LOTTE CHEMICAL PAKISTAN LTD

20 Years of Excellence

REPORT FOR THE NINE MONTHS PERIOD
ENDED 30 SEPTEMBER 2019

Contents

Company Information
As at 17 October 2019

Board of Directors

Kwang Sik Huh	Chairman
Humair Ijaz	Chief Executive
Sang Hyeon Lee	Executive
In Goo Park	Non-Executive
Jae Sun Park	Non-Executive
M Qasim Khan	Non-Executive
Pervaiz Akhtar	Independent
Istaqbal Mehdi	Non-Executive

Audit Committee

Pervaiz Akhtar	Chairman
Kwang Sik Huh	Member
Istaqbal Mehdi	Member
Faisal Abid	Secretary

HR & Remuneration Committee

Pervaiz Akhtar	Chairman
Kwang Sik Huh	Member
Sang Hyeon Lee	Member

Shares Sub Committee

Sang Hyeon Lee	Chairman
M Qasim Khan	Member
Kwang Sik Huh	Member

Executive Management Team

Humair Ijaz	Chief Executive
Tariq Nazir Virk	General Manager Manufacturing
Waheed U Khan	General Manager HR & IT

Chief Financial Officer
Ashiq Ali

Company Secretary
Faisal Abid

Bankers
Askari Bank Limited
Citibank NA
Deutsche Bank AG
Habib Bank Limited
Industrial & Commercial Bank of China
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited

Internal Auditors
KPMG Taseer Hadi & Co.,
Chartered Accountants

External Auditors
EY Ford Rhodes
Chartered Accountants

Legal Advisor
Naz Toosy
148, 18th East Street,
Phase 1, DHA, Karachi

Registered Office
EZ/I/P-4, Eastern Industrial Zone,
Port Qasim, Karachi

Shares Registrar
Famco Associates (Pvt) Limited
8-F, Next to Hotel Faran,
Nursery, Block 6, P.E.C.H.S.,
Shahrah-e-Faisal,
Karachi

Directors' Review
For the third quarter ended 30 September 2019

The Directors are pleased to present their review report for the third quarter ended 30 September 2019 together with the un-audited condensed interim financial information of the Company as at and for the third quarter and nine months period ended 30 September 2019.

Business Overview

The third quarter commenced with Crude prices trending lower on oversupply concerns but found support from ongoing tensions in the Middle East as well as the sanctions imposed on Iran by the United States. The downward trend became more pronounced towards August due to reciprocal tariffs being imposed between US and China, and this time US Crude bearing the brunt. However, towards the end of the quarter, prices gained momentum as US and China agreed to resume trade talks at the G7 summit. Crude prices also experienced a spike due to the attack on Saudi oil assets which saw the country's production drop by half. However, the market was unable to sustain at higher levels as promises of a quick recovery eased supply concerns. Crude prices averaged at US$ 56.47 per barrel for the quarter.

The PX market followed the upstream crude prices at the start of the quarter. However, towards the end of July, PX prices turned bearish as demand from downstream PTA declined. Towards the end of the quarter, the market spiked temporarily, tracking the movement in the Crude market following the drone attack on Saudi Arabia. However, lingering concerns over supply weighed down on the market as a further 2.3 million tonnes of PX capacities are expected to be added in the region in Q4 2019. On average, PX price for the quarter was US$ 815.69 per tonne while the PX - Naphtha spread averaged at US$ 321 per tonne.

The third quarter saw PTA prices fall by US$ 140 per tonne as the peak season for PSF and PET came to an end. Lower demand from downstream led to Polyester producers curtailing operations on concerns of inventory devaluation. PTA prices remained bearish throughout most of the quarter as sentiment remained plagued by a weak global demand outlook over fears of an impending recession. However, towards the end of the quarter, PTA prices showed resilience as producers attempted to maintain positive margins amid enthused downstream demand. Keeping pace with the upstream markets PTA spot prices increased for a short period post the attack on Saudi Arabia. The average PTA price and margin over PX was US$ 700 and US$ 163 per tonne respectively for the quarter.

Operations

Production volume during the quarter at 122,005 tonnes was 2% lower than the corresponding period last year.

Sales volume, comprising of domestic sales only, for Q3 2019 at 114,305 tonnes was 10% lower than the corresponding quarter last year due to lower demand from the domestic market. The operating rate of the domestic PSF industry was 68% vs 88% same quarter last year.

