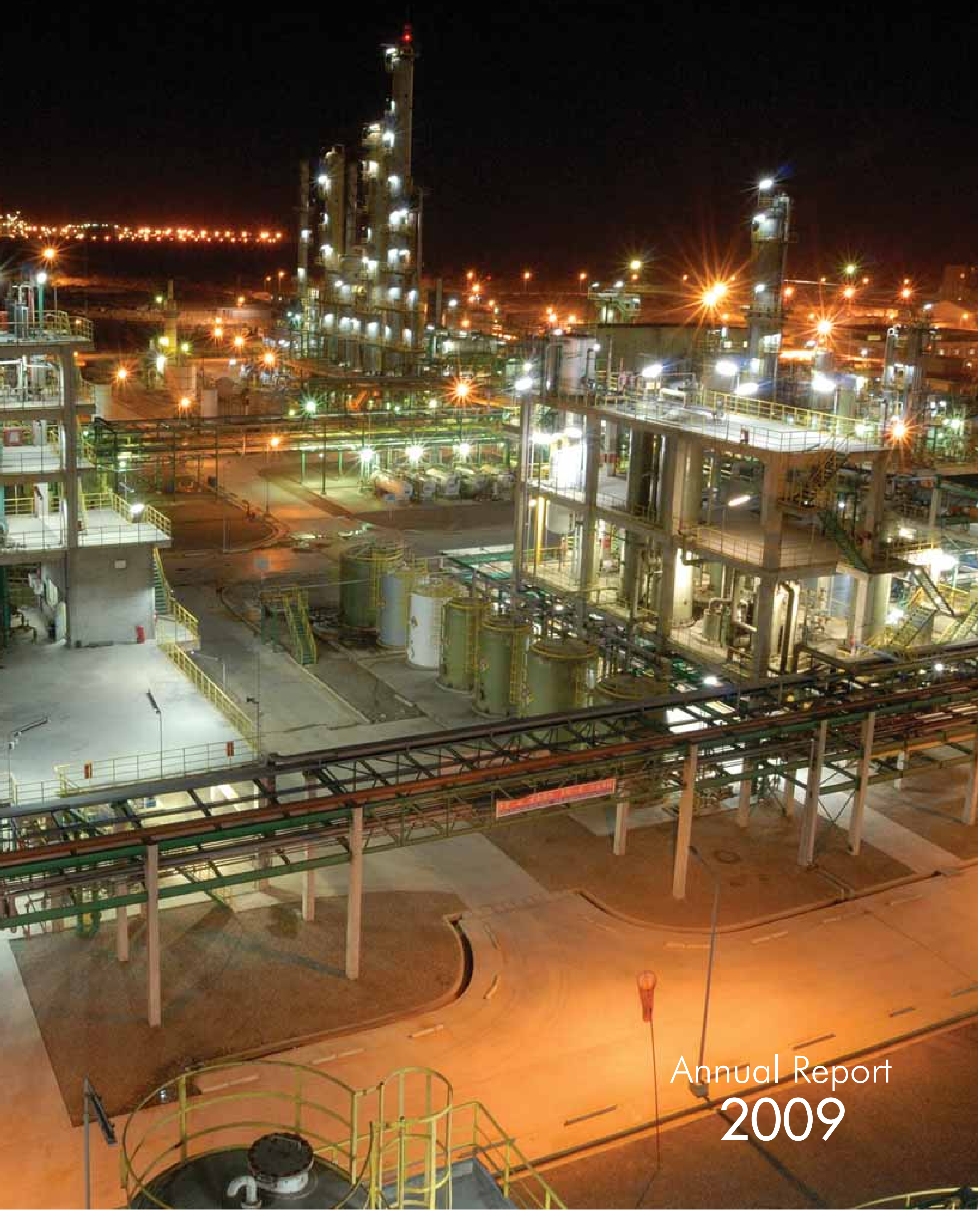
Engro Polymer & Chemicals Ltd.



Annual Report
2009

CONTENTS

The desire to gro

EPCL Project during different phases of construction

Engro Polymer & Chemicals Limited is the only Company in Pakistan to have an integrated PVC facility. In 2007, the Company initiated an expansion and back integration project. The Project was completed in 2009 and all plants except the VCM plant came into commercial operation.

EPCL site on completion of Project

Kick Off Meeting in China
March 18, 2007

With the back integration Project, new product lines have been added which include Caustic soda, Sodium Hypo Chlorite and Ethylene Di Chloride. PVC production capacity has been enhanced to 150K tons per annum. The Project also includes a 60MW combined cycle power plant.

Mission Statement

Our mission is to achieve innovative growth which creates value for our stakeholders, customers and employees.

Our commitment is to maintain higher standards of ethics, safety and environmental responsibility.

Statement of Best Practices

- Overall, work towards creating an environment which promotes the realisation of our Vision and Values, by focusing on behavioural modification and systematic changes.
- Challenge the status quo by experimenting and taking reasonable and calculated risks.
- Think EPCL, by placing Company interest above individual, sectional, departmental interests.
- Collectively develop clear, concise and realistic goals, also agreeing on the process of achieving these before implementing.
- Balance task, team and individual needs, by keeping the helicopter view.
- Work through teams, by valuing all ideas and effectively committing people through consensus building and active involvement.
- Remind each other on the importance of using participatory processes, just as much as emphasising attention on safety, quality and continuous improvement.
- Recognise individual needs and helping fulfil them.
- Trust each other by delegating authority and decision making to the lowest possible level.
- Encourage sharing a clear, consistent and obtaining timely feedback for learning and growth.
- Give everyone a chance by listening patiently and thinking before speaking.
- Recognise team and individual efforts to change by celebrating both lessons and successes.

Core Values

Ethics:
We are committed to the highest standards of ethical behaviour.

Safety, Health & Environment:
We will operate, manage and utilize resources in a manner that ensures health and safety of our assets, people, neighbors, and customers.We believe in playing a positive role in environmental conservation and will ensure our operations remain environmentally sound.

Customer Focus:
We believe in keeping customer needs as our primary focus as they define the reason for our existence.

Community Involvement:
We shall endeavor to improve the quality of life in the communities in which we live and operate.

Continuous Improvement:
Continuous Improvement is a way of life for us. We value breakthrough ideas and encourage an environment in which innovative ideas are generated, nurtured and developed.

Individual Growth And Development:
We shall endeavor to assist, encourage, and empower individuals to achieve their maximum potential.

Enhancement Of Shareholders' Value:
We shall endeavor to enhance shareholders' value through long-term profitable growth of our company.

Business Ethics

The policy of Engro Polymer & Chemicals Limited (EPCL) is one of the strict observance of all laws applicable to its business.

Our policy does not stop there. Even where the law is permissive, EPCL chooses the course of highest integrity. Local customs and traditions differ from place to place, and this must be recognized. But honesty is not subject to criticism in any culture. Shades of dishonesty simply invite demoralising and reprehensible judgments. A well-founded reputation for scrupulous dealing is itself a priceless company asset.

An overly-ambitious employee might have the mistaken idea that we do not care how results are obtained, as long as he gets results. He might think it best not to tell higher management all that he is doing, not to record all transactions accurately in his books and records, and to deceive the Company's internal and external auditors. He would be wrong on all counts.

We do care how we get results. We expect compliance with our standard of integrity throughout the organisation. We will not tolerate an employee who achieves result at the cost of violation of laws or unscrupulous dealing. By the same token, we support and we expect all employees to support, an employee who passes up an opportunity or advantage which can only be secured at the sacrifice of principle.

Equally important, we expect candour from managers at all levels, and compliance with accounting rules and controls. We don't want employees to misrepresent facts, whether they are misrepresenting in a mistaken effort to protect us or to make themselves look good. One of the kinds of harm which results when a manager conceals information from higher management and the auditors is that subordinates within his organisation think they are being given a signal that company policies and rules, including accounting and control rules, can be ignored whenever inconvenient. This can result in corruption and demoralisation of an organisation. Our system of management will not work without honesty, including honest book-keeping, honest budget proposals and honest economic evaluation of projects.

It has been, and continues to be, EPCL's policy that all transactions shall be accurately reflected in its books and records. This, of course, means that falsification of its books and records and any off-the-record bank accounts are strictly prohibited.

Statement of Anti-Restrictive Trade Practices

Engro Polymer & Chemicals Limited believes in fair trade and competition. Therefore, it is the policy of the Company that all of its directors and employees shall, in carrying out their duties to the Company, comply with relevant laws. All employees are responsible for familiarising themselves with the requirements of these laws as any violation may result in penalties and / or criminal offences.

No director or employee should assume that the Company's interest ever requires otherwise. Moreover, no one in the Company has authority to give any order or direction that would result in a violation of this policy.

It is recognised that on occasion there may be legitimate doubt as to the proper interpretation of the law. In such circumstances, it is required that the employee refers the case through appropriate channels to the Legal Department for an opinion.

COMPANY INFORMATION

Board of Directors

Asad Umar	Chairman
Asif Qadir	President and Chief Executive
Isar Ahmed	Director
Shahzada Dawood	Director
Masaharu Domichi	Director
Takeshi Hagiwara	Director
Shabbir Hashmi	Director
Waqar A. Malik	Director
Khalid Mansoor	Director
Khalid S. Subhani	Director

Board Audit Committee

Isar Ahmed	Chairman
Masaharu Domichi	Member
Shabbir Hashmi	Member
Khalid S. Subhani	Member

Management Committee

Asif Qadir	Chairman
Hafsa Abbasy	Member
Arshaduddin Ahmed	Member
Syed Ahsenuddin	Member
Syed Ashar Hussain	Member
Saleem Lallany	Member
Khalid Mukhtar	Member
Syed Nayyar I. Raza	Member
Yoshio Shiga	Member
Zia Naeem Siddiqui	Member

Company Secretary

Arshaduddin Ahmed

Auditors

A. F. Ferguson & Co., Chartered Accountants
State Life Building No. 1-C, I.I. Chundrigar Road, Karachi.

Share Registrar

FAMCO Associates (Private) Limited [formerly Ferguson Associates (Private) Limited]
1st Floor, State Life Building 1-A, I.I. Chundrigar Road,
Karachi - 74000
Tel: (92-21) 32427012, 32426597, 32425467

Bankers / Lenders

Allied Bank Ltd.
Askari Commercial Bank Ltd.
Bank Al Falah Ltd.
Bank Al Habib Ltd.
Barclays Bank PLC, Pakistan
Citibank N.A.
Deutsche Bank AG
Dubai Islamic Bank Ltd.
Samba Bank Ltd. (Formerly Crescent Commercial Bank Ltd.)
Faysal Bank Ltd.
Habib Bank Ltd.
Hongkong Shanghai Banking Corporation
International Finance Corporation
MCB Bank Ltd.
Meezan Bank Ltd.
National Bank of Pakistan
NIB Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.
United Bank Ltd.

Registered Office

First Floor, Bahria Complex I, 24 M.T. Khan Road,
Karachi – 74000
UAN: (021) 3-111-411-411

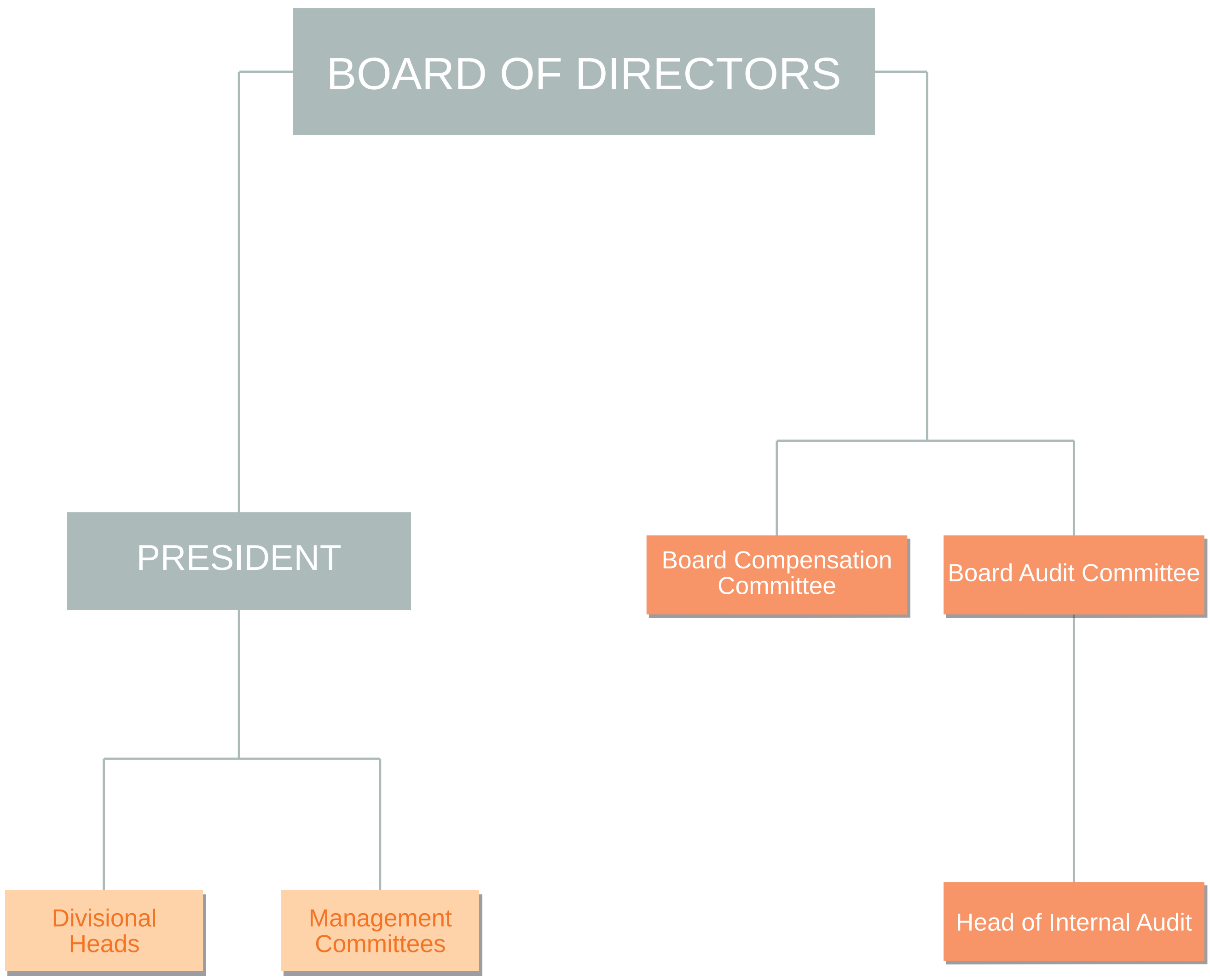
Plant

EZ/1/P-II-1, Eastern Zone
Bin Qasim, Karachi.

Website

www.engropolymer.com

ORGANISATION STRUCTURE



STAKEHOLDERS INFORMATION

KEY HIGHLIGHTS AND MAJOR EVENTS

Rs. in million except (Loss) / Earnings per share

	2009	2008 (Restated)
Net revenue	**11,571**	7,868
Gross profit	**1,152**	1,132
Operating profit	**347**	492
(Loss) / Profit before tax	**(249)**	459
(Loss) / Profit after tax	**(232)**	353
(Loss) / Earnings per share	**(0.45)**	0.68

- Completion of 50 K ton PVC expansion project on January 1, 2009
- Commencement of commercial operations of Chlor-alkali, Ethylene Di Chloride & Power plants on August 1, 2009
- Caustic soda was launched in the domestic market
- Commencement of sale of surplus power to Karachi Electric Supply Company
- Highest ever domestic PVC sales of 119 K ton since inception of the Company
- Best ever PVC production of 116 K ton
- Commercial operation of VCM plant was delayed
- Fire incident occurred at the plant site which resulted in injury to one of the employees who expired twelve days later
- Rights issue at the rate of 27.5 percent at Rs. 10 per share was announced
- Listing on the Islamabad and Lahore Stock Exchanges in addition to previous listing on the Karachi Stock Exchange last year
- Spent Rs. 8.4 million towards Corporate Social Responsibility related activities
- Received for the third time ACCA-WWF Award for Environmental performance & transparency in reporting

AWARDS AND ACHIEVEMENTS

Transparent environment reporting is now an important part of corporate governance. It actually ensures that stakeholders, financial institutions and public at large have access to standardized, comparable, consistent and verifiable environmental information similar to corporate financial reporting. Social reporting allows us to address issues in an open, credible and transparent manner. EPCL has been consecutively publishing environment report since 2005. The publication and distribution of these reports provided our stakeholders with the opportunity to comment on our progress. These are sincere commitments on our part to demonstrate openness and transparency. To top it all, this is also allowing our stakeholders to measure our progress through a set of performance indicators.

EPCL Environmental Performance Reports are consecutive winners of ACCA-WWF Environment Reporting Awards for BEST ENVIRONMENTAL REPORT on transparency in reporting. EPCL was also nominated on the panel of judges in the year 2009 to judge the Environment Reports for the year 2008. EPCL has also won Annual Environment Excellence Award from National Forum for Environment and Health (NFEH) for the fourth time

in 2009. This is our 3rd award in a row. In addition to this, our continuous efforts of environmental transparency in reporting have been appreciated by

ACCA-WWF Pakistan, ACCA Pakistan and WWF Pakistan.

EPCL is constantly striving to improve its credibility as an organization, both locally as well as when it comes to meeting international standards. Our efforts for sustainable development and transparency in reporting have been generally acknowledged by all, especially by different forums working for appreciating and promoting environment-friendly initiatives in the country.

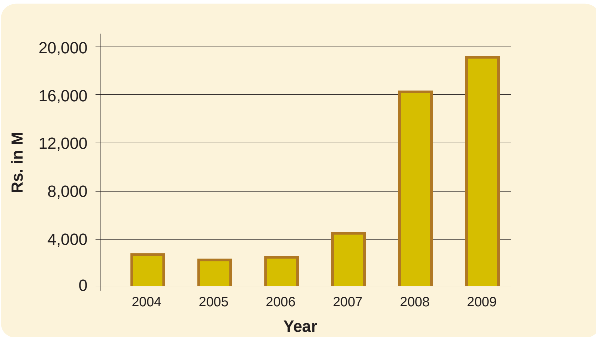
INVESTOR INFORMATION
FOR THE LAST SIX YEARS

	Unit	2004	2005	2006	2007	2008	2009
		Restated					
PROFIT AND LOSS							
Net Sales	Rs. in M	5,136	5,553	5,278	6,063	7,868	**11,571**
Gross Profit	Rs. in M	837	782	1,024	988	1,132	**1,152**
Operating Profit	Rs. in M	630	416	634	617	492	**347**
Profit / (Loss) before Tax	Rs. in M	555	346	569	576	459	**(249)**
Profit / (Loss) after Tax	Rs. in M	389	303	381	422	353	**(232)**
BALANCE SHEET							
Property, Plant and Equipment	Rs. in M	2,391	2,278	2,443	4,709	16,135	**19,361**
Intangibles, Investments, Loans & Advances	Rs. in M	59	60	65	150	167	**109**
Current Assets	Rs. in M	1,646	1,435	1,756	4,604	1,977	**3,086**
Current Liabilities	Rs. in M	1,464	1,246	1,748	1,404	2,705	**4,681**
Long Term Liabilities	Rs. in M	763	532	468	1,828	9,008	**11,515**
Share Capital	Rs. in M	1,780	1,780	1,780	4,436	5,204	**5,204**
Shareholders Equity	Rs. in M	1,871	1,996	2,048	5,177	6,566	**6,360**
INVESTOR INFORMATION							
Gross Profit / (Loss) to Sales	%	16.29	14.08	19.40	16.30	14.39	**9.96**
Net Profit / (Loss) to Sales	%	7.57	5.45	7.23	6.95	4.49	**- 2.01**
EBITDA	Rs. in M	792	586	810	794	670	**860**
EBITDA to Sales	%	15.42	10.55	15.35	13.10	8.51	**7.43**
Interest Cover Ratio	No. of Times	12.02	9.95	14.30	22.25	25.32	**1.44**
Return on Equity	%	20.78	15.18	18.63	8.14	5.38	**- 3.65**
Return on Capital Employed	%	15.12	12.37	16.79	6.44	2.43	**-1.33**
Long term Debt to Equity		0.27	0.18	0.10	0.21	0.55	**0.64**
Weighted average cost of debt	%	4.75	5.74	8.26	9.52	14.72	**11.51**
Current Ratio	No. of Times	1.12	1.15	1.00	3.28	0.73	**0.66**
Quick Ratio	No. of Times	0.61	0.91	0.43	2.62	0.30	**0.32**
Fixed Assets Turnover	No. of Times	2.15	2.44	2.16	1.29	0.49	**0.60**
Debtor Turnover	No. of days	14.20	17.01	15.07	8.15	4.77	**5.37**
Inventory Turnover	No. of days	45.96	40.32	55.74	69.05	56.32	**48.43**
Creditors Turnover	No. of days	61.49	63.01	65.21	71.00	49.99	**46.61**
Operating cycle	No. of days	-1.33	-5.68	5.60	6.20	11.10	**7.18**
Number of outstanding shares at year end	No. in M	178	178	178	444	520	**520**
Earnings per Share - Basic and Diluted	Rs.	2.18	1.70	2.14	1.64	0.68	**- 0.45**
Dividend per Share - **Note (ii)**	Rs.	0.50	1.00	1.85	2.10	0.54	**-**
Dividend Payout Ratio - **Note (ii)**	%	23	59	86	128	79	**-**
Dividend Cover Ratio - **Note (i)**	No. of Times	4.37	1.70	1.16	0.78	1.26	**-**
Price Earning Ratio - **Note (i)**	No. of Times	-	-	-	-	4.66	**- 2.51**
Break up Value per share	Rs.	10.51	11.21	11.50	11.67	12.63	**12.23**
Market Value per share (at the end of the year)	Rs.					14.58	**17.94**
Market Value per share (highest during the year)	Rs.					28.31	**27.00**
Market Value per share (lowest during the year)	Rs.					12.66	**12.11**

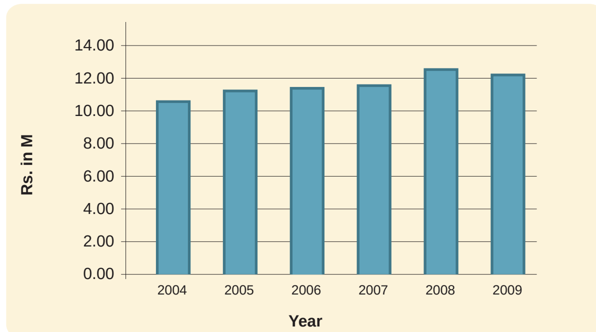
Note (i) Company was listed during 2008
Note (ii) Dividend paid during 2008 was the Final dividend declared during 2007

GRAPHICAL PRESENTATION

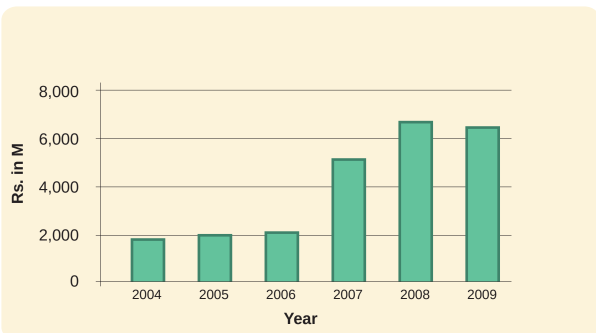
Total Long term Assets



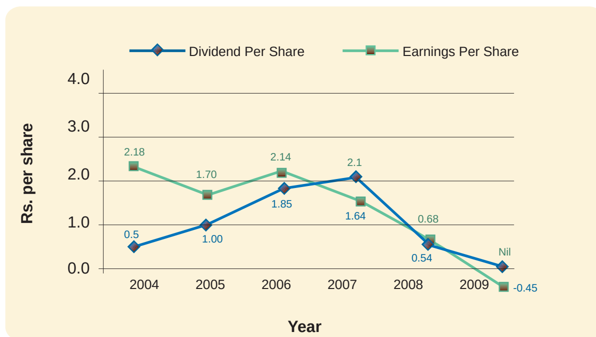
Break Up Value Per Share



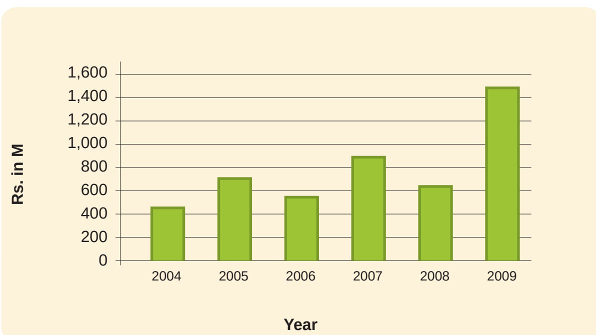
Shareholders' Equity



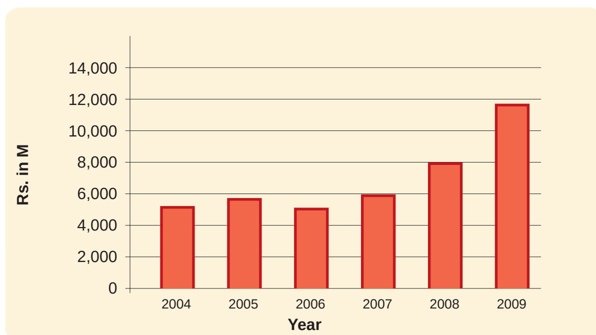
Dividend Per Share vs. EPS



Cash Generated from Operations



Sales Revenues



BALANCE SHEET
VERTICAL AND HORIZONTAL ANALYSIS

Amounts in Rs. M

	2004	2005	2006	2007	2008	2009
ASSETS						
Non-Current Assets	2,452	2,339	2,508	4,859	16,302	19,470
Current Assets	1,646	1,435	1,756	4,604	1,977	3,086
Total Assets	**4,098**	**3,774**	**4,264**	**9,463**	**18,279**	**22,556**
EQUITY AND LIABILITIES						
Equity	1,871	1,996	2,048	5,177	6,566	6,360
Advance against issue of share capital	-	-	-	1,054	-	-
Non-Current Liabilities	763	532	468	1,828	9,008	11,515
Current Liabilities	1,464	1,246	1,748	1,404	2,705	4,681
Total Liabilities	**4,098**	**3,774**	**4,264**	**9,463**	**18,279**	**22,556**

Vertical Analysis % of Balance Sheet Total	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
ASSETS						
Non-Current Assets						
Current Assets	60%	62%	59%	51%	89%	86%
Total Assets	40%	38%	41%	49%	11%	14%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**
EQUITY AND LIABILITIES						
Equity	46%	53%	48%	55%	36%	28%
Advance against issue of share capital	0%	0%	0%	11%	0%	0%
Non-Current Liabilities	19%	14%	11%	19%	49%	51%
Current Liabilities	36%	33%	41%	15%	15%	21%
Total Liabilities	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Horizontal Analysis Year on Year	**2005** over **2004**	**2006** over **2005**	**2007** over **2006**	**2008** over **2007**	**2009** over **2008**
ASSETS					
Non-Current Assets	-5%	7%	94%	236%	19%
Current Assets	-13%	22%	162%	-57%	56%
Total Assets	**-8%**	**13%**	**122%**	**93%**	**23%**
EQUITY AND LIABILITIES					
Equity	7%	3%	153%	27%	-3%
Advance against issue of share capital	-	-	-	-100%	-
Non-Current Liabilities	-30%	-12%	291%	393%	28%
Current Liabilities	-15%	40%	-20%	93%	73%
Total Liabilities	**-8%**	**13%**	**122%**	**93%**	**23%**

PROFIT AND LOSS ACCOUNT
VERTICAL AND HORIZONTAL ANALYSIS

Amounts in Rs. M

	2004	2005	2006	2007	2008	2009
	Restated					
Net sales	5,136	5,553	5,278	6,063	7,868	11,571
Cost of sales	(4,299)	(4,771)	(4,254)	(5,075)	(6,736)	(10,419)
Gross profit	**837**	**782**	**1,024**	**988**	**1,132**	**1152**
Distribution and marketing expenses	(163)	(235)	(299)	(258)	(312)	(469)
Administrative expenses	(71)	(97)	(104)	(131)	(163)	(205)
Other operating expenses	(33)	(77)	(49)	(70)	(289)	(231)
Other operating income	60	43	62	88	124	100
Operating profit	**630**	**416**	**634**	**617**	**492**	**347**
Finance costs	(75)	(70)	(65)	(41)	(33)	(596)
(Loss) / Profit before taxation	**555**	**346**	**569**	**576**	**459**	**(249)**
Taxation	(166)	(43)	(188)	(154)	(106)	17
(Loss) / Profit after taxation	**389**	**303**	**381**	**422**	**353**	**(232)**

