engro polymer & chemicals

Financial Information for the Half Year ended June 30, 2014

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COMPANY INFORMATION

Chairman	Muhammad Aliuddin Ansari
President and Chief Executive	Khalid Siraj Subhani
Directors	Khalid Rahman Waqar Ahmed Malik Shahzada Dawood Kimihide Ando Asif Saad Takashi Yoshida Naz Khan Abdul Samad Khan
Board Audit Committee	Khalid Rahman Kimihide Ando Asif Saad Naz Khan
Chief Financial Officer	Mohsin Ali Mangi
Company Secretary	Muneeza Iftikar
Corporate Audit Manager	Muneeza Kassim
Bankers / Lenders	Allied Bank Ltd. Askari Bank Ltd. Bank Al Falah Ltd. Bank Al Habib Ltd. Barclays Bank PLC., Pakistan Burj Bank Ltd. Citibank N.A. Deutsche Bank AG Faysal Bank Ltd. Habib Bank Ltd. HSBC Bank Middle East Ltd. fi Pakistan Industrial and Commercial Bank of China Ltd. International Finance Corporation MCB Bank Ltd. Meezan Bank Ltd. National Bank of Pakistan Pak Oman Investment Co. Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. Summit Bank Ltd. The Bank of Punjab United 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, Clifton, Karachi-75600.
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
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DIRECTORS' REVIEW & UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE HALF YEAR ENDED JUNE 30, 2014

ENGRO POLYMER & CHEMICALS LIMITED
DIRECTORS' REVIEW TO THE SHAREHOLDERS
ON UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED JUNE 30, 2014

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we would like to present the unaudited Financial Information of the Company for the half year ended June 30, 2014.

Business Review

Poly Vinyl Chloride (PVC) sales recovered during 2Q 2014 as exchange rates and PVC prices stabilized and inventory carry over effect subsided which had dampened market demand during 1Q 2014. 53% PVC sales increase was seen in 2Q as compared to 1Q. However, lower margins during 2Q restrained Company's profitability. This resulted in PVC domestic sales of 63 kilo tons during 1H which was lower by 9% compared to same period last year. The Company also exported 8 kilo tons of PVC in 1H, partially offsetting lower domestic sales.

The Company was able to largely maintain Caustic Soda sales volume during 1H 2014 with domestic sales of 46 kilo tons compared to 48 kilo tons during same period last year. However, overall market situation remained challenging due to excess product availability. Higher energy cost as compared to last year resulted in margin compression during 1H 2014.

The Company recorded a revenue of Rs.11,903 million compared to Rs.12,031 million last year. Lower volumes impacted the bottom line earnings. Gain on foreign exchange liabilities due to appreciation of local currency provided support to the overall profitability as compared to last year. The Company posted Profit After Tax of Rs.123 million compared to Rs.425 million in first half last year. The Earnings per Share for first half 2014 stood at Rs.0.19 per share as compared to Rs.0.64 per share in same period last year.

PVC resin production during 1H 2014 was 68 kilo tons which was 2 kilo tons lower than production during the same period last year. Vinyl Chloride Monomer (VCM) plant produced 68 kilo tons VCM in 1H 2014 which is 19% lower compared to same period last year due to extended outages at the plant. Caustic Soda production during 1H 2014 was 56 kilo tons as against 55 kilo tons during same period last year.

The Company continued to maintain its focus on safe operations. For the first time an audit for Occupational Health and Industrial Hygiene was conducted by DuPont and a rating of 3.3 was attained against a target of 3.0. A rehashed safety improvement plan was also launched during the period to further intensify Health Safety and Environment at the Plant.

Future Outlook

Domestic PVC demand is expected to be lower in 3Q 2014 as compared to 2Q 2014 on account of Ramadan and Eid holidays and the prevailing law and order situation in the country. PVC margins are expected to be under pressure on account of higher Ethylene prices. The domestic demand of Caustic Soda, in 3Q 2014, is expected to remain stable whereas margins will continue to remain under pressure due to higher energy prices. Moreover, any further increase in domestic natural gas prices in addition to increase in natural gas cess could be a possible challenge during next quarter.

Five percent import duty rate has been applied on Company's primary raw material Ethylene and Ethylene Di Chloride through an amendment in SRO 565 of 2006 by the Federal Board of Revenue. Earlier under the SRO zero rated duty was applicable on the raw materials. This duty imposition is expected to increase Company's cost burden and impact cash flows, however, the matter is being vigorously pursued with relevant Government authorities for recourse.

The Company plans to complete the second phase of PVC debottlenecking by early 3Q 2014 which will increase PVC production capacity by 15 kilo tons p.a. This capacity enhancement will allow the Company to convert its surplus VCM into PVC which will result in better margins for the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

Karachi
August 6, 2014

A.F.FERGUSON & CO.

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

Introduction

We have reviewed the accompanying consolidated condensed interim balance sheet of Engro Polymer and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited as at June 30, 2014 and the related consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows, together with the notes forming part thereof (here-in-after referred to as the "consolidated condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review. The figures of the consolidated condensed interim profit and loss account and consolidated condensed interim statement of comprehensive income for the quarters ended June 30, 2014 and 2013 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2014.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information as of and for the half year ended June 30, 2014 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants
Karachi
Date: August 21, 2014

Engagement Partner: Waqas A. Sheikh

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(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2014

	Note	Unaudited June 30, 2014	Audited December 31, 2013
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	16,987,820	17,132,553
Intangible assets		58,397	50,098
Long term loans and advances		56,146	52,605
Deferred taxation	6	480,838	455,181
		17,583,201	17,690,437
Current Assets			
Stores, spares and loose tools		1,498,580	1,390,168
Stock-in-trade		3,158,633	3,250,590
Trade debts - considered good	7	259,001	525,017
Loans, advances, deposits, prepayments and other receivables	8	215,531	441,784
Taxes recoverable	9	799,529	740,205
Short term investments		169,625	465,122
Cash and bank balances		821,314	865,040
		6,922,213	7,677,926
TOTAL ASSETS		24,505,414	25,368,363
EQUITY AND LIABILITIES			
Equity			
Share capital		6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(42,101)	(52,804)
Accumulated loss		(371,271)	(492,960)
		7,185,345	7,052,953
Non-Current Liabilities			
Long term borrowings	10	6,008,941	7,494,818
Derivative financial instruments	11	62,837	80,006
Employee service benefit obligations		16,617	63,662
		6,088,395	7,638,486
Current Liabilities			
Current portion of long term borrowings	10	2,489,378	2,242,800
Derivative financial instruments - at fair value through profit or loss	11	161,247	102,172
Short term borrowings	12	900,000	766,062
Trade and other payables	13	7,111,335	7,218,197
Accrued interest / mark-up		78,901	82,753
Provisions	14	490,813	264,940
		11,231,674	10,676,924
TOTAL EQUITY AND LIABILITIES		24,505,414	25,368,363
Commitments	15		

