



engro polymer & chemicals

Financial Information for the Half Year
ended June 30, 2019

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COMPANY INFORMATION

Chairman	Ghiasuddin Khan
President and Chief Executive	Imran Anwer
Directors	Muhammad Asif Sultan Tajik Nadir Salar Qureshi Feroz Rizvi Noriyuki Koga Hasnain Moochhala
Board Audit Committee	Feroz Rizvi Noriyuki Koga Hasnain Moochhala
Chief Financial Officer	Syed Abbas Raza
Company Secretary	Khawaja Haider Abbas
Corporate Audit Manager	Vijay Kumar
Bankers / Lenders	Allied Bank Ltd. Askari Bank Ltd. Al-Baraka Bank Pakistan Ltd. Bank Al Falah Ltd. Bank Al Habib Ltd. BankIslami Pakistan Ltd. Citibank N.A. Deutsche Bank AG Dubai Islamic Bank Ltd. Faysal Bank Ltd. Habib Bank Ltd. Industrial and Commercial Bank of China Ltd. JS Bank Ltd. MCB Bank Ltd. Meezan Bank Ltd. National Bank of Pakistan 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	12th Floor, Ocean Tower, G-3, Block 9, Clifton, Khayaban-e-Iqbal, Karachi.
Plant	EZ/1/P-II-1, Eastern Zone, Bin Qasim, Karachi
Regional Sales Office	First Floor, 38 Z Block, Commercial Area, Phase III, DHA Lahore
Share Registrar	FAMCO Associates (Private) Limited 8-F, Next to Hotel Faran, Nursery, Block 6, P.E.C.H.S., Shahra-e-Faisal, Karachi-74000 Tel: +92(21) 34380101-5 lines
Website	www.engropolymer.com

ENGRO POLYMER AND CHEMICALS LIMITED
DIRECTOR'S REVIEW
CONSOLIDATED CONDENSED INTERIM
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30,2019

ENGRO POLYMER & CHEMICALS LIMITED
DIRECTORS' REVIEW TO THE SHAREHOLDERS
ON UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019

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 six months ended June 30, 2019.

Business Review

During the quarter, an incident occurred at the plant site in construction work area, resulting in loss of a life. The Board of Directors deeply sympathize on the sad occurrence and will take necessary steps to ensure safeguarding the highest safety values throughout the organization. In this regard, a complete investigation of the incident was done and all learnings are being implemented to ensure that our people and operations remain safe.

On the operational front, the company continued operations with regular maintenance activity performed in the quarter. Caustic Flaker plant successfully commenced production in the quarter & the company is on its way to extract value from each of its business vertical, flaker being the latest addition.

During 1H 2019, the Company recorded revenue of Rs. 18,600 million compared to Rs. 17,102 million in the same period last year and posted Profit After Tax (PAT) of Rs. 1,544 million translating into Earning Per Share (EPS) of Rs. 1.70 compared to Profit After Tax (PAT) of Rs. 2,784 million translating into Earning Per Share (EPS) of Rs. 3.98 for the same period last year. During the period, the Company adopted IFRS 16 ("Leases"). The initial application of the said IFRS required recognition of lease assets and liabilities which had previously been classified as "operating lease" under the principles of previous financial reporting standard. As a result of the application of newly adopted standard, the opening retained earnings has been reduced by Rs. 1,898 million along with a negative PAT impact of Rs. 372 million, translating into negative EPS of Rs. 0.41. In same period last year, there were certain one-time gains including recognition of previously unrecognized recoupable Minimum Turnover Tax and Insurance gain. The net impact of these one-time gains was Rs. 665 million translating into EPS of Rs. 0.95.

The current macroeconomic dynamics, starting from increase in energy prices, inflation, higher interest rates & other relevant phenomenon like dumping will likely to have an adverse impact on economy as a whole in near to short term. We urge the relevant decision makers to contemplate the adverse impact of such decisions on local companies providing import substitution by saving the precious foreign exchange & providing support to domestic industries like construction & textile.

International PVC prices witnessed an uptick during the quarter on account of supply constraints in the region & positive electoral results in key demand countries. Ethylene prices softened to in the quarter on account of supply overhang and low demand from key downstream derivatives.

Future Outlook

International PVC and ethylene prices will remain dependent on global economic sentiment, US-China trade ties, regional political situation, supply & demand dynamics. Domestic market is currently under flux & will take firmer direction once local economic policies, macroeconomic indicators & other key variables settle. Therefore, we expect that PVC and Caustic Soda market will remain under stress in the next quarter.

The Company is well underway with the execution of the expansion projects as announced to the PSX and we are hopeful that the culmination of those projects will be achieved within the stated timelines.



Imran Anwer
President & Chief Executive Officer



Feroz Rizvi
Director

INDEPENDENT AUDITOR'S REVIEW REPORT**To the members of Engro Polymer and Chemicals Limited****Report on review of Consolidated Interim Financial Statements****Introduction**

We have reviewed the accompanying consolidated condensed interim statement of financial position of Engro Polymer and Chemicals Limited as at June 30, 2019 and the related consolidated condensed interim statement of profit or loss, consolidated condensed interim statement of profit or loss and other comprehensive income, consolidated condensed interim statement of changes in equity, and consolidated condensed interim statement of cash flows, and notes to the financial statements for the six-month period then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

The figures of the consolidated condensed interim statement of profit or loss and consolidated condensed statement of profit or loss and other comprehensive income for the quarters ended June 30, 2019 and 2018 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2019.


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 statements 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 interim financial statements are not prepared, in all material respects, in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the audit resulting in this independent auditor's report is Farrukh Rehman.


Chartered Accountants
Karachi
Date: August 28, 2019

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ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

(Amounts in thousand)

		(Unaudited) June 30, 2019	(Audited) December 31, 2018
	Note	Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	25,631,338	19,397,763
Right-of-use assets	4.2.3	2,645,419	-
Intangibles		111,757	106,773
Long-term loans and advances		93,520	84,465
Deferred tax asset	11	182,663	-
Total non-current assets		28,664,697	19,589,001
Current Assets			
Stores, spares and loose tools		1,493,553	1,562,767
Stock-in-trade		3,741,100	3,581,387
Trade debts - considered good	7	509,905	430,400
Loans, advances, deposits, prepayments and other receivables	8	1,085,377	1,699,678
Derivative financial asset	9	379,388	-
Financial asset at fair value through profit or loss		6,835,171	6,298,104
Financial asset at amortised cost		-	1,499,908
Cash and bank balances		838,353	1,362,042
Total current assets		14,882,847	16,434,286
TOTAL ASSETS		43,547,544	36,023,287
EQUITY AND LIABILITIES			
Equity			
Share capital		9,089,233	9,089,233
Share premium		3,874,953	3,874,953
Hedging reserve		250,665	-
Unappropriated profits		3,205,681	3,831,998
Total equity		16,420,532	16,796,184
Non-Current Liabilities			
Long-term borrowings	10	8,612,540	7,500,000
Lease liabilities	4.2.3	4,888,460	-
Deferred tax liability	11	-	390,146
Total non-current liabilities		13,501,000	7,890,146
Current Liabilities			
Current maturity of lease liabilities	4.2.3	961,707	-
Service benefit obligations		41,230	55,354
Trade and other payables	12	6,788,910	6,435,906
Unclaimed dividend		26,514	27,498
Unpaid dividend		-	25,683
Accrued interest / mark-up		234,476	64,911
Income tax provision less payments		423,651	88,778
Provisions	13	5,149,524	4,638,827
Total current liabilities		13,626,012	11,336,957
Contingencies and Commitments	14	27,127,012	19,227,103
TOTAL EQUITY AND LIABILITIES		43,547,544	36,023,287

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand except for earnings per share)

	Note	Quarter ended		Half year ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
		-----Rupees-----			
Net revenue		9,256,687	8,414,411	18,600,321	17,101,613
Cost of sales		(7,230,043)	(6,577,778)	(14,594,328)	(13,018,532)
Gross profit		2,026,644	1,836,633	4,005,993	4,083,081
Distribution and marketing expenses		(72,046)	(97,904)	(165,535)	(211,350)
Administrative expenses		(204,792)	(173,343)	(388,455)	(336,180)
Other operating expenses	15	(963,974)	(136,734)	(1,088,639)	(326,357)
Other income		227,157	82,330	437,613	492,402
Operating profit		1,012,989	1,510,982	2,800,977	3,701,596
Finance cost	16	(459,224)	(140,764)	(727,588)	(298,363)
Profit for the period before taxation		553,765	1,370,218	2,073,389	3,403,233
Taxation		(101,829)	(34,658)	(528,995)	(619,562)
Profit for the period after taxation		451,936	1,335,560	1,544,394	2,783,671
		(Restated)		(Restated)	
Earnings per share - basic and diluted		0.50	1.91	1.70	3.98

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

	Quarter ended		Half year ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	-----Rupees-----			
Profit for the period after taxation	451,936	1,335,560	1,544,394	2,783,671
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss</i>				
Deferred tax charge relating to revaluation of equity related items - share issuance cost	-	(1,651)	-	(1,651)
<i>Items that may be reclassified subsequently to profit or loss</i>				
Gain on cashflow hedge during the period	353,050	-	353,050	-
Deferred tax charge relating to cashflow hedge	(102,385)	-	(102,385)	-
	250,665	-	250,665	-
Other comprehensive income / (loss) for the period - net of tax	250,665	(1,651)	250,665	(1,651)
Total comprehensive income for the period	702,601	1,333,909	1,795,059	2,782,020

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

(Amounts in thousand)

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.

