

REPORT FOR THE NINE MONTHS
PERIOD ENDED 30 SEPTEMBER 2020

Lifetime Value Creator



LOTTE CHEMICAL 
PAKISTAN LTD

Contents

Company Information	02
Directors' Review	03
Condensed Interim Statement of Financial Position	05
Condensed Interim Statement of Profit or Loss	06
Condensed Interim Statement of Other Comprehensive Income	07
Condensed Interim Statement of Changes in Equity	08
Condensed Interim Statement of Cash Flows	09
Notes to the Condensed Interim Financial Statements	10

Company Information

As at 20 October 2020

Board of Directors

Min Jae Hwang	Chairman
Humair Ijaz	Chief Executive
In Goo Park	Non-Executive
Sang Hyeon Lee	Executive
Won Lee	Non-Executive
Pervaiz Akhtar	Independent
Adnan Afridi	Independent
Mohammad Zubair	Independent

Audit Committee

Pervaiz Akhtar	Chairman
Min Jae Hwang	Member
Adnan Afridi	Member
Faisal Abid	Secretary

HR & Remuneration Committee

Pervaiz Akhtar	Chairman
Min Jae Hwang	Member
Sang Hyeon Lee	Member

Shares Sub Committee

Sang Hyeon Lee	Chairman
Min Jae Hwang	Member
Mohammad Zubair	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
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited

Internal Auditors

EY Ford Rhodes
Chartered Accountants

External Auditors

KPMG Taseer Hadi & Co.,
Chartered Accountants

Legal Advisor

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

Registered Office

EZ/1/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 2020

The Directors are pleased to present their review report for the third quarter ended 30 September 2020 together with the un-audited condensed interim financial information of the Company as at and for the third quarter and nine month period ended 30 September 2020.

Business Overview

Crude Oil (WTI) market witnessed weak demand during the quarter due to the continued COVID-19 pandemic and slow economic recovery. Despite production cuts by OPEC Plus of 7.7 million barrels per day and the reduced US output on account of the hurricane season, the Crude Oil market failed to find stimulus. As a result, the Crude Oil prices remained suppressed and averaged at US\$ 40.90 per barrel for the Quarter.

PX (Paraxylene) prices remained relatively rangebound in the quarter as market sentiment remained under pressure owing to oversupply concerns as 1.8 million MTs of new PX capacity is expected to be added in 2020. Despite the bearish market sentiment, multiple producers were forced to maintain higher operating rates to fulfil contractual commitments. However, already weak PX margins helped limit any downside in prices. The average PX price for the quarter was US\$ 546.46 per tonne while the PX - Naphtha spread averaged at US\$ 150 per tonne.

PTA prices remained stagnated during the quarter due to slow recovery of downstream Polyester operations. PTA producers struggled to manage high inventories and sustain break-even margins. Towards the end of the quarter, slight improvement in demand was observed, however, the upcoming start-up of almost 5 million MTs of PTA in China kept the market sentiment under pressure. The average PTA price for the quarter was US\$ 442 per tonne, and the average PTA margin over PX was US\$ 81 per tonne for the quarter.

The domestic Polyester demand recovered significantly in the quarter as the textile sector resumed operations post COVID-19 lockdowns. Downstream operating rates have improved from 46% (Q2 2020) to 75% (Q3 2020). However, some part of this recovery can be attributed to replenishment of depleted inventories in the Polyester chain.

Operations

Production volume during the quarter at 126,241 tonnes was 3% higher than the corresponding period last year.

Sales volume, comprising of domestic sales only, for Q3 2020 at 123,890 tonnes was 8% higher than the corresponding quarter last year due to improvement in demand from the domestic market.

Financial Performance

Revenue for the quarter was 25% lower than the corresponding period last year mainly due to lower PTA price. This coupled with reduced margin resulted in a gross profit of Rs 1,282 million for the quarter as compared to gross profit of Rs 2,375 million during the same period last year.

Distribution and selling expenses were higher than the corresponding period last year due to overall impact of inflation. Other expenses were lower than Q3 2019 mainly due to lower provision for Workers' Profit Participation and Workers' Welfare Funds on the back of lower profit. Other income for the quarter was lower than last year due to lower income earned on bank deposits.