The annexed notes 1 to 21 form an integral part of this consolidated condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

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

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

	Quarter ended		Half year ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	Rupees			
Net revenue	6,535,652	6,143,918	11,902,528	12,031,424
Cost of sales	(5,729,695)	(5,095,086)	(10,337,379)	(9,761,400)
Gross profit	805,957	1,048,832	1,565,149	2,270,024
Distribution and marketing expenses	(343,403)	(283,223)	(665,743)	(624,399)
Administrative expenses	(171,254)	(151,856)	(309,594)	(271,426)
Other operating expenses	(105,326)	(92,827)	(128,075)	(206,786)
Other income	38,415	15,447	62,240	39,651
Operating profit	224,389	536,373	523,977	1,207,064
Finance costs	(273,228)	(327,132)	(315,236)	(643,834)
Profit / (Loss) before taxation	(48,839)	209,241	208,741	563,230
Taxation	23,907	(46,789)	(85,403)	(137,904)
Profit / (Loss) for the period	(24,932)	162,452	123,338	425,326
Earnings / (Loss) per share - basic and diluted	(0.04)	0.24	0.19	0.64

The annexed notes 1 to 21 form an integral part of this consolidated condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

	Quarter ended		Half year ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	Rupees			
Profit / (Loss) for the period	(24,932)	162,452	123,338	425,326
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Deferred tax charge relating to revaluation of equity related items	(1,649)	(1,648)	(1,649)	(1,648)
Items that may be reclassified subsequently to profit or loss				
Hedging reserve				
Gain / (Loss) arising during the period	(35,676)	18,652	37,555	7,639
Reclassification adjustments for losses / (gains) included in profit and loss	5,868	12,094	(20,386)	23,511
Income tax relating to hedging reserve	9,506	(11,866)	(6,466)	(12,007)
	(20,302)	18,880	10,703	19,143
Other comprehensive gain / (loss) for the period - net of tax	(21,951)	17,232	9,054	17,495
Total comprehensive income / (loss) for the period	(46,883)	179,684	132,392	442,821

The annexed notes 1 to 21 form an integral part of this consolidated condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

		RESERVES				
		CAPITAL	REVENUE			
	Share capital	Share premium	Hedging reserve	Accumulated loss	Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees					
Balance as at January 1, 2013 (Audited)	6,634,688	964,029	(92,077)	(1,178,636)	(5,113)	6,322,891
Total comprehensive income for the half year ended June 30, 2013	-	-	19,143	423,678	-	442,821
Balance as at June 30, 2013 (Unaudited)	6,634,688	964,029	(72,934)	(754,958)	(5,113)	6,765,712
Total comprehensive income for the half year ended December 31, 2013	-	-	20,130	281,381	(14,270)	287,241
Effect of curtailment and settlement of defined benefit plans	-	-	-	(19,383)	19,383	-
Balance as at December 31, 2013 (Audited)	6,634,688	964,029	(52,804)	(492,960)	-	7,052,953
Total comprehensive income for the half year ended June 30, 2014	-	-	10,703	121,689	-	132,392
Balance as at June 30, 2014 (Unaudited)	6,634,688	964,029	(42,101)	(371,271)	-	7,185,345

The annexed notes 1 to 21 form an integral part of this consolidated condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

	Note	Half year ended June 30, 2014	Half year ended June 30, 2013
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	16	1,580,364	2,730,551
Finance costs paid		(319,088)	(664,029)
Long term loans and advances		(3,541)	(12,101)
Payment against employee service benefits		(47,045)	-
Income tax paid		(178,499)	(108,619)
Net cash generated from operating activities		1,032,191	1,945,802
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(471,343)	(273,583)
Purchases of intangible assets		(14,819)	(3,934)
Proceeds from disposal of property, plant and equipment		4,635	4,213
Proceeds from sale of short term investments		100,009	200,000
Purchases of short term investments		-	(95,000)
Income on bank deposits		41,103	11,160
Net cash utilized in investing activities		(340,415)	(157,144)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowings		(1,069,440)	(956,773)
Proceeds from short term borrowings		300,000	420,000
Net cash utilized in financing activities		(769,440)	(536,773)
Net (decrease) / increase in cash and cash equivalents		(77,664)	1,251,885
Cash and cash equivalents at beginning of the period		998,978	(1,109,352)
Cash and cash equivalents at end of the period	17	921,314	142,533

The annexed notes 1 to 21 form an integral part of this consolidated condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

ENGRO POLYMER AND CHEMICALS LIMITED
NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

1. LEGAL STATUS AND OPERATIONS

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

Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 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 (the Holding Company). The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), 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 consolidated condensed interim financial information of the Company for the half year ended June 30, 2014 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 consolidated 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, 2013.

3. ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this consolidated condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2013.

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, 2013.

(Amounts in thousand)

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
5. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 5.1 and 5.2	16,439,137	16,833,072
Capital work-in-progress	461,035	211,833
Capital spares	87,648	87,648
	16,987,820	17,132,553

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

Building on leasehold land	2,302	13,493
Plant and machinery	206,597	512,939
Furniture, fixtures and equipment	13,242	20,904
Vehicles	-	6,483
	222,141	553,819

5.2 During the period, assets costing Rs. 14,322 (December 31, 2013: Rs. 17,321), having net book value of Rs. 5,105 (December 31, 2013: Rs. 5,051) were disposed off for Rs. 4,635 (December 31, 2013: Rs. 8,164) and assets costing Rs. 38,220 (December 31, 2013: Rs. 74,061) having net book value of Rs. 4,423 (December 31, 2013: Rs. 9,521) were written-off.