Chief Executive

Chief Financial Officer

Director

ENGRO POLYMER AND CHEMICALS LIMITED
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

		Half year ended	
		June 30, 2019	June 30, 2018
Note		-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	17	5,271,713	3,504,374
Finance costs paid		(388,752)	(424,661)
Long-term loans and advances		(9,055)	(8,551)
Retirement benefits paid		(36,382)	(34,512)
Income tax paid		(126,269)	(81,678)
Net cash generated from operating activities		4,711,255	2,954,972
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(6,756,329)	(1,468,331)
Purchases of intangible assets		(75,551)	(8,478)
Proceeds from disposal of property, plant and equipment		204	-
Income on short-term investment and bank deposits		408,194	45,246
Net cash used in investing activities		(6,423,482)	(1,431,563)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long-term borrowings		(7,500,000)	(1,250,000)
Proceed from issuance of Sukuk bonds -net of transaction cost		8,601,540	-
Lease rentals paid		(576,499)	-
Dividend payment		(299,344)	(534,354)
Net cash generated from / (used) in financing activities		225,697	(1,784,354)
Net decrease in cash and cash equivalents		(1,486,530)	(260,945)
Cash and cash equivalents at the beginning of the period		9,160,054	923,160
Cash and cash equivalents at the end of the period	18	7,673,524	662,215

The annexed notes 1 to 25 form an integral part of these consolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
NOTES TO AND FORMING PART OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

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

Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the now repealed Companies Ordinance, 1984. The Company is listed on the Pakistan Stock Exchange Limited.

- 1.2 The Company is a subsidiary of Engro Corporation Limited (the Holding Company) which is a subsidiary of Dawood Hercules Corporation Limited (the Ultimate Parent Company). 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 the supply of surplus power generated from its power plants to Engro Fertilizers Limited (a related party).
- 1.3 The registered office of the Company is situated at 12th Floor, Ocean Tower, G-3, Block 9, Clifton, Khayaban-e-Iqbal, Karachi. The plant is located at EZ/I/P-II-I Eastern Zone, Bin Qasim, Karachi, Pakistan, whereas, the Chlor-Vinyl facility is at Port Bin Qasim Industrial Area. The regional sales office of the Company is on the 6th Floor, Haly Tower Office, Lalik Chowk, Phase II, DHA, Lahore.

2. SUMMARY OF SIGNIFICANT TRANSACTIONS AND EVENTS

Following is the summary of significant transactions and events that have affected the Company's consolidated condensed interim financial statements for the period:

- 2.1 In 2017, the Company had announced Caustic Flake production plan as a part of its expansion plan. During the period, the commercial production of the product has been commenced.
- 2.2 During the period, the Company fully received insurance claim amounting to Rs. 483,131 outstanding as at December 31, 2018.
- 2.3 During the period, the Company issued sukuk bonds as disclosed in note 10.
- 2.4 The Board of Directors in its meeting held on April 23, 2019 has approved the incorporation of two wholly owned subsidiaries by name Engro Peroxide (Private) Limited and Engro Plasticizer (Private) Limited for manufacturing Hydrogen Per-oxide and Chlorinated Paraffin Wax, respectively.
- 2.5 The Company has also incurred a significant amount of capital expenditure during the year in respect of its expansion and efficiency projects which include cost partially incurred in respect of PVC III and VCM debottlenecking, sodium hypochloride debottlenecking and hydro chloric acid debottlenecking.
- 2.6 The adoption of new accounting standards during the period, namely IFRS 9 "Financial Instruments", IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases", has led to changes in classification and measurement of items reported in these condensed interim financial statements (refer note 4.2).

(Amounts in thousand)

3. BASIS OF PREPARATION

3.1 Statement of compliance

These consolidated condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise

- International Accounting Standard (IAS) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and the directives issued under the Companies Act, 2017.

Where the provisions of and the directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and the directives issued under the Companies Act, 2017 have been followed.

- 3.2 These consolidated condensed interim financial statements for the half year ended June 30, 2019 are unaudited. However, these have been subjected to limited scope review by the statutory auditors of the Company and are being submitted to the shareholders as required by the listing regulations of Pakistan Stock Exchange Limited and section 237 of the Companies Act, 2017.

These consolidated condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31,

- 3.3 These condensed interim financial statements denote the consolidated financial statements of the Company. Consolidated condensed interim financial statements of the Company and its subsidiary have been presented separately.

4. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES AND CHANGES THEREIN

- 4.1 The significant accounting policies and the methods of computation applied in the preparation of these consolidated condensed interim financial statements are consistent with those applied in the preparation of the annual audited consolidated financial statements of the Company for the year ended December 31, 2018 except for the adoption of new standards as set out below.

- 4.2 A number of new or amended standards became applicable for the current reporting period, and the Company had to change its accounting policies and make adjustments as a result of adopting the following standards:

- 4.2.1 IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the related guidance in IAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI, without subsequent recycling to profit or loss.

(Amounts in thousand)

The standard also includes an expected credit losses (ECL) model that replaces the current incurred loss impairment model. The ECL model involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

For financial liabilities, there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

The adoption of IFRS 9 from January 1, 2019 by the Company has resulted in change in accounting policies. The Company has applied IFRS 9 retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". However, it has elected not to restate comparative information as permitted under the transitional provisions of the standard considering there being no material impact of the same.

Loans, deposits, and other receivables, accrued interest and cash and cash equivalents, which were previously classified as "loans and receivables" under IAS 39, will now be classified as amortised cost under IFRS 9. Further, short-term investments which were previously classified as held-for-trading under IAS 39 will now be classified as fair value through profit or loss. There have been no changes to the classification of financial liabilities. Furthermore, there were no changes to the carrying values of the Company's financial assets and liabilities for current and prior year balances from adopting the new classification model under IFRS 9.

- 4.2.2 IFRS 15 'Revenue from Contracts with Customers' supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Company has assessed that significant performance obligation in contracts with customers is to deliver the products and is discharged at one point of time. The Company has concluded the impact of this standard is immaterial on the condensed interim financial statements. However, production transportation and handling expenses amounting to Rs. 476,672 thousand previously included in distribution and marketing expenses have now been reclassified to cost of sales.

- 4.2.3 Effective January 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentive" and SIC-27 "Evaluating the substance of transactions involving the legal form of a Lease". IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to Company's right-of-use assets and lease liabilities are as follows:

(Amounts in thousand)

Lease liabilities and right-of-use assets

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

From January 1, 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Company.

The lease liabilities are initially measured at the present value of the remaining lease payments at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments include fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liabilities are subsequently measured at amortised cost using the effective interest rate method. They are remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the respective right-of-use asset, or is recorded in profit or loss if the carrying amount of that right-of-use asset has been reduced to zero.

Right-of-use assets are initially measured based on the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use assets are depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The carrying amount of the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the corresponding lease liability.

The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The impact of adoption of this standard is, therefore, recognised in the opening consolidated statement of financial position on January 1, 2019.

On adoption of IFRS 16, the Company recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.86%.

(Amounts in thousand)

The following summary reconciles the Company's operating lease commitments as at December 31, 2018 as previously disclosed in the Company's annual financial statements as at December 31, 2018 to the lease liabilities recognised on the initial application of IFRS 16 as at January 01, 2019:

	-----Rupees-----
Operating lease as at December 31, 2018	<u>14,053</u>
Discounted using the lessee's incremental borrowing rate at the date of initial application	
(Less): short-term leases recognised on a straight-line basis as expense	(8,400)
(Less): low value leases recognised on a straight-line basis as expenses	-
(Less): contracts assessed as service agreements	(5,653)
Add: contracts assessed as lease	5,486,524
Add/(less): adjustments as a result of a different treatment of extension and termination options	-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	-
	<u>5,486,524</u>
Lease liability recognised as at January 1, 2019	
Of which are:	
Current lease liabilities	812,442
Non-current lease liabilities	<u>4,674,082</u>
	<u>5,486,524</u>

The right-of use assets were measured on a retrospective basis at its carrying amounts as if IFRS 16 had been applied since the commencement date of the respective leases, but discounted using the lessee's incremental borrowing rate at the date of initial application.