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

Earnings per share (EPS) for the quarter decreased to Rs 0.61 per share as compared to Rs 1.11 per share for Q3 2019.

Directors' Review

For the third quarter ended 30 September 2020

Future Outlook

The Crude Oil market is expected to remain under pressure due to slow economic recovery and second wave fears of the COVID-19 pandemic. Despite the OPEC Plus production cuts in place, the expected recovery in US production and the resumption of supply from Libya shall add to the market length. Hence, the market direction remains uncertain as the tumultuous year of 2020 comes to a close.

PX prices are expected to gradually trend higher on support from the downstream PTA industry owing to new capacity additions. However, pressure from the upstream energy markets and PX capacity additions in Q4 2020 may limit the upside.

The PTA market is expected to remain under pressure as high PTA inventory levels and upcoming new PTA capacity additions weigh down on the market. With downstream polyester and textile inventory levels already on the increase amid subdued global retail sales, PTA manufacturers may be forced to rationalize operations to sustain break even margins.

The domestic Polyester market is expected to continue its recovery as the population gets accustomed to living with COVID-19. Furthermore, keeping in view the recent efforts by the government to improve textile exports we foresee improvement in PSF operating rates.



Min Jae Hwang
Chairman

Date: 20 October 2020
Karachi



Humair Ijaz
Chief Executive

Condensed Interim Statement of Financial Position

As at 30 September 2020

Amounts in Rs '000

	Note	30 September 2020 (Un-audited)	31 December 2019 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	4	5,108,970	4,699,499
Intangible assets		86	374
Right-of-use assets		53,711	76,730
Long-term loans and advances		120,821	113,082
Long-term deposits and prepayments		41,742	41,358
Deferred tax assets	5	648,269	589,341
		5,973,599	5,520,384
Current assets			
Stores and spare parts		950,350	1,201,478
Stock-in-trade		3,514,781	4,482,468
Trade debts		2,976,753	3,440,258
Loans and advances		55,635	58,872
Trade deposits and short-term prepayments		48,199	39,040
Interest accrued		81,804	65,036
Other receivables	6	283,528	515,183
Short-term investments - at amortised cost		14,312,685	11,521,377
Tax refunds due from government - sales tax	7	476,278	446,485
Taxation - payments less provision		329,123	194,299
Cash and bank balances	8	45,907	41,313
		23,075,043	22,005,809
Total assets		29,048,642	27,526,193
Equity and liabilities			
Share capital and reserves			
Issued, subscribed and paid-up capital			
1,514,207,208 (31 December 2019: 1,514,207,208)			
ordinary shares of Rs 10 each		15,142,072	15,142,072
Capital reserves		2,345	2,345
Revenue reserves		1,685,569	647,634
		16,829,986	15,792,051
Liabilities			
Non-current liabilities			
Retirement benefit obligations		142,433	133,648
Current liabilities			
Trade and other payables	9	11,792,312	11,330,495
Accrued interest		252,133	235,076
Unclaimed dividend		31,778	34,923
		12,076,223	11,600,494
Total liabilities		12,218,656	11,734,142
Contingencies and commitments	10		
Total equity and liabilities		29,048,642	27,526,193

The annexed notes 1 to 22 form an integral part of these condensed interim financial statements.



Min Jae Hwang
Chairman



Humair Ijaz
Chief Executive



Ashiq Ali
Chief Financial Officer

Condensed Interim Statement of Profit or Loss (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

	Note	Quarter ended 30 September		Nine months period ended 30 September	
		2020	2019	2020	2019
Revenue - net	11	10,769,092	14,427,608	26,891,420	47,617,270
Cost of sales	12	(9,487,554)	(12,052,243)	(25,819,006)	(40,762,139)
Gross profit		1,281,538	2,375,365	1,072,414	6,855,131
Distribution and selling expenses		(28,583)	(24,604)	(80,847)	(74,925)
Administrative expenses		(110,221)	(108,438)	(318,084)	(303,982)
Other expenses	13	(101,497)	(183,082)	(244,051)	(505,509)
Other income	14	275,223	372,798	895,993	799,534
Finance income / (costs)	15	(14,415)	(19,188)	135,718	(136,608)
Profit before taxation		1,302,045	2,412,851	1,461,143	6,633,641
Taxation	16	(377,225)	(730,491)	(423,208)	(1,900,796)
Profit after taxation		924,820	1,682,360	1,037,935	4,732,845
----- Amount in Rupees -----					
Earnings per share - basic and diluted		0.61	1.11	0.69	3.13

The annexed notes 1 to 22 form an integral part of these condensed interim financial statements.