Financial Performance

Revenue for the quarter was 12% lower than the corresponding period last year mainly due to lower sales volume. This, together with lower PTA margin over PX resulted in a gross profit of Rs 2,375 million for the quarter as compared to gross profit of Rs 2,937 million during the same period last year.

Administrative expenses were 13% higher than the corresponding period last year due to overall impact of inflation. Other income for the quarter was higher than Q3 2018 mainly due to higher income earned on bank deposits. Finance costs for the quarter were lower than the corresponding period last year mainly due to relatively stable rupee dollar parity during the quarter.

Directors’ Review
For the third quarter ended 30 September 2019

The taxation charge for the quarter is based on the statutory income tax rate and tax under Final Tax Regime (FTR) as adjusted by the movement in the deferred tax account.

Profit after taxation for the quarter ended 30 September 2019 amounted to Rs 1,682 million as compared to profit after taxation of Rs 2,062 million in Q3 last year.

Future Outlook

Moving forward, the Crude Oil market is expected to remain under pressure as forecasts by experts show a weaker global demand in the coming year. Additionally, supply concerns in the market disappeared as Saudi Arabia managed to successfully restore their production earlier than initially expected. The sanctions on Iran and Venezuela, the OPEC Plus production cuts and increased risk in the Middle East may help support higher Crude prices. However, the continued increase in US Crude production and the improved export viability due to the new pipelines will limit any significant upward movement.

PX prices are expected to remain subdued on concerns of an oversupplied market due to upcoming capacity additions in 2019 and 2020. The PX market being imminently oversupplied may look towards upstream Crude to play a larger role in determining PX price movement.

Demand for PTA in Q4 2019 may soften as downstream Polyester producers endeavor to reduce inventory levels to avoid carrying stock over to the New Year. However, expected turnarounds and curtailed operating rates may help avoid any significant inventory addition in the region, thereby resulting in improved profitability.

The domestic Polyester market is expected to remain under pressure as uncertainty continues to grip local manufacturers who struggle to achieve normal sales. However, investor confidence is expected to return as local businesses adjust to the new regulations.

The management has been making efforts to initiate the sale of electricity to K-Electric. In this regard discussions are on-going with SSGC and KE.

Kwang Sik Huh
Chairman

Humair Ijaz
Chief Executive

Date: 17 October 2019
Karachi

Condensed Interim Statement of Financial Position
As at 30 September 2019

Amounts in Rs '000

	Note	30 September 2019 (Un-audited)	31 December 2018 (Audited)
Assets			
Non-current assets			
Fixed assets	4	**4,693,789**	5,142,935
Long-term loans and advances		**105,958**	82,912
Long-term deposits and prepayments		**41,536**	42,149
Deferred tax assets	5	**563,913**	435,938
		5,405,196	5,703,934
Current assets			
Stores and spare parts		**1,059,408**	866,638
Stock-in-trade		**5,310,448**	5,238,450
Trade debts		**3,579,033**	3,401,047
Loans and advances		**32,657**	27,150
Trade deposits and short-term prepayments		**54,575**	59,488
Interest accrued on short-term fixed deposits		**54,942**	7,061
Other receivables	6	**514,685**	756,689
Tax refunds due from government - sales tax	7	**424,096**	189,950
Taxation - payments less provision		**-**	802,967
Cash and bank balances	8	**13,044,662**	4,220,756
		24,074,506	15,570,196
Total assets		**29,479,702**	21,274,130
Equity and liabilities			
Share capital and reserves			
Issued, subscribed and paid-up capital 1,514,207,208 (31 December 2018: 1,514,207,208) ordinary shares of Rs 10 each		**15,142,072**	15,142,072
Capital reserves		**2,345**	2,345
Unappropriated profit / (accumulated losses)		**2,107,653**	(2,625,192)
		17,252,070	12,519,225
Liabilities			
Non-current liabilities			
Retirement benefit obligations		**135,625**	125,482
Current liabilities			
Trade and other payables	9	**11,590,649**	6,682,630
Accrued interest		**237,384**	211,018
Unpaid dividend		**-**	1,703,790
Unclaimed dividend		**24,249**	31,985
Taxation - provision less payments		**239,725**	-
		12,092,007	8,629,423
Total liabilities		**12,227,632**	8,754,905
Total equity and liabilities		**29,479,702**	21,274,130
Contingencies and commitments	10		