Vertical Analysis % of Sales	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Net sales	100%	100%	100%	100%	100%	100%
Cost of sales	-84%	-86%	-81%	-84%	-86%	-90%
Gross profit	**16%**	**14%**	**19%**	**16%**	**14%**	**10%**
Distribution and marketing expenses	-3%	-4%	-6%	-4%	-4%	-4%
Administrative expenses	-1%	-2%	-2%	-2%	-2%	-2%
Other operating expenses	-1%	-1%	-1%	-1%	-4%	-2%
Other operating income	1%	1%	1%	1%	2%	1%
Operating profit	**12%**	**7%**	**12%**	**10%**	**6%**	**3%**
Finance costs	-1%	-1%	-1%	-1%	0%	-5%
(Loss) / Profit before taxation	**11%**	**6%**	**11%**	**10%**	**6%**	**-2%**
Taxation	-3%	-1%	-4%	-3%	-1%	0%
(Loss) / Profit after taxation	**8%**	**5%**	**7%**	**7%**	**4%**	**-2%**

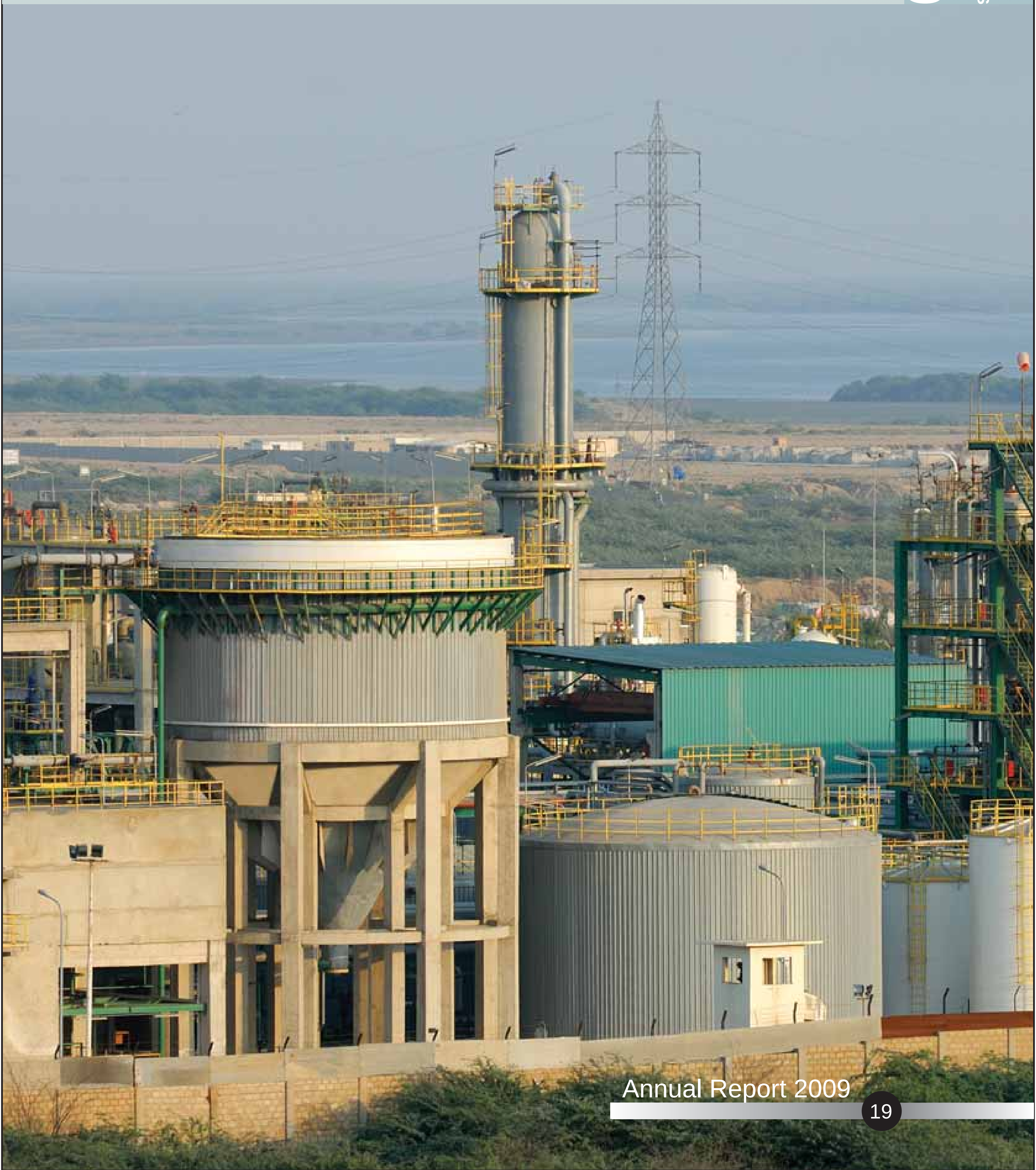
Horizontal Analysis Year on Year	**2005** over **2004**	**2006** over **2005**	**2007** over **2006**	**2008** over **2007**	**2009** over **2008**
Net sales	8%	-5%	15%	30%	47%
Cost of sales	11%	-11%	19%	33%	55%
Gross profit	**-7%**	**31%**	**-3%**	**15%**	**2%**
Distribution and marketing expenses	44%	27%	-14%	21%	50%
Administrative expenses	37%	7%	26%	24%	26%
Other operating expenses	133%	-36%	43%	313%	-20%
Other operating income	-28%	44%	42%	41%	-19%
Operating profit	**-34%**	**53%**	**-3%**	**-20%**	**-29%**
Finance costs	-7%	-7%	-37%	-20%	1,706%
(Loss) / Profit before taxation	**-38%**	**65%**	**-1%**	**-20%**	**-154%**
Taxation	-74%	337%	-18%	-31%	-116%
(Loss) / Profit after taxation	**-22%**	**26%**	**11%**	**-16%**	**-166%**

SUMMARY OF CASH FLOW STATEMENT

Amounts in Rs.M

	2004	2005	2006	2007	2008 (Restated)	2009
Cash generated from operations	**483**	**730**	**554**	**880**	**665**	**1,490**
Finance costs	(77)	(66)	(67)	(37)	(354)	**(561)**
Long term loans and advances	(4)	-	(4)	(84)	(10)	**60**
Retirement benefits paid	-	-	-	-	-	**(11)**
Income tax / Advance tax	(14)	(48)	(19)	(45)	(184)	**(290)**
Net cash flow from operating activities	**388**	**616**	**464**	**714**	**117**	**688**
Purchase of operating assets and intangibles	(12)	(87)	(345)	(2,453)	(11,165)	**(3,746)**
Retention money against Project payments	-	-	-	-	452	**(553)**
Proceeds from disposal of operating assets	2	5	4	2	4	**6**
Purchases of short term investments	-	-	(97)	(3,272)	-	**-**
Proceeds from sale of short term investments	-	-	-	516	2,915	**35**
Income on investments and bank deposits	54	37	60	28	117	**62**
Net cash flow from investing activities	**44**	**(45)**	**(378)**	**(5,179)**	**(7,677)**	**(4,196)**
Proceeds from long term borrowings	150	-	-	1,240	6,638	**4,179**
Repayment of long term borrowings	(556)	(268)	(166)	(229)	-	**(130)**
Issue of share capital	-	-	-	4,118	229	**-**
Dividend	-	(267)	(281)	(422)	(253)	**-**
Net cash flow from financing activities	**(406)**	**(535)**	**(447)**	**4,707**	**6,614**	**4,049**
Net cash flow	**26**	**36**	**(361)**	**242**	**(946)**	**541**
Cash Generated from Operations -Direct Method						
Cash flows from customers	5,163	5,408	5,499	6,021	7,977	**11,305**
Cash payment to suppliers and others	(4,680)	(4,678)	(4,945)	(5,141)	(7,312)	**(9,815)**
Cash generated from operation	**483**	**730**	**554**	**880**	**665**	**1,490**

NOTICE OF ANNUAL GENERAL MEETING



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twelfth Annual General Meeting of Engro Polymer & Chemicals Limited will be held at DHA Golf Club, Phase VIII, Defence Housing Authority, Karachi on Friday, April 9, 2010 at 10 a.m. to transact the following business:

A. ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 31, 2009 and the Directors' and Auditors' Reports thereon.

(2) To appoint Auditors and fix their remuneration.

By Order of the Board

Karachi

January 21, 2010

ARSHADUDDIN AHMED
Company Secretary

N.B.:

(1) The share transfer books of the Company will be closed from Friday, March 26, 2010 to Friday, April 9, 2010 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Pvt) Limited, First Floor, State Life Building No.1-A, I. I. Chundrigar Road, Karachi-74000 by the close of business (5:00 p.m) on Thursday, March 25, 2010 will be treated as being in time for the purposes to attend the meeting.

(2) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

By Order of the Board

Karachi

January 21, 2010

ARSHADUDDIN AHMED
Company Secretary

CORPORATE GOVERNANCE

PROFILE OF BOARD OF DIRECTORS

Asad Umar — **Chairman**

is President of Engro Corporation Limited, Chief Executive Officer of Engro Fertilizers Limited and Chairman of all Engro subsidiaries and joint ventures. He has held key assignments with the Company and with Exxon Chemical in Canada. Mr. Umar is also on the Board of The Pakistan Business Council, Karachi Education Initiative, Pakistan Institute of Corporate Governance, State Bank of Pakistan and Trustee of Lahore University of Management Sciences (LUMS). A Masters in Business Administration, he joined the Board in 1 9 9 7 .

Asif Qadir — **President and Chief Executive**

is a Senior Vice President of Engro Corporation Limited and Chief Executive of Engro Polymer & Chemicals Limited, Chairman and Chief Executive of Engro Polymer Trading (Pvt.) Limited, Director of Engro PowerGen Limited and Chairman of the Board of Inbox Business Technologies (Pvt.) Limited and Unicol (Pvt.) Limited. He has held key assignments with the Company and with Exxon Chemical Canada. A Chemical Engineer by qualification, Mr Qadir joined the Board in 1999.

Isar Ahmad — **Director**

is Managing Director at The Dawood Group. He has diversified experience of working in senior management positions in multinational and large Pakistani organisations, having served as Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman), Managing Director, Haleeb Foods (previously CDL Foods Limited), as well as having been the Financial Advisor at Indus Motor Company Limited. He holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants of England & Wales. Mr. Ahmad joined the Board in 2007.

Shahzada Dawood — **Director**

is the Chairman of Dawood Lawrencepur Limited and Chief Executive of Dawood Hercules Chemicals Limited. He is also a Member of the Board of Governors of National Management Foundation, the sponsoring Body of Lahore University of Management Sciences (LUMS). A Masters in Global Textile Marketing and an LLB, Mr. Shahzada Dawood has been on the Board since 2005.

Masaharu Domichi — **Director**

is the General Manager of Mitsubishi Corporation's operations in Pakistan and Director of Tri-Pack Films Ltd. He has a degree in Law from the University of Tokyo, Japan and has been with Mitsubishi Corporation for 32 years. He has a diverse experience in handling industrial machinery, construction equipment and environment and project development. He joined the EPCL Board in 2005.

Takeshi Hagiwara — **Director**

is the General Manager for Mitsubishi Corporation's Chlor Alkali Unit and has a degree in Economics from the Keio University, Japan. He has been with Mitsubishi Corporation for 27 years and has held several key positions during this time. He Joined the EPCL Board in 2005.

Shabbir Hashmi Director

joined Actis Assets Limited (formerly CDC Group Plc) in 1994. He lead private equity investment activities out of Karachi for Pakistan and Bangladesh. Prior to joining Actis, he worked for 8 years with the World Bank and US Aid specialising in the energy sector. He is an Engineer from DCET, Pakistan and holds an MBA from JF Kennedy University, U S A. He joined the EPCL Board in 2007.

Waqar A. Malik Director

is the Country representative of one of the world's leading industrial companies and a senior member of the Group. A Fortune 500 company, AkzoNobel NV is the largest global paints & coating's company and a major producer of speciality chemicals.

Waqar has over 23 years of extensive experience with the Group, in senior commercial, finance and strategy roles including a 2-year overseas secondment at ICI Group Headquarters in London.

An active member of the corporate sector, Waqar is the President of the Management Association of Pakistan, a Director on the Board of Governors of the State Bank of Pakistan, Non Executive Member Pakistan Business Council, Director on the Boards of Engro Polymer & Chemicals Ltd. and IGI Insurance. He is also the former president of Overseas Investors Chamber of Commerce & Industry (OICCI).

He is also a Trustee on the Board of The Duke of Edinburgh's Award Foundation, Member on the Board of Governors of National Management Foundation (LUMS) and the Indus Valley School of Art & Architecture.

Waqar is a Chartered Accountant by profession and Fellow member of the Institute of Chartered Accountants in England & Wales.

Khalid Mansoor Director

is a Senior Vice President of Engro Corporation Limited, Chief Executive Officer of Engro Energy Limited, Engro PowerGen (Pvt.) Ltd and Sindh Engro Coal Mining Company Limited. He has held various key assignments at Engro and with Esso Chemical, Canada including leading development and execution of various major expansion projects for Engro. He is currently a Director on the Boards of Engro Corporation Limited, Engro Polymer & Chemicals Limited, Engro Powergen (Pvt.) Limited, Sindh Engro Coal Mining Company Limited and Chairman on the Board of Engro Energy Ltd. Mr. Mansoor holds a Degree in Chemical Engineering with Distinction and honors. He joined the EPCL Board in 2005.

Khalid S. Subhani Director

is a Senior Vice President of Engro Corporation Limited, and has held key positions with the Company and Esso Chemical, Canada. He is also on the Boards of Engro Vopak Terminal Limited, Engro Polymer & Chemicals Limited and Engro Fertilizers Limited. A Graduate in Chemical Engineering, he joined the Board in 2004.

PRINCIPAL BOARD COMMITTEES

Board Audit Committee (BAC)

The BAC assists the Board in fulfilling its responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, system of internal control and risk management and the audit process. It has the power to call for information from management and to consult directly with the external auditors or their advisors as considered appropriate.

The BAC comprises of non-executive Directors. The Chief Financial Officer, head of Internal Audit and a representative of the external auditors attend meetings of the Audit Committee at which issues relating to accounts and audit are discussed. The Chief Executive Officer attends the meetings by invitation. The Committee also privately meets with the external auditors at least once a year. After each meeting the Chairman of the Committee reports to the Board.

Members


Isar Ahmad (Chairman)


Masaharu Domichi


Shabbir Hashmi


Khalid Siraj Subhani

The Secretary of the Committee is Saleem Lallany, Head of Internal Audit.

Board Compensation Committee (BCC)

The BCC is responsible for administering the compensation, organisation and employee development matters relating to the Company. It reviews the key human resource initiatives and organisational overview of the Company.

The BCC consists of two independent non-executive directors, two non-executive directors and one executive director who is the CEO of the Company.

Members


Asad Umar (Chairman)


Asif Qadir


Isar Ahmed


Masaharu Domichi


Waqar A. Malik

The Secretary of the Committee is Hafsa Abbasy, Human Resource Manager.

PRINCIPAL OPERATIONAL COMMITTEES

The following Committees act at the operation level in an advisory capacity providing recommendations relating to business and employee matters:

Management Committee (MC)

The MC is responsible for review and endorsement of long-term strategic plans, capital and expense budgets, development and stewardship of business plans and reviewing the effectiveness of risk management processes and internal control.

Members


Asif Qadir (Chairman)


Hafsa Abbasy


Arshaduddin Ahmed


Syed Ahsenuddin


Syed Ashar Hussain


Saleem Lallany


Khalid Mukhtar


Syed Nayyar I. Raza


Yoshio Shiga


Zia Naeem Siddiqui

The Secretaries of the Committee are:

i) Hafsa Abbasy, Human Resource Manager for HR related matters and
ii) Syed Nayyar I. Raza, Plant Manager for all matters other than those related to HR.

Safe Operations Committee (SOC)

The SOC is responsible for promoting safety standards, monitor personnel safety, health & risk management in the areas of design, operation & construction of new facilities in line with Company's safety policies.

Members

Manufacturing Safe Operations Committee

Syed Ahsenuddin (Chairman)	M. Ali Ansari
Rizwan Ahmed Taqi (Secretary)	Syed Ali Akber
Abdul Qayoom Shaikh	Syed Nayyar I. Raza
Farrukh Iqbal Qureshi	Syed Zubair Ahmed
Khalid Mukhtar	Tariq Raza Ahmed
Khurram Abdullah	Zia Naeem Siddiqui
Mohammed Naveed Rizvi	Ziauddin

Non-Manufacturing Safe Operations Committee

Arshaduddin Ahmed (Chairman)
Favad Soomro (Secretary)
Syed Ashar Hussain
Hafsa Abbasy
Saleem Lallany
Mohammed Saqib
Khalid Mukhtar
Yoshio Shiga
Syed Muhammad Abdul Rehman

CORPORATE GOVERNANCE

In recognition of the importance of good Corporate Governance on the basis of proper management policies, your Company pursues a policy of conformity to the accepted guidelines of all the stock exchanges of Pakistan and the Securities and Exchange Commission of Pakistan (SECP). The Board of Directors is committed to honest, ethical, knowledgeable and comprehensive management and to developing and implementing good Corporate Governance as a means of achieving maximum success and effectiveness. In short, good Corporate Governance is a tool for enhancing the value of your Company and its sustainable growth.

The work of developing good Corporate Governance is ongoing, and aims to incorporate standards universally practiced. Improvements in good Corporate Governance have been continually focused upon.

The Structure of the Board of Directors

The Board of Directors consists of qualified individuals possessing knowledge, experience, and skill in various professions, with the leadership and vision necessary to act in the best interests of the Company and its shareholders. The Board of Directors has a major role to play in deciding corporate policy, and with senior executives making plans for the short-term and long-term operations of the Company.

The Board of Directors presently comprises 10 individuals, who are:

- Four independent non-executive directors, two of whom also represent minority interests
- Five non-executive directors representing Engro Corporation Limited, the majority shareholder; and
- One executive director being the CEO of the Company.

Asad Umar	Non-Executive
Asif Qadir	Executive
Isar Ahmad	Non-Executive
Shahzada Dawood	Non-Executive
Masaharu Domichi	Independent / Non-Executive
Takeshi Hagiwara	Independent / Non-Executive
Khalid Mansoor	Non-Executive
Khalid S. Subhani	Non-Executive
Waqar A. Malik	Independent / Non-Executive
Shabbir Hashmi	Independent / Non-Executive

Independent directors are qualified individuals with outside experience who possess the attributes required by the SECP.

The Chairman of the Board is other than the CEO.

To further the efficient performance of its duties, the Board of Directors appoints a number of sub-committees, namely the Board Audit Committee and the Board Compensation Committee.

These and other committees have special responsibilities and make proposals to the Board of Directors for their consideration.

Each committee's rights and responsibilities are specified in its own Terms of Reference.

Meetings of the Board of Directors

Meetings of the Board of Directors are held regularly to take notice of the results of corporate operations and their management and to make decisions concerning the Company's business activities. Meetings also take place to consider business trends and mid-term operational plans of the Company and its subsidiary.

Various planning scenarios are deliberated on, as well as the Company's annual business plan.

Six Board meetings took place during the year. Attendance by each director is as follows:

	No. of meetings attended
Asad Umar	5
Asif Qadir	6
Isar Ahmad	6
Shahzada Dawood	5
Masaharu Domichi	6
Takeshi Hagiwara	6*
Khalid Mansoor	5
Khalid S. Subhani	5
Waqar A. Malik	4
Shabbir Hashmi	5

*Includes five meetings attended by Alternate Directors

In all cases, complete minutes were taken and recorded clearly in writing. Each meeting's minutes were delivered to the Board of Directors for information and review.

Internal Control Framework

Your Company regards internal controls as an important function, for which it has established systems of international standards and modernized them to accord with the fast pace of change in the contemporary business environment. Internal controls have to do with the internal environment, control activities, information and communication systems, and monitoring to ensure both confidence and achievement of objectives.

The Internal Environment

Your Company has structured its organisation in a way that corresponds well to its business plan and clearly assigned responsibilities to each department. High quality personnel are hired and all staff are given continuous chances to develop their knowledge and competence and become good ethical representatives of the Company's commitment in policy to professional business standards.

Your Company also encourages staff to participate in and understand their work, while instilling in them the responsibility of reducing risk. The work is constantly being upgraded and improved and fashioned in such a way that internal controls are an integral part of operations. Various operating manual have been produced to ensure efficiency of operations and avoid duplication of effort.

Risk Assessment

Your Company conducts its operations with a constant view of the risks involved, and has instituted measures to control risk and ensures that it remains manageable. In this way, damage due to risk is minimized and stability is ensured. Long-term plans and annual plans are constructed in such a manner that concrete measures of success can be obtained, and auditing operations and insurance measures are also upgraded continuously with the help of various tools in the effort to reduce risk.

Control Activities

Your Company has determined a number of control activities that accord with the nature of its business operations, and assigned responsibilities in such a way that mutual supervision is in effect.

Monitoring and Evaluation

Your Company continuously evaluates its own internal control system and improves it to reflect changing business conditions. New and more accurate knowledge is constantly being gathered and disseminated to enhance the effectiveness of the system.

Internal Auditing

The Office of Internal Audit provides assurance to the Audit Committee concerning the adequacy of disclosure, transparency of data, internal controls, and risk management. The emphasis is on preventive, creative investigation and auditing that conforms to international standards and good Corporate Governance. The ultimate purpose is to facilitate continuous development and a greater awareness of the need for preventive measures within the organisation.

Validation of Corporate Governance

The Statement of Compliance with the Code of Corporate Governance and the Review Report to the Members on Statement of Compliance with best practices of Code of Corporate Governance thereon are included in the Financial Statements section.

DIRECTORS' REPORT

The Directors of Engro Polymer & Chemicals Limited are pleased to present the audited accounts of the Company for the year ended December 31, 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to manufacture, market and sell Chlor-Vinyl chemicals which include Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Ethylene Di Chloride (EDC), Caustic soda, Sodium Hypochlorite and other allied chemicals. The Company is listed on all the three stock exchanges of Pakistan.

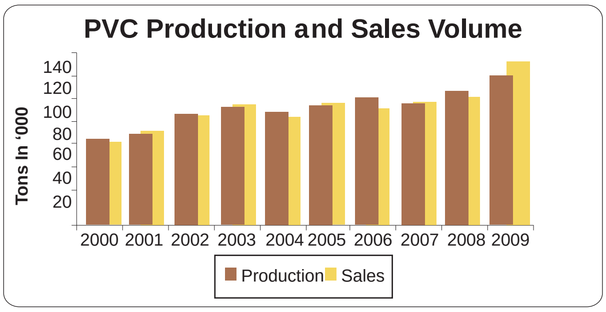
BUSINESS REVIEW

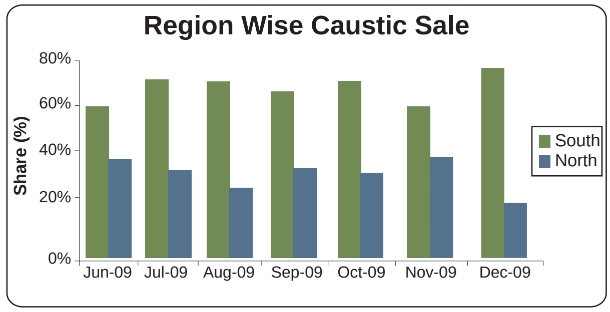
REVIEW OF THE EXPANSION AND BACK INTEGRATION PROJECT

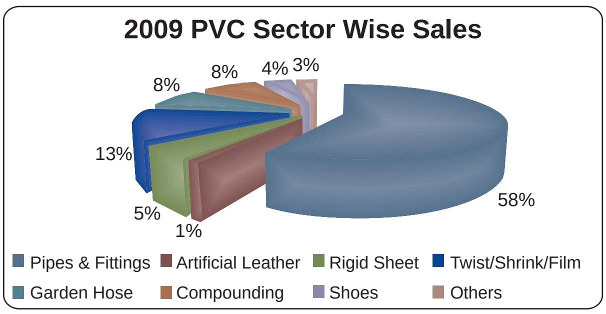
Expansion and back integration project was completed during the year for a total cost of US $ 255 million. All plants except the VCM plant came into commercial production during the year. Completion of VCM plant was delayed by three months. The initial start up attempt was unsuccessful resulting in a delay till October. The plant was then started up in end of October 2009 and VCM was produced in November. However, due to an unfortunate fire incident at the plant, on December 9, 2009, the plant had to be shutdown. PVC, EDC and Chlor-alkali plants were back in operations by end of December 2009 while VCM plant is expected to come into commercial operation in first quarter 2010.

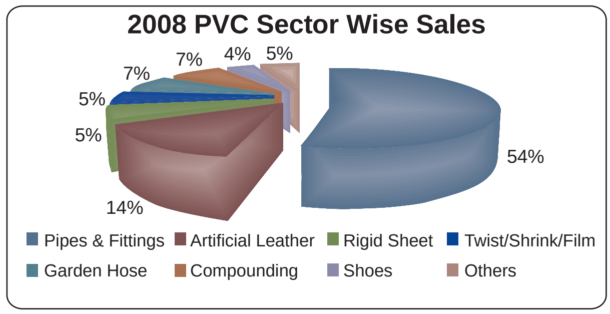
PRODUCTION AND SALES REVIEW

During the year, 116K tons (2008: 103K tons) of PVC was produced against nameplate capacity of 150K tons per annum. Capacity utilisation of PVC plants remained low due to limited availability of VCM as a result of delayed in-house production. VCM shortfall was partially fulfilled by procuring on spot basis from international market, however, given the tight demand supply balance in the region, at times, VCM could not be timely arranged resulting in lower operating rate of the PVC plants.



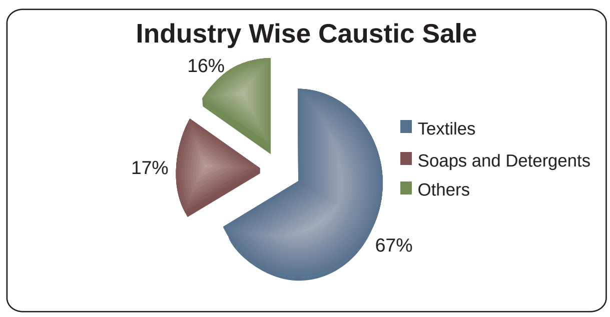






PVC domestic sales volume during the year was 119K tons (2008: 98K tons) which is the highest ever since inception of the Company. Growth of more than 20% in domestic sales, over last year, was mainly attributable to the strong demand coming out of Government projects, increased usage of PVC pipes in agricultural sector and export of pipes and fittings to Afghanistan. The Company also exported 10K tons of PVC during the year through its subsidiary, Engro Polymer Trading (Pvt.) Limited.

Chlor-alkali plant came into commercial operation from August 1, 2009. Caustic soda production during the year was 39K tons. Company successfully launched Caustic soda which was very well received by the customers and made quick inroads into the domestic market. A total of 32K tons was sold in the domestic market whereas 2K tons was exported through its subsidiary. Successful launch of Caustic soda was mainly attributable to high product quality supported by competitive pricing and an efficient distribution system.



EDC plant came into commercial operation from August 1, 2009. During the year, 42K tons of EDC was produced. Due to delay in commissioning of VCM plant, EDC produced could not be fully utilized to manufacture VCM therefore the Company exported 32K tons of EDC through its subsidiary. A total of 6K tons of VCM was also produced during the year which was used in production of PVC.

In addition to above, 7K tons of Sodium Hypochlorite was produced from Chlor-alkali plant which was sold in the domestic market.

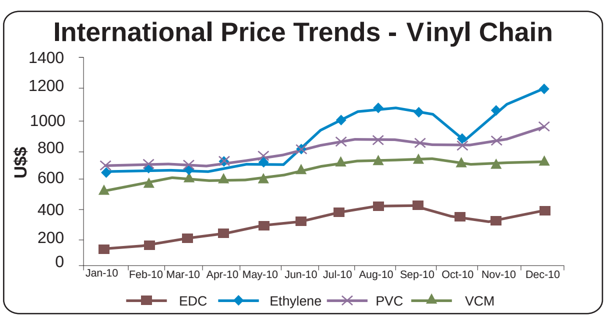
BUSINESS REVIEW

The Company also entered into a Power Supply Agreement with Karachi Electric Supply Company (KESC) during the year to sell surplus power to KESC. The sale of power commenced from end of August and the Company sold an average of 9MW power during the year. The Company has an infrastructure to sell up to 18 MW to KESC.

PRICE TRENDS

International PVC prices staged a recovery during 2009. Prices increased from around US $ 600/ton in the beginning of the year to around US $ 900/ton by August 2009. PVC prices dropped slightly, on account of slow demand, in September to November 2009 period but surged back to US $ 940 per ton in December.