Min Jae Hwang
Chairman



Humair Ijaz
Chief Executive



Ashiq Ali
Chief Financial Officer

Condensed Interim Statement of Other Comprehensive Income (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

	Quarter ended 30 September		Nine months period ended 30 September	
	2020	2019	2020	2019
Profit after taxation	924,820	1,682,360	1,037,935	4,732,845
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	924,820	1,682,360	1,037,935	4,732,845

The annexed notes 1 to 22 form an integral part of these condensed interim financial statements.



Min Jae Hwang
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 2020

Amounts in Rs '000

	Issued, subscribed and paid-up capital	Reserves			Total equity
		Capital reserves	Unappropriated profit / accumulated (losses) / profits	Sub- total	
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	<u>15,142,072</u>	<u>2,345</u>	<u>2,107,653</u>	<u>2,109,998</u>	<u>17,252,070</u>
Balance as at 1 January 2020	15,142,072	2,345	647,634	649,979	15,792,051
Total comprehensive income for the nine months period ended 30 September 2020					
- Profit for the nine months period ended 30 September 2020	-	-	1,037,935	1,037,935	1,037,935
- Other comprehensive income for the nine months period ended 30 September 2020	-	-	-	-	-
	-	-	1,037,935	1,037,935	1,037,935
Balance as at 30 September 2020	<u>15,142,072</u>	<u>2,345</u>	<u>1,685,569</u>	<u>1,687,914</u>	<u>16,829,986</u>

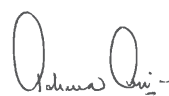
The annexed notes 1 to 22 form an integral part of these condensed interim financial statements.



Min Jae Hwang
Chairman



Humair Ijaz
Chief Executive



Ashiq Ali
Chief Financial Officer

Condensed Interim Statement of Cash Flows (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

	Note	Nine months period ended 30 September	
		2020	2019
Cash flows from operating activities			
Cash generated from operations	17	3,745,004	11,103,309
Finance costs paid		(31,164)	(26,109)
Payments to retirement benefit obligations		(651)	(1,487)
Long-term loans and advances - net		(7,739)	(23,046)
Long-term deposits and prepayments - net		(384)	613
Taxes paid		(635,149)	(1,028,451)
Interest received		860,919	722,008
Net cash generated from operating activities		3,930,836	10,746,837
Cash flows from investing activities			
Payments for capital expenditure		(1,131,789)	(211,405)
Redemption of short-term investments (net of purchases)		680,642	-
Net cash used in investing activities		(451,147)	(211,405)
Cash flows from financing activities			
Dividend paid		(3,145)	(1,711,526)
Net cash used in financing activities		(3,145)	(1,711,526)
Net increase in cash and cash equivalents		3,476,544	8,823,906
Cash and cash equivalents at 1 January		8,057,563	4,220,756
Cash and cash equivalents at 30 September (Un-audited)	18	11,534,107	13,044,662

*No non-cash items are included in investing and financing activities.

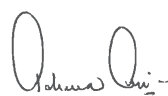
The annexed notes 1 to 22 form an integral part of these condensed interim financial statements.



Min Jae Hwang
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 2020

1. Status and nature of business

1.1 Lotte Chemical Pakistan Limited ("the Company") was incorporated in Pakistan on 30 May 1998 under Companies Ordinance 1984 (Repealed with enactment of the Companies Act 2017 on 30 May 2017) and is listed on Pakistan Stock Exchange Limited.

1.2 The principal activity of the Company is to manufacture and sale of Purified Terephthalic Acid (PTA).

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

Location	Address
Registered Office	EZ/1/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.