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Kwang Sik Huh	**Humair Ijaz**	**Ashiq Ali**
Chairman	Chief Executive	Chief Financial Officer

Condensed Interim Statement of Profit or Loss (Un-audited)
For the nine months period ended 30 September 2019

Amounts in Rs '000

	Note	Quarter ended 30 September		Nine months period ended 30 September	
		2019	2018	**2019**	2018
Revenue - net	11	**14,427,608**	16,444,852	**47,617,270**	42,140,134
Cost of sales	12	**(12,052,243)**	(13,508,256)	**(40,762,139)**	(36,369,351)
Gross profit		**2,375,365**	2,936,596	**6,855,131**	5,770,783
Distribution and selling expenses		**(24,604)**	(37,969)	**(74,925)**	(79,288)
Administrative expenses		**(108,438)**	(96,217)	**(303,982)**	(277,393)
Other expenses	13	**(183,082)**	(212,520)	**(505,509)**	(478,990)
Other income	14	**372,798**	121,647	**799,534**	338,918
Finance costs	15	**(19,188)**	(26,085)	**(136,608)**	(302,268)
Profit before taxation		**2,412,851**	2,685,452	**6,633,641**	4,971,762
Taxation	16	**(730,491)**	(622,977)	**(1,900,796)**	(1,563,797)
Profit after taxation		**1,682,360**	2,062,475	**4,732,845**	3,407,965
		-------------- **Amount in Rupees** ---------------			
Earnings per share - basic and diluted		**1.11**	1.36	**3.13**	2.25

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Kwang Sik Huh	**Humair Ijaz**	**Ashiq Ali**
Chairman	Chief Executive	Chief Financial Officer

Condensed Interim Statement of Comprehensive Income (Un-audited)
For the nine months period ended 30 September 2019

Amounts in Rs '000

	Quarter ended 30 September		Nine months period ended 30 September	
	2019	2018	**2019**	2018
Profit after taxation	**1,682,360**	2,062,475	**4,732,845**	3,407,965
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income for the period	**1,682,360**	2,062,475	**4,732,845**	3,407,965

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Kwang Sik Huh
Chairman

Humair Ijaz
Chief Executive

Ashiq Ali
Chief Financial Officer

Condensed Interim Statement of Changes in Equity (Un-audited)
For the nine months period ended 30 September 2019

Amounts in Rs '000

	Issued, subscribed and paid-up capital	Reserves			Total equity
		Capital reserves	Unappropriated profit / (accumulated losses)	Sub-total	
Balance as at 1 January 2018	15,142,072	2,345	(4,467,337)	(4,464,992)	10,677,080
Final dividend @ Rs 0.20 per share for the year ended 31 December 2017	-	-	(302,841)	(302,841)	(302,841)
Total comprehensive income for the nine months period ended 30 September 2018					
- Profit for the nine months period ended 30 September 2018	-	-	3,407,965	3,407,965	3,407,965
- Other comprehensive income for the nine months period ended 30 September 2018	-	-	-	-	-
	-	-	3,407,965	3,407,965	3,407,965
Balance as at 30 September 2018	15,142,072	2,345	(1,362,213)	(1,359,868)	13,782,204
Balance as at 1 January 2019	**15,142,072**	**2,345**	**(2,625,192)**	**(2,622,847)**	**12,519,225**
Total comprehensive income for the nine months period ended 30 September 2019					
- Profit for the nine months period ended 30 September 2019	**-**	**-**	**4,732,845**	**4,732,845**	**4,732,845**
- Other comprehensive income for the nine months period ended 30 September 2019	**-**	**-**	**-**	**-**	**-**
	-	**-**	**4,732,845**	**4,732,845**	**4,732,845**
Balance as at 30 September 2019	**15,142,072**	**2,345**	**2,107,653**	**2,109,998**	**17,252,070**

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Kwang Sik Huh	**Humair Ijaz**	**Ashiq Ali**
Chairman	Chief Executive	Chief Financial Officer

Condensed Interim Statement of Cash Flows (Un-audited)
For the nine months period ended 30 September 2019

