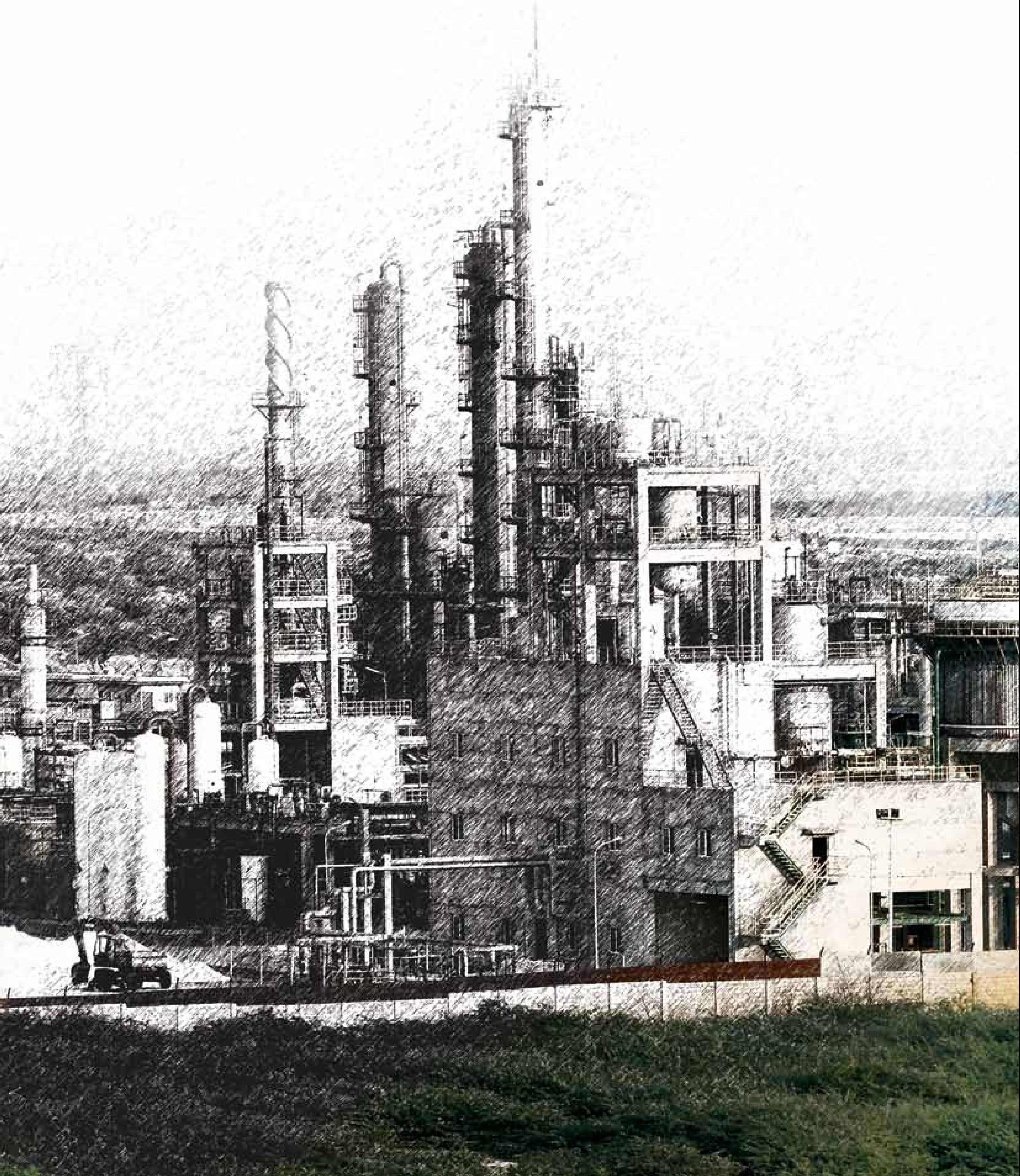
Engro Polymer & Chemicals Ltd.

Engro Polymer & Chemicals Ltd. (EPCL) is proud to share its Annual Report 2010. This report presents Company Information, Stakeholders' Information, Corporate Governance, the Directors' Report 2010 and the Financial Statements for the year ended December 31, 2010.

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

This report is also available on our website.

www.engropolymer.com



The desire to grow

Ever since the Project was conceived, we have been focussed upon expansion, diversification and technological innovation. Our effort and unwavering determination has translated our conception into a reality in 2010.

In 2007, the Company embarked upon the expansion and back integration Project. After the successful commencement of Commerical Production of the VCM plant on September 9th, 2010, Engro Polymer & Chemicals Limited is now the only fully vertical integrated PVC complex in Pakistan. We move into 2011 with greater self-reliance from own manufactured VCM, improved PVC-VCM margins and new export customer base.

Contents

Mission Statement

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

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

Statement of Best Practices

Overall, work towards creating an environment which promotes the realisation of our Vision and Values, by focusing on behavioural modification and systematic changes.

Challenge the status quo by experimenting and taking reasonable and calculated risks.

Think EPCL, by placing Company interest above individual, sectional, departmental interests.

Collectively develop clear, concise and realistic goals, also agreeing on the process of achieving these before implementing.

Balance task, team and individual needs, by keeping the helicopter view.

Work through teams, by valuing all ideas and effectively committing people through consensus building and active involvement.

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

Recognise individual needs and helping fulfill them.

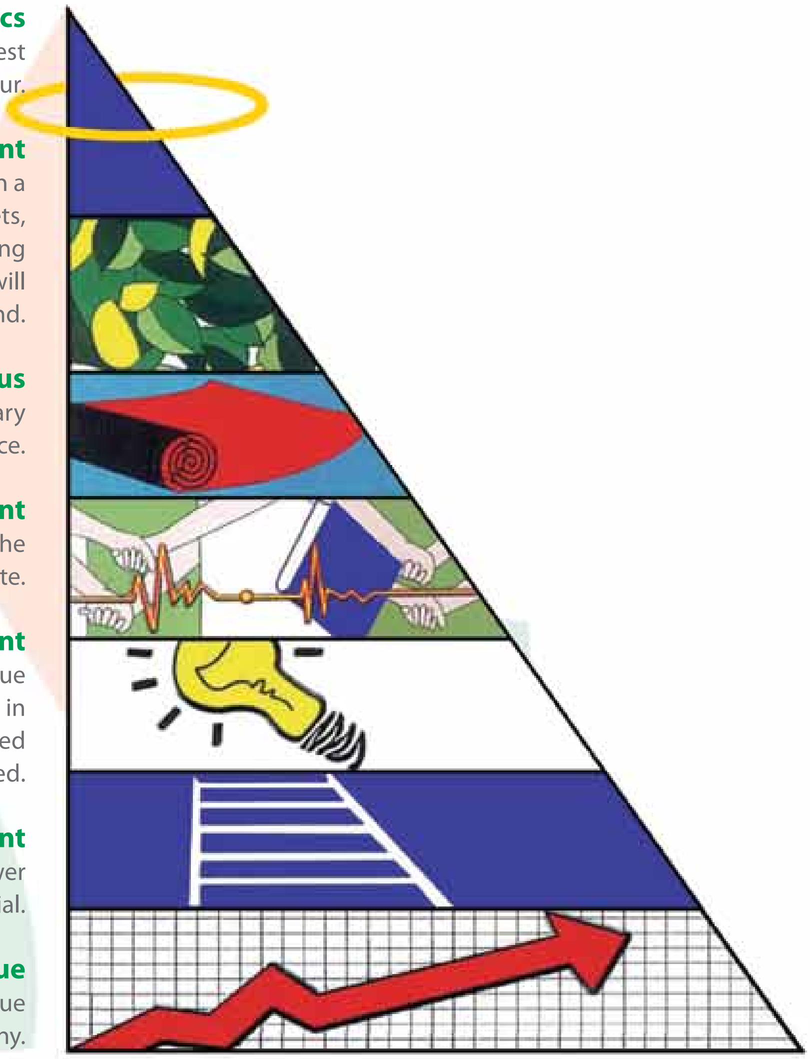
Trust each other by delegating authority and decision making to the lowest possible level.

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



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

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

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

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

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

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

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

Business Ethics

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

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

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

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

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

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

Statement of Anti-Restrictive Trade Practices

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

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

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

Company Information

Engro Polymer & Chemicals Ltd.

Company Information

Board of Directors

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

Board Audit Committee

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

Management Committee

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

Company Secretary

Arshaduddin Ahmed

Auditors

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

Share Registrar

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

Bankers / Lenders

Allied Bank Ltd.
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

EPCL's Geographical Presence

- Export Markets
- Head Office
- Products Storage
- Plant
- Warehouse
- Sales Office

Engro Polymer & Chemicals Ltd.

PVC
(Poly Vinyl Chloride)


PVC pipes


Door & window frames


Shrink film


Shoes


Artificial leather

Hypo
(Sodium Hypochlorite)


Water treatment


Detergents preparation


Denim bleaching


Towels bleaching


Paper bleaching

Caustic soda
(Sodium Hydroxide)


Dyeing & mercerizing in textile


FFA removal from edibile oil & ghee


Soap

Product Applications

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.

Organisation Structure

Board of Directors

Board Audit Committee (BAC)

Board Compensation Committee (BCC)

President & Chief Executive

Head of Internal Audit

Divisional Heads

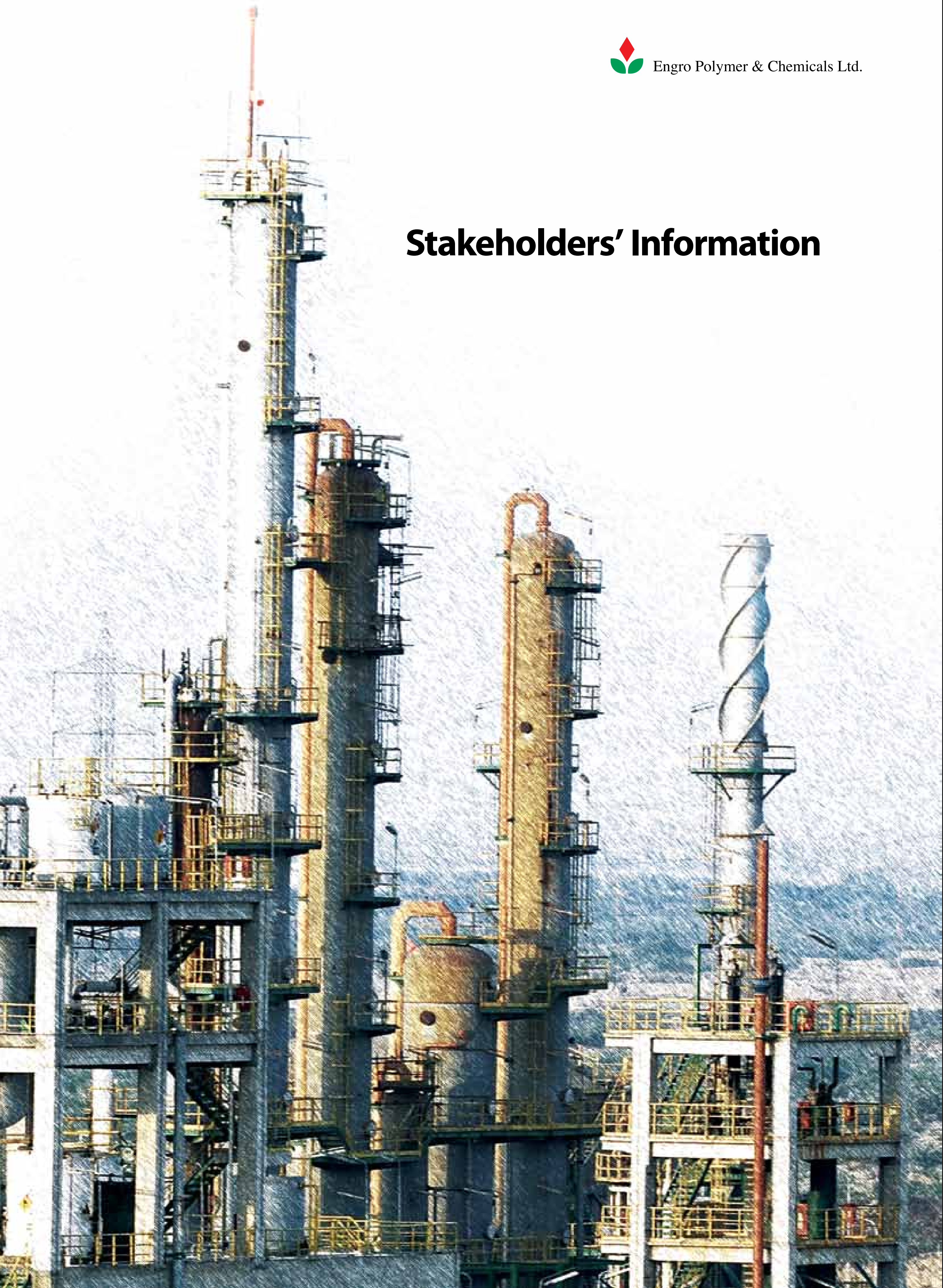
- Vice President Technology & Supply Chain
- Vice President & P.Q Site Executive
- Purchases & Services Manager
- Contracts Manager
- Human Resources Manager
- Vice President Finance & Accounts
  Company Secretary
  Head of Logistics
  Head of Information Technology
- Corporate Audit Manager
- Head of Internal Audit
- National Sales Manager
- Business Planning Manager

Management Committee (MC)

- Vice President & P.Q Site Executive
- Vice President Technology & Supply Chain
- Vice President Finance & Accounts
- Purchases & Services Manager
- Technical Manager
- Project Manager
- Human Resources Manager
- National Sales Manager
- Corporate Audit Manager

Engro Polymer & Chemicals Ltd.

Stakeholders' Information



Key Highlights and Major Events

Rs. in million except for Loss per Share

	2010	2009
Net revenue	**14,628**	11,571
Gross profit	**1,191**	1,152
Operating profit	**123**	347
Loss before tax	**(1,289)**	(249)
Loss after tax	**(814)**	(232)
		(Restated)
Loss per Share	**(1.29)**	(0.42)

- Zero (Lost Work Injury) LWI during the year. EPCL has crossed the 3 million man hours land mark without LWI.

- VCM Plant commercial operations were declared on September 30, 2010. The Company produced 28 K tons of VCM in 4Q2010. The Operating Profit of the Company in the last quarter was Rs. 393 million and the Loss After Tax was Rs. 8 million.

- During the year, revenue from PVC Segment amounted to Rs. 11,658 million as compared to Rs. 10,496 million last year.

- Caustic soda sales were very strong in 2010. 80 K tons of Caustic amounting to Rs. 2,856 million was sold out of 93 K tons produced.

- Exports customer portfolio is expanded to other countries including Syria, Turkey, Korea and the Far East. Export sales amounted to Rs. 2,094 million.

- In April 2010, the Company successfully closed a 27.5% Rights Issue. 143,101,111 ordinary shares of Rs. 10 each were issued at par to the existing share holders of the the Company.

- A joint evaluation committee of the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan declared our Annual Report for the year ended December 31, 2009 to be the 2nd Best Corporate Report amongst listed companies in the chemical & fertilizer sector.

- Spent Rs. 13 million towards Corporate Social Responsibility related activities.

Awards, Achievements and Accreditations

Investors In People (IIP) Certification

EPCL manufacturing division acquired IIP certification in 2005 which has expanded its company operation in 2008. We are the first in Pakistan to be recognized by IIP.

Safety, Health and Environment Certification

EMS – ISO 14001 Certification

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

QMS - ISO 9001:2000 Certification

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

Credibility

ACCA-WWF Pakistan Environmental Reporting Awards 2009

In 2009, EPCL submitted its first-ever Sustainability Report to ACCA-WWF Pakistan. It was officially recognized for the transparent representation of GRI indicators.

EPCL Environment Performance Reports have won the ACCA WWF Environmental Reporting Awards for three consecutive years. EPCL also has a representative on the judges' panel at the ACCA-WWF forum.

GRI Certification

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. EPCL is the first organization within Pakistan to have qualified for this certification which will help EPCL align with the reporting framework on a standardized pattern and to plan, report and evaluate sustainability reports in a much better way.

