engro polymer & chemicals

ANNUAL REPORT 2011

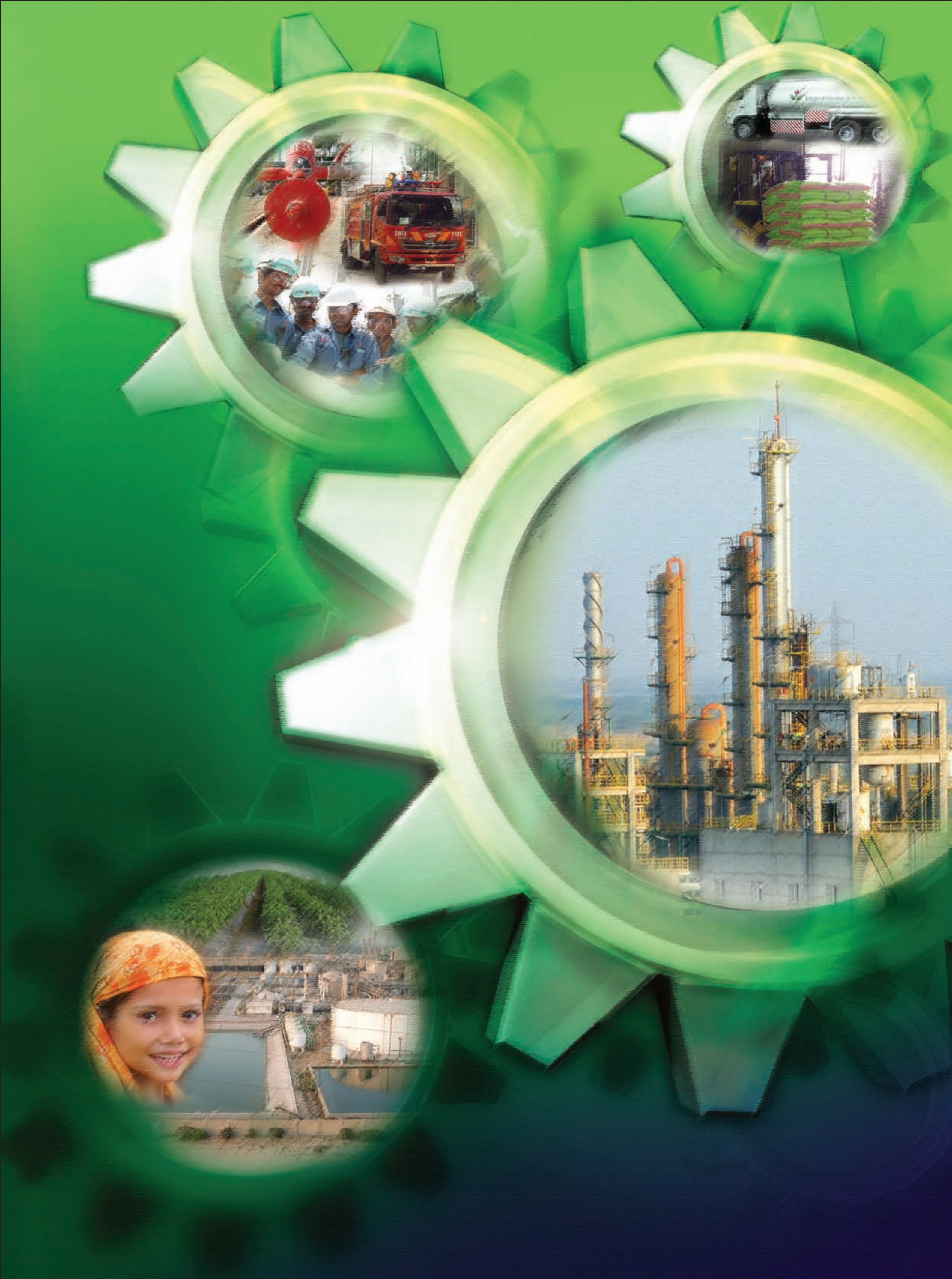
Engro Polymer & Chemicals Ltd. (EPCL) is proud to share its Annual Report 2011. This report presents Stakeholders' Information, Corporate Governance, the Directors' Report and the Financial Statements for the year ended December 31, 2011.

We would like to acknowledge the contributions of our esteemed team members and colleagues during the development of this Annual Report.

We welcome feedback, suggestions and queries, which can be directed to the following;

S.M. Ali - ali@engro.com
M. Hassan Azwar – mazwar@engro.com

This report is also available on our website;
www.engropolymer.com



growth in motion

We expressed our desire to grow in 2007 when the Company embarked upon the Expansion and Backward Integration Project. Growth was set in motion in 2010 when Engro Polymer & Chemicals Limited became the only fully vertical integrated PVC complex in Pakistan.

In 2011, we have been through challenging times but we have consolidated our strengths and worked like a well-oiled-machine with continuous resilience to overcome the challenges. As a result, we are proud to have achieved sustainable VCM plant operation with the VCM plant running at desired operating rates since 4th quarter of 2011.

The key to our future success and sustainable growth is continued strategic focus on stable VCM plant operations to realize the true economic benefits of our business model.

contents

mission

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 Mission 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 of the importance of using participatory processes just as much as emphasising attention on safety, quality and continuous improvement.

Recognise individual needs and helping fulfill them.

Trust each other by delegating authority and decision making to the lowest possible level.

Encourage sharing clearly, consistently 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

our core values define every aspect of our way of doing business

Ethics & integrity
We do care how results are achieved and will demonstrate honest and ethical behavior in all our activities. Choosing the course of highest integrity is our intent and we will establish and maintain the highest professional and personal standards. A well-founded reputation for scrupulous dealing is itself a priceless asset.

Health, Safety & Environment
We will manage and utilize resources and operations in such a way that the safety and health of our people, neighbors, customers and visitors is ensured. We believe our safety, health and environmental responsibilities extend beyond protection and enhancement of our own facilities.

Innovation & Risk Taking
Success requires us to continually strive to produce breakthrough ideas that result in improved solutions and services, We encourage challenges to the status quo and seek organizational environments in which ideas are generated, nurtured and developed. Engro appreciates employees for well thought out risks taken in all realms of business and for the results achieved due to them, acknowledging the fact that not all risks will result in success.

Our People
We strongly believe in the dignity and value of people. We must consistently treat each other with respect and strive to create an organizational environment in which individuals are fairly treated, encouraged and empowered to contribute, grow and develop themselves and help to develop each other. We do not tolerate any form of harassment of discrimination.

Community & Society
We believe that a successful business creates much bigger economic impact and value in the community, which dwarfs any philanthropic contribution. Hence, at Engro, sustinable business development is to be anchored in commitment to engage with key stakeholders in the community and society.

business ethics

The policy of Engro Polymer & Chemicals Limited (EPCL) is one of 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 standards of integrity throughout the organisation. We will not tolerate an employee who achieves results 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.

stakeholders' information

company information

Board of Directors

Asad Umar	Chairman
Khalid S. Subhani	President and Chief Executive
Asif Qadir	Director
Isar Ahmad	Director
Kimihide Ando	Director
Shahzada Dawood	Director
Shabbir Hashmi	Director
Waqar A. Malik	Director
Khalid Mansoor	Director
Takashi Yoshida	Director

Board Audit Committee

Isar Ahmad	Chairman
Kimihide Ando	Member
Shabbir Hashmi	Member
Khalid S. Subhani	Member

Management Committee

Khalid S. Subhani	Chairman
Arshaduddin Ahmed	Member
Asif Tajik	Member
Saleem Lallany	Member
Khalid Mukhtar	Member
Jahangir Piracha	Member
Yoshio Shiga	Member
Syed Nayyar I. Raza	Secretary

Company Secretary

Saleem Lallany - slallany@engro.com

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.
Summit Bank Ltd. (formerly Arif Habib 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.
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.
Silk 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

business at a glance

Established in 1997, Engro Polymer & Chemicals Limited (EPCL) is the only fully integrated Chemical Complex in Pakistan after successfully commencing commercial production of VCM plant in 2010. It is involved in the manufacturing, marketing and distribution of PVC and Chlor-Vinyl allied products. The Company has the capability to manufacture and market 150,000 tons of PVC resin, 107,000 tons of Caustic soda from its state-of-the-art Chlor-Alkali unit and 20,000 tons of Sodium Hypochorite annually.

EPCL's Products

PVC

The Company manufactures and markets five grades of PVC under the brand name 'SABZ';

AU 67 S	Film, Sheet, Artificial Leather, Wire Coating, Hoses
AU 72	Film, Sheet, Artificial Leather, Wire Coating, Hoses
AU 67 R	Pipe, Sheet, Window Profiles
AU 60	Films, Sheet, Bottle, Window Profiles
AU 58	Films, Sheet, Bottle, Window Profiles

Caustic soda

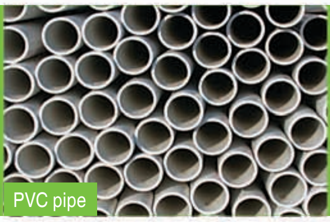
Caustic soda is another product produced and sold by EPCL, as 50% solution in water. It is used excessively in the textile industry, in soap and detergents manufacturing industry, as a water treatment agent and for other cleaning purposes.

Sodium Hypochlorite

EPCL also manufactures and sells Sodium Hypochlorite, commonly known as bleach, that is sold as a liquid with 15% chlorine concentration weighed by volume. This product is mainly distributed in the South market.

Product Applications

PVC
(Poly Vinyl Chloride)


PVC pipe


Shrink film


Shoes


Artificial leather

Hypo
(Sodium Hypochlorite)


Water treatment


Detergents preparation


Denim bleaching


Paper bleaching

Caustic soda
(Sodium Hydroxide)

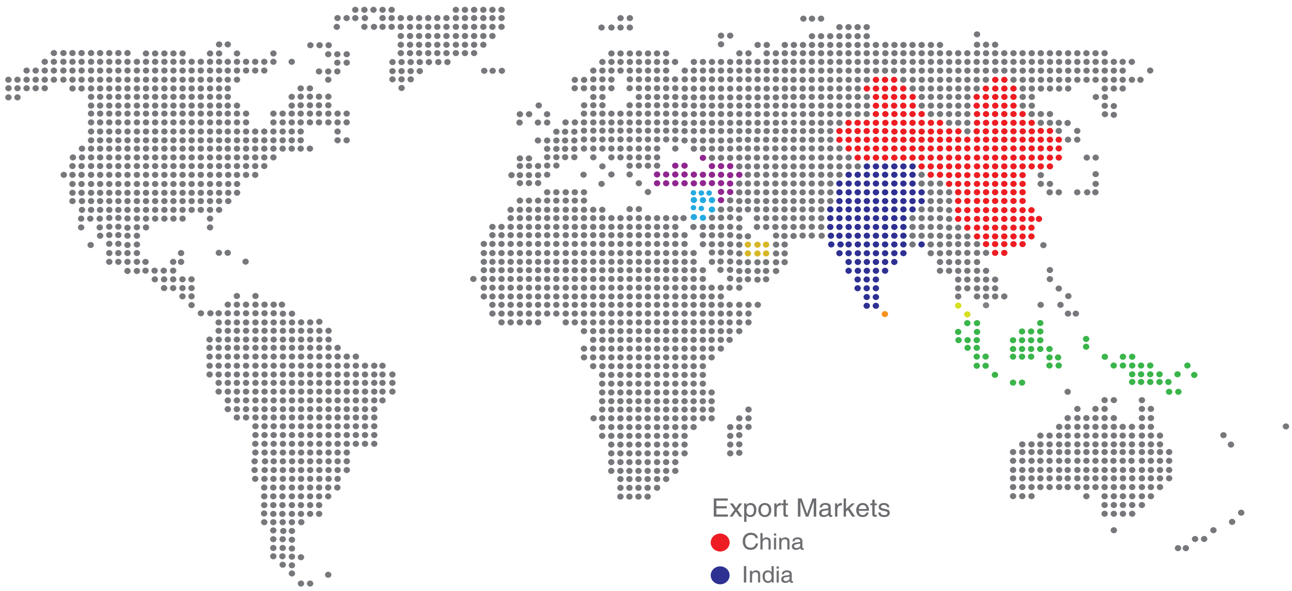

Dyeing & mercerizing in textile

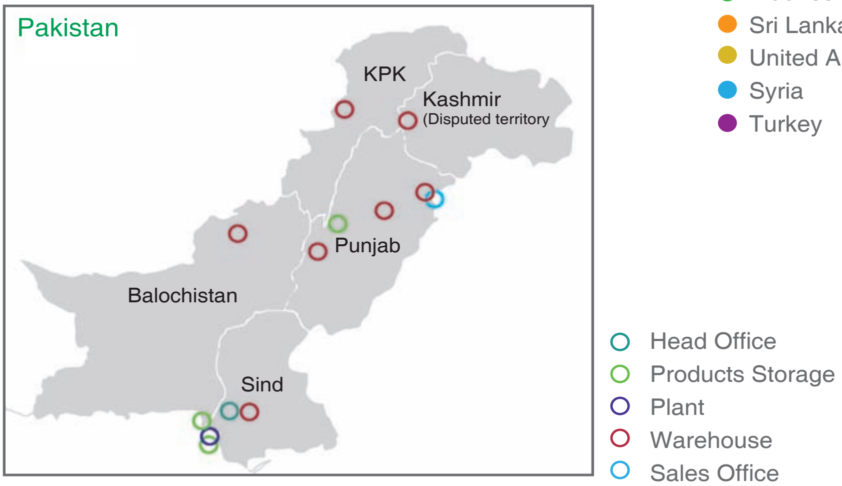

FFA removal from edibile oil & ghee


Soap

EPCL started manufacturing PVC resin in 1998 under its brand name 'SABZ'. In 2009, EPCL has set up additional plants which manufacture Caustic soda and Sodium Hypochlorite. The applications of these products are depicted here.

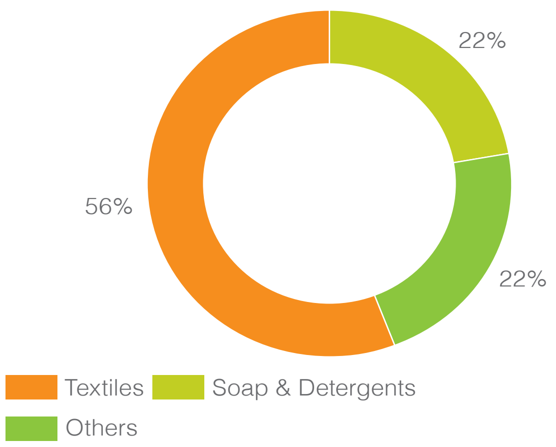
EPCL's geographical presence



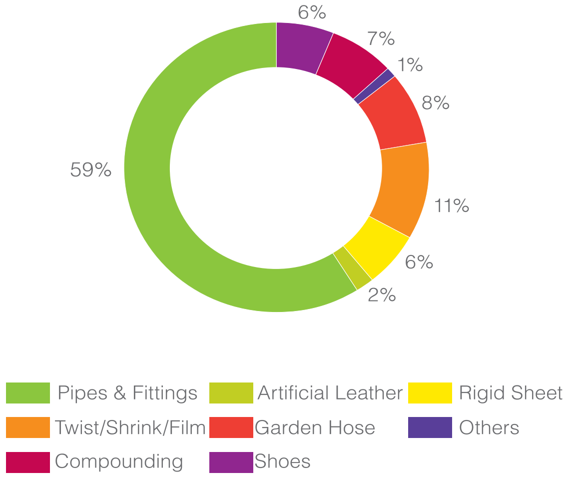


EPCL's sector-wise sales for PVC and Caustic soda

2011 Caustic soda sector wise sales



2011 PVC Sector Wise Sales



organisation structure

Chairman
(Engro Corp CEO & President)

EPCL Board of Directors

Board Committees
Board Audit Committee (BAC)
Board Compensation Committee (BCC)

President & CEO

Functional Committees

Corporate HSE
Management Committee
COED

Functional Heads

VP Marketing
- Manager Business Planning
- Mananger Product Movement & Shipping (PM&S) & Logistics
- National Sales Manager

VP Manufacturing
- Health, Safety & Environment (HSE) Manager
- Maintenance Manager
- VCM Plant Manager
- Technical Manager
- Site Managers (4)
- Unit Manager Process Engineering & Laboratory
- Rest of Plant (ROP) Operations Manager

VP Technology and Supply Chain

GM Human Resource and Corporate Services

Manager Purchasing and Contracts
- Manager Administration & Security

Finance & Accounts (F&A) Manager / Chief Financial Officer (CFO) / Company Secretary

Stakeholders
- Employees
- Financial Community
- Shareholders
- Media
- Government
- Customers
- Suppliers
- Community / Society

The following framework outlines EPCL's approach towards creating meaningful value.

The Board of Directors has a top down view as the representative of shareholders' interest and works with the President & CEO in deciding the overall strategic vision and direction of the Company.

The Board is assisted by a number of Board Committees in making decisions related to business oversight and compensation. A number of Functional Committees act at the operational level in an advisory capacity to the President & CEO, providing recommendations related to business, environment and employee matters. Functional Heads provide advice in their own capacities on their respective business areas which include health and safety, technical matters relating to the Plants, marketing and sales, finance, employee matters, supply chain, information technology and logistics.

The senior management of the Company considers feedback to be a significant contributor for review of objectives and for the development of future plans and strategies. The Company gathers information through various Stakeholders, including government, shareholders and community, which ensure flow of information both in and out of the Company.

stakeholder engagement

EPCL takes stakeholder engagement very seriously, and understands that engaging with all our stakeholders is the only way to ensure that we remain a responsible corporate citizen and have a positive impact on all our stakeholder groups.

EPCL understands its wider stakeholder community to include:

- The media
- Investors and shareholders
- Suppliers
- Customers
- Host communities (both local to our facilities and throughout Pakistan in general)
- Employees (both permanent and contractual staff)

EPCL is concerned with engaging all stakeholder groups both formally and informally, periodically and / or regularly.

Regular stakeholder engagement

EPCL engages with the print and visual media through regular press releases on key achievements and disclosures, through analyst briefings on quarterly and annual results, through disclosures to the stock exchanges on strategic events, through plant visits and through informal conversations throughout the year on EPCL news and updates.

EPCL engages with shareholders through the Annual General Meeting and the Annual and Sustainability reports, which include comprehensive matter on financial and non-financial matters related to the Company.

EPCL has hundreds of vendors and customers and we seek to engage them from time to time through formal and informal meetings and conferences. We have engaged with our customers regularly to provide them with technical assistance related to their businesses for the benefit of the industry and the economy.

EPCL takes its responsibility to its host communities very seriously, and regularly interacts with the local communities to understand how we can improve the way we work with and for them. EPCL is active in health, education, livelihood and environmental projects in local communities on a regular basis.

EPCL has particularly focused on employees engagement by participating in a survey launched by its parent Company, Engro Corporation. The employee engagement survey sought to identify the extent to which EPCL employees were engaged and motivated to work with and perform well within the Company.

key highlights & major events

Safety

- Out of an aggregate 3.4 million man-hours worked in 2011, Total Recordable Injury Rate (TRIR) was restricted to 0.06, the best statistic for the integrated site, with only one recordable injury and nil Lost-Work-Injuries (LWIs). We have also achieved DuPont alignment in Personnel Safety Management (PSM) and were awarded a rating of 3.2 in the PSM system external audit by DuPont.

Production and Sales

- Highest ever PVC production was experienced in the Company's 13-year history. 122 K tons of PVC was produced in 2011 compared to 114 K tons in 2010. Capacity utilization of PVC plants increased to 81% in 2011 from 76% in 2010. Simultaneously, Caustic soda production was also recorded at 100 K tons compared to 93 K tons in 2010.

- The integrated VCM plant stabilized in 4Q2011 post furnace-rehabilitation with 99% capacity utilization and achieved highest ever quarterly production of 41 K tons. 98 K tons of own manufactured VCM was utilized in PVC production along with 24 K tons of imported VCM. In 2010, these figures were 64 K tons and 52 K tons respectively.

- PVC market share increased to 69.4% in 2011 from 62.5% in 2010. It is estimated that 5 K tons of PVC resin was imported in the country. PVC domestic sales volume stood at 113 K tons in 2011 versus 97 K tons in 2010. Caustic soda sales volume was 87 K tons versus 80 K tons in 2010.

- In line with its Export Strategy, new international markets were explored. Further, following high stable production rates of the VCM plant in 4Q2011, the Company also exported 3 K tons of surplus VCM in December 2011.

Others

- The Joint Evaluation Committee of the Institute of the Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan declared the Annual Report of EPCL for the year ended December 31, 2010 to be the 2nd best corporate report amongst companies in the chemicals and fertilizer sector. The corporate Sustainability Report 2010 was also recognized by the Committee.

- The Company spent Rs. 7.1 million in social investments, which includes water and forest conservation, flood rehabilitation, community development and education.

- The first phase in the implementation of Enterprise Risk Management (ERM) system was successfully completed across the Company and 38 risks related to the business were identified on which comprehensive management plans are in the process of being prepared and implemented.

awards, achievements and accreditations

Certification

DuPont Certification

In 2011, we achieved a DuPont rating of 3.2 in the process safety management systems (PSM) audit over and above the rating of over 3 in Process Safety and Risk Management (PSRM).

DuPont's Process Safety System is one of the best safety management systems in the world that provides overall safety guidelines regarding process safety, safe work practices, risk management, quality assurance, advice on how to safely handle and the manufacturing, storage and transportation of highly hazardous chemicals in a way that is aligned with OSHA and EPA regulations.

GRI Certification

EPCL is the first organization within Pakistan to have qualified for this certification which will benefit EPCL to align with the reporting framework and to plan, report and evaluate sustainability reports on international standards.

Global Reporting Initiative (GRI) is a network-based organization pioneering the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide.

Environment Management System (EMS) – ISO 14001 Certification

EPCL acquired ISO 14001 certification in 2001 through United Registrar of Systems Limited (URS), accredited by United Kingdom Accreditation Services (UKAS).

Quality Management System (QMS) - ISO 9001:2000 Certification

Within the first year of commencing its operations in 1999, ECPL obtained its ISO 9001:2000 certification.

Investors In People (IIP) Certification

EPCL manufacturing division acquired IIP certification in 2005. We are the first in Pakistan to be recognized by IIP.

Credibility

UNGC Global Compact

We have officially signed the UNGC Global Compact with the United Nations, which symbolizes an official commitment to follow the ten principles of the Compact that the Company had implemented prior to the Compact, in letter and spirit.

The Global Compact Principles in connection with the Global Reporting Initiatives (GRI) 3 provide universally acclaimed benchmark of standards to which the company can aspire.

ACCA-WWF Pakistan Environmental Reporting Awards

EPCL Environment Performance Reports have won the ACCA-WWF Environmental Reporting Awards for three consecutive years.

Best Corporate Report Awards 2009 and 2010

EPLC Annual Reports have been awarded second best annual report for the second year running by the Joint Evaluation Committee of ICAP-ICMAP from a wide selection of reports belonging to Companies from the Pharmaceutical, Chemical and Fertilizer sectors. The award represents the Company's commitment to maintain high standards in financial reporting for the benefit of all stakeholders in the Company.

The evaluation committee's criterion was based on transparent disclosure of information regarding financials and related information, Directors' Report and corporate governance.

summary of profit & loss account and balance sheet

Amounts in Rs. M

	2006	2007	2008	2009	2010	2011
PROFIT AND LOSS						
Net Sales	5,278	6,063	7,868	11,571	14,628	16,886
Gross Profit	1,024	988	1,132	1,152	1,192	2,075
Operating Profit	634	617	492	347	123	421
Profit / (Loss) before tax	569	576	459	(249)	(1,289)	(1,117)
Profit / (Loss) after Tax	381	422	353	(232)	(814)	(729)
BALANCE SHEET						
Property, Plant and Equipment	2,443	4,709	16,135	19,361	19,199	18,538
Intangibles, Investments and Long term Loans & Advances	65	150	167	109	434	1,021
Current Assets	1,756	4,604	1,977	3,086	4,501	4,969
Current Liabilities	1,748	1,404	2,705	4,681	6,163	9,550
Long Term Liabilities	468	1,828	9,008	11,515	11,064	8,840
Share Capital	1,780	4,436	5,204	5,204	6,635	6,635
Shareholders Equity	2,048	5,177	6,566	6,360	6,906	6,139

summary of cash flow statement

Amounts in Rs. M

	2006	2007	2008	2009	2010	2011
Cash generated from operations	554	880	665	1,490	105	4,514
Finance costs	(67)	(37)	(354)	(561)	(1,421)	(1,586)
Long term loans and advances	(4)	(84)	(10)	60	7	3
Retirement benefits paid	–	–	–	(11)	(12)	(41)
Income tax paid	(19)	(45)	(184)	(290)	(333)	(381)
Net cash flow from operating activities	464	714	117	688	(1,654)	2,509
Purchase of operating assets and intangibles	(345)	(2,453)	(11,165)	(3,746)	(880)	(533)
Retention money against Project payments	–	–	452	(553)	–	–
Proceeds from disposal of operating assets	4	2	4	6	15	18
Purchases of short term investments	(97)	(3,272)	–	–	–	(540)
Proceeds from sale of short term investments	–	516	2,915	35	–	546
Income on investments and bank deposits	60	28	117	62	14	6
Net cash flow from investing activities	(378)	(5,179)	(7,677)	(4,196)	(851)	(503)
Proceeds from long term borrowings	–	1,240	6,638	4,179	1,390	–
Repayment of borrowings	(166)	(229)	–	(130)	(1,104)	(1,613)
Issue of share capital	–	4,118	229	–	1,414	–
Dividend	(281)	(422)	(253)	–	–	–
Net cash flow from financing activities	(447)	4,707	6,614	4,049	1,777	(1,613)
Net cash flow	(361)	242	(946)	541	(805)	393
Cash Generated from Operations-Direct Method						
Cash flows from customers	5,499	6,021	7,977	11,305	14,373	17,263
Cash payment to suppliers and others	(4,945)	(5,141)	(7,312)	(9,815)	(14,268)	(12,749)
Cash generated from operations	554	880	665	1,490	105	4,514

key financial information

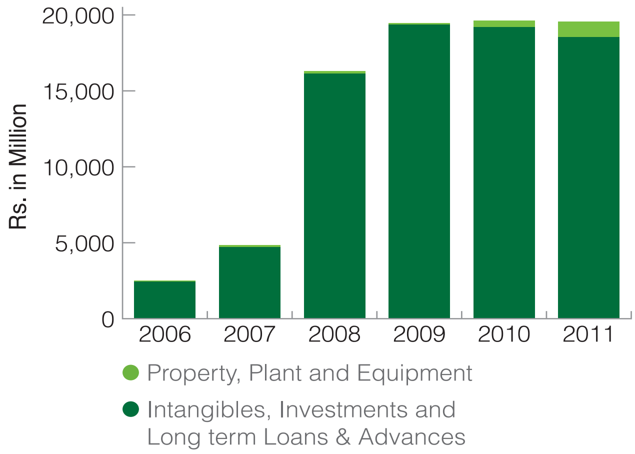
	Unit	2006	2007	2008	2009	2010	2011
Profitability ratios							
Margin (Gross Profit to Sales)	%	19.40	16.30	14.39	9.96	8.15	12.29
Net Profit /(Loss) to Sales	%	7.23	6.95	4.49	(2.01)	(5.56)	(4.32)
EBITDA	Rs. in M	810	794	670	860	1,144	1,584
EBITDA to Sales	%	15.35	13.10	8.51	7.43	7.82	9.38
Return on Equity	%	18.63	8.14	5.38	(3.65)	(11.79)	(11.87)
Return on Capital Employed	%	16.79	6.44	2.43	(1.33)	(4.57)	(4.94)
Operating leverage ratio	No. of Times	(24.59)	(0.15)	(0.58)	(0.65)	(2.58)	15.02
Capital structure ratios							
Interest Cover Ratio	No. of Times	9.75	15.04	14.50	0.58	0.09	0.27
Long term Debt to Equity Ratio	No. of Times	0.11	0.26	1.21	1.75	1.58	1.40
Weighted average cost of debt	%	8.26	9.52	14.72	11.51	10.99	12.09
Financial leverage	%	41	28	136	197	200	193
Break up value per share	Rs.	11.50	11.67	12.63	12.23	10.42	9.26
Earning assets to total assets	%	72	55	91	90	86	81
Liquidity ratios							
Cash flow from operations to sales	No. of Times	0.10	0.15	0.08	0.13	(0.11)	0.15
Cash to current liabilities	No. of Times	(0.03)	(0.14)	0.28	0.04	0.16	0.06
Current Ratio	No. of Times	1.00	3.28	0.73	0.66	0.73	0.52
Quick Ratio	No. of Times	0.43	2.62	0.30	0.32	0.40	0.26
Activity/turnover ratios							
Fixed Assets Turnover	No. of Times	2.16	1.29	0.49	0.60	0.76	0.91
Debtor Turnover	No. of days	15.07	8.15	4.77	5.37	9.83	7.35
Inventory Turnover	No. of days	55.74	69.05	56.32	48.43	49.73	55.77
Creditor turnover	No. of days	65.21	71.00	49.99	46.61	63.22	123.05
Operating cycle	No. of days	5.60	6.20	11.10	7.18	(3.65)	(59.93)
Investment/market ratios							
Number of outstanding shares	No. in M	178	444	520	520	663	663
Earnings Per Share - Basic and Diluted	Rs.	2.14	1.64	0.68	(0.42)	(1.29)	(1.10)
Dividend Per Share - Note (ii)	Rs.	1.85	2.10	0.54	–	–	–
Dividend payout ratio - Note (ii)	%	86	128	79	–	–	–
Dividend cover ratio - Note (i)	No. of Times	1.16	0.78	1.26	–	–	–
Price Earning Ratio - Note (i)	No. of Times	–	–	4.66	(2.34)	(9.05)	(14.99)
Market value per share (year end)	Rs.	–	–	14.58	17.94	14.25	7.34
Market value per share (highest)	Rs.	–	–	28.31	27.00	18.80	15.87
Market value per share (lowest)	Rs.	–	–	12.66	12.11	9.57	7.15
Price to book ratio - Note (i)	Rs.	–	–	0.41	0.41	0.39	0.20
Dividend yield ratio - Note (i) & (ii)	%	–	–	4	–	–	–
Fair value of Property, Plant and Equipment as at April 2010 (excl. vehicles & FFE)	Rs. in M					24,080	