Amounts in Rs '000

	Note	Nine months period ended 30 September 2019	2018
Cash flows from operating activities			
Cash generated from operations	17	**11,103,309**	3,825,472
Long-term loans and advances - net		**(23,046)**	(7,048)
Long-term deposits and prepayments - net		**613**	20,184
Finance costs paid		**(26,109)**	(25,226)
Payments to retirement benefit obligations		**(1,487)**	(871)
Taxes paid		**(1,028,451)**	(329,261)
Interest received from short-term fixed deposits		**722,008**	301,969
Net cash generated from operating activities		**10,746,837**	3,785,219
Cash flows from investing activities			
Payments for capital expenditure		**(211,405)**	(102,248)
Proceeds from disposal of property, plant and equipment		**-**	116
Net cash used in investing activities		**(211,405)**	(102,132)
Cash flows from financing activities			
Dividend paid		**(1,711,526)**	(301,206)
Net cash used in financing activities		**(1,711,526)**	(301,206)
Net increase in cash and cash equivalents		**8,823,906**	3,381,881
Cash and cash equivalents at 1 January		**4,220,756**	5,043,188
Cash and cash equivalents at 30 September		**13,044,662**	8,425,069

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

Kwang Sik Huh
Chairman

Humair Ijaz
Chief Executive

Ashiq Ali
Chief Financial Officer

Notes to the Condensed Interim Financial Statements (Un-audited)
For the nine months period ended 30 September 2019

1. Status and nature of business

1.1 Lotte Chemical Pakistan Limited ("the Company") was incorporated in Pakistan on 30 May 1998 and is listed on Pakistan Stock Exchange Limited, and is engaged in the manufacture and sale of Pure Terephthalic Acid (PTA).

1.2 The geographical location and addresses of business units are as under:

Location	Address
Registered Office	EZ/I/P-4, Eastern Industrial Zone, Port Qasim, Karachi.
City Office	Al-Tijarah Centre, 14th Floor, 32/1-A, Main Shahrah-e-Faisal, Block 6, P.E.C.H.S., Karachi.

1.3 The Company is a subsidiary of Lotte Chemical Corporation, South Korea and its ultimate parent company is South Korean Conglomerate Lotte.

2. Statement of compliance and Basis of preparation

2.1 These condensed interim financial statements of the Company for the nine months period ended 30 September 2019 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 directives issued under the Companies Act, 2017.

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

2.2 These condensed interim financial statements are un-audited but subject to limited scope review by the auditors and are being submitted to the shareholders as required under Section 237 of the Companies Act, 2017. These 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 financial statements of the Company for the year ended 31 December 2018.

2.3 The preparation of these condensed interim financial statements, in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements 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 the estimates. During the preparation of these condensed interim financial statement, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation and assumptions are consistent with those that were applied to the annual audited financial statements of the Company for the year ended 31 December 2018 except, if any, as stated in note 3 of these condensed interim financial statements.

3. Significant accounting policies

The accounting policies and the methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2018, except for the adoption of the following new and amended standards, interpretations and improvements to IFRSs by the Company, which became effective for the current period:

IFRS 9	Financial Instruments
IFRS 9	Prepayment Features with Negative Compensation (Amendments)
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

IAS 19	Plan Amendment, Curtailment or Settlement (Amendments)
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments)
IFRIC 23	Uncertainty over Income Tax Treatments

Improvements to accounting standards issued by IASB in December 2017

The adoption of above standards, interpretations and improvement to standards did not have any material effect on the condensed interim financial statements of the Company, except for the changes related to adoption of IFRS 9 'Financial Instruments', IFRS 15 'Revenue From Contracts with Customer' and IFRS 16 'Leases' as explained below.

a) IFRS 9 - Financial Instruments

IFRS 9 'Financial Instruments', has replaced IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) for annual periods beginning on or after 01 January 2019, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. IFRS 9 categorizes financial assets at (a) amortised cost; (b) fair value through other comprehensive income (FVOCI); and (c) fair value through profit or loss (FVTPL) and their classification is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 has changed the accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires to recognise a loss allowance for ECLs on debt instruments measured subsequently at amortised cost or at FVTOCI. There are no significant changes in the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

As allowed under IFRS 9, the Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements and therefore, the information presented for prior periods does not reflect the requirements of IFRS 9, but rather those of IAS 39. Further, as initial application of IFRS 9 did not have any significant impact on the classification, measurement and impairment of the Company's existing financial assets and liabilities as at 01 January 2019, accordingly, the opening retained earnings as of 01 January 2019 have not been restated in these condensed interim financial statements.

b) IFRS 15 - Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It has replaced IAS 18 'Revenue Recognition', IAS 11 'Construction Contracts' and related interpretations for annual periods beginning on or after 01 January 2019. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised when a customer obtains control of the goods or services and the determination of timing of the transfer of control – at a point in time or over time requires judgement. Further, revenue is recognised at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer.