Best Corporate Report Awards 2009

At the ICAP-ICMAP Best Corporate Report Awards 2009 ceremony, EPCL was awarded second place by the joint committee from a wide selection of reports belonging to Companies from the Pharmaceutical, Chemical and Fertilizer sectors.

The criterion was based on transparent disclosure of information regarding financials and related information, Directors' Report and corporate governance. The award represents the Company's commitment to maintain high standards in financial reporting for the benefit of all stakeholders in the Company.

Vice President F&A receiving Best Corporate Report Award 2009

UNGC Global Compact

The company has officially signed the UNGC Global Compact with the United Nations, symbolizing an official commitment to follow the ten principles of the Compact, which 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.

The President signing the Global Compact

Investor Information For The Last Six Years

	Unit	2005	2006	2007	2008	2009	2010
PROFIT AND LOSS							
Net Sales	Rs. in M	5,553	5,278	6,063	7,868	11,571	**14,628**
Gross Profit	Rs. in M	762	1,024	988	1,132	1,152	**1,191**
Operating Profit	Rs. in M	416	634	617	492	347	**123**
Profit / (Loss) before Tax	Rs. in M	346	569	576	459	(249)	**(1,289)**
Profit / (Loss) after Tax	Rs. in M	303	381	422	353	(232)	**(814)**
BALANCE SHEET							
Property, Plant and Equipment	Rs. in M	2,278	2,443	4,709	16,135	19,361	**19,199**
Intangibles, Investments, Loans & Advances	Rs. in M	60	65	150	167	109	**434**
Current Assets	Rs. in M	1,435	1,756	4,604	1,977	3,086	**4,501**
Current Liabilities	Rs. in M	1,246	1,748	1,404	2,705	4,681	**6,163**
Long Term Liabilities	Rs. in M	532	468	1,828	9,008	11,515	**11,064**
Share Capital	Rs. in M	1,780	1,780	4,436	5,204	5,204	**6,635**
Shareholders Equity	Rs. in M	1,996	2,048	5,177	6,566	6,360	**6,906**
INVESTOR INFORMATION							
Gross Profit / (Loss) to Sales	%	14.08	19.40	16.30	14.39	9.96	**8.15**
Net Profit / (Loss) to Sales	%	5.45	7.23	6.95	4.49	-2.01	**(5.56)**
EBITDA	Rs. in M	586	810	794	670	860	**1,144**
EBITDA to Sales	%	10.55	15.35	13.10	8.51	7.43	**7.82**
Interest Cover Ratio	No. of Times	9.95	14.30	22.25	25.32	1.44	**0.81**
Return on Equity	%	15.18	18.63	8.14	5.38	-3.65	**(11.79)**
Return on Capital Employed	%	12.37	16.79	6.44	2.43	-1.33	**(4.57)**
Long term Debt to Equity		0.18	0.10	0.21	0.55	0.64	**0.61**
Weighted average cost of debt	%	5.74	8.26	9.52	14.72	11.51	**10.99**
Current Ratio	No. of Times	1.15	1.00	3.28	0.73	0.66	**0.73**
Quick Ratio	No. of Times	0.91	0.43	2.62	0.30	0.32	**0.40**
Fixed Assets Turnover	No. of Times	2.44	2.16	1.29	0.49	0.60	**0.76**
Debtor Turnover	No. of days	17.01	15.07	8.15	4.77	5.37	**9.83**
Inventory Turnover	No. of days	40.32	55.74	69.05	56.32	48.43	**49.73**
Creditors Turnover	No. of days	63.01	65.21	71.00	49.99	46.61	**60.74**
Operating Cycle	No. of days	-5.68	5.60	6.20	11.10	7.18	**(1.18)**
Number of outstanding shares at year end	No. in M	178	178	444	520	520	**663**
Earnings per Share - Basic and Diluted	Rs.	1.70	2.14	1.64	0.68	-0.45	**(1.29)**
Dividend per Share - Note (ii)	Rs.	1.00	1.85	2.10	0.54	–	–
Dividend Payout Ratio - Note (ii)	%	59	86	128	79	–	–
Dividend Cover Ratio - Note (i)	No. of Times	1.70	1.16	0.78	1.26	–	–
Price Earning Ratio - Note (i)	No. of Times	–	–	–	4.66	-2.51	**(9.05)**
Break up Value per share	Rs.	11.21	11.50	11.67	12.63	12.23	**10.42**
Market Value per Share (at the end of the year)	Rs.				14.58	17.94	**14.25**
Market Value per Share (highest during the year)	Rs.				28.31	27.00	**18.80**
Market Value per Share (lowest during the year)	Rs.				12.66	12.11	**9.57**
Fair value of Property, Plant and Equipment as at April 2010 (excl. vehicles & FFE)	Rs. in M						**24,080**

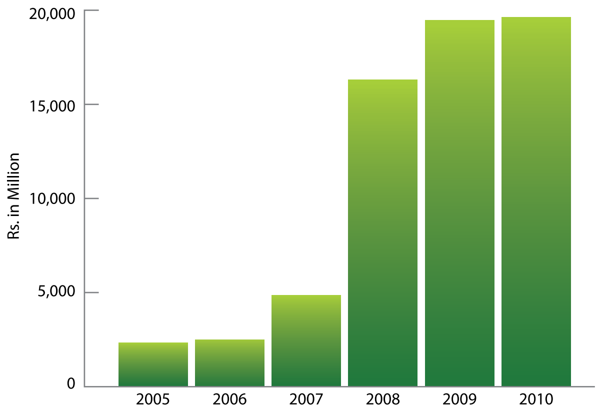
Note (i) Company was listed during 2008

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

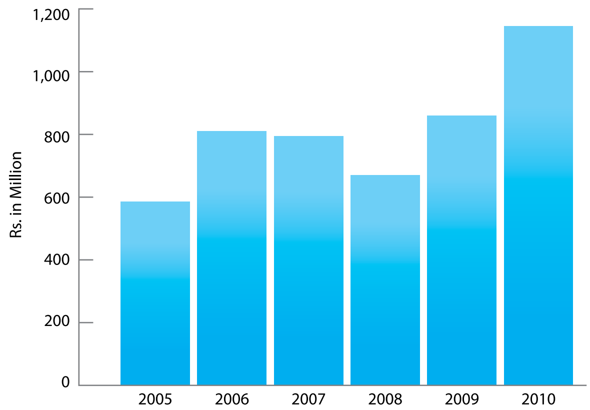
Engro Polymer & Chemicals Ltd.

Graphical Presentation

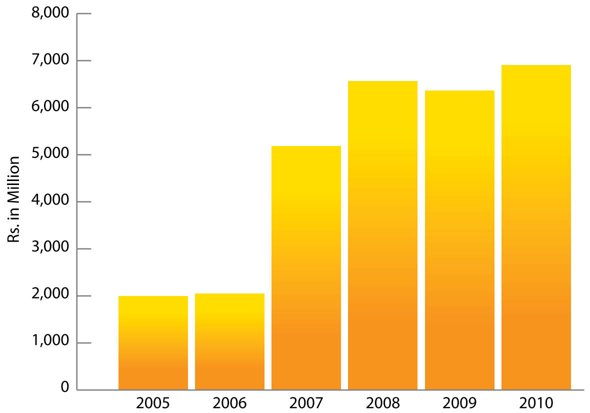
Total Non-Current Assets



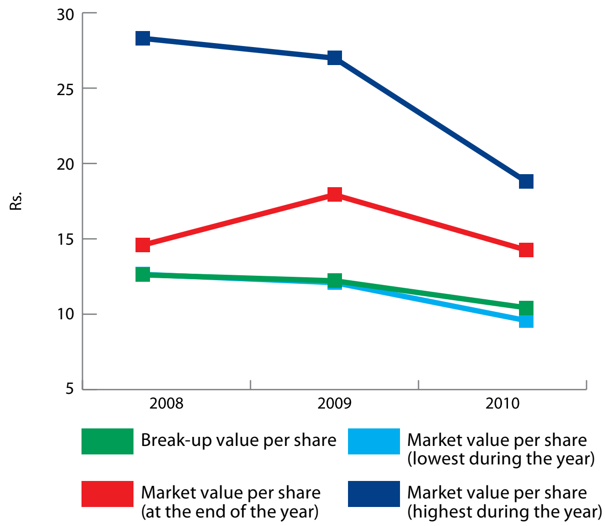
EBITDA



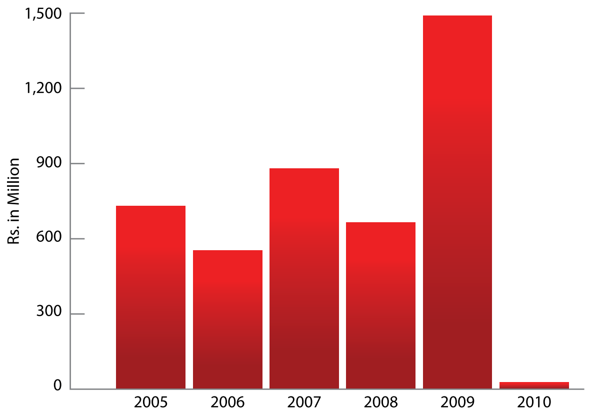
Shareholders' Equity



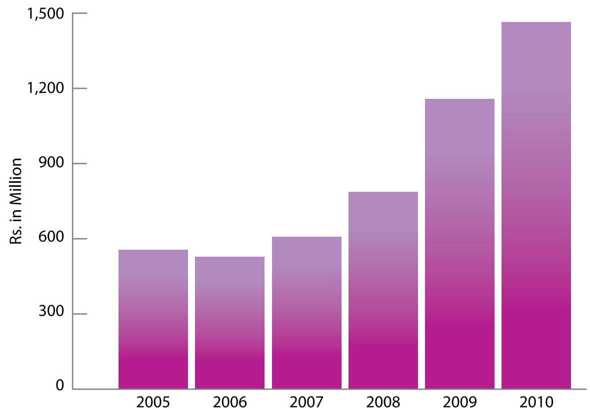
Break-Up Value vs Market Value per Share



Cash Generated from Operations



Sales Revenues



Balance Sheet Vertical and Horizontal Analysis

Amounts in Rs. M

	2005	2006	2007	2008	2009	2010
ASSETS						
Non-Current Assets	2,339	2,508	4,859	16,302	19,470	19,633
Current Assets	1,435	1,756	4,604	1,977	3,086	4,501
Total Assets	**3,774**	**4,264**	**9,463**	**18,279**	**22,556**	**24,134**
EQUITY AND LIABILITIES						
Equity	1,996	2,048	5,177	6,566	6,360	6,906
Advance against issue of share capital	–	–	1,054	–	–	–
Non-Current Liabilities	532	468	1,828	9,008	11,515	11,064
Current Liabilities	1,246	1,748	1,404	2,705	4,681	6,164
Total Liabilities	**3,774**	**4,264**	**9,463**	**18,279**	**22,556**	**24,134**

Vertical Analysis **% of Balance Sheet Total**	2005	2006	2007	2008	2009	2010
ASSETS						
Non-Current Assets						
Current Assets	62%	59%	51%	89%	86%	81%
Total Assets	38%	41%	49%	11%	14%	19%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**
EQUITY AND LIABILITIES						
Equity	53%	48%	55%	36%	28%	29%
Advance against issue of share capital	–	–	11%	–	–	–
Non-Current Liabilities	14%	11%	19%	49%	51%	46%
Current Liabilities	33%	41%	15%	15%	21%	25%
Total Liabilities	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Horizontal Analysis **Year on Year**	2006 over 2005	2007 over 2006	2008 over 2007	2009 over 2008	2010 over 2009
ASSETS					
Non-Current Assets	7%	94%	236%	19%	1%
Current Assets	22%	162%	-57%	56%	46%
Total Assets	**13%**	**122%**	**93%**	**23%**	**7%**
EQUITY AND LIABILITIES					
Equity	3%	153%	27%	-3%	9%
Advance against issue of share capital	–	–	-100%	–	–
Non-Current Liabilities	-12%	291%	393%	28%	-4%
Current Liabilities	40%	-20%	93%	73%	32%
Total Liabilities	**13%**	**122%**	**93%**	**23%**	**7%**

Engro Polymer & Chemicals Ltd.

Profit and Loss Account Vertical and Horizontal Analysis

Amounts in Rs. M

	2005	2006	2007	2008	2009	2010
Net Sales	5,553	5,278	6,063	7,868	11,571	14,628
Cost of Sales	(4,771)	(4,254)	(5,075)	(6,736)	(10,419)	(13,437)
Gross Profit	**782**	**1,024**	**988**	**1,132**	**1,152**	**1,191**
Distribution and marketing expenses	(235)	(299)	(258)	(312)	(469)	(609)
Administrative expenses	(97)	(104)	(131)	(163)	(205)	(311)
Other operating expenses	(77)	(49)	(70)	(289)	(231)	(171)
Other operating income	43	62	88	124	100	22
Operating profit	**416**	**634**	**617**	**492**	**347**	**122**
Finance costs	(70)	(65)	(41)	(33)	(596)	(1,412)
(Loss) / Profit before taxation	**346**	**569**	**576**	**459**	**(249)**	**(1,290)**
Taxation	(43)	(188)	(154)	(106)	17	476
(Loss) / Profit after taxation	**303**	**381**	**422**	**353**	**(232)**	**(814)**

Vertical Analysis

% of Sales	2005	2006	2007	2008	2009	2010
Net Sales	100%	100%	100%	100%	100%	100%
Cost of sales	-86%	-81%	-84%	-86%	-90%	-92%
Gross profit	**14%**	**19%**	**16%**	**14%**	**10%**	**8%**
Distribution and marketing expenses	-4%	-6%	-4%	-4%	-4%	-4%
Administrative expenses	-2%	-2%	-2%	-2%	-2%	-2%
Other operating expenses	-1%	-1%	-1%	-4%	-2%	-1%
Other operating income	1%	1%	1%	2%	1%	–
Operating profit	**7%**	**12%**	**10%**	**6%**	**3%**	**1%**
Finance costs	-1%	-1%	-1%	–	-5%	-10%
(Loss) / Profit before taxation	**6%**	**11%**	**10%**	**6%**	**-2%**	**-9%**
Taxation	-1%	-4%	-3%	-1%	–	3%
(Loss) / Profit after taxation	**5%**	**7%**	**7%**	**4%**	**-2%**	**-6%**

Horizontal Analysis Year on Year	2006 over 2005	2007 over 2006	2008 over 2007	2009 over 2008	2010 over 2009
Net Sales	-5%	15%	30%	47%	26%
Cost of sales	-11%	19%	33%	55%	29%
Gross Profit	**31%**	**-3%**	**15%**	**2%**	**3%**
Distribution and marketing expenses	27%	-14%	21%	50%	30%
Administrative expenses	7%	26%	24%	26%	51%
Other operating expenses	-36%	43%	313%	-20%	-26%
Other operating income	44%	42%	41%	-19%	-78%
Operating profit	**53%**	**-3%**	**-20%**	**-29%**	**-65%**
Finance costs	-7%	-37%	-20%	1,706%	137%
(Loss) / Profit before taxation	**65%**	**-1%**	**-20%**	**-154%**	**418%**
Taxation	337%	-18%	-31%	-116%	2,643%
(Loss) / Profit after taxation	**26%**	**11%**	**-16%**	**-166%**	**251%**