Average international PVC-VCM margin in 2009, remained around US $ 150 per ton after plummeting to an average of US $ 57 per ton in the fourth quarter 2008. Ethylene prices showed an upward trend in 2009, increasing from US $ 620 per ton in January to US $ 1,205 per ton in December 2009. The increase in Ethylene prices was attributable to high crude oil prices coupled with supply-demand gap in the region. High Ethylene prices also supported higher VCM and PVC prices.



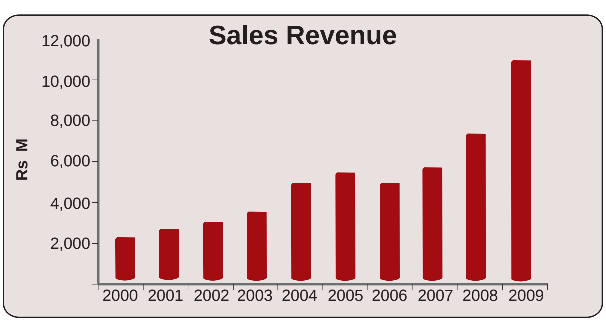
MARKET SHARE

The Company remains the sole manufacturer of PVC in the country and according to our estimate approximately 5K tons of PVC resin was imported during the year.

FINANCIAL REVIEW

Company made a loss after tax of Rs. 232 million as compared to a profit after tax of Rs. 353 million last year. The consolidated loss after tax was Rs.194 million as compared to consolidated profit after tax of Rs. 350 million last year. The main reasons for the loss are attributable to incremental costs related to depreciation, financial charges and other fixed costs on account of expansion and back integration whereas full economic benefits of the integrated facility could not be attained as VCM plant had not come into commercial production.

The total assets of the Company increased by Rs. 4,277 million during the year mainly due to the expansion and back integration project.

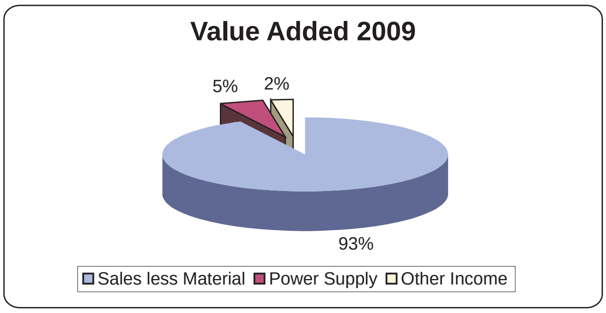


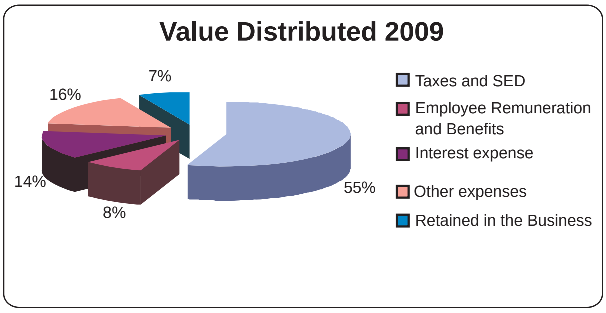
Statement of Value Addition and Distribution

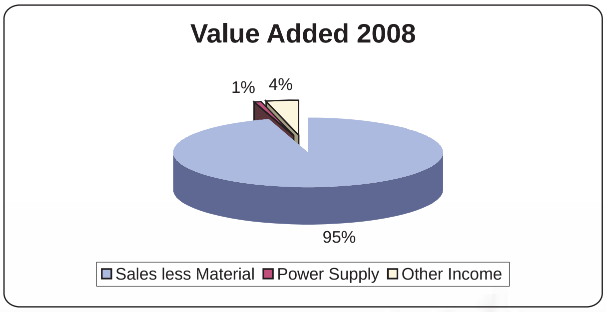
Rs. in thousand

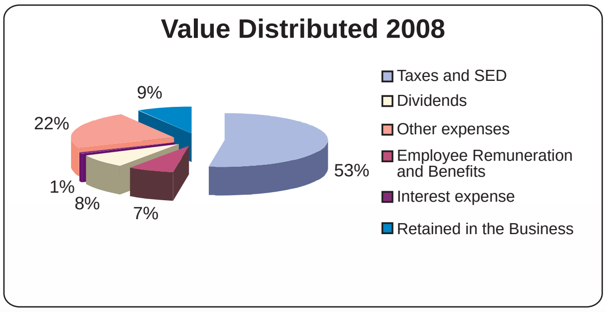
Value Addition	2009	2008
Gross sales	13,556,052	9,449,462
Supply of electricity	214,924	24,177
Export sales	72,015	79,223
Other income	100,262	124,334
Export rebate	-	69
Cost of material	(9,704,309)	(6,471,260)
TOTAL	**4,238,944**	**3,206,005**

Value Distribution	2009	2008
Taxes and SED	2,329,650	1,685,275
Employee remuneration and benefits	339,100	232,881
Donations	7,527	1,527
Dividends	-	252,896
Interest expense	596,264	33,529
Other expenses	688,994	722,542
Retained in the business	277,409	277,355
TOTAL	**4,238,944**	**3,206,005**









SAFETY, HEALTH & ENVIRONMENT

SAFETY

The Company is committed to the safe operations of its facilities. Potential safety hazards are systematically identified and the risks from these hazards are managed in a way that employees, public and the environment are protected. The management of risk is a continuous process; a written Safety, Environment and Industrial Hygiene (SEIH) Policy exists and all employees are required to adhere to the outlined procedures and practices. The policy is regularly updated and all changes are promptly communicated to the employees. Moreover, an organised programme for hazard identification, evaluation and control is also in place. A number of internal and external audits and surveys, are conducted periodically to monitor compliance with the requirements and standards, and provide the basis for specific managerial/supervisory actions. As per Du-Pont standards, our safety management has been rated at 2.0.

Leading Indicators include 31 items which are being monitored at EPCL Plant site and results are shared on monthly basis in Safe Operation Committee (SOC).

SAFETY, HEALTH & ENVIRONMENT

A dispensary equipped with a team of paramedics and ambulance is also present at the Plant to respond to any emergency.

SAFETY INCIDENTS

During commissioning of VCM plant in June 2009, a safety incident had taken place which resulted in release of certain vapours. The plants were safely shutdown and no one got injured in the incident. In December 2009, a fire incident took place in the scrubbing area of the of VCM plant. Immediate action was taken and the fire was brought under control and contained from spreading within a short period of time. All the plants were safely shutdown and damage was limited to VCM scrubbers and part of the piping system. All the plants remained safe and PVC, EDC and Chlor-alkali plants were back in operation by the end of December. The fire incident resulted in burn injuries to one of the Company employees who unfortunately expired after 12 days of medical treatment.

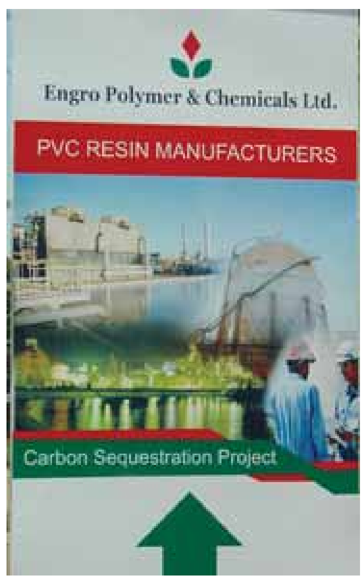
HEALTH

The Company has established policies regarding occupational health which apply to all employees at the time of recruitment and during service. Employees' occupational health involves two elements; first, how work can influence health, and second, how health can affect work.

ENVIRONMENT

EPCL believes in protection and conservation of environment while ensuring that all operations and activities remain environment friendly. The Company has a comprehensive Environmental Management System (EMS), certified and regularly audited by ISO 14001:2004. EMS provides a framework for managing environmental responsibilities in an efficient way that it is integrated into the overall manufacturing operations.

All plant effluent has to pass through an Aerobic Bacteria based system of water treatment before being disposed of. Plant effluent is tested regularly against various parameters. Any deviation from NEQS is recorded, investigated and actions are taken to avoid recurrence. Three NEQS excursions were recorded during the year, and were reported to the relevant authorities.



EPCL environmental footprints are based on the performance of:

- effluent quality, quantity
- emissions profile
- waste generation
- CFC venting
- natural resource consumption (paper, water and electricity)
- VCM venting and losses
- NEQS excursion or any major or minor environmental incident.

EPCL Environmental Performance Reports are consecutive winners of ACCA-WWF Environmental Reporting Awards for BEST ENVIRONMENTAL REPORT on transparency reporting. EPCL was nominated in a panel of judges in year 2009 to judge the Environment Reports for the year 2008.

CORPORATE SOCIAL RESPONSIBILITY

EPCL's Corporate Social Responsibility (CSR) strategy focuses on Environment & Community involvement in line with the Company's CSR policy and Core Values. A total of Rs. 8.4 million was spent during the year whereby following CSR initiatives were taken.

Forestry Projects

EPCL launched 100 hectares of plantation in two different areas of Pakistan. The objective of this project is to contribute towards greener Pakistan and to show industrial participation in working towards addressing the longer term impact of carbon emission.

The Project was initiated in March 2009 after detailed review and correspondence with Forest Department of Punjab and facilitation by Ministry of Environment Pakistan. First 50 hectares were started in April 2009 at Changa Manga. The project is being monitored by WWF Pakistan. To date the success rate of plantation is 93% based on key performance indicators developed by WWF Pakistan.

CORPORATE SOCIAL RESPONSIBILITY

After the successful completion of 50 hectare plantation in Changa Manga forest, EPCL launched another 50 hectares of plantation in natural forest of Donga and Kuza Gali, district Abbottabad, NWFP. The inauguration ceremony was held in July 2009 and monsoon plantation was initiated in August 2009.

EPCL's plantation project was also recognized as a key initiative for the year by the Government of Pakistan.

The project was declared to be a model to be followed for Government-Corporate partnerships. EPCL is also providing advisory support to the Advisory Committee running forestry programmes for the year 2009.

Celebrating Earth Day with local community schools

EPCL this year celebrated Earth Day on 22nd of May 2009 with almost 400 local community schools. This year the event was organized at Haji Ganji Khan School. Different activities like painting competition, story telling, pottery making, awareness session and garbage collection activities were arranged which were highly appreciated by students, parents, local NGOs and Nazim of the area.

Clean Drinking Water Project

The water purification units were installed by EPCL at Mehmood Shah Goth, Razzakabad, and Haji Ganji Khan School this year.The purification plants are benefiting several people within the community located in the areas of Razzakabad and Ghaghar Phatak, EPCL's CSR

Committee tracks the performance of functioning of the installed units and continues to have frequent dialogues with the community representatives about the proper utilisation and benefits of the units.

Promotion of Water Conservation

The Company continued its focus on promoting water conservation particularly in the agriculture sector. Support to High Efficiency Irrigation Systems (HEIS) industry in Pakistan was continued with active support to a Government project "Water Conservation & Productivity Enhancement through High Efficiency Irrigation System". Proposals for more than 10,000 acres have been submitted and are awaiting approvals. Twenty five additional HEIS supply companies have been short-listed in the project to expedite the installation work which has increased the total number of supply companies to 45 now. EPCL, through its regional offices, is expanding its outreach to provide support to new entrants in areas of system design, installation, manpower training, and field extension activities.

Use of PVC geo-membrane is being promoted in the non-governmental sector in various water-related projects. PVC geo-membrane has been successfully used by various NGOs in rain water and grey water harvesting projects. Company has started a pilot project on water conservation awareness in District Umerkot in partnership with an NGO. The project includes carrying out of a series of dialogues with various stakeholders. The Company also participated in installation of Demand Based Irrigation System in Naran Mansehra District which has brought 132 acres of rain-fed area under controlled irrigation.

EDUCATION

Supporting Community Schools

EPCL has been supporting community schools for last couple of years. This year three more schools were identified for development work. Not only the focus is on improving quality of education, but also several sessions were conducted with teachers and parents for their suggestions for improving the quality of education in the government schools of Razzakabad and Ghaghar Phatak.

EPCL Scholarship Programmes

EPCL has been running a programme for the last five years providing scholarships to students.The Company this year started another scholarship programme for the community school children including students from Ghaghar Phatak and Razzakabad .The programme is titled as "Engro Polymer & Chemicals Scholarship Program". This programme is directed toward technical education and also includes English language and Computer courses. The concept of this programme is to technically equip youth from the local community to be able to earn livelihood for themselves and their families.

Sponsoring Taleemi Mela

This year EPCL has sponsored the programme of "TALEEMI MELA" held in May 2009 where the students of the nearby communities participated. The event was held to create awareness about the importance of education for children.

Donations & Sponsorships

EPCL also provided financial support to various organisations operating in the areas of Health, Education and Social uplift.

EMPLOYEES & ORGANISATION DEVELOPMENT

Valuing People

EPCL's success is built on its workforce – a source of pride for the Company. At the end of 2009, the Company had over 350 employees in a corporate family that has almost doubled in size in two years.

As a socially responsible employer, we respect our employees' rights and endeavour to provide a safe and healthy workplace, fair policies and procedures, freedom of opinion and expression and open dialogue with our employees.

In addition to offering attractive and fair compensation and benefits, EPCL encourages and invests in its employees' lifelong learning and professional development, and promotes a healthy balance between personal and professional lives.

A demonstrated engagement in diversity, proactive inclusion and equal opportunity is an investment in our people and our future growth. Our commitment to provide equal opportunity to all employees and applicants for employment in accordance with all applicable laws, directives and regulations is constantly reaffirmed through our policies and best-in-class practices.

Human Resource Management provides policies, practices and tools that create a workplace capable of motivating, developing and rewarding employees to achieve success.

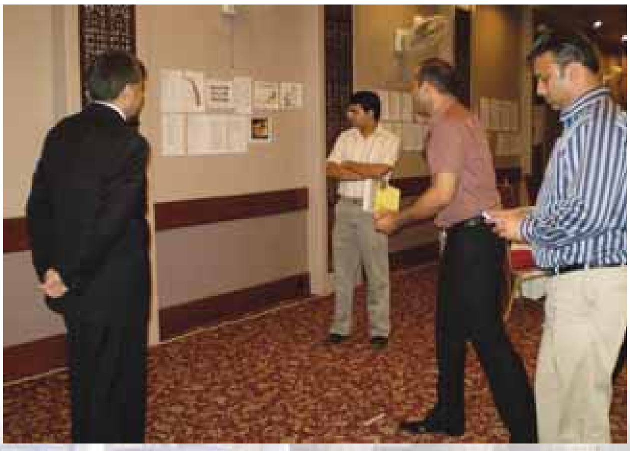
The Company has been accredited with Investors in People (IIP) certification which is an indication of the open communication and alignment of employees' objectives with those of the organisation.

Recruitment

The Company has a proactive recruitment strategy in place to ensure optimal manning for ongoing business needs.In the year 2009, 122 (2008: 136) new employees joined the Company which was in line with the expansion/back integration recruitment plan.

Compensation & Benefits

The Company is focused at rewarding employees for their level of performance which inculcates an enthusiasm and spirit to set higher targets, an example of which is the Employee Share Option Scheme.



Training & Development

The speed of growth of our human capital is both an opportunity and a challenge. It represents the beginning of a new era – an era of learning and growth.

Training is a planned and structured effort to facilitate employees' learning of job related competencies. These competencies include knowledge, skills and behaviours that are critical for successful job performance.

In 2009, the Company continued to invest in the professional development of its employees. Various in-house and outside training programmes, seminars and workshops in the areas of management, plant operation and maintenance, information technology, finance, etc. were arranged throughout the year.

Management training programmes were conducted for employees both in-house and external public forum courses on leadership, team-building, motivation, personal growth, stress management, problem solving, decision making and others based on organisational training needs.

CUSTOMER FOCUS

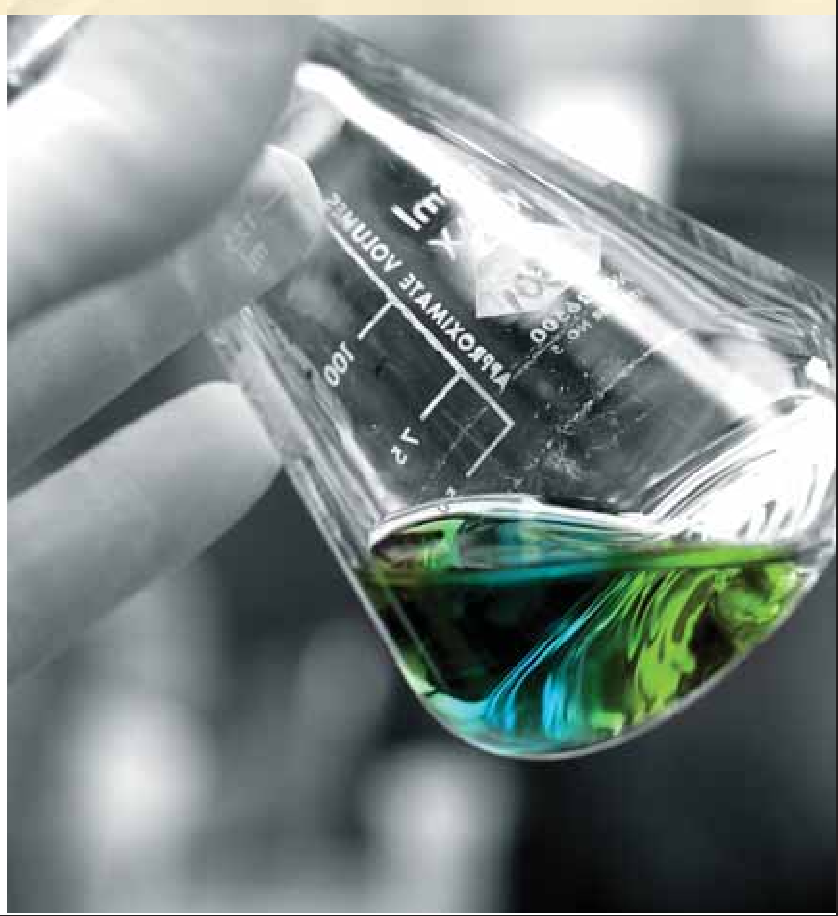
At EPCL, the belief is to build long term relationships with our customers where value added services can be provided to the customers to help them maintain a long term sustainable profitable growth. A number of formal and informal training sessions were conducted for the down stream PVC industry focusing mainly towards enhancing the knowledge base of the human resource at the customer end.

In addition to this sixteen (16) Customer Technical Audits were conducted by the Technical Services team of EPCL where the focus was to help improve the production processes, recipes, product quality and production output at the customer facilities.

On the Caustic soda front, the Company set up a state of the art distribution system. Also all vehicles are equipped with tracking devices to ensure timely delivery to customers.

RESEARCH AND DEVELOPMENT

During the year, the representatives of EPCL locally developed a recipe for lead-free pipes for use in potable water systems, food grade geo-membrane for lining water reservoirs, medical compound for I.V. sets and syringe gaskets.



INFORMATION SYSTEMS

The main objective is to ensure optimal utilisation of available IT assets and resources to achieve business objectives. Focus remains on continuous improvement of business processes and IT infrastructure to keep the infrastructure aligned with ever changing technologies and business dynamics. This includes managing Enterprise Resource Planning Systems (ERP), Electronic Communication and Network Infrastructure. New avenues of development are continuously evaluated and accomplished keeping in view the business objectives. A lot of emphasis is given on human resource trainings to keep the employees at par with the latest technology standards. Information Systems Security and Disaster Recovery Management systems are well in place and are tested periodically.

BUSINESS OUTLOOK

PVC domestic sales are expected to show a growth in 2010 due to expected scrap conversion and continuation of Government sponsored projects. PVC-VCM margin is also expected to improve next year once the VCM plant comes into commercial operation in first quarter 2010. High oil prices and supply demand gap in Ethylene are expected to maintain high Ethylene prices during first half of 2010.

However, additional capacities are scheduled to come on line in second half which should ease off some pressure and Ethylene prices may decrease. This will have a trickle down effect on the PVC and VCM prices.

Demand for Caustic soda is expected to be strong and the Company is determined to capture maximum market share by offering value for money in terms of product quality and customer services. EPCL plans to continue to sell surplus power to KESC. Company's strategy would continue to maintain focus on domestic market and export any surplus available product.

The Company is also studying utilisation of the Hydrogen which is available at site and ways to grow both PVC and Caustic soda capacities to cater to growing demand. It is expected that these studies will be completed in 2010.

CORPORATE REVIEW

SHAREHOLDING OF THE COMPANY

The shareholding of the Company as at December 31, 2009:

	No. of Shares	Holding %
Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited)	292,399,992	56.2
International Finance Corporation	76,200,000	14.6
Mitsubishi Corporation	56,999,998	11.0
EPCL Employees Trust	18,000,000	3.5
Banks, Development Financial Institutions, Non-Banking Financial Institutions	6,483,247	1.2
Modarabas and Mutual Funds	4,814,778	0.9
Insurance Companies	320,000	0.1
Individuals and others	65,149,652	12.5
Directors	10	-
Total	**520,367,677**	**100.0**

EMPLOYEES' SHARE OPTION SCHEME

The employees' share option scheme (the Scheme) was originally approved by the shareholders at their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the scheme, employees who were considered critical to the business operations were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to the criticality of an employee to the business and with the approval of the Board Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ends on December 31, 2009, where after the options can be exercised within a period of two years.

During last year, the Company had proposed certain changes relating to 'grant date' in the originally approved Scheme. These changes were approved by the shareholders at their EGM held on June 27, 2008, and subsequently by the Securities and Exchange Commission of Pakistan on September 25, 2008. As per the approved change to the Scheme the 'grant date' is the date of EGM held on October 8, 2007, when the Scheme was originally approved. The effect of the change in the grant date aggregating Rs.1 million had been recognised last year. Movement of the Deferred Employee Compensation expense for the year has been as follows:

	(Rupees in thousand)
Balance as at January 1, 2009	4,381
Less: Options lapsed	545
Less: Amortization for the period	3,836
Balance as at December 31, 2009	-

The Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

- Total number of share options granted	5,300,000
- Fair value of the share options at grant date	Rs. 1.86
- Share price at grant date	Rs. 18
- Exercise price per share	Rs. 22
- Annual volatility based on historical pattern	15.13%
- Risk free rate used	10.12%
- Expected dividends	Nil

Employee-wise detail of options granted to senior management personnel is as follows:

Asif Qadir	1,192,858
Syed Ahsenuddin	792,858
Arshaduddin Ahmed	392,857
Syed Nayyar I. Raza	242,857
Zia Naeem Siddiqui	242,857
Syed Ashar Hussain	142,857
Saleem Lallany	67,857

During the year, 292,857 options lapsed on account of resigned employees. Further, the average market price of the share remained below the exercise price, therefore, diluted earnings per share has not been calculated.

MAJOR JUDGEMENT AREAS AND ESTIMATES

Infrastructure Cess

The Company, in the year 2003 along with other companies filed an appeal before the Honourable High Court of Sindh (High Court) against the levy of cess at the rate of 0.5% by the Government of Sindh (Excise and Taxation Officer) through the Sindh Finance (Second Amendment) Ordinance,

CORPORATE REVIEW

2001, for special maintenance and development of infrastructure for movement of goods. During the last year, the High Court through its order dated September 17, 2008 directed that the levy of cess imposed and collected from December 28, 2006 is leviable and all imposition and collection before such date have been rendered invalid. The Company has been accruing the said levy in the annexed financial statements, which has accumulated to Rs.263 million. However, taking a prudent approach, the accrual for the period prior to December 28, 2006 amounting to Rs.84 million has not been reversed in the annexed financial statements as the matter is now pending before the Supreme Court of Pakistan and also because the bank guarantees amounting to Rs.270 million furnished by the Company to the Government of Sindh (Excise and Taxation Officer) have not yet been released.

Special Federal Excise Duty

As at December 31, 2009, the Company had paid Rs. 95 million on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of this amount the Company adjusted Rs. 58 million in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by the Company in monthly sales tax returns. Pending such clarification, the Company based on prudence had made provision for the adjusted amount of Rs. 58 million and for the balance remaining of Rs. 37 million included in loans, advances, deposits, prepayments and other receivables.

During the year, the Company received Show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the aforementioned SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted is recoverable from the Company under the Federal Excise Act, 2005 along with default surcharge and penalty.

In response to these notices the Company has filed a Constitutional Petition before the Honourable High Court, Sindh, on May 18, 2009. The High Court is in the process of evaluating the Constitutional Petition. The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is maintaining the aforementioned provision. Further, a provision of Rs. 13 million for surcharge and penalty thereagainst upto December 31, 2009 has also been made.

Custom Duty

The Collector of Customs in its order dated April 11, 2008, decided the case against the Company in respect of refund application for duty paid on import of Raw Material. The Company based on the advice of its tax consultant, filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order. However, the Company based on prudence made full provision amounting to Rs.18 million, during 2008, against the aforementioned custom duty refundable.

Hedging Reserve

The Company has entered into interest rate swap agreements with banks to hedge its interest rate exposure on floating rate borrowing from International Finance Corporation (IFC) for an amount of US$ 40 million. The swaps are effective for the period starting from December 15, 2008 and ending on June 15, 2017. The fair value of the interest rate swaps as at December 31, 2009 amounted to Rs.20 million which has been debited to equity, net of tax.

BUSINESS RISK AND CHALLENGES

Following risks are considered to be relevant in evaluating the overall outlook and business strategy of the Company:

Risk Factors	Mitigants
Reduction in domestic demand of PVC and Caustic soda	EPCL's annual production capacity of PVC is 150K tons which is in the optimum range for Pakistan market. Over the years the Company has also developed an export customer base in the international market and is in a reasonably comfortable position to export surplus quantities of PVC. Caustic soda was recently launched in the domestic market and the product gained market penetration in a very short period of time. Production capacity of EPCL is sufficient only to cater to about one-third of the domestic demand. In a scenario where demand is reduced EPCL would be in a position to maintain its sales volume on account of its competitive advantage in terms of more efficient operations and product quality. In addition to this EPCL also has the capability to export Caustic soda.
Non availability of main raw materials for PVC	In the integrated facility main raw material required to EPCL to produce PVC is Ethylene. The risk of non availability of Ethylene is very low as additional Ethylene capacities have and are coming online in the Middle East. Moreover, EPCL still has the capacity to produce PVC by importing VCM and exporting EDC.
Increase in Crude oil prices resulting in increase of Ethylene prices	The financials of the business are affected by PVC-Ethylene margins. As both PVC and Ethylene are part of the Chlor Vinyl chain therefore increase in Ethylene prices would also push PVC prices higher.

CORPORATE REVIEW

FINANCIAL RISK MANAGEMENT

The treasury activities are controlled and are carried out in accordance with the policies approved by the Board. The risks managed by the treasury function are funding risk, interest rate and currency risk. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available to the Company at all times and that exposure to funding risk is minimized. The Company uses interest rate swaps and forward currency contracts keeping in view the exposure to related risks and regulatory framework, to manage both interest and currency rates on the underlying business activities.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Board of Directors reviews all significant matters of the Company. These include Company's strategic direction, annual business plans and targets, decision on long term investments and borrowings. The Board of Directors is committed to maintain high standards of Corporate Governance.

The Board of Directors is pleased to report that:

- The financial statements prepared by the management present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts about Company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance.
- The fair value of investment of Provident fund, Pension fund and Gratuity fund based on their respective audited accounts for the year ended June 30, 2008 are as follows:

	Rupees in million
Provident Fund	80.0
Pension Fund	66.6
Gratuity Fund	25.1

- Six Board meetings were held during 2009.

Attendance by each Director is as follows:

	No.of meetings attended
Asad Umar	5
Asif Qadir	6
Isar Ahmad	6
Shahzada Dawood	5
Masaharu Domichi	6
Takeshi Hagiwara	6*
Shabbir Hashmi	5
Waqar A. Malik	4
Khalid Mansoor	5
Khalid S. Subhani	5

*Includes five meetings attended by Alternate Directors

• CATEGORY OF SHAREHOLDING

Information of shareholding as at December 31, 2009 required under the reporting framework is as follows:

(i) Associated Companies, undertakings and related parties.

	No. of Shares	Holding %
Engro Corporation Limited (Formerly Engro Chemical Pakistan Ltd.)	292,399,992	56.2
International Finance Corporation	76,200,000	14.6
Mitsubishi Corporation	56,999,998	11.0
EPCL Employees Trust	18,000,000	3.5

(ii) NIT and ICP

None

(iii) Directors, CEO and their spouse and minor children.

	No. of Shares
Asad Umar	1
Asif Qadir	1
Isar Ahmad	1
Shahzada Dawood	1
Masaharu Domichi	1
Takeshi Hagiwara	1
Shabbir Hashmi	1
Waqar A. Malik	1
Khalid Mansoor	1
Khalid S. Subhani	1

(iv) Executives

None

(v) Public Sector Companies and Corporations

None

(vi) Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds.