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

	Unaudited June 30, 2019	Unaudited January 1, 2019
	-----Rupees-----	

The recognised right-of-use assets relate to the following types of assets:

Buildings	58,319	66,704
Storage tanks - Ethylene	<u>2,587,100</u>	<u>2,778,739</u>
Total right-of-use assets	<u>2,645,419</u>	<u>2,845,443</u>

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

	---Rupees---
Right of Use assets - increased by	2,845,443
Unappropriated profits - decreased by	1,898,034
Deferred tax asset - increased by	743,047
Lease liabilities - increased by	5,486,524

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,

(Amounts in thousand)

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented in these consolidated condensed interim financial statements.

- 4.3 The financial risk management objectives and policies of the Company are also consistent with those disclosed in the annual audited financial statements of the Company for the year ended December 31, 2018.
- 4.4 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

5. 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 the management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgement 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.

The significant estimates, judgments and assumptions made by the management in the preparation of the consolidated condensed interim financial statements are the same as those that were applied in the audited consolidated financial statements of the Company as at and for the year ended December 31, 2018.

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
6. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 6.1 and 6.2	17,764,146	16,582,904
Capital work-in-progress - note 6.3	7,803,400	2,751,067
Capital spares	63,792	63,792
	<u>25,631,338</u>	<u>19,397,763</u>
6.1 Additions to operating assets during the period / year were as follows:		
Leasehold land - note 6.1.1	939,528	-
Building on leasehold land	1,000	4,926
Plant and machinery	794,254	2,338,554
Furniture, fixtures and equipment	29,830	51,377
Vehicles	1,611	19,053
	<u>1,766,223</u>	<u>2,413,910</u>

(Amounts in thousand)

- 6.1.1 In 2018, the Company had entered into an agreement with Engro Fertilizers Limited, a related party, for purchase of land at a total consideration of Rs. 720,000 against which the Company had made an advance payment of Rs. 14,400. During the period, the legal formalities in relation of the transfer were finalized and the physical possession of the land has been transferred to the Company.
- 6.2 During the period, asset costing Rs. 855 (December 31, 2018: Rs. nil), having net book value of Rs. 43 (December 31, 2018: Rs. nil) was disposed off for Rs. 204 (December 31, 2018: Rs. nil).
- 6.3 Movement in capital work-in-progress during the period / year is as follows:

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
Balance as the beginning of the period / year	2,751,067	923,342
Add: Additions during the period / year	6,831,880	4,259,715
Less: Transferred to operating assets during the period / year		
- Operating assets	(1,766,223)	(2,413,910)
- Intangible assets	(13,324)	(18,080)
	7,803,400	2,751,067

7. TRADE DEBTS

These include unsecured receivables from the following related parties:

- Engro Fertilizers Limited	8,164	-
- Engro Powergen Thar (Private) Limited	698	-
	8,862	-

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

These include unsecured receivables from the following related parties:

- Engro Vopak Terminal Limited	-	385
- Engro Fertilizers Limited	2,503	118,613
- Engro Foods Limited	5	5
- Engro Digital Limited	-	2,007
- Engro Corporation Limited	2,039	1,590
- Engro Energy Limited	226	331
- Engro Powergen Qadirpur Limited	9	9
	4,782	122,940

9. DERIVATIVE FINANCIAL ASSET

During the period, the Company has entered into Forward Exchange agreement on Import Letter of Credit to manage exchange rate exposure on foreign currency payments amounting to CNY 152,000 due on account of purchase of machinery for expansion projects.

(Amounts in thousand)

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
10. LONG-TERM BORROWINGS		
- Long-term finance utilized under mark-up arrangements - notes 10.1	-	7,500,000
- Sukuk certificates - note 10.2	8,612,540	-
	<u>8,612,540</u>	<u>7,500,000</u>
Less: Current portion shown under current liabilities	-	-
	<u>8,612,540</u>	<u>7,500,000</u>

10.1 During the period, the Company has made an early repayment of the long-term loans outstanding as at December 31. 2018.

10.2 During the period, the Company has reprofiled its debt structure through issuance of sukuk bonds of Rs. 8,750,000 carrying quarterly rental rate of 3 months KIBOR + 0.9% which are repayable over a period of 7.5 years with the first repayment commencing in June 2024. These are carried at amortized cost. As a result of sukuk issuance, the long-term financing of the Company is now entirely shariah compliant.

10.3 In 2018, in order to finance the PVC expansion, VCM debottlenecking projects and other capital projects, the Company has entered into an Ijarah agreement with International Finance Corporation (IFC). Under the agreement, the Company has obtained a facility of USD 35 million repayable in five years including a grace period of two years. No drawdowns have been made upto June 30, 2019.

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	

11. DEFERRED TAX (ASSET) / LIABILITY

Credit balances arising due to:

- accelerated tax depreciation	3,257,175	3,085,702
- fair value of derivative financial instrument	106,738	-

Debit balances arising due to:

- recoupable carried forward tax losses	53,894	431,194
- recoupable minimum turnover tax	422,462	537,505
- recoupable alternative corporate tax	586,460	469,544
- lease liability net of leased assets	901,630	-
- unpaid liabilities	122,285	100,340
- provision for Gas Infrastructure Development Cess and Special Excise Duty	1,308,289	1,004,673
- provision for slow moving stores and spares	91,191	91,935
- provision for bad debts	2,535	2,535
- share issuance cost, net to equity	57,830	57,830
	<u>3,546,576</u>	<u>2,695,556</u>
	<u>(182,663)</u>	<u>390,146</u>

(Amounts in thousand)

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
12. TRADE AND OTHER PAYABLES		
Include amounts due to the following related parties:		
- Mitsubishi Corporation	-	344,807
- Engro Corporation Limited	47,149	40,545
- Engro Fertilizers Limited	32,000	43
- Engro Powergen Thar (Private) Limited	613	-
- Engro Vopak Terminal Limited	132,541	119,241
	<u>212,303</u>	<u>504,636</u>
13. PROVISIONS		
- Provision for Gas Infrastructure Development Cess	4,632,132	4,121,435
- Provision for gas price revision	<u>517,392</u>	<u>517,392</u>
	<u>5,149,524</u>	<u>4,638,827</u>
14. CONTINGENCIES AND COMMITMENTS		
14.1 There is no change in the status of the contingencies disclosed in the annual consolidated financial statements for the year ended December 31, 2018.		
14.2 The aggregate facilities for issuance of performance guarantees by the banks on behalf of the Company as at June 30, 2019 amounts to Rs. 2,141,500 (December 31, 2018: Rs. 1,896,000). The amount utilized there against as at June 30, 2019 is Rs. 2,101,110 (December 31, 2018: Rs. 1,856,000).		
14.3 The Company has entered into rental arrangements with Al-Rahim Trading Company (Private) Limited and Fatima Fertilizer Company Limited, for storage and handling of Ethylene Di Chloride and Caustic soda. The total rentals due under these arrangements are payable in periodic monthly instalments till July 2019. The future aggregate payments under these arrangements are as follows:		
	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
Not later than 1 year	3,327	14,053
14.4 The Company had various contracts with Engro Vopak Terminal Limited, a related party, for the storage and handling of Vinyl Chloride Monomer (VCM) and Ethylene Di-Chloride (EDC) which had expired in 2018 and are currently in the process of being renewed. During the period, the Company has made monthly payments as per the terms agreed in the original contracts.		
14.5 The Company has entered into EPC contract with China Tianchen Engineering Corporation for PVC plant expansion having completion date of January 31, 2020 subject to extension, if any. The total fixed amount payable under the contract is CNY 183,931.		

(Amounts in thousand)

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
14.6 Commitments in respect of capital expenditures and other operational items	1,712,968	355,221
15. OTHER OPERATING EXPENSES		
This includes foreign exchange loss amounting to Rs. 781,871 in respect of lease liabilities recognised upon adoption of IFRS 16.		
	Unaudited June 30, 2019	Unaudited June 30, 2018
	-----Rupees-----	
16. FINANCE COST		
Interest expense on lease liability under IFRS 6	158,271	-
Interest expense on long-term borrowings	537,126	279,095
Bank charges	32,191	19,268
	<u>727,588</u>	<u>298,363</u>
17. CASH GENERATED FROM OPERATIONS		
17.1 Profit for the period before taxation	2,073,389	3,403,233
Adjustments for non-cash charges and other items:		
Provision for staff retirement and other service benefits	22,258	20,545
Provision for GIDC	510,697	501,897
Reversal of provision for doubtful debts	-	(618)
Reversal of provision for net realizable value of stock-in-trade, net	-	(20,025)
Depreciation and amortisation	793,302	465,277
Income on short-term investments and bank deposits	(408,194)	(45,348)
Amortisation of transaction cost on sukuks	11,000	-
Gain on derivative financial instrument	(26,338)	-
Exchange loss on revaluation of lease liability	781,871	-
Finance cost	716,588	298,363
Gain on disposal of operating assets - note 6.2	(161)	-
Working capital changes - note 17.2	<u>797,301</u>	<u>(1,118,950)</u>
	<u>5,271,713</u>	<u>3,504,374</u>
17.2 Working capital changes		
Decrease / (increase) in current assets		
Stores, spares and loose tools	69,214	(121,780)
Stock-in-trade	(159,713)	(625,696)
Trade debts - considered good	(79,505)	39,432
Loans, advances, deposits, prepayments and other receivables - net	<u>614,301</u>	<u>(267,265)</u>
	444,297	(975,309)
Increase / (decrease) in current liabilities		
Trade and other payables	353,004	(143,641)
	<u>797,301</u>	<u>(1,118,950)</u>

(Amounts in thousand)

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
18. CASH AND CASH EQUIVALENTS		
Cash and bank balances	838,353	117,864
Financial assets at fair value through profit or loss	6,835,171	449,191
	<u>7,673,524</u>	<u>567,055</u>

19. SEGMENT INFORMATION

- 19.1 The basis of segmentation and reportable segments presented in these consolidated condensed interim financial statements are same as disclosed in the annual consolidated financial statements of the Company for the year ended December 31, 2018.