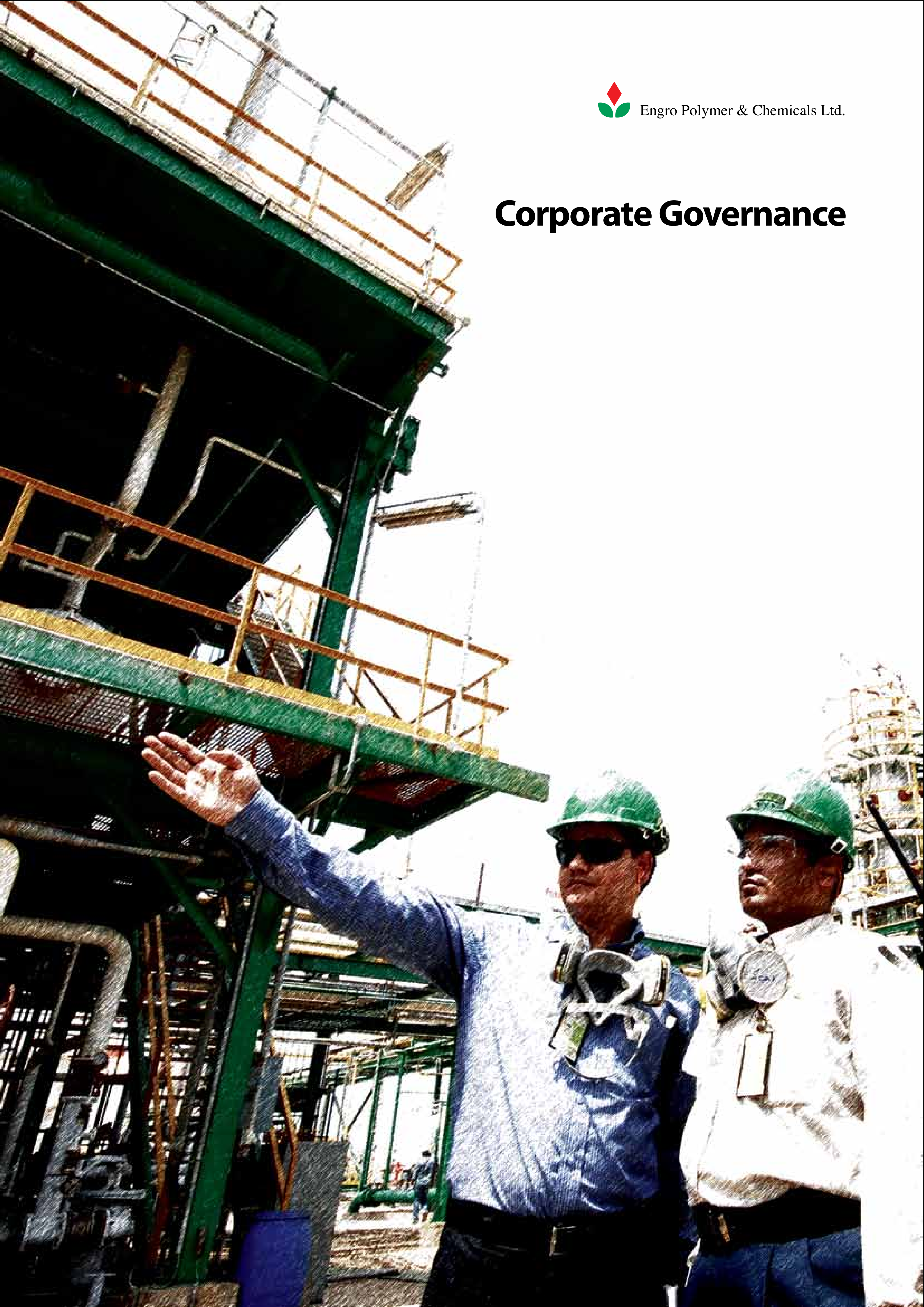
Summary of Cash Flow Statement

Amounts in Rs. M

	2005	2006	2007	2008	2009	2010
Cash generated from operations	**730**	**554**	**880**	**665**	**1,490**	**28**
Finance costs	(66)	(67)	(37)	(354)	(561)	(1,421)
Long term loans and advances	–	(4)	(84)	(10)	60	7
Retirement benefits paid	–	–	–	–	(11)	(12)
Income tax paid	(48)	(19)	(45)	(184)	(290)	(333)
Net cash flow from operating activities	**616**	**464**	**714**	**117**	**688**	**(1,731)**
Purchase of operating assets and intangibles	(87)	(345)	(2,453)	(11,165)	(3,746)	(880)
Retention money against Project payments	–	–	–	452	(553)	–
Proceeds from disposal of operating assets	5	4	2	4	6	15
Purchases of short term investments	–	(97)	(3,272)	–	–	–
Proceeds from sale of short term investments	–	–	516	2,915	35	–
Income on investments and bank deposits	37	60	28	117	62	14
Net cash flow from investing activities	**(45)**	**(378)**	**(5,179)**	**(7,677)**	**(4,196)**	**(851)**
Proceeds from long term borrowings	–	–	1,240	6,638	4,179	1,390
Repayment of long term borrowings	(268)	(166)	(229)	–	(130)	(1,027)
Issue of share capital	–	–	4,118	229	–	1,414
Dividend	(267)	(281)	(422)	(253)	–	–
Net cash flow from financing activities	**(535)**	**(447)**	**4,707**	**6,614**	**4,049**	**1,777**
Net cash flow	**36**	**(361)**	**242**	**(946)**	**541**	**(805)**
Cash Generated from Operations-Direct Method						
Cash flows from customers	5,408	5,499	6,021	7,977	11,305	14,373
Cash payment to suppliers and others	(4,678)	(4,945)	(5,141)	(7,312)	(9,815)	(14,345)
Cash generated from operation	**730**	**554**	**880**	**665**	**1,490**	**28**

Engro Polymer & Chemicals Ltd.

Corporate Governance



Profile of Board of Directors

Asad Umar
Chairman
started his career with HSBC, Pakistan and in 1985 he joined Exxon subsequently renamed Engro.

During his years with Engro, he has worked in all the major divisions, of the Company. In January 2004, he took over as President & Chief Executive of Engro Corporation Limited.

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

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

Asif Qadir
President and Chief Executive
joined Exxon Chemical Pakistan Ltd. in 1978, and has held key assignments with the Company and with Esso Chemical Alberta Ltd., Canada.

He also serves on the Board of Engro Corporation Ltd., Engro Fertilizers Ltd., Engro PowerGen Ltd., Engro Powergen Qadirpur Ltd, Sindh Engro Coal Mining Company Ltd., Pakistan Poverty Alleviation Fund, and Karachi Stock Exchange. He is Chairman of the Board for Inbox Business Technologies (Pvt) Ltd. and Unicol Limited. He is also a member of the Managing Committee of the Overseas Investors Chamber of Commerce & Industry (OICCI).

Isar Ahmad
Director
is Chief Executive Officer of Dawood Hercules Chemicals Limited. He is the Chairman of Dawood Lawrencepur Limited, Central Insurance Company Limited and Tenaga Generasi Limited. He is also a Director on the Boards of Engro Corporation Limited and Engro Foods Limited.

He also served as Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman), Managing Director, Haleeb Foods (previously CDL Foods Limited), as well as having been the Financial Advisor at Indus Motor Company Limited. He joined the Board in 2007.

Shahzada Dawood
Director
is on the Board of Engro Polymer & Chemicals Ltd., Dawood Lawrencepur Ltd, Engro Corporation Ltd., and Engro Fertilizers Ltd. He is a member of the Board of Governors of National Management Foundation (LUMS) and also a member of Board of Trustees of Dawood Foundation.

He is an M.Sc in Global Textile Marketing from Philadelphia University, USA, and LLB from Buckingham University, UK.

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.

Engro Polymer & Chemicals Ltd.

Mr. Kimihide Ando

Director

is the General Manager for Pakistan, Mitsubishi Corporation. He has a degree in Liberal Arts from the International Christian University, Tokyo, Japan and has been with Mitsubishi Corporation for 28 years. He has a diverse experience in Chemicals. He joined the EPCL Board in 2010. He is also a Director of Tri-Pack Films Limited.

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, Shabbir has been serving as an independent director on the Board since 2006.

Waqar A. Malik

Director

is the country representative and senior executive of AkzoNobel Group. Appointed as the Chief Executive of ICI Pakistan Limited on October 1, 2005. He is also a Director on the Central Board of Directors of State Bank of Pakistan along with being the President of Management Association of Pakistan and a former President of Overseas Investors Chamber of Commerce & Industry (OICCI). He is on the Boards of Engro Polymer and Chemicals Limited, IGI Insurance Limited and Pakistan Business Council. He is also a member of the Board of Governors of LUMS along with being a trustee of the Duke of Edinburgh's Award Foundation.

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

Khalid Mansoor

Director

is the Chief Executive of Engro Powergen Qadirpur Limited, Sindh Engro Coal Mining Company Limited & Engro Powergen Ltd. He is also a Senior Vice President of Engro Corporation Ltd. He has held various key assignments at Engro and with Esso Chemical Canada including leading various major expansion projects. He is a Director on the Boards of Engro Corporation Limited, Engro Polymer & Chemicals Limited, Engro Powergen Qadirpur Limited. Also, served as a Director on the Boards of Engro Foods Limited and Engro Vopak Terminal Limited in the recent past. A degree in Chemical Engineering with distinction and honors.

Khalid S. Subhani

Director

is the President & Chief Executive Officer for Engro Fertilizers Limited 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 began his career in the Manufacturing Division at Exxon Chemical Pakistan Limited in 1983. 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.

Principal Board Committees

Board Audit Committee (BAC)

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

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

Members

Isar Ahmad (Chairman)

Kimihide Ando

Shabbir Hashmi

Khalid Siraj Subhani

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

Board Compensation Committee (BCC)

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

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

Members

Asad Umar (Chairman)

Isar Ahmad

Kimihide Ando

Waqar A. Malik

Asif Qadir

The Secretary of the Committee is Jahangir Paracha, Human Resource Manager.

Engro Polymer & Chemicals Ltd.

Principal Operation Committees

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

Management Committee (MC)

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

Members


Asif Qadir (Chairman)


Syed Ahsenuddin


Arshaduddin Ahmed


Syed Ashar Hussain


Saleem Lallany


Khalid Mukhtar


Jahangir Paracha


Syed Nayyar I. Raza


Yoshio Shiga


Zia Naeem Siddiqui

The Secretaries of the Committee are:

i) Jahangir Paracha, Human Resource Manager for HR related matters and

ii) Syed Nayyar I. Raza, Plant Manager for all matters other than those related to HR.

Safe Operations Committee (SOC)

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

Members

Manufacturing Safe Operations Committee		Non-Manufacturing Safe Operations Committee
Syed Ahsenuddin (Chairman)	M. Ali Ansari	Arshaduddin Ahmed (Chairman)
Rizwan Ahmed Taqi	Syed Ali Akber	Favad Soomro (Secretary)
Abdul Qayoom Shaikh	Syed Nayyar I. Raza	Syed Ashar Hussain
Khalid Mukhtar	Syed Zubair Ahmed	Jahangir Paracha
Khurram Abdullah	Zia Naeem Siddiqui	Saleem Lallany
Mohammad Naveed Rizvi	Ziauddin	Khalid Mukhtar
		Yoshio Shiga
		Syed Muhammad Abdul Rehman

Corporate Governance

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

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

Independent directors are qualified individuals with outside experience who possess the attributes required by the SECP. The Chairman of the Board is other than the CEO.

To further the efficient performance of its duties, the Board of Directors appoints a number of 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.
Attendance by each director is as follows:

Name of Directors	No. of Meeting attended
Asad Umar	6
Asif Qadir	6
Waqar A. Malik	4
Khalid S. Subhani	4
Shahzada Dawood	5
Khalid Mansoor	5
Isar Ahmed	5
Shabbir Hashmi	6
Takashi Yoshida (newly appointed)	3*†
Kimihide Ando (newly appointed)	3**
Takeshi Hagiwara (resigned during the year)	3*†
Masaharu Domichi (resigned during the year)	3**

* Takashi Yoshida appointed in place of Takeshi Hagiwara on April 26, 2010 after 3 meetings were completed.
** Kimihide Ando appointed in place of Masaharu Domichi on April 26, 2010 after 3 meetings were completed.
† Includes two meetings attended by alternate directors.
† Includes three meetings attended by alternate directors.

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

Development of Directors

It is Company 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 registered company.

Internal Control Framework

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

The Internal Environment

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 chances 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 manual have been produced to ensure efficiency of operations and avoid duplication of effort.

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.

Monitoring and Evaluation

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

Internal Auditing

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

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.

Validation of Corporate Governance

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

President's Review

The year 2010 started with the organization putting extra focus on safety. All operating procedures were reviewed and their implementation reinforced. The DuPont Safety Management system was formally adopted and organization alignment to the DuPont PSMR systems initiated. I am pleased to report that by the end of 2010, the company had achieved the objectives outlined under this initiative.

VCM Plant startup was not possible as its scrubbers were damaged during the fire incident. The scrubber unit was refurbished and successfully commissioned in August 2010. While the unit was under repair, the Company took an initiative and made an alternate arrangement by using scrubbers available at PVC plant. This arrangement enabled the startup and operation of the VCM plant at a load lower than Capacity. Around 24,000 tons of VCM was produced using this alternate arrangement. Balance shortfall of VCM was partially fulfilled by importing VCM from the international spot market. These initiatives partially eased out VCM shortage but could not meet the total VCM requirement which consequently affected PVC production. In August, the damaged scrubber unit was installed and VCM plant was safely commissioned to achieve commercial production on September 30, 2010. A total of 64,000 tons of VCM was produced during 2010.

The lower PVC production created a supply demand gap in the domestic market resulting in imports of PVC. Later in the year, as the Company continued uninterrupted supplies to its customers, the imports of PVC resin were curtailed.

For Caustic Soda, the Company continued to increase its market penetration and gained significant market share.

Lower PVC production and high cost VCM imports resulted in squeezed margins which could not cover the incremental fixed cost related to the recent expansion and back integration. This resulted in a net loss to the Company for the year 2010.

The management of the Company is committed to maintain its focus on running the integrated facility at design operating level to obtain full economics benefits.

I would like to thank our shareholders, customers, employees and business partners for their support to the company.

Asif Qadir
President and Chief Executive

DIRECTORS' REPORT

The Board of Directors of Engro Polymer & Chemicals Limited is pleased to present the audited financial statements of the Company for the year ended December 31, 2010.

PRINCIPAL ACTIVITIES

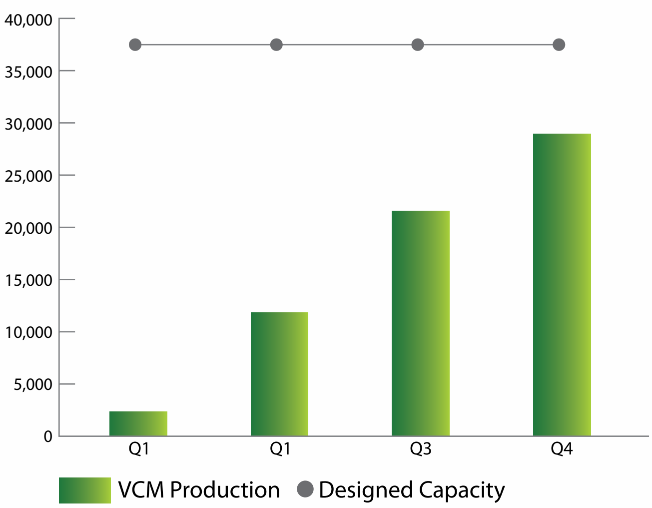
The principal activity of the Company is to manufacture, market and sell Chlor-Vinyl chemicals which include Poly Vinyl Chloride (PVC), Vinyl Chloride Monomer (VCM), Ethylene Di Chloride (EDC), Caustic soda, Sodium Hypochlorite and other allied chemicals.

BUSINESS REVIEW

PRODUCTION AND SALES REVIEW:

After the December 2009 fire incident, the VCM plant was started up at the end of 1Q 2010 with a modified arrangement.

VCM Production 2010

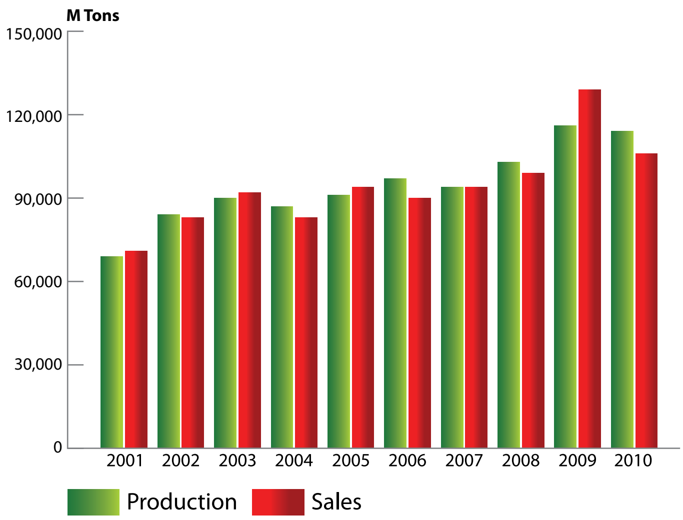


The unit which was damaged in the fire incident was refurbished and commissioned in August 2010. Plant was started up on September 9, 2010 and the operating rate was gradually enhanced to reach full operating capacity by the end of September and commercial operations of the integrated complex was declared. The plant operated continuously until January 3, 2011 when a planned shutdown was taken. VCM plant was restarted on January 18, 2011 and has been operating continuously since then. A total of 64K tons of VCM was produced during the year out of which 28K tons was produced in the fourth quarter. Presently the plant is operating at a rate lower than capacity and is expected to reach full capacity after the turnaround in the first half of 2011. Management of the Company continues to be conscious of the fact that safe and stable VCM plant operations require continuous focus and all efforts are being made to achieve the required level of operating rate.