Note (i) Company was listed during 2008

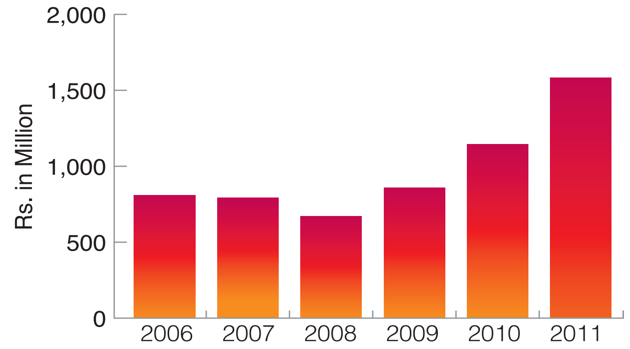
Note (ii) Dividend paid during 2008 was the Final dividend declared during 2007

graphical presentation

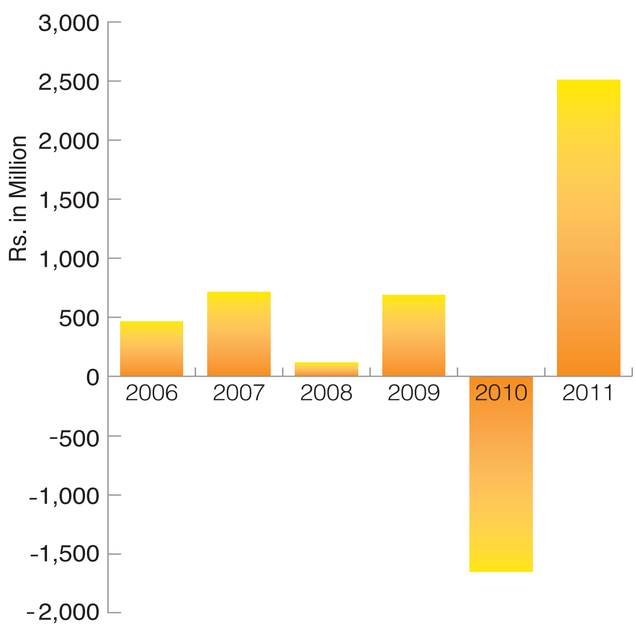
Total Non-Current Assets



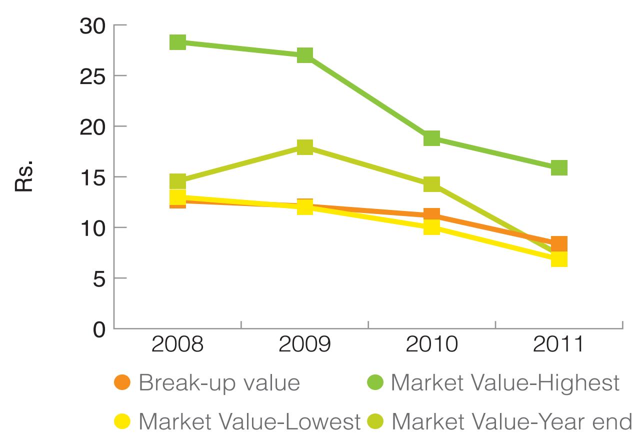
EBITDA



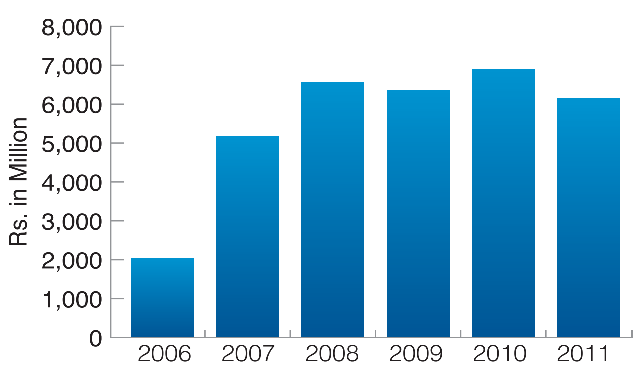
Net Cash Flow from Operating Activities



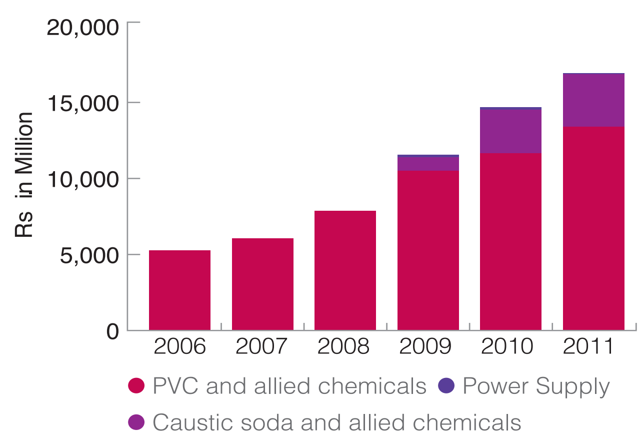
Break-up value vs Market Value per Share



Shareholders' Equity



Sales Revenues



The company commenced commercial operations of the Chlor-Alkali and Power Plants (Gas Turbines) in 2009.

balance sheet vertical and horizontal analysis

Amounts in Rs. M

	2006	2007	2008	2009	2010	2011
ASSETS						
Non-Current Assets	2,508	4,859	16,302	19,470	19,633	19,559
Current Assets	1,756	4,604	1,977	3,086	4,501	4,969
Total Assets	4,264	9,463	18,279	22,556	24,134	24,528
EQUITY AND LIABILITIES						
Equity	2,048	5,177	6,566	6,360	6,906	6,139
Advance against issue of share capital	–	1,054	–	–	–	–
Non-Current Liabilities	468	1,828	9,008	11,515	11,064	8,839
Current Liabilities	1,748	1,404	2,705	4,681	6,164	9,550
Total Liabilities	4,264	9,463	18,279	22,556	24,134	24,528

Vertical Analysis % of Balance Sheet Total	2006	2007	2008	2009	2010	2011
ASSETS						
Non-Current Assets	59%	51%	89%	86%	81%	80%
Current Assets	41%	49%	11%	14%	19%	20%
Total Assets	100%	100%	100%	100%	100%	100%
EQUITY AND LIABILITIES						
Equity	48%	55%	36%	28%	29%	25%
Advance against issue of share capital	–	11%	–	–	–	–
Non-Current Liabilities	11%	19%	49%	51%	46%	36%
Current Liabilities	41%	15%	15%	21%	25%	39%
Total Liabilities	100%	100%	100%	100%	100%	100%

Horizontal Analysis Year on Year	2007 over 2006	2008 over 2007	2009 over 2008	2010 over 2009	2011 over 2010
ASSETS					
Non-Current Assets	94%	236%	19%	1%	–
Current Assets	162%	-57%	56%	46%	10%
Total Assets	122%	93%	23%	7%	2%
EQUITY AND LIABILITIES					
Equity	153%	27%	-3%	9%	-11%
Advance against issue of share capital	–	-100%	–	–	–
Non-Current Liabilities	291%	393%	28%	-4%	-20%
Current Liabilities	-20%	93%	73%	32%	55%
Total Liabilities	122%	93%	23%	7%	2%

profit and loss account vertical and horizontal analysis

Amounts in Rs. M

	2006	2007	2008	2009	2010	2011
Net Sales	5,278	6,063	7,868	11,571	14,628	16,886
Cost of Sales	(4,254)	(5,075)	(6,736)	(10,419)	(13,437)	(14,811)
Gross Profit	1,024	988	1,132	1,152	1,191	2,075
Distribution and marketing expenses	(299)	(258)	(312)	(469)	(609)	(854)
Administrative expenses	(104)	(131)	(163)	(205)	(311)	(386)
Other operating expenses	(49)	(70)	(289)	(231)	(171)	(435)
Other operating income	62	88	124	100	22	21
Operating profit	634	617	492	347	122	421
Finance costs	(65)	(41)	(33)	(596)	(1,412)	(1,538)
(Loss) / Profit before taxation	569	576	459	(249)	(1,290)	(1,117)
Taxation	(188)	(154)	(106)	17	476	388
(Loss) / Profit after taxation	381	422	353	(232)	(814)	(729)

Vertical Analysis

% of Sales	2006	2007	2008	2009	2010	2011
Net Sales	100%	100%	100%	100%	100%	100%
Cost of sales	-81%	-84%	-86%	-90%	-92%	-88%
Gross profit	19%	16%	14%	10%	8%	12%
Distribution and marketing expenses	-6%	-4%	-4%	-4%	-4%	-5%
Administrative expenses	-2%	-2%	-2%	-2%	-2%	-2%
Other operating expenses	-1%	-1%	-4%	-2%	-1%	-3%
Other operating income	1%	1%	2%	1%	–	–
Operating profit	12%	10%	6%	3%	1%	2%
Finance costs	-1%	-1%	–	-5%	-10%	9%
(Loss) / Profit before taxation	11%	10%	6%	-2%	-9%	7%
Taxation	-4%	-3%	-1%	–	3%	2%
(Loss) / Profit after taxation	7%	7%	4%	-2%	-6%	-4%

Horizontal Analysis

Year on Year	2007 over 2006	2008 over 2007	2009 over 2008	2010 over 2009	2011 over 2010
Net Sales	15%	30%	47%	26%	15%
Cost of sales	19%	33%	55%	29%	10%
Gross Profit	-3%	15%	2%	3%	74%
Distribution and marketing expenses	-14%	21%	50%	30%	40%
Administrative expenses	26%	24%	26%	51%	24%
Other operating expenses	43%	313%	-20%	-26%	154%
Other operating income	42%	41%	-19%	-78%	-5%
Operating profit	-3%	-20%	-29%	-65%	245%
Finance costs	-37%	-20%	1,706%	137%	9%
(Loss) / Profit before taxation	-1%	-20%	-154%	418%	-13%
Taxation	-18%	-31%	-116%	2,643%	-18%
(Loss) / Profit after taxation	11%	-16%	-166%	251%	-10%

corporate governance

governance framework

Our governance framework is designed to ensure that the Company lives up to its core values and principles, institutionalizing excellence in everything we do. Driven by the highest governance standards of integrity, transparency and zeal to protect stakeholders' value, EPCL has aligned its governance framework to the industry's best practices. The board of directors and senior management place significant emphasis on internal controls, which trickles down to each and every employee in the Company.

In recognition of the importance of good Corporate Governance on the basis of proper management policies, the 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 the 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 internal environment

The 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 opportunities to develop their knowledge and competence and become good ethical representatives of the Company's commitment in policy to professional business standards. The 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 manuals have been produced to ensure efficiency of operations and avoid duplication of effort.

Internal Control Framework

Responsibility

The Board is ultimately responsible for EPCL's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable and not absolute assurance against material misstatement or loss.

The Board, whilst maintaining its overall responsibility for managing risk within the Company, has delegated the detailed design and operation of the system of internal controls to the Chief Executive.

Framework

The Company maintains an established control framework comprising clear structures, authority limits and accountabilities. All policies and control procedures are documented in manuals. The Board establishes corporate strategy and the Company's business objectives. Divisional management integrates these objectives into divisional business strategies with supporting financial objectives.

Risk Assessment

The 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

The 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.

Review

The Board meets atleast once each quarter to consider EPCL's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators. Post completion reviews are performed on all material investment expenditures.

Audit

The Head of Internal Audit functionally reports to the Board Audit Committee. The Internal Audit function carries out reviews on the financial, operational and compliance controls, and reports findings to the Board Audit Committee, Chief Executive and the concerned divisional management.

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. The Board Audit Committee receives reports on the system of internal controls from internal and external auditors and reviews the process for monitoring the effectiveness of controls.

Salient features of Internal Audit Charter

As part of its evaluation, the internal audit department assesses whether the Company's network of control, risk management, and compliance processes, as designed and represented by management, are adequate and functioning in a manner to ensure that:

- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately protected.
- Quality and continuous improvement are fostered in the Company's control process.
- Risks are appropriately identified and managed.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Significant statutory or regulatory issues impacting the Company are recognized and addressed appropriately.

Directors

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, composition of which is as follows:

- 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.

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 enhance the efficient performance of its duties, the Board of Directors appoints a number of subcommittees, 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.

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.

Development of Directors

It is the Company's policy to encourage directors, executives, and personnel concerned with corporate governance to take part in seminars and courses that could aid them in the performance of their duties and enhance their effectiveness. Such education is available with independent institutes and enables students of their programs to continuously improve their work and utilize their knowledge for the Company's benefit.

Newly appointed directors are given information that introduces them to their role, duties, and responsibilities, as well as knowledge of the Company, their legal obligations, and the regulations that apply to them as directors of a listed company.

Board Activities in 2011

In 2011, the Board's activities were characterized by prospective issues of central importance. A great deal of attention was paid to strategic issues such as development of sustainable operations, cash flow management and foreign exchange strategy. At the final Board meeting of the year, the Directors approved the Corporate Plan 2012.

			Committee		Attendance		
Name of Directors	Elected	Status of Director	Audit	Compensation	Board Meetings	Audit Committee	Compensation Committee
Asad Umar (Chairman)	1997	Non-Executive		Chair	6/6		4/5
Asif Qadir [1)]	1999	Executive			5/6		
Khalid S. Subhani [2)]	2004	Non-Executive	x		6/6	3/5	
Isar Ahmad	2007	Non-Executive	Chair	x	5/6	5/5	4/5
Kimihide Ando	2010	Independent / Non-Executive	x	x	6/6	5/5	5/5
Shahzada Dawood	2005	Non-Executive			5/6		
Shabbir Hashmi	2007	Independent / Non-Executive	x		6/6	5/5	
Khalid Mansoor	2007	Non-Executive			5/6		
Waqar A. Malik	2005	Independent / Non-Executive		x	5/6		5/5
Takashi Yoshida	2010	Independent / Non-Executive			5/6		

1) Effective January 1, 2012, Asif Qadir has taken an early retirement from his position as Chief Executive and is no more an Executive Director.
2) Effective January 1, 2012, Khalid S. Subhani has been appointed as the President and Chief Executive by the Board and is no more a Non-Executive Director.

governance performance

Enterprise Risk Management (ERM) System

In 2011, EPCL adopted an Engro group objective to implement an Enterprise-wide Risk Management (ERM) System. The system is designed for application to strategy setting, identification of potential events that may affect the entity, management of risks to check them as per the entity's risk appetite and for the provision of reasonable assurance regarding completion of the company's Corporate Objectives.

The process was segmented over two phases; with phase one covering the implementation of a Lean ERM across the organization. The ERM framework will help to enhance the Company's capacity to anticipate, analyze and mitigate risks. With the implementation of Lean ERM, EPCL has identified critical strategic, operational, financial and compliance risks. On aggregate, 13 risks out of 38 risks were assessed as critical in 2011. As part of the ERM process, management has initiated work on comprehensive management plans which are to be shared with the Board Audit Committee (BAC).

The deployment of ERM is to continue over the course of 2012.

Business Risks and Challenges

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

Reduction in domestic demand of PVC and Caustic soda	EPCL's annual production capacity of PVC is 150 K tons which is in the optimum range for Pakistan market. Over the years the Company has developed an export base in the international market and is in a reasonably comfortable position to export surplus quantities of PVC. Caustic soda was launched in 2009 in the domestic market and the product gained market penetration in a very short period of time. Production capacity of EPCL currently caters to 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.
Risk of availability of raw materials for PVC	Raw material required to produce PVC is Ethylene. Availability of Ethylene will not be an issue for the next few years as additional capacities have come online. In addition to this, EPCL has the infrastructure 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.
Low VCM Plant operations	In case VCM plant operates at an operating rate lower than capacity, VCM shortfall will be covered by importing VCM from the international market. Although imported VCM is an expensive option but it still gives positive contribution margin on domestic PVC sales. In addition to this low VCM production does not affect Caustic soda or EDC production which can be sold in domestic and export markets respectively.

Treasury Management and Financial Risks

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 following financial risks are considered to be relevant in evaluating the financial strategy of the Company:

Interest rate risk management

At the end of December 31, 2011, EPCL's outstanding borrowings were Rs. 11,834 million out of which Rs. 3,926 million (USD 44 million) represents foreign currency borrowings which are linked to LIBOR. Foreign currency borrowings outstanding to the extent of USD 29.3 million have been hedged through a fixed interest rate swap for the entire tenor of the loan. As at December 31, 2011, the Company has outstanding cross currency interest rate swap agreements amounting to USD 10.2 million to hedge its interest rate on floating rate local currency borrowings from a consortium of banks which has earned the Company significant savings on its interest expense.

Liquidity risk management

EPCL sales strategy enables maximum amount of volumes sold to be realized in cash as opposed to credit and our purchasing strategy ensures optimum level of credit days. EPCL policy ensures that adequate modes of financing are available in the form of committed bank facilities. Liquidity risk is further mitigated by continuous and careful monitoring of the cash flow needs, regular communication with our credit providers and careful selection of financially strong banks with good credit ratings.

Foreign currency risk management

EPCL foreign currency exposure is mainly on account of imports of raw materials, stores & spares and plant & machinery. EPCL business model is such that sales prices hail from international market quotations from Harriman in USD resulting in a natural hedge to the extent of volumes of product sold.

Audit Report Ratings

In 2011, EPCL also adopted an Engro group objective to obtain such a level in corporate governance that no more than 10% of the total audit reports issued during the year would receive a Management Attention Required (MAR) rated report. On the whole, 16% of the Company's audit reports were rated MAR by the Internal Audit function. There were no Unsatisfactory rated reports.

External validation of Corporate Governance

A review report has been obtained from the external auditors, Messrs. A. F. Ferguson & Co. Chartered Accountants whereby it has been validated that the Company has adhered to the Statement of Compliance as annexed in the Financial Statements section on page 54 of this Annual Report and that the Statement of Compliance is in line with best practices as contained in the Code of Corporate Governance.

profile of board of directors

ASAD UMAR
Chairman

graduated as an MBA from the IBA, Karachi in 1984. Started his career with HSBC, Pakistan and in 1985 he joined Exxon, which is now Engro Corporation Limited.

During his years with Engro, he has worked in all the major divisions, of the Company. He also worked on an assignment with Exxon Chemical overseas in Canada. He was the first President of Engro Polymer & Chemicals Ltd. In January 2004, he took over as President & Chief Executive of Engro Corporation Limited.

He is the Chairman of all Engro subsidiaries, Pakistan Business Council, Pakistan Chemical & Energy Sector Skill Development Company and Punjab Skill Development Fund. He is also a member of the Board of Directors of Engro Corporation Ltd., Karachi Education Initiative, Pakistan Institute of Corporate Governance, State Bank of Pakistan and Board of Trustees of Lahore University of Management Sciences.

He was awarded the Sitara-i-Imtiaz in 2010.

KHALID S. SUBHANI
President &
Chief Executive Officer

is the President and Chief Executive Officer for Engro Polymer and Chemicals Limited with effect from January 1, 2012 and Senior Vice President for Engro Corporation Limited.

He is a Director on the Boards of Engro Corporation Limited, Engro Fertilizers Limited, Engro Vopak Terminal Limited, Engro EXIMP Private Limited and Engro Polymer & Chemicals Limited. He has also served as Chairman of the Board of Avanceon in the past.

He began his career in the Manufacturing Division at Exxon Chemical Pakistan Limited in 1983 and has held a variety of leadership roles within the Company, including long term assignment with Esso Chemical Canada. He has served as Manager for New Projects, General Manager for Operations, Vice President for Manufacturing, Senior Vice President for Manufacturing and New Ventures and as President and Chief Executive Officer for Engro Fertilizers Limited.

He is a member of the Pakistan Engineering Council, Faculty Selection Board, Institute of Business Management - Sukkur and Standing Committee on Environment of Federation of Pakistan Chambers of Commerce & Industries. He has also been a member of Federal Government's Committee on Dawood Engineering College rejuvenation and American Institute of Chemical Engineers.

He is a graduate in chemical engineering and has completed programs on advance management from MIT and Hass School of Business Management, University of Berkeley, USA.

ASIF QADIR
Director

holds a Degree in Chemical Engineering from Columbia University, New York. He joined Exxon Chemical Pakistan Ltd. in 1978, and has held key assignments with the Company and with Esso Chemical Alberta Ltd., Canada.

He serves on the Board of Engro Corporation Ltd., Engro Fertilizers Ltd., Engro Polymer & Chemicals Ltd., Engro PowerGen Ltd., Engro Powergen Qadirpur Ltd, Sindh Engro Coal Mining Company Ltd., Pakistan Poverty Alleviation Fund, Karachi Stock Exchange (Guarantee) Ltd., and Jin Kwang JAZ (Pvt) Limited. He is Chairman of the Board for Inbox Business Technologies (Pvt) Ltd and Unicol Limited.

SHAHZADA DAWOOD
Director

serves as a Director on the Boards of Dawood Hercules Corporation Ltd, Engro Corporation Ltd, DH Fertilizers Ltd, Dawood Corporation (Pvt) Ltd, Engro Foods Ltd, Engro Powergen Ltd, Engro Power Gen Qadirpur Ltd, Engro Vopak Terminal Ltd, Pebbles (Pvt) Ltd, Patek (Pvt) Ltd, Sach International (Pvt) Ltd, Sirius (Pvt) Ltd, Tenaga Generasi Ltd, Avanceon Ltd, Dawood Lawrencepur Ltd. and Engro Fertilizers Ltd.

He is a Trustee of The Dawood Foundation, which is one of the largest public charitable trusts in Pakistan, supporting education and health initiatives. He serves as a Member of the Board of Governors of the National Management Foundation, the sponsoring body of Lahore University of Management Sciences (LUMS).

He is an M.Sc. in Global Textile Marketing from Philadelphia University, USA, an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance.

ISAR AHMAD
Director

holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants in England & Wales. Mr. Ahmad has a diversified experience of working in senior management positions in multinational and large Pakistani Organizations, having served as Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman), Managing Director, Haleeb Foods Limited, (previously CDL Foods Limited), as well as having been the Financial Advisor at Indus Motor Company Limited. He is on the Boards of Engro Polymer & Chemicals Limited, Engro Foods Limited, Cyan Limited (formerly Central Insurance Company Limited) and Dawood Hercules Corporation Limited (formerly Dawood Hercules Chemicals Limited), where he was the Chief Executive till recently. He joined the Board in 2006.

KIMIHIDE ANDO
Director

was posted as General Manager for Pakistan Mitsubishi Corporation in April 2010. This is his second assignment to Pakistan, the 1st of which was during 1998 – 2003. He has a Bachelor of Liberal Arts degree from the International Christian University, Tokyo and joined Mitsubishi Corporation, Japan in 1982. He has spent most of his career in the Chemical Group. During his tenure, other than Pakistan he was assigned to Egypt, Iraq, Saudi Arabia, and Indonesia, and has diverse experience in Chemicals, HRD and Manufacturing. He joined the board of Engro Polymer & Chemicals Ltd in 2010. He is also Director of Tri-Pack Films Limited.

Moreover he is chairman of JACI, the Japanese Association of Commerce & Industry, and is also a Member of OICCI, Overseas Investors Chamber of Commerce and Industry.

SHABBIR HASHMI
Director

has more than 25 years of project finance and private equity experience. Until recently he led the regional operations of Actis Capital (formerly CDC Group Plc) for Pakistan and Bangladesh. Prior to joining Actis he worked for 8 years with the World Bank and US Aid specializing in the energy sector. He is an Engineer from DCET, Pakistan and holds an MBA from JF Kennedy University, USA. In addition to being CDC nominee in 2001/02 on the Engro Corporation Board, he has been serving as an independent director on the Board since 2007.

WAQAR AHMED MALIK
Director

is the Chief Executive Officer of ICI Pakistan Limited and has over 26 years of extensive experience in senior management positions in the company and internationally within the group. He has been a Director of ICI Pakistan Ltd. since October 1, 2005 and has also served as Chief Executive and Chairman of Pakistan PTA Limited (now Lotte Pakistan PTA Limited).

His other engagements outside ICI Pakistan Limited are: Director on the Central Board of the State Bank of Pakistan, Director Pakistan Business Council, non-executive Director on the Boards of Engro Polymer & Chemicals Limited and IGI Insurance Limited. A former President of Overseas Investors Chamber of Commerce & Industry (OICCI) and Management Association of Pakistan (MAP).He is also a member of the Board of Governors of LUMS and a trustee of the Duke of Edinburgh's Award Foundation

An alumnus of Harvard Business School and INSEAD, he is a Chartered Accountant by profession and a Fellow of the Institute of Chartered Accountants in England & Wales.

TAKASHI YOSHIDA
Director

has been with Mitsubishi Corporation for 26 years and has held several positions during this time. He is currently the General Manager for Mitsubishi Corporation's Chlor Alkali Unit and has a degree in Economics from the Keio University, Japan. He Joined the EPCL Board in 2010.

KHALID MANSOOR
Director

is the President and Chief Executive Officer of Engro Fertilizers Limited and Sindh Engro Coal Mining Company. In this capacity he is leading Engro's Fertilizer Business which is operating the world's biggest state of the art Urea Plant and developing Thar Mining and Power Project in a joint Venture arrangement with the Government of Sindh. Prior to his current position, he was also the President and CEO of Engro Powergen Qadirpur Limited and Engro Powergen Limited.

He has held various key assignments at Engro and with Esso Chemical, Canada including leading the development and execution of various major expansion projects for Engro. He is currently a Director on the Boards of Engro Corporation, Engro Fertilizers Limited, Engro Polymer & Chemicals Limited, Engro Powergen Qadirpur Limited, Engro Powergen Limited and Sindh Engro Coal Mining Company.

He has also served as a Director on the Boards of Engro Foods (Pvt.) Limited, Engro Vopak Terminal Limited and Chairman of the Board of Engro Powergen Limited in the recent past.

He has over 30 years of experience and expertise in the Petrochemical & Energy Sectors in leading roles for mega size Projects Development, Execution, Management and Operations. He holds a Degree in Chemical Engineering with Distinction and honors.

principal board committees

The Board has established two committees which are as follows:

The Board Compensation Committee (BCC)

The committee meets multiple times through the year to review and recommend all elements of the Compensation, Organization and Employee Development policies relating to Senior Executives including members of the Management Committee. It reviews the key human resource initiatives and organization structure of the Company.

The BCC consists of two independent non-executive directors and two non-executive directors. The President attends BCC meetings by invitation. The Committee met five times during 2011.

Members

Mr. Asad Umar (Chairman)
Mr. Isar Ahmad (Director)
Mr. Kimihide Ando (Director)
Mr. Waqar Malik (Director)

The **Secretary of the Committee** is Mr. Jahangir Piracha.

The Board Audit Committee (BAC)

The committee meets atleast once every quarter and assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, systems of internal control and risk management and the audit processes. 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 and the Head of Internal Audit regularly attend BAC meetings by invitation to discuss matters relating to the financial statements and audits. The Committee also meets independently with the external auditors regularly. The Committee met five times during 2011.

Members

Mr. Isar Ahmad (Chairman)
Mr. Kimihide Ando (Director)
Mr. Shabbir Hashmi (Director)
Mr. Khalid Subhani (Director)

The **Secretary of the Committee** is Ms. Muneeza Kassim.

principal operation committees

These committees act at an operational level in an advisory capacity to the Chief Executive Officer, providing recommendations relating to business and employee matters:

The Management Committee (MC)

The committee meets multiple times through the year to review and endorse 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

Mr. Khalid S. Subhani (Chairman)
Mr. Arshaduddin Ahmed
Mr. Asif Tajik
Mr. Yoshio Shiga
Mr. Jahangir Piracha
Mr. Saleem Lallany
Mr. Khalid Mukhtar

The **Secretary of the Committee** is Mr. Nayyar Iqbal Raza.