The Company enters into contracts with customers for sale of goods and related variable consideration and has concluded that the first-time application of IFRS 15 by the Company does not have any significant effect with regard to the amount of revenue and variable consideration recognised and when it is recognised. Accordingly, opening reserves as at 01 January 2019 does not required to be restated. As allowed under IFRS 15, the Company has adopted the new standard on the required effective date using a modified retrospective method, therefore the information presented for prior periods has not been restated. i.e. it is presented, as previously reported, under IAS 18 and related interpretations and additional disclosure requirements in IFRS 15 have not been applied to comparative information.

c) IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Whereas, for lesses all leases will be classified as finance leases only.

Amounts in Rs '000

The Company adopted IFRS 16 using the modified retrosepctive methhod of adoption with the date of initial application of 01 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying standard recognised at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Accordingly, initial application of IFRS 16 did not have any impact on the opening retained earnings as of 01 Janaury 2019 and on these condensed interim financial statements.

4. Fixed assets

The following fixed assets have been added / disposed of during the nine months period ended 30 September:

	2019		2018	
	Additions cost	**Disposals net book value**	Additions cost	Disposals net book value
Property, plant and equipment				
Operating assets - owned				
Buildings on leasehold land	**-**	**-**	6,394	-
Plant and machinery	**78,012**	**252**	64,478	-
Furniture and equipment	**5,427**	**-**	5,366	57
Capital work-in-progress	**127,966**		26,010	

	Note	**30 September 2019 (Un-audited)**	31 December 2018 (Audited)
5. Deferred tax assets			
(Credit) balance arising in respect of property, plant and equipment		**(545,369)**	(594,241)
Debit balances arising in respect of:			
- provisions for:			
- sales tax refundable		**35,839**	33,368
- retirement benefit obligations		**26,479**	22,051
- provision for Gas Infrastructure Development Cess and Sindh Infrastructure Development Cess		**1,046,964**	974,760
		1,109,282	1,030,179
		563,913	435,938
6. Other receivables			
Rebates receivable	6.1	**460,282**	735,247
Insurance claims		**50,494**	20,842
Others		**3,909**	600
		514,685	756,689

6.1 This represents amounts receivable on account of price and exchange rate differentials in respect of paraxylene and acetic acid settlements.

Amounts in Rs '000

	Note	30 September 2019 (Un-audited)	31 December 2018 (Audited)
7. Tax refunds due from government - sales tax			
Sales tax refundable	7.1	**554,186**	320,040
Provision for doubtful receivables		**(130,090)**	(130,090)
		424,096	189,950

7.1 This includes Rs 73.69 million (31 December 2018: Rs 114.09 million) on account of input tax arising from sales tax charged to the Company under the Sindh Sales Tax on Services Act, 2011 which is administered by the Sindh Revenue Board with effect from 01 July 2011. This is being deferred due to procedural issues between Federal and Provincial Tax collecting agencies, resulting in lack of verification by the refund issuing authority i.e. the Federal Board of Revenue (FBR). The Company had approached Federal Tax Ombudsman (FTO) for resolution of the matter. The FTO in its order dated 02 May 2013 have directed FBR, with certain recommendations, to resolve the issue. The Company has filed a Suit No. 537 of 2014 before the Sindh High Court (SHC) to resolve this issue as per the prevailing Sales Tax Law. The SHC passed an order dated 14 January 2015 directing the FBR to verify exact amount of refund of sales tax to which plantiff is entitled and submit their report accordingly. During the period, the Company has received a refund of Rs 40.4 million from FBR.