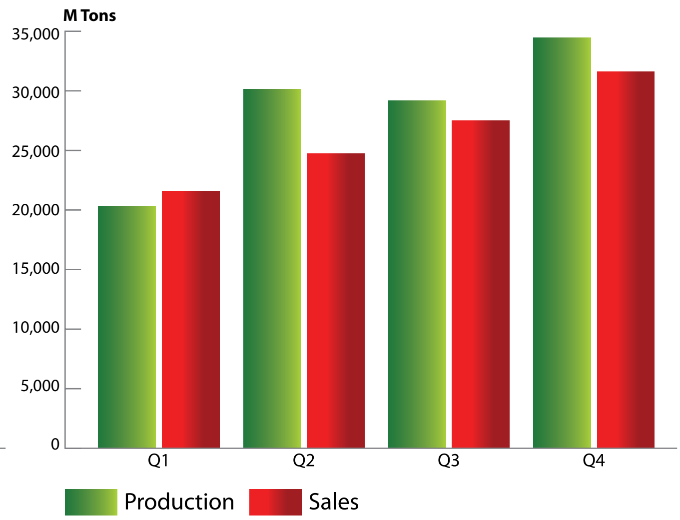
During the year, 114k tons of PVC was produced as compared to 116K tons in 2009. Production was lower than capacity due to limited availability of VCM. VCM shortfall was created due to delay in commissioning of VCM plant. Shortfall was partially fulfilled by procuring VCM from the international market. Imported VCM resulted in squeezed margins for the Company.

PVC domestic sales volume declined from 119k tons, last year, to 97K tons in 2010 due to limited availability of stock which was mainly attributable to low production during 1H 2010. PVC demand slowed down during second half of the year due to reduced government spending and liquidity crunch mainly resulting from floods. In order to counter lower domestic demand, the Company initiated export of PVC through its subsidiary and exported 9K tons during the last quarter.

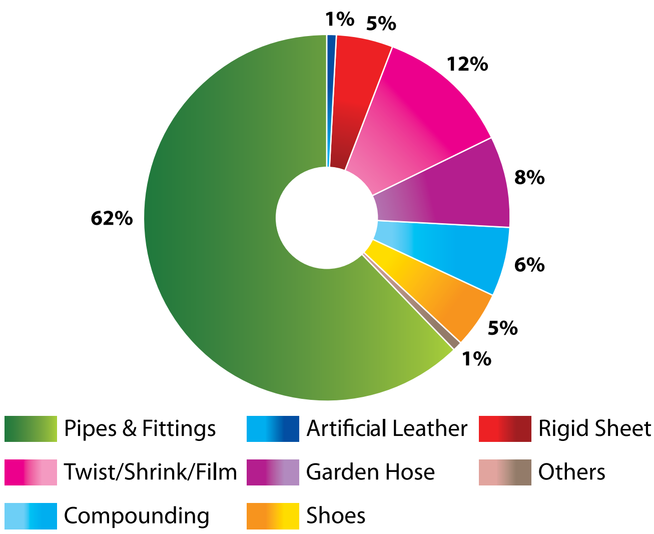
Year-on-Year PVC Production and sales Volumes



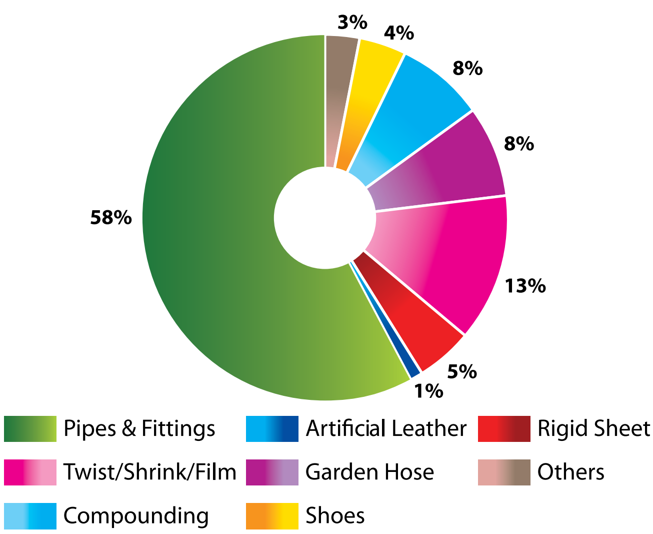
2010 Quarterly PVC Production and Sales Volumes



2010 PVC Sector Wise Sales



2009 PVC Sector Wise Sales

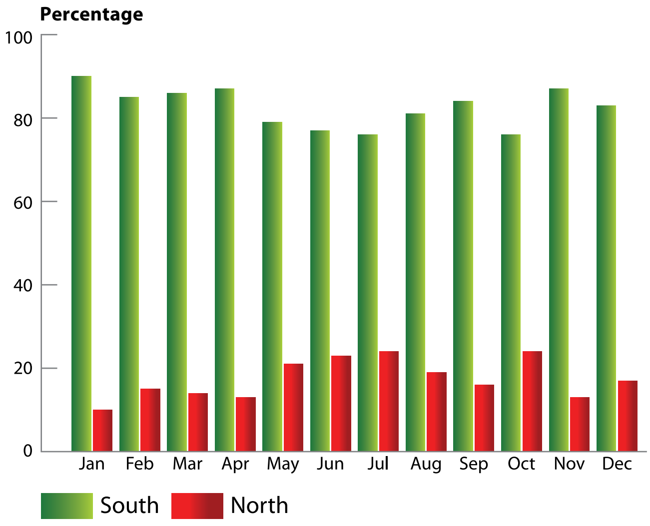


The Chlor alkali plant operated smoothly during the year and 93K tons of Caustic soda was produced as against annual capacity of 106K tons. Caustic soda sales remained strong during the year and the Company sold 80K tons as against 27K tons last year. Rest of the Caustic soda was utilized internally and for producing Sodium Hypochlorite. A total of 20K tons of Sodium Hypochlorite was produced which was sold in the domestic market.

Due to delay in commissioning of VCM plant, EDC produced could not be fully utilized to manufacture VCM. 37K tons of EDC was exported through the subsidiary - Engro Polymer Trading (Private) Limited.

Export of power to Karachi Electric Supply Company (KESC) was discontinued from August 26, 2010 due to sharp frequency fluctuations at KESC grid. Company is conducting a study to analyse if power can continue to be exported without adversely affecting the facility.

Caustic Soda Region Wise Sales



PRICE TRENDS

International PVC prices increased from USD 900/ton at the beginning of the year to USD 1,000/ton by March 2010. During the second quarter, prices decreased due to reduced demand and falling feedstock prices. The prices started to pick up from the third quarter on account of limited production and increase in raw material prices.

Ethylene prices decreased from USD 1,340/ton in January to USD 1,090/ton in December 2010. Prices decreased as new Ethylene capacities came online during the year.

MARKET SHARE*

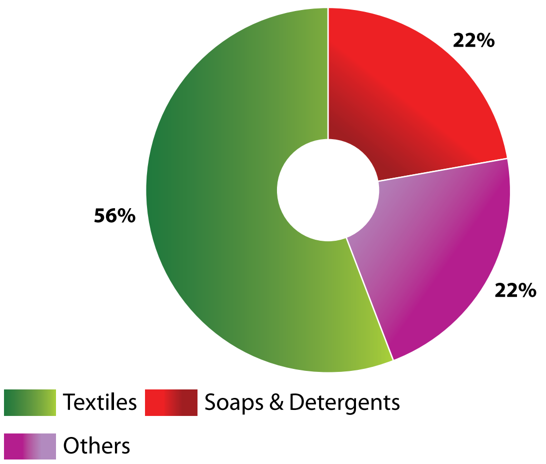
The Company remains the sole manufacturer of PVC in the country and sold 97K tons in the domestic market. It is estimated that approximately 19K tons of PVC resin was imported during the year.

Total estimated annual domestic demand of Caustic Soda was approximately 250K tons and the Company sold 80K tons during the year.

EQUITY INJECTION

During the year, the Company issued 143,101,111 ordinary shares of Rs. 10 each at par as right shares to the existing share holders, ranking pari passu in all respects with the existing shares of the Company.

2010 Caustic soda sector wise sales



BUSINESS OUTLOOK

PVC domestic demand is expected to be stable to strong in 2011 on account of reconstruction activities in flood affected areas, demand from agricultural sector and pipe exports to Afghanistan. However Government spending in other areas is expected to remain limited. Power load shedding and gas supply curtailment will continue to adversely affect demand.

Caustic soda demand is expected to remain strong and the Company is expected to sell capacity.

PVC prices are currently in the range of $1,050 per ton and the margins are better than last year. However, high oil prices and new capacity buildups will continue to affect PVC and Ethylene prices.

Profitability of the Company is expected to benefit from the improved VCM plant operations. However, full benefits of the integrated complex will depend on achieving design production from the VCM plant.

In 2010, the Company signed a loan agreement amounting to Rs. 950 million with the banks to be repaid by June 2012. The terms of the agreement include that the repayment of the loan will be in one installment either through own cash or equity injection which will be decided by the banks. This may result in a requirement to issue Right shares, the decision for which will be taken by the end of 2011.

* From independant source

Engro Polymer & Chemicals Ltd.

FINANCIAL REVIEW

Company made a loss after tax of Rs. 814 million as compared to a loss after tax of Rs. 232 million last year. The consolidated after tax loss was Rs. 770 million as compared to Rs. 194 million last year. The main reason for the loss is attributable to incremental costs associated with the new investment (Expansion & Back Integration Project) whereas full economic benefits of the same in the form of improved margins could not be timely achieved due to delay in commissioning of VCM plant. The consolidated loss after tax in the fourth quarter was Rs. 8 million as compared to a consolidated loss after tax of Rs. 762 million during the first three quarters. Sales revenue of Rs. 14,628 million was the highest ever showing a growth of 26 % over 2009.

The total assets of the Company increased by Rs. 1,578 million during the year. The main drivers were increase in taxes recoverable, deferred tax asset and stores & spares. Taxes recoverable increased mainly on account of taxes paid on import of raw materials, stores & spares and plant and machinery against which there was no tax liability to off-set. Deferred tax asset arose as a result of First Year Allowance of plant & machinery related to VCM Plant. Stores & spares also increased in line with increased requirement of additional plants as compared to last year.

CASH FLOW AND CAPITAL INVESTMENT:

Operations and Investments: Net cash utilized in operations during the year was Rs. 1,731 million as compared to net cash generated from operations of Rs. 689 million in 2009. Utilization of cash in operations of Rs. 1,421 million is attributable to repayment of interest on short term borrowings as well as long term finances which became repayable during the year. Taxes paid for the year amounted to Rs. 333 million primarily on account of withholding tax deducted at import stage.

Net cash utilized in investing activities was Rs. 850 million as compared to Rs. 4,196 million utilized in 2009. The significant decline is attributable to successful commencement of commercial production of the integrated chemical complex.

Finance and Capital Structure: As part of its strategy to raise funds for its Expansion and Back-Integration Project, the Company successfully closed a 27.5% rights issue at Rs. 10 per share. The total issuance amounted to Rs. 1,431 million.

Shareholders' funds at the year end totaled Rs. 6,978 million (excluding Hedging Reserve) as compared to Rs. 6,373 million in 2009. The increase is due to the capital raised during the year from rights issue net of total comprehensive loss incurred during the year.

Net long term borrowings at the year end increased to Rs. 12,264 million primarily for financing operations during the Expansion and Back Integration Project with the Company taking on an additional Syndicate Finance and two Master Istisna Finance arrangements of Rs. 750 million and Rs. 300 million respectively. During the year, the Company has made timely repayments of its installments of its long term borrowings aggregating to Rs. 1,027 million. The gearing (long term debt to total capital) at the balance sheet date is 0.612 as compared to 0.636 last year.

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, 2010, all debt covenants have been complied with except for current ratio and debt service coverage ratio for which waivers have been applied for.

CORPORATE SOCIAL RESPONSIBILITY

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.

Energy conservation

All energy consumed by EPCL is generated from its Combined Cycle Power plants which are fuelled by natural gas. Further, substantial part of hydrogen, a by-product of the Chlor alkali plant is utilized as energy and is being used as a substitute for natural gas.

Direct energy consumption by primary energy source

4,925 MMSCF of natural gas as fuel

Indirect energy consumption by primay source

EPCL does not consume & purchase any indirect energy

Energy saved due to conservation and efficiency improvements

Elimination of STG bypass condenser, saved 3,200 MWhr/annum

Environment Conservation

EPCL embarked upon a project of plantation in Changa Manga forest to grade 250 acres of land, out of which 120 acres was under plantation in 2010. The project is being executed by the Punjab Forest Department and jointly monitored by WWF Pakistan and EPCL team, and aims at the social, economic and environmental well-being of Changa Manga. In addition to this, the Company, also started off an orchard plantation and forestation project with the community of Arwar Village in Khyber Pakhtunkhwa province. Company is providing financial and monitoring support as well as miniature drip irrigation kits known as Family Nutrition Kits (FNKs) for establishment of orchard farms which include plum, apple and apricot trees. Community of the village is also fully involved in making this project a success.

Projects	Cost (Rs. in Millions)
Environment projects:	**5.5**
Changa Manga forestation	
KPK Galyat forestation	
Environment and education festivals	
Water conservation	**2.0**
● Water & Sanitation Program with Unicef	
● Grey Water Recycling Pilot with MUET, UN HABITAT	
● Technology Supports for HEIS	
● Promotion of low-cost drip with Micro Drip	
Water Conservation programs continued from 2009	
● Policy Dialogues with HISAAR Foundation	
● Rain Water Harvesting with IUCN, Sukaar Foundation	
● Demend-Based-Irrigation-Systems with CNFA	
Flood relief activities	**3.0**
● Medical Camps	
● Donation of medicines	
Water treatment and purification	**1.5**
● Donation of Sodium Hypo Chlorite	
● Water storage Tanks	
● Donation of PPEs	
Others	**1.0**
● Education support program	
● Scholarships programs	
● Donations and campaigns	
● Community development	

Community investment and welfare schemes

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.

Vice President F&A handing out technical education scholarships

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

Education sponsorship: During the year, EPCL has continued with its scholarship programs for the benefit of Port Qasim employees and EPCL employees.

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

Flood Relief

EPCL has conducted various activities in response to the recent flood disaster in Pakistan. Apart, from medical relief, EPCL initiated two crucial projects; one pertaining to maternal health issues and the other using Sodium Hypochlorite as disinfectant to provide purified drinking water to the flood victims.

Medical Relief for flood affected communities: EPCL initiated a two-phase project to provide relief and support to flood victims in the Khyber Pakhtunkhwa province in the areas of Nowshera, Peshawar, Risalpur, Mardaan, Chaarsadda, Upper and Lower Swat, Malakand and Chitral. Particular focus was maintained on maternal health issues, specifically expectants having anemia and blood disorders. A total of 700 women were examined and 255 were afforded therapy.

Water purification using EPCL Sodium Hypochlorite: Sodium Hypochlorite is a by-product of the Chlor-Alkali manufacturing process. Its application extends to the purification of water at a 5% concentration level. During the relief activities, 41 tons of Sodium Hypochlorite was supplied through UNICEF, PHED, PHMDA and the Armed Forces. The product was utilized for treating slush and stagnant water, as a disinfectant and for treatment of water for drinking.