	Unaudited June 30, 2014	Audited December 31, 2013
6. DEFERRED TAXATION	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(3,808,563)	(3,979,859)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 6.1	3,439,923	3,745,640
- recoupable minimum turnover tax - note 6.2	499,479	419,806
- unpaid liabilities	85,491	73,093
- provision against GIDC, custom duty and SED refundable	167,922	96,214
- provision for net realizable value and slow moving stores and spares	21,438	17,024
- fair value of hedging instruments and others	20,736	27,202
- share issuance cost, net to equity	54,412	56,061
	4,289,401	4,435,040
	480,838	455,181

6.1 The aggregate tax losses available for carry-forward as at June 30, 2014 amount to Rs.10,424,010 (December 31, 2013: Rs.11,016,588), on which deferred income tax asset has been recognized. The aforementioned tax losses are entirely attributable to unabsorbed tax depreciation.

(Amounts in thousand)

6.2 In 2013, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum turnover tax cannot be carry forwarded where there is no tax paid on account of loss for the year or carried forward losses. The Company's management is however of the view, duly supported by the legal advisor, that the above order is not correct and would not be maintained by the Supreme Court which the Company intends to approach, if required. Therefore, the Company has continued to carry forward the minimum turnover tax not yet recouped.

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
7. TRADE DEBTS - considered good		
Secured	194,964	195,452
Unsecured - note 7.1	64,037	329,565
	259,001	525,017
7.1 Includes amounts due from the following related parties:		
- Engro Foods Limited	588	1,671
- Mitsubishi Corporation	-	249,939
	588	251,610
8. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
These include receivables from the following related parties:		
Engro Vopak Terminal Limited	1,610	2,208
Engro Fertilizers Limited	7,683	5,918
Engro Eximp (Private) Limited	-	25
Engro Elengy Limited	41	-
Engro Powergen Qadirpur Limited	9	21
	9,343	8,172

9. TAXES RECOVERABLE

9.1 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 (the 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 through adjustment against assessed refunds of Rs. 180,768 and paying balance of Rs. 32,404 'under protest'.

In 2011, through 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 was filed by the Company before the Appellate Tribunal Inland Revenue (ATIR). The department also filed an appeal against the said appellate order challenging the actions of the CIR(A).

(Amounts in thousand)

In 2013, the ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of trading liabilities to the extent of Rs. 20,280 and minimum turnover tax for tax years 2004 and 2007 to the extent of Rs. 19,692 and Rs. 7,300 respectively, which were maintained.

The Company, based on the advice of its tax consultant has filed a reference to the High Court of Sindh against the additions maintained by ATIR. The management of the Company 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.

9.2 Tax Year 2009

The DCIR through 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 Special Excise Duty (SED) refundable 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.

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).

In 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 was filed before the ATIR. The department 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.

In 2013, ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of SED provision of Rs. 36,689 and imputed interest on loans to employees and executives to the extent of Rs. 17,430, which were maintained.

The Company filed a reference to the High Court of Sindh against the additions maintained by ATIR. 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.

10. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments		Unaudited June 30, 2014	Audited December 31, 2013
		Number	Commencing from	Rupees	
Syndicated term finance I	6 months KIBOR + 2.25%	13 half yearly	November 2010	3,025,377	3,475,184
Syndicated term finance II	6 months KIBOR + 3%	13 half yearly	June 2010	715,048	846,591
Syndicated term finance IV	6 months KIBOR + 2.55%	6 half yearly	May 2013	249,889	330,181
Syndicated term finance V	6 months KIBOR + 1.5%	8 half yearly	June 2015	1,318,653	1,315,170
Bilateral loan	6 months KIBOR + 2%	6 half yearly	June 2016	541,437	540,554
Master Istisna III	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	200,000
Master Istisna IV	6 months KIBOR + 2.6%	6 half yearly	April 2016	100,000	100,000
International Finance Corporation (IFC)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	2,347,915	2,929,938
				8,498,319	9,737,618
Less: Current portion shown under current liabilities				(2,489,378)	(2,242,800)
				6,008,941	7,494,818

(Amounts in thousand)

Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC), syndicates of local banks and Bilateral loan from a local bank, the Company is required to comply with certain debt covenants. As at June 30, 2014, all debt covenants have been complied with except for current ratio and debt service coverage ratio. Waiver for current ratio deviation has been obtained from IFC, whereas, the same has been applied with local syndicates for current ratio and debt service coverage ratio. The Company is in the process of applying waiver with the bank for Bilateral loan in respect of debt service coverage ratio.

11. DERIVATIVE FINANCIAL INSTRUMENTS

11.1 As at June 30, 2014, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US$ 1,394 (December 31, 2013: US $ 4,498) to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under the 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.

11.2 As at June 30, 2014, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 16,000 (December 31, 2013: US $ 18,666) 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.

11.3 As at June 30, 2014, the Company has outstanding Exchange Rate Forward agreements with banks for amounts aggregating US$ 47,039 (December 31, 2013: US $ 51,036) to manage exchange rate exposure on outstanding foreign currency payments under the terms of supplier credit. Under the aforementioned agreements, the Company would pay respective rate agreed at the initiation of the agreement on settlement dates.

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
12. SHORT TERM BORROWINGS		
Sub-ordinate loan from Engro Corporation Limited - note 12.1	600,000	600,000
Master Istisna V - note 12.2	300,000	-
Running finance utilized under mark-up arrangements - note 12.3	-	166,062
	900,000	766,062

12.1 This represents short term loan from Engro Corporation Limited (the Holding Company) for meeting the working capital requirements. The loan is subordinated to the finances provided to the Company by its banking creditors and carries mark-up at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

12.2 During the period, the Company has drawn Istisna loan from Burj Bank Limited to meet its working capital requirements. The loan carries mark-up at the rate of matching KIBOR plus 1.5%, with roll over of maximum ninety (90) days and matures on April 30, 2015. The facility is secured by a floating charge over stocks and book debts of the Company.