The Corporate HSE Committee

The committee meets multiple times through the year to review and promote safety standards, monitor personnel safety, health and risk management in the areas of design, operation and construction in line with the Company's safety policies and objectives.

Members

Mr. Khalid S. Subhani (Chairman)
Mr. Arshaduddin Ahmed
Mr. Asif Tajik
Mr. Yoshio Shiga
Mr. Jahangir Piracha

The **Secretary of the Committee** is Mr. Ziauddin.

The Committee for Organization & Employee Development (COED)

The committee is responsible for the review of Compensation, Organization, Training and Development of all employees of the Company and reviewing the organization structure.

Members

Mr. Khalid S. Subhani (Chairman)
Mr. Arshaduddin Ahmed
Mr. Asif Tajik
Mr. Yoshio Shiga

The **Secretary of the Committee** is Mr. Jahangir Piracha.

president's review

The Management of the Company continued its focus on safe business operations and was awarded a rating of 3.2 by the DuPont Safety Management system and had a Total Recordable Injury Rate of 0.06. I am pleased to announce that the Company achieved its safety target for 2011, a year with wide ranging maintenance activities at the production facility.

During the year, the Company carried out maintenance jobs improving site reliability resulting in sustainable and full load VCM operation. VCM production increased by fifty three percent as compared to last year and first ever VCM export was done in December. Both PVC and Caustic Soda production increased compared to last year.

Global economic and industry conditions continued to influence prices in 2011. Both PVC and Ethylene prices increased over last year and regional demand and supply dynamics led to price fluctuations during the year particularly in last quarter where PVC international prices declined.

During 2011, domestic PVC market demand increased by five percent due to increase in PVC pipe exports, demand from flood rehabilitation activities and housing sector, and Company's PVC market share also increased during the year. PVC margins affected negatively due to VCM imports before VCM furnace refurbishments.

Domestic Caustic Soda market remained stable in 2011. The Company continued to be the main supplier of liquid Caustic Soda in South region with a major market share, additional volume was sold in North region market.

PVC and Caustic Soda demand is expected to remain stable to bullish during 2012, however, it may be influenced by energy crisis. The management of the Company will continue its focus and commitment on safe and sustained operations of the integrated facility at design operating level to obtain full economic benefits.

I would like to thank our shareholders, customers, employees and business partners for their support to the Company and look forward to our valuable business partnership in 2012.

Khalid Siraj Subhani
President and Chief Executive

directors' report

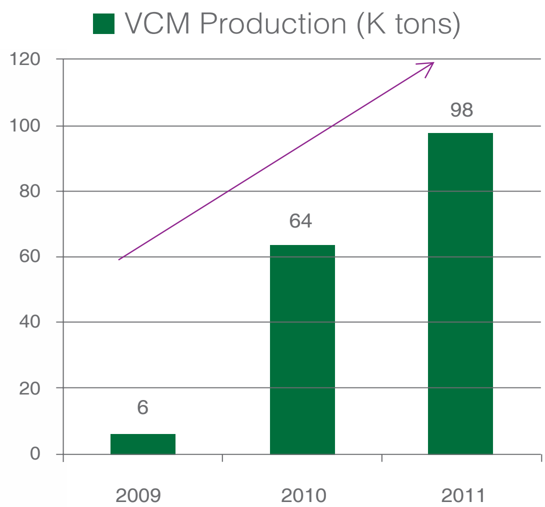
business review

Production and Sales Review

Vinyl Chloride Monomer (VCM) plant operations during the year showed gradual improvement quarter after quarter. Total VCM production during 4Q 2011 was 41 KT while the annual production was 98 KT as against 64 KT during last year. During 1H 2011, the plant was taken out for two planned shutdowns during the months of January and March 2011. In addition to this the plant operated at low operating rate during second and third quarters on account of maintenance jobs on the Furnace tubes.

Although VCM plant showed considerable improvement during the year but it could not completely fulfill the requirement for the PVC plant. The shortfall was partially covered by importing 24 KT of VCM during the first three quarters of the year. During 4Q 2012, VCM production was higher than the PVC production and the Company cashed on to the opportunity and exported 3 KT of VCM for the first time.

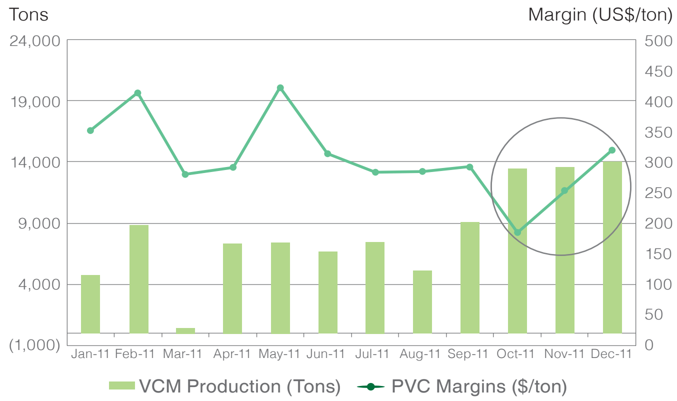
VCM plant is currently operating at a rate of around 450 tons a day which is at par with the requirement of the PVC plant capacity.

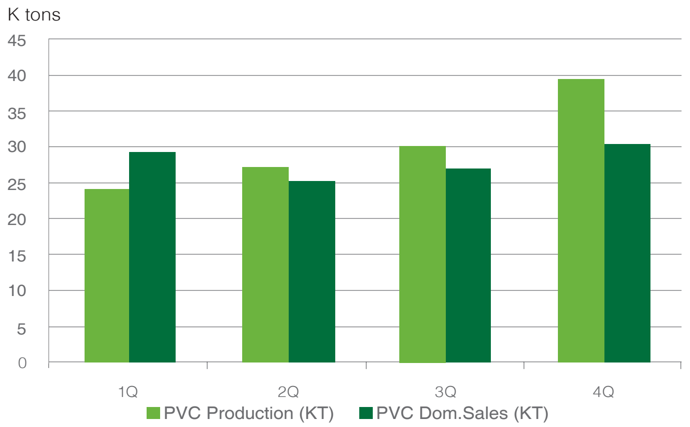


During the year, 122 KT of Poly Vinyl Chloride (PVC) was produced compared to 114 KT in 2010. Lower than production capacity was mainly attributable to limited availability of VCM. Cost of imported VCM was higher than the own manufactured cost which resulted in decrease in PVC margins. In addition to this PVC prices in 4Q 2011 fell sharply adversely affecting the margins.

The Company sold 113 KT of PVC in the domestic market. Domestic sales was affected due to low PVC production in 1H 2011 due to unavailability of VCM. During this period the Company could not meet the domestic demand due to which PVC scrap was imported in large quantities and filled the gap created by shortage of supply on account of lower production. The Company also exported 11 KT of PVC during the year as compared to 9 KT last year. PVC export during 4Q 2011 was 8 KT.

Caustic soda production in 4Q 2012 was 27 KT as compared to 25 KT same period last year. A total of 100 KT (2010: 93 KT) of Caustic soda was produced out of which 10 KT was consumed in-house. The Company sold 87 KT in the domestic market as against 80 KT last year. Shortage of gas and power affected the caustic soda demand in North however the Company maintained its market share and was able to sell out the available stock.





The Company exported 15 KT of Ethylene Di Chloride (EDC) during the year as compared 37 KT last year. Lower EDC export this year is attributable to improved VCM plant operations as more EDC was consumed in manufacturing VCM.

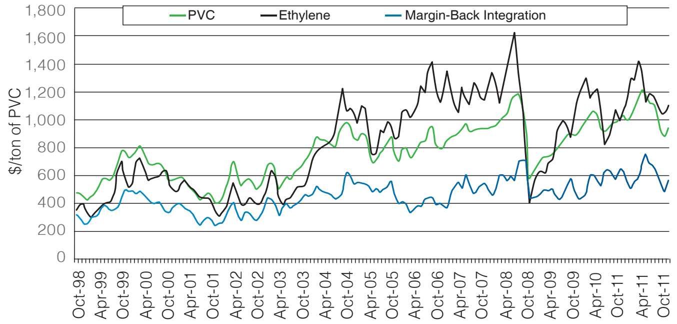
Price Trends

International PVC prices followed a rising trend during 1H 2011, starting from $ 1,000 per ton, rose up to $1,200 per ton mainly due to higher feed stock prices. However in 3Q 2011, PVC and VCM prices started to fall and PVC prices bottomed out at $820 per ton in November 2011. Fall in prices was mainly due to slow demand on account of global economic turmoil. However the prices started to increase when VCM supply became tight due to outage of one of the major VCM suppliers in Japan. International PVC prices climbed upto $970 per ton by the end of the year.

Ethylene prices increased at the start of the year culminating at around $1,450 per ton in April and then sliding sharply due to weak downstream industry and bottoming out in November at $ 1,000 per ton. PVC, VCM and Ethylene prices started to increase after following the bottom out in November.

Around 10 KT of caustic soda was consumed in-house while 37 KT in 2010 since the Company utilized EDC due to the high VCM plant service factor.

Power exports to KESC did not resume in 2011 as further studies and modification activities were continued regarding sharp frequency fluctuations on the KESC grid not affecting power supply within the Company.

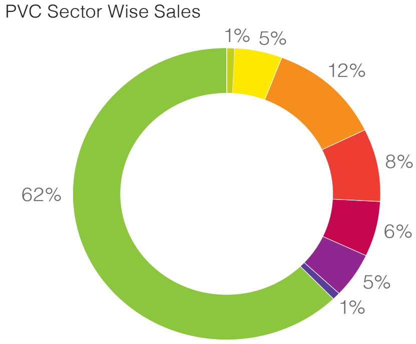


Market Share

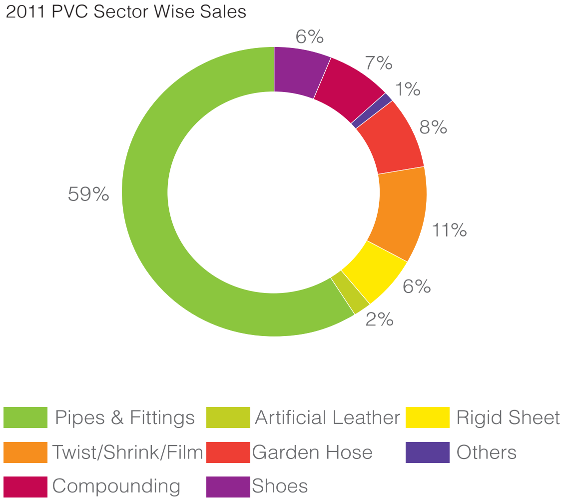
The Company is the sole manufacturer of PVC in the country and sold 113 KT of PVC in the domestic market. It is estimated that around 5 KT of PVC resin was imported during the year.

Total domestic demand of Caustic soda is estimated to be around 260 KT and the Company sold around 87 KT in the domestic market.

2010 PVC Sector Wise Sales



2011 PVC Sector Wise Sales



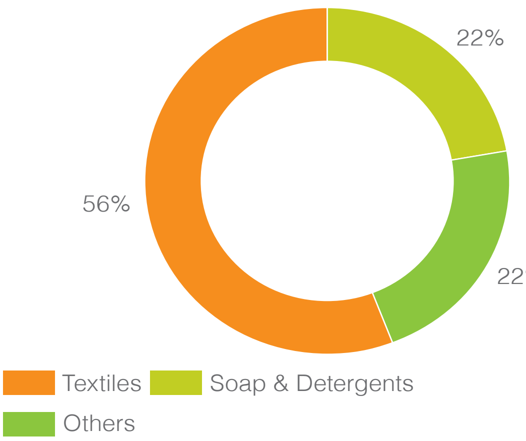
Business Outlook

PVC domestic demand is expected to remain stable in 2012. Demand from agriculture sector and export of pipes to Afghanistan is expected to continue to generate PVC demand. However power and gas shortage will continue to adversely affect the demand. PVC margins are expected to improve in 1Q 2012 due to improve in demand in the region.

Caustic soda demand will be affected if power and gas supply crisis continues during 2012, however the Company is expected to sell out its capacity during 2012. Caustic soda margins will be affected by rising oil and gas prices.

The profitability of the Company will highly depend upon the sustainable VCM plant operations at desired level. The key focus of the Management will remain in this area.

2011 Caustic soda sector wise sales



Financial Results Review

The consolidated loss after tax of the Company was Rs. 706 million as compared to a loss after tax of 770 million. The revenue of the Company increased to Rs. 17 billion as compared to Rs. 14.6 billion last year. The increase in revenue was attributable to higher sales volume and prices. The gross profit of the Company increased by Rs. 854 million with gross margin increasing from 9% last year to 12.7%.

Distribution and marketing expenses increased by Rs. 250 million which was mainly attributable to increase in product transportation and handling cost increase on account of higher volumes and increase in diesel prices during the year. Net foreign exchange losses during the year increased from Rs. 126 million in 2010 to Rs. 405 million. This was due to devaluation of Pak Rupee against US dollar by Rs. 4.3 as against that of Rs. 1.4 last year. Foreign Exchange loss is mainly associated on foreign currency liabilities against loan and purchase of raw materials. Financial cost of the Company also increased in the year 2011 by Rs. 112 million.

Financial charges

Although the State Bank of Pakistan revised its monetary policy several times post-budget to reduce the KIBOR, the decrease of 2 bps between July and September 2011 was off-set by the impact of devaluation of the Rupee due to higher demand for dollars with the widening of the current account deficit and outflows from financial accounts which affected the base price for interest on borrowing in FCY.

Foreign exchange loss

As mentioned earlier, high demand for dollars has pushed up the Dollar rate versus the rupee. Foreign exchange loss in 4Q2011 alone was recorded at Rs. 245 M.

As at December 31, 2011, unrealized foreign exchange loss on International Finance Corporation (IFC) loan and on imports amounts to Rs. 190 M and Rs. 133 M, respectively, before tax. The after tax impact of net unrealized foreign exchange losses is Rs. 209 M.

Engro Polymer Trading (Pvt.) Limited Financial Results

EPTL is a wholly owned subsidiary of Engro Polymer & Chemicals Limited. The Company's principal activity is to purchase, market and sell PVC, PVC compounds, Caustic soda and other related chemicals. During the year, EPTL posted a profit after tax of Rs. 19 M as compared to Rs. 47 M in 2010. Lower profits are attributable to lower exports of EDC. In 2010, due to the delay of the VCM plant commissioning, EDC that was unable to be utilized in the integrated operations was exported to the tune of 37 KT tons. With VCM plant operating at an impressive load factor, EDC is being consumed in-house for the manufacture of VCM.

financial review

A high level of control of the operating cash flow is an integral part of EPCL's long-term competitive strategy. An overall increase in cash and cash equivalents was observed as compared to the previous year owing to strong operating cash flows that were strategically leveraged through working capital management.

Cash provided by operating activities

At Rs. 2,341 million, operating cash flow reached a record high in 2011. Compared to 2010, there is an improvement of Rs. 3,995 million from a last year figure of Rs. 1,654 million cash utilized in operations. The generation of cash flows is mainly attributable to improved credit terms and low finance costs on the import of Ethylene, which is a primary raw material. As at December 31, 2011, outstanding payments for Ethylene shipments including usance charges amounted to Rs. 4,280 million.

Although the State Bank of Pakistan revised its monetary policy several times post-budget to reduce the KIBOR, the decrease of 2 bps between July and September 2011 was off-set by the impact of devaluation of the Rupee due to higher demand for dollars with the widening of the current account deficit and outflows from financial accounts which affected the base price for interest on borrowing in FCY.

Cash utilized in investing activities

Strategic capital expenditures made to strengthen organic growth amounted to Rs. 533 million (2010: Rs. 880 million). The year's expense for strategic capital expenditure pertained primarily to investment on the VCM plant, particularly the VCM furnace, which in aggregate amounted to Rs. 216 million. The returns of this investment in the form of impressive load factor of the VCM plant since October 2011 have led to improved margins and exports of VCM for the first time in EPCL's history.

Cash utilized in financing activities

In 2010, EPCL raised Rs. 1,431 million as part of its strategy to fund the Expansion and Back-Integration Project through a rights issue at 27.5%. Further, the Company had taken on Rs. 1,050 million additional loans in the form of Local Syndicate III and Master Istisna arrangement.

During 2011, no such long-term financing was required owing to improved operating cash flows. The Company has made timely repayments on installments of its long term borrowings aggregating to Rs. 1,363 million, higher from 2010 due to significant currency devaluation versus the Dollar. The gearing (long term debt to total capital) as at December 31, 2011 is 0.58 as compared to 0.612 last year.

Financing outlook

We will continue to adhere to our financing principles in 2012. We want to attain a good entity rating. We aim to reduce our indebtedness and improve our cash and cash equivalents position.

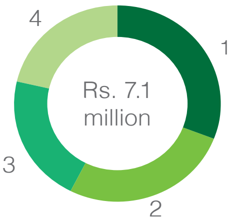
Cash flows will primarily result from the scheduled repayments of principal and related interest on borrowings amounting to Rs. 2,637 million, which includes repayment of Rs. 950 million Local Syndicate III and Master Istisna II in June 2012. Further, Capital Investment Plan to the tune of Rs. 432 million has been approved by the Board.

For key figures related to capital structure ratios, please refer page 13.

corporate social responsibility

People, Planet and Profit are critical elements to EPCL's success. It remains committed towards maintaining highest standards of the three P's philosophy

EPCL donations, sponsoring and own projects		
		(Rs. Millions)
1	Water conservation	2.2
2	Environment conservation	1.9
3	Flood rehabilitation	1.5
4	Others	1.5
		7.1



Corporate philanthropy

The EPCL strategy for Corporate Social Responsibility (CSR) focuses on the environment, water conservation and community involvement, in line with the core values of EPCL and CSR strategy to build its image as a leader in environmental conservation and sustainable business development.

National cause philanthropy & community investment

Rendering floods rehabilitation

EPCL, in coordination with the Pakistan Army, continued rehabilitation efforts in flood affected areas during the year. Agriculture-based self-sufficiency projects were initiated in 12 villages in Shaur Dara, Kalaam Valleys and Bahrain. Five hundred MicroDrip-Irrigation System (FNKs) were distributed throughout the area to assist local farmers. The FNK is an innovation made out of high-quality PVC that is essentially a network of underground pipes that supply water directly to the plant roots. In terms of economic value, scarce water resources are efficiently utilized and all urea and pesticide input costs are curtailed by 50-75%.

Turnip, cabbage and Lady-Finger seeds were supplied to the domestic inhabitants for farming activities over 600-700 acres of fertile land in the region which is estimated to generate Rs. 80-100 K per canal.

Medical relief activities were sponsored in Shaur Dara, where anemic expectants were also attended to in medical camps.

Flood Rehabilitation activities' statistics in Shaur Dara Valley (12 Villages), Bahrain, Kalaam and surrounding areas	
Total patients treated (nos.)	1,800
Total expectants dosed (nos.)	150
Micro drip irrigation systems installed (nos.)	500
Total seeds distributed (Kgs)	4,050
Total land cultivated (acres)	600-700

Medical relief activites to flood victims

Accreditation

On behalf of Unit 39 Punjab, EPCL was presented with a special appreciation memento for field work activities in Shaur Dara Valley, Swat.

Community investment and welfare scehemes

Hydro-power units - ground-breaking

In November 2011, EPCL engaged the Pakistan Army in a project to resume electricity supply to Kalaam in the aftermath of the floods that had destroyed the previously constructed power plants. Two sites have been selected for the construction of power houses. Stakeholder dialogues were hosted at Kalaam and Galiyat in which local communities were made aware of the benefits of the project and were persuaded to make labor provisioning for the project. River course diversion and labor work have already kicked off.

Demand Based Irrigation System (DBIS) MoU

A MoU was signed between EPCL and Asia Associates to jointly execute the installation of DBIS at Rabta village in Abbotabad District. The scheme will be extended to agriculture lands with the purpose of facilitating irrigation and availability of drinking water. EPCL will sponsor and monitor the project and Asia Associates will execute the survey, design and construction.

Technical education scholarship program

EPCL has been supporting community schools in the areas of Razzakabad and Ghagar Phaatak for the last few years. Initiatives also include instituting education scholarships for children in different areas of Port Qasim.

Partnering with Engro Foundation on Model Village project

EPCL partnered with Engro Foundation in creating a model village for 2010 flood victims in Muzaffargarh district and introduced use of kitchen gardening and waste water recycling through Constructed Wetland. A number of play pumps for ground water extraction and lining of recycled water pond with PVC geo-membrane were also installed.

Growth in Agriculture sector through EPCL's PVC Tunnel Farming

EPCL has continually contributed to the growth of agriculture sector through different ways. These measures include the provision of quality PVC pipes for tube wells, lining of water bodies and canals with PVC geo-membrane, replacement of open water channels with large diameter PVC pipes, and high efficiency irrigation systems.

PVC tunnels got instant popularity among Pakistani farmers soon after their introduction in August 2009. Tunnel farming provides a micro climate to the plants which is favorable for their growth in off-seasons by using plastic sheet as a barrier against harsh weather.

PVC Tunnel Farming
Inset: Red Hot Chillies on drip irrigation

To promote PVC tunnel farming, demonstrations have been installed with progressive farmers in Punjab and Khyber Pakhtunkhwa. This technology is also promoted through various field activities like farmer meetings, field days and presentations to the farmers in collaboration with Shell Pakistan and Polo Aabyari.

Since its launch, EPCL has implemented PVC tunnels on more than 175 acres of land. The demand for PVC tunnel is seasonal due to the nature of its use, but remains consistent. PVC tunnels have made their way into the off-season vegetable production.

Cause donations

With the purpose of contributing to the rehabilitation of Japan post-tsunami, EPCL has humbly contributed Rs. 1,000 K.

Business Anti-Corruption Measures

All risks including corruption related risk at EPCL is managed through Risk Control Program which is governed by the Board Audit Committee (BAC). The program is designed around EPCL policies on Ethics, Business Practices, Conflict of Interest and Insider Trading. The frequency of risk evaluation is yearly on the basis of audit methodologies prescribed by COSO guidelines.

Donations

During the year, EPCL has continued with its scholarship programs for the benefit of deserving students in areas adjacent to our plant site in Port Qasim Authority.

EPCL has also provided financial support to various reputable and credible organizations operating in the areas of health, education and social uplift.

Environment conservation

EPCL Nursery at Palak Village

EPCL inaugurated a nursery with the objective of growing its own plants to ensure timely plantations and eliminate costly purchasing of plants from private nurseries. The nursery has a capacity of approximately 90,000 plants over 1 acre.

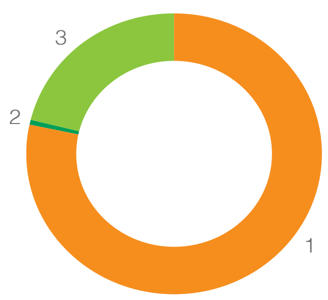
Plantation in Palak Village

With 480 acres already covered by EPCL since 2009, EPCL graded a further 60 acres in Palak Village. The grading success rate was observed at 92.54%.

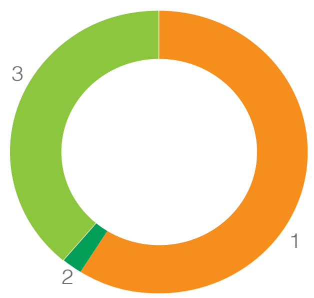
Area Planted by EPCL			
Year	Area (acres)	Location	Success%
2009	120	Galiat	96.64%
	120	Changa Manga	93.32%
2010	120	Arwar Village	92.62%
	120	Changa Manga	95.99%
2011	60	Palak Village	92.54%
	1	Palak Village	94.00%

Value added statement EPCL 2011 Creation of Value added (Rs. Millions)			
		2011	2010
1	Gross Sales	18,560	15,005
2	Supply of electricity	27	115
3	Export Sales	1,563	2,094
4	Cost of Material	(12,745)	(11,815)
		7,405	5,399

Value Added 2011



Value Added 2010



1 Gross Sales less Cost of Material
2 Supply of electricity
3 Export Sales

Water conservation initiatives

EPCL has been involved in promoting various water conservation technologies through its market development and social responsibility work. Year 2011 witnessed a host of activities.

Nearly 3,500 acres of farm land was brought under various high efficiency irrigation systems under various government and non-governmental projects. Various installations of PVC geo-membrane lining also took place including first-of-a-kind 5 acres reservoir in Hyderabad for agricultural purposes. Engagement with various consultants and government organizations for different projects also continued.

Various awareness and capacity building activities also took place. Nearly 800 man-hours were spent in capacity building of various stakeholders including students and farmers. A documentary covering a model farmer from Gadap, Karachi, who has been using different high efficiency irrigation systems over many years, was developed for promotional purposes. Documentary was shown to over 5,000 farmers and agri-professionals in 27 cities in Sindh and Punjab through Shell Pakistan's promotional activity. In addition, about 1,000 community members were trained in kitchen gardening through drip irrigation kits in Swat valley under social responsibility initiatives.

Utilization of value added

49.33% Taxes and duties (2010: 52.24%)

11.68% Employees (2010: 11.96%)

0.10% Social Investments (2010: 0.28%)

20.93% Financiers (2010: 26.65%)

12.03% Other expenses (2010: 4.32%)

5.93% Value Added retained (2010: 4.55%)

health & safety

HSE is one of the core values of EPCL. After successfully achieving a rating of over 3 in Process Safety and Risk management (PSRM), EPCL further went on and decided to implement the DuPont's Personal Safety Management (PSM) in which the Company was given a rating of 3.2 as a result of an external audit by DuPont.

As a world class organization, EPCL wants to be characterized by a workforce of employees and contractors who are engaged in continual learning and who work with management to maintain and improve safety auditing, incident investigation and emergency planning and response.

Occupational safety & health protection

With our management systems for occupational health and medicine, we want to ensure the best possible protection for the safety and health of our employees. To do so, we rely on comprehensive precautionary measures and promote the active participation of our employees.

Occupational safety focus areas

Process safety is of utmost importance to chemical plants. The Company's safety system was initially structured on Exxon's Safety Management Practices. Afterwards, EPCL decided to benchmark its system with DuPont's Personnel Safety Management (PSM) / Process Safety & Risk Management (PSRM) Safety System. DuPont's system provides overall safety guidelines regarding construction, commissioning, startup and operation of hazardous process units.

Process Safety Risk Management

Composed of different elements, comprising of process safety information, safe work practices, mechanical integrity, quality assurance, training and auditing, it advises on how to safely handle, manufacture, store and transport highly hazardous chemicals in a way that is aligned with OSHA and EPA regulations.

Personnel Safety Management

Personnel Safety provides a framework to change behaviors. In this area, the key tool is Management Safety Audit (MSA).

Community Awareness and Emergency Preparation

To provide a safeguard to surrounding communities against any unfortunate incident, the Company has developed a liaison with the neighboring organizations to handle any worst case scenarios that may befall these organizations, a documented package is issued to all neighboring organizations which contains Material Safety Data Sheets for VCM, HCL, Caustic Soda, EDC, Ethylene & Chlorine, Plant emergency contact numbers and possible help or actions required from an organization in case of an eventuality. The Company has defined the role statement for employees located at EPCL site which are to be followed at the time of an accident.

Safety zones are marked at the plant site, which serve the purpose of Assembly Points where all the plant personnel gather at the time of an accident and head counting is carried out.

To further enhance EPCL's emergency preparedness, firefighting squads have been established which are trained through weekly and quarterly conducted drills. The weekly drills are only limited to a particular unit at EPCL Plant site, while the quarterly drill is a Company-wide simulation drill in which the entire Company along with the neighboring organizations take part. In case of an accident, Emergency Control Centre (ECC) is formed. ECC directs the firefighting squad and ensures that proper Emergency Handling Procedures are met.

Activities in 2011

Standardized requirement profiles make it easier to monitor and evaluate safety standards throughout the Company. In 2011, we completed our PSM and PSRM trainings. Safety trainings were enforced by the Management team and 100 percent attendance made compulsory. The trainings involved permanent as well as contractual employees and third party contractors. All employees were tested at the end of trainings on their cumulative knowledge base of safety standards that are required to be upheld in the due course of operations. To ensure continued focus on occupational and non-occupational safety, a certain portion of an employee's objectives is based on performing Management Safety Audits (MSAs) of various areas. Site Safety Leading Indicators include 31 items which are being monitored at EPCL Plant site and results are shared on monthly basis in Safe Operations Committee (SOC).

Safety Highlights

- Best ever TRIR as 0.06 for integrated site. (Both YTD and rolling)
- PSM certification and attaining 3.2 score in external audit.
- One NEQS excursion comparing 7 cases in 2010.

Occupational health and hygiene focus areas

The work environment in any industry has a direct or indirect bearing on employees health, which has been accepted to have an impact on the efficiency of output. For a successful and profitable business, the role of a healthy employee cannot be overstated. To sustain a healthy relationship with the work environment, a disciplined and structured approach to the practice of health-related policies must be undertaken. This comes under the purview of occupational health.

Being truly committed to its HSE policy, the EPCL has in place systems to prevent injury/illness to its workforce and stakeholders arising from any of its operations. The Company has a strong focus on occupational health & industrial hygiene to achieve this objective.