	June 30, 2019				June 30, 2018			
	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total
	Rupees							
Revenue	15,635,994	2,930,263	34,064	18,600,321	14,398,562	2,673,318	29,733	17,101,613
Cost of sales	(13,246,267)	(1,688,753)	(32,446)	(14,967,466)	(11,521,697)	(1,468,681)	(28,154)	(13,018,532)
Distribution and marketing expenses	(127,993)	(37,542)	-	(165,535)	(168,405)	(42,945)	-	(211,350)
Administrative expenses	(345,925)	(45,866)	-	(391,791)	(305,948)	(30,232)	-	(336,180)
Other operating expenses	(265,594)	(79,434)	(98)	(345,126)	(248,257)	(58,597)	(83)	(306,937)
Other operating income	302,859	134,733	21	437,613	61,120	42,824	98	104,042
Finance costs	(564,392)	(4,868)	(57)	(569,317)	(295,998)	(2,339)	(26)	(298,363)
Taxation	(330,811)	(350,474)	(431)	(681,716)	(652,523)	(402,018)	(456)	(1,054,997)
Profit after tax	1,057,871	858,059	1,053	1,916,983	1,266,854	711,330	1,112	1,979,296
Insurance claim (post tax)	-	-	-	-	-	-	-	261,949
Incremental impact of IFRS 16 (post tax)	-	-	-	(372,589)	-	-	-	-
Minimum Tax written back	-	-	-	-	-	-	-	542,426
Profit after tax	1,057,871	858,059	1,053	1,544,394	1,266,854	711,330	1,112	2,783,671

	June 30, 2019				December 31, 2018			
	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	19,684,963	6,213,205	19,983	25,918,151	16,088,188	5,771,628	11,928	21,871,744
Unallocated assets	-	-	-	17,629,393	-	-	-	14,098,561
Total assets				43,547,544				35,970,305

- 19.2 Segment assets consist primarily of property, plant and equipment, right-of-use assets, stores and spares, stock-in-trade and trade debts.

- 19.3 The segment results for the period are prepared in line with basis of allocation adopted in the annual consolidated financial statements for the year ended December 31, 2018.

(Amounts in thousand)

20. 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:

		Unaudited Half year ended June 30, 2019	Unaudited Half year ended June 30, 2018
		-----Rupees-----	
Nature of relationship	Nature of transactions		
Holding Company			
- Engro Corporation Limited	Reimbursements made	6,853	9,020
	Reimbursements received	1,592	3,062
	Intangible asset - software	58,738	-
	Purchase of services	129,326	99,829
	Medical contribution	117	114
	Life insurance	342	294
Associated Companies			
- Mitsubishi Corporation	Purchase of goods	351,923	1,145,449
Members of the Group			
- Engro Fertilizers Limited	Sale of goods	6,667	8,456
	Purchase of services	-	8,957
	Sale of steam and electricity	51,246	52,365
	Reimbursement received	375	-
	Reimbursement made	6,885	2,356
	Payment against purchase of land	722,122	63,701
- Engro Vopak Terminal Limited	Purchase of services	713,603	613,912
	Reimbursement made	2,902	2,439
	Reimbursement received	662	-
	Sales of services	-	1,460
- Engro Energy Limited	Reimbursement received	4,040	4,028
- Engro Digital Limited	Reimbursements received	32	-
- Engro Powergen Thar (Private) Limited	Sale of goods	1,794	-
Directors	Fee	450	950
Contribution to staff retirement benefits	Managed and operated by the Holding Company		
	Provident fund	32,306	32,071
	Gratuity fund	22,322	28,278
	Pension fund	2,508	1,602
Key management personnel	Managerial remuneration	54,996	51,768
	Retirement benefit funds	11,039	7,987
	Bonus	14,243	39,434
	Other benefits	15,433	11,153

(Amounts in thousand)

21. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within the level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (level 3).

As at June 30, 2019	Level 1	Level 2	Level 3	Total
	-----Rupees-----			
Financial assets at fair value through profit or loss				
- Derivative financial instrument	-	379,388	-	379,388
- Treasury bills	-	6,835,171	-	6,835,171
	-	7,214,559	-	7,214,559
As at December 31, 2018	Level 1	Level 2	Level 3	Total
	-----Rupees-----			
Financial assets at fair value through profit or loss				
- Treasury bills	-	6,098,104	-	6,098,104
- Units of mutual fund	-	200,000	-	200,000
	-	6,298,104	-	6,298,104

For the remaining assets and liabilities, the fair values are considered not to be materially different from their respective carrying amounts since the instruments are either short-term in nature or are periodically re-priced.

22. CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the consolidated condensed interim statement of financial position has been compared with the balances of annual consolidated audited financial statements of the preceding financial year, whereas, the consolidated condensed interim statement of profit or loss, the consolidated condensed interim statement of profit or loss and other 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 the comparable year-to-date period of the immediately preceding financial year.

No significant re-arrangements or reclassifications were made to corresponding figures in these consolidated condensed interim financial statements except as disclosed in note 4.2.2.

(Amounts in thousand)

23. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

- 23.1 The Board of Directors in its meeting held on August 06, 2019 has approved an interim cash dividend of ₹ per share for the period ended June 30, 2019 amounting to ₹. These consolidated condensed interim financial statements do not include the effect of the said interim dividend.

24. DATE OF AUTHORIZATION FOR ISSUE

These consolidated condensed interim financial statements were authorized for issue on August 6, 2019 by the Board of Directors of the Company.

25. GENERAL

Figures have been rounded off to the nearest thousand Rupees unless otherwise stated.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED

**UNCONSOLIDATED CONDENSED INTERIM
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019**

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Engro Polymer and Chemicals Limited

Report on review of Unconsolidated Interim Financial Statements

Introduction

We have reviewed the accompanying unconsolidated condensed interim statement of financial position of Engro Polymer and Chemicals Limited as at June 30, 2019 and the related unconsolidated condensed interim statement of profit or loss, unconsolidated condensed interim statement of profit or loss and other comprehensive income, unconsolidated condensed interim statement of changes in equity, and unconsolidated condensed interim statement of cash flows, and notes to the financial statements for the six-month period then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

The figures of the unconsolidated condensed interim statement of profit or loss and unconsolidated condensed statement of profit or loss and other comprehensive income for the quarters ended June 30, 2019 and 2018 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2019.

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 statements 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 interim financial statements are not prepared, in all material respects, in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the audit resulting in this independent auditor's report is Farrukh Rehman.



**Chartered Accountants
Karachi**

Date: August 28, 2019

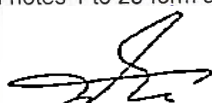
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ENGRO POLYMER AND CHEMICALS LIMITED
UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

(Amounts in thousand)

		(Unaudited) June 30, 2019	(Audited) December 31, 2018
	Note	Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	25,631,338	19,397,763
Right-of-use assets	4.2.3	2,645,419	-
Intangibles		111,757	106,773
Long-term investment - at cost		50,000	50,000
Long-term loans and advances		93,520	84,465
Deferred tax asset	11	182,663	-
Total non-current assets		28,714,697	19,639,001
Current Assets			
Stores, spares and loose tools		1,493,553	1,562,767
Stock-in-trade		3,741,100	3,581,387
Trade debts - considered good	7	509,905	430,400
Loans, advances, deposits, prepayments and other receivables	8	1,080,179	1,694,483
Derivative financial asset	9	379,388	-
Financial asset at fair value through profit or loss		6,734,493	6,203,151
Financial asset at amortised cost		-	1,499,908
Cash and bank balances		836,526	1,359,208
Total current assets		14,775,144	16,331,304
TOTAL ASSETS		43,489,841	35,970,305
EQUITY AND LIABILITIES			
Equity			
Share capital		9,089,233	9,089,233
Share premium		3,874,953	3,874,953
Hedging reserve		250,665	-
Unappropriated profits		3,148,623	3,779,400
Total equity		16,363,474	16,743,586
Non-Current Liabilities			
Long-term borrowings	10	8,612,540	7,500,000
Lease liabilities	4.2.3	4,888,460	-
Deferred tax liability	11	-	390,146
Total non-current liabilities		13,501,000	7,890,146
Current Liabilities			
Current maturity of lease liabilities	4.2.3	961,707	-
Service benefit obligations		41,230	55,354
Trade and other payables	12	6,788,082	6,435,073
Unclaimed dividend		26,514	27,498
Unpaid dividend		-	25,683
Accrued interest / mark-up		234,476	64,911
Income tax provision less payments		423,834	89,227
Provisions	13	5,149,524	4,638,827
Total current liabilities		13,625,367	11,336,573
		27,126,367	19,226,719
Contingencies and Commitments			
	14		
TOTAL EQUITY AND LIABILITIES		43,489,841	35,970,305

