance	223	270
Depreciation	896	1,058
Training and travelling expenses	1,172	1,058
Communication, stationery and other office expenses	651	493
Other expenses	600	490
	120,713	92,507



	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>15. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and staff welfare	29,561	7,233
Rent, rates and taxes	3,735	3,255
Purchased services	6,242	4,378
Insurance	116	101
Depreciation and amortization	1,493	1,655
Training and travelling expenses	11,464	6,013
Communication, stationery and other office expenses	6,568	3,218
Other expenses	1,600	1,822
	<u>60,779</u>	<u>27,675</u>
<b>16. OTHER OPERATING EXPENSES</b>		
Legal and professional charges	4,355	-
Auditors' remuneration	289	-
Donations	2,545	-
Foreign exchange loss - net	-	44,414
Other charges	124	171
	<u>7,313</u>	<u>44,585</u>
<b>17. OTHER OPERATING INCOME</b>		
Income on short term investments and bank deposits	5,394	5,789
Profit on disposal of property, plant and equipment	202	370
Scrap sales	725	404
Foreign exchange gain - net	7,650	-
	<u>13,971</u>	<u>6,563</u>
<b>18. FINANCE COSTS</b>		
Interest/Mark-up on:		
- long term borrowings	260,045	33,384
- short term borrowings	17,096	23,984
Interest on WPPF	911	-
Guarantee commission, bank charges and others	4,323	2,942
	<u>282,375</u>	<u>60,310</u>



	Three months ended March 31, 2010	Three months ended March 31, 2009
	Rupees	
<b>19. CASH GENERATED FROM OPERATIONS</b>		
Loss before taxation	(248,288)	(104,585)
<b>Adjustments for non-cash charges and other items:</b>		
Provision for staff retirement and other service benefits	(171)	(2,766)
Provisions	45,595	2,519
Depreciation and amortization	211,523	79,616
Amortization of deferred employees' compensation expense	-	1,095
Income on short term investments and bank deposits	(1,857)	(5,798)
Finance costs	282,375	60,310
Profit on disposal of property, plant and equipment	(202)	(370)
Working capital changes - note 19.1	<u>(58,185)</u>	<u>1,043,921</u>
	<u>230,791</u>	<u>1,073,942</u>
<b>19.1 Working capital changes (Increase) / Decrease in current assets:</b>		
Stores and spares and loose tools	(84,535)	(26,862)
Stock-in-trade	(337,107)	251,854
Trade debts - considered good	(289,883)	(14,394)
Loans, advances, deposits, prepayments and other receivables - net	<u>38,777</u>	<u>(17,381)</u>
	(672,748)	193,217
<b>Increase in current liabilities:</b>		
Trade and other payables	<u>614,563</u>	<u>850,704</u>
	(58,185)	1,043,921
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	Rupees	
<b>20. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	201,237	217,531
Short term borrowings	<u>(1,051,608)</u>	<u>(594,241)</u>
	<u>(850,371)</u>	<u>(376,710)</u>



## 21. SEGMENT ANALYSIS

## 21.1 SEGMENT RESULTS

	Rupees			
	Three months ended March 31, 2010			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
<b>Net revenue</b>	<u>2,627,932</u>	<u>581,154</u>	<u>74,668</u>	<u>3,283,754</u>
<b>Segment (loss) / profit before unallocated expenses</b>	<u>(19,582)</u>	<u>97,970</u>	<u>9,820</u>	<u>88,208</u>
<b>Unallocated expenses</b>				
Administrative expenses				(60,779)
Other operating expenses				(7,313)
Other operating income				13,971
Finance costs				(282,375)
Taxation				93,911
<b>Loss after taxation</b>				<u>(154,377)</u>

## 21.2 SEGMENT ASSETS

	Rupees							
	March 31, 2010				December 31, 2009			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
Total segment assets	13,565,633	6,391,454	139,444	20,096,531	13,190,511	6,368,873	132,333	19,691,717
Unallocated assets				3,817,213				3,107,778
Total assets				<u>23,913,744</u>				<u>22,799,495</u>

21.3 Segment assets consist primarily of property, plant and equipment, stock-in-trade and trade debts.

**22. TRANSACTIONS WITH RELATED PARTIES**

Transactions with related parties other than those which have been disclosed elsewhere in these consolidated condensed interim financial statements are as follows:

Nature of relationship	Nature of transactions	Three months ended	Three months ended
		March 31, 2010	March 31, 2009
		Rupees	
<b>Holding Company</b>	Purchase of services	749	1,150
	Sale of services	-	997
	Sale of steam and electricity	-	12,627
	Use of operating assets	787	872
	Pension fund contribution	998	937
	Provident fund contribution	749	701
<b>Associated companies</b>	Sale of goods	424,133	226,259
	Purchase of goods	1,750,933	1,494,315
<b>Related parties by virtue of common directorship</b>	Purchase of goods	4,467	2,470
	Purchase of services	247,304	89,288
	Sale of services	2,625	-
	Sale of steam and electricity	15,890	-
	Use of operating assets	1,358	-
<b>Directors' fee</b>		550	30
<b>Key management personnel</b>	Managerial remuneration	14,271	12,208
	Retirement benefit funds	1,034	884
	Other benefits	1,070	1,142

**23. DATE OF AUTHORISATION FOR ISSUE**

These consolidated condensed interim financial statements were authorised for issue on April 23, 2010 by the Board of Directors of the Company.

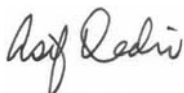


**24. CORRESPONDING FIGURES**

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the consolidated condensed interim balance sheet and consolidated condensed interim statement of changes in equity have 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 and the consolidated condensed interim cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

For better presentation, the following major classification in the corresponding figures has been made:

<b>Description</b>	<b>Head of account of the financial statements for the three months ended March 31, 2009</b>	<b>Head of account of the financial statements for the three months ended March 31, 2010</b>	<b>Rupees</b>
Supply of electricity	Other operating income	Net revenue	<u>9,444</u>



Asif Qadir  
*President & Chief Executive*



Masaharu Domichi  
*Director*



## Engro Polymer & Chemicals Ltd.

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