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

1.5 Covid-19

The events surrounding the COVID-19 pandemic (the virus) continue to evolve and impact global markets. The spread of the virus has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place orders and shutdowns. Consequently, the worldwide chemical industry has been disrupted in the short term as a result of which, the sales and actual production of the Company during the period has decreased as compared to the prior period. The Company activated its response plan accordingly which included prioritizing the health and safety of its employees and dealers while maintaining business continuity and shutting down its plant between a period from last week of April 2020 to second week of June 2020 in order to comply with directives issued by the provincial government. Further, the Company has entered this crisis in a strong position, having previously reported accumulated profits amounting to Rs 705.63 million as at 31 March 2020 (Un-audited) and available cash and cash equivalents amounting to Rs 8,144.3 million for the period ended 31 March 2020 (Un-audited) respectively. The Company believes their current liquidity availability provides them with sufficient financial resources to meet their anticipated working capital requirements and obligations as they come due. Further, based on its assessment along with consideration of revenue forecasts and future plans and business activities, management has determined that events or conditions do not exist that would result in material uncertainty with regards to going concern.

2. Basis of preparation

2.1 Statement of compliance

These condensed interim financial statements of the Company for the nine months period ended 30 September 2020 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.

2.1.1 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 2019. However, selected explanatory notes are included to explain events and transactions that are significant to understanding of changes in Company's financial position and performance since the last financial statements.

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

2.2 Basis of measurement

This condensed interim financial information has been prepared on the historical cost convention, except for provision for retirement benefit obligations which is stated at present value.

2.3 Functional and presentation currency

The condensed interim financial information is presented in Pak Rupee which is also the functional currency of the Company and rounded off to the nearest rupee, unless otherwise stated.

2.4 Changes in accounting standards, interpretations and amendments to published accounting and reporting standards

2.4.1 Standards and amendments to accounting and reporting standards that are effective

There are certain amendments and interpretations listed below, to the accounting and reporting standards which are mandatory for the Company's annual accounting period which began on 1 January 2020. However, these do not have any significant impact on the Company's financial reporting.

Effective date	New standards or amendments
1 January 2020	Amendments to References to conceptual Framework in IFRS standards
	Definition of Business (Amendments to IFRS 3)
	Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .
	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

2.4.2 Standards, amendments and improvements to accounting and reporting standards that are not yet effective

There are certain amendments and interpretations listed below, to the accounting and reporting standards that will be mandatory for the Company's annual accounting periods beginning on or after 1 January 2021. However, these will not have any impact on the Company's financial reporting and, therefore, have not been disclosed in these condensed interim financial statements.

Effective date	New standards, amendments and annual improvements
1 June 2020	Practical relief for Lessees in accounting for rent concessions (Amendments to IFRS 16)
1 January 2022	Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)
1 January 2022	Classification of Liabilities as Current or Non-current (Amendment to IAS 1)
1 January 2022	Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
1 January 2022	The annual improvements to IFRS standards 2018-2020 includes IFRS 9 <i>Financial Instrument</i> , IFRS 16 <i>Leases</i> and IAS 41 <i>Biological Assets</i>

3. Accounting policies, estimates, judgements and financial risk management

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 audited financial statements for the year ended 31 December 2019.

The preparation of these condensed interim financial statements, in conformity with accounting and reporting standards as applicable in Pakistan 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 statements, 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 2019.

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

The Company's financial risk management objectives and policies are consistent with those disclosed in the annual audited financial statements for the year ended 31 December 2019.

These condensed interim financial statements does not include all the information and disclosures required in the annual audited financial statements, and should be read in conjunction with the annual audited financial statements of the Company for the year ended 31 December 2019.

4. Property, plant and equipment

The following property, plant and equipment have been added / disposed off during the nine months period ended 30 September:

	2020		2019	
	Additions cost	Disposals net book value	Additions cost	Disposals net book value
Property, plant and equipment				
Operating assets - owned				
Buildings on leasehold land	5,230	-	-	-
Plant and machinery	861,092	-	78,012	252
Furniture and equipment	4,680	-	5,427	-
Motor vehicles	781	-	-	-
Capital work-in-progress - net	260,006		127,966	

5. Deferred tax assets

Debit balances arising in respect of:

	Note	30 September 2020 (Un-audited)	31 December 2019 (Audited)
- Right-of-use assets (net)		1,989	2,713
- Provisions for:			
- sales tax refundable		42,993	42,993
- retirement benefit obligations		29,159	26,739
- slow moving, obsolete and rejected items of stores and spare parts		1,452	1,452
- provision for Gas Infrastructure Development Cess and Sindh Infrastructure Development Cess		1,057,638	1,046,964
		1,133,231	1,120,861
(Credit) balance arising in respect of			
- Property, plant and equipment		(484,962)	(531,520)
		648,269	589,341