	No. of Shareholders	No. of Shares
Banks, Development Finance Institutions, Non-Banking Finance Institutions	9	6,483,247
Modarabas and Mutual Funds	15	4,814,778
Insurance companies	2	320,000

(vii) Shareholders holding ten percent or more voting interest in the listed Company.

	No. of Shares	Holding %
Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited)	**292,399,992**	**56.2**
International Finance Corporation	**76,200,000**	**14.6**
Mitsubishi Corporation	**56,999,998**	**11.0**

(viii) Details of purchase/sale of shares by Directors/Company Secretary / Chief Financial Officer and their spouses / minor children during 2009.

None

- SUMMARISED CATEGORY OF SHAREHOLDING

S. No.	Shareholders Category	No. of Shareholders	No. of Shares	Holding %
1	Joint stock companies	115	370,619,637	71.3
2	Directors	10	10	-
3	Individuals	41,222	43,930,005	8.4
4	Trust	1	18,000,000	3.5
5	Banks, Development Finance Institutions, Non-Banking Finance Institutions	9	6,483,247	1.2
6	Modarabas and Mutual Funds	15	4,814,778	0.9
7	Insurance Companies	2	320,000	0.1
8	International Finance Corporation	1	76,200,000	14.6
	Total	**41,375**	**520,367,677**	**100**

• PATTERN OF SHAREHOLDING

Pattern of holding of the shares held by the Shareholders of the Company as at December 31, 2009

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
176	1	100	8,122
34,978	101	500	17,449,628
2,732	501	1,000	2,703,408
2,623	1,001	5,000	6,665,274
435	5,001	10,000	3,401,034
131	10,001	15,000	1,676,021
77	15,001	20,000	1,427,345
47	20,001	25,000	1,096,160
22	25,001	30,000	634,714
13	30,001	35,000	435,500
13	35,001	40,000	499,750
5	40,001	45,000	218,099
26	45,001	50,000	1,287,597
4	50,001	55,000	214,100
4	55,001	60,000	235,090
4	60,001	65,000	254,300
5	65,001	70,000	347,950
3	70,001	75,000	211,755
6	75,001	80,000	468,972
1	80,001	85,000	82,000
1	85,001	90,000	86,000
3	90,001	95,000	279,825
12	95,001	100,000	1,198,742
1	100,001	105,000	100,800
1	105,001	110,000	109,139
4	110,001	115,000	447,910
1	115,001	120,000	120,000
2	125,001	130,000	257,200
2	135,001	140,000	277,500
3	145,001	150,000	446,500
2	155,001	160,000	314,000
1	165,001	170,000	167,600
1	170,001	175,000	170,325
1	190,001	195,000	192,500
5	195,001	200,000	993,774
2	215,001	220,000	437,850
1	220,001	225,000	225,000
2	245,001	250,000	498,525
1	270,001	275,000	272,200
1	290,001	295,000	294,500
3	345,001	350,000	1,050,000
1	395,001	400,000	400,000
1	455,001	460,000	456,497
1	465,001	470,000	470,000
2	495,001	500,000	1,000,000
1	565,001	570,000	568,953
1	675,001	680,000	675,966
1	745,001	750,000	750,000
1	995,001	1,000,000	995,389
1	1,195,001	1,200,000	1,200,000
1	1,385,001	1,390,000	1,388,889
1	1,725,001	1,730,000	1,726,889
1	1,995,001	2,000,000	2,000,000
1	2,075,001	2,080,000	2,080,000
1	2,575,001	2,580,000	2,576,358
1	13,220,001	13,225,000	13,222,037
1	17,995,001	18,000,000	18,000,000
1	56,995,001	57,000,000	56,999,998
1	76,195,001	76,200,000	76,200,000
1	292,395,001	292,400,000	292,399,992
41,375			**520,367,677**

CORPORATE REVIEW

- **EARNING / (LOSS) PER SHARE**

  Loss per share for the year was Rs.0.45 whereas earning per share for last year was Rs.0.68.

- **DIVIDEND**

  In view of the loss made by the Company during the year and delay in VCM plant startup, the Board of Directors have decided not to announce any dividend.

- **SHARES TRADED AND AVERAGE PRICE**

  During the year 308 million shares of the Company were traded on Stock Exchanges. Average price of the Company's share, based on daily closing rates was Rs. 20.8.

- **AUDITORS**

  The present auditors, M/s. A. F. Ferguson and Company, retire and offer themselves for reappointment.

Wholly owned Subsidiary - Engro Polymer Trading (Private) Limited

EPTL is a wholly owned subsidiary of the Company and is involved in the trading business of Chemicals. During the year, exports from EPTL amounted to Rs. 1,391 million which consist of PVC, EDC and Caustic soda. The profit after tax of EPTL for current year is Rs. 38 million in comparison to a loss of Rs. 3 million during 2008.

On behalf of the Board

Asif Qadir

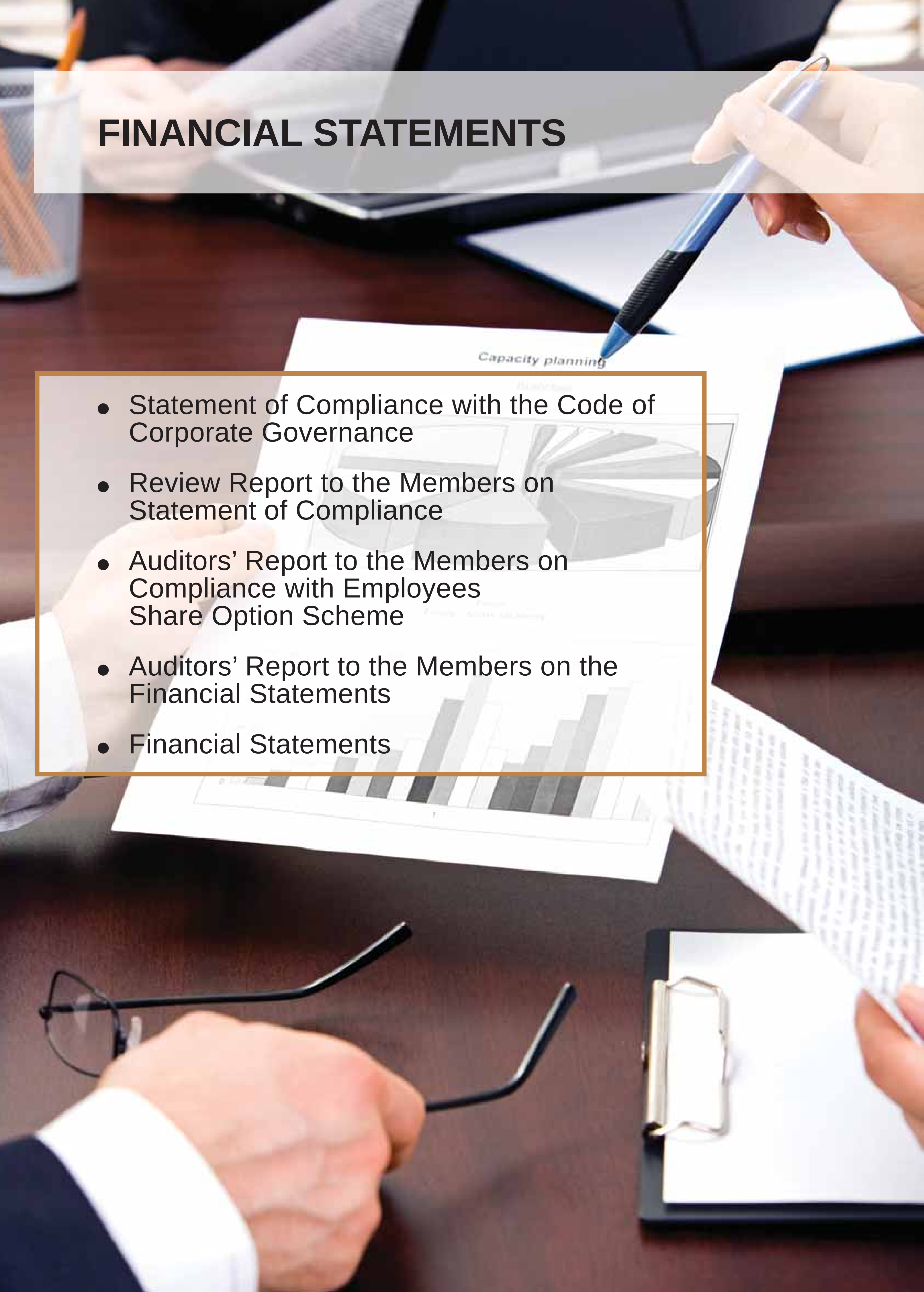
Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Karachi
January 21, 2010

Engro Polymer & Chemicals Ltd.

DIRECTORS' REPORT 2009



FINANCIAL STATEMENTS

- Statement of Compliance with the Code of Corporate Governance
- Review Report to the Members on Statement of Compliance
- Auditors' Report to the Members on Compliance with Employees Share Option Scheme
- Auditors' Report to the Members on the Financial Statements
- Financial Statements

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four independent non-executive directors, two of whom also represent minority interests, along with five non-executive directors representing Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited), the majority shareholder, and one executive director, being the CEO of the Company.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

5. The Company has developed a Mission Statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which these were enacted has been maintained.

6. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.

7. The meetings of the Board were presided over by the Chairman, and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

8. The Company conducted orientation for its directors to apprise them of their duties and responsibilities.

9. The Board has approved appointment of CFO/Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment as determined by the CEO.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

10. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. The Company has complied with all the corporate and financial reporting requirements of the Code.

14. The Board has formed an audit committee. It comprises of four directors all of whom are non executive directors including the Chairman.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company, as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

16. The Board has set-up an effective internal audit function.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors along with pricing methods for such transactions.

20. We confirm that all other material principles contained in the Code have been complied with.

Asif Qadir

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

January 21, 2010

A.F.FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

A.F. Ferguson & Co.
Chartered Accountants
State Life Building No.1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2009 prepared by the Board of Directors of Engro Polymer and Chemicals Limited to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance (the Code) is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

AFFerguson & Co.

Chartered Accountants
Karachi
Date: January 27, 2010

Engagement partner: Sohail Hassan

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan. Tel: (92-42) 36285078-85 Fax: (92-42) 36285088
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan. Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

A.F.FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

A.F. Ferguson & Co.
Chartered Accountants
State Life Building No.1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

AUDITORS' REPORT TO THE MEMBERS ON COMPLIANCE WITH EMPLOYEES SHARE OPTION SCHEME

We have audited the Engro Polymer and Chemicals Limited's (the Company) compliance as of December 31, 2009 with:

(i) the Employee Share Option Scheme (the Scheme) as approved by the shareholders of the Company; and

(ii) the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I) 2001 dated May 11, 2001.

The responsibility for implementation of the Scheme, as approved by the shareholders of the Company, and in accordance with the Rules, including maintenance of proper books of accounts and records in respect thereto, is that of the Company's management.

Our responsibility is to provide an opinion based on our evidence gathering procedures in accordance with International Standards on Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Company has complied with the Scheme and the Rules. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Company was, in all material respects, in compliance with the Scheme and the Rules as of December 31,2009.

AFFerguson & Co.

Chartered Accountants
Karachi
Date: January 27, 2010

Engagement partner: Sohail Hassan

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan. Tel: (92-42) 36285078-85 Fax: (92-42) 36285088
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan. Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

A.F. Ferguson & Co.
Chartered Accountants
State Life Building No.1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited as at December 31, 2009 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes resulted on initial application of standards, amendments or interpretations to existing standards, as stated in note 2.1.4 (a), with which we concur;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2009 and of the loss, its changes in equity and cash flows for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

AFerguson & Co.

Chartered Accountants
Karachi
Date: **January 27, 2010**

Engagement Partner: Sohail Hassan

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan. Tel: (92-42) 36285078-85 Fax: (92-42) 36285088
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan. Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

BALANCE SHEET
AS AT DECEMBER 31, 2009

(Amounts in thousand)

	Note	2009	2008
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	19,360,686	16,134,766
Intangible assets	5	11,816	9,262
Long term investment	6	50,000	50,000
Long term loans and advances	7	47,475	107,785
		19,469,977	16,301,813
Current Assets			
Stores, spares and loose tools	8	192,762	127,152
Stock-in-trade	9	1,605,218	1,159,318
Trade debts - considered good	10	336,242	69,514
Loans, advances, deposits, prepayments and other receivables	11	309,224	298,932
Taxes recoverable		452,548	220,727
Deferred employee share compensation expense	14	-	4,381
Cash and bank balances	12	190,064	97,273
		3,086,058	1,977,297
TOTAL ASSETS		22,556,035	18,279,110
EQUITY AND LIABILITIES			
Equity			
Share capital	13	5,203,677	5,203,677
Share premium		975,438	975,438
Employee share compensation reserve	14	9,313	9,858
Hedging reserve		(12,958)	(39,100)
Unappropriated profit		184,203	415,992
		6,359,673	6,565,865
Non-Current Liabilities			
Long term borrowings	15	11,135,163	7,973,072
Derivative financial instruments	16	19,935	60,154
Retention money against project payments	17	-	553,445
Deferred income tax liabilities	18	321,520	382,574
Retirement and other service benefit obligations	19	38,312	38,500
		11,514,930	9,007,745
Current Liabilities			
Current portion of long term borrowings	15	1,016,393	130,000
Trade and other payables	20	2,998,097	1,510,735
Accrued interest / mark-up	21	202,207	167,268
Short term borrowings	22	394,241	842,568
Provisions	23	70,494	54,929
		4,681,432	2,705,500
Contingencies and Commitments	24		
TOTAL EQUITY AND LIABILITIES		22,556,035	18,279,110

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

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

	Note	2009	2008 (Restated)
		Rupees	
Net revenue	25	**11,571,117**	7,868,380
Export rebate		**-**	69
		11,571,117	7,868,449
Cost of sales	26	**(10,418,657)**	(6,736,218)
Gross profit		**1,152,460**	1,132,231
Distribution and marketing expenses	27	**(468,512)**	(311,640)
Administrative expenses	28	**(205,389)**	(163,040)
Other operating expenses	29	**(231,701)**	(289,828)
Other operating income	30	**100,262**	124,334
Operating profit		**347,120**	492,057
Finance costs	31	**(596,264)**	(33,529)
(Loss) / Profit before taxation		**(249,144)**	458,528
Taxation	32	**17,355**	(105,243)
(Loss) / Profit for the year		**(231,789)**	353,285
(Loss) / Earnings per share - basic and diluted	33	**(0.45)**	0.68

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	2009	2008
	Rupees	
(Loss) / Profit for the year	**(231,789)**	353,285
Other comprehensive income:		
Hedging reserve		
(Loss) / Gain arising during the year	**(478)**	257,573
Less:		
- Reclassification adjustments for (gains) / losses included in profit and loss	**22,557**	(118,649)
- Adjustments for amounts transferred to initial carrying amount of hedged items	**18,140**	(199,078)
Income tax relating to hedging reserve	**(14,077)**	21,054
Other comprehensive income / (loss) for the year - net of tax	**26,142**	(39,100)
Total comprehensive (loss) / income for the year	**(205,647)**	314,185

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	Note	2009	2008
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	**1,490,418**	665,784
Finance costs paid		**(561,325)**	(354,528)
Long term loans and advances		**60,310**	(10,814)
Retirement benefits paid		**(10,957)**	-
Income tax paid		**(289,597)**	(183,508)
Net cash generated from operating activities		**688,849**	116,934
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		**(3,739,678)**	(11,157,805)
- intangible assets		**(6,255)**	(7,180)
Retention money against Project payments		**(553,445)**	452,485
Proceeds from disposal of property, plant and equipment		**6,179**	3,971
Proceeds from sale of short term investments		**35,168**	2,914,504
Income on short term investments and bank deposits		**61,816**	117,077
Net cash utilized in investing activities		**(4,196,215)**	(7,676,948)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		**4,178,484**	6,637,643
Repayments of long term borrowings		**(130,000)**	-
Proceeds from issue of share capital		**-**	229,128
Dividend paid		**-**	(252,896)
Net cash generated from financing activities		**4,048,484**	6,613,875
Net increase / (decrease) in cash and cash equivalents		**541,118**	(946,139)
Cash and cash equivalents at beginning of the year		**(745,295)**	200,844
Cash and cash equivalents at end of the year	37	**(204,177)**	(745,295)

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2008	4,436,000	425,216	-	-	315,603	5,176,819
Total comprehensive income for the year	-	-	-	(39,100)	353,285	314,185
Final dividend for the year ended December 31, 2007 - Re. 0.54 per share	-	-	-	-	(252,896)	(252,896)
Share options granted during the year - note 14	-	-	9,858	-	-	9,858
Share capital issued	767,677	614,141	-	-	-	1,381,818
Share issuance cost, net	-	(63,919)	-	-	-	(63,919)
Balance as at December 31, 2008	**5,203,677**	**975,438**	**9,858**	**(39,100)**	**415,992**	**6,565,865**
Total comprehensive loss for the year	-	-	-	26,142	(231,789)	(205,647)
Unvested share options lapsed during the year - note 14.2.1	-	-	(545)	-	-	(545)
Balance as at December 31, 2009	**5,203,677**	**975,438**	**9,313**	**(12,958)**	**184,203**	**6,359,673**

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(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 Companies Ordinance, 1984. The Company was listed on Karachi Stock Exchange in 2008 and on Islamabad and Lahore Stock Exchanges during the current year.

The Company is a subsidiary of Engro Chemical Pakistan Limited (ECPL) (renamed as Engro Corporation Limited with effect from January 1, 2010). The address of its registered office is 1st floor, Bahria Complex I, M. T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals.

1.2 In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). The new PVC plant commenced commercial production on January 1, 2009. Further, on August 1, 2009, the Company commenced commercial operations of EDC, Chlor-alkali and Power plants (Gas turbines). The VCM plant is still in the test production phase. These plants have been set up adjacent to the Company's existing PVC facilities in the Port Qasim Industrial Area. Furthermore, during the year, the Company has also commenced supply of surplus power generated from Power plants to Karachi Electric Supply Company (KESC), under an agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 **Basis of preparation**

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative instruments) at fair value and recognition of certain staff retirement and other service benefits at present value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.1.3 The preparation of financial statements in conformity with the above requirements 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. The areas involving high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(Amounts in thousand)

2.1.4 **Initial application of a Standard, Amendment or an Interpretation to an existing Standard**

a) Standards, amendments to published standards and interpretations effective in 2009 and relevant

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Entities can choose to present one statement of comprehensive income or two separate statements (the profit and loss account and statement of comprehensive income).

  The Company has elected to present two statements; a profit and loss account and a statement of comprehensive income. As the change impacts only the presentation of financial statements there is no impact on earnings per share.

- IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company's current accounting policy is in compliance with this amendment, and therefore has no effect on the Company's financial statements.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that an investment in associate including subsidiaries is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. This amendment has no impact on the Company's financial statements as currently there is no indication of impairment in Company's investment in subsidiary.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition

(Amounts in thousand)

- When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

  This amendment has no material impact on the Company's financial statements.

- IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, would have the same accounting treatment. The Company's current accounting policy for employees' shares options is consistent with this amendment.

- The SECP vide S.R.O. 411 (1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. The application of IFRS 7 has only resulted in additional disclosures in the Company's financial statements.

- IFRS 8 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires segment information to be presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. Application of IFRS 8 has resulted in additional disclosures in the Company's financial statements.

b) Standards, amendments to published standards and interpretations effective in 2009 but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

c) Interpretation to existing standards that has been early adopted by the Company

- IFRIC 4, 'Determining whether an Arrangement contains a Lease' was adopted by SECP and was applicable for all periods beginning on or after January 1, 2006. However, SECP vide Circular No. D(CS)/34/2009 dated June 22, 2009 deferred the implementation of IFRIC 4 till June 30, 2010. The Company has early adopted the Interpretation, which has only resulted in additional disclosures in respect of certain arrangements of the Company being classified as operating leases (note 26.3).

(Amounts in thousand)

d) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2010). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (Amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements, on its initial application.

- IAS 39 (Amendment), 'Cash flow hedge accounting', (effective from July 1, 2010). This amendment provides clarification when to recognize gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The Company will apply IAS 39 (Amendment) from July 1, 2010. It is not expected to have a material impact on the Company's financial statements, on its initial application.

- IFRS 8 (Amendment), 'Disclosure of information about segment assets' (effective from January 1, 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The new guidance is not expected to have a material impact on the Company's financial statements.

- IAS 39 (Amendment), 'Treating loan pre-payment penalties as closely related derivatives' (effective from January 1, 2010). This amendment clarifies pre-payment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from re-investment risk, should be considered closely related to the host debt contract. The Company will apply IAS 39 (Amendment) from January 1, 2010.

There are a number of other minor amendments and interpretations to other published standards that are not yet effective, and are also not relevant to the Company and therefore have not been presented here.

2.2 **Property, plant and equipment**

These are stated at cost less accumulated depreciation and impairment, if any, except Capital work-in-progress. Cost in relation to fixed assets signifies historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress is stated at historical cost less impairment, if any.

(Amounts in thousand)

Depreciation on assets is charged to income using the straight line method to allocate their cost to their residual values over their estimated useful lives at rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income during the year in which these are incurred.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

2.3 **Intangible assets - Computer software**

Costs associated with developing and maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly attributable to identifiable software and have probable economic benefits exceeding one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related overhead cost.

Expenditure, which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 to 10 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount in income. Reversal of impairment losses are also recognized in income.

2.4 **Investments in subsidiaries**

Investments in subsidiaries are stated at cost net of provision for impairment, if any. This investment is classified as long term investments.

(Amounts in thousand)

2.5 Financial instruments

2.5.1 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade debts and other receivables' and 'cash and cash equivalents' in the balance sheet (note 2.8 and 2.9).

(c) **Held to maturity financial assets**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

(d) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

(Amounts in thousand)

Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss account within 'other operating income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the profit or loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in note 2.8.

2.5.2 **Financial liabilities**

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account

(Amounts in thousand)

2.5.3 Offsetting of financial assets and liabilities

A financial asset and a financial liability are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.6 Stores and spares

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Provision is made for slow moving items, as per policy and is recognized in the profit and loss account.

2.7 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost in relation to raw materials represent the weighted average cost and in relation to finished goods and work-in-progress represents weighted average cost comprising direct materials, labour and related manufacturing overheads.

Cost of stock-in-transit represents the invoice value plus other charges incurred thereon till the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred in order to make the sales. Provision is made for slow moving stocks where considered necessary.

2.8 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is charged to income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

2.9 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement include cash in hand and in transit, balance with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

2.10 **Share capital**

Ordinary shares are classified as equity and recognized at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds.

2.11 **Employees' Share Option Scheme**

The grant date fair value of equity settled share based payments to employees is initially recognized in the balance sheet as deferred share employee compensation expense with a consequent credit to equity as employee share compensation reserve.

The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss is reversed equal to the amortized portion with a corresponding effect to deferred employee compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to deferred employee compensation reserve in the balance sheet.

When the options are exercised, deferred employee compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital, and any amount over and above the share capital is transferred to share premium account.

2.12 **Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.13 **Retirement and other service benefit obligation**

2.13.1 **Pension Scheme**

The Company operates an approved defined benefit pension scheme for its management employees. The scheme is funded and provides for pension based on the employees' last drawn salary. Pensions are payable, after retirement or on optional retirement, for life and thereafter to surviving spouses and ependant children.

(Amounts in thousand)

2.13.2 **Gratuity Scheme**

The Company operates an approved funded defined benefit gratuity scheme for its management employees. The scheme provides gratuity based on the employees' last drawn salary. Gratuity is payable on retirement, separation or death to ex-employees, or their spouses thereafter. Contributions are made annually to these funds on the basis of the actuarial valuations and in line with the provisions of the Income Tax Ordinance, 2001.

2.13.3 **Additional Death Gratuity Scheme**

The Company also operates an approved death gratuity scheme for its permanent employees. The scheme is unfunded and provides for additional death gratuity which is payable on death of employee to surviving spouses and dependent children.

Actuarial valuation of these schemes is carried out at least once in every three years. The most recent actuarial valuation was carried out as of December 31, 2008 using the 'Projected Unit Credit Method'.

The amount recognized in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, if any, as reduced by the fair value of plan assets.

Cumulative unrecognized actuarial gains and losses at the end of the previous year which exceeds 10% of the greater of the present value of the Company's defined benefit obligations and the fair value of plan assets are amortized over the expected average remaining working lives of the employees.

2.13.4 **Provident fund**

The Company operates a defined contribution provident fund for its permanent management employees. Equal monthly contributions are made both by the Company and the employees to the fund at the rate of 10% of basic salary. Annual contribution by the Company is charged to income.

2.13.5 **Compensated absences**

Accrual is made for employees compensated absences on the basis of accumulated leaves and the last drawn pay.

2.13.6 **Other benefits**

Provision is made under a service incentive plan for certain category of experienced employees to continue in the Company's employment. The provision is made on the basis of management's estimates of incentives to be paid to employees on fulfilment of criteria given in the incentive plan.

2.14 **Trade and other payables**

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

2.15 **Provisions**

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.16 **Taxation**

2.16.1 **Current**

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.16.2 **Deferred**

Deferred income tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax is charged or credited in the profit and loss account.

2.17 **Foreign currency transactions and translation**

These financial statements are presented in Pakistani Rupees, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income.

2.18 **Derivatives financial instruments and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

(Amounts in thousand)

The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are to:

- minimize foreign currency exposure's impact on the Company's financial performance; and
- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

(a) **Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) **Cash flow hedge**

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in comprehensive income are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. inventory or fixed assets) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve are shown in statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

2.19 **Revenue recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognized on the following basis:

- sales are recognized when the product is dispatched to customers;
- revenue from the supply of electricity is recorded based upon the output delivered;
- dividend income is recognized when the Company's right to receive the payment is established; and
- return on deposits is recognized using the effective interest rate method.

2.20 **Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which such costs are capitalized as part of the cost of that asset. Borrowing costs includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.21 **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting.

2.22 **Dividend and appropriation to reserves**

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 **Property, plant and equipment**

The Company reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

3.2 **Impairment of investments in subsidiaries**

In making an estimate of future cash flows from the Company's financial assets including investment in subsidiaries, the management considers future dividend stream and an estimate of the terminal value of these investments.

(Amounts in thousand)

3.3 **Derivative hedging financial instruments designated as cash flow hedges**

The Company reviews the changes in fair values of the derivative hedging financial instruments at each reporting date based on the valuations received from the contracting banks. These valuations represent estimated fluctuations in the relevant currencies / interest rates over the reporting period and other relevant variables signifying currency and interest rate risks.

3.4 **Stock-in-trade**

The Company reviews the net realizable value of stock-in-trade to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

3.5 **Income taxes**

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

3.6 **Fair value of employee share options**

The management has determined the fair value of options issued under the Employee Share Option Scheme at the grant date using the Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 14.

3.7 **Provision for retirement and other service benefits obligations**

The present value of these obligations depends on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in notes 34.2 and 34.7 respectively.