EPCL involvement in flood relief activities in northern Pakistan

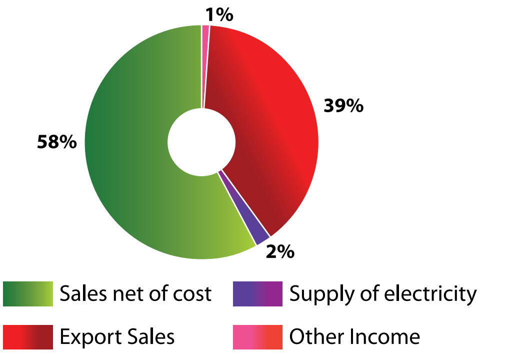
Geographical Location of Areas Apprached in KPK

Contribution to national exchequer – based on Consolidated Financial Statements

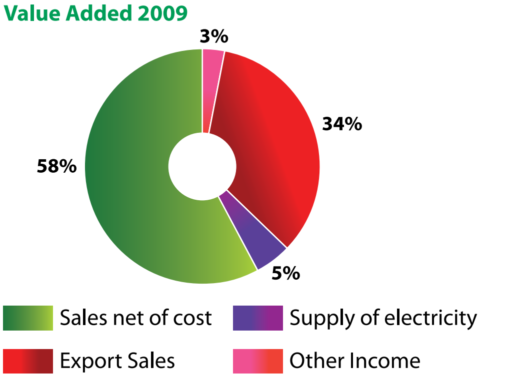
Statement of Value Addition and Distribution Year Ended December 31, 2010

	2010	2009
	Rs. in Thousand	
Value Addition		
Gross Sales	15,005,219	12,222,826
Supply of Electricity	114,541	214,924
Export Sales	2,094,043	1,463,441
Other Income	35,942	116,422
Export Rebate	102	667
Cost of Material	(11,850,867)	(9,704,244)
	5,398,980	**4,314,036**
Value Distribution		
Taxes and SED	2,820,677	2,340,773
Employee Remuneration and Benefits	645,145	339,100
Social Investments	15,207	7,527
Interest expense	1,438,988	606,175
Other expenses	233,127	704,959
Retained in the Business	245,836	315,502
	5,398,980	**4,314,036**

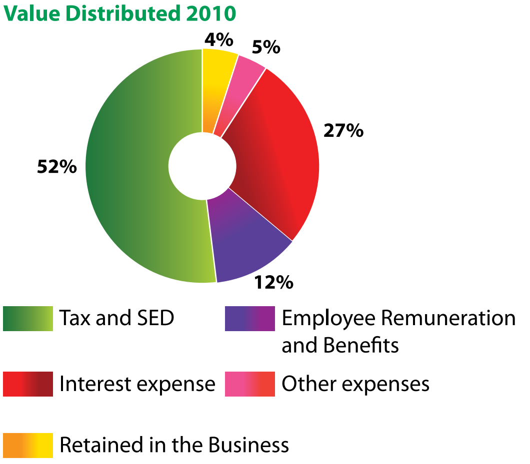
Value Added 2010



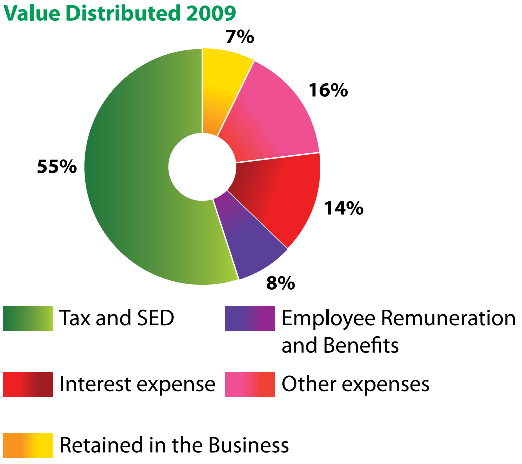
Value Added 2009



Value Distributed 2010



Value Distributed 2009



Engro Polymer & Chemicals Ltd.

HEALTH, SAFETY AND ENVIRONMENT

Occupational safety and health

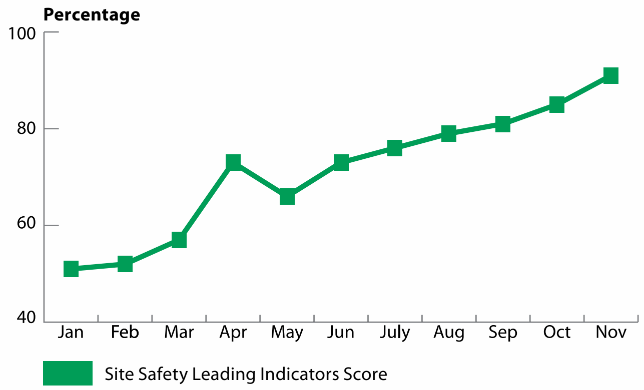
Health safety and environment are part of the Company's core values. v The Company is fully committed to safe operations of its facilities and is aware that all potential safety hazards should be systematically identified along with their potential risk and then managed in such a way that its impact is mitigated.

Conducting fire drill at Plant site

Safety, Environment and Industrial Hygiene (SEIH) Policy exists and is displayed at all key locations and discussed in internal department meetings. Hazard identification and evaluation programs are set in the organization and its implementation is ensured by numerous internal and external audits. During the year, EPCL crossed 3 million man hours without LWI (Lost Work Injury). Safety management system at EPCL is aligned with DuPont Safety System and an external audit was conducted by Dupont representatives and all recommendations given in the audit were timely closed out.

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).

Site Safety Leading Indicators Score



After the fire incident which took place in December 2009, Safety system was assessed both externally and internally and all corrective measures suggested were implemented during the year 2010.

Environmental protection measures

EPCL ensures that all operations and activities remain environment friendly. The Company has a comprehensive Environmental Management System (EMS), certified and regularly audited under ISO 14001:2004. EPCL has established and maintained procedures for identifying the environmental aspects of its activities and products in order to determine those which have or can have significant impacts on the environment. The procedure to identify significant environmental impacts during normal operating conditions, shutdowns, startup conditions and potential emergency situations is in place. This procedure is applicable wherever relevant on discharge to air, discharge to water, land contamination, waste for landfill, waste for incineration, waste for reuse / recycle and emergency. EPCL has also established and maintained a procedure for including environmental management in consideration of planning, design, production, marketing and disposal stages where appropriate and practical.

EPCL Raw Water Pond

These targets and objectives are stewarded through Environmental Steering Committee (ESC). The Committee also reviews the Environmental Management System to ensure its continuing suitability, adequacy and effectiveness.

During the year, there were 7 NEQS excursions for which detailed root-cause analyses were carried out and the situations were rectified. All such excursions were reported to the relevant government authorities.

Description of significant impacts of activities, products, and services on biodiversity

EPCL is using effluent for plantation of mangroves. The water is considered healthy for mangrove plantation. Presently more that 100,000 mangroves are thriving on the designated site along the coast.

Percentage and total volume of water recycled and reused

60%.

Initiatives to reduce greenhouse gas emissions and reductions achieved

Projects are identified for 2010 onwards that include Hydrogen firing at VCM Plant furnace.

Initiatives to mitigate environmental impacts of products and services, and extent of impact

Co2 offset project and mangrove plantation. EPCL is working on reducing its waste too, which would reduce the landfill quantity.

Method of disposal of waste

All waste is sold as scrap for recycling and re-use.

CUSTOMER FOCUS

POLICY OF MARKETING

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

- 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

At EPCL, the 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. A number of formal and informal training sessions were conducted for the down stream PVC industry focusing mainly towards enhancing the knowledge base of the human resource at the customer end.

The Technical Services team of EPCL assisted customers to improve the production processes, recipes, product quality and production output at their facilities. The team has assisted in design and development of PVC films with reduced plasticizer leeching, which was previously imported. In support of customer exports to Europe, the Company has developed formulation for European standard PVC water-stop.

On the Caustic soda front, the Company operates a state of the art dedicated distribution system in which all vehicles are equipped with tracking devices to ensure timely delivery to customers. Special focus is put on product quality and customer satisfaction. In order to ensure product availability in the North region, the Company has set up a storage facility near Lahore.

RESEARCH AND DEVELOPMENT

EPCL is actively involved in developing High Efficiency Irrigation System (HEIS) in the Agriculture sector of Pakistan. The System ensures saving of water upto 60-80%. The year 2010 was a record-setting year in terms of demand for HEIS mainly through Government of Pakistan project "Water Conservation & Productivity Enhancement through High Efficiency Irrigation System". A healthy demand of over 23,000 acres was generated all across the country and about 15,000 of them have been installed. EPCL during the year continued its promotional and skill development activities for the

High Efficiency Irrigation System (HEIS)

sustainability of the industry. A total of 40 field days and more than 100 farmer meetings were held. Four skill development trainings were also conducted for HEIS industry professionals.

Tunnel Farming is a methodology which provides a controlled environment for breeding a high yield of crops in all seasons. These innovative profiles offer superior value to farmers compared to steel and bamboo which are otherwise used for developing tunnels.

Plant nursery with PVC tunnel raised for drip irrigated fields

EPCL developed and supported first of its kind Integrated Water Resource Management Project which is a Pre-Farm water conservation initiative that consists of water storage and distribution tanks lined with PVC geo-membrane and pressure dissipating tanks connected with buried PVC pipes.

Agricultural pond lined with geomembrane in Rahimyar Khan

During 2010, models of rainwater harvesting and grey water recycling have been developed in partnership with non-governmental organizations. These applications use PVC geo-membrane as an important component.

PVC application was extended to "PVC artificial wood" as a substitute to wood manufactured from cutting of trees, which is more durable. This application is presently in the lab development phase near Lahore.

EPCL lab testing for product applications

INFORMATION SYSTEMS

Information Technology division 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.

During the year ended December 31, 2010, the Company successfully implemented the inventory module of web-based ERP, Maximo and is currently working on the implementation of its material planning module.

EPCL Central Control Room at Plant Site

HUMAN RESOURCE MANAGEMENT

VALUING PEOPLE

EPCL's success is built on its workforce – a source of pride for the Company. During 2010, the Company had 376 employees, almost three times more than what it was at the start of the expansion and back integration project. From a talent and organizational perspective, it cannot be business as usual. Therefore organization structures necessary to manage on a larger scale were put in place.

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

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

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

Human Resource Management provides policies, practices and tools that create a workplace capable of motivating, developing and rewarding employees to achieve success. The Company has been accredited with Investors in People (IIP) certification which is an indication of the open communication and alignment of employees' objectives with those of the organization.

POLICY FOR HUMAN RESOURCES MANAGEMENT

The Company endeavours to maintain a well balanced program of employee benefits and policies related to all areas of Human Resources, including and not limited to Recruitment, Compensation, Training, Leave, Career Development & Succession Planning, Performance Appraisals, Medical Benefits, Insurance's, Travel and Transport etc.

The Company aims to attract, recruit and retain high caliber individuals to attain Company's long term strategic plans. The Company well endeavor to maintain Human Resource Fevelopment programs to help employees attain their fullest potential.

RECRUITMENT

The Company has a proactive recruitment strategy in place to ensure optimal manning for ongoing business needs. Going forward the Company continues to be optimally manned for future business needs.

The proactive approach towards recruitment helps address the problems of employee turnover due to brain drain, expansion in the Middle East and Far East Regions.

In the year 2010, 63 new employees joined the Company which was in line with the Expansion and Back Integration recruitment plan.

EPCL employees recreational activity

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.

TRAINING AND DEVELOPMENT

The speed of growth of our human capital is both an opportunity and a challenge. It represents the beginning of a new era – an era of learning and growth. Training is a planned and structured effort to facilitate employee's learning of job related competencies. These competencies include knowledge, skills and behaviors that are critical for successful job performance.

	Year	Training Man-Hours
1	2006	10,452
2	2007	17,504
3	2008	29,217
4	2009	19,763
5	2010	14,911

In 2010, the Company continued to invest in the professional development of its employees. Various in-house and outsourced training courses, seminars and workshops in the areas of management, plant operation and maintenance, information technology, finance, etc. were arranged throughout the year.

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, Corporate Social Responsibility etc.

In addition, the Company offers Education Assistance to its employees who want to pursue further education and short term courses.

CORPORATE REVIEW

SHAREHOLDING IN THE COMPANY

The shareholding of the Company as at December 31, 2010 is as follows:

Shareholders' category	Number 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
EPCL Employees' Trust	7,110,475	1.07
Directors	10	–
Banks, Development Finance Institution,s Non-Banking Finance Institutions	7,903,439	1.19
Modarabas and Mutual Funds	11,818,615	1.78
Insurance Companies	2,905,000	0.44
Individuals and others	95,816,262	14.44
	663,468,788	**100**

EMPLOYEE SHARE OPTION SCHEME

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. 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 maximum number of options to be issued to a single eligible employee is for 1,200,000 ordinary shares.

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 the year, the Company has issued right shares amounting to Rs. 1,431 million and therefore, based on the approved formula, the number of shares in the scheme has increased from 5,300,000 shares to 6,757,500 shares. Consequently, the exercise price of the share options has been adjusted from Rs. 22 per share to Rs. 19.41 per share which has been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options. Movement of the employee share compensation reserve is as follows:

Employee share compensation reserve

	2010	2009
	Rupees	
Balance at beginning of the year	9,313	9,858
Unvested share options lapsed during the year	–	(545)
Vested share options lapsed during the year	(929)	–
Balance at end of the year	**8,384**	**9,313**

The Company used the Black Scholes 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 the underlying assumptions are 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 histrocial pattern	15.13%
Risk free rate used	10.12%
Expected dividends	Nil

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

Name of employee	No. of share options
Asif Qadir	1,520,894
Syed Ahsenuddin	1,010,894
Arshaduddin Ahmed	500,893
Syed Nayyar I. Raza	309,643
Zia Naeem Siddiqui	309,643
Syed Ashar Hussain	182,143
Saleem Lallany	86,518

During the year, 499,462 options lapsed on account of resigned employees. There is no dilutive effect on the basic loss per share of the Company, since the average market price of the Company's share is less than the exercise price of the share options granted to the employees.

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 upto June 30, 2009.

Statement as to 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	64,771	21,011
DSCs, NSCs, TFCs and Term Deposit Certificates	40,615	32,854	8,759
PIBs	2,071	2,588	2,039
Mutal 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 statemtns	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

BOARD MEETINGS

Total number of Board meetings conducted was 6, attendance of which was as follows:

Name of Directors	Number of Meetings attended
Asad Umar	6
Asif Qadir	6
Waqar A. Malik	4
Khalid S. Subhani	4
Shahzada Dawood	5
Khalid Mansoor	5
Isar Ahmed	5
Shabbir Hashmi	6
Takashi Yoshida (newly appointed)	3*†
Kimihide Ando (newly appointed)	3**
Takeshi Hagiwara (resigned during the year)	3*‡
Masaharu Domichi (resigned during the year)	3**

* Takashi Yoshida appointed in place of Takeshi Hagiwara on April 26, 2010 after 3 meetings were completed.

** Kimihide Ando appointed in place of Masaharu Domichi on April 26, 2010 after 3 meetings were completed.

† Includes two meetings attended by alternate directors.

‡ Includes three meetings attended by alternate directors.

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 150K 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 last year 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, 2010, EPCL's outstanding borrowings were Rs. 14,045 million out of which Rs. 4,416 million (USD 52 million) represents foreign currency borrowings which are linked to LIBOR. Foreign currency borrowings outstanding to the extent of USD 34.6 million have been hedged through a fixed interest rate swap for the entire tenor of the loan. During the year, the Company has entered into a cross currency interest rate swap agreement for the notional amount of USD 4 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. As at December 31, 2010, the outstanding notional amount is USD 3.6 million.

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.