6. Other receivables

Rebates receivable	6.1	163,092	451,573
Insurance claims		69,397	57,894
Others		51,039	5,716
		283,528	515,183

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

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

		30 September 2020	31 December 2019
	Note	(Un-audited)	(Audited)
7. Tax refunds due from government - sales tax			
Sales tax refundable	7.1	632,331	602,538
Provision for impairment		(156,053)	(156,053)
		476,278	446,485

7.1 This includes Rs 73.69 million (31 December 2019: Rs 73.69 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 plaintiff is entitled and submit their report accordingly.

		30 September 2020	31 December 2019
	Note	(Un-audited)	(Audited)
8. Cash and bank balances			
With banks in current accounts		44,406	39,008
Cash in hand		1,501	2,305
		45,907	41,313

9. Trade and other payables			
Trade creditors including bills payable		4,007,330	4,618,261
Accrued expenses		740,194	723,775
Contract liabilities - advances from customers		627,706	6,171
Withholding tax payable		1,470	3,001
Infrastructure Cess	9.1	2,850,256	2,708,976
Gas Infrastructure Development Cess	9.2	3,113,744	2,904,230
Workers' Profit Participation Fund		78,802	18,290
Workers' Welfare Fund		216,750	183,067
Retention money		626	15,821
Others	9.3	155,434	148,903
		11,792,312	11,330,495

9.1 There is no change in the status of the appeal filed by the Company at Sindh High Court in respect of Development and Maintenance of Infrastructure Cess as reported in note 23.1 to the annual financial statements of the Company for the year ended 31 December 2019. As a matter of abundant caution, full amount of provision has been made in this condensed financial information in this respect.

9.2 In accordance with the Gas Infrastructure Development Cess Act, 2011 (GIDC Act, 2011), the Company was required to pay GIDC to applicable supplier of Gas, as specified in the First Schedule and at rates specified in the Second Schedule to the GIDC Act, 2011. The provisions of the GIDC Act 2011 were amended through subsequent notifications. The Honourable Sindh High Court (SHC) restrained Sui Southern Gas Company Limited (SSGCL) from charging GIDC above Rs 13 per MMBTU and accordingly the Company paid GIDC at the reduced rate. On 22 August 2014, the Honorable Supreme Court of Pakistan (SCP) struck down the GIDC Act, 2011 on the grounds of it being unconstitutional. In response, the President of Pakistan promulgated the GIDC Ordinance, 2014 on 25 September 2014 with retrospective effect. On 29 September 2014, the SHC issued an interim order restraining the defendants such as SSGCL from raising demand or issuing gas bills in pursuance of the GIDC Ordinance, 2014. Accordingly, SSGCL has not levied GIDC since August 2014. The approval of the GIDC Ordinance, 2014 was awaited from the National Assembly and on 22 May 2015, the Gas Infrastructure Development Cess Act, 2015 (GIDC Act 2015) was promulgated and was made applicable with immediate effect superseding GIDC Act, 2011. The Company, on 23 July 2015 has obtained a ad-interim stay order against the GIDC Act, 2015 from the High Court of Sindh.

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

Later in the year 2016, the High Court of Sindh vide its order dated 26 October 2016, has decided the case in the favor of plaintiffs. Accordingly, GIDC Act 2015 declared ultra vires to constitution along with GIDC Act 2011 and GIDC Ordinance 2014. However, on prudent basis, the Company has recognised a provision in this condensed interim financial statements due to inherent uncertainties involved in such matters.

On 13 August 2020, Supreme Court of Pakistan has announced a judgement, "As all industrial and commercial entities which consume gas for their business activities pass on the burden to their customers / clients therefore all arrears of 'Cess' that have become due upto 31 July 2020 and have not been recovered so far shall be recovered by the Companies responsible under the GIDC Act, 2015 to recover from their consumers. However, as a concession, the same be recovered in twenty four equal monthly installments starting from 01 August 2020 without the component of late payment surcharge".

The Company has filed a review petition in the Supreme Court of Pakistan along with other industries and has also obtained a stay order from the High Court of Sindh.