Occupational Health encompasses health protection and health promotion mainly, and the ability to proactively predict the possibility of occupational illness/discomfort by monitoring and analysis.

Health protection is achieved through the practice of Industrial Hygiene which is defined as an art and science of identifying health hazards at the workplace, their immediate evaluation and recommending controls for minimizing personal exposure of workers. Industrial Hygiene also promotes proactive healthcare measures, conservation and mitigation through surveillance and first aid care.

Conducting fire drill at Plant site

environment

In line with its commitment to a better planet and creating a better future for coming generations, Environment continues holding a prime position among EPCL's Core Values. The Company believes strongly in conserving and protecting environment by ensuring all its operations and activities remain environment friendly while taking serious initiatives towards the realization of this goal.

Since businesses concerned with industrial production and manufacturing can bear undesirable impacts on the health and safety of employees, customers and neighboring communities, as a responsible corporate citizen the EPCL remains dedicated in its efforts towards ensuring the highest standards of environment protection on all levels of its business activity.

EPCL has achieved increase in quantity if manufactured VCM which has resulted in an overall higher value for the emissions to the economy on an absolute basis.

Energy Conservation

All energy consumed by EPCL is generated from its own Combined Cycle Power Plants which are fuelled by natural gas.

Further, a substantial quantity of hydrogen, a by-product of the Chlor-Alkali Plant is utilized as energy and is being used as a substitute for energy.

Heavies end firing in the furnaces where waste is used as fuel for the VCM furnaces has also resulted in substantial gas savings.

Environment Conservation

The implementation of the Company's comprehensive policy for integrating eco-friendly practices in its organization demands that potential environmental impacts of every project are fully assessed and mitigated. The expansion project envisaged state-of-the-art environmental initiatives, including waste effluent handling, solid and liquid waste disposal, incinerator revamping, DCS control, CFC replacement and Hydrogen firing. EPCL's total spending towards the implementation of these environmental initiatives amounts to US$ 4.4 million.

Water Consumption

EPCL's Environment Plan 2010 has been specifically crafted to bring a sustained focus on the implementation of Management Control Limits (MCL) to limit the ranges for emissions, effluent and solid waste well below NEQS.

One of the main investments made by the Company in this regard came with the installation of the Aerobic Bacteria based system of water treatment at the facility. With its installation, now all plant effluent has to pass through this system before being disposed off into the sea. The system has an online pH analyzer and a DO2 meter. Plant effluent is regularly tested against various parameters and emissions from EPCL's plant site are regularly monitored against SOx, NOx, particulate matter and VCM.

In order to ensure that only NEQS-compliant water is discharged, EPCL has invested in constructing an on-site Evaporation Pond along with an acid neutralization facility which has the ability to take the high chloride water stream from the process units where the effluent evaporates instead of being discharged to the sewer. The Company's new wastewater unit has been functional since 2009.

EPCL believes that in the coming years when all its environmental projects are commissioned and brought to completion, there will be no NEQS excursion, no Non-Conformity Report (NCR) related to environment and its facilities will have no environmental incidents.

Environment Impact Assessment

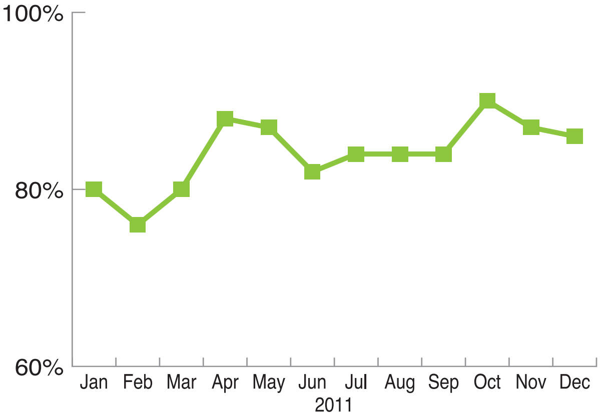
EPCL has established and maintained extensive procedures for identifying environmental aspects of its activities and products in order to determine those which have or possess the potential of causing significant impacts on the environment.

The procedure to identify significant environmental impacts includes normal operating conditions, shutdown and start up conditions and potential emergency situations. This procedure considers, where relevant, Discharge to Air, Discharge to Water, Land Contamination, Waste for Landfill, Waste for Incineration, Waste for Reuse / Recycle and Emergency. International standards and certifications

Evaporation Pond at Plant Site

To systemize and administer Company's eco-friendly policies it has a comprehensive Environmental Management System (EMS) in place, certified and regularly audited by ISO 14001:2004. EPCL's EMS provides a framework for managing its environmental responsibilities and oversees its efficient integration into its overall manufacturing operations. The production of PVC with minimum damage to the environment forms one of the major objectives for EMS, and is stewarded and followed up in the yearly appraisal system. Numerous modernized procedures have been created and are being followed to cover all possible activities within the broader Environment Management Perspective.

Environment Footprints Trends



Note: EPCL's environment 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 and any minor / major environmental incident.

Environment Highlights

- Alternate heavies' incineration facility development
- ISO 14001 external surveillance audit successfully conducted.
- One NEQS excursion comparing 7 cases in 2010.
- Usage of effluent waste water for mangrove plantation over 25 acres for more than 100,000 plants.

customer focus

We believe that Marketing is the responsibility of all employees and is vital to our success. We;

- Value our customers and make their satisfaction our first priority
- Ensure the effectiveness of all our customer interfaces
- Perform as a well-motivated, superior Marketing team
- Encourage and recognize innovation in Marketing

Our belief is to build long term relationships with our customers where value added services can be provided to help them maintain a long term sustainable profitable growth.

Caustic soda value-added services

On the Caustic soda front, special focus is put on product quality and customer satisfaction. Value added services that set us apart from other suppliers are a focus on product and service quality assurance through latest production technology, state-of-the-art laboratory and a dedicated logistics fleet with tracking devices to ensure zero pilferage and just-in-time delivery. Speeding up the query resolution from EPCL's end, an Automated Weight Resolution (AWG) program has been initiated during the year which has taken down the time required for this task to 1 working day which previously required 7 working days.

Ongoing Technical Support to PVC Industry

EPCL extends ongoing technical support to all major segments which manufacture PVC based products.

The largest consumer of PVC resin in Pakistan is the pipe & fittings manufacturing industry. This industry faces various challenges currently which include lack of awareness about machinery & process innovations on an international scale, lack of skilled & educated workers and so forth.

EPCL has always placed foremost importance to providing support to the downstream PVC industry to improve the production processes, recipes, product quality and production output at their facilities in line with global trends. In 2011, with a view to extend technical support, EPCL remained involved in various activities such as:

- Various seminars, local & international, were arranged for the pipe manufacturers
- Guided manufacturers to attend international exhibitions that show-case modern machinery, additives & quality control equipment
- Arranged training programs for UET Polymer Engineers, who in future may become part of this industry
- Ongoing visits & audits of manufacturer's facilities to identify areas for improvement by EPCL technical team
- Presentations & trainings conducted for the Government bodies like PHED, WASA, WAPDA & NESPAK, DHA etc. throughout Pakistan

The objective of organizing the seminars, exhibitions, presentations & trainings is to improve awareness & knowledge for correct extrusion & injection molding processes, resolution of technical issues, and to motivate manufacturers to adopt new technology for better productivity.

Training on Injection Moulding Process in Islamabad

UET Polymer Engineers Training in Lahore

Encouraging PVC Resin Formulation in Artificial Leather & Film

A half day technical seminar on "PVC Resin Formulation in Artificial Leather & Film" was organized for south based manufacturers of "Artificial Leather and Film", at Beach Luxury Hotel on May 25, 2011.

The Seminar focused on improving technical knowledge & better understanding of PVC resin & additives used in the formulation and its effect on end products such as shrink film, twist wrap and sheets.

Furthermore, the training session highlighted and enhanced knowledge of film and sheet extrusion and sought to improve process efficiency. New product applications and opportunities in the Pakistani market were also shared.

information systems

Information Technology function of the Company ensures utilization of the available IT resources at its best to achieve business objectives. Continuous improvement of business processes and IT infrastructure with the changing technologies and business dynamics is ensured. This includes managing Enterprise Resource Planning Systems (ERP), Electronic Communication and Network Infrastructure. New avenues of development are continuously evaluated for process optimization ensuring its effectiveness at the same time. A lot of emphasis is given on staff training to keep them upgraded with the latest technology standards. Information Systems Security and Disaster Recovery Management are given primary importance to safeguard company's information assets.

EPCL has continuously been upgrading its information systems. The focus in 2011 was the automation of workflow in the organization to ensure prompt communication and efficient decision making.

For the purpose of speeding up organizational processes, the Company has undertaken various initiatives:

- Implementation of online Management Safety Audits system which captures and reports safety related observations.
- Our Disaster Recovery Planning procedure was tested and found to be effective to enable timely restoration of all servers.
- Improvements in Communication Services have been made by implementing fiber optics connectivity and backup links for key locations.
- SMS Shipment Information System has been implemented that provides automated alerts on delivery dispatch.

Central Control Room (CCR) at Plant Site

our people

The best team in the industry needs committed and performance-driven employees. We want to recruit and retain the best talent. That is why we invest in our attractiveness as an employer, offer our employees further training activities and support them in achieving work life balance. We value diversity in our teams.

Competition for talent

Competition for the best qualified employees and managers is increasing. The Company has a proactive recruitment strategy in place to ensure optimal manning for ongoing and future business needs. Going forward, we have addressed this trend through the utilization of the Talent Management System on a group level which provides a systematic model for the acquisition, retention, nurturing and career path assessment of our talent. In 2011, EPCL has recruited 106 new employees (2010: 63 recruits).

EPCL employee structure 2011				
	Women		Men	
	No.	%	No.	%
Total number of employees	14	3%	425	97%
Management and professionals (Tier III)	5	1%	111	25%
Senior Executives (Tier I & II)	1	0%	18	4%

Compensation and 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 are the Employee Share Option Schemes. EPCL offers competitive salary packages along with benefits targeted to various job functions.

Professional and personal development

Training of our employees is an investment in EPCL's future success. 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 behavior that is critical for successful job performance. In annual performance reviews, we determine every employee's need for professional development and further training.

In 2011, EPCL continued to invest in vocational and further training of its employees. More than 175 employees participated in training programs. On average, each employee spent 10 days at training events. Management training courses were designed for various groups in the company based on classification levels. Trainings were focused on leadership, time management and supervisory skills for managers and first line supervisors whereas personal excellence was the focus for other employees in the company. Employees also participated in outsourced trainings to enhance their technical knowledge in functions such as Finance and Accounts, HR, Supply Chain etc.

Year	Training man-hours
2007	17,504
2008	29,217
2009	19,763
2010	14,911
2011	14,228

Employee freedom

As a socially responsible employer, EPCL respects it employees' rights and endeavors to provide a safe and healthy work place, fair policies and procedures, freedom of opinion and expression and open dialogue with its employees.

These are established through the following vehicles:

- Whistle-Blower policy, which allows all employees to raise their grievances to the appropriate forum, other than personal issues.

- The establishment of an Inquiry Committee under the Harassment of Women at the Workplace Act 2010. The Members of the Committee are the follows:

Members

Mr. Arshaduddin Ahmed (Chairman)
Mr. Jahangir Piracha
Mr. Nayyar Iqbal Raza
Ms. Muneeza Kassim

Feedback from our people

In 2011, a survey was carried out by engaging Mercer to assess the overall engagement levels of our people with the entity and its policies. With the help of this exercise, Management will be able to determine the impact of the entity's policies and introduce corrective measures where necessary.

In 2012, we plan to implement various measures based on the results of the survey.

corporate review

Shareholding in the Company

The shareholding in the Company as at December 31, 2011 is as follows:

Shareholders' category	Numbers of shares held	Percentage of Holding
Engro Corporation Limited	372,809,989	56.19
International Finance Corporation	97,155,000	14.64
Mitsubishi Corporation	67,949,998	10.24
EPCL Employees' Trust	2,678,215	0.40
Directors	1,817,785	0.27
Banks, Development Finance Institutions, Non-Banking Finance Institutions	6,738,680	1.02
Modarabas and Mutal Funds	12,216,826	1.84
Insurance Companies	320,000	0.05
Individuals and others	101,782,285	15.34
	663,468,788	100

Category of shareholding

Information of shareholding required under the reporting framework is as follows:

1. Associated companies, undertakings and related parties

Shareholders' category	Numbers of shares held	Percentage of Holding
Engro Corporation Limited	372,809,989	56.19
Mitsubishi Corporation	67,949,998	10.24
EPCL Employees' Trust	2,678,215	0.40
	443,438,202	66.83

2. NIT and ICP

   No holding

	Numbers of shares held	Percentage of Holding
3. Executives	3,113,253	0.47

4. Directors, CEO, CFO, Company Secretary and their spouse and minor children

Names of holders	Number of shares held
Chairman, Chief Executive and Directors	
Asad Umar	1
Asif Qadir 1)	1,607,776
Waqar A. Malik	10,001
Khalid S. Subhani 2)	1
Shahzada Dawood	1
Khalid Mansoor	1
Isar Ahmad	1
Shabbir Hashmi	200,001
Takashi Yoshida	1
Kimihide Ando	1
Chief Financial Officer and Company Secretary	
Saleem Lallany 3)	180,000
	1,997,785

1) Effective January 1, 2012, Asif Qadir has taken an early retirement from his position as Chief Executive.
2) Effective January 1, 2012, Khalid S. Subhani has been appointed as the President and Chief Executive by the Board.
3) Effective February 15, 2012, Saleem Lallany has been appointed as the Chief Financial Officer by the Board.

5. Banks, Development Finance Institutions, Non-Bank

Names of holders	Numbers of shareholders	Number of shares held
Banks, Development Finance Institutions, Non-Banking Finance Institutions	4	6,738,690
Modarabas and Mutual Funds	10	12,216,826
Insurance Companies	3	320,000
	17	19,275,516

6. Public sector companies and corporations

No holding

7. Public sector companies and corporations

Names of holders	Numbers of shares held	Percentage of Holding
Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	372,809,989	56.19
International Finance Corporation	97,155,000	14.64
Mitsubishi Corporation	67,949,998	10.24
	537,914,987	81.07

8. Key management personnel

Names of holders	Number of shares held
Asif Qadir 1)	1,607,776
Syed Ahsenuddin 2)	422,000
Saleem Lallany 3)	180,000
Nayyar Iqbal Raza	199,614
	2,409,390

1) Effective January 1, 2012, Asif Qadir has taken an early retirement from his position as Chief Executive.
2) Effective January 15, 2012, Syed Ahsenuddin has taken an early retirement from his position as VP Manufacturing.
3) Effective February 15, 2012, Saleem Lallany has been appointed as the Chief Financial Officer by the Board.

9. Shareholding ten percent or more voting interest in the Company

Names of holders	Numbers of shares held	Percentage of Holding
Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	372,809,989	56.19
International Finance Corporation	97,155,000	14.64
Mitsubishi Corporation	67,949,998	10.24
	537,914,987	81.07

10. Details of purchase/sale of shares by Directors/Company Secretary /Chief Financial officer and their spouse/minor children

Name	Dated	Purchase	Sale	Rate Rs. per Shares
Shabbir Hashmi	9-Jul-11	50,000		8.48
	9-Aug-11	5,037		8.50
	9-Sep-11	44,963		8.59
	23-Sep-11	35,000		8.29
	26-Sep-11	65,000		8.19
Arshaduddin Ahmed [1)]	7-Sep-11		95,000	8.45

1) Effective February 15, 2012, Arshaduddin Ahmed is no longer the Chief Financial Officer of the Company.

pattern of shareholding

Pattern of holding of the shares held by the shareholders as at December 31, 2011

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
342	1	100	13,744
23,672	101	500	11,498,648
8,316	501	1000	5,867,923
3,496	1001	5000	8,173,370
661	5001	10000	5,012,957
234	10001	15000	2,950,233
143	15001	20000	2,591,681
85	20001	25000	1,971,781
75	25001	30000	2,097,965
35	30001	35000	1,143,638
31	35001	40000	1,191,632
27	40001	45000	1,171,233
33	45001	50000	1,614,532
15	50001	55000	794,243
11	55001	60000	642,811
16	60001	65000	1,013,444
14	65001	70000	962,077
10	70001	75000	725,823
10	75001	80000	784,926
6	80001	85000	495,300
3	85001	90000	268,010
7	90001	95000	649,974
12	95001	100000	1,196,900
3	100001	105000	308,672
3	105001	110000	324,020
5	110001	115000	560,037
3	115001	120000	353,900
6	120001	125000	740,105

Number of Shareholders	From	To	Total Shares Held
5	125001	130000	641,783
2	130001	135000	267,663
2	140001	145000	285,778
2	145001	150000	300,000
1	150001	155000	151,600
5	125001	130000	641,783
2	130001	135000	267,663
2	140001	145000	285,778
2	145001	150000	300,000
1	150001	155000	151,600
1	155001	160000	160,000
3	165001	170000	508,850
3	175001	180000	535,696
1	180001	185000	181,325
3	185001	190000	563,500
1	190001	195000	191,300
7	195001	200000	1,392,385
3	200001	205000	605,325
5	205001	210000	1,042,100
1	215001	220000	218,798
1	220001	225000	220,801
2	245001	250000	499,254
1	270001	275000	274,496
1	280001	285000	283,498
3	305001	310000	922,272
2	315001	320000	636,869
1	325001	330000	327,085
1	345001	350000	350,000
1	360001	365000	364,425
2	375001	380000	757,690
1	400001	405000	401,010
1	410001	415000	414,482
1	420001	425000	422,000
1	445001	450000	446,250
1	550001	555000	554,538
1	565001	570000	569,925
1	575001	580000	575,086
1	650001	655000	655,000
1	995001	1000000	1,000,000
1	1010001	1015000	1,015,000
1	1045001	1050000	1,049,061
1	1605001	1610000	1,607,775
1	1770001	1775000	1,770,833
1	2085001	2090000	2,086,985
1	2545001	2550000	2,550,000
1	2625001	2630000	2,625,943
1	2675001	2680000	2,678,215
1	2840001	2845000	2,843,677
1	3080001	3085000	3,084,400
1	3950001	3955000	3,950,857
1	4285001	4290000	4,285,441
1	7305001	7310000	7,307,154
1	16855001	16860000	16,858,097
1	67945001	67950000	67,949,998
1	97150001	97155000	97,155,000
1	372805001	372810000	372,809,989
37,355			663,468,788

Major Judgement Areas

Main areas related to Income Taxes, Derivative Financial Instruments, Defferred Tax Assets, Retirement Benefit Obligations etc. are detailed in Notes to the Accounts (Note 3)

Accounting Standards

The accounting policies of the Company fully reflect the requirements of the Companies Ordinance 1984 and such approved International Accounting Standards and International Financial Reporting Standards as have been notified under this Ordinance as well as through directives issued by the Securities and Exchange Commission of Pakistan.

Employee Share Option Scheme

The exercise period under the Scheme expired on December 31, 2011, due to which all outstanding share options have lapsed. The details of the Scheme is explained in note 16 of the accounts.

Pension, Gratuity and Provident Fund

The Company operates plans that provide post employment and retirement benefits to its employees. These include a defined benefit pension scheme, a funded defined benefit gratuity scheme and a defined contribution provident fund.

The above mentioned plans are funded schemes which are recognized by the tax authorities. The latest actuarial valuations were all carried out at December 31, 2010 and the financial statements of those have been audited up to June 30, 2009.

Statement as value of investments as at last audited statement date	Rupees in thousands		
	Provident Fund	Pension Fund	Gratuity Fund
	Audited upto June 30, 2009		
Net assets as per last audited financial statements	86,690	64,777	21,011
DSCs, NSCs, TFCs and Term Deposit Certificates	40,615	32,854	8,759
PIBs	2,071	2,588	2,039
Mutual Funds	24,866	10,432	2,951
Shares	8,627	16,877	6,097
Receivables	11,667	2,177	1,246
Payables	(1,156)	(151)	(81)
Net assets as per last audited financial statements	**86,690**	**64,777**	**21,011**

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 upon the ability of the Company to continue as a going concern.
- There have been no departures from the best practices of corporate governance, as detailed in the listing regulations

Shares traded and average price

During the year, 140 million shares of the Company were traded on the Karachi, Lahore and Islamabad stock exchanges. The average price of the Company's share based on daily closing rates was Rs. 10.5.

The 52-week low-high during 2011 was Rs. 7.15-15.87 per share respectively.

Dividends

Accumulated loss of the Company on a consolidated basis stands at Rs. 1,256 million; therefore the Board has not recomended any dividend during the year.

Auditors

The present auditors, M/s A. F. Ferguson & Co. retire, and offer themselves for reappointment. The Board Audit Committee and the Board of Directors have endorsed the recommendation.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

financial statements

standalone 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 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.

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.

statement of compliance

with the code of corporate governance

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.

Khalid Siraj Subhani
President & Chief Executive

Date: February 3, 2012

Kimihide Ando
Director

A.F.FERGUSON & CO.

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 prepared by the Board of Directors of Engro Polymer and Chemicals Limited for the year ended December 31, 2011 to comply with the requirements of the Code of Corporate Governance, as contained in the listing regulations of stock exchanges of Pakistan, issued by the Securities and Exchange Commission of Pakistan.

The responsibility for compliance with the Code of Corporate Governance 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 as applicable to the Company for the year ended December 31, 2011.

Chartered Accountants
Karachi
Date: February 23, 2012

Engagement Partner: Sohail Hasan

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A.F.FERGUSON & CO.

independent assurance report to the members on the statement of compliance

with employees share option scheme

Scope of our work

We have performed an independent assurance engagement of Engro Polymer and Chemicals Limited (the Company) to express an opinion on the annexed Statement of Compliance (the Statement) with the requirements of Employees Share Option Scheme (the Scheme), as approved by the shareholders of the Company, and the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) as of December 31, 2011. Our engagement was carried out as required under Rule 14 of the Rules issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I) 2001 dated May 11, 2001.

Responsibility of Company's Management

The responsibility for the preparation of the Statement (the subject matter information) and for compliance with the requirements of the Scheme and the Rules is that of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control to ensure compliance with the requirements of the Scheme, as approved by the shareholders of the Company, and the Rules (Scheme and Rules together being the 'Criteria').

Responsibility of Independent Assurance Provider

Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standard on Assurance Engagements 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' (ISAE 3000). This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the annexed Statement reflects the status of Company's compliance with the Scheme and the Rules (the Criteria).

The procedures selected depend on our judgment, including an assessment of the risks of material non-compliances with the requirements of the Scheme and the Rules. In making those risk assessments; we have considered internal controls relevant to the Company's compliance with the Scheme and the Rules in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Company was not materially non-compliant with the Scheme and the Rules. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Our procedures applied to the selected data primarily comprised:

- Verifying that only permanent employees have participated in the Scheme in compliance with the Rules.
- Verifying that variation, if any, in the terms of the Scheme has been approved by passing a special resolution in the general meeting and that the share options granted, vested, lapsed, surrendered or exercised under the Scheme have been recorded in the books of accounts in accordance with the requirements of the Rules.
- Ensuring that adequate disclosures have been made in respect of the Scheme in the Annual Report as required under the Rules.

Conclusion

In our opinion, the annexed Statement, in all material respects, presents fairly the status of the Company's compliance with the Scheme and the Rules as of December 31, 2011.

A.F.Ferguson & Co.

Chartered Accountants
Karachi
Date: February 23, 2012

Engagement Partner: Waqas A. Sheikh

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A.F.FERGUSON & CO.

auditors' report to the members

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited as at December 31, 2011 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 an interpretation to existing standards, as stated in note 2.1.4 (a) to the financial statements, 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, 2011 and of the loss, total comprehensive loss, changes in equity and its 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).

Chartered Accountants
Karachi
Date: February 23, 2012

Engagement Partner: Sohail Hasan

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balance sheet

as at december 31, 2011

(Amounts in thousand)

	Note	2011	2010
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	18,537,582	19,198,729
Intangible assets	5	31,104	20,856
Long term investment	6	50,000	50,000
Long term loans and advances	7	37,803	40,323
Deferred taxation	8	902,138	323,378
		19,558,627	19,633,286
Current Assets			
Stores, spares and loose tools	9	1,098,891	633,799
Stock-in-trade	10	2,469,563	2,056,383
Trade debts - considered good	11	213,674	591,770
Loans, advances, deposits, prepayments and other receivables	12	220,905	243,424
Taxes recoverable	13	859,971	653,924
Cash and bank balances	14	106,228	321,496
		4,969,232	4,500,796
TOTAL ASSETS		24,527,859	24,134,082
EQUITY AND LIABILITIES			
Equity			
Share capital	15	6,634,688	6,634,688
Share premium		964,029	964,029
Employees' share compensation reserve	16	–	8,384
Hedging reserve		(102,221)	(72,062)
Accumulated loss		(1,357,965)	(628,697)
		6,138,531	6,906,342
Non-Current Liabilities			
Long term borrowings	17	8,620,195	10,903,360
Derivative financial instruments	18	157,263	110,864
Retirement and other service benefit obligations	19	62,107	50,091
		8,839,565	11,064,315
Current Liabilities			
Current portion of long term borrowings	17	2,491,828	1,361,293
Short term borrowings	20	722,340	1,580,388
Trade and other payables	21	6,024,183	2,898,031
Accrued interest / mark-up	22	144,734	192,691
Provisions	23	166,678	131,022
		9,549,763	6,163,425
Commitments	24		
TOTAL EQUITY AND LIABILITIES		24,527,859	24,134,082

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

profit and loss account

for the year ended december 31, 2011

(Amounts in thousand except for loss per share)

	Note	2011	2010
		Rupees	
Net revenue	25	16,885,802	14,628,061
Cost of sales	26	(14,810,642)	(13,436,594)
Gross profit		2,075,160	1,191,467
Distribution and marketing expenses	27	(853,818)	(608,684)
Administrative expenses	28	(386,402)	(311,136)
Other operating expenses	29	(435,494)	(171,271)
Other operating income	30	21,418	22,130
Operating profit		420,864	122,506
Finance costs	31	(1,537,796)	(1,411,956)
Loss before taxation		(1,116,932)	(1,289,450)
Taxation	32	387,664	475,621
Loss for the year		(729,268)	(813,829)
		Rupees	
Loss per share - basic and diluted	33	(1.10)	(1.29)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of comprehensive income

for the year ended december 31, 2011

(Amounts in thousand)

	2011	2010
	Rupees	
Loss for the year	(729,268)	(813,829)
Other comprehensive income / (loss):		
Hedging reserve		
Loss arising during the year	(77,505)	(160,262)
Less:		
- Reclassification adjustments for losses included in profit and loss	31,107	65,267
- Adjustments for amounts transferred to initial carrying amount of hedged items	–	4,066
Income tax relating to hedging reserve	16,239	31,825
Other comprehensive loss for the year - net of tax	(30,159)	(59,104)
Total comprehensive loss for the year	(759,427)	(872,933)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of changes in equity

for the year ended december 31, 2011

(Amounts in thousand)

		RESERVE				
		CAPITAL			REVENUE	
	Share Capital	Share premium	Employees' share compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
	Rupees					
Balance as at January 1, 2010	5,203,677	975,438	9,313	(12,958)	184,203	6,359,673
Vested share options lapsed during the year - note 16.2	–	–	(929)	–	929	–
Share capital issued	1,431,011			–	–	1,431,011
Share issuance cost, net	–	(11,409)	–	–	–	(11,409)
Total comprehensive loss for the year	–	–	–	(59,104)	(813,829)	(872,933)
Balance as at December 31, 2010	6,634,688	964,029	8,384	(72,062)	(628,697)	6,906,342
Vested share options lapsed during the year - note 16.2	–	–	(8,384)	–	–	(8,384)
Total comprehensive loss for the year	–	–	–	(30,159)	(729,268)	(759,427)
Balance as at December 31, 2011	6,634,688	964,029	–	(102,221)	(1,357,965)	6,138,531

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of cash flows

for the year ended december 31, 2011

(Amounts in thousand)

	Note	2011	2010
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	4,514,350	104,834
Finance costs paid		(1,585,753)	(1,421,472)
Long term loans and advances		2,520	7,152
Retirement benefits paid		(41,485)	(12,106)
Income tax paid		(380,903)	(332,684)
Net cash generated from / (utilized in) operating activities		2,508,729	(1,654,276)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(514,248)	(866,238)
- intangible assets		(18,790)	(13,804)
Proceeds from disposal of property, plant and equipment		18,396	15,193
Purchase of short term investments		(540,126)	–
Proceeds from sale of short term investments		545,920	–
Income on bank deposits		6,191	14,399
Net cash utilized in investing activities		(502,657)	(850,450)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		–	1,140,090
Repayments of long term borrowings		(1,363,292)	(1,103,537)
Repayments of short term borrowings		(250,000)	–
Proceeds from issue of share capital		–	1,431,011
Proceeds from short term borrowings		–	250,000
Share issuance cost		–	(17,553)
Net cash (utilized in) / generated from financing activities		(1,613,292)	1,700,011
Net increase / (decrease) in cash and cash equivalents		392,780	(804,715)
Cash and cash equivalents at beginning of the year		(1,008,892)	(204,177)
Cash and cash equivalents at end of the year	37	(616,112)	(1,008,892)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

notes to the financial statements

for the year ended december 31, 2011

(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 is listed on Karachi, Lahore and Islamabad Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited. 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. The Company is also engaged in the supply of surplus power generated from its Power plants to Engro Fertilizers Limited and Karachi Electric Supply Company Limited (KESC).