	Note	30 September 2019 (Un-audited)	31 December 2018 (Audited)
8. Cash and bank balances			
Short-term fixed deposits	8.1	**12,992,400**	2,652,300
With banks in current accounts		**50,682**	1,566,900
Cash in hand		**1,580**	1,556
		13,044,662	4,220,756

8.1 During the period ended 30 September 2019, the mark-up rates on term deposits ranged from 9.0% to 14.00% (31 December 2018: 5.5% to 10.75%) per annum and had maturities of less than three months.

	Note	30 September 2019 (Un-audited)	31 December 2018 (Audited)
9. Trade and other payables			
Trade creditors including bills payable		**4,700,708**	876,202
Accrued expenses		**646,176**	670,360
Advances from customer		**10,442**	7,102
Infrastructure cess		**2,646,263**	2,418,030
Gas infrastructure development cess		**2,781,936**	2,410,863
Workers' Profit Participation Fund		**356,523**	42,372
Workers' Welfare Fund		**289,884**	149,583
Others		**158,717**	108,118
		11,590,649	6,682,630

Amounts in Rs '000

10. Contingencies and commitments

Contingencies

10.1 The Appellate Tribunal Inland Revenue (ATIR) vide order no ITA.No.111/KB/2006 dated 20 April 2006 had set aside the taxation officer's assessment order for the assessment year 2002-2003 (income year ended 31 December 2001) whereby, the assessing officer had been directed to re-examine the issue of allocation of cost of goods sold to export sales, strictly in accordance with Rule 216 of the Income Tax Rules, 1982. The taxation officer vide order no. DC20/106 dated 29 June 2007 had used volume basis to determine the allocation of cost of goods sold to export sales, against which the Company had filed an appeal. The Commissioner Inland Revenue (Appeals) [CIR(A)] vide order numbers 153 and 391 dated 31 January 2011 (received by the Company on 4 June 2011) has set aside the taxation officer's order with instructions to strictly comply with the directions contained in the ATIR's order of 20 April 2006 in relation to the basis of allocation of cost of goods sold to export sales. The Deputy Commissioner Inland Revenue (DCIR) vide order number 01/171 dated 25 June 2012 (received by the Company in July 2012) has maintained the above basis of allocation to export sales. The Company filed an appeal against the said order in August 2012. The CIR(A) vide its order dated 29 May 2013 has disagreed with 'basis of dual allocation' as per taxation officer's assessment order and has directed the officer to accordingly determine the amount on the basis of "sales" and finalise the assessment on such basis. The department filed an appeal against the said order on 15 August 2013. The ATIR vide order no. ITA No.744/KB-2013 dated 27 August 2015 has rejected the department appeal. The department has filed an appeal in the High Court of Sindh on 04 May 2017 against the order dated 27 August 2015 passed by the ATIR. The High Court of Sindh has issued hearing notice to the Company and the matter was fixed for hearing on 31 January 2019. However, the matter could not proceed further for want of Court's time, The matter is now fixed on 26 November 2019. Accordingly, no provision has been made for the potential liability amounting to Rs 97.37 million (31 December 2018: Rs 97.37 million) in these condensed interim financial statements.

10.2 The Deputy Commissioner Inland Revenue passed an orders on 06 December 2018 for non-furnishing of monthly statements for the period of July, August and September 2018 u/s 165(2) of the Income Tax Ordinance, 2001 involving penalty amount Rs 0.03 million. The Company has applied for rectification of the Order on the grounds that the documentary evidence for timely submission of statements was not considered at the time of issue of said Order. The Company is confident that the order will be rectified by the department, hence no provision has been made in these condensed interim financial statements.

10.3 Outstanding guarantees of the Company as at 30 September 2019 were Rs 2,864.8 million (31 December 2018: Rs 2,594.8 million).

Commitments

10.4 Commitments in respect of capital expenditure as at 30 September 2019 amounts to Rs 15.42 million (31 December 2018: Rs 19.94 million).

10.5 Commitments for rentals under Ijarah contracts in respect of vehicles are as follows:

Year	**30 September 2019 (Un-audited)**	31 December 2018 (Audited)
2019	**7,167**	22,695
2020	**28,222**	21,967
2021	**23,021**	16,835
2022	**16,051**	10,304
2023	**9,673**	4,598
2024	**1,261**	-
	85,395	76,399

Amounts in Rs '000

10.6 Commitments for service charges under an agreement with a supplier in respect of storage and handling facility is as follows:

Year	30 September 2019 (Un-audited)	31 December 2018 (Audited)
2019	**232,792**	827,742
2020	**949,790**	844,297
2021	**968,786**	861,183
2022	**988,162**	878,407
2023	**167,988**	149,329
	3,307,518	3,560,958

10.7 Letters of credit issued on behalf of the Company as at 30 September 2019 were Rs 1,713.9 million (31 December 2018: Rs 20 million).