9.3 This includes stale cheques amounting to Rs 143.01 million (31 December 2019: Rs 140.46 million).

10. Contingencies and commitments

10.1 There is no change in the status of contingencies as disclosed under note 25 of the annual financial statements of the Company for the year ended 31 December 2019.

Commitments

10.2 Outstanding guarantees of the Company as at 30 September 2020 were Rs 3,162.6 million (31 December 2019: Rs 2,864.8 million).

10.3 Commitments in respect of capital expenditure as at 30 September 2020 amounted to Rs 50.63 million (31 December 2019: Rs 117.65 million).

10.4 Commitments for rentals under ljarah contracts in respect of vehicles are as follows:

Year	30 September 2020	31 December 2019
	(Un-audited)	(Audited)
2020	5,906	28,640
2021	20,418	23,438
2022	14,738	16,474
2023	9,261	10,116
2024	2,144	1,966
2025	40	-
	<u>52,507</u>	<u>80,634</u>

10.5 Commitments for rentals under service agreements for a certain supplies in respect of goods and services are as follows:

Year	30 September 2020	31 December 2019
	(Un-audited)	(Audited)
2020	273,216	922,113
2021	1,008,803	940,555
2022	1,028,979	959,366
2023	174,926	163,092
	<u>2,485,924</u>	<u>2,985,126</u>

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

10.6 Letters of credit issued on behalf of the Company as at 30 September 2020 were Rs 1,161.6 million (31 December 2019: Rs 3,036.2 million).

	Quarter ended 30 September		Nine months period ended 30 September	
	2020	2019	2020	2019
11. Revenue - net				
Manufactured goods				
Local sales	12,888,303	16,939,847	32,576,055	51,755,788
Less: Sales tax and excise duty	(1,872,659)	(2,461,345)	(4,733,273)	(3,859,398)
Price settlements and discounts / rebates	(409,746)	(284,324)	(1,435,111)	(945,771)
	10,605,898	14,194,178	26,407,671	46,950,619
Trading goods				
Local sales	193,267	277,654	574,936	730,885
Less: Sales tax and excise duty	(28,082)	(40,342)	(83,538)	(53,571)
Price settlements and discounts / rebates	(1,991)	(3,882)	(7,649)	(10,663)
	163,194	233,430	483,749	666,651
	10,769,092	14,427,608	26,891,420	47,617,270

12. Cost of sales

Manufactured goods

Opening stock of raw and packing materials	1,940,332	3,064,381	2,411,469	2,779,589
Purchases	9,237,383	11,792,828	21,137,079	36,697,754
Closing stock of raw and packing materials	(2,907,932)	(3,479,828)	(2,907,932)	(3,479,828)
Raw and packing materials consumed	8,269,783	11,377,381	20,640,616	35,997,515
Manufacturing costs	1,265,357	1,263,703	3,371,541	3,535,548
Cost of goods manufactured	9,535,140	12,641,084	24,012,157	39,533,063
Opening stock of finished goods	334,306	920,100	1,912,025	2,371,381
	9,869,446	13,561,184	25,924,182	41,904,444
Closing stock of finished goods (Refer note 12.2)	(526,798)	(1,700,277)	(526,798)	(1,700,277)
Cost of goods manufactured sold (Refer note 12.1)	9,342,648	11,860,907	25,397,384	40,204,167

Trading goods

Opening stock	43,678	57,041	158,974	87,480
Purchases	181,279	265,138	342,699	601,335
Closing stock	(80,051)	(130,843)	(80,051)	(130,843)
Cost of trading goods sold	144,906	191,336	421,622	557,972
	9,487,554	12,052,243	25,819,006	40,762,139

12.1 This includes abnormal loss of Rs. 312.93 million due to Covid-19 situation (refer note 1.5) resulting in shutdown of plant for a period starting from the last week of April 2020 till the second week of June 2020.

12.2 As at 30 September 2020, no NRV adjustment has been determined as a result of assessment of stock of finished goods and raw material for lower of cost or net realisable value. Further, the NRV adjustment amounting to Rs. 280 million made during the quarter ended 31 March 2020 has been reversed.