CATEGORY OF SHAREHOLDING

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

Associated companies, undertakings and related parties

Shareholders' category	No. of shares held	% 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
EPCL Employees' Trust	7,110,475	1.07
	545,025,462	82.14

NIT and ICP

None

Directors, CEO and their spouse and minor children

Name of holders	No. of shares held
Chairman, Chief Executive and Directors	
Asad Umar	1
Asif Qadir	1,607,776
Waqar A. Malik	10,001
Shahzada Dawood	1
Khalid Mansoor	1
Isar Ahmad	1
Shabbir Hashmi	1
Takashi Yoshida	1
Kimihide Ando	1
Chief Financial Officer	
Arshaduddin Ahmed	95,000

Key management

Names of holders	No. of shares held
Key Management	
Syed Ahsenuddin	802,000
Syed Ashar Hussain	120,000
Saleem Lallany	100,000

Public sector companies and corporations

None

Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance companies, Modarabas and Mutual Funds

Shareholders	No. of shareholders	No. of share held
Banks, Development Finance Institutions, Non-Banking Finance Institutions	4	7,903,439
Modarabas and Mutal Funds	10	11,818,615
Insurance Companies	3	2,905,000
	17	22,627,054

Shareholders holding ten percent or more voting interest in the company

Shareholders holding ten percent or more voting interest	No. of share held	% 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

PATTERN OF SHAREHOLDING

Pattern of holding of shares held by the shareholders of the Company as at December 31, 2010:

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
263	1	100	10,496
24,826	101	500	12,069,375
8,818	501	1000	6,210,070
3,441	1001	5000	7,768,964
563	5001	10000	4,147,413
199	10001	15000	2,546,896
108	15001	20000	1,981,444
59	20001	25000	1,383,304
65	25001	30000	1,797,285
27	30001	35000	881,884
30	35001	40000	1,157,950
23	40001	45000	996,990
27	45001	50000	1,333,739
9	50001	55000	468,939
7	55001	60000	401,345
10	60001	65000	631,573
7	65001	70000	476,208
8	70001	75000	587,755
3	75001	80000	236,277
3	80001	85000	248,200
8	85001	90000	706,953
9	90001	95000	838,145
11	95001	100000	1,094,090
5	100001	105000	509,169
3	105001	110000	324,475
4	110001	115000	443,169
4	115001	120000	473,000
5	120001	125000	620,750
2	125001	130000	256,020
2	130001	135000	265,050
3	145001	150000	450,000
2	165001	170000	335,415
1	170001	175000	171,325
1	175001	180000	177,500
4	185001	190000	749,425
1	190001	195000	191,400
5	195001	200000	989,483
4	200001	205000	809,609
3	205001	210000	622,849
2	210001	215000	428,272
1	240001	245000	240,290
1	245001	250000	245,014
1	260001	265000	260,449
2	295001	300000	600,000
1	300001	305000	305,000
1	315001	320000	316,869
1	350001	355000	352,151
1	360001	365000	364,425
1	395001	400000	400,000
1	405001	410000	405,554
1	415001	420000	415,875
1	445001	450000	446,250
2	495001	500000	1,000,000
1	505001	510000	510,000
1	565001	570000	569,925
1	655001	660000	657,500
1	800001	805000	802,000
1	895001	900000	900,000
1	945001	950000	950,000
1	1045001	1050000	1,049,061
1	1145001	1150000	1,150,000
1	1265001	1270000	1,269,120
1	1605001	1610000	1,607,775
1	1770001	1775000	1,770,833
1	2175001	2180000	2,177,249
1	2505001	2510000	2,508,631
1	2525001	2530000	2,530,000
1	2545001	2550000	2,550,000
1	2635001	2640000	2,635,943
1	2640001	2645000	2,642,477
1	3810001	3815000	3,814,331
1	3950001	3955000	3,950,857
1	6395001	6400000	6,395,444
1	7110001	7115000	7,110,475
1	16855001	16860000	16,858,097
1	67945001	67950000	67,949,998
1	97150001	97155000	97,155,000
1	372805001	372810000	372,809,989
38,615			**663,468,788**

RESULT FOR THE YEAR

Loss per share for the year was Rs. 1.22 as compared to loss per share of Rs. 0.35 for 2009.

DIVIDENDS

Accumulated loss of the Company stands at Rs. 629 million, therefore the Board has not announced any dividend during the year.

SHARES TRADED AND AVERAGE PRICE

During the year, 140 million shares of the Company were traded on Stock Exchanges. The average price of the Company's share based on daily closing rates was Rs. 13.616.

AUDITORS

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

INVESTMENT IN SUBSIDIARY – Engro Polymer Trading (Private) Limited (EPTL)

EPTL is a wholly owned subsidiary of the Company. It is a private limited company incorporated in Pakistan under the Companies Ordinance, 1984.

The principal activity of EPTL is to purchase, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda, Ethylene Di Chloride (EDC) and other related chemicals. During the year, EPTL exported 9K tons of PVC and 37K tons of EDC amounting to Rs. 749 million and Rs. 1,345 million respectively. Income from investments in open ended mutual funds amounted to Rs. 11 million as compared to Rs. 1.5 million in 2009. The profit after tax of EPTL for the current year is Rs. 47 million as compared to Rs. 38 million in 2009.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Karachi
February 7, 2011

Financial Statements

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

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

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2010 prepared by the Board of Directors of Engro Polymer and Chemicals Limited to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

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

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

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

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

A.F.Ferguson & Co.

Chartered Accountants
Karachi
Date: February 14, 2011

Engagement Partner: Sohail Hasan

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

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

We have audited the Engro Polymer and Chemicals Limited's (the Company) compliance as of December 31, 2010 with:

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

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

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

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

In our opinion, the Company was, in all material respects, in compliance with the Scheme and the Rules as of December 31, 2010.

A.F.Ferguson & Co.

Chartered Accountants
Karachi
Date: February 14, 2011

Engagement Partner: Sohail Hasan

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O. Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan. Tel: (92-42) 36285078-85 Fax: (92-42) 36285088
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STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

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

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

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

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

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

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

Asif Qadir

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

February 7, 2011

A.F.FERGUSON & CO.

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited as at December 31, 2010 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,

(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, 2010 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).

AFFerguson & Co.

Chartered Accountants
Karachi
Date: February 14, 2011

Engagement Partner: Sohail Hasan

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BALANCE SHEET

AS AT DECEMBER 31, 2010

(Amounts in thousand)

	Note	2010	2009
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	**19,198,729**	19,360,686
Intangible assets	5	**20,856**	11,816
Long term investment	6	**50,000**	50,000
Long term loans and advances	7	**40,323**	47,475
Deferred taxation	8	**323,378**	-
		19,633,286	19,469,977
Current Assets			
Stores, spares and loose tools	9	**633,799**	192,762
Stock-in-trade	10	**2,056,383**	1,605,218
Trade debts - considered good	11	**591,770**	336,242
Loans, advances, deposits, prepayments and other receivables	12	**243,424**	309,224
Taxes recoverable	13	**653,924**	452,548
Cash and bank balances	14	**321,496**	190,064
		4,500,796	3,086,058
TOTAL ASSETS		**24,134,082**	22,556,035
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**6,634,688**	5,203,677
Share premium		**964,029**	975,438
Employee share compensation reserve	16	**8,384**	9,313
Hedging reserve		**(72,062)**	(12,958)
(Accumulated loss) / Unappropriated profit		**(628,697)**	184,203
		6,906,342	6,359,673
Non-Current Liabilities			
Long term borrowings	17	**10,903,360**	11,135,163
Derivative financial instruments	18	**110,864**	19,935
Deferred taxation	8	**-**	321,520
Retirement and other service benefit obligations	19	**50,091**	38,312
		11,064,315	11,514,930
Current Liabilities			
Current portion of long term borrowings	17	**1,361,293**	1,016,393
Short term borrowings	20	**1,580,388**	394,241
Trade and other payables	21	**2,898,031**	2,998,097
Accrued interest / mark-up	22	**192,691**	202,207
Provisions	23	**131,022**	70,494
		6,163,425	4,681,432
Commitments	24		
TOTAL EQUITY AND LIABILITIES		**24,134,082**	22,556,035

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

Asif Qadir	Kimihide Ando
Asif Qadir	**Kimihide Ando**
President & Chief Executive	**Director**

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand except for loss per share)

	Note	2010	2009
		Rupees	
Net revenue	25	**14,628,061**	11,571,117
Cost of sales	26	**(13,436,594)**	(10,418,657)
Gross profit		**1,191,467**	1,152,460
Distribution and marketing expenses	27	**(608,684)**	(468,512)
Administrative expenses	28	**(311,136)**	(205,389)
Other operating expenses	29	**(171,271)**	(231,701)
Other operating income	30	**22,130**	100,262
Operating profit		**122,506**	347,120
Finance costs	31	**(1,411,956)**	(596,264)
Loss before taxation		**(1,289,450)**	(249,144)
Taxation	32	**475,621**	17,355
Loss for the year		**(813,829)**	(231,789)

	Note	2010	2009 (Restated)
		Rupees	
Loss per share - basic and diluted	33	**(1.29)**	(0.42)

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

Asif Qadir
Asif Qadir
President & Chief Executive

Kimihide Ando
Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
Loss for the year	**(813,829)**	(231,789)
Other comprehensive income:		
Hedging reserve		
Loss arising during the year	**(160,262)**	(478)
Less:		
- Reclassification adjustments for losses included in profit and loss	**65,267**	22,557
- Adjustments for amounts transferred to initial carrying amount of hedged items	**4,066**	18,140
Income tax relating to hedging reserve	**31,825**	(14,077)
Other comprehensive (loss) / income for the year - net of tax	**(59,104)**	26,142
Total comprehensive loss for the year	**(872,933)**	(205,647)

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

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
	Rupees					
Balance as at January 1, 2009	5,203,677	975,438	9,858	(39,100)	415,992	6,565,865
Unvested share options lapsed during the year - note 16.2.1	-	-	(545)	-	-	(545)
Total comprehensive loss for the year	-	-	-	26,142	(231,789)	(205,647)
Balance as at December 31, 2009	**5,203,677**	**975,438**	**9,313**	**(12,958)**	**184,203**	**6,359,673**
Vested share options lapsed during the year - note 16.2.1	-	-	**(929)**	-	**929**	-
Share capital issued - note 15.1	**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**

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

Asif Qadir

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	Note	2010	2009
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	**28,290**	1,490,418
Finance costs paid		**(1,421,472)**	(561,325)
Long term loans and advances - net		**7,152**	60,310
Retirement benefits paid		**(12,106)**	(10,957)
Income tax paid		**(332,684)**	(289,597)
Net cash (utilized in) / generated from operating activities		**(1,730,820)**	688,849
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		**(866,238)**	(3,739,678)
- intangible assets		**(13,804)**	(6,255)
Retention money against Project payments		**-**	(553,445)
Proceeds from disposal of property, plant and equipment		**15,193**	6,179
Proceeds from sale of short term investments		**-**	35,168
Income on short term investments and bank deposits		**14,399**	61,816
Net cash utilized in investing activities		**(850,450)**	(4,196,215)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		**1,140,090**	4,178,484
Repayments of long term borrowings		**(1,026,993)**	(130,000)
Proceeds from short term borrowings		**250,000**	-
Proceeds from issue of share capital		**1,431,011**	-
Share issuance cost		**(17,553)**	-
Net cash generated from financing activities		**1,776,555**	4,048,484
Net change in cash and cash equivalents		**(804,715)**	541,118
Cash and cash equivalents at beginning of the year		**(204,177)**	(745,295)
Cash and cash equivalents at end of the year	37	**(1,008,892)**	(204,177)

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

Asif Qadir
Asif Qadir
President & Chief Executive

Kimihide Ando
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(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 the Karachi, Islamabad and Lahore Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan 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 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). During the year, 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 the 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 financial 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 (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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

a) Standards, amendments to published standards and interpretations effective in 2010 and relevant

The following amendments to published standards are mandatory for the financial year beginning January 1, 2010:

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This amendment does not have a significant effect on the current year's financial statements.

- IAS 17 (Amendment) 'Classification of leases of land and buildings'. The amendment deletes the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17. The Company's current accounting policy is in line with the requirements of IAS 17 and the Ordinance, and therefore, there is no effect of this amendment on the Company's financial statements.

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

b) Revision of existing standard that has been early adopted by the Company

IAS 24 (Revised), 'Related party disclosures'. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party. Application of the revised standard has resulted in the identification of additional related parties as disclosed in note 42.

c) Standards, amendments to published standards and interpretations effective in 2010 but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. The Company is yet to assess the full impact of IFRS 9, however, initial indications are that it may not affect the Company's financial assets significantly, as currently the Company does not have any assets classified as 'available for sale'.

- IFRIC 14 (Amendment) 'Prepayments of a minimum funding requirement' (effective for periods beginning on or after January 1, 2011). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendment corrects this. The Company's retirement benefit funds are not subject to any minimum funding requirement, hence, these amendments will have no impact on the Company's financial statements.

- IFRIC 19 'Extinguishing financial liabilities with equity instruments' (effective for periods beginning on or after January 1, 2011). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Company has not renegotiated the terms of a financial liability and offered any of its shares to its creditors, therefore, this interpretation is not expected to have any material impact on the Company's financial statements.

- Amendments to following standards as a result of improvements to International Financial Reporting Standards 2010, issued by IASB in May 2010:

    - IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instrument. The amendment will only affect the disclosures in the Company's financial statements.

    - IAS 1 (Amendment) 'Presentation of financial statements' (effective for periods beginning on or after January 1, 2011). The 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 amendment will only affect the disclosures in the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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- IAS 34 (Amendment) 'Interim financial reporting' (effective for periods beginning on or after January 1, 2011). This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets, changes in contingent liabilities and assets.

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

2.2 **Property, plant and equipment**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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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 asset's 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 investments.

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.

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(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 or loss account within 'other operating income/expenses' in the period in which they arise. Dividend income from financial assets at 'fair value through profit or loss' is recognized in the profit and loss account as part of 'other income' when the Company's right to receive payments is established. Gain or loss on sale of investments at 'fair value through profit or loss' are recognized in the statement of comprehensive income 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 or loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of 'other income'. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of 'other income' when the Company's right to receive payments is established.

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

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the profit and loss account. Impairment losses recognized in 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.

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2.5.2 **Financial liabilities**

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

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

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.

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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.

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.

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2.13 **Retirement and other service benefit obligation**

2.13.1 **Pension scheme**

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

2.13.2 **Gratuity scheme**

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

2.13.3 **Additional death gratuity scheme**

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

Actuarial valuation of these schemes is carried out 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.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousand)

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.

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 income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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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).

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

- minimize foreign currency exposure's impact on the Company's financial performance; and

- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

(a) **Fair value hedge**

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

(b) **Cash flow hedge**

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

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

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

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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.

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

2.21 **Segment reporting**

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

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FOR THE YEAR ENDED DECEMBER 31, 2010

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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 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.

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 **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.