(Amounts in thousand)

12.3 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounted to Rs. 1,875,000 (December 31, 2013: Rs.1,550,000). 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 1.25% (December 31, 2013: relevant period KIBOR plus 1% to 2.5%) per annum. During the period, the mark-up rates, net of prompt payment rebate, ranged from 10.99% to 11.69% (December 31, 2013: 10.19% to 12.02%) per annum. These facilities are secured by a floating charge over stocks and book debts of the Company.

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
13. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 13.1	5,514,745	5,527,076
Accrued liabilities - note 13.1	1,078,823	1,295,198
Advances from customers - note 13.1	355,520	224,649
Retention money against project payments	8,335	8,335
Security deposits	19,272	16,772
Workers' profits participation fund	12,945	81,654
Workers' welfare fund	61,112	46,636
Withholding tax payable	7,365	6,971
Others - note 13.1	53,218	10,906
	7,111,335	7,218,197
13.1 Includes amounts due to the following related parties:		
- Engro Corporation Limited	3,600	433
- Mitsubishi Corporation	1,885,922	3,977,089
- Engro Foods Limited	255	250
- Engro Fertilizers Limited	1,012	542
- Engro Vopak Terminal Limited	85,919	98,213
	1,976,708	4,076,527
14. PROVISIONS		
Provision for Gas Infrastructure Development Cess - note 14.1	400,395	174,522
Provision for duty on import of raw materials	90,418	90,418
	490,813	264,940

(Amounts in thousand)

14.1 Under the Gas Infrastructure Development Cess Act, 2011, the Government of Pakistan levied Gas Infrastructure Development Cess (GIDC) on gas bills at the rate of Rs.13 per MMBTU on all industrial consumers. The Federal Government then revised GIDC rate from Rs. 13 per MMBTU to Rs. 50 per MMBTU by issuing notification under OGRA Ordinance, 2002. The Company therefore filed a Suit before the Honorable High Court of Sindh which granted an ad-interim stay on March 5, 2013 in the favor of the Company. The Stay Order restrained the Sui Southern Gas Company Limited from charging any amount of GIDC over and above Rs. 13 per MMBTU till the final decision of this matter. Effective from January 1, 2014, GIDC rate has been enhanced to Rs. 100 per MMBTU.

The Company is confident that the aforementioned matter will be decided in its favor, however, based on prudence, the Company has recorded a provision of Rs. 400,395 being the financial exposure of differential GIDC as at June 30, 2014.

15. COMMITMENTS

15.1 The aggregate facility for performance guarantees to be issued by banks on behalf of the Company as at June 30, 2014 amounts to Rs. 1,165,000 (December 31, 2013: Rs. 1,165,000). The amount utilized thereagainst as at June 30, 2014 was Rs. 946,939 (December 31, 2013: Rs. 946,859).

15.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Company (Private) Limited 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:

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
Not later than 1 year	21,801	15,675
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	1,200	8,400
	80,601	81,675

(Amounts in thousand)

	Unaudited June 30, 2014	Unaudited June 30, 2013
	Rupees	
16. CASH GENERATED FROM OPERATIONS		
Profit before taxation	208,741	563,230
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	-	5,013
Provision for GIDC	225,873	68,455
Provision for net realizable value of stock-in-trade	11,865	18,682
Provision for slow moving stores and spares	2,601	2,511
Write-off of operating assets - note 5.2	4,423	6,319
Depreciation and amortization	613,065	591,536
Income on short term investments and bank deposits	(41,103)	(11,160)
Exchange (gain) / loss on revaluation of foreign currency borrowings	(184,680)	90,040
Amortization of prepaid financial charges	14,824	10,386
Gain on sale of short term investments	(4,512)	(5,881)
Finance costs	315,236	643,834
Loss / (Profit) on disposal of operating assets	470	(1,396)
Exchange loss / (gain) on derivatives held for trading - net	59,075	(3,885)
Working capital changes - note 16.1	354,486	752,867
	1,580,364	2,730,551

16.1 Working Capital Changes

Decrease / (Increase) in current assets		
Stores, spares and loose tools	(111,013)	15,745
Stock-in-trade	80,092	52,174
Trade debts - considered good	266,016	61,075
Loans, advances, deposits, prepayments and other receivables	226,253	48,555
	461,348	177,549
(Decrease) / Increase in current liabilities		
Trade and other payables	(106,862)	575,318
	354,486	752,867

17. CASH AND CASH EQUIVALENTS

Cash and bank balances	821,314	278,026
Short term investments	100,000	-
Running finance utilized under mark-up arrangements	-	(135,493)
	921,314	142,533

(Amounts in thousand)

18. SEGMENT INFORMATION

18.1 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, 2013.

	Unaudited June 30, 2014				Unaudited June 30, 2013			
	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							
Net revenue	9,286,185	2,592,483	23,860	11,902,528	9,551,222	2,449,441	30,761	12,031,424
Profit / (Loss) before unallocated expenses	(374,344)	1,269,146	4,604	**899,406**	737,115	896,103	12,407	**1,645,625**
Unallocated expenses								
Administrative expenses				(309,594)				(271,426)
Other operating expenses				(128,075)				(206,786)
Other income				62,240				39,651
Finance costs				(315,236)				(643,834)
Taxation				(85,403)				(137,904)
Profit after taxation				**123,338**				**425,326**

	Unaudited June 30, 2014				Audited December 31, 2013			
	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total
	Rupees							
Total segment assets	15,520,479	5,808,359	17,666	21,346,504	14,062,022	6,572,720	31,620	20,666,362
Unallocated assets				3,158,910				4,702,001
Total assets				**24,505,414**				**25,368,363**

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

(Amounts in thousand)

19. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	Unaudited Half year ended June 30, 2014	Unaudited Half year ended June 30, 2013
		Rupees	Rupees
Holding Company			
- Engro Corporation Limited	Purchase of services	17,170	17,476
	Use of operating assets	466	894
	Markup on Subordinated Loan	40,593	61,696
	Reimbursement made	37,502	1,283
	Reimbursement received	333	3,205
	Pension fund contribution	1,039	2,998
	Provident fund contribution	3,664	4,654
	Medical contribution	469	89
	Gratuity fund contribution	2,986	940
Associated Companies			
- Mitsubishi Corporation	Purchase of goods	3,180,680	3,068,725
	Sale of goods	147,431	960,293
	Purchase of services	350	215
- Arabian Sea Country Club	Purchase of services	120	481
	Annual subscription	44	47
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	2,473	3,945
	Purchase of goods	-	2,862
	Sale of goods	11,574	6,782
	Sale of services	252	252
	Sale of steam and electricity	32,105	38,264
	Reimbursement made	4,088	8,365
	Reimbursement received	345	354
	Use of operating assets	3,235	3,555
- Engro Vopak Terminal Limited	Purchase of services	510,552	469,246
	Reimbursement made	8,485	10,134
	Reimbursement received	8,337	5,444
- Engro Foundation	Reimbursement made	131	-
	Purchase of services	19	2,194
- Engro PowerGen Qadirpur Limited	Reimbursement made	4	1,180
	Reimbursement received	-	1,090
- Engro PowerGen Limited	Reimbursement made	429	896
	Use of operating assets	481	-
- Engro Foods Limited	Sale of goods	28,786	23,980
	Reimbursement received	-	9
	Reimbursement made	5	-
	Use of operating assets	305	233
- Engro Eximp (Private) Limited	Reimbursement received	61	-
	Use of operating assets	57	-

(Amounts in thousand)

Nature of relationship	Nature of transactions	Unaudited Half year ended June 30, 2014	June 30, 2013
		Rupees	
- Dawood Hercules Corporation Limited	Purchase of services	7,200	7,200
- Lahore University of Management Sciences	Purchase of services	-	550
- Pakistan Institute of Corporate Governance	Purchase of services	1,010	-
	Annual Subscription	214	-
- Pakistan Japan Business Forum	Annual subscription	-	50
- Institute of Business Administration	Purchase of services	422	847
Directors	Fee	500	900
Contribution to staff retirement benefits	Pension fund	-	7,742
	Provident fund	20,398	18,823
	Gratuity fund	16,943	3,337
Key management personnel	Managerial remuneration	32,350	32,249
	Retirement benefit funds	6,137	4,399
	Bonus	14,356	12,016
	Other benefits	7,319	8,284

20. 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 are not material.

21. DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on August 6, 2014 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

engro polymer & chemicals

UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE HALF YEAR ENDED JUNE 30, 2014

pwc

A.F.FERGUSON & CO.

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

Introduction

We have reviewed the accompanying condensed interim balance sheet of Engro Polymer and Chemicals Limited as at June 30, 2014 and the related condensed interim profit and loss account, Condensed interim statement of comphrehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows, together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2014 and 2013 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2014.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2014 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants
Karachi
Date: August 21, 2014

Engagement Partner: Waqas A. Sheikh

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(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2014

	Note	Unaudited June 30, 2014	Audited December 31, 2013
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	16,987,820	17,132,553
Intangible assets		58,397	50,098
Long term investment - at cost		50,000	50,000
Long term loans and advances		56,146	52,605
Deferred taxation	6	480,838	455,181
		17,633,201	17,740,437
Current Assets			
Stores, spares and loose tools		1,498,580	1,390,168
Stock-in-trade		3,158,633	3,250,590
Trade debts - considered good	7	259,001	525,017
Loans, advances, deposits, prepayments and other receivables	8	206,146	431,177
Taxes recoverable	9	801,784	742,454
Short term investments		100,000	300,000
Cash and bank balances		815,517	860,335
		6,839,661	7,499,741
TOTAL ASSETS		24,472,862	25,240,178
EQUITY AND LIABILITIES			
Equity			
Share capital		6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(42,101)	(52,804)
Accumulated loss		(394,676)	(612,103)
		7,161,940	6,933,810
Non-Current Liabilities			
Long term borrowings	10	6,008,941	7,494,818
Derivative financial instruments	11	62,837	80,006
Employee service benefit obligations		16,617	63,662
		6,088,395	7,638,486
Current Liabilities			
Current portion of long term borrowings	10	2,489,378	2,242,800
Derivative financial instruments - at fair value through profit or loss	11	161,247	102,172
Short term borrowings	12	900,000	766,062
Trade and other payables	13	7,102,188	7,209,155
Accrued interest / mark-up		78,901	82,753
Provisions	14	490,813	264,940
		11,222,527	10,667,882
TOTAL EQUITY AND LIABILITIES		24,472,862	25,240,178
Commitments	15		

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

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

ENGRO POLYMER AND CHEMICALS LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

	Quarter ended		Half year ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	Rupees			
Net revenue	6,535,652	6,055,212	11,902,528	11,842,748
Cost of sales	(5,729,695)	(5,095,086)	(10,337,379)	(9,761,366)
Gross profit	805,957	960,126	1,565,149	2,081,382
Distribution and marketing expenses	(343,403)	(282,669)	(665,743)	(623,270)
Administrative expenses	(171,254)	(151,820)	(309,594)	(271,354)
Other operating expenses	(105,106)	(90,888)	(127,736)	(201,969)
Other income	33,618	12,035	157,591	32,557
Operating profit	219,812	446,784	619,667	1,017,346
Finance costs	(270,131)	(330,169)	(315,231)	(645,766)
Profit / (Loss) before taxation	(50,319)	116,615	304,436	371,580
Taxation	23,934	(43,771)	(85,360)	(132,314)
Profit / (Loss) for the period	(26,385)	72,844	219,076	239,266
Earnings / (Loss) per share - basic and diluted	(0.04)	0.11	0.33	0.36

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

	Quarter ended		Half year ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	Rupees			
Profit / (Loss) for the period	(26,385)	72,844	219,076	239,266
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Deferred tax charge relating to revaluation of equity related items	(1,649)	(1,648)	(1,649)	(1,648)
Items that may be reclassified subsequently to profit or loss				
Hedging reserve				
Gain / (Loss) arising during the period	(35,676)	18,652	37,555	7,639
Reclassification adjustments for losses / (gains) included in profit and loss	5,868	12,094	(20,386)	23,511
Income tax relating to hedging reserve	9,506	(11,866)	(6,466)	(12,007)
	(20,302)	18,880	10,703	19,143
Other comprehensive gain / (loss) for the period - net of tax	(21,951)	17,232	9,054	17,495
Total comprehensive income / (loss) for the period	(48,336)	90,076	228,130	256,761