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

	Quarter ended 30 September		Nine months period ended 30 September	
	2020	2019	2020	2019
13. Other expenses				
Auditors' remuneration	17	47	1,616	1,082
Donations - note 13.1	3,462	2,876	130,078	6,306
Property, plant and equipment written off	-	-	-	252
Workers' Profit Participation Fund	70,004	129,650	78,675	356,523
Workers' Welfare Fund	28,014	50,509	33,682	140,300
Others	-	-	-	1,046
	101,497	183,082	244,051	505,509

13.1 This includes payment to Lotte Pakistan Foundation (Head Office, Karachi). The Chief Executive, Executive Director and two employees of the Company are amongst the Trustees of the Foundation.

	Quarter ended 30 September		Nine months period ended 30 September	
	2020	2019	2020	2019
14. Other income				
Income from financial assets:				
Interest income	263,547	357,378	877,687	769,889
Income from non-financial assets:				
Scrap sales	-	11,979	-	19,367
Income from sale of electricity - note 14.1	9,180	-	9,180	-
Indenting commission	1,098	3,441	6,249	9,418
Rental income from tower on leasehold land	-	-	862	828
Others	1,398	-	2,015	32
	11,676	15,420	18,306	29,645
	275,223	372,798	895,993	799,534

14.1 The Company has commenced sale of surplus electricity to K-Electric with effect from 30 July 2020, in accordance with NEPRA approval RLNG fuel based tariff.

	Quarter ended 30 September		Nine months period ended 30 September	
	2020	2019	2020	2019
15. Finance (income) / costs				
Interest on Workers' Profit Participation Fund	26	-	26	43
Exchange (gain) / loss - net	4,788	10,327	(166,908)	110,456
Bank, LCs and other charges	9,601	8,861	31,164	26,109
	14,415	19,188	(135,718)	136,608

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.

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

	Note	Nine months period ended 30 September (Un-audited)	
		2020	2019
17. Cash generated from operations			
Profit before taxation		1,461,143	6,633,641
Adjustments for non-cash charges and other items:			
Depreciation and amortisation		745,625	660,299
Property, plant and equipment - written off		-	252
Provision for retirement benefit obligations		9,436	11,630
Finance costs		48,221	52,475
Interest accrued	14	(877,687)	(769,889)
Infrastructure Cess		141,280	228,233
Gas Infrastructure Development Cess		209,514	371,073
		<u>276,389</u>	<u>554,073</u>
		1,737,532	7,187,714
Effect on cashflows due to working capital changes			
Decrease / (increase) in current assets:			
Stores and spare parts		251,128	(192,770)
Stock-in-trade		967,687	(71,998)
Trade debts		463,505	(177,986)
Loans and advances		3,237	(5,507)
Trade deposits and short-term prepayments		(9,159)	4,913
Other receivables		231,655	242,004
Tax refunds due from government - sales tax		(29,793)	(234,146)
		<u>1,878,260</u>	<u>(435,490)</u>
Increase in trade and other payables		129,212	4,351,085
Cash generated from operations		<u>3,745,004</u>	<u>11,103,309</u>
		30 September 2020	30 September 2019
	Note	(Un-audited)	(Un-audited)
18. Cash and cash equivalents			
Cash and bank balances	8	45,907	52,262
TDRs with banks having maturity less than three months		11,488,200	12,992,400
		<u>11,534,107</u>	<u>13,044,662</u>

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

19. 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 this condensed interim financial statements are as follows:

Relationship	Nature of transaction	Quarter ended 30 September		Nine months period ended 30 September	
		2020	2019	2020	2019
Parent company					
Lotte Chemical Corporation	Dividend paid	-	-	-	1,703,790
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	15,717	15,247	46,478	44,245
	Post employment benefits	1,809	1,761	5,261	5,076
	Loans				
	- given	-	-	-	21,000
	- received / adjusted	1,050	1,050	3,150	1,750
Others					
	Payments to retirement benefit funds	21,543	19,511	62,420	56,331
	Donation paid to Lotte Pakistan Foundation 13.1	28,163	-	128,163	-