4. PROPERTY, PLANT AND EQUIPMENT

	2009	2008
	Rupees	
Operating assets (note 4.1)	**14,112,080**	1,987,643
Capital work in progress (note 4.4)	**5,248,606**	14,147,123
	19,360,686	16,134,766

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines				Furniture, fixtures and equipment	Vehicles	Total
				Water	VCM	Ethylene	Gas			
	Rupees									
As at January 1, 2008										
Cost	190,779	227,102	2,732,433	119,280	26,122	-	1,691	77,604	66,242	3,441,253
Accumulated depreciation	(9,480)	(46,686)	(1,111,931)	(48,350)	(10,611)	-	(689)	(47,004)	(33,449)	(1,308,200)
Net book value	**181,299**	**180,416**	**1,620,502**	**70,930**	**15,511**	-	**1,002**	**30,600**	**32,793**	**2,133,053**
Year ended December 31, 2008										
Opening net book value	181,299	180,416	1,620,502	70,930	15,511	-	1,002	30,600	32,793	2,133,053
Additions	3,348	-	-	-	-	-	-	19,940	20,384	43,672
Disposals / write off - note 4.3										
- Cost	-	-	-	-	-	-	-	(3,353)	(6,583)	(9,936)
- Accumulated depreciation	-	-	-	-	-	-	-	2,749	3,565	6,314
Net book value	-	-	-	-	-	-	-	(604)	(3,018)	(3,622)
Reclassification										
- Cost	-	-	(5,889)	-	-	-	-	-	5,889	-
- Accumulated depreciation	-	-	2,984	-	-	-	-	-	(2,984)	-
Net book value	-	-	(2,905)	-	-	-	-	-	2,905	-
Depreciation charge - note 4.2	(3,870)	(5,827)	(145,761)	(5,964)	(1,306)	-	(85)	(9,985)	(12,662)	(185,460)
Closing net book value	**180,777**	**174,589**	**1,471,836**	**64,966**	**14,205**	-	**917**	**39,951**	**40,402**	**1,987,643**
As at January 1, 2009										
Cost	194,127	227,102	2,726,544	119,280	26,122	-	1,691	94,191	85,932	3,474,989
Accumulated depreciation	(13,350)	(52,513)	(1,254,708)	(54,314)	(11,917)	-	(774)	(54,240)	(45,530)	(1,487,346)
Net book value	**180,777**	**174,589**	**1,471,836**	**64,966**	**14,205**	-	**917**	**39,951**	**40,402**	**1,987,643**
Year ended December 31, 2009										
Opening net book value	180,777	174,589	1,471,836	64,966	14,205	-	917	39,951	40,402	1,987,643
Additions	-	168,221	12,076,638	275,128	-	50,023	32,158	16,820	29,811	12,648,799
Disposals - note 4.3										
- Cost	-	-	-	-	-	-	-	(133)	(13,458)	(13,591)
- Accumulated depreciation	-	-	-	-	-	-	-	74	8,957	9,031
Net book value	-	-	-	-	-	-	-	(59)	(4,501)	(4,560)
Depreciation charge - note 4.2	(3,934)	(10,033)	(466,383)	(11,696)	(1,306)	(1,042)	(754)	(12,920)	(11,734)	(519,802)
Closing net book value	**176,843**	**332,777**	**13,082,091**	**328,398**	**12,899**	**48,981**	**32,321**	**43,792**	**53,978**	**14,112,080**
As at December 31, 2009										
Cost	194,127	395,323	14,803,182	394,408	26,122	50,023	33,849	110,878	102,285	16,110,197
Accumulated depreciation	(17,284)	(62,546)	(1,721,091)	(66,010)	(13,223)	(1,042)	(1,528)	(67,086)	(48,307)	(1,998,117)
Net book value	**176,843**	**332,777**	**13,082,091**	**328,398**	**12,899**	**48,981**	**32,321**	**43,792**	**53,978**	**14,112,080**
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5	5 to 33	20 to 25	

(Amounts in thousand)

4.2 Depreciation charge has been allocated as follows:

	2009	2008
	Rupees	
Cost of sales - note 26	**502,452**	167,626
Distribution and marketing expenses - note 27	**3,371**	4,255
Administrative expenses - note 28	**3,375**	5,085
Capital work-in-progress	**10,604**	8,494
	519,802	185,460

4.3 The details of operating assets disposed / written off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Vehicle	780	780	-	185	By Company policy to existing / separating executives	Mr. Muhammad Naveed
"	1,328	1,015	313	332		Mr. Syed Ahsenuddin
"	782	782	-	185		Mr. Syed Ali Akber
"	900	366	534	520		Mr. Farooq Fasih
"	900	436	464	464		Mr. Imran Hashmi
"	900	422	478	478		Mr. Mati ur Rab Siddiqui
"	1,500	831	669	609		Mr. M. Imran Farookhi
"	1,269	59	1,210	991		Mr. M. Sarmad
"	859	683	176	322		Mr. Asif Rasul Khan
"	900	449	451	422		Mr. Syed Zubair Ahmed
"	900	694	206	338		Mr. Younus Ali Siddiqui
"	407	407	-	138	By auction	Mr. Noman Hassan Khan A-908, Block 123, F. B. Area, Gulburg, Karachi
"	1,034	1,034	-	550		
"	999	999	-	539		
Furniture, fixtures and equipment	90	34	56	76	Insurance claim	Adamjee Insurance Company Limited
Aggregate amount of assets having net book value less than Rs. 50 each	43	40	3	30		
	13,591	**9,031**	**4,560**	**6,179**		
2008	9,936	6,314	3,622	3,971		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and machinery	Building on leasehold land	Ethylene pipeline and power cables	Water and gas pipelines	Furniture, fixture and equipment	Advances for vehicles	Other ancillary costs (note 4.4.2)	Total
	Rupees							
Year ended December 31, 2008								
Balance as at January 1, 2008	1,925,402	109,671	30,251	168,293	7,386	2,922	331,783	2,575,708
Additions during the year	10,597,655	53,630	31,235	64,723	31,724	24,325	808,447	11,611,739
Transferred to operating assets	-	-	-	-	(19,940)	(20,384)	-	(40,324)
Balance as at December 31, 2008	12,523,057	163,301	61,486	233,016	19,170	6,863	1,140,230	14,147,123
Year ended December 31, 2009								
Balance as at January 1, 2009	12,523,057	163,301	61,486	233,016	19,170	6,863	1,140,230	14,147,123
Additions during the year	1,830,574	31,717	2,395	15,860	3,129	31,263	1,827,684	3,742,622
Transferred to operating assets (note 4.4.1)	(10,608,848)	(162,008)	(63,589)	(246,083)	(16,820)	(29,811)	(1,513,980)	(12,641,139)
Balance as at December 31, 2009	**3,744,783**	**33,010**	**292**	**2,793**	**5,479**	**8,315**	**1,453,934**	**5,248,606**

4.4.1 As referred to in note 1.2, the Company commenced work on the expansion Project in 2006, and the Capital work-in-progress relates to the cost of this expansion Project. During the year, the Company has commenced commercial production from the new PVC plant and declared commercial operations of Ethylene Di Chloride (EDC), Chlor-alkali and Power plants (Gas turbines) and transferred the related costs of these plants to operating assets. However, the Vinyl Chloride Monomer (VCM) plant is currently in the test production phase.

4.4.2 The ancillary costs, directly attributable to the Project, comprise:

	2009	2008
	Rupees	
Salaries, wages and benefits	**213,879**	315,240
Training and travelling expenses	**45,051**	74,439
Borrowing costs, including mark-up on finances using capitalization rate of 12.08% - net (2008: 13.45% - net)	**591,810**	591,713
Legal and professional charges	**31,860**	43,103
Depreciation	**15,053**	13,763
Storage and handling	**481,667**	-
Others	**74,614**	101,972
	1,453,934	1,140,230

(Amounts in thousand)

5. INTANGIBLE ASSETS – Computer software

	Rupees
As at January 1, 2008	
Cost	6,416
Accumulated amortization	(3,585)
Net book value	2,831
Year ended December 31, 2008	
Opening net book value	2,831
Additions at cost	7,180
Amortization charge - note 28	(749)
Closing net book value	9,262
As at January 1, 2009	
Cost	**13,596**
Accumulated amortization	**(4,334)**
Net book value	**9,262**
Year ended December 31, 2009	
Opening net book value	**9,262**
Additions at cost	**6,255**
Amortization charge - note 28	**(3,701)**
Closing net book value	**11,816**
As at December 31, 2009	
Cost	**19,851**
Accumulated amortization	**(8,035)**
Net book value	**11,816**

5.1 The cost is being amortized over a period of 5 to 10 years.

6. LONG TERM INVESTMENT

	2009	2008
	Rupees	
Subsidiary - at cost		
Engro Polymer Trading (Private) Limited 5,000,000 (2008: 5,000,000) ordinary shares of Rs. 10 each	**50,000**	50,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	2009	2008
	Rupees	
7. LONG TERM LOANS AND ADVANCES - Considered good		
Executives (notes 7.1, 7.2 and 7.4)		
- Chief Executive	**416**	3,118
- Other executives	**90,748**	117,395
	91,164	120,513
Less: Current portion shown under current assets (note 11)	**(52,831)**	(40,578)
	38,333	79,935
Other employees (note 7.3)	**22,719**	37,944
Less: Current portion shown under current assets (note 11)	**(13,577)**	(10,094)
	9,142	27,850
	47,475	107,785

7.1 Reconciliation of the carrying amount of loans and advances to Chief Executive and Executives.

	2009			2008		
	Chief Executive	Other executives	Total	Chief Executive	Other executives	Total
	Rupees					
Balance at beginning of the year	**3,118**	**117,395**	**120,513**	-	114,402	114,402
Disbursements	-	**31,220**	**31,220**	3,742	288,545	292,287
Repayments	**(2,702)**	**(57,867)**	**(60,569)**	(624)	(285,552)	(286,176)
Balance at end of year	**416**	**90,748**	**91,164**	3,118	117,395	120,513

7.2 These represent interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. 20% of the loan for purchase of Company's share under ESS are repayable at the end of month 1, 12 and 24 and 40% is repayable at the end of month 30 from the expiry date of the Option Period. Advances for vehicles are charged to profit and loss account over a period of 3 years.

(Amounts in thousand)

7.3 These represent interest free loans to employees for home appliances and investments, given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans are repayable in accordance with the terms stated in note 7.2.

7.4 The maximum aggregate amount due from Chief Executive and executives at the end of any month during the year was Rs. 111,540 (2008: Rs. 130,000).

7.5 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults in recent history.

	2009	2008
	Rupees	
8. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	**20,194**	13,745
Spares	**176,435**	113,407
	196,629	127,152
Less: Provision for slow moving stores and spares - note 26	**(3,867)**	-
	192,762	127,152
9. STOCK-IN-TRADE		
Raw and packing materials - note 9.1	**1,168,171**	327,670
Work-in-process	**17,579**	21,293
Finished goods		
- own manufactured product - note 9.2	**410,653**	810,355
- purchased product	**8,815**	-
	419,468	810,355
	1,605,218	1,159,318

(Amounts in thousand)

9.1 This includes stocks-in-transit amounting to Rs. 248,065 (2008: Rs. 155,925) and stocks held at the storage facilities of the following related parties:

	2009	2008
	Rupees	
- Engro Vopak Terminal Limited	**595,104**	22,148
- Dawood Hercules Chemicals Limited	**1,635**	-
	596,739	22,148

9.2 This represents carrying value of PVC resin, net of realizable value reduction of Rs. 21,084 (2008: Rs. 6,791).

10. TRADE DEBTS, considered good

	2009	2008
	Rupees	
Secured (note 10.1)	**256,730**	69,514
Unsecured (note 10.2)	**79,512**	-
	336,242	69,514

10.1 These debts are secured by way of bank guarantees and letters of credit from customers.

10.2 Includes due from following related parties:

	2009	2008
	Rupees	
- Engro Chemical Pakistan Limited	**1,070**	-
- Engro Polymer Trading (Private) Limited	**60,565**	-
	61,635	-

10.3 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults in recent history.

(Amounts in thousand)

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

	2009	2008
	Rupees	
Considered good		
Current portion of long term loans and advances - note 7		
- executives	**52,831**	40,578
- employees	**13,577**	10,094
	66,408	50,672
Advances to employees for reimburseable expenses	**824**	4,201
Advances to suppliers and others	**59,818**	24,307
Deposits	**23,145**	43,131
Prepayments	**65,036**	26,030
Receivable from Government		
- sales tax refundable	**89,252**	150,171
- octroi/duty claims	**152**	152
	89,404	150,323
Accrued return on investments	**92**	30
Receivable from ECPL, Holding Company	**1,318**	153
Other receivables	**3,179**	85
	309,224	298,932
Considered doubtful		
Custom duty claims refundable	**18,043**	18,043
Less: Provision for impairment - note 11.1	**(18,043)**	(18,043)
	-	-
Special Excise Duty (SED) refundable	**36,687**	36,687
Less: Provision for impairment - note 23	**(36,687)**	(36,687)
	-	-
	309,224	298,932

11.1 The Collector of Customs through his order dated April 11, 2008, disposed off the refund applications filed by the Company for the refund of custom duty paid at import stage on import of Vinyl Chloride Monomer. The Company based on the advice of its tax consultant, has filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order on which no progress has been made. However, the Company based on prudence carries full provision against the aforementioned custom duty refundable in the financial statements.

(Amounts in thousand)

11.2 As at December 31, 2009 receivables aggregating to Rs. 54,730 (2008: Rs. 54,730) were deemed to be impaired and have been provided for fully in these financial statements based on prudence. The remaining balance of loans, advances, deposits, prepayments and other receivables are neither past due nor impaired.

12. CASH AND BANK BALANCES

	2009	2008
	Rupees	
Cash in hand	**970**	935
Cash at bank		
- on current accounts	**121,621**	4,875
- on saving accounts - note 12.1	**67,473**	3,217
	189,094	8,092
Short term deposits - note 12.2	**-**	88,246
	190,064	97,273

12.1 Includes Rs. 23,718 (2008: Rs. 2,671) kept in a separate bank account in respect of security deposits.

12.2 These deposits matured during the year and carried mark-up at the rates ranging from 1% to 4.7% per annum

13. SHARE CAPITAL

	2009	2008
	Rupees	
Authorized capital		
700,000,000 (2008: 700,000,000) ordinary shares of Rs. 10 each	**7,000,000**	7,000,000
Issued, subscribed and paid-up capital		
520,367,677 (2008: 520,367,677) ordinary shares of Rs. 10 each, fully paid in cash	**5,203,677**	5,203,677

13.1 As at December 31, 2009, Engro Chemical Pakistan Limited (ECPL) – the Holding Company holds 292,400,000 (2008: 292,400,000) ordinary shares of Rs. 10 each.

(Amounts in thousand)

14. EMPLOYEES' SHARE OPTION SCHEME

14.1 The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the Scheme, senior employees who were considered critical to the business operations were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to how critical an employee was considered to the business and his abilities, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ends on December 31, 2009, whereafter the options can be exercised within a period of two years. Further, employees who joined the Company by October 31, 2008 and those promoted to the eligible employee grade by the same date have also been granted options on similar terms.

Last year, the Company proposed certain changes relating to 'grant date' in the originally approved Scheme. These changes were approved by the shareholders in their EGM held on June 27, 2008, and subsequently by the SECP on September 25, 2008. As per the approved change to the Scheme the 'grant date' is the date of EGM held on October 8, 2007, when the Scheme was originally approved.

14.2 The amounts recognized in these financial statements in respect of the Scheme are as follows:

	2009	2008
	Rupees	
14.2.1 Employee share compensation reserve		
Balance at beginning of the year/recognized on the date of grant	**9,858**	9,858
Unvested share options lapsed during the year	**(545)**	-
Balance at end of the year	**9,313**	9,858
14.2.2 Deferred employee share compensation expense		
Balance at beginning of the year /recognized on the date of grant	**4,381**	9,858
Unvested share options lapsed during the year	**(545)**	-
Amortization for the year/period	**(3,836)**	(5,477)
Balance at end of the year	**-**	4,381

14.3 The Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

(Amounts in thousand)

Total number of share options issued	5,300,000
Fair value of the share options at grant date	Rs. 1.86
Share price at grant date	Rs. 18
Exercise price	Rs. 22
Annual volatility based on historical pattern	15.13%
Risk free rate used	10.12%
Expected dividends	Nil

15. LONG TERM BORROWINGS, Secured

	Mark - up rate per annum	Installments Number	Installments Commencing from	2009	2008
				Rupees	
Syndicated term finance I	6 months KIBOR + 2.25%	13 half yearly	November 2010	5,655,127	5,648,525
Morabaha finance	6 months KIBOR + 0.5%	8 half yearly	September 2009	-	100,000
Long term finance utilized under mark-up arrangements	6 months KIBOR + 0.5%	5 half yearly	June 2007	-	30,000
Syndicated term finance II (note 15.1)	6 months KIBOR + 3%	13 half yearly	June 2010	1,485,599	-
International Finance Corporation (IFC) (note 15.2)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	5,010,830	2,324,547
				12,151,556	8,103,072
Less: Current portion shown under current liabilities				(1,016,393)	(130,000)
				11,135,163	7,973,072

15.1 During the year, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 1,500,000. The facility, in addition to the mark-up, also carries a monitoring fee of Rs. 300 for the first year and Rs. 500 per annum, thereafter. Commitment fee at rate of 0.15% per annum is also payable on that part of the finance that has not been drawn down. During the year, the entire facility has been drawn down.

15.2 During the year, the Company has drawn down the remaining balance of US $ 30,000 against the loan agreement / facility with International Finance Corporation (IFC).

15.3 The above finances are secured by:

(i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs referred to in note 22.2;

(ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities referred to in note 22.2; and

.

(Amounts in thousand)

(iii) hypothecation by way of:
- a first charge over all Project Assets, ranking pari passu with facilities referred to in note 22.2; and
- a first charge over all present and future moveable fixed assets other than Project Assets

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into interest rate swap agreements for notional amounts aggregating to US $ 40,000, with banks to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi annually. Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Fixed Rate %	Fair values 2009	Fair values 2008
				Rupees	
15,000	December 15, 2008	June 15, 2017	3.385	**23,770**	60,154
5,000	June 15, 2009	June 15, 2017	3.005	**1,838**	-
15,000	June 15, 2009	June 15, 2017	2.795	**(4,570)**	-
5,000	June 15, 2009	June 15, 2017	2.800	**(1,103)**	-
40,000				**19,935**	60,154

17. RETENTION MONEY AGAINST PROJECT PAYMENTS

	2009	2008
	Rupees	
Amounts retained as at December 31 - note 17.1	**801,718**	792,478
Less: Current portion shown under current liabilities - note 20	**(801,718)**	(239,033)
	-	553,445

17.1 This represents amounts retained from progress payments made to contractors/suppliers against work completed on the Project, referred to in note 1.2.

(Amounts in thousand)

18. DEFERRED INCOME TAX LIABILITIES

	2009	2008
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	**3,061,376**	548,080
- net borrowing costs capitalized	**207,133**	160,054
	3,268,509	708,134
Debit balances arising due to:		
- recoupable carried forward tax losses - note 18.1	**(2,725,269)**	(153,887)
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	**(46,581)**	(25,243)
- provision against custom duty and SED refundable	**(6,454)**	(6,454)
- provision for slow moving stores and spares	**(1,353)**	-
- fair value of hedging instrument	**(6,977)**	(21,054)
- share issuance cost, net to equity	**(51,566)**	(51,566)
- recoupable minimum turnover tax	**(108,789)**	(67,356)
	(2,946,989)	(325,560)
	321,520	382,574

18.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward at December 31, 2009 amount to Rs. 7,786,483 (2008: Rs. 439,677), on which the deferred income tax asset has been recognized.

19. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2009	2008
	Rupees	
Service incentive plan	**34,172**	35,524
Additional death gratuity - note 34	**4,140**	2,976
	38,312	38,500

(Amounts in thousand)

	2009	2008
	Rupees	
20. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 20.1	**1,221,829**	797,208
Accrued liabilities	**521,500**	317,536
Advances from customers	**399,002**	118,173
Current portion of retention money - note 17	**801,718**	239,033
Security deposits	**23,610**	2,510
Workers' profits participation fund - note 20.2	**28,659**	24,625
Workers' welfare fund	**-**	9,357
Others	**1,779**	2,293
	2,998,097	1,510,735
20.1 Includes amount due to following related parties:		
- Mitsubishi Corporation	**1,150,769**	740,811
- Engro Vopak Terminal Limited	**77,045**	15,046
	1,227,814	755,857
20.2 **Workers' profits participation fund**		
Balance as at January 1	**24,625**	30,988
Add: Allocation for the year - note 29	**-**	24,625
Add: Interest thereon - note 31	**4,034**	-
	28,659	55,613
Less: Payments made during the year	**-**	(30,988)
Balance as at December 31	**28,659**	24,625
21. ACCRUED INTEREST / MARK-UP		
Finance cost accrued on:		
- long term borrowings	**196,483**	157,678
- short term borrowings	**5,724**	9,590
	202,207	167,268
22. SHORT TERM BORROWINGS		
Running finance utilized under mark-up arrangements - note 22.1	**394,241**	717,568
Short term finance	**-**	125,000
	394,241	842,568

(Amounts in thousand)

22.1 The aggregate facilities for running finance available from various banks, represents the sales price of all mark-up arrangements, amount to Rs. 2,000,000 (2008: Rs. 1,275,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 0.9% to relevant period KIBOR plus 3% (2008: relevant period KIBOR plus 1.25% to relevant period KIBOR plus 3%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 12.39% to 17.37% per annum (2008: 10.37% to 17.6% per annum).

22.2 The facility for opening letters of credit as at December 31, 2009 aggregate to Rs. 4,794,000 (2008: Rs. 9,468,000). The amount utilized at December 31, 2009 was Rs. 1,933,000 (2008: Rs. 1,232,000). The facilities carry commission at the rate of 0.05% per quarter.

23. PROVISIONS

	2009	2008
	Rupees	
Balance at beginning of the year	**54,929**	-
Add: Recognized during the year	**2,995**	54,929
	57,924	54,929
Add: Provision for surcharge thereon	**12,570**	-
Balance at end of the year	**70,494**	54,929

As at December 31, 2009, the Company had paid Rs. 94,611 (2008: Rs. 91,616) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of this amount the Company has adjusted Rs. 57,924 (2008: Rs. 54,929) in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by the Company in monthly sales tax returns.

Pending such clarification the Company based on prudence had made provision for the adjusted amount of Rs. 57,924 and for the balance remaining of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, during the year, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the aforementioned SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted is recoverable from the Company under the Federal Excise Act, 2005 along with default surcharge and penalty. In response to these notices the Company has filed a Constitutional Petition before the Honourable High Court, Sindh, on May 18, 2009. The High Court is in the process of evaluating the Constitutional Petition. The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is maintaining the aforementioned provision. Further, a provision of Rs. 12,570 for surcharge and penalty there against upto December 31, 2009 has also been made.

(Amounts in thousand)

24. CONTINGENCIES AND COMMITMENTS

24.1 Commitments

24.1.1 Capital expenditure for the Project, referred to in note 1.2, under the contracts signed as at December 31, 2009, but not yet incurred amounts to Rs. 721,859 (2008: Rs. 1,305,738).

24.1.2 Performance guarantees issued by the banks on behalf of the Company as at December 31, 2009 amounts to Rs. 405,450 (2008: Rs. 264,200).

25. NET REVENUE

	2009	2008 (Restated)
	Rupees	
Gross local sales	**13,559,489**	9,455,612
Supply of electricity - note 25.1	**214,924**	24,177
	13,774,413	9,479,789
Less:		
- Sales tax	**2,167,886**	1,606,119
- Special excise duty	**103,988**	78,363
- Discounts	**3,437**	6,150
	2,275,311	1,690,632
	11,499,102	7,789,157
Export sales	**72,015**	79,223
	11,571,117	7,868,380

25.1 Supply of electricity represents supply of surplus power to the following:

	2009	2008 (Restated)
Engro Chemical Pakistan Limited - Holding Company	**47,070**	24,177
Karachi Electricity Supply Company	**167,854**	-
	214,924	24,177

(Amounts in thousand)

26. COST OF SALES

	2009	2008
	Rupees	
Opening stock of work-in-progress	**21,293**	22,861
Raw and packing materials consumed	**7,904,707**	6,254,555
Salaries, wages and staff welfare - note 26.2	**211,896**	97,332
Fuel, power and gas	**771,237**	158,437
Repairs and maintenance	**49,292**	10,797
Depreciation - note 4.2	**502,452**	167,626
Consumable stores	**91,649**	21,310
Purchased services	**54,458**	25,082
Storage and handling - note 26.3	**339,425**	139,405
Training and travelling expenses	**5,943**	11,185
Communication, stationery and other office expenses	**2,971**	2,211
Insurance	**51,050**	10,597
Provision for slow moving stores and spares - note 8	**3,867**	-
Other expenses	**18,558**	5,061
	10,007,505	6,903,598
Closing stock of work-in-progress - note 9	**(17,579)**	(21,293)
Cost of goods manufactured	**10,011,219**	6,905,166
Opening stock of finished goods	**810,355**	640,170
Closing stock of finished goods - note 9	**(410,653)**	(810,355)
	399,702	(170,185)
Cost of sales - own manufactured product	**10,410,921**	6,734,981
- purchased product - note 26.1	**7,736**	1,237
	10,418,657	6,736,218

26.1 Cost of sales - purchased product

	2009	2008
Opening stock	**-**	147
Add: Purchases	**16,551**	1,090
Less: Closing stock - note 9	**(8,815)**	-
	7,736	1,237

26.2 This includes Rs. 11,441 (2008: Rs. 5,648), in respect of staff retirement and benefits referred to in note 34.

(Amounts in thousand)

26.3 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Chemicals Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019.

The future aggregate lease payments under these arrangements are as follows:

	2009	2008
	Rupees	
Not later than 1 year	**43,398**	-
Later than 1 year and not later than 5 years	**57,600**	-
Later than 5 years	**64,800**	-
	165,798	-

27. DISTRIBUTION AND MARKETING EXPENSES

	2009	2008
Salaries, wages and staff welfare - note 27.1	**50,641**	42,535
Advertising, sales promotion and entertainment	**50,921**	30,669
Product transportation and handling	**344,667**	202,208
Rent, rates and taxes	**3,625**	5,524
Purchased services	**3,367**	9,695
Insurance	**1,002**	919
Depreciation - note 4.2	**3,371**	4,255
Training and travelling expenses	**6,473**	7,872
Communication, stationery and other office expenses	**2,041**	2,709
Other expenses	**2,404**	5,254
	468,512	311,640

27.1 This includes Rs. 3,228 (2008: Rs. 2,613), in respect of staff retirement and benefits, referred to in note 34.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

28. ADMINISTRATIVE EXPENSES

	2009	2008
	Rupees	
Salaries, wages and staff welfare - note 28.1	**76,563**	93,014
Rent, rates and taxes	**17,088**	13,560
Purchased services	**24,057**	8,733
Insurance	**645**	154
Depreciation - note 4.2	**3,375**	5,085
Amortization - note 5	**3,701**	749
Training and travelling expenses	**47,760**	18,557
Communication, stationery and other office expenses	**22,191**	13,846
Other expenses	**10,009**	9,342
	205,389	163,040

28.1 This includes Rs. 7,951 (2008: Rs. 6,056), in respect of staff retirement and benefits, referred to in note 34.

29. OTHER OPERATING EXPENSES

	2009	2008
	Rupees	
Legal and professional charges	**7,875**	5,778
Auditors' remuneration - note 29.1	**1,427**	1,070
Donations - note 29.2	**7,527**	1,527
Workers' profits participation fund - note 20.2	**-**	24,625
Workers' welfare fund	**-**	9,357
Provision against custom duty refundable - note 11	**-**	18,043
Foreign exchange loss (net)	**213,373**	229,428
Others	**1,499**	-
	231,701	289,828

29.1 **Auditors' remuneration**

	2009	2008
Fee for:		
- Annual statutory audit	**550**	500
- Half yearly review	**150**	150
- Review of compliance with Code of Corporate Governance	**50**	50
	750	700
Taxation and other advisory services	**540**	250
Reimbursement of expenses	**137**	120
	1,427	1,070

(Amounts in thousand)

29.2 The recipients of donations for the year do not include any donee in whom a director or his spouse had any interest.