	Quarter ended 30 September		Nine months period ended 30 September	
	2019	2018	**2019**	2018
11. Revenue - net				
Manufactured goods				
Local sales	**16,939,847**	17,066,723	**51,755,788**	43,594,889
Less: Sales tax and excise duty	**(2,461,345)**	(666,889)	**(3,859,398)**	(1,570,487)
Price settlements and discounts	**(284,324)**	(210,568)	**(945,771)**	(748,714)
	14,194,178	16,189,266	**46,950,619**	41,275,688
Trading goods				
Local sales	**277,654**	264,177	**730,885**	899,896
Less: Sales tax and excise duty	**(40,342)**	(7,396)	**(53,571)**	(23,595)
Price settlements and discounts	**(3,882)**	(1,195)	**(10,663)**	(11,855)
	233,430	255,586	**666,651**	864,446
	14,427,608	16,444,852	**47,617,270**	42,140,134
12. Cost of sales				
Manufactured goods				
Opening stock of raw and packing materials	**3,064,381**	3,859,065	**2,779,589**	2,843,041
Purchases	**11,792,328**	13,278,567	**36,697,254**	34,628,260
Closing stock of raw and packing materials	**(3,479,328)**	(5,043,202)	**(3,479,328)**	(5,043,202)
Raw and packing materials consumed	**11,377,381**	12,094,430	**35,997,515**	32,428,099
Manufacturing costs	**1,263,703**	1,091,205	**3,535,548**	3,304,557
Cost of goods manufactured	**12,641,084**	13,185,635	**39,533,063**	35,732,656
Opening stock of finished goods	**920,100**	512,619	**2,371,381**	322,157
	13,561,184	13,698,254	**41,904,444**	36,054,813
Closing stock of finished goods	**(1,700,277)**	(411,022)	**(1,700,277)**	(411,022)
	11,860,907	13,287,232	**40,204,167**	35,643,791
Trading goods				
Opening stock	**57,041**	121,378	**87,480**	196,776
Purchases	**265,138**	161,596	**601,335**	590,734
Closing stock	**(130,843)**	(61,950)	**(130,843)**	(61,950)
	191,336	221,024	**557,972**	725,560
	12,052,243	13,508,256	**40,762,139**	36,369,351

Notes to the Condensed Interim Financial Statements (Un-audited)
For the nine months period ended 30 September 2019

Amounts in Rs '000

	Quarter ended 30 September		Nine months period ended 30 September	
	2019	2018	**2019**	2018
13. Other expenses				
Auditors' remuneration	**47**	11	**1,082**	940
Donations	**2,876**	596	**6,306**	1,748
Property, plant and equipment written off	**-**	-	**252**	-
Provision against sales tax refundable	**-**	-	**-**	42,000
Provision against obsolete and slow moving stores and spare parts	**-**	-	**-**	60,211
Workers' Profit Participation Fund	**129,650**	144,868	**356,523**	267,218
Workers' Welfare Fund	**50,509**	67,045	**140,300**	105,380
Others	**-**	-	**1,046**	1,493
	183,082	212,520	**505,509**	478,990
14. Other income				
Scrap sales	**11,979**	-	**19,367**	23,519
Gain on disposal of property, plant and equipment	**-**	-	**-**	59
Income from short-term fixed deposits	**357,378**	119,155	**769,889**	307,247
Reversal of provision against receipt of sales tax refunds	**-**	-	**-**	1,914
Indenting commission	**3,441**	2,492	**9,418**	4,623
Cellular tower rental income	**-**	-	**828**	1,556
Others	**-**	-	**32**	-
	372,798	121,647	**799,534**	338,918
15. Finance costs				
Discounting charges on trade debts	**1,928**	2,476	**6,765**	5,889
Interest on Workers' Profit Participation Fund	**-**	-	**43**	23
Exchange loss / (gain) - net	**10,327**	18,422	**110,456**	277,019
Bank and other charges	**6,933**	5,187	**19,344**	19,337
	19,188	26,085	**136,608**	302,268

16. Taxation

The taxation charge for the nine months is based on the statutory income tax rate and tax under Final Tax Regime (FTR) as adjusted by the movement in the deferred tax account.