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

		RESERVES				
		CAPITAL	REVENUE			
	Share capital	Share premium	Hedging reserve	Accumulated loss	Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees					
Balance as at January 1, 2013 (Audited)	6,634,688	964,029	(92,077)	(1,308,239)	(5,113)	6,193,288
Total comprehensive income for the half year ended June 30, 2013	-	-	19,143	237,618	-	256,761
Balance as at June 30, 2013 (Unaudited)	6,634,688	964,029	(72,934)	(1,070,621)	(5,113)	6,450,049
Total comprehensive income for the half year ended December 31, 2013	-	-	20,130	477,901	(14,270)	483,761
Effect of curtailment and settlement of defined benefit plans	-	-	-	(19,383)	19,383	-
Balance as at December 31, 2013 (Audited)	6,634,688	964,029	(52,804)	(612,103)	-	6,933,810
Total comprehensive income for the half year ended June 30, 2014	-	-	10,703	217,427	-	228,130
Balance as at June 30, 2014 (Unaudited)	6,634,688	964,029	(42,101)	(394,676)	-	7,161,940

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER AND CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

	Note	Half year ended June 30, 2014	Half year ended June 30, 2013
		Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	16	1,579,376	2,549,453
Finance costs paid		(319,083)	(665,961)
Long term loans and advances		(3,541)	(12,101)
Payment against employee service benefits		(47,045)	-
Income tax paid		(178,462)	(103,391)
Net cash generated from operating activities		1,031,245	1,768,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(471,343)	(273,583)
Purchases of intangible assets		(14,819)	(3,934)
Proceeds from disposal of property, plant and equipment		4,635	4,213
Income on bank deposits		40,966	9,947
Net cash utilized in investing activities		(440,561)	(263,357)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowings		(1,069,440)	(956,773)
Proceeds from short term borrowings		300,000	620,000
Dividend from subsidiary		100,000	-
Net cash utilized in financing activities		(669,440)	(336,773)
Net (decrease) / increase in cash and cash equivalents		(78,756)	1,167,870
Cash and cash equivalents at beginning of the period		994,273	(1,114,784)
Cash and cash equivalents at end of the period	17	915,517	53,086

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

ENGRO POLYMER AND CHEMICALS LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2014

1. LEGAL STATUS AND OPERATIONS

Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 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 (the Holding Company). The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Caustic soda and other related chemicals. The Company is also engaged in supply of surplus power generated from its power plants to Engro Fertilizers Limited.

2. BASIS OF PREPARATION

This condensed interim financial information of the Company for the half year ended June 30, 2014 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, 2013.

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, 2013.

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, 2013.

(Amounts in thousand)

		Unaudited June 30, 2014	Audited December 31, 2013
		Rupees	
5.	**PROPERTY, PLANT AND EQUIPMENT**		
	Operating assets, at net book value - notes 5.1 and 5.2	16,439,137	16,833,072
	Capital work-in-progress	461,035	211,833
	Capital spares	87,648	87,648
		16,987,820	17,132,553
5.1	Additions to operating assets during the period / year were as follows:		
	Building on leasehold land	2,302	13,493
	Plant and machinery	206,597	512,939
	Furniture, fixtures and equipment	13,242	20,904
	Vehicles	-	6,483
		222,141	553,819

5.2 During the period, assets costing Rs. 14,322 (December 31, 2013: Rs. 17,321), having net book value of Rs. 5,105 (December 31, 2013: Rs. 5,051) were disposed off for Rs. 4,635 (December 31, 2013: Rs. 8,164) and assets costing Rs. 38,220 (December 31, 2013: Rs. 74,061) having net book value of Rs. 4,423 (December 31, 2013: Rs. 9,521) were written-off.

		Unaudited June 30, 2014	Audited December 31, 2013
		Rupees	
6.	**DEFERRED TAXATION**		
	Credit balances arising due to:		
	- accelerated tax depreciation	(3,808,563)	(3,979,859)
	Debit balances arising due to:		
	- recoupable carried forward tax losses - note 6.1	3,439,923	3,745,640
	- recoupable minimum turnover tax - note 6.2	499,479	419,806
	- unpaid liabilities	85,491	73,093
	- provision against GIDC, custom duty and SED refundable	167,922	96,214
	- provision for net realizable value and slow moving stores and spares	21,438	17,024
	- fair value of hedging instruments and others	20,736	27,202
	- share issuance cost, net to equity	54,412	56,061
		4,289,401	4,435,040
		480,838	455,181

6.1 The aggregate tax losses available for carry-forward as at June 30, 2014 amount to Rs.10,424,010 (December 31, 2013: Rs.11,016,588), on which deferred income tax asset has been recognized. The aforementioned tax losses are entirely attributable to unabsorbed tax depreciation.

(Amounts in thousand)

6.2 In 2013, the High Court of Sindh, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Sec 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum turnover tax cannot be carry forwarded where there is no tax paid on account of loss for the year or carried forward losses. The Company's management is however of the view, duly supported by the legal advisor, that the above order is not correct and would not be maintained by the Supreme Court which the Company intends to approach, if required. Therefore, the Company has continued to carry forward the minimum turnover tax not yet recouped.

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
7. TRADE DEBTS - considered good		
Secured	194,964	195,452
Unsecured - note 7.1	64,037	329,565
	259,001	525,017

7.1 Includes amounts due from the following related parties:

- Engro Foods Limited	588	1,671
- Mitsubishi Corporation	-	249,939
	588	251,610

8. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

These include receivables from the following related parties:

Engro Vopak Terminal Limited	1,610	2,208
Engro Fertilizers Limited	7,683	5,918
Engro Eximp (Private) Limited	-	25
Engro Elengy Limited	41	-
Engro Powergen Qadirpur Limited	9	21
	9,343	8,172

9. TAXES RECOVERABLE

9.1 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 (the 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 through adjustment against assessed refunds of Rs. 180,768 and paying balance of Rs. 32,404 'under protest'.

In 2011, through 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 paid for tax years 2004 to 2007. An appeal against the said appellate order was filed by the Company before the Appellate Tribunal Inland Revenue (ATIR). The department also filed an appeal against the said appellate order challenging the actions of the CIR(A).

(Amounts in thousand)

In 2013, the ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of trading liabilities to the extent of Rs. 20,280 and minimum turnover tax for tax years 2004 and 2007 to the extent of Rs. 19,692 and Rs. 7,300 respectively, which were maintained.