	2009	2008 (Restated)
	Rupees	

30. OTHER OPERATING INCOME

	2009	2008 (Restated)
On financial assets		
Income on short term investment and bank deposit	**61,878**	46,310
Gain on sale of short term investments	**35,168**	69,879
On non-financial assets		
Profit on disposal of property, plant and equipment	**1,619**	349
Scrap sales	**1,448**	814
Others	**149**	6,982
	100,262	124,334

31. FINANCE COSTS

	2009	2008
	Rupees	
Interest / Mark-up on:		
- long term borrowings	**554,898**	18,212
- short term borrowings	**23,757**	8,244
Accrued interest on payable to Workers' Profits Participation Fund - note 20.2	**4,034**	-
Guarantee commission	**2,096**	979
Bank charges and others	**11,479**	6,094
	596,264	33,529

32. TAXATION

	2009	2008
Current		
- for the year - note 32.1	**57,873**	793
- for prior years	**(97)**	-
	57,776	793
Deferred - for the year	**(75,131)**	104,450
	(17,355)	105,243

32.1 Current year charge represents minimum tax at the rate of 0.5% of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001, inserted through Finance Act, 2009.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

32.2 **Relationship between tax expense and accounting profit**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rates as follows:

	2009	2008
	Rupees	
(Loss) / Profit before taxation	**(249,144)**	458,528
Tax calculated at applicable rate of 35% (2008: 35%)	**(87,200)**	160,485
Tax effect of exempt income and income subject to lower tax rates	**(6,086)**	(23,665)
Un-recoupable minimum turnover tax	**15,720**	14,557
Effect of adjustments in opening written down values and carried forward losses	**60,211**	(46,134)
Tax expense for the year	**(17,355)**	105,243

33. EARNINGS/(LOSS) PER SHARE – Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, since the average market price of the Company's share is less than the exercise price of the share's options granted to employees, referred to in note 14. The basic earnings per share of the Company is based on:

	2009	2008
	Rupees	
(Loss) / Profit for the year	**(231,789)**	353,285
Weighted average number of ordinary shares (in thousand)	**520,367**	517,633

34. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2008 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

(Amounts in thousand)

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2009	2008	2009	2008	2009	2008
	Rupees					
34.1 Balance sheet reconciliation						
Present value of defined benefit obligations	**78,994**	68,644	**26,048**	22,888	**-**	-
Fair value of plan assets	**(88,607)**	(73,582)	**(27,618)**	(21,821)	**-**	-
(Surplus) / Deficit	**(9,613)**	(4,938)	**(1,570)**	1,067	**-**	-
Present value of unfunded obligations	**-**	-	**-**	-	**4,523**	3,359
Unrecognized net actuarial gains / (losses)	**9,613**	4,938	**1,570**	(1,067)	**(383)**	(383)
Net liability at the end of the year	**-**	-	**-**	-	**4,140**	2,976
34.2 Movement in the defined benefit obligations						
Obligation as at January 1	**68,644**	53,267	**22,888**	19,600	**3,359**	2,429
Current service cost	**6,841**	5,525	**3,270**	2,223	**680**	413
Interest cost	**9,704**	5,603	**3,300**	2,049	**481**	246
Actuarial losses / (gains)	**-**	4,754	**-**	4,280	**3**	271
Benefits paid	**(6,195)**	(505)	**(3,410)**	(5,264)	**-**	-
Obligation as at December 31	**78,994**	68,644	**26,048**	22,888	**4,523**	3,359
34.3 Movement in the fair value of plan assets						
Fair value as at January 1	**73,582**	62,237	**21,821**	21,742	**-**	-
Expected return on plan assets	**10,350**	6,449	**3,160**	2,253	**-**	-
Actuarial gains	**-**	905	**-**	1,071	**-**	-
Employer contributions	**6,195**	4,496	**3,410**	2,019	**-**	-
Benefits paid	**(1,520)**	(505)	**(773)**	(5,264)	**-**	-
Fair value as at December 31	**88,607**	73,582	**27,618**	21,821	**-**	-
34.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	**6,841**	5,525	**3,270**	2,223	**680**	413
Interest cost	**9,704**	5,603	**3,300**	2,049	**481**	246
Expected return on plan assets	**(10,350)**	(6,449)	**(3,160)**	(2,253)	**-**	-
Recognition of actuarial (gains) / losses	**-**	(183)	**-**	-	**3**	-
Expense	**6,195**	4,496	**3,410**	2,019	**1,164**	659
34.5 Actual return on plan assets	**(3,867)**	2,461	**(222)**	827	**-**	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

34.6 Expected future costs for the year ending December 31, 2010:

	Rupees
- Pension Fund	6,266
- Gratuity Fund	3,444
- Additional Death Gratuity Scheme	1,254
	10,964

34.7 **Principal assumptions used in the actuarial valuation:**

	Pension Fund		Gratuity Fund	
	2009	**2008**	**2009**	**2008**
Discount rate	**14%**	14%	**14%**	14%
Expected rate of return per annum on plan assets	**14%**	14%	**14%**	14%
Expected rate of increase per annum in future salaries	**13%**	13%	**13%**	13%

34.8 **Plan assets comprise of following:**

	Pension Fund		Gratuity Fund	
	2009	**2008**	**2009**	**2008**
	Rupees			
Equity	**36,329**	25,754	**11,323**	14,402
Debt	**47,848**	25,754	**13,809**	6,110
Others	**4,430**	22,074	**2,486**	1,309
	88,607	73,582	**27,618**	21,821

34.9 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

(Amounts in thousand)

34.10 **Historical information of staff retirement benefits:**

	2009	2008	2007	2006	2005
			Rupees		
Pension Fund					
Present value of defined benefit obligation	**78,994**	68,644	53,267	44,310	34,760
Fair value of plan assets	**(88,607)**	(73,582)	(62,237)	(47,516)	(34,861)
(Surplus) / Deficit	**(9,613)**	(4,938)	(8,970)	(3,206)	(101)
Gratuity Fund					
Present value of defined benefit obligation	**26,048**	22,888	19,600	16,145	12,784
Fair value of plan assets	**(27,618)**	(21,821)	(21,742)	(15,665)	(12,870)
(Surplus) / Deficit	**(1,570)**	1,067	(2,142)	480	(86)

34.11 During the year, Rs. 22,620 (2008: Rs. 8,658) has been recognized in the profit and loss account in respect of defined contribution provident fund.

35. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration to Chief Executive and executives are as follows:

	2009		2008	
	Chief Executive	Executives	Chief Executive	Executives
		Rupees		
Managerial remuneration	**12,538**	**241,176**	11,076	184,954
Retirement benefit funds	**1,355**	**9,159**	1,579	10,955
Bonus paid	**-**	**-**	5,366	40,999
Employee share option scheme	**986**	**2,850**	1,229	4,218
Other benefits	**1,425**	**21,392**	1,318	17,565
Total	**16,304**	**274,577**	20,568	258,691
Number of persons	**1**	**141**	1	121

35.1 The Company also provides household items and vehicles for the use of Chief Executive and certain executives.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

36. CASH GENERATED FROM OPERATIONS

	2009	2008 (Restated)
	Rupees	
(Loss) / Profit before taxation	**(249,144)**	458,528
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	**10,769**	14,898
Provision against custom duty refundable	**-**	18,043
Depreciation	**509,198**	185,460
Amortization	**3,701**	749
Amortization of deferred employee share compensation expense	**3,836**	5,477
Provision for slow moving stores and spares	**3,867**	-
Income on short term investments and bank deposits	**(61,878)**	(46,310)
Gain realized on sale of short term investments	**(35,168)**	(69,879)
Provision against SED	**15,565**	91,616
Finance costs	**596,264**	33,529
Interest accrued on Workers' Profits Participation Fund	**4,034**	-
Profit on disposal of operating assets	**(1,619)**	(349)
	1,048,569	233,234
Working capital changes - note 36.1	**690,993**	(25,978)
	1,490,418	665,784

36.1 Working capital changes

	2009	2008 (Restated)
(Increase) / Decrease in current assets		
Stores and spares	**(69,477)**	(31,433)
Stock-in-trade	**(445,900)**	(239,863)
Trade debts	**(266,728)**	108,958
Loans, advances, deposits, prepayments and other receivables (net)	**(10,230)**	(97,106)
	(792,335)	(259,444)
Increase in current liabilities		
Trade and other payables	**1,483,328**	233,466
	690,993	(25,978)

(Amounts in thousand)

	2009	2008
	Rupees	
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances - note 12	**190,064**	97,273
Short term borrowings - note 22	**(394,241)**	(842,568)
	(204,177)	(745,295)
38. FINANCIAL INSTRUMENTS BY CATEGORY		
38.1 Financial assets as per balance sheet		
Loans and receivables		
Long term loans and advances	**47,475**	107,785
Trade debts - considered good	**336,242**	69,514
Loans, advances, deposits, and other receivables	**94,142**	94,071
Cash and bank balances	**190,064**	97,273
	667,923	368,643
38.2 Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
Long term borrowings	**11,135,163**	7,973,072
Derivative financial instruments	**19,935**	60,154
Retention money against project payments	**-**	553,445
Retirement and other service benefit obligations	**38,312**	38,500
Current portion of long term borrowings	**1,016,393**	130,000
Trade and other payables	**2,570,436**	1,358,580
Accrued interest/mark-up	**202,207**	167,268
Short term borrowings	**394,241**	842,568
	15,376,687	11,123,587

38.3 **Fair values of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

(Amounts in thousand)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 Financial risk factors

The Company's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk factors. Risk management is carried out by the Company's finance department under guidance of the Company's Board of Directors.

a) **Market risk**

i) **Currency risk**

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company used to manage the currency risk through forward exchange contracts, however, since last year is unable to hedge its foreign exchange risk exposure due to restriction on forward-covers imposed by the State Bank of Pakistan. Currently, the Company manages the foreign currency risk through close monitoring of currency market. At December 31, 2009 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 84,095 (2008: Rs. 88,276) and Rs. 7,007,487 (2008: Rs. 3,117,025) respectively.

At December 31, 2009, if the Pakistani Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post-tax loss/profit for the year would have been higher/lower by Rs. 225,010 (2008: Rs. 98,434), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profitability would have been offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) **Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term borrowings. Borrowing at variable rates exposes the Company to cash flow interest rate risk, whereas, borrowing at fixed rate expose the Company to fair value interest rate risk.

To manage its cash flow interest rate risk, the Company has entered into floating to fixed rate interest swaps on its foreign currency borrowings. Such interest rate swaps have the economic effect of converting floating rates to fixed rates. Under the interest rate swap agreement, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between fixed contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

(Amounts in thousand)

At December 31, 2009, if interest rate on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax loss/profit for the year would have been higher/lower by Rs. 34,759 (2008: Rs. 1,453) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) **Other price risk**

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other then those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as currently the Company has no investments in listed securities.

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The Company is not materially exposed to credit risk as unsecured credit is provided to selected parties with no history of default. Moreover, major part of trade debts are secured by bank guarantees and letters of credit from customers. Further, credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as follows:

	2009	2008
	Rupees	
Long term loan and advances	**47,475**	107,785
Trade debts - considered good	**336,242**	69,514
Loan, advances, deposits and other receivables	**94,142**	94,071
Cash and bank balances	**190,064**	97,273
	667,923	368,643

(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no defaults in recent history. The credit quality of the Company's liquid funds can be assessed with reference to external credit ratings of banks as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	AA	A1+
Askari Commercial Bank Limited	PACRA	AA	A1+
Bank AlFalah Limited	PACRA	AA	A1+
Bank AlHabib	PACRA	AA	A1+
Barclays Bank	S & P	A1+	AA+
Citibank	S & P	A1+	AA+
Deutsche Bank	S & P	A2	A
Dubai Islamic Bank Pakistan Limited	PACRA	AA	A1+
Faysal Bank Limited	PACRA	AA	A1+
Habib Bank Limited	PACRA	AA+	A1+
HSBC Bank Middle East Limited	S & P	A1+	AA
MCB Bank Limited	PACRA	AA+	A1+
Meezan Bank Limited	PACRA	A+	A1
National Bank of Pakistan	PACRA	AA+	A1+
NIB Bank Limited	PACRA	AA-	A1+
Samba Bank Limited	PACRA	A	A
Standard Chartered Bank (Pakistan)	S & P	AAA	A1+
United Bank Limited	PACRA	AA+	A1+

c) **Liquidity risk**

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's liquidity management involves maintaining sufficient cash and marketable securities, the availability of funds through an adequate amount of credit facilities and through its ability to close out market positions. Due to the dynamic nature of the business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below analyses how management monitors net liquidity based on details of the remaining contractual maturities of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2009			2008		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
			Rupees			
Financial liabilities						
Long term borrowings	**1,016,393**	**11,135,163**	**12,151,556**	130,000	7,973,072	8,103,072
Derivative financial instruments	**-**	**19,935**	**19,935**	-	60,154	60,154
Retention money against project payments	**801,718**	**-**	**801,718**	239,033	553,445	792,478
Retirement and other service benefit obligations	**-**	**38,312**	**38,312**	-	38,500	38,500
Trade and other payables	**1,768,718**	**-**	**1,768,718**	1,119,547	-	1,119,547
Accrued interest / mark-up	**202,207**	**-**	**202,207**	167,268	-	167,268
Short term borrowings	**394,241**	**-**	**394,241**	842,568	-	842,568
	4,183,277	**11,193,410**	**15,376,687**	2,498,416	8,625,171	11,123,587

(Amounts in thousand)

Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile. The Company's net settled derivative financial instruments with a negative fair value have been included at their fair value of Rs. 19,935 (2008: Rs. 60,154) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

40. CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital.

To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt.

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 15, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio at December 31, 2009 and 2008 was as follows:

	2009	2008
	Rupees	
Long term borrowings - note 15	**11,135,163**	7,973,072
Total equity	**6,359,673**	6,565,865
Total capital	**17,494,836**	14,538,937
Gearing ratio	**0.636**	0.548

41. SEGMENT INFORMATION

During the year, on August 1, 2009, the Company declared commercial production of Caustic soda and also commenced supply of surplus power to KESC. Therefore, based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

- Poly Vinyl Chloride (PVC) and allied chemicals;
- Caustic soda and allied chemicals; and
- Power supplies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

Management monitors the operating results of abovementioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in table below, is measured differently from profit or loss in the financial statements. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Finance cost, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investment, long term loan and advances, loans, advances, prepayments and other receivables, taxes recoverable, deferred employee share compensation expense, short term investments, and cash and bank balances.

The following table presents the profit or loss and total assets for the operating segments of the Company:

	2009			
	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total
Revenue	10,495,567	890,271	185,279	11,571,117
Profit or loss before unallocated expenses	460,255	154,552	69,141	683,948
Unallocated expenses				
Administrative expenses				(205,389)
Other operating expenses				(231,701)
Other operating income				100,262
Finance costs				(596,264)
Taxation				17,355
Loss after taxation				**(231,789)**
Total segment assets	13,190,511	6,368,873	132,333	19,691,717
Unallocated assets				2,864,318
Total assets as per the balance sheet				**22,556,035**

(Amounts in thousand)

42. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	2009	2008
		Rupees	
Holding Company			
- Engro Chemical Pakistan Limited	Purchase of services	**17,309**	9,824
	Sale of goods	**3,195**	-
	Sale of services	**3,313**	2,807
	Sale of steam and electricity	**51,736**	28,859
	Use of operating assets	**4,139**	2,685
	Pension fund contribution	**4,119**	2,208
	Provident fund contribution	**3,036**	3,322
	Medical contribution	**88**	74
	Gratuity fund contribution	**252**	-
Subsidiary Company			
- Engro Polymer Trading (Pvt) Limited	Purchase of goods	**-**	1,090
	Sale of goods	**1,330,435**	-
	Sale of services	**353**	23
Associated Company			
- Mitsubishi Corporation	Purchase of goods	**7,941,021**	6,191,979
	Sale of goods	**106,941**	78,648
Related parties by virtue of common directorship			
- Engro Vopak Terminal Limited	Purchase of services	**1,564,559**	142,293
	Sale of services	**1,614**	1,219
- Engro PowerGen Limited	Sale of services	**424**	-
- Engro Foods Limited	Sale of goods	**301**	-
- Central Insurance Company Limited	Insurance	**4,701**	458
- ICI Pakistan Limited	Directors fee	**10**	15
	Purchase of goods	**13,016**	4,102
- IGI Pakistan Limited	Purchase of services	**2,304**	-
- Dawood Hercules Chemicals Ltd.	Sales of services	**-**	37
	Purchase of services	**5,745**	-
	Reimbursement	**-**	71
- Indus Valley School of Art and Architecture	Purchase of services	**-**	100
- Lahore University of Management Sciences	Purchase of services	**156**	248
- Management Association of Pakistan	Purchase of services and Annual subscription	**24**	120
- Port Qasim Authority	Purchase of services	**300**	11,095
	Purchase of goods	**5,138**	-
- Overseas Investors Chambers of Commerce & Industry	Advertisement (Purchase of services)	**-**	27
	Annual Subscription	**-**	165
	Training Course (Purchase of services)	**-**	5

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

Nature of relationship	Nature of transactions	2009 Rupees	2008 Rupees
Related parties by virtue of common directorship			
- Pakistan Institute of Corporate Governance	Purchase of services	**80**	-
- Inbox Business Technologies (Pvt) Ltd.	Purchase of goods	**-**	785
	Setup of software	**150**	150
- Avanceon Limited	Purchase of goods	**2,470**	-
	Purchase of services	**575**	409
- Actis Assets Ltd.	Directors fee	**-**	5
- UBL Funds	Investments in liquidity funds	**100,000**	-
Directors fee		**175**	-
Key management personnel	Managerial remuneration	**52,181**	47,046
	Retirement benefit funds	**3,963**	4,177
	Bonus	**-**	18,052
	Employee share option scheme	**2,542**	2,577
	Other benefits	**4,381**	4,155

42.2 Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

42.3 The related party status of outstanding balances as at December 31, 2009 are disclosed in the respective notes.

43. PRODUCTION CAPACITY

	Designed Annual Capacity 2009 (Metric tons)	Designed Annual Capacity 2008 (Metric tons)	Actual Production 2009 (Metric tons)	Actual Production 2008 (Metric tons)	Remarks
PVC resin	**150,000**	100,000	**115,620**	98,660	Production planned as per market demand
Caustic soda	**106,000**	-	**38,739**	-	Note - 43.1

43.1 Commencement of commercial production of the new PVC plant was from January 1, 2009 and that of Chlor-alkali plant was from August 1, 2009.

(Amounts in thousand)

44. CORRESPONDING FIGURES

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

Description	Head of account of the financial statements for the year ended December 31, 2008	Head of account of the financial statements for the year ended December 31, 2009	Rupees
Supply of electricity	Other operating income - note 30	Net revenue - note 25	20,843

The effect of other reclassifications is not material.

45. DATE OF AUTHORIZATION FOR ISSUE

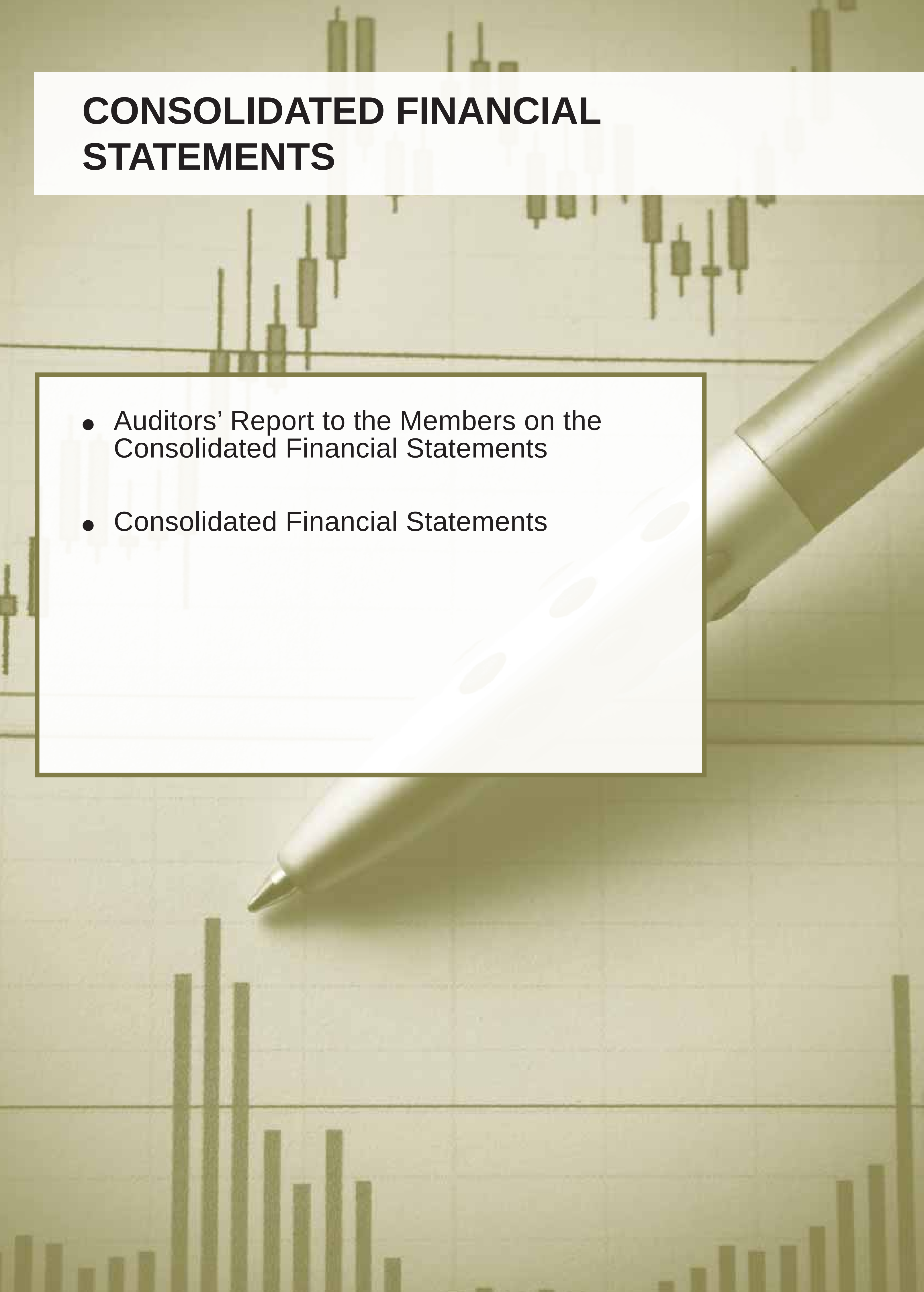
These financial statements were authorized for issue on January 21, 2010 by the Board of Directors of the Company.

Asif Qadir
Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Engro Polymer & Chemicals Ltd.

2009



CONSOLIDATED FINANCIAL STATEMENTS

- Auditors’ Report to the Members on the Consolidated Financial Statements
- Consolidated Financial Statements

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F. Ferguson & Co.
Chartered Accountants
State Life Building No.1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Polymer and Chemicals Limited (the holding company) and its subsidiary company, Engro Polymer Trading (Private) Limited as at December 31, 2009 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Engro Polymer and Chemicals Limited and Engro Polymer Trading (Private) Limited. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements present fairly the financial position of Engro Polymer and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited, as at December 31, 2009 and the results of their operations, changes in equity and cash flows for the year then ended.

As stated in note 2.1.4 (a) to the financial statements, the Company has changed its accounting policies on initial application of standards, amendments or interpretations to existing standards, with which we concur.

AFFerguson & Co.

Chartered Accountants
Karachi
Date: January 27, 2010

Engagement Partner: Sohail Hassan

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan. Tel: (92-42) 36285078-85 Fax: (92-42) 36285088
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan. Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2009

(Amounts in thousand)

	Note	2009 Rupees	2008 Rupees
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	**19,360,686**	16,134,766
Intangible assets	5	**11,816**	9,262
Long term loans and advances	6	**47,475**	107,785
		19,419,977	16,251,813
Current Assets			
Stores, spares and loose tools	7	**192,762**	127,152
Stock-in-trade	8	**1,605,438**	1,159,473
Trade debts - considered good	9	**439,905**	69,514
Loans, advances, deposits, prepayments and other receivables	10	**410,881**	300,959
Taxes recoverable		**451,603**	220,901
Deferred employee share compensation expense	14	**-**	4,381
Short term investments	11	**61,398**	43,648
Cash and bank balances	12	**217,531**	99,385
		3,379,518	2,025,413
TOTAL ASSETS		**22,799,495**	18,277,226
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Share capital	13	**5,203,677**	5,203,677
Share premium		**975,438**	975,438
Employee share compensation reserve	14	**9,313**	9,858
Hedging reserve		**(12,958)**	(39,100)
Unappropriated profit		**220,173**	413,869
		6,395,643	6,563,742
Non-Current Liabilities			
Long term borrowings	15	**11,135,163**	7,973,072
Derivative financial instruments	16	**19,935**	60,154
Retention money against project payments	17	**-**	553,445
Deferred income tax liabilities	18	**321,520**	382,574
Retirement and other service benefit obligations	19	**38,312**	38,500
		11,514,930	9,007,745
Current Liabilities			
Current portion of long term borrowings	15	**1,016,393**	130,000
Trade and other payables	20	**3,002,022**	1,510,974
Accrued interest / mark-up	21	**205,772**	167,268
Short term borrowings	22	**594,241**	842,568
Provisions	23	**70,494**	54,929
		4,888,922	2,705,739
Contingencies and Commitments	24		
TOTAL EQUITY AND LIABILITIES		**22,799,495**	18,277,226

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

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

	Note	2009	2008 (Restated)
		Rupees	
Net revenue	25	**11,632,108**	7,868,380
Export rebate		**667**	69
		11,632,775	7,868,449
Cost of sales	26	**(10,418,592)**	(6,735,658)
Gross profit		**1,214,183**	1,132,791
Distribution and marketing expenses	27	**(483,814)**	(311,640)
Administrative expenses	28	**(205,742)**	(163,182)
Other operating expenses	29	**(232,011)**	(293,787)
Other operating income	30	**116,422**	124,945
Operating profit		**409,038**	489,127
Finance costs	31	**(606,175)**	(33,531)
(Loss) / Profit before taxation		**(197,137)**	455,596
Taxation	32	**3,441**	(105,243)
(Loss) / Profit for the year		**(193,696)**	350,353
(Loss) / Earnings per share - basic and diluted	33	**(0.37)**	0.68

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	2009	2008
	Rupees	
(Loss) / Profit for the year	**(193,696)**	350,353
Other comprehensive income:		
Hedging reserve		
(Loss) / Gain arising during the year	**(478)**	257,573
Less:		
- Reclassification adjustments for (gains) / losses included in profit and loss	**22,557**	(118,649)
- Adjustments for amounts transferred to initial carrying amount of hedged items	**18,140**	(199,078)
Income tax relating to hedging reserve	**(14,077)**	21,054
Other comprehensive income / (loss) for the year - net of tax	**26,142**	(39,100)
Total comprehensive (loss) / income for the year	**(167,554)**	311,253

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	Note	2009	2008
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	**1,542,650**	660,146
Finance costs paid		**(563,637)**	(354,530)
Long term loans and advances		**60,310**	(10,814)
Retirement benefits paid		**(10,957)**	-
Income tax paid		**(302,392)**	(183,783)
Net cash generated from operating activities		**725,974**	111,019
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of			
- property, plant and equipment		**(3,739,678)**	(11,150,853)
- intangible assets		**(6,255)**	(7,180)
Proceeds from disposal of property, plant and equipment		**6,179**	3,971
Retention money from Project payments		**(553,445)**	452,485
Purchases of short term investments		**(156,627)**	(46,000)
Proceeds from sale of short term investments		**178,034**	2,914,504
Income on short term investments and bank deposits		**63,807**	117,410
Net cash utilized in investing activities		**(4,207,985)**	(7,715,663)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		**4,178,484**	6,637,643
Repayments of long term borrowings		**(130,000)**	-
Proceeds from issue of share capital		**-**	229,128
Dividend paid		**-**	(252,896)
Net cash generated from financing activities		**4,048,484**	6,613,875
Net increase / (decrease) in cash and cash equivalents		**566,473**	(990,769)
Cash and cash equivalents at beginning of the year		**(743,183)**	247,586
Cash and cash equivalents at end of the year	37	**(176,710)**	(743,183)

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2008	4,436,000	425,216	-	-	316,412	5,177,628
Total comprehensive income for the year	-	-	-	(39,100)	350,353	311,253
Final dividend for the year ended December 31, 2007 - Re. 0.54 per share	-	-	-	-	(252,896)	(252,896)
Share options granted during the year - note 14	-	-	9,858	-	-	9,858
Share capital issued	767,677	614,141	-	-	-	1,381,818
Share issuance cost, net	-	(63,919)	-	-	-	(63,919)
Balance as at December 31, 2008	**5,203,677**	**975,438**	**9,858**	**(39,100)**	**413,869**	**6,563,742**
Total comprehensive loss for the year	-	-	-	26,142	(193,696)	(167,554)
Unvested share options lapsed during the year - note 14.2.1	-	-	(545)	-	-	(545)
Balance as at December 31, 2009	**5,203,677**	**975,438**	**9,313**	**(12,958)**	**220,173**	**6,395,643**

The annexed notes 1 to 45 form an integral part of these financial statements.

Asif Qadir
Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

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

The Company was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company was listed on Karachi Stock Exchange in 2008 and on Islamabad and Lahore Stock Exchanges during the current year.

The Company is a subsidiary of Engro Chemical Pakistan Limited (ECPL) (renamed as Engro Corporation Limited with effect from January 1, 2010). The address of its registered office is 1st floor, Bahria Complex I, M. T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals.

1.2 In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). The new PVC plant commenced commercial production on January 1, 2009. Further, on August 1, 2009, the Company commenced commercial operations of EDC, Chlor-alkali and Power plants (Gas turbines). The VCM plant is still in the test production phase. These plants have been set up adjacent to the Company's existing PVC facilities in the Port Qasim Industrial Area. Furthermore, during the year, the Company has also commenced supply of surplus power generated from Power plants to Karachi Electric Supply Company (KESC), under an agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative instruments) at fair value and recognition of certain staff retirement and other service benefits at present value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.1.3. The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(Amounts in thousand)

2.1.4 **Initial application of a Standard, Amendment or an Interpretation to an existing Standard**

a) Standards, amendments to published standards and interpretations effective in 2009 and relevant

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Entities can choose to present one statement of comprehensive income or two separate statements (the profit and loss account and statement of comprehensive income).

  The Company has elected to present two statements; a profit and loss account and a statement of comprehensive income. As the change impacts only the presentation of financial statements there is no impact on earnings per share.

- IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company's current accounting policy is in compliance with this amendment, and therefore has no effect on the Company's financial statements.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that an investment in associate including subsidiaries is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. This amendment has no impact on the Company's financial statements as currently there is no indication of impairment in Company's investment in subsidiary.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

(Amounts in thousand)

- When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  This amendment has no material impact on the Company's financial statements.

- IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, would have the same accounting treatment. The Company’s current accounting policy for employees’ shares options is consistent with this amendment.