3.6 **Provision for retirement and other service benefit obligations**

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

	2010	2009
	Rupees	
4. PROPERTY, PLANT AND EQUIPMENT		
Operating assets - note 4.1	**19,138,589**	14,112,080
Capital work-in-progress - note 4.4	**60,140**	5,248,606
	19,198,729	19,360,686

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4.1 Operating assets

	Leasehold land	Buildings 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, 2009										
Cost	194,127	227,102	2,726,544	119,280	26,122	-	1,691	94,191	85,932	3,474,989
Accumulated depreciation	(13,350)	(52,513)	(1,254,708)	(54,314)	(11,917)	-	(774)	(54,240)	(45,530)	(1,487,346)
Net book value	180,777	174,589	1,471,836	64,966	14,205	-	917	39,951	40,402	1,987,643
Year ended December 31, 2009										
Opening net book value	180,777	174,589	1,471,836	64,966	14,205	-	917	39,951	40,402	1,987,643
Additions	-	168,221	12,076,638	275,128	-	50,023	32,158	16,820	29,811	12,648,799
Disposals - note 4.3										
- Cost	-	-	-	-	-	-	-	(133)	(13,458)	(13,591)
- Accumulated depreciation	-	-	-	-	-	-	-	74	8,957	9,031
Net book value	-	-	-	-	-	-	-	(59)	(4,501)	(4,560)
Depreciation charge - note 4.2	(3,934)	(10,033)	(466,383)	(11,696)	(1,306)	(1,042)	(754)	(12,920)	(11,734)	(519,802)
Closing net book value	176,843	332,777	13,082,091	328,398	12,899	48,981	32,321	43,792	53,978	14,112,080
As at 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
Net book value	-	-	-	-	-	-	-	(216)	(11,701)	(11,917)
Writeoffs - note 4.3										
- Cost	-	-	-	-	-	-	-	(1,593)	-	(1,593)
- Accumulated depreciation	-	-	-	-	-	-	-	1,432	-	1,432
Net book value	-	-	-	-	-	-	-	(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)
Closing 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 December 31, 2010										
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
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	

NOTES TO THE FINANCIAL STATEMENTS

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4.2 Depreciation charge has been allocated as follows:

	2010	2009
	Rupees	
Cost of sales - note 26	**1,002,457**	502,452
Distribution and marketing expenses - note 27	**4,008**	3,371
Administrative expenses - note 28	**9,652**	3,375
Capital work-in-progress	-	10,604
	1,016,117	519,802

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	900	464	436	408	By Company policy to existing / seperating executives	Mr. Zahid Tufail
"	900	603	297	323		Mr. Muhammad Iftikhar Ahmed
"	879	577	302	275		Mr. Rasim M Qureshi
"	890	459	431	431		Mr. Imran Shamim Ahmed
"	900	627	273	281		Mr. Anoop Lal
"	900	660	240	225		Mr. Shakil ur Rehman
"	1,309	947	362	327		Syed Ashar Hussain
"	900	668	232	225		Mr. Irfan Ahmad
"	900	651	249	225		Mr. Tauseef Ali
"	1,269	278	991	932		Mr. Jawwad Hassan
"	1,239	174	1,065	1,026		Syed Muhammad Raza
"	900	660	240	225		Mr. Zubair Ashraf Choudry
"	900	660	240	225		Mr. Sohail Ahmed
"	1,269	178	1,091	1,051		Syed Muzammil Ali
"	900	668	232	225		Mr. Muzaffar Islam
"	900	651	249	225		Mr. Kaleem Asghar
"	900	422	478	422		Mr. Zaki A. Sharif
"	1,844	605	1,239	1,066		Mr. Tariq Raza Ahmed
"	1,300	81	1,219	1,198		Mr. Irfan Ahmad
"	1,269	397	872	1,250	Insurance claim	EFU General Insurance
"	1,199	262	937	1,025		
Furniture, fixtures and equipment	97	28	69	55	Insurance claim	EFU General Insurance
Aggregate amount of assets having net book value less than Rs. 50 each	15,421	15,087	334	3,548		
	37,885	25,807	12,078	15,193		
2009	13,591	9,031	4,560	6,179		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and Machinery	Building on leasehold land	Ethylene pipeline and power cables	Water and gas pipelines	Furniture, fixtures and equipment	Advances for vehicles	Other ancillary costs (note 4.4.2)	Total
	Rupees							
Year ended December 31, 2009								
Balance as at January 1, 2009	12,523,057	163,301	61,486	233,016	19,170	6,863	1,140,230	14,147,123
Additions during the year	1,830,574	31,717	2,395	15,860	3,129	31,263	1,827,684	3,742,622
Transferred to operating assets	(10,608,848)	(162,008)	(63,589)	(246,083)	(16,820)	(29,811)	(1,513,980)	(12,641,139)
Balance as at December 31, 2009	3,744,783	33,010	292	2,793	5,479	8,315	1,453,934	5,248,606
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 4.4.1)	**(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**

4.4.1 As referred to in note 1.2, the Company, during the year, has declared commercial operations of the VCM plant and transferred the related costs of the plant to operating assets.

	2010	2009
	Rupees	
4.4.2 The ancillary costs transferred to operating assets comprise:		
Salaries, wages and benefits	**266,192**	296,612
Training and travelling	**46,102**	38,544
Borrowing costs, being capitalized at a rate of 10.14% (2009: 12.08%) - net	**673,922**	960,644
Legal and professional	**55,746**	56,606
Depreciation	**555,799**	9,334
Storage and handling	**15,053**	64,186
Others	**68,714**	88,054
	1,681,528	1,513,980

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2009	
Cost	13,596
Accumulated amortization	(4,334)
Net book value	9,262
Year ended December 31, 2009	
Opening net book value	9,262
Additions at cost	6,255
Amortization charge - note 28	(3,701)
Closing net book value	11,816
As at 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**

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

6. LONG TERM INVESTMENT

	2010	2009
	Rupees	
Subsidiary - at cost		
Engro Polymer Trading (Private) Limited		
5,000,000 (2009: 5,000,000) ordinary shares of Rs. 10 each	**50,000**	50,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
7. LONG TERM LOANS AND ADVANCES		
- Considered good		
Executives - notes 7.1, 7.2 and 7.4		
- Chief Executive	**-**	416
- Other executives	**55,299**	90,748
	55,299	91,164
Less: Current portion shown under current assets - note 12	**(22,014)**	(52,831)
	33,285	38,333
Other employees - note 7.3	**28,882**	22,719
Less: Current portion shown under current assets - note 12	**(21,844)**	(13,577)
	7,038	9,142
	40,323	47,475

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

	2010			2009		
	Chief Executive	Other Executives	Total	Chief Executive	Other Executives	Total
			Rupees			
Balance at beginning of the year	**416**	**90,748**	**91,164**	3,118	117,395	120,513
Disbursements	**-**	**28,473**	**28,473**	-	31,220	31,220
Repayments	**(416)**	**(63,922)**	**(64,338)**	(2,702)	(57,867)	(60,569)
Balance at end of year	**-**	**55,299**	**55,299**	416	90,748	91,164

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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

7.4 The maximum aggregate amount due from Chief Executive and executives at the end of any month during the year was Rs. 48,607 (2009: Rs. 111,540). 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.

8. DEFERRED TAXATION

	2010	2009
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	**(4,141,621)**	(3,061,376)
- net borrowing costs capitalized	**-**	(207,133)
	(4,141,621)	(3,268,509)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 8.1	**4,097,320**	2,725,269
- recoupable minimum turnover tax	**204,227**	108,789
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	**36,594**	46,581
- provision against custom duty and SED refundable	**27,639**	6,454
- provision for slow moving stores and spares	**2,707**	1,353
- fair value of hedging instrument	**38,803**	6,977
- share issuance cost, net to equity	**57,709**	51,566
	4,464,999	2,946,989
	323,378	(321,520)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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, 2010 amount to Rs. 11,706,630 (2009: Rs. 7,786,483), on which the deferred income tax asset has been recognized.

	2010	2009
9. STORES, SPARES AND LOOSE TOOLS	Rupees	
Consumable stores	**43,253**	20,194
Spares	**602,290**	176,435
	645,543	196,629
Less:		
- Provision for slow moving stores and spares - note 9.1	**7,734**	3,867
- Stores and spares written-off	**4,010**	-
	633,799	192,762

	2010	2009
	Rupees	
9.1 The movement in the provision for slow moving stores and spares is as follows:		
Balance at beginning of the year	**3,867**	-
Add: Recognized during the year - note 26	**3,867**	3,867
Balance at end of the year	**7,734**	3,867

	2010	2009
10. STOCK-IN-TRADE	Rupees	
Raw and packing materials - note 10.1	**895,627**	1,168,171
Work-in-process	**4,749**	17,579
Finished goods		
- own manufactured product - note 10.2	**1,156,007**	410,653
- purchased product	-	8,815
	1,156,007	419,468
	2,056,383	1,605,218

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

10.1 This includes stock-in-transit amounting to Nil (2009: Rs. 248,065) and stocks held at the storage facilities of the following related parties:

	2010	2009
	Rupees	
Engro Vopak Terminal Limited	**601,050**	595,104
Dawood Hercules Chemicals Limited	**4,425**	1,635
	605,475	596,739

10.2 This includes carrying value of PVC resin net of realizable value reduction of Rs. 17,162 (2009: Rs. 21,084).

10.3 During the year, expired chemicals and PVC resin amounting to Rs. 9,380 (2009: Nil) and Rs. 4,386 (2009: Nil) respectively, have been written-off.

	2010	2009
	Rupees	
11. TRADE DEBTS, considered good		
Secured - note 11.1	**158,669**	256,730
Unsecured - note 11.2	**433,101**	79,512
	591,770	336,242

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

11.2 Includes due from following related parties:

	2010	2009
	Rupees	
Engro Corporation Limited		
(formerly Engro Chemical Pakistan Limited)	**-**	1,070
Engro Fertilizers Limited	**1,158**	-
Engro Energy Limited	**240**	-
Engro Polymer Trading (Private) Limited	**412,974**	60,565
	414,372	61,635

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
12. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 7		
- executives	**22,014**	52,831
- employees	**21,844**	13,577
	43,858	66,408
Advances to employees for reimburseable expenses	**2,006**	824
Advances to suppliers and others - note 12.1	**58,865**	59,818
Deposits	**55,678**	23,145
Prepayments	**70,376**	65,036
Receivable from Government		
- sales tax refundable	**3,813**	89,252
- octroi/duty claims	**152**	152
	3,965	89,404
Accrued return on investments	**11**	92
Receivable from Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	**-**	1,318
Receivable from Engro Fertilizers Limited	**3,998**	-
Other receivables	**4,667**	3,179
	243,424	309,224
Considered doubtful		
Custom duty claims refundable	**18,043**	18,043
Less: Provision for impairment - note 12.2	**(18,043)**	(18,043)
	-	-
Special Excise Duty (SED) refundable	**36,687**	36,687
Less: Provision for impairment - note 23.1	**(36,687)**	(36,687)
	-	-
	243,424	309,224

12.1 Includes advances to Avanceon Limited, a related party, amounting to Rs. 2,185 (2009: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

12.3 As at December 31, 2010, receivables aggregating to Rs. 54,730 (2009: 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, advances, deposits, prepayments and other receivables are neither past due nor impaired.

13. TAXES RECOVERABLE

13.1 During the year, the Company received a notice of demand of Rs. 213,172 in respect of Tax year 2008. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 207,370 and has not considered the brought forward losses amounting to Rs. 974,770 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 13.3.

The Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending. While the appeal proceedings were pending, the Officer Inland Revenue (OIR) adjusted a sum of Rs. 180,768 in the aforementioned demand against the Company's assessed refunds. Consequently, the Company has paid the balance amount of Rs. 32,404 'under protest'. Further, the OIR has issued two show cause notices dated December 9, 2010 for the levy of additional tax relating to Tax year 2008 aggregating to Rs. 8,106. Subsequent to year end, replies to the show cause notices have been filed for withdrawal thereof. The Company's management is of the view that since the matter is pending with the Commissioner Inland Revenue (Appeals), no cohesive recovery measures can be initiated unless a decision is obtained from an independent forum outside the departmental hierarchy. Further, no formal order creating a demand has been received to date in response of show cause replies submitted by the Company.

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

13.2 During the month of December 2010, the Company has also received a notice of demand of Rs. 163,206 in respect of Tax year 2009. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 546,050 and has not considered the brought forward losses amounting to Rs. 499,376 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 13.3.

The entire demand of Rs. 163,206 has been adjusted vide OIR order dated December 20, 2010 against assessed refundable taxes. Subsequent to year end, the Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

13.3 While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed the claim of First Year Allowance (FYA) 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 this disallowance which was decided by the Commissioner of Income Tax (Appeals) in favor of the Company. The department, therefore, filed second appeal before the Income Tax Appellate Tribunal (ITAT). A similar disallowance had also been made for the assessment year 2001-2002 by the Taxation Officer in 2003. However, upon appeal, this matter was ultimately decided in Company's favor in 2005 by the Income Tax Appellate Tribunal (ITAT).

During the year, the ITAT in departmental appeal pertaining to assessment year 2000-2001, decided the aforementioned matter against the Company by departing from the previous order for the assessment year 2001-2002. The disallowance of FYA amounts to Rs. 1,884,359.

This disallowance resulted in tax deductible timing differences, the effects of which have been recognized in the financial statements after taking into account the consequential effects of the ITAT Order in the tax years subsequent to 2000-2001. Consequently, the Company has revised its income tax returns for the tax years 2003 to 2007 and 2009 resulting in a tax liability of Rs. 86,769 for Tax year 2008, which has been settled by adjustment out of recoupable minimum tax brought forward of prior years and refunds available in other tax years as mentioned in note 13.1 above.

	2010	2009
	Rupees	
14. CASH AND BANK BALANCES		
Cash in hand	**630**	970
Cash at bank		
- on current accounts	**297,489**	121,621
- on saving accounts - note 14.1	**23,377**	67,473
	320,866	189,094
	321,496	190,064

14.1 Includes Rs. 20,742 (2009: Rs. 23,718) kept in a separate bank account in respect of security deposits.

	2010	2009
	Rupees	
15. SHARE CAPITAL		
Authorized capital		
700,000,000 (2009: 700,000,000) ordinary shares of Rs. 10 each	**7,000,000**	7,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2009: 520,367,677) ordinary shares of Rs. 10 each, fully paid in cash	**6,634,688**	5,203,677

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

15.1 During the year, the Company issued 143,101,111 ordinary shares of Rs. 10 each at par as right shares to the existing share holders, ranking pari passu in all respects with the existing shares of the Company. Transaction costs incurred thereagainst amounting to Rs. 11,409, net of tax, have been recognized as a deduction from share premium.

15.2 As at December 31, 2010, Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) - the Holding Company, holds 372,809,989 (2009: 292,399,992) 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. 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 maximum number of options to be issued to a single eligible employee is for 1,200,000 ordinary shares.

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 the year, the Company has adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and has increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issuance of right shares during the year, which has been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the financial statements.

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

		2010	2009
		Rupees	
16.2.1	**Employee share compensation reserve**		
	Balance at beginning of the year	**9,313**	9,858
	Unvested share options lapsed during the year	**-**	(545)
	Vested share options lapsed during the year	**(929)**	-
	Balance at end of the year	**8,384**	9,313

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FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
16.2.2 Deferred employee share compensation expense		
Balance at beginning of the year	-	4,381
Unvested share options lapsed during the year	-	(545)
Amortization for the year	-	(3,836)
Balance at end of the year	-	-

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

Total number of share options issued	5,300,000
Percentage increase in entitlement	27.50%
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

17. LONG TERM BORROWINGS, Secured

	Mark - up rate per annum	Installments Number	Installments Commencing from	2010 Rupees	2009 Rupees
Syndicated term finance I	6 months KIBOR + 2.25%	13 half yearly	November 2010	**5,428,997**	5,655,127
Syndicated term finance II	6 months KIBOR + 3%	13 half yearly	June 2010	**1,377,948**	1,485,599
Syndicated term finance III (note 17.1)	6 months KIBOR + 2%	Single	June 2012	**742,000**	-
Master Istisna finance I (note 17.2)	6 months KIBOR + 1.5%	6 half yearly	November 2010	**100,000**	-
Master Istisna finance II (note 17.2)	6 months KIBOR + 2%	3 half yearly	June 2011	**200,000**	-
International Finance Corporation (IFC)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	**4,415,708**	5,010,830
				12,264,653	12,151,556
Less: Current portion shown under current liabilities				**(1,361,293)**	(1,016,393)
				10,903,360	11,135,163

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

17.1 During the year, 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 an arrangement fee at 1%. As at December 31, 2010, the whole amount of the facility has been drawn down. This facility is secured by:

(i) mortgage by deposit of title deeds over leasehold land measuring 68 acres together with the building, plant and machinery and other equipment thereon. This charge ranks second to the charges listed in note 17.3 below; and

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

17.2 During the year, the Company has entered into two Master Istisna Agreements (the Agreements) for facilities of Rs. 100,000 and Rs. 200,000, respectively. The entire amount of the facilities has been drawn down by the Company. All amounts due under the Agreements are payable in tranches by way of a series of Istisna transactions, each Istisna transaction being treated as a separate agreement. Since the management's intention is 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. The Istisna facilities are secured as follows:

(i) Master Istisna I facility is secured 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 Istisna II facility is secured 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.

17.3 The finances, other than those referred in note 17.1 and 17.2, are secured by:

(i) a first mortgage by deposit of title deeds over Project Properties;

(ii) a first mortgage by deposit of title deeds over leasehold land together with the buildings, plant, machinery and other equipment thereon; and

(iii) hypothecation by way of:

- a first charge over all Project Assets; and

- a first charge over 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, 2010, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

18. DERIVATIVE FINANCIAL INSTRUMENTS

18.1 During the year, the Company has entered into a cross-currency interest rate swap agreement for the notional amount of US$ 4,000 with a bank to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR on the relevant Pak Rupees notional amount and will pay six month USD-LIBOR plus 0.95% on the relevant US$ notional amount, which will be settled semi annually. As at December 31, 2010, the Company has an outstanding cross currency interest rate swap agreement with a local bank for a notional amount of US$ 3,594.