Amounts in Rs '000

	Nine months period ended 30 September 2019	2018
17. Cash generated from operations		
Profit before taxation	**6,633,641**	4,971,762
Adjustments for non-cash charges and other items:		
Depreciation and amortisation	**660,299**	621,891
Provision against obsolete and slow moving stores and spare parts	**-**	60,211
Provision against sales tax refundable	**-**	42,000
Loss / (gain) on disposal of property, plant and equipment	**252**	(59)
Provision for retirement benefit obligations	**11,630**	7,468
Finance costs	**52,475**	45,955
Interest accrued on short-term fixed deposits	**(769,889)**	(307,247)
Infrastructure cess	**228,233**	194,396
Gas infrastructure development cess	**371,073**	388,807
	554,073	1,053,422
	7,187,714	6,025,184
Effect on cashflows due to working capital changes		
Decrease / (increase) in current assets:		
Stores and spare parts	**(192,770)**	(100,580)
Stock-in-trade	**(71,998)**	(2,154,200)
Trade debts	**(177,986)**	(1,822,681)
Loans and advances	**(5,507)**	(7,179)
Trade deposits and short-term prepayments	**4,913**	(24,248)
Other receivables	**242,004**	(196,948)
Tax refunds due from government - sales tax	**(234,146)**	182,965
	(435,490)	(4,122,871)
Increase in trade and other payables	**4,351,085**	1,923,159
Cash generated from operations	**11,103,309**	3,825,472

Notes to the Condensed Interim Financial Statements (Un-audited)
For the nine months period ended 30 September 2019

Amounts in Rs ‘000

18. Transactions with related parties

The related parties comprise of parent company, related group companies, directors of the Company, companies where directors also hold directorships, key management personnel and staff retirement funds. All transactions with related parties are entered into at agreed terms. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these condensed interim financial statements are as follows:

Relationship	Nature of transaction	Quarter ended 30 September		Nine months period ended 30 September	
		2019	2018	**2019**	2018
Parent company					
Lotte Chemical Corporation	Dividend paid	**-**	-	**1,703,790**	227,172
Associate					
Lotte Academy	Purchase of services	**-**	-	**1,004**	-
Lotte Kolson Private Limited	Purchase of goods	**-**	-	**732**	-
Key management personnel	Salaries and other short-term benefits	**15,247**	13,371	**44,245**	39,101
	Post employment benefits	**1,761**	1,408	**5,076**	4,061
	Loans				
	- given	**-**	-	**21,000**	21,346
	- received / adjusted	**1,050**	19,568	**1,750**	21,346
Others	Payments to retirement benefit funds	**19,511**	16,522	**56,331**	48,170

18.1 Comparative figures have been restated to reflect changes in the definition of key management personnel as per Companies (Related Party Transactions and Maintenance of Related Records) Regulations, 2018.

19. Non-adjusting event after reporting date

The Directors in their meeting held on 17 October 2019 have recommended and approved an interim cash dividend of Rs 1.50 per share.

20. General

Figures have been rounded-off to the nearest thousand rupees except as stated otherwise. Corresponding figures have been rearranged and reclassified, wherever considered necessary, for the purpose of comparison and to reflect the substance of the transactions.

21. Date of authorisation

These condensed interim financial statements were authorised for issue in the Board of Directors meeting held on 17 October 2019.

Kwang Sik Huh	**Humair Ijaz**	**Ashiq Ali**
Chairman	Chief Executive	Chief Financial Officer

Registered Office
EZ/I/P-4, Eastern Industrial Zone, Port Qasim,
P.O.Box 723, Karachi - 75020, Pakistan
UAN: +92 (0) 21 111 782 111
Fax: +92 (0) 21 3472 6004
URL: www.lottechem.pk

City Office
Al-Tijarah Centre, 14th Floor, 32/1-A, Main Shahrah-e-Faisal,
Block 6, P.E.C.H.S., Karachi-75400, Pakistan
UAN: +92 (0) 21 111 568 782
Fax: +92 (0) 21 3416 9119