- The SECP vide S.R.O. 411 (1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. The application of IFRS 7 has only resulted in additional disclosures in the Company's financial statements.

- IFRS 8 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires segment information to be presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. Application of IFRS 8 has resulted in additional disclosures in the Company's financial statements.

b) Standards, amendments to published standards and interpretations effective in 2009 but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

c) Interpretation to existing standards that has been early adopted by the Company

- IFRIC 4, 'Determining whether an Arrangement contains a Lease' was adopted by SECP and was applicable for all periods beginning on or after January 1, 2006. However, SECP vide Circular No. D(CS)/34/2009 dated June 22, 2009 deferred the implementation of IFRIC 4 till June 30, 2010. The Company has early adopted the Interpretation, which has only resulted in additional disclosures in respect of certain arrangements of the Company being classified as operating leases (note 26.3).

(Amounts in thousand)

d) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2010). The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (Amendment) from July 1, 2010. It is not expected to have a material impact on the Company's financial statements, on its initial application.

- IAS 39 (Amendment), 'Cash flow hedge accounting', (effective from July 1, 2010). This amendment provides clarification when to recognize gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The Company will apply IAS 39 (Amendment) from July 1, 2010. It is not expected to have a material impact on the Company's financial statements, on its initial application.

- IFRS 8 (Amendment), 'Disclosure of information about segment assets' (effective from January 1, 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The new guidance is not expected to have a material impact on the Company's financial statements.

- IAS 39 (Amendment), 'Treating loan pre-payment penalties as closely related derivatives' (effective from January 1, 2010). This amendment clarifies pre-payment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from re-investment risk, should be considered closely related to the host debt contract. The Company will apply IAS 39 (Amendment) from January 1, 2010.

There are a number of other minor amendments and interpretations to other published standards that are not yet effective, and are also not relevant to the Company and therefore have not been presented here.

2.2 **Property, plant and equipment**

These are stated at cost less accumulated depreciation and impairment, if any, except Capital work-in-progress. Cost in relation to fixed assets signifies historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress is stated at historical cost less impairment, if any.

(Amounts in thousand)

Depreciation on assets is charged to income using the straight line method to allocate their cost to their residual values over their estimated useful lives at rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income during the year in which these are incurred.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

2.3 **Intangible assets - Computer software**

Costs associated with developing and maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly attributable to identifiable software and have probable economic benefits exceeding one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related overhead cost.

Expenditure, which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 to 10 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount in income. Reversal of impairment losses are also recognized in income.

2.4 **Investments in subsidiaries**

Investments in subsidiaries are stated at cost net of provision for impairment, if any. This investment is classified as long term investments.

(Amounts in thousand)

2.5 **Financial instruments**

2.5.1 **Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial as sets at initial recognition.

(a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade debts and other receivables' and 'cash and cash equivalents' in the balance sheet (note 2.8 and 2.9).

(c) **Held to maturity financial assets**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

(d) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

(Amounts in thousand)

Loans and receivables and held to maturity financial assets are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss account within 'other operating income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the profit or loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in note 2.8.

2.5.2 **Financial liabilities**

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account.

(Amounts in thousand)

2.5.3 Offsetting of financial assets and liabilities

A financial asset and a financial liability are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.6 Stores and spares

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Provision is made for slow moving items, as per policy and is recognized in the profit and loss account.

2.7 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost in relation to raw materials represent the weighted average cost and in relation to finished goods and work-in-progress represents weighted average cost comprising direct materials, labour and related manufacturing overheads.

Cost of stock-in-transit represents the invoice value plus other charges incurred thereon till the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred in order to make the sales. Provision is made for slow moving stocks where considered necessary.

2.8 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is charged to income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

2.9 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement include cash in hand and in transit, balance with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

(Amounts in thousand)

2.10 **Share capital**

Ordinary shares are classified as equity and recognized at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds.

2.11 **Employees' Share Option Scheme**

The grant date fair value of equity settled share based payments to employees is initially recognized in the balance sheet as deferred share employee compensation expense with a consequent credit to equity as employee share compensation reserve.

The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss is reversed equal to the amortized portion with a corresponding effect to deferred employee compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to deferred employee compensation reserve in the balance sheet.

When the options are exercised, deferred employee compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital, and any amount over and above the share capital is transferred to share premium account.

2.12 **Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.13 **Retirement and other service benefit obligation**

2.13.1 **Pension Scheme**

The Company operates an approved defined benefit pension scheme for its management employees. The scheme is funded and provides for pension based on the employees' last drawn salary. Pensions are payable, after retirement or on optional retirement, for life and thereafter to surviving spouses and dependent children.

(Amounts in thousand)

2.13.2 **Gratuity Scheme**

The Company operates an approved funded defined benefit gratuity scheme for its management employees.The scheme provides gratuity based on the employees' last drawn salary. Gratuity is payable on retirement, separation or death to ex-employees, or their spouses thereafter. Contributions are made annually to these funds on the basis of the actuarial valuations and in line with the provisions of the Income Tax Ordinance, 2001.

2.13.3 **Additional Death Gratuity Scheme**

The Company also operates an approved death gratuity scheme for its permanent employees. The scheme is unfunded and provides for additional death gratuity which is payable on death of employee to surviving spouses and dependent children.

Actuarial valuation of these schemes is carried out at least once in every three years. The most recent actuarial valuation was carried out as of December 31, 2008 using the 'Projected Unit Credit Meth

The amount recognized in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, if any, as reduced by the fair value of plan assets.

Cumulative unrecognized actuarial gains and losses at the end of the previous year which exceeds 10% of the greater of the present value of the Company's defined benefit obligations and the fair value of plan assets are amortized over the expected average remaining working lives of the employees.

2.13.4 **Provident fund**

The Company operates a defined contribution provident fund for its permanent management employees. Equal monthly contributions are made both by the Company and the employees to the fund at the rate of 10% of basic salary. Annual contribution by the Company is charged to income.

2.13.5 **Compensated absences**

Accrual is made for employees compensated absences on the basis of accumulated leaves and the last drawn pay.

2.13.6 **Other benefits**

Provision is made under a service incentive plan for certain category of experienced employees to continue in the Company's employment. The provision is made on the basis of management's estimates of incentives to be paid to employees on fulfilment of criteria given in the incentive plan.

2.14 **Trade and other payables**

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

(Amounts in thousand)

2.15 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.16 Taxation

2.16.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.16.2 Deferred

Deferred income tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax is charged or credited in the profit and loss account.

2.17 Foreign currency transactions and translation

These financial statements are presented in Pakistani Rupees, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income.

2.18 Derivatives financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

(Amounts in thousand)

The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are to:

- minimize foreign currency exposure's impact on the Company's financial performance; and
- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

(a) **Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) **Cash flow hedge**

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in comprehensive income are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. inventory or fixed assets) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve are shown in statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(Amounts in thousand)

2.19 **Revenue recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognized on the following basis:

- sales are recognized when the product is dispatched to customers;
- revenue from the supply of electricity is recorded based upon the output delivered;
- dividend income is recognized when the Company's right to receive the payment is established; and
- return on deposits is recognized using the effective interest rate method.

2.20 **Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which such costs are capitalized as part of the cost of that asset. Borrowing costs includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.21 **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting.

2.22 **Dividend and appropriation to reserves**

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

3.1 **Property, plant and equipment**

The Company reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

3.2 **Impairment of investments in subsidiaries**

In making an estimate of future cash flows from the Company's financial assets including investment in subsidiaries, the management considers future dividend stream and an estimate of the terminal value of these investments.

(Amounts in thousand)

3.3 Derivative hedging financial instruments designated as cash flow hedges

The Company reviews the changes in fair values of the derivative hedging financial instruments at each reporting date based on the valuations received from the contracting banks. These valuations represent estimated fluctuations in the relevant currencies / interest rates over the reporting period and other relevant variables signifying currency and interest rate risks.

3.4 Stock-in-trade

The Company reviews the net realizable value of stock-in-trade to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

3.5 Income taxes

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

3.6 Fair value of employee share options

The management has determined the fair value of options issued under the Employee Share Option Scheme at the grant date using the Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 14.

3.7 Provision for retirement and other service benefits obligations

The present value of these obligations depends on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in notes 34.2 and 34.7 respectively.

4. PROPERTY, PLANT AND EQUIPMENT

	2009	2008
	Rupees	
Operating assets (note 4.1)	**14,112,080**	1,987,643
Capital work in progress (note 4.4)	**5,248,606**	14,147,123
	19,360,686	16,134,766

(Amounts in thousand)

4.1 **Operating assets**

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines				Furniture, fixtures and equipment	Vehicles	Total
				Water	VCM	Ethylene	Gas			
	Rupees									
As at January 1, 2008										
Cost	190,779	227,102	2,732,433	119,280	26,122	-	1,691	77,604	66,242	3,441,253
Accumulated depreciation	(9,480)	(46,686)	(1,111,931)	(48,350)	(10,611)	-	(689)	(47,004)	(33,449)	(1,308,200)
Net book value	**181,299**	**180,416**	**1,620,502**	**70,930**	**15,511**	-	**1,002**	**30,600**	**32,793**	**2,133,053**
Year ended December 31, 2008										
Opening net book value	181,299	180,416	1,620,502	70,930	15,511	-	1,002	30,600	32,793	2,133,053
Additions	3,348	-	-	-	-	-	-	19,940	20,384	43,672
Disposals / write off - note 4.3										
- Cost	-	-	-	-	-	-	-	(3,353)	(6,583)	(9,936)
- Accumulated depreciation	-	-	-	-	-	-	-	2,749	3,565	6,314
Net book value	-	-	-	-	-	-	-	(604)	(3,018)	(3,622)
Reclassification										
- Cost	-	-	(5,889)	-	-	-	-	-	5,889	-
- Accumulated depreciation	-	-	2,984	-	-	-	-	-	(2,984)	-
Net book value	-	-	(2,905)	-	-	-	-	-	2,905	-
Depreciation charge - note 4.2	(3,870)	(5,827)	(145,761)	(5,964)	(1,306)	-	(85)	(9,985)	(12,662)	(185,460)
Closing net book value	**180,777**	**174,589**	**1,471,836**	**64,966**	**14,205**	-	**917**	**39,951**	**40,402**	**1,987,643**
As at January 1, 2009										
Cost	194,127	227,102	2,726,544	119,280	26,122	-	1,691	94,191	85,932	3,474,989
Accumulated depreciation	(13,350)	(52,513)	(1,254,708)	(54,314)	(11,917)	-	(774)	(54,240)	(45,530)	(1,487,346)
Net book value	**180,777**	**174,589**	**1,471,836**	**64,966**	**14,205**	-	**917**	**39,951**	**40,402**	**1,987,643**
Year ended December 31, 2009										
Opening net book value	180,777	174,589	1,471,836	64,966	14,205	-	917	39,951	40,402	1,987,643
Additions	-	168,221	12,076,638	275,128	-	50,023	32,158 `	16,820	29,811	12,648,799
Disposals - note 4.3										
- Cost	-	-	-	-	-	-	-	(133)	(13,458)	(13,591)
- Accumulated depreciation	-	-	-	-	-	-	-	74	8,957	9,031
Net book value	-	-	-	-	-	-	-	(59)	(4,501)	(4,560)
Depreciation charge - note 4.2	(3,934)	(10,033)	(466,383)	(11,696)	(1,306)	(1,042)	(754)	(12,920)	(11,734)	(519,802)
Closing net book value	**176,843**	**332,777**	**13,082,091**	**328,398**	**12,899**	**48,981**	**32,321**	**43,792**	**53,978**	**14,112,080**
As at December 31, 2009										
Cost	194,127	395,323	14,803,182	394,408	26,122	50,023	33,849	110,878	102,285	16,110,197
Accumulated depreciation	(17,284)	(62,546)	(1,721,091)	(66,010)	(13,223)	(1,042)	(1,528)	(67,086)	(48,307)	(1,998,117)
Net book value	**176,843**	**332,777**	**13,082,091**	**328,398**	**12,899**	**48,981**	**32,321**	**43,792**	**53,978**	**14,112,080**
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5	5 to 33	20 to 25	

(Amounts in thousand)

		2009	2008
		Rupees	
4.2	Depreciation charge has been allocated as follows:		
	Cost of sales - note 26	**502,452**	167,626
	Distribution and marketing expenses - note 27	**3,371**	4,255
	Administrative expenses - note 28	**3,375**	5,085
	Capital work-in-progress	**10,604**	8,494
		519,802	185,460

4.3 The details of operating assets disposed / written off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Vehicle	780	780	-	185	By Company policy to existing / separating executives	Mr. Muhammad Naveed
"	1,328	1,015	313	332		Mr. Syed Ahsenuddin
"	782	782	-	185		Mr. Syed Ali Akber
"	900	366	534	520		Mr. Farooq Fasih
"	900	436	464	464		Mr. Imran Hashmi
"	900	422	478	478		Mr. Mati ur Rab Siddiqui
"	1,500	831	669	609		Mr. M. Imran Farookhi
"	1,269	59	1,210	991		Mr. M. Sarmad
"	859	683	176	322		Mr. Asif Rasul Khan
"	900	449	451	422		Mr. Syed Zubair Ahmed
"	900	694	206	338		Mr. Younus Ali Siddiqui
"	407	407	-	138	By auction	Mr. Noman Hassan Khan
"	1,034	1,034	-	550		A-908, Block 123, F. B.
"	999	999	-	539		Area, Gulburg, Karachi
Furniture, fixtures and equipment	90	34	56	76	Insurance claim	Adamjee Insurance Company Limited
Aggregate amount of assets having net book value less than Rs. 50 each	43	40	3	30		
	13,591	9,031	4,560	6,179		
2008	9,936	6,314	3,622	3,971		

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and machinery	Building on leasehold land	Ethylene pipeline and power cables	Water and gas pipelines	Furniture fixture and equipment	Advances for vehicles	Other ancillary costs (note 4.4.2)	Total
	Rupees							
Year ended December 31, 2008								
Balance as at January 1, 2008	1,925,402	109,671	30,251	168,293	7,386	2,922	331,783	2,575,708
Additions during the year	10,597,655	53,630	31,235	64,723	31,724	24,325	808,447	11,611,739
Transferred to operating assets	-	-	-	-	(19,940)	(20,384)	-	(40,324)
Balance as at December 31, 2008	12,523,057	163,301	61,486	233,016	19,170	6,863	1,140,230	14,147,123
Year ended December 31, 2009								
Balance as at January 1, 2009	12,523,057	163,301	61,486	233,016	19,170	6,863	1,140,230	14,147,123
Additions during the year	1,830,574	31,717	2,395	15,860	3,129	31,263	1,827,684	3,742,622
Transferred to operating assets (note 4.4.1)	(10,608,848)	(162,008)	(63,589)	(246,083)	(16,820)	(29,811)	(1,513,980)	(12,641,139)
Balance as at December 31, 2009	**3,744,783**	**33,010**	**292**	**2,793**	**5,479**	**8,315**	**1,453,934**	**5,248,606**

4.4.1 As referred to in note 1.2, the Company commenced work on the expansion Project in 2006, and the Capital work-in-progress relates to the cost of this expansion Project. During the year, the Company has commenced commercial production from the new PVC plant and declared commercial operations of Ethylene Di Chloride (EDC), Chlor-alkali and Power plants (Gas turbines) and transferred the related costs of these plants to operating assets. However, the Vinyl Chloride Monomer (VCM) plant is currently in the test production phase.

4.4.2 The ancillary costs, directly attributable to the Project, comprise:

	2009	2008
	Rupees	
Salaries, wages and benefits	**213,879**	315,240
Training and travelling expenses	**45,051**	74,439
Borrowing costs, including mark-up on finances using capitalization rate of 12.08% - net (2008: 13.45% - net)	**591,810**	591,713
Legal and professional charges	**31,860**	43,103
Depreciation	**15,053**	13,763
Storage and handling	**481,667**	-
Others	**74,614**	101,972
	1,453,934	1,140,230

(Amounts in thousand)

5. INTANGIBLE ASSETS – Computer software

	Rupees
As at January 1, 2008	
Cost	6,416
Accumulated amortization	(3,585)
Net book value	2,831
Year ended December 31, 2008	
Opening net book value	2,831
Additions at cost	7,180
Amortization charge - note 28	(749)
Closing net book value	9,262
As at January 1, 2009	
Cost	13,596
Accumulated amortization	(4,334)
Net book value	9,262
Year ended December 31, 2009	
Opening net book value	**9,262**
Additions at cost	**6,255**
Amortization charge - note 28	**(3,701)**
Closing net book value	**11,816**
As at December 31, 2009	
Cost	**19,851**
Accumulated amortization	**(8,035)**
Net book value	**11,816**

5.1 The cost is being amortized over a period of 5 to 10 years.

6. LONG TERM LOANS AND ADVANCES

- Considered good

	2009	2008
	Rupees	
Executives (notes 6.1, 6.2 and 6.4)		
- Chief Executive	**416**	3,118
- Other executives	**90,748**	117,395
	91,164	120,513
Less: Current portion shown under current assets (note 10)	**(52,831)**	(40,578)
	38,333	79,935
Other employees (note 6.3)	**22,719**	37,944
Less: Current portion shown under current assets (note 10)	**(13,577)**	(10,094)
	9,142	27,850
	47,475	107,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

6.1 Reconciliation of the carrying amount of loans and advances to Chief Executive and Executives.

	2009			2008		
	Chief Executive	Other executives	Total	Chief Executive	Other executives	Total
	Rupees					
Balance at beginning of the year	**3,118**	**117,395**	120,513	-	114,402	114,402
Disbursements	**-**	**31,220**	31,220	3,742	288,545	292,287
Repayments	**(2,702)**	**(57,867)**	(60,569)	(624)	(285,552)	(286,176)
Balance at end of year	**416**	**90,748**	91,164	3,118	117,395	120,513

6.2 These represent interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. 20% of the loan for purchase of Company's share under ESS are repayable at the end of month 1, 12 and 24 and 40% is repayable at the end of month 30 from the expiry date of the Option Period. Advances for vehicles are charged to profit and loss account over a period of 3 years.

6.3 These represent interest free loans to employees for home appliances and investments, given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans are repayable in accordance with the terms stated in note 6.2.

6.4 The maximum aggregate amount due from Chief Executive and executives at the end of any month during the year was Rs. 111,540 (2008: Rs. 130,000).

6.5 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults in recent history.

7. STORES, SPARES AND LOOSE TOOLS

	2009	2008
	Rupees	
Consumable stores	**20,194**	13,745
Spares	**176,435**	113,407
	196,629	127,152
Less: Provision for slow moving stores and spares - note 26	**(3,867)**	-
	192,762	127,152

(Amounts in thousand)

8. STOCK-IN-TRADE

	2009	2008
	Rupees	
Raw and packing materials - note 8.1	**1,168,171**	327,670
Work-in-process	**17,579**	21,293
Finished goods		
- own manufactured product - note 8.2	**410,653**	810,355
- purchased product	**9,035**	155
	419,688	810,510
	1,605,438	1,159,473

8.1 This includes stocks-in-transit amounting to Rs. 248,065 (2008: Rs. 155,925) and stocks held at the storage facilities of the following related parties:

	2009	2008
	Rupees	
- Engro Vopak Terminal Limited	**595,104**	22,148
- Dawood Hercules Chemical Limited	**1,635**	-
	596,739	22,148

8.2 This represents carrying value of PVC resin, net of realizable value reduction of Rs. 21,084 (2008: Rs. 6,791).

9. TRADE DEBTS, considered good

	2009	2008
	Rupees	
Secured (note 9.1)	**256,730**	69,514
Unsecured (note 9.2)	**183,175**	-
	439,905	69,514

9.1 These debts are secured by way of bank guarantees and letters of credit from customers.

9.2 Includes due from following related parties:

	2009	2008
	Rupees	
- Engro Chemical Pakistan Limited	**1,070**	-
- Mitsubishi Corporation	**164,228**	-
	165,298	-

(Amounts in thousand)

9.3 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults in recent history.

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

	2009	2008
	Rupees	
Considered good		
Current portion of long term loans and advances - note 6		
- executives	52,831	40,578
- employees	13,577	10,094
	66,408	50,672
Advances to employees for reimburseable expenses	824	4,201
Advances to suppliers and others	59,818	24,307
Deposits	23,145	43,131
Prepayments	66,357	26,030
Receivable from Government		
- sales tax refundable	189,044	151,736
- export rebate claim	544	462
- octroi/duty claims	152	152
	189,740	152,350
Accrued return on investments	92	30
Receivable from ECPL, Holding Company	1,318	153
Other receivables	3,179	85
	410,881	300,959
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 10.1	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 23	(36,687)	(36,687)
	-	-
Sales tax refundable	140	140
Less: Provision for impairment	(140)	(140)
	-	-
	410,881	300,959

10.1 The Collector of Customs through his order dated April 11, 2008, disposed off the refund applications filed by the Company for the refund of custom duty paid at import stage on import of Vinyl Chloride Monomer. The Company based on the advice of its tax consultant, has filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order on which no progress has been made. However, the Company based on prudence carries full provision against the aforementioned custom duty refundable in the financial statements.

(Amounts in thousand)

10.2 As at December 31, 2009 receivables aggregating to Rs. 54,870 (2008: Rs. 54,870) were deemed to be impaired and have been provided for fully in these financial statements based on prudence. The remaining balance of loans, advances, deposits, prepayments and other receivables are neither past due nor impaired.

11. SHORT TERM INVESTMENTS

	2009	2008
	Rupees	
- At fair value through profit or loss		
Mutual fund securities - note 11.1	**61,398**	43,648

11.1 These represent investments in open end mutual funds and are valued at their respective redemption price as at the balance sheet date.

12. CASH AND BANK BALANCES

	2009	2008
	Rupees	
Cash in hand	**970**	935
Cash at bank		
- on current accounts	**129,269**	4,931
- on saving accounts - note 12.1	**68,292**	5,273
	197,561	10,204
Short term deposits - note 12.2	**19,000**	88,246
	217,531	99,385

12.1 Includes Rs. 23,718 (2008: Rs. 2,671) kept in a separate bank account in respect of security deposits.

12.2 This deposit has a maturity of one month and carries mark-up at the rate of 8% per annum.

13. SHARE CAPITAL

	2009	2008
	Rupees	
Authorized capital		
700,000,000 (2008: 700,000,000) ordinary shares of Rs. 10 each	**7,000,000**	7,000,000
Issued, subscribed and paid-up capital		
520,367,677 (2008: 520,367,677) ordinary shares of Rs. 10 each, fully paid in cash	**5,203,677**	5,203,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

13.1 As at December 31, 2009, Engro Chemical Pakistan Limited (ECPL) – the Holding Company holds 292,400,000 (2008: 292,400,000) ordinary shares of Rs. 10 each.

14. EMPLOYEES' SHARE OPTION SCHEME

14.1 The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the Scheme, senior employees who were considered critical to the business operations were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to how critical an employee was considered to the business and his abilities, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the ‘grant date’ and ends on December 31, 2009, whereafter the options can be exercised within a period of two years. Further, employees who joined the Company by October 31, 2008 and those promoted to the eligible employee grade by the same date have also been granted options on similar terms.

Last year, the Company proposed certain changes relating to ‘grant date’ in the originally approved Scheme. These changes were approved by the shareholders in their EGM held on June 27, 2008, and subsequently by the SECP on September 25, 2008. As per the approved change to the Scheme the ‘grant date’ is the date of EGM held on October 8, 2007, when the Scheme was originally approved.

14.2 The amounts recognized in these financial statements in respect of the Scheme are as follows:

	2009	2008
	Rupees	
14.2.1 Employee share compensation reserve		
Balance at beginning of the year/recognized on the date of grant	**9,858**	9,858
Unvested share options lapsed during the year	**(545)**	-
Balance at end of the year	**9,313**	9,858
14.2.2 Deferred employee share compensation expense		
Balance at beginning of the year/recognized on the date of grant	**4,381**	9,858
Unvested share options lapsed during the year	**(545)**	-
Amortization for the year/period	**(3,836)**	(5,477)
Balance at end of the year	**-**	4,381

(Amounts in thousand)

14.3 The Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

Total number of share options issued	5,300,000
Fair value of the share options at grant date	Rs. 1.86
Share price at grant date	Rs. 18
Exercise price	Rs. 22
Annual volatility based on historical pattern	15.13%
Risk free rate used	10.12%
Expected dividends	Nil

15. LONG TERM BORROWINGS, Secured

	Mark - up rate per annum	Installments Number	Installments Commencing from	2009 Rupees	2008 Rupees
Syndicated term finance I	6 months KIBOR + 2.25%	13 half yearly	November 2010	**5,655,127**	5,648,525
Morabaha finance	6 months KIBOR + 0.5%	8 half yearly	September 2009	**-**	100,000
Long term finance utilized under mark-up arrangements	6 months KIBOR + 0.5%	5 half yearly	June 2007	**-**	30,000
Syndicated term finance II (note 15.1)	6 months KIBOR + 3%	13 half yearly	June 2010	**1,485,599**	-
International Finance Corporation (IFC) (note 15.2)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	**5,010,830**	2,324,547
				12,151,556	8,103,072
Less: Current portion shown under current liabilities				**(1,016,393)**	(130,000)
				11,135,163	7,973,072

15.1 During the year, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 1,500,000. The facility, in addition to the mark-up, also carries a monitoring fee of Rs. 300 for the first year and Rs. 500 per annum, thereafter. Commitment fee at rate of 0.15% per annum is also payable on that part of the finance that has not been drawn down. During the year, the entire facility has been drawn down.

15.2 During the year, the Company has drawn down the remaining balance of US $ 30,000 against the loan agreement / facility with International Finance Corporation (IFC).

15.3 The above finances are secured by:

(i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs referred to in note 22.3;

(ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities referred to in note 22.3; and

(Amounts in thousand)

(iii) hypothecation by way of:
- a first charge over all Project Assets, ranking pari passu with facilities referred to in note 22.3; and
- a first charge over all present and future moveable fixed assets other than Project Assets.

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into interest rate swap agreements for notional amounts aggregating to US$ 40,000, with banks to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi annually. Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Fixed Rate %	Fair values 2009	Fair values 2008
				Rupees	Rupees
15,000	December 15, 2008	June 15, 2017	3.385	**23,770**	60,154
5,000	June 15, 2009	June 15, 2017	3.005	**1,838**	-
15,000	June 15, 2009	June 15, 2017	2.795	**(4,570)**	-
5,000	June 15, 2009	June 15, 2017	2.800	**(1,103)**	-
40,000				**19,935**	60,154

17. RETENTION MONEY AGAINST PROJECT PAYMENTS

	2009 Rupees	2008 Rupees
Amounts retained as at December 31 - note 17.1	**801,718**	792,478
Less: Current portion shown under current liabilities - note 20	**(801,718)**	(239,033)
	-	553,445

17.1 This represents amounts retained from progress payments made to contractors/suppliers against work completed on the Project, referred to in note 1.2.

(Amounts in thousand)

	2009	2008
	Rupees	

18. DEFERRED INCOME TAX LIABILITIES

	2009	2008
Credit balances arising due to:		
- accelerated tax depreciation	**3,061,376**	548,080
- net borrowing costs capitalized	**207,133**	160,054
	3,268,509	708,134
Debit balances arising due to:		
- recoupable carried forward tax losses - note 18.1	**(2,725,269)**	(153,887)
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	**(46,581)**	(25,243)
- provision against custom duty and SED refundable	**(6,454)**	(6,454)
- provision for slow moving stores and spares	**(1,353)**	-
- fair value of hedging instrument	**(6,977)**	(21,054)
- share issuance cost, net to equity	**(51,566)**	(51,566)
- recoupable minimum turnover tax	**(108,789)**	(67,356)
	(2,946,989)	(325,560)
	321,520	382,574

18.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward at December 31, 2009 amount to Rs. 7,786,483 (2008: Rs. 439,677), on which the deferred income tax asset has been recognized.

	2009	2008
	Rupees	

19. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2009	2008
Service incentive plan	**34,172**	35,524
Additional death gratuity - note 34	**4,140**	2,976
	38,312	38,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

	2009	2008
	Rupees	
20. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 20.1	**1,223,536**	797,211
Accrued liabilities	**523,718**	317,713
Advances from customers	**399,002**	118,232
Current portion of retention money - note 17	**801,718**	239,033
Security deposits	**23,610**	2,510
Workers' profits participation fund - note 20.2	**28,659**	24,625
Workers' welfare fund	**-**	9,357
Others	**1,779**	2,293
	3,002,022	1,510,974
20.1 Includes amount due to following related parties:		
- Mitsubishi Corporation	**1,152,402**	740,811
- Engro Vopak Terminal Limited	**77,045**	15,046
	1,229,447	755,857
20.2 **Workers' profits participation fund**		
Balance as at January 1	**24,625**	30,988
Add: Allocation for the year - note 29	**-**	24,625
Add: Interest thereon - note 31	**4,034**	-
	28,659	55,613
Less: Payments made during the year	**-**	(30,988)
Balance as at December 31	**28,659**	24,625
21. ACCRUED INTEREST / MARK-UP		
Finance cost accrued on:		
- long term borrowings	**196,483**	157,678
- short term borrowings	**9,289**	9,590
	205,772	167,268
22. SHORT TERM BORROWINGS		
Running finance utilized under mark-up arrangements - note 22.1	**394,241**	717,568
Short term finance - note 22.2	**200,000**	125,000
	594,241	842,568

(Amounts in thousand)

22.1 The aggregate facilities for running finance available from various banks, represents the sales price of all mark-up arrangements, amount to Rs. 2,200,000 (2008: Rs. 1,275,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 0.9% to relevant period KIBOR plus 3% (2008: relevant period KIBOR plus 1.25% to relevant period KIBOR plus 3%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 12.39% to 17.37% per annum (2008: 10.37% to 17.6% per annum).