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). In 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-Alkali and Power plants (Gas turbines). On September 30, 2010, the Company declared commercial operations of the VCM plant, after which the integrated chemical complex is now complete.

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 accounting standards as applicable in Pakistan. Approved accounting 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 take precedence.

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 interpretation that are effective in 2011 and are relevant to the Company

The following amendments to published standards and interpretations are mandatory for the financial year beginning on or after January 01, 2011:

– IFRS 7 (amendment) 'Nature and extent of risk arising from financial instrument'. The amendment is part of the IASB's annual improvements project published in May 2010. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments only affects disclosures, which have been made.

- IAS 1 (amendment) 'Statement of changes in equity' . The amendment is part of the IASB's annual improvements project published in May 2010. This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendments only affects disclosures, which have been made.

b) Standards, amendments to published standards and interpretation effective in 2011 but are not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 are considered not to be relevant.

c) Other standards and amendments to published standards that are not yet effective and have not been early adopted by the Company

The following new standards, amendments to published standards and interpretation are not effective (although available for early adoption) for the accounting period beginning on or after January 1, 2011 and have not been early adopted by the Company:

- IFRS 1 (Amendment) 'First time adoption' (effective for periods beginning on or after July 1, 2011). The amendment replaces references to a fixed date of January 1, 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment will not effect the Company's financial statements as they are already IFRS compliant.

- IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). These amendments are a part of IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset.

(Amounts in thousand)

- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after January 1, 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard is likely to effect the financial statements and hence its effects therefore need to be assessed by the Company.

- IFRS 11 'Joint arrangements' (effective for periods beginning on or after January 1, 2013). This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12, 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

- IAS 19 (Revised), 'Employee benefits' (effective for periods beginning on or after January 1, 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

- IAS 27 (Revised) 'Separate financial statements' (effective for periods beginning on or after January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

(Amounts in thousand)

- IAS 28 (Revised) 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. It is unlikely that the standard will have significant effect on the Company's financial statements as the Company has no investment in associates and joint ventures.

  There are other standards, amendments and interpretations that are not yet effective but are not relevant for the Company.

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.

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 costs 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 and the resulting impairment loss is recognized in income. The recoverable amount is the higher of fair value, less expected selling expenses, and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in income, however, is restricted to the original cost of the asset.

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.

(Amounts in thousand)

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, however, is restricted to the original cost of the asset.

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 investment.

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 if expected to be settled within 12 months; otherwise, these are classified as non-current.

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. These are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise 'trade debts', 'loans, advances and deposits', 'other receivables' and 'cash and cash equivalents' in the balance sheet.

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. These are included in non-current assets unless the investment matures or management intends to dispose of the financial assets within 12 months of the balance sheet date.

(Amounts in thousand)

Regular way 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. Financial assets 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. 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 and 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. Gain or loss on sale of investments at 'fair value through profit or loss' are recognized in the profit and loss account as 'gains and losses from investment securities'.

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 and 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 profit and loss on equity instruments are not reversed through profit and loss. Impairment testing of trade debts and other receivables are 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.

(Amounts in thousand)

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.

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 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 by virtue of a resignation, retirement or termination of employee during the vesting 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 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 atleast twelve months after the balance sheet date.

2.13 Retirement and other service benefits

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 fund

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 atleast once in every three years. 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 fulfillment 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 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 present 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 Pakistan 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 the profit and loss account.

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)

– 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.

– 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 18. 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 amount of 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 on accrual basis using the effective interest 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 include 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 provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

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 and intangible assets

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

(Amounts in thousand)

3.2 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.

3.3 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.

3.4 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.

3.5 Deferred tax asset

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences, become deductible. Management considers the scheduled reversal of deferred tax liabilities, projects future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

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 16. There are no options outstanding in the current year.

3.7 Provision for retirement and other service benefit obligations

The present value of these obligations depend 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

	2011	2010
	Rupees	
Operating assets, at net book value - notes 4.1	18,375,445	19,138,589
Capital work-in-progress - note 4.5	162,137	60,140
	18,537,582	19,198,729

(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, 2010										
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
Year ended December 31, 2010										
Opening 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
Additions	–	37,255	5,926,831	4,560	–	292	–	20,644	65,122	6,054,704
Disposals - note 4.3										
- Cost	–	–	–	–	–	–	–	(3,535)	(32,757)	(36,292)
- Accumulated depreciation	–	–	–	–	–	–	–	3,319	21,056	24,375
	–	–	–	–	–	–	–	(216)	(11,701)	(11,917)
Write offs - note 4.3										
- Cost	–	–	–	–	–	–	–	(1,593)	–	(1,593)
- Accumulated depreciation	–	–	–	–	–	–	–	1,432	–	1,432
	–	–	–	–	–	–	–	(161)	–	(161)
Depreciation charge - note 4.2	(3,934)	(10,505)	(943,409)	(19,834)	(1,306)	(2,508)	(1,692)	(14,440)	(18,489)	(1,016,117)
Net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
As at January 1, 2011										
Cost	194,127	432,578	20,730,013	398,968	26,122	50,315	33,849	126,394	134,650	22,127,016
Accumulated depreciation	(21,218)	(73,051)	(2,664,500)	(85,844)	(14,529)	(3,550)	(3,220)	(76,775)	(45,740)	(2,988,427)
Net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Year ended December 31, 2011										
Opening net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Additions	–	5,146	368,625	–	–	–	–	8,229	30,251	412,251
Disposals - note 4.3										
- Cost	–	–	–	–	–	–	–	(371)	(34,591)	(34,962)
- Accumulated depreciation	–	–	–	–	–	–	–	325	18,738	19,063
	–	–	–	–	–	–	–	(46)	(15,853)	(15,899)
Write offs - note 4.3										
- Cost	–	–	(5,574)	–	–	–	–	(399)	–	(5,973)
- Accumulated depreciation	–	–	254	–	–	–	–	351	–	605
	–	–	(5,320)	–	–	–	–	(48)	–	(5,368)
Depreciation charge - note 4.2	(3,934)	(11,066)	(1,077,772)	(19,948)	(1,306)	(2,516)	(1,692)	(14,756)	(21,138)	(1,154,128)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
As at December 31, 2011										
Cost	194,127	437,724	21,093,064	398,968	26,122	50,315	33,849	133,853	130,310	22,498,332
Accumulated depreciation	(25,152)	(84,117)	(3,742,018)	(105,792)	(15,835)	(6,066)	(4,912)	(90,855)	(48,140)	(4,122,887)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5	5 to 33	5 to 25	

(Amounts in thousand)

	2011	2010
	Rupees	

4.2 Depreciation charge has been allocated as follows:

	2011	2010
Cost of sales - note 26	1,141,768	1,002,457
Distribution and marketing expenses - note 27	4,450	4,008
Administrative expenses - note 28	7,910	9,652
	1,154,128	1,016,117

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	626	626	–	553	By auction	Mr. Saeed-ur-Rehman
"	740	740	–	620		Mr. Zahid Qadri
"	499	499	–	419		Mr. Imran Ahmed
"	449	449	–	390		Mr. Zahid Qadri
"	774	774	–	725		Mr. Anis Ahmed Khan
"	555	444	111	489		Mr. Saeed-ur-Rehman
"	1,039	747	292	586		Mr. Sultan Jan Niazi
"	900	661	239	225	By Company policy to existing/separating employees	Mr. Farhan Ansari
"	900	633	267	239		Mr. Ziauddin
"	1,500	1,031	469	375		Mr. Mohammed Ali Ansari
"	900	647	253	225		Mr. Rizwan Ahmed Taqi
"	1,500	938	563	375		Mr. Farrukh Iqbal Qureshi
"	1,500	984	516	375		Mr. Zia Naeem Siddiqui
"	1,500	1,031	469	375		Syed Nayyar Iqbal Raza
"	900	581	319	281		Mr. Adeeb Ahmed Malik
"	900	647	253	225		Mr. Nasir Khalique Qureshi
"	900	619	281	225		Mr. Zafar Ali
"	900	506	394	309		Mr. Abdul Qayoom Shaikh
"	893	600	293	223		Syed Muhammad Ali
"	900	661	239	225		Mr. Jahanzeb Dal
"	900	591	309	225		Mr. Usama Hassan Siddiqui
"	900	534	366	225		Mr. Athar Abrar Khawaja
"	1,199	506	693	599		Ms. Salima Hemani
"	1,199	487	712	563		Mr. Tahir Masood
"	1,269	416	853	852		Mr. Khurram Abdullah
"	1,239	484	755	679		Mr. Ather Zia
"	1,269	397	872	814		Mr. Syed Kamal Ahmed
"	1,300	223	1,077	1,015		Ms. Shafaq Maqsood
"	1,325	248	1,077	1,036		Mr. Syed Muhammad Kazim Raza
"	1,354	21	1,333	1,227		Mr. Kaleem Asghar
"	1,269	555	714	1,222	By Insurance claim	Jubilee Insurance General Limited
"	1,269	416	853	832		
"	1,325	41	1,284	1,325		
Plant & machinery -note 4.4	5,574	254	5,320	–	N/A	N/A
Aggregate amount of assets having net book value less than Rs. 50 each	770	676	94	323		
	40,935	19,668	21,267	18,396		
2010	37,885	25,807	12,078	15,193		

4.4 Furnace tubes related to the VCM Plant, damaged during the year, having net book value of Rs. 5,320 have been written-off.

(Amounts in thousand)

4.5 Capital work-in-progress

	Plant and Machinery	Building on leasehold land	Pipelines		Furniture, fixtures and equipment	Advances for vehicles & Software	Other ancillary costs (note 4.5.2)	Total
			Ethylene	Water and gas				
	Rupees							
Year ended December 31, 2010								
Balance as at January 1, 2010	3,744,783	33,010	292	2,793	5,479	8,315	1,453,934	5,248,606
Additions during the year	544,094	2,495	–	1,767	30,425	59,863	227,594	866,238
Reclassifications	12,048	2,200	–	–	(14,355)	107	–	–
Transferred to operating assets-note 4.5.1	(4,245,303)	(37,255)	(292)	(4,560)	(20,644)	(65,122)	(1,681,528)	(6,054,704)
Balance as at December 31, 2010	55,622	450	–	–	905	3,163	–	60,140
Year ended December 31, 2011								
Balance as at January 1, 2011	55,622	450	–	–	905	3,163	–	60,140
Additions during the year	474,367	5,094	–	–	7,318	27,469	–	514,248
Transferred to operating assets	(368,625)	(5,146)	–	–	(8,229)	(30,251)	–	(412,251)
Balance as at December 31, 2011	161,364	398	–	–	(6)	381	–	162,137

4.5.1 As referred to in note 1.2, the Company, in 2010, had declared commercial operations of the VCM plant and transferred the related costs of this plant to operating assets.

4.5.2 The ancillary costs directly attributable to the Project, transferred to operating assets, comprise:

	2011	2010
	Rupees	
Salaries, wages and benefits	–	266,192
Training and travelling	–	46,102
Borrowing costs, being capitalized at the rate of Nil (2010: 10.14%) - net	–	673,922
Legal and professional	–	55,746
Depreciation	–	555,799
Storage and handling	–	15,053
Others	–	68,714
	–	1,681,528

(Amounts in thousand)

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2010	
Cost	19,851
Accumulated amortization	(8,035)
Net book value	11,816
Year ended December 31, 2010	
Opening net book value	11,816
Additions at cost	13,804
Amortization charge - note 28	(4,764)
Closing net book value	20,856
As at December 31, 2010	
Cost	33,655
Accumulated amortization	(12,799)
Net book value	20,856
Year ended December 31, 2011	
Opening net book value	20,856
Additions at cost	18,790
Amortization charge - note 28	(8,542)
Closing net book value	31,104
As at December 31, 2011	
Cost	52,445
Accumulated amortization	(21,341)
Net book value	31,104

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

	2011	2010
	Rupees	

6. LONG TERM INVESTMENT

Subsidiary - at cost		
Engro Polymer Trading (Private) Limited		
5,000,000 (2010: 5,000,000) ordinary shares of Rs. 10 each	50,000	50,000

7. LONG TERM LOANS AND ADVANCES - Considered good

	2011	2010
Executives - notes 7.1, 7.2 and 7.4	53,502	55,299
Less: Current portion shown under current assets - note 12	(18,027)	(22,014)
	35,475	33,285
Other employees - note 7.3	10,884	28,882
Less: Current portion shown under current assets - note 12	(8,556)	(21,844)
	2,328	7,038
	37,803	40,323

(Amounts in thousand)

7.1 Reconciliation of the carrying amount of loans and advances to Chief Executive and other executives is as follows:

	2011				2010		
	Chief Executive	Other executives	Total		Chief Executive	Other executives	Total
				Rupees			
Balance at beginning of the year	–	55,299	55,299		416	90,748	91,164
Disbursements	–	28,561	28,561		–	28,473	28,473
Repayments	–	(30,358)	(30,358)		(416)	(63,922)	(64,338)
Balance at end of year	–	53,502	53,502		–	55,299	55,299

7.2 These include 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 balance 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.

7.3 These include 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 other executives at the end of any month during the year was Rs. 66,973 (2010: Rs. 48,607). These are secured by way of promissory notes.

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.

(Amounts in thousand)

8. DEFERRED TAXATION

	2011	2010
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(4,195,902)	(4,141,621)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 8.1	4,520,417	4,097,320
- recoupable minimum turnover tax	377,524	204,227
- tax amortization	73	–
- unpaid liabilities and provision for retirement and other service benefits	38,835	36,594
- provision against custom duty and SED refundable	44,380	27,639
- provision for slow moving stores and spares	4,060	2,707
- fair value of hedging instrument	55,042	38,803
- share issuance cost, net to equity	57,709	57,709
	5,098,040	4,464,999
	902,138	323,378

8.1 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, 2011 amount to Rs. 12,915,477 (2010: Rs. 11,706,630), on which the deferred income tax asset has been recognized. The component of losses attributable to unabsorbed tax depreciation amount to Rs. 12,660,060 (2010: Rs. 10,747,542).

9. STORES, SPARES AND LOOSE TOOLS

	2011	2010
	Rupees	
Consumable stores	80,055	43,253
Spares	1,041,544	602,290
	1,121,599	645,543
Less:		
- Provision for slow moving stores and spares - note 9.1	(11,601)	(7,734)
- Stores and spares written-off - note 26	(11,107)	(4,010)
	1,098,891	633,799

9.1 The movement in the provision for slow moving stores and spares is as follows:

	2011	2010
Balance at the beginning of the year	7,734	3,867
Add: Provided during the year - note 26	3,867	3,867
Balance at the end of the year	11,601	7,734

(Amounts in thousand)

10. STOCK-IN-TRADE

	2011	2010
	Rupees	
Raw and packing materials - note 10.1 and 10.3	1,694,992	1,255,439
Work-in-progress	24,258	4,749
Finished goods - own manufactured product - note 10.2	750,313	796,195
	2,469,563	2,056,383

10.1 This includes stock-in-transit amounting to Rs. 131,830 (2010: Nil) and stocks held at the storage facilities of the following parties:

	2011	2010
	Rupees	
Engro Vopak Terminal Limited, a related party	717,858	601,050
Dawood Hercules Chemicals Limited, a related party	6,387	4,425
Al Rahim Trading Company (Private) Limited	342,984	219,239
	1,067,229	824,714

10.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 14,931 (2010: Rs. 17,162) and write-off of 87 M tons of PVC resin amounting to Rs. 4,965 (2010: 89 M tons of PVC resin amounting to Rs. 4,386).

10.3 During the year, expired chemicals amounting to Rs. 200 (2010: Rs. 9,380) have been written-off.

11. TRADE DEBTS - considered good

	2011	2010
	Rupees	
Secured - note 11.1	149,259	158,669
Unsecured - note 11.2	64,415	433,101
	213,674	591,770

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

11.2 Include amounts due from the following related parties:

	2011	2010
	Rupees	
- Engro Polymer Trading (Private) Limited	43,114	412,974
- Engro Fertilizers Limited	–	1,158
- Engro Foods Limited	2,473	–
- Engro Powergen Qadirpur Limited	–	240
	45,587	414,372

11.3 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)

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

	2011	2010
	Rupees	
Considered good		
Current portion of long term loans and advances - note 7		
- executives	18,027	22,014
- employees	8,556	21,844
	26,583	43,858
Advances to employees for reimbursable expenses	5	2,006
Advances to suppliers and others - note 12.1	88,315	58,865
Deposits	24,292	55,678
Prepayments	81,458	70,376
Receivable from Government		
- sales tax and Federal excise duty refundable	–	3,813
- octroi/duty claims	152	152
	152	3,965
Accrued return on investments	11	11
Receivable from Engro Fertilizers Limited	–	3,998
Other receivables	89	4,667
	220,905	243,424
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 12.2 and 12.3	(18,043)	(18,043)
	–	–
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 12.3 and 23.1	(36,687)	(36,687)
	–	–
	220,905	243,424

12.1 Includes advances to Avanceon Limited, a related party, amounting to Rs. 100 (2010: Rs. 2,185).

12.2 The Customs Appellate Tribunal, Karachi Bench, through its order dated October 31, 2011, disposed off the Company's appeal filed on April 11, 2008 against the order of Collector of Customs, Port Muhammad Bin Qasim, Karachi, for the refund of custom duty paid during the period June 16, 2006 to July 24, 2006 on imports of Vinyl Chloride Monomer (VCM). The Tribunal was informed that all aforementioned VCM consignments were released after the issuance of SRO 565(1)/2006 dated June 6, 2006 and the benefit of five percent duty reduction was also passed on to the customers. However, as the price of the Company's product was increased which is linked with international market, the Tribunal inadvertently presumed that the said benefit had not been transferred to the customers and passed an order against the Company.

The Company based on the advice of its tax consultant, is in the process of filing a rectification application with the Tribunal and a possible reference to the High Court. Based on prudence, the Company is maintaining full provision against the aforementioned custom duty refundable till such time that all available legal courses are exhausted.

(Amounts in thousand)

12.3 As at December 31, 2011, receivables aggregating to Rs. 54,730 (2010: Rs. 54,730) were deemed to be impaired and have been fully provided for in these financial statements based on prudence. The remaining balance of loans, deposits, and other receivables are neither past due nor impaired.

13. TAXES RECOVERABLE

13.1 Tax year 2008

The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172. The demand arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand though adjustment against assessed refunds of Rs. 180,768 and paying balance of Rs. 32,404 'under protest'.

During the year, through an appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by the Company before the ATIR. The department has also filed an appeal against the said appellate order challenging the actions of the CIR(A).

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in the financial statements.

13.2 Tax year 2009

The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for the retirement benefits of Rs. 14,239; disallowing provision against receivable of Special Excise Duty of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss as per the revised return as a consequence of the matters explained in note 13.3.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A).

During the year, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order has been filed before the ATIR. The department has also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

(Amounts in thousand except for number of shares)

The management of the Company is confident that the ultimate outcome of the aforesaid appeal would be decided in its favour and consequently has not recognized the effects for the same in the financial statements.

13.3 Assessment year 2000-2001

While finalizing the assessment, the Taxation Officer had disallowed the First Year Allowance (FYA) claimed by the Company on the grounds that the Company had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. The Company had filed an appeal against the said disallowance before the CIR(A) which was decided in favour of the Company. The department, thereafter, filed second appeal before the ATIR. Although in case of assessment year 2001-2002, a similar issue was decided by the ATIR in the Company's favour, the ATIR, for assessment year 2000-2001 departing from the previous view, has decided the matter against the Company and maintained the disallowance of FYA amounting to Rs. 1,884,359.

This disallowance had resulted in tax deductible timing differences, the effects of which had been duly recognized by revising the income tax returns for the tax years 2003 to 2007 and 2009. Due to the aforesaid revision, a tax liability of Rs. 86,767 arose in tax year 2008 which has been settled by adjusting the recoupable minimum tax brought forward from prior years.

14. CASH AND BANK BALANCES

	2011	2010
	Rupees	
Cash in hand	719	630
Cash at bank:		
- current accounts	91,275	297,489
- saving accounts - note 14.1	14,234	23,377
	105,509	320,866
	106,228	321,496

14.1 Includes Rs.11,447 (2010: Rs. 20,742) kept in a separate bank account in respect of security deposits.

15. SHARE CAPITAL

	2011	2010
	Rupees	
Authorized capital		
800,000,000 (2010: 700,000,000) ordinary shares of Rs. 10 each - note 15.1	8,000,000	7,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2010: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash	6,634,688	6,634,688

15.1 During the year, the Company has increased its authorized share capital to 800,000,000 ordinary shares of Rs. 10 each.

(Amounts in thousand except for number of share options)

15.2 As at December 31, 2011, Engro Corporation Limited (the Holding Company) holds 372,809,989 ordinary shares of Rs. 10 each (2010: 372,809,989 ordinary shares of Rs. 10 each).

16. EMPLOYEES' SHARE OPTION SCHEME

16.1 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 carried neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ended on December 31, 2009, whereafter the options can be exercised within a period of two years subject to served service 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. The exercise period under the Scheme expired on December 31, 2011, due to which all outstanding share options have lapsed.

During 2008, 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.

During 2010, the Company adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issue of right shares, which were duly approved by the Securities and Exchange Commission of Pakistan. The aforementioned reduction in exercise price had no effect on the fair value of share options recognized in the financials statements.

	2011	2010
	Rupees	
16.2 The movement in employee share compensation reserve is as follow:		
Balance at beginning of the year	8,384	9,313
Vested share options lapsed during the year	(8,384)	(929)
Balance at end of the year	–	8,384

16.3 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 were as follows:

Total number of share options issued	5,300,000
Percentage increase in entitlement	27.5%
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

(Amounts in thousand)

17. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments Number	Installments Commencing from	2011 Rupees	2010 Rupees
Syndicated term finance I (note 17.3)	6 months KIBOR + 2.25%	13 half yearly	November 2010	4,898,377	5,428,997
Syndicated term finance II (note 17.3)	6 months KIBOR + 3%	13 half yearly	June 2010	1,241,089	1,377,948
Syndicated term finance III (note 17.1)	6 months KIBOR + 2%	Single	June 2012	747,333	742,000
Master Istisna I (note 17.2)	6 months KIBOR + 1.5%	6 half yearly	May 2013	100,000	100,000
Master Istinsa II (note 17.2)	6 months KIBOR + 2%	3 half yearly	June 2012	199,000	200,000
International Finance Corporation- IFC (note 17.3)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	3,926,224	4,415,708
				11,112,023	12,264,653
Less: Current portion shown under current liabilities				(2,491,828)	(1,361,293)
				8,620,195	10,903,360

17.1 In 2010, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 750,000. The facility, in addition to the mark-up, also carries a one time arrangement fee at 1%. This facility is secured by:

(i) a second charge over leasehold land together with the building, plant and machinery and other equipment thereon; and

(ii) a second charge by way of hypothecation over all present and future fixed assets of the Company.

17.2 In 2010, the Company entered into two Master Istisna Agreements for a facility of Rs. 100,000 for a period of three years and Rs. 200,000 for a period of eighteen months respectively. Amounts due under both agreements are payable in tranches by way of a series of Istisna transactions, with each Istisna transaction treated as a separate agreement. As the management intends to roll over each Istisna transaction on repayment date to the expiry date of the facilities, the above mentioned financing has been included in long term borrowings of the Company. The facilities are secured as follows:

(i) Master Isitsna I facility by a joint pari passu equitable mortgage over land and buildings and a pari passu hypothecation charge over plant and machinery, stocks and receivables amounting to Rs. 134,000; and

(ii) Master Isitsna II facility by a mortgage over land and buildings subordinated to the mortgage listed in note 17.3 and hypothecation by way of subordinated charge over all present and future fixed assets of the Company amounting to Rs. 267,000.

(Amounts in thousand)

17.3 Finances, other than those referred to in note 17.1 and 17.2, are secured by:

(i) a first charge ranking pari passu with each other over leasehold land together with the buildings, plant, machinery and other equipment thereon; and

(ii) a first charge by way of hypothecation over:

- all Project Assets; and

- all present and future moveable fixed assets other than Project Assets.

17.4 Under the terms of the agreements for long term borrowings from IFC and syndicates of banks, the Company is required to comply with certain debt covenants. As at December 31, 2011, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

18. DERIVATIVE FINANCIAL INSTRUMENTS

18.1 During the year, the Company entered into two additional cross-currency interest rate swap agreements for notional amounts of US$ 4,016 and US$ 4,786 respectively, with local banks to further hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under these swap agreements, the Company would receive six month KIBOR plus 2.25% and six month KIBOR respectively, on the relevant PKR notional amounts and will pay six month USD-LIBOR plus 3.70% and USD-LIBOR plus 1.83% respectively, on the relevant USD notional amounts, which will be settled semi annually. As at December 31, 2011, the Company now has three outstanding cross currency interest rate swap agreements with local banks for a notional amount of US$ 10,268.

18.2 As at December 31, 2011, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 29,334 to partially 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.

18.3 Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Rate %	2011	2010
				Rupees	
Interest Rate Swap Agreements			Fixed Rate		
11,000	December 15, 2008	June 15, 2017	3.385	66,962	54,957
3,667	June 15, 2009	June 15, 2017	3.005	18,573	13,487
11,000	June 15, 2009	June 15, 2017	2.795	49,505	32,452
3,667	June 15, 2009	June 15, 2017	2.800	16,279	10,784
29,334				151,319	111,680
Cross Currency Interest Rate Swap Agreements			Floating Rate		
2,690	September 9, 2010	June 15, 2015	LIBOR + 0.95	2,164	(816)
3,471	January 18, 2011	January 19, 2016	LIBOR + 3.70	365	–
4,107	July 6, 2011	June 30, 2016	LIBOR + 1.83	3,415	–
10,268				5,944	(816)
39,602				157,263	110,864

(Amounts in thousand)

19. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2011	2010
	Rupees	
Service incentive plan	55,077	44,654
Additional death gratuity - note 34	7,030	5,437
	62,107	50,091

20. SHORT TERM BORROWINGS

	2011	2010
Running finance utilized under mark-up arrangements - note 20.1	722,340	1,330,388
Short term finance - note 20.2	–	250,000
	722,340	1,580,388

20.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amount to Rs. 2,000,000 (2010: Rs. 1,925,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1.0% to relevant period KIBOR plus 1.5% (2010: relevant period KIBOR plus 0.9% to relevant period KIBOR plus 1.5%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 12.92% to 15.29% per annum (2010: 12.83% to 14.84% per annum). The facilities are secured by a floating charge over stocks and book debts of the Company.

20.2 During the year, the Company has repaid the short term finance which was obtained from a local bank. The facility carried mark-up at the rate of 13.9% per annum.

20.3 The facility for opening letters of credit as at December 31, 2011 aggregate to Rs. 7,537,000 (2010: Rs. 5,644,000). The amount utilized at December 31, 2011 was Rs. 4,612,000 (2010: Rs. 2,017,000). The facilities carry commission at the rate of 0.05% flat.

21. TRADE AND OTHER PAYABLES

	2011	2010
	Rupees	
Trade and other creditors - note 21.1	4,455,741	1,840,290
Accrued liabilities	743,131	659,782
Advances from customers	735,377	87,266
Retention money against project payments	17,563	238,447
Security deposits	11,477	17,610
Workers' profits participation fund - note 21.2	164	76
Sales tax and SED payable	45,295	43,772
Withholding tax payable	9,002	5,770
Others	6,433	5,018
	6,024,183	2,898,031

(Amounts in thousand)

21.1 Includes amount due to following related parties:

	2011	2010
	Rupees	
- Engro Corporation Limited	6,344	377
- Mitsubishi Corporation	4,280,474	1,690,399
- Engro Fertilizers Limited	7,730	–
- Engro Vopak Terminal Limited	81,264	86,679
- DH Fertilizer Limited (formerly Dawood Hercules Chemicals Limited)	23,641	–
	4,399,453	1,777,455

21.2 Workers' profits participation fund

Balance at beginning of the year	76	28,659
Add:		
Interest thereon - note 31	–	1,676
Refund from contractors	88	–
	164	30,335
Less:		
Payments made during the year	–	(30,259)
Balance at end of the year	164	76

22. ACCRUED INTEREST / MARK-UP

Finance cost accrued on:		
- long term borrowings	117,812	135,946
- short term borrowings	26,922	56,745
	144,734	192,691

23. PROVISIONS

Balance at beginning of the year	131,022	70,494
Add: Provision during the year - note 23.1 and 23.2	35,656	60,528
Balance at end of the year	166,678	131,022

23.1 Provision for SED on import of plant and machinery

As at December 31, 2011, the Company had paid Rs. 94,611 (2010: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount the Company had adjusted Rs. 57,924 (2010: Rs. 57,924) 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 in the monthly sales tax returns.