20. Fair value of financial instruments

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

20.1 Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

30 September 2020 (Un-audited)										
Note	Carrying amount					Fair value				
	Financial assets 'at fair value through other comprehensive income	Financial assets 'at fair value through profit or loss'	Financial assets 'at amortised cost'	Financial liabilities measured at amortised cost	Total	Level 1	Level 2	Level 3	Total	
Financial assets - not measured at fair value										
Loans	20.1.1	-	-	151,190	-	151,190	-	-	-	-
Trade deposits	20.1.1	-	-	42,719	-	42,719	-	-	-	-
Trade debts	20.1.1	-	-	2,976,753	-	2,976,753	-	-	-	-
Other receivables	20.1.1	-	-	283,528	-	283,528	-	-	-	-
Short-term investments	20.1.1	-	-	14,312,685	-	14,312,685	-	-	-	-
Interest accrued	20.1.1	-	-	81,804	-	81,804	-	-	-	-
Cash and bank	20.1.1	-	-	45,907	-	45,907	-	-	-	-
		-	-	17,894,586	-	17,894,586	-	-	-	-
Financial liabilities - not measured at fair value										
Trade and other payables		-	-	-	4,903,584	4,903,584	-	-	-	-
Accrued interest		-	-	-	252,133	252,133	-	-	-	-
Unclaimed dividend		-	-	-	31,778	31,778	-	-	-	-
		-	-	-	5,187,495	5,187,495	-	-	-	-
31 December 2019 (Audited)										
Note	Carrying amount					Fair value				
	Financial assets 'at fair value through other comprehensive income	Financial assets 'at fair value through profit or loss'	Financial assets 'at amortised cost'	Financial liabilities measured at amortised cost	Total	Level 1	Level 2	Level 3	Total	
Financial assets - not measured at fair value										
Loans	20.1.1	-	-	139,447	-	139,447	-	-	-	-
Trade deposits	20.1.1	-	-	43,739	-	43,739	-	-	-	-
Trade debts	20.1.1	-	-	3,440,258	-	3,440,258	-	-	-	-
Other receivables	20.1.1	-	-	515,183	-	515,183	-	-	-	-
Short-term investments	20.1.1	-	-	11,521,377	-	11,521,377	-	-	-	-
Interest accrued	20.1.1	-	-	65,036	-	65,036	-	-	-	-
Cash and bank	20.1.1	-	-	41,313	-	41,313	-	-	-	-
		-	-	15,766,353	-	15,766,353	-	-	-	-
Financial liabilities - not measured at fair value										
Trade and other payables		-	-	-	5,506,760	5,506,760	-	-	-	-
Accrued interest		-	-	-	235,076	235,076	-	-	-	-
Unclaimed dividend		-	-	-	34,923	34,923	-	-	-	-
		-	-	-	5,776,759	5,776,759	-	-	-	-

20.1.1 The Company has not disclosed fair values for these financial assets and financial liabilities because their carrying amounts are reasonable approximation of fair value.

Notes to the Condensed Interim Financial Statements (Un-audited)

For the nine months period ended 30 September 2020

Amounts in Rs '000

21. General

21.1 Figures have been rounded-off to the nearest thousand rupees, unless as stated otherwise.

21.2 Reclassification of comparatives

Certain corresponding figures have been rearranged and reclassified, wherever considered necessary, for the purpose of comparison and to reflect the substance of the transactions. Details are as follows:

	31 December 2019		
	As previously reported	Impact	As stated
Effects on statement of financial position			
Property, plant and equipment	4,699,873	(374)	4,699,499
Intangible assets	-	374	374
Short-term investments - at amortised cost	3,452,081	8,069,296	11,521,377
Cash and bank balances	8,110,609	(8,069,296)	41,313

The above reclassifications did not have any impact on the statement of profit or loss, the statement of comprehensive income, the statement of cash flow and the statement of changes in equity.

21.3 Segment reporting

The financial information has been prepared on the basis of a single reportable segment. Geographically, all the sales were carried out in Pakistan. All non-current assets of the Company as at 30 September 2020 are located in Pakistan.

22. Date of authorisation

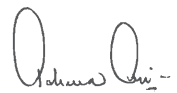
These condensed interim financial statements were authorised for issue in the Board of Directors meeting held on 20 October 2020.



Min Jae Hwang
Chairman



Humair Ijaz
Chief Executive



Ashiq Ali
Chief Financial Officer

Registered Office

EZ/I/P-4, Eastern Industrial Zone, Port Qasim,
P.O.Box 723, Karachi - 74200, 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