The annexed notes 1 to 25 form an integral part of these unconsolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand except for earnings per share)

	Note	Quarter ended		Half year ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
-----Rupees-----					
Net revenue		9,256,687	8,414,411	18,600,321	17,101,613
Cost of sales		(7,230,043)	(6,577,778)	(14,594,328)	(13,018,532)
Gross profit		2,026,644	1,836,633	4,005,993	4,083,081
Distribution and marketing expenses		(72,046)	(97,904)	(165,535)	(211,350)
Administrative expenses		(204,792)	(173,343)	(388,455)	(336,180)
Other operating expenses	15	(963,946)	(136,709)	(1,088,611)	(326,332)
Other income		221,844	72,210	432,300	481,133
Operating profit		1,007,704	1,500,887	2,795,692	3,690,352
Finance costs	16	(459,223)	(140,763)	(727,587)	(298,362)
Profit for the period before taxation		548,481	1,360,124	2,068,105	3,391,990
Taxation		(101,005)	(34,272)	(528,171)	(618,832)
Profit for the period after taxation		447,476	1,325,852	1,539,934	2,773,158
			(Restated)		(Restated)
Earnings per share - basic and diluted		0.49	1.89	1.69	3.96

The annexed notes 1 to 25 form an integral part of these unconsolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

	Quarter ended		Half year ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	-----Rupees-----			
Profit for the period after taxation	447,476	1,325,852	1,539,934	2,773,158
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss</i>				
Deferred tax charge relating to revaluation of equity related items - share issuance cost	-	(1,651)	-	(1,651)
<i>Items that may be reclassified subsequently to profit or loss</i>				
Gain on cashflow hedge during the period	353,050	-	353,050	-
Deferred tax charge relating to cashflow hedge	(102,385)	-	(102,385)	-
	250,665	-	250,665	-
Other comprehensive income / (loss) for the period - net of tax	250,665	(1,651)	250,665	(1,651)
Total comprehensive income for the period	<u>698,141</u>	<u>1,324,201</u>	<u>1,790,599</u>	<u>2,771,507</u>

The annexed notes 1 to 25 form an integral part of these unconsolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

	CAPITAL		RESERVES		Total
	Share capital	Share premium	Hedging reserve	Unappropriated profit	
	-----Rupees-----				
Balance as at January 1, 2018 (Audited)	6,634,688	964,029	-	121,668	7,720,385
Transaction with owners					
Final cash dividend for the year ended December 31, 2017 - Re. 0.80 per share	-	-	-	(530,775)	(530,775)
Total comprehensive income for the half year ended June 30, 2018					
Profit for the half year ended June 30, 2018	-	-	-	2,773,158	2,773,158
Other comprehensive loss for the half year ended June 30, 2018	-	-	-	(1,651)	(1,651)
Balance as at June 30, 2018 (Unaudited)	6,634,688	964,029	-	2,362,400	9,961,117
Transaction with owners					
Right shares issued during the year including share premium net of share issuance cost	2,454,545	2,910,924	-	-	5,365,469
Interim cash dividend for the year ended December 31, 2018 - Re. 0.80 per share	-	-	-	(727,139)	(727,139)
Total comprehensive income for the half year ended December 31, 2018					
Profit for the half year ended December 31, 2018	-	-	-	2,144,139	2,144,139
Other comprehensive income for the half year ended December 31, 2018	-	-	-	-	-
Balance as at December 31, 2018 (Audited)	9,089,233	3,874,953	-	3,779,400	16,743,586
Effect of change in accounting policy - net of deferred tax - note 4.2.3	-	-	-	(1,898,034)	(1,898,034)
Balance as at January 1, 2019 (Unaudited)	9,089,233	3,874,953	-	1,881,366	14,845,552
Transaction with owners					
Final cash dividend for the year ended December 31, 2018 - Re. 0.30 per share	-	-	-	(272,677)	(272,677)
Total comprehensive income for the half year ended June 30, 2019					
Profit for the half year ended June 30, 2019	-	-	-	1,539,934	1,539,934
Other comprehensive income for the half year ended June 30, 2019	-	-	250,665	-	250,665
Balance as at June 30, 2019 (Unaudited)	9,089,233	3,874,953	250,665	3,148,623	16,363,474

The annexed notes 1 to 25 form an integral part of these unconsolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

		Half year ended	
		June 30, 2019	June 30, 2018
	Note	-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	17	5,271,749	3,512,915
Finance costs paid		(388,751)	(424,660)
Long-term loans and advances		(9,055)	(8,551)
Retirement benefits paid		(36,382)	(34,512)
Income tax paid		(125,711)	(80,934)
Net cash generated from operating activities		4,711,850	2,964,258
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(6,756,329)	(1,468,331)
Purchases of intangible assets		(75,551)	(8,478)
Proceeds from disposal of property, plant and equipment		204	-
Income on short-term investment and bank deposits		402,881	34,079
Net cash used in investing activities		(6,428,795)	(1,442,730)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long-term borrowings		(7,500,000)	(1,250,000)
Proceed from issuance of Sukuk bonds -net of transaction cost		8,601,540	-
Lease rentals paid		(576,499)	-
Dividend payment		(299,344)	(534,354)
Net cash generated from / (used) in financing activities		225,697	(1,784,354)
Net decrease in cash and cash equivalents		(1,491,248)	(262,826)
Cash and cash equivalents at the beginning of the period		9,062,267	829,881
Cash and cash equivalents at the end of the period	18	7,571,019	567,055

The annexed notes 1 to 25 form an integral part of these unconsolidated condensed interim financial statements.



Chief Executive



Chief Financial Officer



Director

ENGRO POLYMER AND CHEMICALS LIMITED
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2019

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

- 1.1 Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the now repealed Companies Ordinance, 1984. The Company is listed on the Pakistan Stock Exchange Limited.
- 1.2 The Company is a subsidiary of Engro Corporation Limited (the Holding Company) which is a subsidiary of Dawood Hercules Corporation Limited (the Ultimate Parent Company). 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 the supply of surplus power generated from its power plants to Engro Fertilizers Limited (a related party).
- 1.3 The registered office of the Company is situated at 12th Floor, Ocean Tower, G-3, Block 9, Clifton, Khayaban-e-Iqbal, Karachi. The plant is located at EZ/II/P-II-I Eastern Zone, Bin Qasim, Karachi, Pakistan, whereas, the Chlor-Vinyl facility is at Port Bin Qasim Industrial Area. The regional sales office of the Company is on the 6th Floor, Haly Tower Office, Lalik Chowk, Phase II, DHA, Lahore.

2. SUMMARY OF SIGNIFICANT TRANSACTIONS AND EVENTS

Following is the summary of significant transactions and events that have affected the Company's unconsolidated financial statements for the period:

- 2.1 In 2017, the Company had announced Caustic Flake production plan as a part of its expansion plan. During the period, the commercial production of the product has been commenced.
- 2.2 During the period, the Company fully received insurance claim amounting to Rs. 483,131 outstanding as at December 31, 2018.
- 2.3 During the period, the Company issued sukuk bonds as disclosed in note 10.2.
- 2.4 The Board of Directors in its meeting held on April 23, 2019 has approved the incorporation of two wholly owned subsidiaries by name Engro Peroxide (Private) Limited and Engro Plasticizer (Private) Limited for manufacturing Hydrogen Per-oxide and Chlorinated Paraffin Wax, respectively.
- 2.5 The Company has also incurred a significant amount of capital expenditure during the year in respect of its expansion and efficiency projects which include cost partially incurred in respect of PVC III and VCM debottlenecking, Sodium Hypochloride debottlenecking and Hydrochloric acid debottlenecking.
- 2.6 The adoption of new accounting standards during the period, namely IFRS 9 "Financial Instruments", IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases", has led to changes in classification and measurement of items reported in these condensed interim financial statements (refer note 4.2).

(Amounts in thousand)

3. BASIS OF PREPARATION

3.1 Statement of compliance

These unconsolidated condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and the directives issued under the Companies Act, 2017.

Where the provisions of and the directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and the directives issued under the Companies Act, 2017 have been followed.