(Amounts in thousand)

Pending clarification the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the 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 was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. During 2010, the Company was granted a stay order from the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand.

The Company filed an appeal with Commissioner Inland Revenue (Appeals) against the Order issued by the Additional Commissioner and the appeal was decided against the Company. The Company has now filed an appeal with the Income Tax Appellate Tribunal against the decision of the Commissioner Inland Revenue (Appeals).

The Company is confident that the ultimate outcome of the matter will be in its favour, but based on prudence is carrying the provision in this respect. Further, a provision for surcharge and penalty thereon amounting to Rs. 33,574 (2010: Rs. 25,871) has also been made.

23.2 Provision for duty on import of raw material

The Company in 2009 received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis for customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for ‘PVC Manufacturing Industry’ as a whole, which includes manufacturing of intermediary products. However, the tax department has shown its disagreement with the Company’s view and has demanded further information, to which the Company has responded.

Although, no formal order creating a demand has yet been received by the Company, based on prudence, a provision amounting to Rs. 75,180 (2010: Rs. 47,227) in respect of duty on such raw materials has been made.

24. COMMITMENTS

24.1 The aggregate facility of performance guarantees issued by banks on behalf of the Company as at December 31, 2011 amount to Rs. 1,215,000 (2010: Rs. 1,215,000). The amount utilized at December 31, 2011 was Rs. 640,450 (2010: Rs. 431,975).

24.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules 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:

	2011	2010
	Rupees	
Not Later than 1 year	59,030	59,840
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	36,000	50,400
	152,630	167,840

(Amounts in thousand)

25. NET REVENUE

	2011	2010
	Rupees	
Gross local sales	19,781,755	17,108,509
Less		
- Sales tax	3,006,889	2,474,491
- Special excise duty	93,600	120,771
- Discounts	15,391	294
	3,115,880	2,595,556
	16,665,875	14,512,953
Export sales	192,779	567
Supply of electricity - note 25.1	27,148	114,541
	16,885,802	14,628,061

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

- Engro Fertilizers Limited	27,148	34,235
- Karachi Electricity Supply Corporation	–	80,306
	27,148	114,541

26. COST OF SALES

	2011	2010
Opening stock of work-in-progress	4,749	17,579
Raw and packing materials consumed	9,337,524	8,839,976
Salaries, wages and staff welfare - note 26.2	608,266	461,280
Fuel, power and gas	2,140,401	1,768,043
Repairs and maintenance	242,642	224,141
Depreciation - note 4.2	1,141,768	1,002,457
Consumable stores	254,857	336,069
Purchased services	42,996	118,485
Storage and handling	893,594	882,897
Training and travelling	18,935	18,934
Communication, stationery and other office expenses	8,519	7,861
Insurance	59,947	79,890
Provision for slow moving stores and spares - note 9.1	3,867	3,867
Expired chemicals written-off - note 10.3	200	9,380
Stores & spares written-off - note 9	11,107	4,010
Other expenses	19,646	28,049
	14,784,269	13,785,339
Closing stock of work-in-progress	(24,258)	(4,749)
Cost of goods manufactured	14,764,760	13,798,169
Opening stock of finished goods	796,195	410,653
Closing stock of finished goods	(750,313)	(796,195)
	45,882	(385,542)
Cost of sales - own manufactured product	14,810,642	13,412,627
Cost of sales - purchased product - note 26.1	–	23,967
	14,810,642	13,436,594

(Amounts in thousand)

26.1 Cost of sales - purchased product

	2011	2010
	Rupees	
Opening stock	–	8,815
Add: Purchases	–	15,152
	–	23,967

26.2 This includes Rs. 32,830 (2010: Rs. 21,950) in respect of staff retirement and other benefits referred to in note 34.

27. DISTRIBUTION AND MARKETING EXPENSES

	2011	2010
	Rupees	
Salaries, wages and staff welfare - note 27.1	66,401	57,065
Advertising, sales promotion and entertainment	89,667	64,056
Product transportation and handling	652,372	453,946
Rent, rates and taxes	11,294	9,775
Purchased services	5,956	3,127
Insurance	1,213	1,082
Depreciation - note 4.2	4,450	4,008
Training and travelling	8,766	7,441
Communication, stationery and other office expenses	3,335	2,690
Others	10,364	5,494
	853,818	608,684

27.1 This includes Rs. 3,931 (2010: Rs. 3,491) in respect of staff retirement and benefits, referred to in note 34.

28. ADMINISTRATIVE EXPENSES

	2011	2010
	Rupees	
Salaries, wages and staff welfare - note 28.1	182,092	126,800
Rent, rates and taxes	41,295	28,259
Purchased services	46,726	38,792
Insurance	677	822
Depreciation - note 4.2	7,910	9,652
Amortization - note 5	8,542	4,764
Training and travelling expenses	59,583	60,532
Communication, stationery and other office expenses	27,459	32,497
Others	12,118	9,018
	386,402	311,136

28.1 This includes Rs. 12,237 (2010: Rs. 8,284) in respect of staff retirement and benefits, referred to in note 34.

(Amounts in thousand)

29. OTHER OPERATING EXPENSES

	2011	2010
	Rupees	
Legal and professional charges	10,118	15,197
Auditors' remuneration - note 29.1	2,237	3,734
Donations - note 29.2 and 29.3	7,096	15,207
Foreign exchange loss - net	410,723	137,133
Damaged items of operating assets written-off - note 29.4	5,320	–
	435,494	171,271

29.1 Auditors' remuneration

Fee for:		
- Annual statutory audit	690	610
- Half yearly review	190	170
- Review of compliance with Code of Corporate Governance	50	50
	930	830
Taxation and other services	1,212	2,616
Reimbursement of expenses	95	288
	2,237	3,734

29.2 Includes donation to Engro Foundation a related party, amounting to Nil (2010: Rs. 522) in respect of flood relief activities.

29.3 The Directors including the Chief Executive and their spouses do not have any interest in any donees except for Mr. Asad Umar, Mr. Khalid Mansoor and Mr. Khalid S. Subhani who are on the Board of trustees of Engro Foundation as Chairman and trustees, respectively.

29.4 During the year, damaged furnace tubes related to the VCM Plant having a net book value of Rs. 5,320 have been written-off.

30. OTHER OPERATING INCOME

	2011	2010
	Rupees	
On financial asset		
Income on bank deposits	6,191	14,399
Gain on investments in mutual funds held for trading	5,794	–
On non-financial asset		
Profit on disposal of operating assets	2,449	3,115
Scrap sales	5,293	2,559
Others	1,691	2,057
	21,418	22,130

(Amounts in thousand)

31. FINANCE COSTS

	2011	2010
	Rupees	
Interest/Mark-up on:		
- long term borrowings	1,403,529	1,272,070
- short term finances	113,018	118,773
	1,516,547	1,390,843
Guarantee commission	5,173	4,412
Bank charges and others	16,076	15,025
Accrued interest on Workers' profits participation fund	–	1,676
	1,537,796	1,411,956

32. TAXATION

	2011	2010
Current		
- for the year - note 32.1	168,459	146,428
- for prior years	6,397	57,657
	174,856	204,085
Deferred		
- for the year	(549,054)	(552,215)
- for prior years	(13,466)	(127,491)
	(562,520)	(679,706)
	(387,664)	(475,621)

32.1 Current year charge represents minimum tax at the rate of 1% (2010: 1%) of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

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:

	2011	2010
	Rupees	
Loss before taxation	(1,116,932)	(1,289,450)
Tax calculated at applicable rate of 35% (2010: 35%)	(390,926)	(451,308)
Tax effect of exempt income and income subject to lower tax rates	(6,593)	–
Prior year tax charge	6,397	57,657
Permanent difference due to donation and depreciation of land	3,458	6,699
Un-recoupable minimum turnover tax	–	(26,507)
Effect of adjustments in opening written down values and carried forward losses	–	(62,162)
Tax expense for the year	(387,664)	(475,621)

(Amounts in thousand)

33. LOSS PER SHARE - Basic and diluted

There is no dilutive effect on the basic loss per share of the Company, which is based on:

	2011	2010
	Rupees	
Loss for the year	(729,268)	(813,829)
Weighted average number of ordinary shares	663,469	629,701

34. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2010 using the 'Projected Unit Credit Method'. The current year information is based on the forecasted data provided in last year's report. Details of the defined benefit plans are as follows:

34.1 Balance Sheet reconciliation

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2011	2010	2011	2010	2011	2010
	Rupees					
Present value of defined benefit obligations	132,499	110,835	42,778	35,488	–	–
Fair value of plan assets	(110,383)	(97,803)	(33,791)	(30,903)	–	–
Deficit	22,116	13,032	8,987	4,585	–	–
Present value of unfunded obligations	–	–	–	–	6,147	4,977
Unrecognized net actuarial (losses) / gains	(15,365)	(11,084)	(6,049)	(4,137)	883	460
Net liability at the end of the year	6,751	1,948	2,938	448	7,030	5,437

34.2 Movement in the defined benefit obligations

	Pension Fund 2011	Pension Fund 2010	Gratuity Fund 2011	Gratuity Fund 2010	Additional Death Gratuity Scheme 2011	Additional Death Gratuity Scheme 2010
Obligation as at January 1	110,835	78,994	35,488	26,048	4,977	4,523
Current service cost	10,617	8,551	4,950	3,844	861	759
Interest cost	16,404	12,081	5,409	3,988	732	537
Actuarial (gains) / losses	(4,084)	12,660	(2,410)	5,683	(423)	(842)
Benefits paid	(1,273)	(1,851)	(767)	(4,130)	–	–
Liability recognized in respect of transfers	–	400	108	55	–	–
Obligation as at December 31	132,499	110,835	42,778	35,488	6,147	4,977

(Amounts in thousand)

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2011	2010	2011	2010	2011	2010
	Rupees					
34.3 Movement in the Fair value of plan assets						
Fair value as at January 1	97,803	88,607	30,903	27,618	–	–
Expected return on plan assets	14,642	12,334	4,793	3,940	–	–
Actuarial losses	(8,365)	(7,953)	(4,387)	(24)	–	–
Employer contributions	7,576	6,266	3,141	3,444	–	–
Benefits paid	(1,273)	(1,851)	(767)	(4,130)	–	–
Transferred to other group companies	–	400	108	55	–	–
Fair value as at December 31	11,383	97,803	33,791	30,903	–	–
34.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	10,617	8,551	4,950	3,844	861	759
Interest cost	16,404	12,081	5,409	3,988	732	537
Expected return on plan assets	(14,642)	(12,334)	(4,793)	(3,940)	–	–
Recognition of actuarial (gains) / losses	–	(84)	65	–	–	1
Expense	12,379	8,214	5,631	3,892	1,593	1,297
34.5 Actual return on plan assets	9,338	13,995	3,660	4,485	–	–

34.6 **Expected future costs for the year ending December 31, 2012:**

	Rupees
- Pension Fund	15,737
- Gratuity Fund	6,361
- Additional Death Gratuity Scheme	2,094
	24,192

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

	Pension Fund		Gratuity Fund	
	2011	2010	2011	2010
Discount rate per annum	12.5%	14.5%	12.5%	14.5%
Expected rate of return per annum on plan assets	12.5%	14.5%	12.5%	14.5%
Expected rate of increase per annum in future salaries	11.5%	13.5%	11.5%	13.5%

34.8 **Plan assets comprise of following:**

	Pension Fund		Gratuity Fund	
	2011	2010	2011	2010
Equity	26,492	25,429	8,110	4,635
Debt	83,891	72,374	25,681	26,268
	110,383	97,803	33,791	30,903

(Amounts in thousand)

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:

	2011	2010	2009	2008	2007
			Rupees		
Pension Fund					
Present value of defined benefit obligation	132,499	110,835	78,994	68,644	53,267
Fair value of plan assets	(110,383)	(97,803)	(88,607)	(73,582)	(62,237)
Deficit / (Surplus)	22,116	13,032	(9,613)	(4,938)	(8,970)
Gratuity Fund					
Present value of defined benefit obligation	42,778	35,488	26,048	22,888	19,600
Fair value of plan assets	(33,791)	(30,903)	(27,618)	(21,821)	(21,742)
Deficit / (Surplus)	8,987	4,585	(1,570)	1,067	(2,142)

34.11 During the year, Rs. 21,894 (2010: Rs. 20,322) 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:

	2011			2010		
	Director			Director		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
			Rupees			
Managerial remuneration	21,549	–	399,960	15,238	–	305,022
Retirement benefit funds	3,422	–	12,644	1,605	–	12,515
Bonus paid	3,676	–	32,411	1,475	–	42,356
Other benefits	2,654	–	25,380	1,236	–	23,185
Directors Fee	–	3,101	–	–	1,800	–
Total	31,301	3,101	470,395	19,554	1,800	383,078
Number of persons	1	9	209	1	9	163

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

35.2 Premium charged in the financial statements in respect of Directors' indemnity insurance policy, purchased by the Company amounts to Rs. 341 (2010: Rs. 712).

(Amounts in thousand)

36. CASH GENERATED FROM OPERATIONS

	2011	2010
	Rupees	
Loss before taxation	(1,116,932)	(1,289,450)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	53,501	23,885
Depreciation and amortization	1,162,670	1,020,881
Reversal of employee compensation reserve	(8,384)	–
Provision for slow moving stock	3,867	3,867
Provision for net realizable value of stock-in-trade	14,931	17,162
Write-off of damaged items of property, plant and equipment	5,320	–
Write-off of PVC resin and expired chemicals	5,165	13,766
Income on bank deposits	(6,191)	(14,399)
Gain on investments in mutual funds held for trading	(5,794)	–
Unrealized foreign exchange loss on IFC loan	189,640	61,855
Amortization of prepaid financial charges	21,022	14,689
Unrealized foreign exchange loss on imports and retention money	132,841	4,824
Finance costs	1,537,796	1,411,956
Profit on disposal of operating assets	(2,449)	(3,115)
Interest accrued on Workers profit Participation Fund	–	1,676
Provision against Special Excise Duty (SED)	7,703	13,301
Provision against concessionary duty on import of raw materials	27,953	47,227
Working capital changes - note 36.1	2,491,691	(1,223,291)
	4,514,350	104,834

36.1 WORKING CAPITAL CHANGES

	2011	2010
Decrease / (Increase) in current assets		
Stores, spares and loose tools	(468,959)	(444,904)
Stock-in-trade	(433,276)	(482,093)
Trade debts	378,096	(255,528)
Loans, advances, deposits, prepayments and other receivables - net	22,519	65,800
	(501,620)	(1,116,725)
Increase / (Decrease) in current liabilities		
Trade and other payables	2,993,311	(106,566)
	2,491,691	(1,223,291)

(Amounts in thousand)

37. CASH AND CASH EQUIVALENTS

	2011	2010
	Rupees	
Cash and bank balances - note 14	106,228	321,496
Running finance utilized under markup arrangements - note 20	(722,340)	(1,330,388)
	(616,112)	(1,008,892)

38. FINANCIAL INSTRUMENTS BY CATEGORY

38.1 Financial assets as per balance sheet

Loans and receivables

	2011	2010
Long term loans and advances	37,803	40,323
Trade debts - considered good	213,674	591,770
Loans, deposits, and other receivables	49,539	110,218
Cash and bank balances	106,228	321,496
	407,244	1,063,807

38.2 Financial liabilities as per balance sheet

Financial liabilities measured at amortized cost

	2011	2010
Long term borrowings	8,620,195	10,903,360
Derivative financial instruments	157,263	110,864
Current portion of long term borrowings	2,491,828	1,361,293
Short term borrowings	722,340	1,580,388
Trade and other payables	5,243,347	2,761,147
Accrued interest/mark-up	144,734	192,691
	17,379,707	16,909,743

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.

At December 31, 2011, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 71,283 (2010: Rs. 74,685) and Rs. 8,027,784 (2010: Rs. 6,055,444) respectively.

At December 31, 2011, if the Pakistan Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post-tax loss for the year would have been higher/lower by Rs. 258,586 (2010: Rs. 194,375), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profits or losses would be inversely effected 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.

(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 and variable to variable cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

At December 31, 2011, if interest rate on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax loss for the year would have been higher/lower by Rs. 78,923 (2010: Rs. 89,993) 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 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 exposed to equity security price risk as the Company deals in securities. However the Company is not exposed to equity securities price risk as at December 31, 2011 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, 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:

	2011	2010
	Rupees	
Long term loans and advances	37,803	40,323
Trade debts - considered good	213,674	591,770
Loans, deposits and other receivables	49,539	110,218
Cash and bank balances	106,228	321,496
	407,244	1,063,807

(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	A1+	AA
Askari Commercial Bank Limited	PACRA	A1+	AA
Bank AlHabib Limited	PACRA	A1+	AA+
Bank AlFalah Limited	PACRA	A1+	AA
Barclays Bank PLC, Pakistan	S & P	A1+	AA-
Citibank N.A.	S & P	A1	A+
Deutsche Bank	S & P	A1	A+
Dubai Islamic Bank Pakistan Ltd	JCR-VIS	A1	A
Faysal Bank Limited	JCR-VIS	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AA+
HSBC Bank Middle East Limited	Moody's	P1	A1
MCB Bank Limited	PACRA	A1+	AA+
Meezan Bank Limited	JCR-VIS	A1+	AA-
National Bank of Pakistan	JCR-VIS	A1+	AAA
NIB Bank Limited	PACRA	A1+	AA-
Samba Bank Limited	JCR-VIS	A1	A+
Standard Chartered Bank (Pakistan) Ltd	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Silkbank Limited	JCR-VIS	A2	A-

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:

	2011			2010		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial Liabilities						
Long term borrowings	2,491,828	8,620,195	11,112,023	1,361,293	10,903,360	12,264,653
Derivative financial instruments	–	157,263	157,263	–	110,864	110,864
Trade and other payables	5,243,347	–	5,243,347	2,761,147	–	2,761,147
Accrued interest / mark-up	144,734	–	144,734	192,691	–	192,691
Short term borrowings	722,340	–	722,340	1,580,388	–	1,580,388
	8,602,249	8,777,458	17,379,707	5,895,519	11,014,224	16,909,743

(Amounts in thousand except for gearing ratio)

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. 157,263 (2010: Rs. 110,864) 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 17, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

	2011	2010
	Rupees	
The gearing ratio of the Company is as follows:		
Long term borrowings - note 17	8,620,195	10,903,357
Total equity	6,138,531	6,906,342
Total capital	14,758,726	17,809,699
Gearing ratio	0.584	0.612

(Amounts in thousand)

41. SEGMENT INFORMATION

41.1 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.

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 loans and advances, loans, advances, prepayments and other receivables, taxes recoverable, and cash and bank balances.

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

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	Rupees							
Segment profit and loss								
Revenue	13,398,506	11,657,883	3,460,148	2,855,637	27,148	114,541	16,885,802	14,628,061
Less:								
Cost of sales	(11,888,012)	(10,526,305)	(1,776,086)	(1,831,420)	(4,776)	(76,412)	(13,668,874)	(12,434,137)
Distribution and marketing expenses	(620,200)	(389,484)	(229,168)	(215,192)	–	–	(849,368)	(604,676)
Allocated depreciation	(863,027)	(716,855)	(255,607)	(254,960)	(27,584)	(34,650)	(1,146,218)	(1,006,465)
Profit / (loss) before unallocated expenses	27,267	25,239	1,199,287	554,065	(5,212)	3,479	1,221,342	582,783
Unallocated expenses								
Administratives expenses							(386,402)	(311,136)
Other operating expenses							(435,494)	(171,271)
Other operating income							21,418	22,130
Finance costs							(1,537,796)	(1,411,956)
Taxation							387,664	475,621
Loss after taxation							(729,268)	(813,829)
Segment assets								
Total segment assets	14,007,625	13,649,824	5,698,350	5,748,046	80,818	106,785	19,786,793	19,504,655
Unallocated assets							4,741,066	4,629,427
Total assets							24,527,859	24,134,082

41.2 Segment assets consist primarily of property, plant and equipment, stores, spares and loose tools, stock in trade and trade debts.

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:

(Amounts in thousand)

Nature of relationship	Nature of transactions	2011	2010
		Rupees	
Holding Company			
- Engro Corporation Limited	Purchase of services	10,552	13,791
	Sale of services	246	–
	Use of operating assets	2,349	2,850
	Pension fund contribution	4,552	3,585
	Provident fund contribution	6,255	2,910
	Medical contribution	225	113
	Gratuity fund contribution	1,188	–
Subsidiary Company			
- Engro Polymer Trading (Pvt.) Limited	Sale of goods	1,206,080	2,103,269
	Sales of services	1,138	663
	Reimbursement of expenses	–	158
Associated Company			
- Mitsubishi Corporation	Purchase of goods	8,491,864	7,807,024
	Sale of goods	192,278	–
- Arabian Sea Country Club	Purchase of services	455	1,185
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	12,801	5,528
	Purchase of goods	169	–
	Sale of goods	24,974	23,533
	Sale of services	1,504	3,103
	Sale of steam and electricity	41,134	47,908
	Use of operating assets	1,049	1,262
	Reimbursement for expense	–	712
	Medical insurance	–	193
	Medical contribution	4	–
- Engro Vopak Terminal Limited	Purchase of services	800,615	1,030,972
	Sale of services	622	217
- Engro Foundation	Sale of services	–	522
- Engro PowerGen Qadirpur Limited	Sale of goods	112	203
	Reimbursement for services	–	4
- Engro Food Limited	Sale of goods	37,480	10,521
	Sale of services	61	–
- Sind Engro Coal Mining Corporation	Sale of services	–	217
- Central Insurance Company Limited	Insurance	–	4,977
- Akzo Nobel (formerly ICI Pakistan Limited)	Purchase of goods	28,833	41,120
- IGI Insurance Company Limited	Purchase of services	2,691	2,744
- DH Fertilizer Limited (formerly Dawood Hercules Chemicals Limited)	Sale of goods	1,525	2,295
	Purchase of services	14,400	14,400
- Lahore University of Management Sciences	Purchase of services	1,002	113
- Management Association of Pakistan	Annual subscription	–	12
- Pakistan Institute of Corporate Governance	Purchase of services	–	28
- Avanceon Limited	Purchase of goods	9,871	2,504
	Purchase of services	–	115
- Karachi Education Initiative	Purchase of services	840	–
- Pakistan Japan Business Forum	Annual subscription	20	–
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	253	–
- The Karachi Stock Exchange	Annual subscription	463	–
Directors' fee		3,101	1,800
Contribution to staff retirement benefits	Pension fund	12,379	8,214
	Provident fund	21,595	20,402
	Gratuity fund	5,631	3,892
Key management personnel	Managerial remuneration	71,331	52,573
	Retirement benefit funds	10,464	5,981
	Bonus	20,686	15,686
	Other benefits	12,779	10,377

(Amounts in thousand except for production capacities)

42.2 The related party status of outstanding balances as at December 31, 2011 are disclosed in the respective notes.

43. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2011	2010	2011	2010	
	Kilo tons				
PVC	150	150	122	115	Production planned as per market demand and in house consumption need
EDC	127	127	104	96	
Caustic soda	106	106	100	93	
VCM - note 43.1	220	74	98	64	
	Mega Watts				
Power	64	64	45	41	

43.1 The new VCM plant with a capacity of 220,000 Metric tons commenced commercial production from September 30, 2010. The comparative figure for designed annual capacity of VCM plant has been reflected proportionately from the date of commencement of commercial production.

44. CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 1 - 'Presentation of financial statements' corresponding figures in the balance sheet comprise of balances as per the annual audited financial statements of the Company for the year ended December 31, 2010. Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which is not material.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 03, 2012 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated financial statements

pwc

A.F.FERGUSON & CO.

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, 2011 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, 2011 and the results of their operations, changes in equity and cash flows for the year then ended.

Chartered Accountants
Karachi
Date: February 23, 2012

Engagement Partner: Sohail Hasan

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consolidated balance sheet

as at december 31, 2011

(Amounts in thousand)

	Note	2011	2010
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	18,537,582	19,198,729
Intangible assets	5	31,104	20,856
Long term loans and advances	6	37,803	40,323
Deferred taxation	7	902,138	323,378
		19,508,627	19,583,286
Current Assets			
Stores, spares and loose tools	8	1,098,891	633,799
Stock-in-trade	9	2,508,579	2,176,960
Trade debts - considered good	10	292,605	369,400
Loans, advances, deposits, prepayments and other receivables	11	324,406	380,846
Taxes recoverable	12	860,486	654,155
Cash and bank balances	13	114,435	682,894
		5,199,402	4,898,054
TOTAL ASSETS		24,708,029	24,481,340
EQUITY AND LIABILITIES			
Equity			
Share capital	14	6,634,688	6,634,688
Share premium		964,029	964,029
Employees' share compensation reserve	15	–	8,384
Hedging reserve		(102,221)	(72,062)
Accumulated loss		(1,255,645)	(549,179)
		6,240,851	6,985,860
Non-Current Liabilities			
Long term borrowings	16	8,620,195	10,903,360
Derivative financial instruments	17	157,263	110,864
Retirement and other service benefit obligations	18	62,107	50,091
		8,839,565	11,064,315
Current Liabilities			
Current portion of long term borrowings	16	2,491,828	1,361,293
Short term borrowings	19	722,340	1,780,388
Trade and other payables	20	6,101,686	2,960,982
Accrued interest / mark-up	21	145,081	197,480
Provisions	22	166,678	131,022
		9,627,613	6,431,165
Commitments	23		
TOTAL EQUITY AND LIABILITIES		24,708,029	24,481,340

The annexed notes 1 to 44 form an integral part of these financial statements.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated profit and loss account

for the year ended december 31, 2011

(Amounts in thousand except for loss per share)

	Note	2011	2010
		Rupees	
Net revenue	24	17,049,998	14,618,492
Export rebate		–	102
		17,049,998	14,618,594
Cost of sales	25	(14,892,203)	(13,314,604)
Gross profit		2,157,795	1,303,990
Distribution and marketing expenses	26	(891,770)	(642,782)
Administrative expenses	27	(387,880)	(312,526)
Other operating expenses	28	(441,599)	(170,257)
Other operating income	29	35,913	35,942
Operating profit		472,459	214,367
Finance costs	30	(1,549,574)	(1,438,988)
Loss before taxation		(1,077,115)	(1,224,621)
Taxation	31	370,649	454,340
Loss for the year		(706,466)	(770,281)
		Rupees	
Loss per share - basic and diluted	32	(1.06)	(1.22)

The annexed notes 1 to 44 form an integral part of these financial statements.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of comprehensive income

for the year ended december 31, 2011

(Amounts in thousand)

	Note	2011	2010
		Rupees	
Loss for the year		(706,466)	(770,281)
Other comprehensive income / (loss):			
Hedging reserve			
Loss arising during the year		(77,505)	(160,262)
Less:			
- Reclassification adjustments for losses included in profit and loss		31,107	65,267
- Adjustments for amounts transferred to initial carrying amount of hedged items		–	4,066
Income tax relating to hedging reserve		16,239	31,825
Other comprehensive loss for the year - net of tax		(30,159)	(59,104)
Total comprehensive loss for the year		(736,625)	(829,385)

The annexed notes 1 to 44 form an integral part of these financial statements.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of changes in equity

for the year ended december 31, 2011

(Amounts in thousand)

	Share Capital	RESERVE - CAPITAL: Share premium	RESERVE - CAPITAL: Employees' share compensation reserve	RESERVE - CAPITAL: Hedging reserve	RESERVE - REVENUE: Unappropriated profit / (Accumulated loss)	Total
	Rupees					
Balance as at January 1, 2010	5,203,677	975,438	9,313	(12,958)	220,173	6,395,643
Vested share options lapsed during the year - note 15.2	–	–	(929)	–	929	–
Share capital issued	1,431,011	–	–	–	–	1,431,011
Share issuance cost, net	–	(11,409)	–	–	–	(11,409)
Total comprehensive loss for the year	–	–	–	(59,104)	(770,281)	(829,385)
Balance as at December 31, 2010	6,634,688	964,029	8,384	(72,062)	(549,179)	6,985,860
Vested share options lapsed during the year - note 15.2	–	–	(8,384)	–	–	(8,384)
Total comprehensive loss for the year	–	–	–	(30,159)	(706,466)	(736,625)
Balance as at December 31, 2011	6,634,688	964,029	–	(102,221)	(1,255,645)	6,240,851

The annexed notes 1 to 44 form an integral part of these financial statements.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of cash flows

for the year ended december 31, 2011

(Amounts in thousand)

	Note	2011	2010
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	4,380,043	411,820
Finance costs paid		(1,601,973)	(1,447,280)
Long term loans and advances		2,520	7,152
Retirement benefits paid		(41,485)	(12,106)
Income tax paid		(398,202)	(355,141)
Net cash generated from / (utilized in) operating activities		2,340,903	(1,395,555)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(514,248)	(866,238)
- intangible assets		(18,790)	(13,804)
Proceeds from disposal of property, plant and equipment		18,396	15,193
Purchase of short term investments		(896,126)	(451,568)
Proceeds from sale of short term investments		911,728	512,966
Income on bank deposits		11,018	28,211
Net cash utilized in investing activities		(488,022)	(775,240)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		–	1,140,090
Repayments of long term borrowings		(1,363,292)	(1,103,537)
Repayments of short term borrowings		(450,000)	–
Proceeds from issue of share capital		–	1,431,011
Proceeds from short term borrowings		–	250,000
Share issuance cost		–	(17,553)
Net cash (utilized in) / generated from financing activities		(1,813,292)	1,700,011
Net increase / (decrease) in cash and cash equivalents		39,589	(470,784)
Cash and cash equivalents at beginning of the year		(647,494)	(176,710)
Cash and cash equivalents at end of the year	36	(607,905)	(647,494)

The annexed notes 1 to 44 form an integral part of these financial statements.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

notes to the consolidated financial statements

for the year ended december 31, 2011

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 is listed on Karachi, Lahore and Islamabad Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited. 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. The Company is also engaged in the supply of surplus power generated from its Power plants to Engro Fertilizers Limited and Karachi Electric Supply Company Limited (KESC).