22.2 During the year, the Company entered into a short term financing arrangement of Rs. 200,000 with a local bank to obtain export refinance available at concessionary rate. The finance carries mark-up at the equivalent State Bank of Pakistan rate plus 1% per annum. The finance is secured by a floating charge of Rs. 250,000 upon all present and future current assets of the Company. The principal amount of the facility is payable in lump sum at maturity on April 30, 2010.

22.3 The facility for opening letters of credit as at December 31, 2009 aggregate to Rs. 4,794,000 (2008: Rs. 9,468,000). The amount utilized at December 31, 2009 was Rs. 1,933,000 (2008: Rs. 1,232,000). The facilities carry commission at the rate of 0.05% per quarter.

23. PROVISIONS

	2009	2008
	Rupees	
Balance at beginning of the year	**54,929**	-
Add: Recognized during the year	**2,995**	54,929
	57,924	54,929
Add: Provision for surcharge thereon	**12,570**	-
Balance at end of the year	**70,494**	54,929

As at December 31, 2009, the Company had paid Rs. 94,611 (2008: Rs. 91,616) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of this amount the Company has adjusted Rs. 57,924 (2008: Rs. 54,929) in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by the Company in monthly sales tax returns.

Pending such clarification the Company based on prudence had made provision for the adjusted amount of Rs. 57,924 and for the balance remaining of Rs. 36,687 included in loans, advance, deposits, prepayments and other receivables. However, during the year, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the aforementioned SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted is recoverable from the

(Amounts in thousand)

Company under the Federal Excise Act, 2005 along with default surcharge and penalty. In response to these notices the Company has filed a Constitutional Petition before the Honourable High Court, Sindh, on May 18, 2009. The High Court is in the process of evaluating the Constitutional Petition. The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is maintaining the aforementioned provision. Further, a provision of Rs. 12,570 for surcharge and penalty there against upto December 31, 2009 has also been made.

24. CONTINGENCIES AND COMMITMENTS

24.1 **Commitments**

24.1.1 Capital expenditure for the Project, referred to in note 1.2, under the contracts signed as at December 31, 2009, but not yet incurred amounts to Rs. 721,859 (2008: Rs. 1,305,738).

24.1.2 Performance guarantees issued by the banks on behalf of the Company as at December 31, 2009 amounts to Rs. 581,111 (2008: Rs. 264,200).

25. NET REVENUE

	2009	2008 (Restated)
	Rupees	
Gross local sales	**12,226,263**	9,455,612
Supply of electricity - note 25.1	**214,924**	24,177
	12,441,187	9,479,789
Less:		
- Sales tax	**2,165,095**	1,606,119
- Special excise duty	**103,988**	78,363
- Discounts	**3,437**	6,150
	2,272,520	1,690,632
	10,168,667	7,789,157
Export sales	**1,463,441**	79,223
	11,632,108	7,868,380

25.1 Supply of electricity represents supply of surplus power to the following:

	2009	2008 (Restated)
Engro Chemical Pakistan Limited - Holding Company	**47,070**	24,177
Karachi Electricity Supply Company	**167,854**	-
	214,924	24,177

(Amounts in thousand)

26. COST OF SALES

	2009 Rupees	2008 Rupees
Opening stock of work-in-progress	**21,293**	22,861
Raw and packing materials consumed	**7,904,707**	6,254,555
Salaries, wages and staff welfare - note 26.2	**211,896**	97,332
Fuel, power and gas	**771,237**	158,437
Repairs and maintenance	**49,292**	10,797
Depreciation - note 4.2	**502,452**	167,626
Consumable stores	**91,649**	21,310
Provision for slow moving stores and spares - note 7	**3,867**	-
Purchased services	**54,458**	25,082
Storage and handling - note 26.3	**339,425**	139,405
Training and travelling expenses	**5,943**	11,185
Communication, stationery and other office expenses	**2,971**	2,211
Insurance	**51,050**	10,597
Other expenses	**18,558**	5,061
	10,007,505	6,903,598
Closing stock of work-in-progress - note 8	**(17,579)**	(21,293)
Cost of goods manufactured	**10,011,219**	6,905,166
Opening stock of finished goods	**810,355**	640,170
Closing stock of finished goods - note 8	**(410,653)**	(810,355)
	399,702	(170,185)
Cost of sales - own manufactured product	**10,410,921**	6,734,981
- purchased product - note 26.1	**7,671**	677
	10,418,592	6,735,658

26.1 Cost of sales - purchased product

	2009	2008
Opening stock	**155**	147
Add: Purchases	**16,551**	685
Less: Closing stock - note 8	**(9,035)**	(155)
	7,671	677

26.2 This includes Rs. 11,441 (2008: Rs. 5,648), in respect of staff retirement and benefits referred to in note 34.

(Amounts in thousand)

26.3 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Chemicals Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda, respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019.

The future aggregate lease payments under these arrangements are as follows:

	2009	2008
	Rupees	
Not later than 1 year	**43,398**	-
Later than 1 year and not later than 5 years	**57,600**	-
Later than 5 years	**64,800**	-
	165,798	-

27. DISTRIBUTION AND MARKETING EXPENSES

	2009	2008
Salaries, wages and staff welfare - note 27.1	**50,641**	42,535
Advertising, sales promotion and entertainment	**50,921**	30,669
Product transportation and handling	**359,969**	202,208
Rent, rates and taxes	**3,625**	5,524
Purchased services	**3,367**	9,695
Insurance	**1,002**	919
Depreciation - note 4.2	**3,371**	4,255
Training and travelling expenses	**6,473**	7,872
Communication, stationery and other office expenses	**2,041**	2,709
Other expenses	**2,404**	5,254
	483,814	311,640

27.1 This includes Rs. 3,228 (2008: Rs. 2,613), in respect of staff retirement and benefits, referred to in note 34.

(Amounts in thousand)

28. ADMINISTRATIVE EXPENSES

	2009 Rupees	2008 Rupees
Salaries, wages and staff welfare - note 28.1	**76,563**	93,014
Rent, rates and taxes	**17,088**	13,560
Purchased services	**24,057**	8,733
Insurance	**645**	154
Depreciation - note 4.2	**3,375**	5,085
Amortization - note 5	**3,701**	749
Training and travelling expenses	**47,760**	18,557
Communication, stationery and other office expenses	**22,191**	13,846
Other expenses	**10,362**	9,484
	205,742	163,182

28.1 This includes Rs. 7,951 (2008: Rs. 6,056), in respect of staff retirement and benefits, referred to in note 34.

29. OTHER OPERATING EXPENSES

	2009 Rupees	2008 Rupees
Legal and professional charges	**8,030**	5,804
Auditors' remuneration - note 29.1	**1,582**	1,239
Donations - note 29.2	**7,527**	1,527
Unrealized fair value loss on short term investments	**-**	2,352
Security deposit written-off	**-**	217
Export rebate claim written-off	**-**	1,195
Workers' profits participation fund - note 20.2	**-**	24,625
Workers' welfare fund	**-**	9,357
Provision against custom duty refundable - note 10	**-**	18,043
Foreign exchange loss (net)	**213,373**	229,428
Others	**1,499**	-
	232,011	293,787

29.1 **Auditors' remuneration**

	2009	2008
Fee for:		
- Annual statutory audit	**580**	530
- Half yearly review	**175**	150
- Review of compliance with Code of Corporate Governance	**50**	50
	805	730
Taxation and other advisory services	**640**	389
Reimbursement of expenses	**137**	120
	1,582	1,239

(Amounts in thousand)

29.2 The recipients of donations for the year do not include any donee in whom a director or his spouse had any interest.

30. OTHER OPERATING INCOME

	2009	2008 (Restated)
	Rupees	
On financial assets		
Income on short term investment and bank deposit	**63,869**	46,643
Gain on sale of short term investments	**36,693**	69,879
Unrealized fair value gain on short term investments	**2,464**	-
Foreign exchange gain - net	**10,180**	-
Others	**149**	7,260
On non-financial assets		
Profit on disposal of property, plant and equipment	**1,619**	349
Scrap sales	**1,448**	814
	116,422	124,945

31. FINANCE COSTS

	2009	2008
	Rupees	
Interest /Mark-up on:		
- long term borrowings	**554,898**	18,212
- short term borrowings	**28,000**	8,244
Accrued interest on payable to Workers' Profits Participation Fund - note 20.2	**4,034**	-
Guarantee commission	**2,511**	979
Bank charges and others	**16,732**	6,096
	606,175	33,531

32. TAXATION

	2009	2008
Current		
- for the year - note 32.1	**71,787**	793
- for prior years	**(97)**	-
	71,690	793
Deferred - for the year	**(75,131)**	104,450
	(3,441)	105,243

32.1 Current year charge represents minimum tax at the rate of 0.5% of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001, inserted through Finance Act, 2009 and tax under presumptive tax regime on export sales.

(Amounts in thousand)

32.2 Relationship between tax expense and accounting profit

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rates as follows:

	2009	2008
	Rupees	
(Loss) / Profit before taxation	**(197,137)**	455,596
Tax calculated at applicable rate of 35% (2008: 35%)	**(68,998)**	159,459
Tax effect of exempt income and income subject to lower tax rates	**(10,374)**	(23,665)
Un-recoupable minimum turnover tax	**15,720**	14,557
Effect of adjustments in opening written down values and carried forward losses	**60,211**	(45,108)
Tax expense for the year	**(3,441)**	105,243

33. EARNINGS / (LOSS) PER SHARE – Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, since the average market price of the Company's share is less then the exercise price of the share's options granted to employees, referred to in note 14. The basic earnings per share of the Company is based on:

	2009	2008
(Loss) / Profit for the year	**(193,696)**	350,353
Weighted average number of ordinary shares (in thousand)	**520,367**	517,633

34. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2008 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

		Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
		2009	2008	2009	2008	2009	2008
		Rupees					
34.1	**Balance sheet reconciliation**						
	Present value of defined benefit obligations	**78,994**	68,644	**26,048**	22,888	**-**	-
	Fair value of plan assets	**(88,607)**	(73,582)	**(27,618)**	(21,821)	**-**	-
	(Surplus) / Deficit	**(9,613)**	(4,938)	**(1,570)**	1,067	**-**	-
	Present value of unfunded obligations	**-**	-	**-**	-	**4,523**	3,359
	Unrecognized net actuarial gains / (losses)	**9,613**	4,938	**1,570**	(1,067)	**(383)**	(383)
	Net liability at the end of the year	**-**	-	**-**	-	**4,140**	2,976
34.2	**Movement in the defined benefit obligations**						
	Obligation as at January 1	**68,644**	53,267	**22,888**	19,600	**3,359**	2,429
	Current service cost	**6,841**	5,525	**3,270**	2,223	**680**	413
	Interest cost	**9,704**	5,603	**3,300**	2,049	**481**	246
	Actuarial losses / (gains)	**-**	4,754	**-**	4,280	**3**	271
	Benefits paid	**(6,195)**	(505)	**(3,410)**	(5,264)	**-**	-
	Obligation as at December 31	**78,994**	68,644	**26,048**	22,888	**4,523**	3,359
34.3	**Movement in the fair value of plan assets**						
	Fair value as at January 1	**73,582**	62,237	**21,821**	21,742	**-**	-
	Expected return on plan assets	**10,350**	6,449	**3,160**	2,253	**-**	-
	Actuarial gains	**-**	905	**-**	1,071	**-**	-
	Employer contributions	**6,195**	4,496	**3,410**	2,019	**-**	-
	Benefits paid	**(1,520)**	(505)	**(773)**	(5,264)	**-**	-
	Fair value as at December 31	**88,607**	73,582	**27,618**	21,821	**-**	-
34.4	**The amounts recognized in the profit and loss account are as follows:**						
	Current service cost	**6,841**	5,525	**3,270**	2,223	**680**	413
	Interest cost	**9,704**	5,603	**3,300**	2,049	**481**	246
	Expected return on plan assets	**(10,350)**	(6,449)	**(3,160)**	(2,253)	**-**	-
	Recognition of actuarial (gains) / losses	**-**	(183)	**-**	-	**3**	-
	Expense	**6,195**	4,496	**3,410**	2,019	**1,164**	659
34.5	**Actual return on plan assets**	**(3,867)**	2,461	**(222)**	827	**-**	-

34.6 Expected future costs for the year ending December 31, 2010:

	Rupees
- Pension Fund	6,266
- Gratuity Fund	3,444
- Additional Death Gratuity Scheme	1,254
	10,964

(Amounts in thousand)

34.7 **Principal assumptions used in the actuarial valuation:**

	Pension Fund		Gratuity Fund	
	2009	2008	2009	2008
Discount rate	**14%**	14%	**14%**	14%
Expected rate of return per annum on plan assets	**14%**	14%	**14%**	14%
Expected rate of increase per annum on future salaries	**13%**	13%	**13%**	13%

34.8 **Plan assets comprise of following:**

	Pension Fund		Gratuity Fund	
	2009	2008	2009	2008
	Rupees			
Equity	**36,329**	25,754	**11,323**	14,402
Debt	**47,848**	25,754	**13,809**	6,110
Others	**4,430**	22,074	**2,486**	1,309
	88,607	73,582	**27,618**	21,821

34.9 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

34.10 **Historical information of staff retirement benefits:**

	2009	2008	2007	2006	2005
			Rupees		
Pension Fund					
Present value of defined benefit obligation	**78,994**	68,644	53,267	44,310	34,760
Fair value of plan assets	**(88,607)**	(73,582)	(62,237)	(47,516)	(34,861)
(Surplus) / Deficit	**(9,613)**	(4,938)	(8,970)	(3,206)	(101)
Gratuity Fund					
Present value of defined benefit obligation	**26,048**	22,888	19,600	16,145	12,784
Fair value of plan assets	**(27,618)**	(21,821)	(21,742)	(15,665)	(12,870)
(Surplus) / Deficit	**(1,570)**	1,067	(2,142)	480	(86)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

34.11 During the year, Rs. 22,620 (2008: Rs. 8,658) has been recognized in the profit and loss account in respect of defined contribution provident fund.

35. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration to Chief Executive and executives are as follows:

	2009		2008	
	Chief Executive	Executives	Chief Executive	Executives
	Rupees			
Managerial remuneration	**12,538**	**241,176**	11,076	184,954
Retirement benefit funds	**1,355**	**9,159**	1,579	10,955
Bonus paid	**-**	**-**	5,366	40,999
Employee share option scheme	**986**	**2,850**	1,229	4,218
Other benefits	**1,425**	**21,392**	1,318	17,565
Total	**16,304**	**274,577**	20,568	258,691
Number of persons	**1**	**141**	1	121

35.1 The Company also provides household items and vehicles for the use of Chief Executive and certain executives.

36. CASH GENERATED FROM OPERATIONS

	2009	2008 (Restated)
	Rupees	
(Loss) / Profit before taxation	**(197,137)**	455,596
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	**10,769**	14,898
Provision against custom duty refundable	**-**	18,043
Depreciation	**509,198**	185,460
Amortization	**3,701**	749
Amortization of deferred employee share compensation expense	**3,836**	5,477
Provision for slow moving stores and spares	**3,867**	-
Income on short term investments and bank deposits	**(63,869)**	(46,643)
Gain realized on sale of short term investments	**(36,693)**	(69,879)
Provision against SED	**15,565**	91,616
Finance costs	**602,141**	33,532
Interest accrued on Workers' Profits Participation Fund	**4,034**	-
Unrealized gain	**(2,464)**	2,353
Profit on disposal of operating assets	**(1,619)**	(349)
	1,048,466	235,257
Working capital changes - note 36.1	**691,321**	(30,707)
	1,542,650	660,146

(Amounts in thousand)

	2009	2008
	Rupees	
36.1 Working capital changes		
(Increase) / Decrease in current assets		
Stores and spares	**(69,477)**	(31,433)
Stock-in-trade	**(445,965)**	(239,334)
Trade debts	**(370,391)**	108,958
Short term finance	**200,000**	-
Loans, advances, deposits, prepayments and other receivables (net)	**(109,860)**	(95,550)
	(795,693)	(257,359)
Increase in current liabilities		
Trade and other payables	**1,487,014**	226,652
	691,321	(30,707)

37. CASH AND CASH EQUIVALENTS

	2009	2008
Cash and bank balances - note 12	**217,531**	99,385
Short term borrowings - note 22	**(394,241)**	(842,568)
	(176,710)	(743,183)

38. FINANCIAL INSTRUMENTS BY CATEGORY

	2009	2008
38.1 Financial assets as per balance sheet		
At fair value through profit and loss		
Short term investments	**61,398**	43,648
Loans and receivables		
Long term loans and advances	**47,475**	107,785
Trade debts - considered good	**439,905**	69,514
Loans, advances, deposits, and other receivables	**94,142**	94,071
Cash and bank balances	**217,531**	99,385
	860,451	414,403
38.2 Financial liabilities as per balance sheet		
Financial liabilities measured at amortized cost		
Long term borrowings	**11,135,163**	7,973,072
Derivative financial instruments	**19,935**	60,154
Retention money against project payments	**-**	553,445
Retirement and other service benefit obligations	**38,312**	38,500
Current portion of long term borrowings	**1,016,393**	130,000
Trade and other payables	**2,574,361**	1,358,760
Accrued interest/mark-up	**205,772**	167,268
Short term borrowings	**594,241**	842,568
	15,584,177	11,123,767

(Amounts in thousand)

38.3 **Fair values of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 **Financial risk factors**

The Company's activities expose it to a variety of financial risks including market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk factors. Risk management is carried out by the Company's finance department under guidance of the Company's Board of Directors.

a) **Market risk**

i) **Currency risk**

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company used to manage the currency risk through forward exchange contracts, however, since last year is unable to hedge its foreign exchange risk exposure due to restriction on forward-covers imposed by the State Bank of Pakistan. Currently, the Company manages the foreign currency risk through close monitoring of currency market. At December 31, 2009 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 248,323 (2008: Rs. 88,276) and Rs. 7,009,120 (2008: Rs. 3,117,025) respectively.

At December 31, 2009, if the Pakistani Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post-tax loss/profit for the year would have been higher/lower by Rs. 219,726 (2008: Rs. 98,434), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profitability would have been offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) **Interest rate risk**

Interest rate risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term borrowings. Borrowing at variable rates exposes the Company to cash flow interest rate risk, whereas, borrowing at fixed rates exposes the Company to fair value interest rate risk.

(Amounts in thousand)

To manage its cash flow interest rate risk, the Company has entered into floating to fixed rate interest swaps on its foreign currency borrowings. Such interest rate swaps have the economic effect of converting floating rates to fixed rates. Under the interest rate swap agreement, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between fixed contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

At December 31, 2009, if interest rate on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax loss/profit for the year would have been higher/lower by Rs. 34,964 (2008: Rs. 1,453) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) **Other price risk**

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those change are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as currently the Company has no investments in listed securities.

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The Company is not materially exposed to credit risk as unsecured credit is provided to selected parties with no history of default. Moreover, major part of trade debts are secured by bank guarantees and letters of credit from customers. Further, credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as follows:

	2009	2008
	Rupees	
Short term investments	**61,398**	43,648
Long term loan and advances	**47,475**	107,785
Trade debts - considered good	**439,905**	69,514
Loan, advances, deposits and other receivables	**94,142**	94,071
Cash and bank balances	**217,531**	97,273
	860,451	412,291

(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no defaults in recent history. The credit quality of the Company's liquid funds can be assessed with reference to external credit ratings of banks as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Allied Bank Limited	PACRA	AA	A1+
Askari Commercial Bank Limited	PACRA	AA	A1+
Bank AlFalah Limited	PACRA	AA	A1+
Bank AlHabib	PACRA	AA	A1+
Barclays Bank	S & P	A1+	AA+
Citibank	S & P	A1+	AA+
Deutsche Bank	S & P	A2	A
Dubai Islamic Bank Pakistan Limited	PACRA	AA	A1+
Faysal Bank Limited	PACRA	AA	A1+
Habib Bank Limited	PACRA	AA+	A1+
HSBC Bank Middle East Limited	S & P	A1+	AA
MCB Bank Limited	PACRA	AA+	A1+
Meezan Bank Limited	PACRA	A+	A1
National Bank of Pakistan	PACRA	AA+	A1+
NIB Bank Limited	PACRA	AA-	A1+
Samba Bank Limited	PACRA	A	A
Standard Chartered Bank (Pakistan)	S & P	AAA	A1+
United Bank Limited	PACRA	AA+	A1+

c) **Liquidity risk**

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's liquidity management involves maintaining sufficient cash and marketable securities, the availability of funds through an adequate amount of credit facilities and through its ability to close out market positions. Due to the dynamic nature of the business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below analyses how management monitors net liquidity based on details of the remaining contractual maturities of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2009			2008		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial liabilities						
Long term borrowings	**1,016,393**	**11,135,163**	**12,151,556**	130,000	7,973,072	8,103,072
Derivative financial instruments	**-**	**19,935**	**19,935**	-	60,154	60,154
Retention money against project payments	**801,718**	**-**	**801,718**	239,033	553,445	792,478
Retirement and other service benefit obligations	**-**	**38,312**	**38,312**	-	38,500	38,500
Trade and other payables	**1,772,643**	**-**	**1,772,643**	1,119,727	-	1,119,727
Accrued interest / mark-up	**205,772**	**-**	**205,772**	167,268	-	167,268
Short term borrowings	**594,241**	**-**	**594,241**	842,568	-	842,568
	4,390,767	**11,193,410**	**15,584,177**	2,498,596	8,625,171	11,123,767

(Amounts in thousand)

Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile. The Company's net settled derivative financial instruments with a negative fair value have been included at their fair value of Rs. 19,935 (2008: Rs. 60,154) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

40. CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital.

To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt.

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 15, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio at December 31, 2008 and 2009 was as follows:

	2009	2008
	Rupees	
Long term borrowings - note 15	**11,135,163**	7,973,072
Total equity	**6,395,643**	6,563,742
Total capital	**17,530,806**	14,536,814
Gearing ratio	**0.635**	0.548

41. SEGMENT INFORMATION

During the year, on August 1, 2009, the Company declared commercial production of Caustic soda and also commenced supply of surplus power to KESC. Therefore, based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

- Poly Vinyl Chloride (PVC) and allied chemicals;
- Caustic soda and allied chemicals; and
- Power supplies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

Management monitors the operating results of abovementioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in table below, is measured differently from profit or loss in the financial statements. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Finance cost, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investment, long term loan and advances, loans, advances, prepayments and other receivables, taxes recoverable, deferred employee share compensation expense, short term investments, and cash and bank balances.

The following table presents the profit or loss and total assets for the operating segments of the Company:

	2009			
	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total
Revenue	10,518,301	928,528	185,279	11,632,108
Profit or loss before unallocated expenses	468,403	192,809	69,158	730,370
Unallocated expenses				
Administrative expenses				(205,742)
Other operating expenses				(232,011)
Other operating income				116,422
Finance costs				(606,175)
Taxation				3,441
Loss after taxation				**(193,695)**
Total segment assets	13,190,511	6,368,873	132,333	19,691,717
Unallocated assets				3,107,778
Total assets as per the balance sheet				**22,799,495**

(Amounts in thousand)

42. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	2009 (Rupees)	2008 (Rupees)
Holding Company			
- Engro Chemical Pakistan Limited	Purchase of services	**17,309**	9,824
	Sale of goods	**3,195**	-
	Sale of services	**3,313**	2,807
	Sale of steam and electricity	**51,736**	28,859
	Use of operating assets	**4,139**	2,685
	Pension fund contribution	**4,119**	2,208
	Provident fund contribution	**3,036**	3,322
	Medical contribution	**88**	74
	Gratuity fund contribution	**252**	-
Associated Company			
- Mitsubishi Corporation	Purchase of goods	**7,941,021**	6,191,979
	Sale of goods	**1,268,211**	78,648
Related parties by virtue of common directorship			
- Engro Vopak Terminal Limited	Purchase of services	**1,564,559**	142,293
	Sale of services	**1,614**	1,219
- Engro PowerGen Limited	Sale of services	**424**	-
- Engro Foods Limited	Sale of goods	**301**	-
- Central Insurance Company Limited	Insurance	**4,701**	458
- ICI Pakistan Limited	Directors fee	**10**	15
	Purchase of goods	**13,016**	4,102
- IGI Pakistan Limited	Purchase of services	**2,304**	-
- Dawood Hercules Chemicals Ltd.	Sales of services	**-**	37
	Purchase of services	**5,745**	-
	Reimbursements	**-**	71
- Indus Valley School of Art and Architecture	Purchase of services	**-**	100
- Lahore University of Management Sciences	Purchase of services	**156**	248
- Management Association of Pakistan	Purchase of services and Annual subscription	**24**	120
- Port Qasim Authority	Purchase of services	**300**	11,095
	Purchase of goods	**5,138**	-
- Overseas Investors Chambers of Commerce & Industry	Advertisement (Purchase of services)	**-**	27
	Annual subscription	**-**	165
	Training course (Purchase of services)	**-**	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

(Amounts in thousand)

Nature of relationship	Nature of transactions	2009 Rupees	2008 Rupees
Related parties by virtue of common directorship			
- Pakistan Institute of Corporate Governance	Purchase of services	**80**	-
- Inbox Business Technologies (Pvt) Ltd	Purchase of goods	**-**	785
	Setup of software	**150**	150
- Avanceon Limited	Purchase of goods	**2,470**	-
	Purchase of services	**575**	409
- Actis Assets Ltd.	Directors fee	**-**	5
- UBL Funds	Investments in liquidity funds	**100,000**	-
Directors fee		**175**	-
Key management personnel	Managerial remuneration	**52,181**	47,046
	Retirement benefit funds	**3,963**	4,177
	Bonus	**-**	18,052
	Employee share option scheme	**2,542**	2,577
	Other benefits	**4,381**	4,155

42.2 Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

42.3 The related party status of outstanding balances as at December 31, 2009 are disclosed in the respective notes.

43. PRODUCTION CAPACITY

	Designed Annual Capacity 2009	Designed Annual Capacity 2008	Actual Production 2009	Actual Production 2008	Remarks
	Metric tons				
PVC resin	**150,000**	100,000	**115,620**	98,660	Production planned as per market demand
Caustic soda	**106,000**	-	**38,739**	-	Note - 43.1

43.1 Commencement of commercial production of the new PVC plant was from January 1, 2009 and that of Chlor-alkali plant was from August 1, 2009.

(Amounts in thousand)

44. CORRESPONDING FIGURES

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

Description	Head of account in the financial statements for the year ended December 31, 2008	Head of account in the financial statements for the year ended December 31, 2009	Rupees
Supply of electricity	Other operating income - note 30	Net revenue - note 25	20,843

The effect of other reclassifications is not material.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on January 21, 2010 by the Board of Directors of the Company.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Proxy Form

I/We ____

of ______________________________ being a member of Engro Polymer & Chemicals Ltd.

and holder of ______________________________ Ordinary Shares as per Share
(Number of Shares)

Register Folio No. __________ and/or CDC Participant I. D. No. ______ and Sub Account No. __________

hereby appoint ______________________________ of ______________________________

or failing him ____

of ____

as my proxy to vote for me and on my behalf at the Annual General Meeting of the Company to be held on the 9th day of April, 2010 and at any adjournment thereof.

Signed this ______________________ day of ______________________ 2010.

WITNESSES:

1. **Signature** ______________________
   Name ______________________
   Address ______________________
   ____
   CNIC or
   Passport No. ______________________

2. **Signature** ______________________
   Name ______________________
   Address ______________________
   ____
   CNIC or
   Passport No. ______________________

Signature

Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Notes:

i) Proxies in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A Proxy need not be a member of the Company.

ii) CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy before submission to the Company.

iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.

iv) In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Engro Polymer & Chemicals Ltd.

Head Office: First Floor, Bahria Complex I, 24 M.T. Khan Road, Karachi-74000, Pakistan.
UAN: 111 411 411 PABX: +92-21-35610610, 35610743, 35610753 Fax: +92-21-35611690
Website: www.engropolymer.com

JWT