- 3.2 These unconsolidated condensed interim financial statements for the half year ended June 30, 2019 are unaudited. However, these have been subjected to limited scope review by the statutory auditors of the Company and are being submitted to the shareholders as required by the listing regulations of Pakistan Stock Exchange Limited and section 237 of the Companies Act, 2017 .

These unconsolidated condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2018.

- 3.3 These unconsolidated condensed interim financial statements are the separate condensed interim financial statements of the Company in which investment in subsidiary namely Engro Polymer Trading (Private) Limited has been accounted for at cost less accumulated impairment losses, if any. The consolidated condensed interim financial statements of the Company and its subsidiary company have been presented separately.

4. SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES AND CHANGES THEREIN

- 4.1 The significant accounting policies and the methods of computation applied in the preparation of these unconsolidated condensed interim financial statements are consistent with those applied in the preparation of the annual audited financial statements of the Company for the year ended December 31, 2018 except for the adoption of new standards as set out below.
- 4.2 A number of new or amended standards became applicable for the current reporting period, and the Company had to change its accounting policies and make adjustments as a result of adopting the following standards:
- 4.2.1 IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the related guidance in IAS 39 that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow

(Amounts in thousand)

characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI, without subsequent recycling to profit or loss.

The standard also includes an expected credit losses (ECL) model that replaces the current incurred loss impairment model. The ECL model involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

For financial liabilities, there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

The adoption of IFRS 9 from January 1, 2019 by the Company has resulted in change in accounting policies. The Company has applied IFRS 9 retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". However, it has elected not to restate comparative information as permitted under the transitional provisions of the standard considering there being no material impact of the same.

Loans, deposits, and other receivables, accrued interest and cash and cash equivalents, which were previously classified as "loans and receivables" under IAS 39, will now be classified as amortised cost under IFRS 9. Further, short-term investments which were previously classified as held-for-trading under IAS 39 will now be classified as fair value through profit or loss. There have been no changes to the classification of financial liabilities. Furthermore, there were no changes to the carrying values of the Company's financial assets and liabilities for current and prior year balances from adopting the new classification model under IFRS 9.

- 4.2.2 IFRS 15 'Revenue from Contracts with Customers' supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Company has assessed that significant performance obligation in contracts with customers is to deliver the products and is discharged at one point of time. The Company has concluded the impact of this standard is immaterial on the condensed interim financial statements. However, production transportation and handling expenses amounting to Rs. 476,672 thousand previously included in distribution and marketing expenses have now been reclassified to cost of sales.

(Amounts in thousand)

- 4.2.3 Effective January 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentive" and SIC-27 "Evaluating the substance of transactions involving the legal form of a Lease". IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to Company's right-of-use assets and lease liabilities are as follows:

Lease liabilities and right-of-use assets

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

From January 1, 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Company.

The lease liabilities are initially measured at the present value of the remaining lease payments at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments include fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liabilities are subsequently measured at amortised cost using the effective interest rate method. They are remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the respective right-of-use asset, or is recorded in profit or loss if the carrying amount of that right-of-use asset has been reduced to zero.

Right-of-use assets are initially measured based on the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use assets are depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The carrying amount of the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the corresponding lease liability.

The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The impact of adoption of this standard is, therefore, recognised in the opening statement of financial position on January 1, 2019.

(Amounts in thousand)

On adoption of IFRS 16, the Company recognised lease liabilities which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.76%.

The following summary reconciles the Company's operating lease commitments as at December 31, 2018 as previously disclosed in the Company's annual financial statements as at December 31, 2018 to the lease liabilities recognised on the initial application of IFRS 16 as at January 01, 2019:

	----- Rupees -----
Operating lease as at December 31, 2018	14,053
Discounted using the lessee's incremental borrowing rate at the date of initial application	
(Less): short-term leases recognised on a straight-line basis as expense	(8,400)
(Less): low value leases recognised on a straight-line basis as expenses	-
(Less): contracts assessed as service agreements	(5,653)
Add: contracts assessed as lease	5,486,524
Add/(less): adjustments as a result of a different treatment of extension and termination options	-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	-
Lease liability recognised as at January 1, 2019	5,486,524
Of which are:	
Current lease liabilities	812,442
Non-current lease liabilities	4,674,082
	5,486,524

The right-of use assets were measured on a retrospective basis at its carrying amounts as if IFRS 16 had been applied since the commencement date of the respective leases, but discounted using the lessee's incremental borrowing rate at the date of initial application.

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

Unaudited June 30, 2019	Unaudited January 1, 2019
----- Rupees -----	

The recognised right-of-use assets relate to the following types of assets:

Buildings	58,319	66,704
Storage tanks - Ethylene	2,587,100	2,778,739
Total right-of-use assets	2,645,419	2,845,443

The change in accounting policy affected the following items in the statement of financial position on January 1, 2019:

	----- Rupees -----
Right of Use assets - increased by	2,845,443
Unappropriated profits - decreased by	1,898,034
Deferred tax asset - increased by	743,047
Lease liabilities - increased by	5,486,524

(Amounts in thousand)

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and, therefore, have not been presented in this condensed interim financial statements.

- 4.3 The financial risk management objectives and policies of the Company are also consistent with those disclosed in the annual audited financial statements of the Company for the year ended December 31, 2018.
- 4.4 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

5. ACCOUNTING ESTIMATES

The preparation of these unconsolidated condensed interim financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgments in the process of applying the Company's accounting policies. Estimates and judgement 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.

The significant estimates, judgments and assumptions made by the management in the preparation of the unconsolidated condensed interim financial statements are the same as those that were applied in the audited financial statements of the Company as at and for the year ended December 31, 2018.

6. PROPERTY, PLANT AND EQUIPMENT

Operating assets, at net book value - notes 6.1 and 6.2
Capital work-in-progress - note 6.3
Capital spares

Unaudited June 30, 2019	Audited December 31, 2018
-----Rupees-----	
17,764,146	16,582,904
7,803,400	2,751,067
63,792	63,792
<u>25,631,338</u>	<u>19,397,763</u>

(Amounts in thousand)

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
6.1 Additions to operating assets during the period / year were as follows:		
Leasehold land - note 6.1.1	939,528	-
Building on leasehold land	1,000	4,926
Plant and machinery	794,254	2,338,554
Furniture, fixtures and equipment	29,830	51,377
Vehicles	1,611	19,053
	<u>1,766,223</u>	<u>2,413,910</u>

6.1.1 In 2018, the Company had entered into an agreement with Engro Fertilizers Limited, a related party, for purchase of land at a total consideration of Rs. 720,000 against which the Company had made an advance payment of Rs. 14,400. During the period, the legal formalities in relation of the transfer were finalized and the physical possession of the land has been transferred to the Company.

6.2 During the period, asset costing Rs. 855 (December 31, 2018: Rs. nil), having net book value of Rs. 43 (December 31, 2018: Rs. nil) was disposed off for Rs. 204 (December 31, 2018: Rs. Nil).

6.3 Movement in capital work-in-progress during the period / year is as follows:

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
Balance as the beginning of the period / year	2,751,067	923,342
Add: Additions during the period / year	6,831,880	4,259,715
Less: Transferred to operating assets during the period / year		
- Operating assets	(1,766,223)	(2,413,910)
- Intangible assets	(13,324)	(18,080)
	<u>7,803,400</u>	<u>2,751,067</u>

7. TRADE DEBTS

These include unsecured receivables from the following related parties:

- Engro Fertilizers Limited	8,164	-
- Engro Powergen Thar (Private) Limited	698	-
	<u>8,862</u>	<u>-</u>

(Amounts in thousand)

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
8. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
These include unsecured receivables from the following related parties:		
- Engro Vopak Terminal Limited	-	385
- Engro Fertilizers Limited	2,503	118,613
- Engro Foods Limited	5	5
- Engro Digital Limited	-	2,007
- Engro Corporation Limited	2,039	1,590
- Engro Energy Limited	226	331
- Engro Powergen Qadirpur Limited	9	9
	<u>4,782</u>	<u>122,940</u>

9. DERIVATIVE FINANCIAL ASSET

During the period, the Company has entered into Forward Exchange agreement on Import Letter of Credit to manage exchange rate exposure on foreign currency payments amounting to CNY 152,000 due on account of purchase of machinery for expansion projects.

10. LONG-TERM BORROWINGS

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
- Long-term finance utilized under mark-up arrangements - notes 10.1	-	7,500,000
- Sukuk certificates - note 10.2	8,612,540	-
	<u>8,612,540</u>	<u>7,500,000</u>
Less: Current portion shown under current liabilities	-	-
	<u>8,612,540</u>	<u>7,500,000</u>

- 10.1 During the period, the Company has made early repayment of the long-term loans outstanding as at December 31, 2018.
- 10.2 During the period, the Company has reprofiled its debt structure through issuance of sukuk bonds of Rs. 8,750,000 carrying quarterly rental rate of 3 months KIBOR + 0.9% which are repayable over a period of 7.5 years with the first repayment commencing in June 2024. These are carried at amortized cost. As a result of sukuk issuance, the long term financing of the Company is now entirely shariah compliant.