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). In 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-Alkali and Power plants (Gas turbines). On September 30, 2010, the Company declared commercial operations of the VCM plant, after which the integrated chemical complex is now complete.

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 accounting standards as applicable in Pakistan. Approved accounting 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 take precedence.

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 interpretation that are effective in 2011 and are relevant to the Company

The following amendments to published standards and interpretations are mandatory for the financial year beginning on or after January 01, 2011:

- IFRS 7 (amendment) 'Nature and extent of risk arising from financial instrument'. The amendment is part of the IASB's annual improvements project published in May 2010. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments only affects disclosures, which have been made.

- IAS 1 (amendment) 'Statement of changes in equity'. The amendment is part of the IASB's annual improvements project published in May 2010. This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendments only affects disclosures, which have been made.

b) Standards, amendments to published standards and interpretation effective in 2011 but are not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 are considered not to be relevant.

c) Other standards and amendments to published standards that are not yet effective and have not been early adopted by the Company

The following new standards, amendments to published standards and interpretation are not effective (although available for early adoption) for the accounting period beginning on or after January 1, 2011 and have not been early adopted by the Company:

- IFRS 1 (Amendment) 'First time adoption' (effective for periods beginning on or after July 1, 2011). The amendment replaces references to a fixed date of January 1, 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The amendment will not effect the Company's financial statements as they are already IFRS compliant.

- IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). These amendments are a part of IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset.

(Amounts in thousand)

- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after January 1, 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard is likely to effect the financial statements and hence its effects therefore need to be assessed by the Company.

- IFRS 11 'Joint arrangements' (effective for periods beginning on or after January 1, 2013). This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12, 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

- IAS 19 (Revised), 'Employee benefits' (effective for periods beginning on or after January 1, 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

- IAS 27 (Revised) 'Separate financial statements' (effective for periods beginning on or after January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

(Amounts in thousand)

- IAS 28 (Revised) 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. It is unlikely that the standard will have significant effect on the Company's financial statements as the Company has no investment in associates and joint ventures.

  There are other standards, amendments and interpretations that are not yet effective but are not relevant for the Company.

2.1.5 Basis of consolidation

i) The consolidated financial statements include the financial statements of Engro Polymer and Chemicals Limited and its subsidiary company – 'the Group';

ii) The assets and liabilities of subsidiary company have been consolidated on a line by line basis at their book value as the Company's are under common control. The carrying value of investment held by the Holding Company is eliminated against the subsidiaries' share capital in the consolidated financial statements;

iii) Material intra-group balances and transactions are eliminated.

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.

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 costs 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 and the resulting impairment loss is recognized in income. The recoverable amount is the higher of fair value, less expected selling expenses, and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in income, however, is restricted to the original cost of the asset.

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.

(Amounts in thousand)

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, however, is restricted to the original cost of the asset.

2.4 Financial instruments

2.4.1 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 if expected to be settled within 12 months; otherwise, these are classified as non-current.

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. These are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Company’s loans and receivables comprise ‘trade debts’, ‘loans, advances and deposits’, ‘other receivables’ and ‘cash and cash equivalents’ in the balance sheet.

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.

(Amounts in thousand)

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. These are included in non-current assets unless the investment matures or management intends to dispose of the financial assets within 12 months of the balance sheet date.

Regular way 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. Financial assets 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. 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 and 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. Gain or loss on sale of investments at 'fair value through profit or loss' are recognized in the profit and loss account as 'gains and losses from investment securities'.

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 and 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 profit and loss on equity instruments are not reversed through profit and loss. Impairment testing of trade debts and other receivables are described in note 2.7.

(Amounts in thousand)

2.4.2 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.

2.4.3 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.

2.5 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.

2.6 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.

2.7 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 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.

(Amounts in thousand)

2.8 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.

2.9 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.

2.10 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 by virtue of a resignation, retirement or termination of employee during the vesting 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 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.

2.11 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 atleast twelve months after the balance sheet date.

(Amounts in thousand)

2.12 Retirement and other service benefits

2.12.1 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.

2.12.2 Gratuity fund

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.

2.12.3 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 atleast once in every three years. 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.

2.12.4 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.

2.12.5 Compensated absences

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

2.12.6 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 fulfillment of criteria given in the incentive plan.

(Amounts in thousand)

2.13 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest 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.

2.14 Provisions

Provisions are recognized when the Company has a present 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.

2.15 Taxation

2.15.1 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.

2.15.2 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.

2.16 Foreign currency transactions and translation

These financial statements are presented in Pakistan 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 the profit and loss account.

(Amounts in thousand)

2.17 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).

- 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.

- 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 17. 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)

2.18 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the amount of 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 on accrual basis using the effective interest method.

2.19 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 include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

2.21 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 and intangible assets

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

(Amounts in thousand)

3.2 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.

3.3 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.

3.4 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.

3.5 Deferred tax assets

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences, become deductible. Management considers the scheduled reversal of deferred tax liabilities, projects future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

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 15. There are no options outstanding in the current year.

3.7 Provision for retirement and other service benefit obligations

The present value of these obligations depend 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 33.2 and 33.7 respectively.

4. PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	Rupees	
Operating assets, at net book value - notes 4.1	18,375,445	19,138,589
Capital work-in-progress - note 4.5	162,137	60,140
	18,537,582	19,198,729

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines: Water	Pipelines: VCM	Pipelines: Ethylene	Pipelines: Gas	Furniture, fixtures and equipment	Vehicles	Total
	Rupees									
As at January 1, 2010										
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
Year ended December 31, 2010										
Opening 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
Additions	–	37,255	5,926,831	4,560	–	292	–	20,644	65,122	6,054,704
Disposals - note 4.3										
- Cost	–	–	–	–	–	–	–	(3,535)	(32,757)	(36,292)
- Accumulated depreciation	–	–	–	–	–	–	–	3,319	21,056	24,375
	–	–	–	–	–	–	–	(216)	(11,701)	(11,917)
Write offs - note 4.3										
- Cost	–	–	–	–	–	–	–	(1,593)	–	(1,593)
- Accumulated depreciation	–	–	–	–	–	–	–	1,432	–	1,432
	–	–	–	–	–	–	–	(161)	–	(161)
Depreciation charge - note 4.2	(3,934)	(10,505)	(943,409)	(19,834)	(1,306)	(2,508)	(1,692)	(14,440)	(18,489)	(1,016,117)
Net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
As at January 1, 2011										
Cost	194,127	432,578	20,730,013	398,968	26,122	50,315	33,849	126,394	134,650	22,127,016
Accumulated depreciation	(21,218)	(73,051)	(2,664,500)	(85,844)	(14,529)	(3,550)	(3,220)	(76,775)	(45,740)	(2,988,427)
Net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Year ended December 31, 2011										
Opening net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Additions	–	5,146	368,625	–	–	–	–	8,229	30,251	412,251
Disposals - note 4.3										
Cost	–	–	–	–	–	–	–	(371)	(34,591)	(34,962)
Accumulated depreciation	–	–	–	–	–	–	–	325	18,738	19,063
	–	–	–	–	–	–	–	(46)	(15,853)	(15,899)
Write offs - note 4.3										
Cost	–	–	(5,574)	–	–	–	–	(399)	–	(5,973)
Accumulated depreciation	–	–	254	–	–	–	–	351	–	605
	–	–	(5,320)	–	–	–	–	(48)	–	(5,368)
Depreciation charge - note 4.2	(3,934)	(11,066)	(1,077,772)	(19,948)	(1,306)	(2,516)	(1,692)	(14,756)	(21,138)	(1,154,128)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
As at December 31, 2011										
Cost	194,127	437,724	21,093,064	398,968	26,122	50,315	33,849	133,853	130,310	22,498,332
Accumulated depreciation	(25,152)	(84,117)	(3,742,018)	(105,792)	(15,835)	(6,066)	(4,912)	(90,855)	(48,140)	(4,122,887)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5	5 to 33	5 to 25	

(Amounts in thousand)

	2011	2010
	Rupees	

4.2 Depreciation charge has been allocated as follows:

	2011	2010
Cost of sales - note 26	1,141,768	1,002,457
Distribution and marketing expenses - note 27	4,450	4,008
Administrative expenses - note 28	7,910	9,652
	1,154,128	1,016,117

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	626	626	–	553	By auction	Mr. Saeed-ur-Rehman
"	740	740	–	620		Mr. Zahid Qadri
"	499	499	–	419		Mr. Imran Ahmed
"	449	449	–	390		Mr. Zahid Qadri
"	774	774	–	725		Mr. Anis Ahmed Khan
"	555	444	111	489		Mr. Saeed-ur-Rehman
"	1,039	747	292	586		Mr. Sultan Jan Niazi
"	900	661	239	225	By Company policy to existing/separating employees	Mr. Farhan Ansari
"	900	633	267	239		Mr. Ziauddin
"	1,500	1,031	469	375		Mr. Mohammed Ali Ansari
"	900	647	253	225		Mr. Rizwan Ahmed Taqi
"	1,500	938	563	375		Mr. Farrukh Iqbal Qureshi
"	1,500	984	516	375		Mr. Zia Naeem Siddiqui
"	1,500	1,031	469	375		Syed Nayyar Iqbal Raza
"	900	581	319	281		Mr. Adeeb Ahmed Malik
"	900	647	253	225		Mr. Nasir Khalique Qureshi
"	900	619	281	225		Mr. Zafar Ali
"	900	506	394	309		Mr. Abdul Qayoom Shaikh
"	893	600	293	223		Syed Muhammad Ali
"	900	661	239	225		Mr. Jahanzeb Dal
"	900	591	309	225		Mr. Usama Hassan Siddiqui
"	900	534	366	225		Mr. Athar Abrar Khawaja
"	1,199	506	693	599		Ms. Salima Hemani
"	1,199	487	712	563		Mr. Tahir Masood
"	1,269	416	853	852		Mr. Khurram Abdullah
"	1,239	484	755	679		Mr. Ather Zia
"	1,269	397	872	814		Mr. Syed Kamal Ahmed
"	1,300	223	1,077	1,015		Ms. Shafaq Maqsood
"	1,325	248	1,077	1,036		Mr. Syed Muhammad Kazim Raza
"	1,354	21	1,333	1,227		Mr. Kaleem Asghar
"	1,269	555	714	1,222	By Insurance claim	Jubilee Insurance General Limited
"	1,269	416	853	832		
"	1,325	41	1,284	1,325		
Plant & machinery -note 4.4	5,574	254	5,320	–	N/A	N/A
Aggregate amount of assets having net book value less than Rs. 50 each	770	676	94	323		
	40,935	19,668	21,267	18,396		
2010	37,885	25,807	12,078	15,193		

4.4 Furnace tubes related to the VCM Plant, damaged during the year, having net book value of Rs. 5,320 have been written-off.

(Amounts in thousand)

4.5 Capital work-in-progress

	Plant and Machinery	Building on leasehold land	Pipelines		Furniture, fixtures and equipment	Advances for vehicles & Software	Other ancillary costs (note 4.5.2)	Total
			Ethylene	Water and gas				
	Rupees							
Year ended December 31, 2010								
Balance as at January 1, 2010	3,744,783	33,010	292	2,793	5,479	8,315	1,453,934	5,248,606
Additions during the year	544,094	2,495	–	1,767	30,425	59,863	227,594	866,238
Reclassifications	12,048	2,200	–	–	(14,355)	107	–	–
Transferred to operating assets-note 4.5.1	(4,245,303)	(37,255)	(292)	(4,560)	(20,644)	(65,122)	(1,681,528)	(6,054,704)
Balance as at December 31, 2010	55,622	450	–	–	905	3,163	–	60,140
Year ended December 31, 2011								
Balance as at January 1, 2011	55,622	450	–	–	905	3,163	–	60,140
Additions during the year	474,367	5,094	–	–	7,318	27,469	–	514,248
Transferred to operating assets	(368,625)	(5,146)	–	–	(8,229)	(30,251)	–	(412,251)
Balance as at December 31, 2011	161,364	398	–	–	(6)	381	–	162,137

4.5.1 As referred to in note 1.2, the Company, in 2010, had declared commercial operations of the VCM plant and transferred the related costs of this plant to operating assets.

4.5.2 The ancillary costs directly attributable to the Project, transferred to operating assets, comprise:

	2011	2010
	Rupees	
Salaries, wages and benefits	–	266,192
Training and travelling	–	46,102
Borrowing costs, being capitalized at the rate of Nil (2010: 10.14%) - net	–	673,922
Legal and professional	–	55,746
Depreciation	–	555,799
Storage and handling	–	15,053
Others	–	68,714
	–	1,681,528

(Amounts in thousand)

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2010	
Cost	19,851
Accumulated amortization	(8,035)
Net book value	11,816
Year ended December 31, 2010	
Opening net book value	11,816
Additions at cost	13,804
Amortization charge - note 27	(4,764)
Closing net book value	20,856
As at December 31, 2010	
Cost	33,655
Accumulated amortization	(12,799)
Net book value	20,856
Year ended December 31, 2011	
Opening net book value	20,856
Additions at cost	18,790
Amortization charge - note 27	(8,542)
Closing net book value	31,104
As at December 31, 2011	
Cost	52,445
Accumulated amortization	(21,341)
Net book value	31,104

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

6. LONG TERM LOANS AND ADVANCES
- Considered good

	2011	2010
	Rupees	
Executives - notes 6.1, 6.2 and 6.4	53,502	55,299
Less: Current portion shown under current assets - note 11	(18,027)	(22,014)
	35,475	33,285
Other employees - note 6.3	10,884	28,882
Less: Current portion shown under current assets - note 11	(8,556)	(21,844)
	2,328	7,038
	37,803	40,323

(Amounts in thousand)

6.1 Reconciliation of the carrying amount of loans and advances to Chief Executive and other executives is as follows:

	2011			2010		
	Chief Executive	Other executives	Total	Chief Executive	Other executives	Total
	Rupees					
Balance at beginning of the year	–	55,299	55,299	416	90,748	91,164
Disbursements	–	28,561	28,561	–	28,473	28,473
Repayments	–	(30,358)	(30,358)	(416)	(63,922)	(64,338)
Balance at end of year	–	53,502	53,502	–	55,299	55,299

6.2 These include 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 balance 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 include 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 other executives at the end of any month during the year was Rs. 66,973 (2010: Rs. 48,607). These are secured by way of promissory notes.

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.

(Amounts in thousand)

7. DEFERRED TAXATION

	2011	2010
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(4,195,902)	(4,141,621)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,520,417	4,097,320
- recoupable minimum turnover tax	377,524	204,227
- tax amortization	73	–
- unpaid liabilities and provision for retirement and other service benefits	38,835	36,594
- provision against custom duty and SED refundable	44,380	27,639
- provision for slow moving stores and spares	4,060	2,707
- fair value of hedging instrument	55,042	38,803
- share issuance cost, net to equity	57,709	57,709
	5,098,040	4,464,999
	902,138	323,378

7.1 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, 2011 amount to Rs. 12,915,477 (2010: Rs. 11,706,630), on which the deferred income tax asset has been recognized. The component of losses attributable to unabsorbed tax depreciation amount to Rs. 12,660,060 (2010: Rs. 10,747,542).

8. STORES, SPARES AND LOOSE TOOLS

	2011	2010
	Rupees	
Consumable stores	80,055	43,253
Spares	1,041,544	602,290
	1,121,599	645,543
Less:		
- Provision for slow moving stores and spares - note 8.1	(11,601)	(7,734)
- Stores and spares written-off - note 25	(11,107)	(4,010)
	1,098,891	633,799

8.1 The movement in the provision for slow moving stores and spares is as follows:

	2011	2010
Balance at the beginning of the year	7,734	3,867
Add: Provided during the year - note 25	3,867	3,867
Balance at the end of the year	11,601	7,734

(Amounts in thousand)

9. STOCK-IN-TRADE

	2011	2010
	Rupees	
Raw and packing materials - note 9.1 and 9.3	1,694,992	1,255,439
Work-in-progress	24,258	4,749
Finished goods - own manufactured product - note 9.2	789,329	916,772
	2,508,579	2,176,960

9.1 This includes stock-in-transit amounting to Rs. 131,830 (2010: Nil) and stocks held at the storage facilities of the following parties:

	2011	2010
	Rupees	
Engro Vopak Terminal Limited, a related party	717,858	601,050
Dawood Hercules Chemicals Limited, a related party	6,387	4,425
Al Rahim Trading Company (Private) Limited	342,984	219,239
	1,067,229	824,714

9.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 14,931 (2010: Rs. 17,162) and write-off of 87 M tons of PVC resin amounting to Rs. 4,965 (2010: 89 M tons of PVC resin amounting to Rs. 4,386).

9.3 During the year, expired chemicals amounting to Rs. 200 (2010: Rs. 9,380) have been written-off.

10. TRADE DEBTS - considered good

	2011	2010
	Rupees	
Secured - note 10.1	271,304	349,273
Unsecured - note 10.2	21,301	20,127
	292,605	369,400

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

10.2 Include amounts due from the following related parties:

	2011	2010
	Rupees	
- Engro Fertilizers Limited	–	1,158
- Engro Foods Limited	2,473	–
- Engro Powergen Qadirpur Limited	–	240
	2,473	1,398

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

	2011	2010
	Rupees	
Considered good		
Current portion of long term loans and advances - note 6		
- executives	18,027	22,014
- employees	8,556	21,844
	26,583	43,858
Advances to employees for reimbursable expenses	5	2,006
Advances to suppliers and others - note 11.1	88,315	58,865
Deposits	24,292	90,260
Prepayments	83,173	70,376
Receivable from Government		
- sales tax and Federal excise duty refundable	101,140	104,178
- export rebate	646	646
- octroi/duty claims	152	152
	101,938	104,976
Accrued return on investments	11	11
Receivable from Engro Fertilizers Limited	–	3,998
Other receivables	89	6,496
	324,406	380,846
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 11.2	(18,043)	(18,043)
	–	–
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 22.1	(36,687)	(36,687)
	–	–
Sales tax refundable	140	140
Less: Provision for impairment	(140)	(140)
	–	–
	324,406	380,846

11.1 Includes advances to Avanceon Limited, a related party, amounting to Rs. 100 (2010: Rs. 2,185).

11.2 The Customs Appellate Tribunal, Karachi Bench, through its order dated October 31, 2011, disposed off the Company's appeal filed on April 11, 2008 against the order of Collector of Customs, Port Muhammad Bin Qasim, Karachi, for the refund of custom duty paid during the period June 16, 2006 to July 24, 2006 on imports of Vinyl Chloride Monomer (VCM). The Tribunal was informed that all aforementioned VCM consignments were released after the issuance of SRO 565(1)/2006 dated June 6, 2006 and the benefit of five percent duty reduction was also passed on to the customers. However, as the price of the Company's product was increased which is linked with international market, the Tribunal inadvertently presumed that the said benefit had not been transferred to the customers and passed an order against the Company.

(Amounts in thousand)

11.3 As at December 31, 2011, receivables aggregating to Rs. 54,870 (2010: Rs. 54,870) were deemed to be impaired and have been fully provided for in these financial statements based on prudence. The remaining balance of loans, deposits and other receivables are neither past due nor impaired.

12. TAXES RECOVERABLE

12.1 Tax year 2008

The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172. The demand arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

The Company filed an appeal against the aforesaid order before the Commissioner Inland Revenue Appeals [CIR(A)], but discharged the entire demand though adjustment against assessed refunds of Rs. 180,768 and paying balance of Rs. 32,404 'under protest'.

During the year, through an appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by the Company before the ATIR. The department has also filed an appeal against the said appellate order challenging the actions of the CIR(A).

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in the financial statements.

12.2 Tax year 2009

The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for the retirement benefits of Rs. 14,239; disallowing provision against receivable of Special Excise Duty of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss as per the revised return as a consequence of the matters explained in note 12.3.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by the Company before the CIR(A).

During the year, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order has been filed before the ATIR. The department has also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

(Amounts in thousand except for number of shares)

The management of the Company is confident that the ultimate outcome of the aforesaid appeal would be decided in its favour and consequently has not recognized the effects for the same in the financial statements.

12.3 Assessment year 2000-2001

While finalizing the assessment the Taxation Officer had disallowed the First Year Allowance (FYA) claimed by the Company on the grounds that the Company had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. The Company had filed an appeal against the said disallowance before the CIR(A) which was decided in favour of the Company. The department, thereafter, filed second appeal before the ATIR. Although in case of assessment year 2001-2002, a similar issue was decided by the ATIR in the Company's favour, the ATIR, for assessment year 2000-2001 departing from the previous view, has decided the matter against the Company. and maintained the disallowance of FYA amounting to Rs. 1,884,359.

This disallowance had resulted in tax deductible timing differences, the effects of which had been duly recognized by revising the income tax returns for the tax years 2003 to 2007 and 2009. Due to the aforesaid revision, a tax liability of Rs. 86,767 arose in tax year 2008 which has been settled by adjusting the recoupable minimum tax brought forward from prior years.

13. CASH AND BANK BALANCES

	2011	2010
	Rupees	
Cash in hand	719	630
Cash at bank:		
- current accounts	92,456	297,942
- saving accounts - note 13.1	21,260	384,322
	113,716	682,264
	114,435	682,894

13.1 Includes Rs.11,447 (2010: Rs. 20,742) kept in a separate bank account in respect of security deposits.

14. SHARE CAPITAL

	2011	2010
	Rupees	
Authorized capital		
800,000,000 (2010: 700,000,000) ordinary shares of Rs. 10 each - note 14.1	8,000,000	7,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2010: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash	6,634,688	6,634,688

14.1 During the year, the Company has increased its authorized share capital to 800,000,000 ordinary shares of Rs. 10 each.

14.2 As at December 31, 2011, Engro Corporation Limited (the Holding Company) holds 372,809,989 ordinary shares of Rs. 10 each (2010: 372,809,989 ordinary shares of Rs. 10 each).

(Amounts in thousand except for number of share options)

15. EMPLOYEES' SHARE OPTION SCHEME

15.1 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 carried neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ended on December 31, 2009, whereafter the options can be exercised within a period of two years subject to served service 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. The exercise period under the Scheme expired on December 31, 2011, due to which all outstanding share options have lapsed.

During 2008, 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.

During 2010, the Company adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issue of right shares, which were duly approved by the Securities and Exchange Commission of Pakistan. The aforementioned reduction in exercise price had no effect on the fair value of share options recognized in the financials statements.

	2011	2010
	Rupees	
15.2 The movement in employee share compensation reserve is as follow:		
Balance at beginning of the year	8,384	9,313
Vested share options lapsed during the year	(8,384)	(929)
Balance at end of the year	–	8,384

15.3 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 were as follows:

Total number of share options issued	5,300,000
Percentage increase in entitlement	27.5%
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

(Amounts in thousand)

16. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments Number	Installments Commencing from	2011 Rupees	2010 Rupees
Syndicated term finance I (note 16.3)	6 months KIBOR + 2.25%	13 half yearly	November 2010	4,898,377	5,428,997
Syndicated term finance II (note 16.3)	6 months KIBOR + 3%	13 half yearly	June 2010	1,241,089	1,377,948
Syndicated term finance III (note 16.1)	6 months KIBOR + 2%	Single	June 2012	747,333	742,000
Master Istisna I (note 16.2)	6 months KIBOR + 1.5%	6 half yearly	May 2013	100,000	100,000
Master Istinsa II (note 16.2)	6 months KIBOR + 2%	3 half yearly	June 2012	199,000	200,000
International Finance Corporation- IFC (note 16.3)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	3,926,224	4,415,708
				11,112,023	12,264,653
Less Current portion shown under current liabilities				(2,491,828)	(1,361,293)
				8,620,195	10,903,360

16.1 In 2010, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 750,000. The facility, in addition to the mark-up, also carries a one time arrangement fee at 1%. This facility is secured by:

(i) a second charge over leasehold land together with the building, plant and machinery and other equipment thereon; and

(ii) a second charge by way of hypothecation over all present and future fixed assets of the Company.

16.2 In 2010, the Company entered into two Master Istisna Agreements for a facility of Rs. 100,000 for a period of three years and Rs. 200,000 for a period of eighteen months respectively. Amounts due under both agreements are payable in tranches by way of a series of Istisna transactions, with each Istisna transaction treated as a separate agreement. As the management' intends to roll over each Istisna transaction on repayment date to the expiry date of the facilities, the above mentioned financing has been included in long term borrowings of the Company. The facilities are secured as follows:

(i) Master Isitsna I facility by a joint pari passu equitable mortgage over land and buildings and a pari passu hypothecation charge over plant and machinery, stocks and receivables amounting to Rs. 134,000; and

(ii) Master Isitsna II facility by a mortgage over land and buildings subordinated to the mortgage listed in note 16.3 and hypothecation by way of subordinated charge over all present and future fixed assets of the Company amounting to Rs. 267,000.

(Amounts in thousand)

16.3 Finances, other than those referred to in note 16.1 and 16.2, are secured by:

(i) a first charge ranking pari passu with each other over leasehold land together with the buildings, plant, machinery and other equipment thereon; and

(ii) a first charge by way of hypothecation over:
- all Project Assets; and
- all present and future moveable fixed assets other than Project Assets.

16.4 Under the terms of the agreements for long term borrowings from IFC and syndicates of banks, the Company is required to comply with certain debt covenants. As at December 31, 2011, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

17. DERIVATIVE FINANCIAL INSTRUMENTS

17.1 During the year, the Company entered into two additional cross-currency interest rate swap agreements for notional amounts of US$ 4,016 and US$ 4,786 respectively, with local banks to further hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under these swap agreements, the Company would receive six month KIBOR plus 2.25% and six month KIBOR respectively, on the relevant PKR notional amounts and will pay six month USD-LIBOR plus 3.70% and USD-LIBOR plus 1.83% respectively, on the relevant USD notional amounts, which will be settled semi annually. As at December 31, 2011, the Company now has three outstanding cross currency interest rate swap agreements with local banks for a notional amount of US$ 10,268.

17.2 As at December 31, 2011, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 29,334 to partially 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.

17.3 Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Rate %	2011	2010
				Rupees	
Interest Rate Swap Agreements			Fixed Rate		
11,000	December 15, 2008	June 15, 2017	3.385	66,962	54,957
3,667	June 15, 2009	June 15, 2017	3.005	18,573	13,487
11,000	June 15, 2009	June 15, 2017	2.795	49,505	32,452
3,667	June 15, 2009	June 15, 2017	2.800	16,279	10,784
29,334				151,319	111,680
Cross Currency Interest Rate Swap Agreements			Floating Rate		
2,690	September 9, 2010	June 15, 2015	LIBOR + 0.95	2,164	(816)
3,471	January 18, 2011	January 19, 2016	LIBOR + 3.70	365	–
4,107	July 6, 2011	June 30, 2016	LIBOR + 1.83	3,415	–
10,268				5,944	(816)
39,602				157,263	110,864

(Amounts in thousand)

18. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2011	2010
	Rupees	
Service incentive plan	55,077	44,654
Additional death gratuity - note 33	7,030	5,437
	62,107	50,091

19. SHORT TERM BORROWINGS

	2011	2010
Running finance utilized under mark-up arrangements - note 19.1	722,340	1,330,388
Short term finance - note 19.2 and 19.3	–	450,000
	722,340	1,780,388

19.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amount to Rs. 2,000,000 (2010: Rs. 1,925,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1.0% to relevant period KIBOR plus 1.5% (2010: relevant period KIBOR plus 0.9% to relevant period KIBOR plus 1.5%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 12.92% to 15.29% per annum (2010: 12.83% to 14.84% per annum). The facilities are secured by a floating charge over stocks and book debts of the Company.

19.2 During the year, the Company has repaid the short term finance which was obtained from a local bank. The facility carried mark-up at the rate of 13.9% per annum.

19.3 During the year, on February 28, 2011, the short term financing arrangement under the Export Refinance Scheme amounting to Rs. 200,000 expired and has not been renewed further.