The Company, based on the advice of its tax consultant has filed a reference to the High Court of Sindh against the additions maintained by ATIR. The management of the Company 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.

9.2 Tax Year 2009

The DCIR through 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 Special Excise Duty (SED) refundable 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.

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).

In 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 was filed before the ATIR. The department 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.

In 2013, ATIR issued an order whereby the aforementioned appeal was disposed off by accepting Company's position except for additions on account of SED provision of Rs. 36,689 and imputed interest on loans to employees and executives to the extent of Rs. 17,430, which were maintained.

The Company filed a reference to the High Court of Sindh against the additions maintained by ATIR. 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.

10. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments		Unaudited June 30, 2014	Audited December 31, 2013
		Number	Commencing from	Rupees	
Syndicated term finance I	6 months KIBOR + 2.25%	13 half yearly	November 2010	3,025,377	3,475,184
Syndicated term finance II	6 months KIBOR + 3%	13 half yearly	June 2010	715,048	846,591
Syndicated term finance IV	6 months KIBOR + 2.55%	6 half yearly	May 2013	249,889	330,181
Syndicated term finance V	6 months KIBOR + 1.5%	8 half yearly	June 2015	1,318,653	1,315,170
Bilateral loan	6 months KIBOR + 2%	6 half yearly	June 2016	541,437	540,554
Master Istisna III	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	200,000
Master Istisna IV	6 months KIBOR + 2.6%	6 half yearly	April 2016	100,000	100,000
International Finance Corporation (IFC)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	2,347,915	2,929,938
				8,498,319	9,737,618
Less: Current portion shown under current liabilities				(2,489,378)	(2,242,800)
				6,008,941	7,494,818

(Amounts in thousand)

Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC), syndicates of local banks and Bilateral loan from a local bank, the Company is required to comply with certain debt covenants. As at June 30, 2014, all debt covenants have been complied with except for current ratio and debt service coverage ratio. Waiver for current ratio deviation has been obtained from IFC, whereas, the same has been applied with local syndicates for current ratio and debt service coverage ratio. The Company is in the process of applying waiver with the bank for Bilateral loan in respect of debt service coverage ratio.

11. DERIVATIVE FINANCIAL INSTRUMENTS

11.1 As at June 30, 2014, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US$ 1,394 (December 31, 2013: US $ 4,498) to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under the 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.

11.2 As at June 30, 2014, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 16,000 (December 31, 2013: US $ 18,666) 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.

11.3 As at June 30, 2014, the Company has outstanding Exchange Rate Forward agreements with banks for amounts aggregating US$ 47,039 (December 31, 2013: US $ 51,036) to manage exchange rate exposure on outstanding foreign currency payments under the terms of supplier credit. Under the aforementioned agreements, the Company would pay respective rate agreed at the initiation of the agreement on settlement dates.

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
12. SHORT TERM BORROWINGS		
Sub-ordinate loan from Engro Corporation Limited - note 12.1	600,000	600,000
Master Istisna V - note 12.2	300,000	-
Running finance utilized under mark-up arrangements - note 12.3	-	166,062
	900,000	766,062

12.1 This represents short term loan from Engro Corporation Limited (the Holding Company) for meeting the working capital requirements. The loan is subordinated to the finances provided to the Company by its banking creditors and carries mark-up at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

12.2 During the period, the Company has drawn Istisna loan from Burj Bank Limited to meet its working capital requirements. The loan carries mark-up at the rate of matching KIBOR plus 1.5%, with roll over of maximum ninety (90) days and matures on April 30, 2015. The facility is secured by a floating charge over stocks and book debts of the Company.

(Amounts in thousand)

12.3 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounted to Rs. 1,875,000 (December 31, 2013: Rs.1,550,000). 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 1.25% (December 31, 2013: relevant period KIBOR plus 1% to 2.5%) per annum. During the period, the mark-up rates, net of prompt payment rebate, ranged from 10.99% to 11.69% (December 31, 2013: 10.19% to 12.02%) per annum. These facilities are secured by a floating charge over stocks and book debts of the Company.

	Unaudited June 30, 2014	Audited December 31, 2013
	Rupees	
13. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 13.1	5,515,222	5,527,076
Accrued liabilities - note 13.1	1,077,755	1,294,625
Advances from customers - note 13.1	355,520	224,649
Retention money against project payments	8,335	8,335
Security deposits	19,272	16,772
Workers' profits participation fund	12,945	81,654
Workers' welfare fund	52,556	38,168
Withholding tax payable	7,365	6,971
Others - note 13.1	53,218	10,905
	7,102,188	7,209,155

13.1 Includes amounts due to the following related parties:

- Engro Corporation Limited	3,600	433
- Mitsubishi Corporation	1,885,922	3,977,089
- Engro Foods Limited	255	250
- Engro Fertilizers Limited	1,012	542
- Engro Vopak Terminal Limited	85,919	98,213
	1,976,708	4,076,527

14. PROVISIONS

Provision for Gas Infrastructure Development Cess - note 14.1	400,395	174,522
Provision for duty on import of raw materials	90,418	90,418
	490,813	264,940

(Amounts in thousand)

14.1 Under the Gas Infrastructure Development Cess Act, 2011, the Government of Pakistan levied Gas Infrastructure Development Cess (GIDC) on gas bills at the rate of Rs.13 per MMBTU on all industrial consumers. The Federal Government then revised GIDC rate from Rs. 13 per MMBTU to Rs. 50 per MMBTU by issuing notification under OGRA Ordinance, 2002. The Company therefore filed a Suit before the Honorable High Court of Sindh which granted an ad-interim stay on March 5, 2013 in the favor of the Company. The Stay Order restrained the Sui Southern Gas Company Limited from charging any amount of GIDC over and above Rs. 13 per MMBTU till the final decision of this matter. Effective from January 1, 2014, GIDC rate has been enhanced to Rs. 100 per MMBTU.

The Company is confident that the aforementioned matter will be decided in its favor, however, based on prudence, the Company has recorded a provision of Rs. 400,395 being the financial exposure of differential GIDC as at June 30, 2014.