(Amounts in thousand)

- 10.3 In 2018, in order to finance the PVC expansion, VCM debottlenecking projects and other capital projects, the Company has entered into an Ijarah agreement with International Finance Corporation (IFC). Under the agreement, the Company has obtained a facility of USD 35 million repayable in five years including a grace period of two years. No drawdowns have been made upto June 30, 2019.

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
11. DEFERRED TAX (ASSET) / LIABILITY		
Credit balances arising due to:		
- accelerated tax depreciation	3,257,175	3,085,702
- fair value of derivative financial instrument	106,738	-
	<u>3,363,913</u>	<u>3,085,702</u>
Debit balances arising due to:		
- recoupable carried forward tax losses	53,894	431,194
- recoupable minimum turnover tax	422,462	537,505
- recoupable alternative corporate tax	586,460	469,544
- lease liability net of leased assets	901,630	-
- unpaid liabilities	122,285	100,340
- provision for Gas Infrastructure Development Cess and Special Excise Duty	1,308,289	1,004,673
- provision for slow moving stores and spares	91,191	91,935
- provision for bad debts	2,535	2,535
- share issuance cost, net to equity	57,830	57,830
	<u>3,546,576</u>	<u>2,695,556</u>
	<u>(182,663)</u>	<u>390,146</u>
12. TRADE AND OTHER PAYABLES		
Include amounts due to the following related parties:		
- Mitsubishi Corporation	-	344,807
- Engro Corporation Limited	47,149	40,545
- Engro Fertilizers Limited	32,000	43
- Engro Powergen Thar (Private) Limited	613	-
- Engro Vopak Terminal Limited	132,541	119,241
	<u>212,303</u>	<u>504,636</u>
13. PROVISIONS		
- Provision for Gas Infrastructure Development Cess	4,632,132	4,121,435
- Provision for gas price revision	517,392	517,392
	<u>5,149,524</u>	<u>4,638,827</u>

(Amounts in thousand)

14. CONTINGENCIES AND COMMITMENTS

- 14.1 There is no change in the status of contingencies as disclosed in the annual unconsolidated financial statements for the year ended December 31, 2018.
- 14.2 The aggregate facilities for issuance of performance guarantees by the banks on behalf of the Company as at June 30, 2019 amounts to Rs. 2,141,500 (December 31, 2018: Rs. 1,896,000). The amount utilized there against as at June 30, 2019 is Rs. 2,101,110 (December 31, 2018: Rs. 1,856,000).
- 14.3 The Company has entered into rental arrangements with Al-Rahim Trading Company (Private) Limited and Fatima Fertilizer, for storage and handling of Ethylene Di Chloride and Caustic soda. The total rentals due under these arrangements are payable in periodic monthly instalments till July 2019. The future aggregate payments under these arrangements are as follows:

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
Not later than 1 year	3,327	14,053

- 14.4 The Company had contracts with Engro Vopak Terminal Limited, a related party, for the storage and handling of Vinyl Chloride Monomer (VCM) and Ethylene Di-Chloride (EDC) which had expired in 2018 and are currently in the process of being renewed. During the period, the Company has made monthly payments as per the terms agreed in the original contracts.
- 14.5 The Company has entered into EPC contract with China Tianchen Engineering Corporation for PVC plant expansion having completion date of January 31, 2020 subject to extension if any. The total fixed amount payable under the contract is CNY 183,931.

	Unaudited June 30, 2019	Audited December 31, 2018
	-----Rupees-----	
14.6 Commitments in respect of capital expenditures and other operational items	<u>1,712,968</u>	<u>355,221</u>

15. OTHER OPERATING EXPENSES

This includes foreign exchange loss amounting to Rs. 781,871 in respect of lease liabilities recognised upon adoption of IFRS 16.

(Amounts in thousand)

	Unaudited June 30, 2019	Unaudited June 30, 2018
	-----Rupees-----	
16. FINANCE COST		
Interest expense on lease liability under IFRS 16	158,271	-
Interest expense on long-term borrowings	537,126	279,095
Bank charges	32,190	19,267
	<u>727,587</u>	<u>298,362</u>
17. CASH GENERATED FROM OPERATIONS		
17.1 Profit for the period before taxation	2,068,105	3,391,990
Adjustments for non-cash charges and other items:		
Provision for staff retirement and other service benefits	22,258	20,545
Provision for GIDC	510,697	501,897
Reversal of provision for doubtful debts	-	(618)
Reversal of provision for net realizable value of stock-in-trade, net	-	(20,025)
Depreciation and amortisation	793,302	465,277
Income on short-term investments and bank deposits	(402,881)	(34,079)
Amortisation of transaction cost on sukuk	11,000	-
Gain on derivative financial instrument	(26,338)	-
Exchange loss on revaluation of lease liability	781,871	-
Finance costs	716,587	298,362
Gain on disposal of operating assets - note 6.2	(161)	-
Working capital changes - note 17.2	797,309	(1,110,434)
	<u>5,271,749</u>	<u>3,512,915</u>
17.2 Working capital changes		
Decrease / (increase) in current assets		
Stores, spares and loose tools	69,214	(121,780)
Stock-in-trade	(159,713)	(625,696)
Trade debts - considered good	(79,505)	39,432
Loans, advances, deposits, prepayments and other receivables - net	614,304	(267,482)
	<u>444,300</u>	<u>(975,526)</u>
Increase / (decrease) in current liabilities		
Trade and other payables	353,009	(134,908)
	<u>797,309</u>	<u>(1,110,434)</u>
18. CASH AND CASH EQUIVALENTS		
Cash and bank balances	836,526	117,864
Financial assets at fair value through profit or loss	6,734,493	449,191
	<u>7,571,019</u>	<u>567,055</u>

(Amounts in thousand)

19. SEGMENT INFORMATION

- 19.1 The basis of segmentation and reportable segments presented in these unconsolidated condensed interim financial statements are same as disclosed in the annual financial statements of the Company for the year ended December 31, 2018.

	June 30, 2019				June 30, 2018			
	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power Supply	Total	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total
	Rupees							
Revenue	15,635,994	2,930,263	34,064	18,600,321	14,398,562	2,673,318	29,733	17,101,613
Cost of sales	(13,246,267)	(1,688,753)	(32,446)	(14,967,466)	(11,521,697)	(1,468,681)	(28,154)	(13,018,532)
Distribution and marketing expenses	(127,993)	(37,542)	-	(165,535)	(168,405)	(42,945)	-	(211,350)
Administrative expenses	(345,925)	(45,866)	-	(391,791)	(305,948)	(30,232)	-	(336,180)
Other operating expenses	(265,566)	(79,434)	(98)	(345,098)	(248,232)	(58,597)	(83)	(306,912)
Other operating income	297,546	134,733	21	432,300	49,851	42,824	98	92,773
Finance costs	(564,391)	(4,868)	(57)	(569,316)	(295,997)	(2,339)	(26)	(298,362)
Taxation	(329,987)	(350,474)	(431)	(680,892)	(651,792)	(402,018)	(456)	(1,054,266)
Profit after tax	1,053,411	858,059	1,053	1,912,523	1,256,342	711,330	1,112	1,968,784
Insurance claim (post tax)	-	-	-	-	-	-	-	261,949
Incremental impact of IFRS 16 (post tax)	-	-	-	(372,589)	-	-	-	-
Minimum Tax written back	-	-	-	-	-	-	-	542,426
Profit after tax	1,053,411	858,059	1,053	1,539,934	1,256,342	711,330	1,112	2,773,159

	June 30, 2019				December 31, 2018			
	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	19,684,963	6,213,205	19,983	25,918,151	16,088,188	5,771,628	11,928	21,871,744
Unallocated assets	-	-	-	17,571,689	-	-	-	14,098,561
Total assets				43,489,840				35,970,305

- 19.2 Segment assets consist primarily of property, plant and equipment, right-of-use assets, stores and spares, stock-in-trade and trade debts.

- 19.3 The segment results for the period are prepared in line with basis of allocation adopted in the annual financial statements for the year ended December 31, 2018.