19.4 The facility for opening letters of credit as at December 31, 2011 aggregate to Rs. 7,537,000 (2010: Rs. 5,644,000). The amount utilized at December 31, 2011 was Rs. 4,612,000 (2010: Rs. 2,017,000). The facilities carry commission at the rate of 0.05% flat.

20. TRADE AND OTHER PAYABLES

	2011	2010
	Rupees	
Trade and other creditors - note 20.1	4,461,867	1,840,915
Accrued liabilities	743,647	665,812
Advances from customers	803,243	141,761
Retention money against project payments	17,563	238,447
Security deposits	11,477	17,610
Workers' welfare fund	2,994	1,801
Workers' profits participation fund - note 20.2	164	76
Sales tax and SED payable	45,295	43,772
Withholding tax payable	9,002	5,770
Others	6,434	5,018
	6,101,686	2,960,982

(Amounts in thousand)

20.1 Includes amount due to following related parties:

	2011	2010
	Rupees	
- Engro Corporation Limited	6,344	377
- Mitsubishi Corporation	4,283,409	1,690,399
- Engro Fertilizers Limited	7,730	–
- Engro Vopak Terminal Limited	81,264	86,679
- DH Fertilizer Limited (formerly Dawood Hercules Chemicals Limited)	23,641	–
	4,402,388	1,777,455

20.2 Workers' profits participation fund

	2011	2010
Balance at beginning of the year	76	28,659
Add:		
Interest thereon - note 30	–	1,676
Refund from contractors	88	–
Less:	164	30,335
Payments made during the year	–	(30,259)
Balance at end of the year	164	76

21. ACCRUED INTEREST / MARK-UP

	2011	2010
Finance cost accrued on:		
- long term borrowings	118,159	135,946
- short term borrowings	26,922	61,534
	145,081	197,480

22. PROVISIONS

	2011	2010
Balance at beginning of the year	131,022	70,494
Add: Provision during the year - note 22.1 and 22.2	35,656	60,528
Balance at end of the year	166,678	131,022

22.1 Provision for SED on import of plant and machinery

As at December 31, 2011, the Company had paid Rs. 94,611 (2010: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount the Company had adjusted Rs. 57,924 (2010: Rs. 57,924) 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 in the monthly sales tax returns.

(Amounts in thousand)

Pending clarification the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the 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 was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. During 2010, the Company was granted a stay order from the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand.

The Company filed an appeal with Commissioner Inland Revenue (Appeals) against the Order issued by the Additional Commissioner and the appeal was decided against the Company. The Company has now filed an appeal with the Income Tax Appellate Tribunal against the decision of the Commissioner Inland Revenue (Appeals).

The Company is confident that the ultimate outcome of the matter will be in its favour, but based on prudence is carrying the provision in this respect. Further, a provision for surcharge and penalty thereon amounting to Rs. 33,574 (2010: Rs. 25,871) has also been made.

22.2 Provision for duty on import of raw material

The Company in 2009 received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis for customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. However, the tax department has shown its disagreement with the Company's view and has demanded further information, to which the Company has responded.

Although, no formal order creating a demand has yet been received by the Company, based on prudence, a provision amounting to Rs. 75,180 (2010: Rs. 47,227) in respect of duty on such raw materials has been made.

23. COMMITMENTS

23.1 The aggregate facility of performance guarantees issued by banks on behalf of the Company as at December 31, 2011 amount to Rs. 1,648,000 (2010: Rs. 1,748,000). The amount utlized at December 31, 2011 was Rs. 849,035 (2010: Rs. 942,774).

23.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules 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:

	2011	2010
	Rupees	
Not Later than 1 year	59,030	59,840
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	36,000	50,400
	152,630	167,840

(Amounts in thousand)

24. NET REVENUE

	2011	2010
	Rupees	
Gross local sales	18,575,675	15,005,513
Less:		
- Sales tax	3,006,889	2,474,538
- Special excise duty	93,600	120,773
- Discounts	15,391	294
	3,115,880	2,595,605
	15,459,795	12,409,908
Export sales	1,563,055	2,094,043
Supply of electricity - note 24.1	27,148	114,541
	17,049,998	14,618,492

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

	2011	2010
- Engro Fertilizers Limited	27,148	34,235
- Karachi Electricity Supply Corporation	–	80,306
	27,148	114,541

25. COST OF SALES

	2011	2010
Opening stock of work-in-progress	4,749	17,579
Raw and packing materials consumed	9,337,524	8,839,976
Salaries, wages and staff welfare - note 25.2	608,266	461,280
Fuel, power and gas	2,140,401	1,768,043
Repairs and maintenance	242,642	224,141
Depreciation - note 4.2	1,141,768	1,002,457
Consumable stores	254,857	336,069
Purchased services	42,996	118,485
Storage and handling	893,594	882,897
Training and travelling	18,935	18,934
Communication, stationery and other office expenses	8,519	7,861
Insurance	59,947	79,890
Provision for slow moving stores and spares - note 8.1	3,867	3,867
Expired chemicals written-off - note 9.3	200	9,380
Stores & spares written-off - note 8	11,107	4,010
Other expenses	19,646	28,049
	14,784,269	13,785,339
Closing stock of work-in-progress	(24,258)	(4,749)
Cost of goods manufactured	14,764,760	13,798,169
Opening stock of finished goods	916,772	410,653
Closing stock of finished goods	(789,329)	(916,772)
	127,443	(506,119)
Cost of sales - own manufactured product	14,892,203	13,292,050
Cost of sales - purchased product - note 25.1	–	22,554
	14,892,203	13,314,604

(Amounts in thousand)

25.1 Cost of sales - purchased product

	2011	2010
	Rupees	
Opening stock	–	9,035
Add: Purchases	–	13,519
	–	22,554

25.2 This includes Rs. 32,830 (2010: Rs. 21,950) in respect of staff retirement and other benefits referred to in note 33.

26. DISTRIBUTION AND MARKETING EXPENSES

	2011	2010
	Rupees	
Salaries, wages and staff welfare - note 26.1	66,401	57,065
Advertising, sales promotion and entertainment	89,667	64,056
Product transportation and handling	690,146	487,311
Rent, rates and taxes	11,294	9,775
Purchased services	6,122	3,860
Insurance	1,213	1,082
Depreciation - note 4.2	4,450	4,008
Training and travelling	8,766	7,441
Communication, stationery and other office expenses	3,347	2,690
Others	10,364	5,494
	891,770	642,782

26.1 This includes Rs. 3,931 (2010: Rs. 3,491) in respect of staff retirement and benefits, referred to in note 34.

27. ADMINISTRATIVE EXPENSES

	2011	2010
	Rupees	
Salaries, wages and staff welfare - note 27.1	182,092	126,800
Rent, rates and taxes	41,295	28,689
Purchased services	48,195	39,590
Insurance	677	980
Depreciation - note 4.2	7,910	9,652
Amortization - note 5	8,542	4,764
Training and travelling expenses	59,583	60,532
Communication, stationery and other office expenses	27,459	32,501
Others	12,127	9,018
	387,880	312,526

27.1 This includes Rs. 12,237 (2010: Rs. 8,284) in respect of staff retirement and benefits, referred to in note 33.

(Amounts in thousand)

28. OTHER OPERATING EXPENSES

	2011	2010
	Rupees	
Legal and professional charges	20,651	21,997
Auditors' remuneration - note 28.1	2,306	3,982
Donations - note 28.2 and 28.3	7,096	15,207
Foreign exchange loss - net	405,034	126,308
Workers' welfare fund	1,192	2,763
Damaged items of operating assets written-off - note 28.4	5,320	–
	441,599	170,257

28.1 Auditors' remuneration

	2011	2010
Fee for:		
- Annual statutory audit	730	650
- Half yearly review	200	180
- Review of compliance with Code of Corporate Governance	50	50
	980	880
Taxation and other services	1,231	2,814
Reimbursement of expenses	95	288
	2,306	3,982

28.2 Includes donation to Engro Foundation a related party, amounting to Nil (2010: Rs. 522) in respect of flood relief activities.

28.3 The Directors including the Chief Executive and their spouses do not have any interest in any donees except for Mr. Asad Umar, Mr. Khalid Mansoor and Mr. Khalid S. Subhani who are on the Board of trustees of Engro Foundation as Chairman and trustees, respectively.

28.4 During the year, damaged furnace tubes related to the VCM Plant having a net book value of Rs. 5,320 have been written-off.

29. OTHER OPERATING INCOME

	2011	2010
	Rupees	
On financial asset		
Income on bank deposits	11,018	17,222
Gain on investments in mutual funds held for trading	15,602	10,989
On non-financial asset		
Profit on disposal of operating assets	2,449	3,115
Scrap sales	5,293	2,559
Others	1,551	2,057
	35,913	35,942

(Amounts in thousand)

30. FINANCE COSTS

	2011	2010
	Rupees	
Interest/Mark-up on:		
- long term borrowings	1,403,529	1,272,070
- short term finances	116,548	136,093
	1,520,077	1,408,163
Guarantee commission	6,559	6,131
Bank charges and others	22,938	23,018
Accrued interest on Workers' profits participation fund	–	1,676
	1,549,574	1,438,988

31. TAXATION

	2011	2010
Current		
- for the year - note 31.1	184,454	167,709
- for prior years	7,417	57,657
	191,871	225,366
Deferred - for the year		
- for the year	(549,054)	(552,215)
- for prior years	(13,466)	(127,491)
	(562,520)	(679,706)
	(370,649)	(454,340)

31.1 Current year charge represents minimum tax at the rate of 1% (2010: 1%) of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

31.2 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:

	2011	2010
	Rupees	
Loss before taxation	(1,077,115)	(1,224,621)
Tax calculated at applicable rate of 35% (2010: 35%)	(376,990)	(428,617)
Tax effect of exempt income and income subject to lower tax rates	(4,534)	(1,410)
Prior year tax charge	7,417	57,657
Permanent difference due to donation and depreciation of land	3,458	6,699
Un-recoupable minimum turnover tax	–	(26,507)
Effect of adjustments in opening written down values and carried forward losses	–	(62,162)
Tax expense for the year	(370,649)	(454,340)

(Amounts in thousand)

32. LOSS PER SHARE - Basic and diluted

There is no dilutive effect on the basic loss per share of the Company, which is based on:

	2011	2010
	Rupees	
Loss for the year	(706,466)	(770,281)
Weighted average number of ordinary shares	663,469	629,701

33. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2010 using the 'Projected Unit Credit Method'. The current year information is based on the forecasted data provided in last year's report. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2011	2010	2011	2010	2011	2010
			Rupees			
33.1 Balance Sheet reconciliation						
Present value of defined benefit obligations	132,499	110,835	42,778	35,488	–	–
Fair value of plan assets	(110,383)	(97,803)	(33,791)	(30,903)	–	–
Deficit	22,116	13,032	8,987	4,585	–	–
Present value of unfunded obligations	–	–	–	–	6,147	4,977
Unrecognized net actuarial (losses) / gains	(15,365)	(11,084)	(6,049)	(4,137)	883	460
Net liability at the end of the year	6,751	1,948	2,938	448	7,030	5,437
33.2 Movement in the defined benefit obligations						
Obligation as at January 1	110,835	78,994	35,488	26,048	4,977	4,523
Current service cost	10,617	8,551	4,950	3,844	861	759
Interest cost	16,404	12,081	5,409	3,988	732	537
Actuarial (gains) / losses	(4,084)	12,660	(2,410)	5,683	(423)	(842)
Benefits paid	(1,273)	(1,851)	(767)	(4,130)	–	–
Liability recognized in respect of transfers	–	400	108	55	–	–
Obligation as at December 31	132,499	110,835	42,778	35,488	6,147	4,977

(Amounts in thousand)

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2011	2010	2011	2010	2011	2010
			Rupees			
33.3 Movement in the Fair value of plan assets						
Fair value as at January 1	97,803	88,607	30,903	27,618	–	–
Expected return on plan assets	14,642	12,334	4,793	3,940	–	–
Actuarial losses	(8,365)	(7,953)	(4,387)	(24)	–	–
Employer contributions	7,576	6,266	3,141	3,444	–	–
Benefits paid	(1,273)	(1,851)	(767)	(4,130)	–	–
Transferred to other group companies	–	400	108	55	–	–
Fair value as at December 31	11,383	97,803	33,791	30,903	–	–
33.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	10,617	8,551	4,950	3,844	861	759
Interest cost	16,404	12,081	5,409	3,988	732	537
Expected return on plan assets	(14,642)	(12,334)	(4,793)	(3,940)	–	–
Recognition of actuarial (gains) / losses	–	(84)	65	–	–	1
Expense	12,379	8,214	5,631	3,892	1,593	1,297
33.5 Actual return on plan assets	9,338	13,995	3,660	4,485	–	–

33.6 Expected future costs for the year ending December 31, 2012:

	Rupees
- Pension Fund	15,737
- Gratuity Fund	6,361
- Additional Death Gratuity Scheme	2,094
	24,192

33.7 Principal assumptions used in the actuarial valuation:

	Pension Fund		Gratuity Fund	
	2011	2010	2011	2010
Discount rate per annum	12.5%	14.5%	12.5%	14.5%
Expected rate of return per annum on plan assets	12.5%	14.5%	12.5%	14.5%
Expected rate of increase per annum in future salaries	11.5%	13.5%	11.5%	13.5%

33.8 Plan assets comprise of following:

	Pension Fund		Gratuity Fund	
	2011	2010	2011	2010
Equity	26,492	25,429	8,110	4,635
Debt	83,891	72,374	25,681	26,268
	110,383	97,803	33,791	30,903

(Amounts in thousand)

33.9 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.

33.10 Historical information of staff retirement benefits:

	2011	2010	2009	2008	2007
Pension Fund			Rupees		
Present value of defined benefit obligation	132,499	110,835	78,994	68,644	53,267
Fair value of plan assets	(110,383)	(97,803)	(88,607)	(73,582)	(62,237)
Deficit / (Surplus)	22,116	13,032	(9,613)	(4,938)	(8,970)
Gratuity Fund					
Present value of defined benefit obligation	42,778	35,488	26,048	22,888	19,600
Fair value of plan assets	(33,791)	(30,903)	(27,618)	(21,821)	(21,742)
Deficit / (Surplus)	8,987	4,585	(1,570)	1,067	(2,142)

34.11 During the year, Rs. 21,894 (2010: Rs. 20,322) has been recognized in the profit and loss account in respect of defined contribution provident fund.

34. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

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

	2011			2010		
	Director			Director		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
			Rupees			
Managerial remuneration	21,549	–	399,960	15,238	–	305,022
Retirement benefit funds	3,422	–	12,644	1,605	–	12,515
Bonus paid	3,676	–	32,411	1,475	–	42,356
Other benefits	2,654	–	25,380	1,236	–	23,185
Directors Fee	–	3,101	–	–	1,800	–
Total	31,301	3,101	470,395	19,554	1,800	383,078
Number of persons	1	9	209	1	9	163

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

34.2 Premium charged in the financial statements in respect of Directors' indemnity insurance policy, purchased by the Company amounts to Rs. 341 (2010: Rs. 870).

(Amounts in thousand)

35. CASH GENERATED FROM OPERATIONS

	2011	2010
	Rupees	
Loss before taxation	(1,077,115)	(1,224,621)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	53,501	23,885
Depreciation and amortization	1,162,670	1,020,881
Reversal of Employee Compensation Reserve	(8,384)	–
Provision for slow moving stock	3,867	3,867
Provision for net realizable value of stock-in-trade	14,931	–
Write-off of damaged items of property, plant and equipment	5,320	–
Write-off of PVC resin and expired chemicals	5,165	–
Income on bank deposits	(11,018)	(17,222)
Gain on investments in mutual funds held for trading	(15,602)	(10,989)
Unrealized foreign exchange loss on IFC loan	189,640	61,855
Amortization of prepaid financial charges	21,022	14,689
Unrealized foreign exchange loss on imports and retention money	132,841	–
Finance costs	1,549,574	1,438,988
Profit on disposal of operating assets	(2,449)	(3,115)
Interest accrued on Workers profit Participation Fund	–	1,676
Provision against Special Excise Duty (SED)	7,703	13,301
Provision against concessionary duty on import of raw materials	27,953	47,227
Working capital changes - note 35.1	2,320,424	(958,602)
	4,380,043	411,820

35.1 WORKING CAPITAL CHANGES

	2011	2010
Decrease / (Increase) in current assets		
Stores, spares and loose tools	(468,959)	(444,904)
Stock-in-trade	(351,715)	(571,522)
Trade debts	76,795	70,505
Loans, advances, deposits, prepayments and other receivables - net	56,440	30,035
	(687,439)	(915,886)
Increase / (Decrease) in current liabilities		
Trade and other payables	3,007,863	(42,716)
	2,320,424	(958,602)

(Amounts in thousand)

36. CASH AND CASH EQUIVALENTS

	2011	2010
	Rupees	
Cash and bank balances - note 13	114,435	682,894
Running finance utilized under markup arrangements - note 19	(722,340)	(1,330,388)
	(607,905)	(647,494)

37. FINANCIAL INSTRUMENTS BY CATEGORY

37.1 Financial assets as per balance sheet

Loans and receivables

Long term loans and advances	37,803	40,323
Trade debts - considered good	292,605	369,400
Loans, deposits, and other receivables	49,539	144,623
Cash and bank balances	114,435	682,894
	494,382	1,237,240

37.2 Financial liabilities as per balance sheet

Financial liabilities measured at amortized cost

Long term borrowings	8,620,195	10,903,360
Derivative financial instruments	157,263	110,864
Current portion of long term borrowings	2,491,828	1,361,293
Short term borrowings	722,340	1,780,388
Trade and other payables	5,249,989	2,767,802
Accrued interest/mark-up	145,081	197,480
	17,386,696	17,121,187

37.3 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)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

38.1 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.

At December 31, 2011, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 150,214 (2010: Rs. 265,289) and Rs. 8,027,784 (2010: Rs. 6,055,444) respectively.

At December 31, 2011, if the Pakistan Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, post-tax loss for the year would have been higher/lower by Rs. 256,021 (2010: Rs. 200,570), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profits or losses would be inversely effected 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.

(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 and variable to variable cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

At December 31, 2011, if interest rate on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax loss for the year would have been higher/lower by Rs. 76,923 (2010: Rs. 89,993) 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 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 exposed to equity security price risk as the Company deals in securities. However the Company is not exposed to equity securities price risk as at December 31, 2011 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, 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:

	2011	2010
	Rupees	
Long term loans and advances	37,803	40,323
Trade debts - considered good	292,605	369,400
Loans, deposits and other receivables	49,539	144,623
Cash and bank balances	114,435	682,894
	494,382	1,237,240

(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	A1+	AA
Askari Commercial Bank Limited	PACRA	A1+	AA
Bank AlHabib Limited	PACRA	A1+	AA+
Bank AlFalah Limited	PACRA	A1+	AA
Barclays Bank PLC, Pakistan	S & P	A1+	AA-
Citibank N.A.	S & P	A1	A+
Deutsche Bank	S & P	A1	A+
Dubai Islamic Bank Pakistan Ltd	JCR-VIS	A1	A
Faysal Bank Limited	JCR-VIS	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AA+
HSBC Bank Middle East Limited	Moody's	P1	A1
MCB Bank Limited	PACRA	A1+	AA+
Meezan Bank Limited	JCR-VIS	A1+	AA-
National Bank of Pakistan	JCR-VIS	A1+	AAA
NIB Bank Limited	PACRA	A1+	AA-
Samba Bank Limited	JCR-VIS	A1	A+
Standard Chartered Bank (Pakistan) Ltd	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Silkbank Limited	JCR-VIS	A2	A-

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:

	2011			2010		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial liabilities						
Long term borrowings	2,491,828	8,620,195	11,112,023	1,361,293	10,903,360	12,264,653
Derivative financial instruments	–	157,263	157,263	–	110,864	110,864
Trade and other payables	5,249,989	–	5,249,989	2,767,802	–	2,767,802
Accrued interest / mark-up	145,081	–	145,081	197,480	–	197,480
Short term borrowings	722,340	–	722,340	1,780,388	–	1,780,388
	8,609,237	8,777,458	17,386,695	6,106,963	11,014,224	17,121,187

(Amounts in thousand except for gearing ratio)

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. 157,263 (2010: Rs. 110,864) 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.

39. 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 16, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

	2011	2010
The gearing ratio of the Company is as follows:	Rupees	
Long term borrowings - note 16	8,620,195	10,903,360
Total equity	6,240,851	6,985,860
Total capital	14,861,046	17,889,220
Gearing ratio	0.580	0.609

(Amounts in thousand)

40. SEGMENT INFORMATION

40.1 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.

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 loans and advances, loans, advances, prepayments and other receivables, taxes recoverable, and cash and bank balances.

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

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	Rupees							
Segment profit and loss								
Revenue	13,562,702	11,648,416	3,460,148	2,855,637	27,148	114,541	17,049,998	14,618,594
Less:								
Cost of sales	(12,049,022)	(10,404,315)	(1,696,637)	(1,831,420)	(4,776)	(76,412)	(13,750,435)	(12,312,147)
Distribution and marketing expenses	(658,152)	(423,582)	(229,168)	(215,192)	–	–	(887,320)	(638,774)
Allocated depreciation	(783,578)	(716,855)	(335,056)	(254,960)	(27,584)	(34,650)	(1,146,218)	(1,006,465)
Profit / (loss) before unallocated expenses	71,950	103,664	1,199,287	554,065	(5,212)	3,479	1,266,025	661,208
Unallocated expenses								
Administratives expenses							(387,880)	(312,526)
Other operating expenses							(441,599)	(170,257)
Other operating income							35,913	35,942
Finance costs							(1,549,574)	(1,438,988)
Taxation							370,649	454,340
Loss after taxation							(706,466)	(770,281)
Segment assets								
Total segment assets	14,086,556	13,427,455	5,698,350	5,748,046	80,818	106,785	19,865,724	19,282,286
Unallocated assets							4,842,305	5,199,054
Total assets							24,708,029	24,481,340

40.2 Segment assets consist primarily of property, plant and equipment, stores, spares and loose tools, stock in trade and trade debts.

41. TRANSACTIONS WITH RELATED PARTIES

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

(Amounts in thousand)

Nature of relationship	Nature of transactions	2011 Rupees	2010 Rupees
Holding Company			
- Engro Corporation Limited	Purchase of services	10,552	13,791
	Sale of services	246	–
	Use of operating assets	2,349	2,850
	Pension fund contribution	4,552	3,585
	Provident fund contribution	6,255	2,910
	Medical contribution	225	113
	Gratuity fund contribution	1,188	–
Associated Company			
- Mitsubishi Corporation	Purchase of goods	8,491,864	7,807,024
	Sale of goods	192,278	–
- Arabian Sea Country Club	Purchase of services	455	1,185
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	12,801	5,528
	Purchase of goods	169	–
	Sale of goods	24,974	23,533
	Sale of services	1,504	3,103
	Sale of steam and electricity	41,134	47,908
	Use of operating assets	1,049	1,262
	Reimbursement for expense	–	712
	Medical insurance	–	193
	Medical contribution	4	–
- Engro Vopak Terminal Limited	Purchase of services	800,615	1,030,972
	Sale of services	622	217
- Engro Foundation	Sale of services	–	522
- Engro PowerGen Qadirpur Limited	Sale of goods	112	203
	Reimbursement for services	–	4
- Engro Food Limited	Sale of goods	37,480	10,521
	Sale of services	61	–
- Sind Engro Coal Mining Corporation	Sale of services	–	217
- Central Insurance Company Limited	Insurance	–	4,977
- Akzo Nobel (formerly ICI Pakistan Limited)	Purchase of goods	28,833	41,120
- IGI Insurance Company Limited	Purchase of services	2,691	2,744
- DH Fertilizer Limited (formerly Dawood Hercules Chemicals Limited)	Sale of goods	1,525	2,295
	Purchase of services	14,400	14,400
- Lahore University of Management Sciences	Purchase of services	1,002	113
- Management Association of Pakistan	Annual subscription	–	12
- Pakistan Institute of Corporate Governance	Purchase of services	–	28
- Avanceon Limited	Purchase of goods	9,871	2,504
	Purchase of services	–	115
- Karachi Education Initiative	Purchase of services	840	–
- Pakistan Japan Business Forum	Annual subscription	20	–
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	253	–
- The Karachi Stock Exchange	Annual subscription	463	–
Directors' fee		3,101	1,800
Contribution to staff retirement benefits	Pension fund	12,379	8,214
	Provident fund	21,595	20,402
	Gratuity fund	5,631	3,892
Key management personnel	Managerial remuneration	71,331	52,573
	Retirement benefit funds	10,464	5,981
	Bonus	20,686	15,686
	Other benefits	12,779	10,377

(Amounts in thousand except for production capacities)

41.2 The related party status of outstanding balances as at December 31, 2011 are disclosed in the respective notes.

42. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2011	2010	2011	2010	
	Kilo tons				
PVC	150	150	122	115	Production planned as per market demand and in house consumption need
EDC	127	127	104	96	
Caustic soda	106	106	100	93	
VCM - note 42.1	220	74	98	64	
	Mega Watts				
Power	64	64	45	41	

42.1 The new VCM plant with a capacity of 220,000 Metric tons commenced commercial production from September 30, 2010. The comparative figure for designed annual capacity of VCM plant has been reflected proportionately from the date of commencement of commercial production.

43. CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 1 - 'Presentation of financial statements' corresponding figures in the balance sheet comprise of balances as per the annual audited financial statements of the Company for the year ended December 31, 2010. Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which is not material.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 03, 2012 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of Engro Polymer & Chemicals Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road Karachi, on Wednesday, April 25, 2012 at 10.30 a.m. to transact the following business:

ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 31, 2011 and the Directors' and Auditors' Reports thereon;

(2) To appoint Auditors and fix their remuneration.

By Order of the Board

Karachi,
February 3, 2012

Saleem Lallany
Company Secretary

N.B

(1) The share transfer books of the Company will be closed from Wednesday, April 11, 2012 to Wednesday, April 25, 2012 (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 Tuesday, April 10, 2012 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.

proxy form

The Company Secretary
Engro Polymer & Chemicals Limited
First Floor, Bahria Complex I
24 M.T. Khan Road, Karachi-74000

I/We ____

of ______________________________ being a member of Engro Polymer & Chemicals Ltd.

and holder of ______________________________ ordinary shares as per share register

(Number of Shares)

Folio No. ______________ and/or CDC Participant I. D. No. ______________ and

Account / Sub-Account No. ______________________________

hereby appoint ______________________ of ______________________

or failing him/her ______________________ of ______________________

as my/our proxy to vote for me and on my/our behalf at the Annual General Meeting of the Company to be held on the 25th day of April, 2012 and at any adjournment thereof.

Signed this ______________ day of ______________ 2012.

Witnesses:

1. Signature

Name ______________________

Address ______________________

CNIC or

Passport No. ______________________

Witnesses:

1. 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

Head Office: First Floor, Bahria Complex I
24 M.T. Khan Road, Karachi-74000, Pakistan

AFFIX
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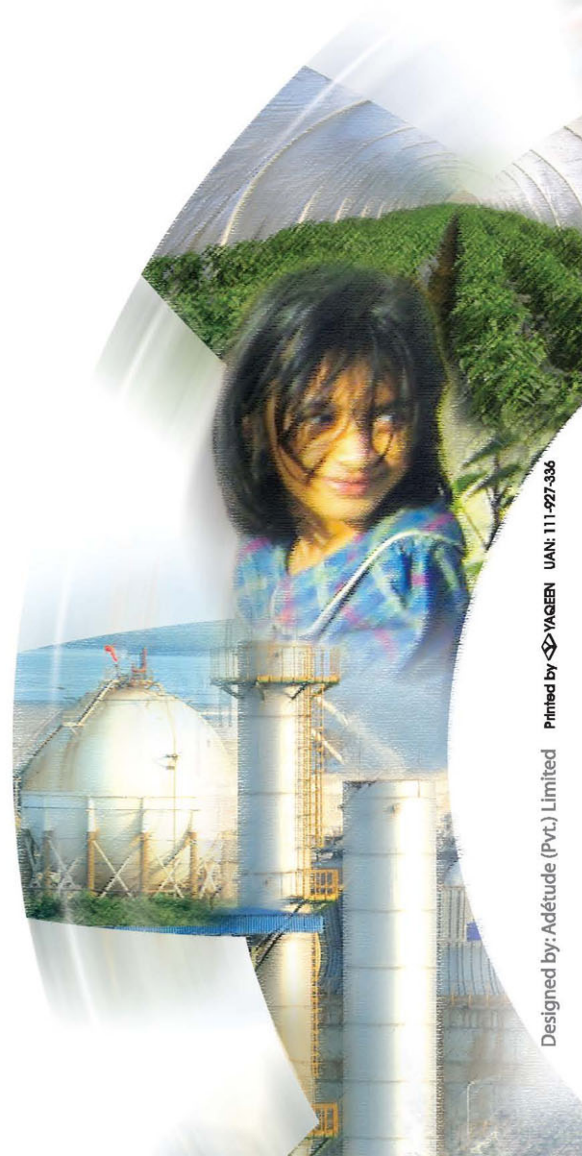

engro polymer & chemicals

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