15. COMMITMENTS

15.1 The aggregate facility for performance guarantees to be issued by banks on behalf of the Company as at June 30, 2014 amounts to Rs. 1,165,000 (December 31, 2013: Rs. 1,165,000). The amount utilized thereagainst as at June 30, 2014 was Rs. 946,939 (December 31, 2013: Rs. 946,859).

15.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Company (Private) Limited 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:

	Unaudited June 30, 2014	**Audited December 31, 2013**
	Rupees	
Not later than 1 year	21,801	15,675
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	1,200	8,400
	80,601	81,675

(Amounts in thousand)

	Unaudited June 30, 2014	Unaudited June 30, 2013
	Rupees	
16. CASH GENERATED FROM OPERATIONS		
Profit before taxation	304,436	371,580
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	-	5,013
Provision for GIDC	225,873	68,455
Provision for net realizable value of stock-in-trade	11,865	18,682
Provision for slow moving stores and spares	2,601	2,511
Write-off of operating assets - note 5.2	4,423	6,319
Depreciation and amortization	613,065	591,536
Income on short term investments and bank deposits	(40,966)	(9,947)
Exchange (gain) / loss on revaluation of foreign currency borrowings	(184,680)	90,040
Amortization of prepaid financial charges	14,824	10,386
Finance costs	315,231	645,766
Loss / (Profit) on disposal of operating assets	470	(1,396)
Exchange loss / (gain) on derivatives held for trading - net	59,075	(3,885)
Dividend from subsidiary	(100,000)	-
Working capital changes - note 16.1	353,159	754,393
	1,579,376	2,549,453

16.1 Working capital changes

Decrease / (Increase) in current assets		
Stores, spares and loose tools	(111,013)	15,745
Stock-in-trade	80,092	52,140
Trade debts - considered good	266,016	62,433
Loans, advances, deposits, prepayments and other receivables	225,031	48,844
	460,126	179,162
(Decrease) / Increase in current liabilities		
Trade and other payables	(106,967)	575,231
	353,159	754,393

17. CASH AND CASH EQUIVALENTS

Cash and bank balances	815,517	188,579
Short term investments	100,000	-
Running finance utilized under mark-up arrangements	-	(135,493)
	915,517	53,086

(Amounts in thousand)

18. SEGMENT INFORMATION

18.1 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, 2013.

	Unaudited June 30, 2014				Unaudited June 30, 2013			
	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							
Net revenue	9,286,185	2,592,483	23,860	11,902,528	9,362,546	2,449,441	30,761	11,842,748
Profit / (Loss) before unallocated expenses	(374,344)	1,269,146	4,604	**899,406**	549,602	896,103	12,407	**1,458,112**
Unallocated expenses								
Administrative expenses				(309,594)				(271,354)
Other operating expenses				(127,736)				(201,969)
Other income				157,591				32,557
Finance costs				(315,231)				(645,766)
Taxation				(85,360)				(132,314)
Profit after taxation				**219,076**				**239,266**

	Unaudited June 30, 2014				Audited December 31, 2013			
	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and Allied Chemicals	Caustic Soda and Allied Chemicals	Power Supply	Total
	Rupees							
Total segment assets	15,520,479	5,808,359	17,666	21,346,504	14,062,022	6,572,720	31,620	20,666,362
Unallocated assets				3,126,358				4,573,816
Total assets				**24,472,862**				**25,240,178**

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

(Amounts in thousand)

19. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	Unaudited Half year ended June 30, 2014	Unaudited Half year ended June 30, 2013
		Rupees	Rupees
Holding Company			
- Engro Corporation Limited	Purchase of services	17,170	17,476
	Use of operating assets	466	894
	Markup on Subordinated Loan	40,593	61,696
	Reimbursement made	37,502	1,283
	Reimbursement received	333	3,205
	Pension fund contribution	1,039	2,998
	Provident fund contribution	3,664	4,654
	Medical contribution	469	89
	Gratuity fund contribution	2,986	940
Subsidiary Company			
- Engro Polymer Trading (Private) Limited	Sale of goods	-	316,169
	Sale of services	-	72
	Reimbursement made	-	9
	Markup on working capital loan	-	4,370
	Dividend received	100,000	-
Associated Companies			
- Mitsubishi Corporation	Purchase of goods	3,180,680	3,068,725
	Sale of goods	147,431	455,478
	Purchase of services	350	215
- Arabian Sea Country Club	Purchase of services	120	481
	Annual subscription	44	47
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	2,473	3,945
	Sale of goods	11,574	9,644
	Sale of services	252	252
	Sale of steam and electricity	32,105	38,264
	Reimbursement made	4,088	8,365
	Reimbursement received	345	354
	Use of operating assets	3,235	3,555
- Engro Vopak Terminal Limited	Purchase of services	510,552	469,246
	Reimbursement made	8,485	10,134
	Reimbursement received	8,337	5,444
- Engro Foundation	Reimbursement made	131	-
	Purchase of services	19	2,194
- Engro PowerGen Qadirpur Limited	Reimbursement made	4	1,180
	Reimbursement received	-	1,090
- Engro PowerGen Limited	Reimbursement made	429	896
	Use of operating assets	481	-

(Amounts in thousand)

Nature of relationship	Nature of transactions	Unaudited Half year ended June 30, 2014	June 30, 2013
		Rupees	
- Engro Foods Limited	Sale of goods	28,786	23,980
	Reimbursement received	-	9
	Reimbursement made	5	-
	Use of operating assets	305	233
- Engro Eximp (Private) Limited	Reimbursement received	61	-
	Use of operating assets	57	-
- Dawood Hercules Corporation Limited	Purchase of services	7,200	7,200
- Lahore University of Management Sciences	Purchase of services	-	550
- Pakistan Institute of Corporate Governance	Purchase of services	1,010	-
	Annual Subscription	214	-
- Pakistan Japan Business Forum	Annual subscription	-	50
- Institute of Business Administration	Purchase of services	422	847
Directors	Fee	500	900
Contribution to staff retirement benefits	Pension fund	-	7,742
	Provident fund	20,398	18,823
	Gratuity fund	16,943	3,337
Key management personnel	Managerial remuneration	32,350	32,249
	Retirement benefit funds	6,137	5,251
	Bonus	14,356	12,016
	Other benefits	7,319	7,432

20. 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 are not material.

21. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on August 6, 2014 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

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