(Amounts in thousand)

20. TRANSACTIONS WITH RELATED PARTIES

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

		Unaudited	Unaudited
		Half year ended	Half year ended
		June 30,	June 30,
		2019	2018
-----Rupees-----			
Nature of relationship	Nature of transactions		
Holding Company			
- Engro Corporation Limited	Reimbursements made	6,853	9,020
	Reimbursements received	1,592	3,062
	Intangible asset - software	58,738	-
	Purchase of services	129,326	99,829
	Medical contribution	117	114
	Life insurance	342	294
Associated Companies			
- Mitsubishi Corporation	Purchase of goods	351,923	1,145,449
Members of the Group			
- Engro Fertilizers Limited	Sale of goods	6,667	8,456
	Purchase of services	-	8,957
	Sale of steam and electricity	51,246	52,365
	Reimbursement received	375	-
	Reimbursement made	6,885	2,356
	Payment against purchase of land	722,122	63,701
- Engro Vopak Terminal Limited	Purchase of services	713,621	613,912
	Reimbursement made	2,902	2,439
	Reimbursement received	662	-
	Sales of services	-	1,460
- Engro Energy Limited	Reimbursement received	4,040	4,028
- Engro Digital Limited	Reimbursements received	32	-
- Engro Powergen Thar (Private) Limited	Sale of goods	1,794	-
Directors	Fee	450	950
Contribution to staff retirement benefits	Managed and operated by the Holding Company		
	Provident fund	32,306	32,071
	Gratuity fund	22,322	28,278
	Pension fund	2,508	1,602
Key management personnel	Managerial remuneration	54,996	51,768
	Retirement benefit funds	11,039	7,987
	Bonus	14,243	39,434
	Other benefits	15,433	11,153

(Amounts in thousand)

21. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within the level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (level 3).

As at June 30, 2019	Level 1	Level 2	Level 3	Total
	-----Rupees-----			
Financial assets at fair value through profit or loss				
- Derivative financial asset	-	379,388	-	379,388
- Treasury bills	-	6,734,493	-	6,734,493
	<u>-</u>	<u>7,113,881</u>	<u>-</u>	<u>7,113,881</u>
As at December 31, 2018	Level 1	Level 2	Level 3	Total
	-----Rupees-----			
Financial assets at fair value through profit or loss				
- Treasury bills	-	6,003,151	-	6,003,151
- Units of mutual fund	-	200,000	-	200,000
	<u>-</u>	<u>6,203,151</u>	<u>-</u>	<u>6,203,151</u>

For the remaining assets and liabilities, the fair values are considered not to be materially different from their respective carrying amounts since the instruments are either short-term in nature or are periodically re-priced.

22. CORRESPONDING FIGURES

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

No significant re-arrangements or reclassifications were made to corresponding figures in these unconsolidated condensed interim financial statements except as disclosed in note 4.2.2.

(Amounts in thousand)

23. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

- 23.1 The Board of Directors in its meeting held on August 06, 2019 has approved an interim cash dividend of - per share for the period ended June 30, 2019 amounting to -. These unconsolidated condensed interim financial statements do not include the effect of the said interim dividend.

24. DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on August 6, 2019 by the Board of Directors of the Company.

25. GENERAL

Figures have been rounded off to the nearest thousand Rupees unless otherwise stated.



Chief Executive



Chief Financial Officer



Director

اینکرو پولیمر اینڈ کیمیکل لمیٹڈ
 شراکت داروں کے لیے ڈائریکٹر کا جائزہ
 آڈٹ کے بغیر منظم کردہ عبوری مالیاتی اعداد و شمار پر مشتمل دستاویز
 30 جون 2019 کو ختم ہونے والی شش ماہی کے لیے

اینکرو پولیمر اینڈ کیمیکلز لمیٹڈ کے بورڈ آف ڈائریکٹرز کی طرف سے ہم پیش کرنا چاہتے ہیں آڈٹ کے بغیر منظم کردہ کمپنی کی 30 جون 2019 کو ختم ہونے والی شش ماہی کی عبوری مالیاتی معلومات۔

کاروبار کا جائزہ

اس سہ ماہی میں پلانٹ سائٹ کے تعمیراتی علاقے میں ایک حادثہ رونما ہوا جس میں ایک انسانی جان ضائع ہوئی۔ بورڈ آف ڈائریکٹرز اس افسوسناک واقعہ پر اپنی دلی ہمدردی کا اظہار کرتا ہے اور وہ پوری تنظیم میں تحفظ کی اعلیٰ ترین اقدار کو یقینی بنانے کے لیے ضروری اقدامات کرے گا۔ اس مقصد کے لیے اس واقعہ کی مکمل تفتیش کروائی گئی، تمام معلومات کو بروئے کار لایا جارہا ہے تاکہ اس معیار کو یقینی بنایا جاسکے کہ ہمارے لوگ اور کام محفوظ رہیں۔

آپریشنل محاذ پر اس سہ ماہی میں کمپنی میں آپریشنز تسلسل کے ساتھ جاری رہے اور دیکھ بھال کی سرگرمی بھی انجام دی گئی۔ کاسٹک فلیکر پلانٹ نے اس سہ ماہی میں کامیابی سے اپنی پیدوار کا آغاز کیا اور کمپنی اپنے ہر کاروباری ستون سے قدر کے حصول کے رستے پر گامزن ہیں، فلیکر اس میں تازہ ترین اضافہ ہے۔

پہلی شش ماہی 2019 کے دوران میں کمپنی نے 18,600 ملین روپے کا ریونیو ریکارڈ کیا جو کہ گذشتہ برس اسی عرصہ میں 17,102 ملین روپے تھا، ٹیکس کی ادائیگی کے بعد منافع (PAT) 1,544 ملین روپے درج کیا گیا جو کہ فی شیئر آمدن (EPS) کے حساب سے 1.70 روپے ہے اس کے مقابلے میں گذشتہ برس کے اسی عرصے میں ٹیکس کے بعد کا منافع (PAT) جو کہ 2,784 ملین روپے تھا اور اس کے تناسب سے فی شیئر آمدن (EPS) 3.98 روپے رہی۔ اس عرصے کے دوران میں کمپنی نے IFRS 16 ("لیز") اپنائی۔

مذکورہ IFRS کے ابتدائی اطلاق کے لیے لیز کے اثاثوں اور واجبات کی شناخت کی ضرورت تھی جس کی گذشتہ مالی رپورٹنگ کے معیار کے اصولوں کے تحت "آپریٹنگ لیز" کے طور پر درجہ بندی کی گئی تھی۔ نئے اختیار کردہ معیار کے اطلاق کے نتیجے میں، ابتدائی برقرار آمدنی میں 1,898 ملین روپے کی کمی واقع ہوئی، اس کے ساتھ ساتھ PAT کا منفی اثر 372 ملین رہا جس کے سبب منفی EPS 0.41 تھا۔ گذشتہ برس اسی عرصے میں بعض اوقات یک مشت منافع بھی ہوا جن میں پہلے غیر تسلیم شدہ کم سے کم آمدن کے غیر تسلیم شدہ ٹیکس کی توثیق اور انشورنس کے محصولات شامل تھے۔ ان یک مشت منافعوں کا اثر 665 ملین روپے تھا۔ جس کا فی شیئر آمدن پر 0.95 کا اثر تھا۔

موجودہ میکرو اکنامکس، توانائی کی قیمتوں میں اضافے، افراط زر، شرح سود میں اضافہ اور ڈمپنگ جیسے دیگر متعلقہ مظاہر کے سبب مستقبل قریب میں پوری معیشت پر مضر اثرات مرتب ہونے کا امکان ہے۔ ہم متعلقہ فیصلہ سازوں سے درخواست کرتے ہیں کہ وہ ایسے فیصلوں کے مقامی کمپنیوں پر پڑنے والے برے اثرات پر غور کریں جو کہ قیمتی زر مبادلہ کو بچاتے ہوئے درآمدی متبادل فراہم کر رہی ہیں نیز گھریلو تعمیراتی اور ٹیکسٹائل کی صنعتوں کو مدد فراہم کر رہی ہیں۔

خطے میں رسد کی رکاوٹوں اور اہم مانگ والے ممالک میں مثبت انتخابی نتائج کی وجہ سے سہ ماہی کے دوران بین الاقوامی PVC کی قیمتوں میں تیزی کا رجحان رہا۔ ایتھلیں کی قیمتیں سہ ماہی میں کم ہوگئیں تھیں جس کا سبب رسد میں اضافہ اور کلیدی حامل مصنوعات کی طلب میں کمی تھی۔

مستقل پر نظر

بین الاقوامی PVC اور ایتھلیں کی قیمتیں عالمی معاشی رجحانات، امریکہ چین تجارتی تعلقات، علاقائی سیاسی صورتحال، رسد اور طلب کی ڈائنامکس پر منحصر رہیں گی۔ ملکی منڈی اس وقت بہاؤ میں ہے اور مقامی معاشی پالیسیوں، میکرو اکنامک انڈیکسٹرز اور دیگر اہم تغیرات کے استحکام

کے بعد مزید بہتری کی جانب گامزن ہوگی۔ لہذا ، ہم توقع کرتے ہیں کہ اگلی سہ ماہی میں PVC اور کاسٹک سوڈا کی مارکیٹ دباؤ کا شکار رہے گی۔

کمپنی توسیعی منصوبوں پر عمل پیرا ہونے کے ساتھ ساتھ اپنا کام مستعدی سے آگے بڑھا رہی ہے جیسا کہ پی ایس ایکس اعلانات میں بتایا گیا۔ ہمیں امید ہے کہ ان منصوبوں کی تکمیل مقررہ مدت میں ہو جائے گی۔



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