18.2 As at December 31, 2010 the Company has outstanding interest rate swap agreements with banks for the notional amounts aggregating to US$ 34,666 to hedge its interest rate exposure on the floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six months USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi annually.

18.3 Details of the swap agreement are as follows:

Notional Amounts US $	Effective Date	Termination Date	Rate %	Fair values 2010	Fair values 2009
				Rupees	Rupees
Cross - Currency Interest Rate Swap Agreement					
3,594	September 9, 2010	June 15, 2015	LIBOR + 0.95	**(816)**	-
Interest Rate Swap Agreements					
13,000	December 15, 2008	June 15, 2017	3.385	**54,957**	23,770
4,333	June 15, 2009	June 15, 2017	3.005	**13,487**	1,838
13,000	June 15, 2009	June 15, 2017	2.795	**32,452**	(4,570)
4,333	June 15, 2009	June 15, 2017	2.800	**10,784**	(1,103)
34,666				**111,680**	19,935
38,260				**110,864**	19,935

19. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2010	2009
	Rupees	Rupees
Service incentive plan	**44,654**	34,172
Additional death gratuity - note 34	**5,437**	4,140
	50,091	38,312

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

		2010	2009
		Rupees	
20.	**SHORT TERM BORROWINGS**		
	Running finance utilized under mark-up arrangements - note 20.1	**1,330,388**	394,241
	Short term finance - note 20.2	**250,000**	-
		1,580,388	394,241

20.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounts to Rs. 1,925,000 (2009: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 0.9% to relevant period KIBOR plus 1.5% (2009: relevant period KIBOR plus 0.9% to relevant period KIBOR plus 3%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 12.83% to 14.84% per annum (2009: 12.39% to 17.37% per annum). These facilities are secured by a floating charge over stocks and book debts of the Company.

20.2 During the year, the Company has obtained short term finance from a local bank amounting to Rs. 250,000. The facility carries mark up at the rate of 13.9% per annum and is repayable by January 19, 2011. The facility is secured by a joint pari passu floating charge over all present and future stocks and receivables.

20.3 As at December 31, 2010, the facilities for opening letters of credit aggregate to Rs. 5,644,000 (2009: Rs. 4,794,000), against which Rs. 2,017,000 (2009: Rs. 1,933,000) has been utilized. The facilities carry commission at the rate of 0.05% flat.

		2010	2009
		Rupees	
21.	**TRADE AND OTHER PAYABLES**		
	Trade and other creditors - note 21.1	**1,840,290**	1,196,684
	Accrued liabilities	**659,782**	521,500
	Advances from customers	**87,266**	399,002
	Retention money against Project payments	**238,447**	801,718
	Security deposits	**17,610**	23,610
	Workers' profits participation fund - note 21.2	**76**	28,659
	Sales tax and SFED payable	**43,772**	25,145
	Withholding tax payable	**5,770**	974
	Others	**5,018**	805
		2,898,031	2,998,097

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FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

21.1 Includes amount due to following related parties:

	2010	2009
	Rupees	
- Engro Corporation Limited		
(formerly Engro Chemical Pakistan Limited)	**377**	-
- Mitsubishi Corporation	**1,690,399**	1,150,769
- Engro Vopak Terminal Limited	**86,679**	77,045
	1,777,455	1,227,814

21.2 Workers' profits participation fund

	2010	2009
Balance at beginning of the year	**28,659**	24,625
Add: Interest thereon - note 31	**1,676**	4,034
	30,335	28,659
Less: Payments made during the year	**30,259**	-
Balance at end of the year	**76**	28,659

22. ACCRUED INTEREST / MARK-UP

	2010	2009
	Rupees	
Finance cost accrued on:		
- long term borrowings	**135,946**	196,483
- short term borrowings	**56,745**	5,724
	192,691	202,207

23. PROVISIONS

	2010	2009
Balance at beginning of the year	**70,494**	54,929
Add: Recognized during the year		
- notes 23.1 and 23.2	**60,528**	15,565
Balance at end of the year	**131,022**	70,494

23.1 **Provision for SED on import of plant and machinery**

As at December 31, 2010, the Company has paid Rs. 94,611 (2009: 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 (2009: 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 (FBR) to obtain a clarification in respect of the adjustment in the monthly sales tax returns. 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), 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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Excise Act, 2005 alongwith default surcharge and penalty. During the year, 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 Commissioner Inland Revenue (Appeals).

The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is carrying a provision in this respect. Further, a provision for surcharge and penalty thereon amounting to Rs. 25,871 (2009: Rs. 12,570) has also been made.

23.2 **Provision for duty on import of raw material**

In 2009, the Company 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 from 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. During the year, 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, however, based on prudence, a provision amounting to Rs. 47,227 (2009: Nil) in respect of custom duty on such raw materials has been made.

24. COMMITMENTS

24.1 Capital expenditure for the Project, referred to in note 1.2, under the contracts signed as at December 31, 2010, but not yet incurred amounts to Nil (2009: Rs. 721,859).

24.2 Performance guarantees issued by the banks on behalf of the Company as at December 31, 2010 amounts to Rs. 431,975 (2009: Rs. 405,450).

24.3 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 (EDC) and Caustic soda, respectively. The total lease rentals due under these lease arrangements are payable in monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:

	2010	2009
	Rupees	
Not later than 1 year	**59,840**	43,398
Later than 1 year and not later than 5 years	**57,600**	57,600
Later than 5 years	**50,400**	64,800
	167,840	165,798

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
25. NET REVENUE		
Gross local sales	**17,108,509**	13,559,489
Supply of electricity - note 25.1	**114,541**	214,924
	17,223,050	13,774,413
Less:		
- Sales tax	**2,474,491**	2,167,886
- Special excise duty	**120,771**	103,988
- Discounts	**294**	3,437
	2,595,556	2,275,311
	14,627,494	11,499,102
Export sales	**567**	72,015
	14,628,061	11,571,117

	2010	2009
	Rupees	
25.1 Supply of electricity represents supply of surplus power to the following:		
Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	**-**	47,070
Engro Fertilizers Limited	**34,235**	-
Karachi Electricity Supply Company Limited	**80,306**	167,854
	114,541	214,924

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

		2010	2009
		Rupees	
26.	**COST OF SALES**		
	Opening stock of work-in-progress	**17,579**	21,293
	Raw and packing materials consumed	**9,199,788**	7,904,707
	Salaries, wages and staff welfare - note 26.2	**461,280**	211,896
	Fuel, power and gas	**1,768,043**	771,237
	Repairs and maintenance	**224,141**	49,292
	Depreciation - note 4.2	**1,002,457**	502,452
	Consumable stores	**336,069**	91,649
	Purchased services	**118,485**	54,458
	Storage and handling	**882,897**	339,425
	Training and travelling expenses	**18,934**	5,943
	Communication, stationery and other office expenses	**7,861**	2,971
	Insurance	**79,890**	51,050
	Provision for slow moving stores and spares - note 9.1	**3,867**	3,867
	Expired chemicals written-off	**9,380**	-
	Other expenses	**32,059**	18,558
		14,145,151	10,007,505
	Closing stock of work-in-progress - note 10	**(4,749)**	(17,579)
	Cost of goods manufactured	**14,157,981**	10,011,219
	Opening stock of finished goods	**410,653**	810,355
	Closing stock of finished goods - note 10	**(1,156,007)**	(410,653)
		(745,354)	399,702
	Cost of sales - own manufactured product	**13,412,627**	10,410,921
	- purchased product - note 26.1	**23,967**	7,736
		13,436,594	10,418,657
26.1	Cost of sales - purchased product		
	Opening stock	**8,815**	-
	Add: Purchases	**15,152**	16,551
	Less: Closing stock - note 10	-	(8,815)
		23,967	7,736

26.2 Includes Rs. 21,950 (2009: Rs. 17,805) in respect of staff retirement and other benefits, referred to in note 34.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

27. DISTRIBUTION AND MARKETING EXPENSES

	2010	2009
	Rupees	
Salaries, wages and staff welfare - note 27.1	**57,065**	50,641
Advertising, sales promotion and entertainment	**64,056**	50,921
Product transportation and handling	**453,946**	344,667
Rent, rates and taxes	**9,775**	3,625
Purchased services	**3,127**	3,367
Insurance	**1,082**	1,002
Depreciation - note 4.2	**4,008**	3,371
Training and travelling expenses	**7,441**	6,473
Communication, stationery and other office expenses	**2,690**	2,041
Other expenses	**5,494**	2,404
	608,684	468,512

27.1 Includes Rs. 3,491 (2009: Rs. 5,182) in respect of staff retirement and other benefits, referred to in note 34.

28. ADMINISTRATIVE EXPENSES

	2010	2009
	Rupees	
Salaries, wages and staff welfare - note 28.1	**126,800**	76,563
Rent, rates and taxes	**28,259**	17,088
Purchased services	**38,792**	24,057
Insurance	**822**	645
Depreciation - note 4.2	**9,652**	3,375
Amortization - note 5	**4,764**	3,701
Training and travelling expenses	**60,532**	47,760
Communication, stationery and other office expenses	**32,497**	22,191
Other expenses	**9,018**	10,009
	311,136	205,389

28.1 Includes Rs. 8,284 (2009: Rs. 10,402) in respect of staff retirement and other benefits, referred to in note 34.

29. OTHER OPERATING EXPENSES

	2010	2009
	Rupees	
Legal and professional	**15,197**	7,875
Auditors' remuneration - note 29.1	**3,734**	1,427
Donations - notes 29.2 and 29.3	**15,207**	7,527
Foreign exchange loss (net)	**137,133**	213,373
Others	**-**	1,499
	171,271	231,701

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
29.1 Auditors' remuneration		
Fee for:		
- annual statutory audit	**610**	550
- half yearly review	**170**	150
- review of compliance with Code of Corporate Governance	**50**	50
	830	750
Taxation and other advisory services	**2,616**	540
Reimbursement of expenses	**288**	137
	3,734	1,427

29.2 Includes donation to Engro Foundation (formerly Engro Community Welfare Foundation), a related party, amounting to Rs. 522 (2009: Nil) 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.

	2010	2009
	Rupees	
30. OTHER OPERATING INCOME		
On financial assets		
Income on short term investment and bank deposits	**14,399**	61,878
Gain on sale of short term investments	**-**	35,168
Others	**2,057**	149
	16,456	97,195
On non-financial assets		
Profit on disposal of operating assets	**3,115**	1,619
Scrap sales	**2,559**	1,448
	5,674	3,067
	22,130	100,262

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
31. FINANCE COSTS		
Interest /Mark-up on:		
- long term borrowings	**1,272,070**	554,898
- short term borrowings	**118,773**	23,757
	1,390,843	578,655
Guarantee commission	**4,412**	2,096
Accrued interest on payable to Workers' profits participation fund - note 21.2	**1,676**	4,034
Bank charges and others	**15,025**	11,479
	1,411,956	596,264

32. TAXATION	2010	2009
	Rupees	
Current		
- for the year - note 32.1	**146,428**	57,873
- for prior years	**57,657**	(97)
	204,085	57,776
Deferred		
- for the year	**(552,215)**	(75,131)
- for prior years	**(127,491)**	-
	(679,706)	(75,131)
	(475,621)	(17,355)

32.1 Current year charge represents minimum tax at the rate of 1% (2009: 0.5%) of the turnover in accordance with section 113 of the Income Tax Ordinance, 2001.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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

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

	2010	2009
	Rupees	
Loss before taxation	**(1,289,450)**	(249,144)
Tax calculated at applicable rate of 35%	**(451,308)**	(87,200)
Tax effect of exempt income and income subject to lower tax rates	-	(10,096)
Prior year tax charge	**57,657**	-
Permanent difference due to donation and depreciation of land	**6,699**	4,010
Un-recoupable minimum turnover tax	**(26,507)**	15,720
Effect of adjustments in opening written down values and carried forward losses	**(62,162)**	60,211
Tax expense for the year	**(475,621)**	(17,355)

33. LOSS PER SHARE - Basic and diluted

There is no dilutive effect on the basic loss per share of the Company, since the average market price of the Company's share is less than the exercise price of the share options granted to the employees, referred to in note 16. The basic loss per share of the Company is based on:

	2010	2009
	Rupees	
Loss for the year	**(813,829)**	(231,789)
		(Restated)
Weighted average number of ordinary shares (in thousand)	**629,701**	558,126

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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'. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
	Rupees					
34.1 Balance sheet reconciliation						
Present value of defined benefit obligations	**110,835**	78,994	**35,488**	26,048	**-**	-
Fair value of plan assets	**(97,803)**	(88,607)	**(30,903)**	(27,618)	**-**	-
Deficit / (Surplus)	**13,032**	(9,613)	**4,585**	(1,570)	**-**	-
Present value of unfunded obligations	**-**	-	**-**	-	**4,977**	4,523
Unrecognized net actuarial (losses) / gains	**(11,084)**	9,613	**(4,137)**	1,570	**460**	(383)
Net liability at the end of the year	**1,948**	-	**448**	-	**5,437**	4,140
34.2 Movement in the defined benefit obligations						
Obligations as at January 1	**78,994**	68,644	**26,048**	22,888	**4,523**	3,359
Current service cost	**8,551**	6,841	**3,844**	3,270	**759**	680
Interest cost	**12,081**	9,704	**3,988**	3,300	**537**	481
Actuarial losses / (gains)	**12,660**	-	**5,683**	-	**(842)**	3
Benefits paid	**(1,851)**	(6,195)	**(4,130)**	(3,410)	**-**	-
Liability recognized in respect of transfers	**400**	-	**55**	-	**-**	-
Obligations as at December 31	**110,835**	78,994	**35,488**	26,048	**4,977**	4,523

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
			Rupees			
34.3 **Movement in the fair value of plan assets**						
Fair value as at January 1	**88,607**	73,582	**27,618**	21,821	**-**	-
Expected return on plan assets	**12,334**	10,350	**3,940**	3,160	**-**	-
Actuarial losses	**(7,953)**	-	**(24)**	-	**-**	-
Employer contributions	**6,266**	6,195	**3,444**	3,410	**-**	-
Benefits paid	**(1,851)**	(1,520)	**(4,130)**	(773)	**-**	-
Liability recognized in respect of transfers	**400**	-	**55**	-	**-**	-
Fair value as at December 31	**97,803**	88,607	**30,903**	27,618	**-**	-
34.4 **The amounts recognized in the profit and loss account are as follows:**						
Current service cost	**8,551**	6,841	**3,844**	3,270	**759**	680
Interest cost	**12,081**	9,704	**3,988**	3,300	**537**	481
Expected return on plan assets	**(12,334)**	(10,350)	**(3,940)**	(3,160)	**-**	-
Recognition of actuarial (gains) / losses	**(84)**	-	**-**	-	**1**	3
Expense	**8,214**	6,195	**3,892**	3,410	**1,297**	1,164
34.5 **Actual return on plan assets**	**13,995**	(3,867)	**4,485**	(222)	**-**	-

34.6 **Expected future costs for the year ending December 31, 2011:**

	Rupees
- Pension Fund	12,379
- Gratuity Fund	5,631
- Additional Death Gratuity Scheme	1,593
	19,603

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

	Pension Fund		Gratuity Fund	
	2010	**2009**	**2010**	**2009**
Discount rate	**14.5%**	14%	**14.5%**	14%
Expected rate of return per annum on plan assets	**14.5%**	14%	**14.5%**	14%
Expected rate of increase per annum in future salaries	**13.5%**	13%	**13.5%**	13%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

34.8 **Plan assets comprise of following:**

	Pension Fund		Gratuity Fund	
	2010	2009	**2010**	2009
	Rupees			
Equity	**25,429**	36,329	**4,635**	11,323
Debt	**72,374**	47,848	**26,268**	13,809
Others	-	4,430	-	2,486
	97,803	88,607	**30,903**	27,618

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:**

Pension Fund	**2010**	2009	2008	2007	2006
	Rupees				
Present value of defined benefit obligation	**110,835**	78,994	68,644	53,267	44,310
Fair value of plan assets	**(97,803)**	(88,607)	(73,582)	(62,237)	(47,516)
Deficit / (Surplus)	**13,032**	(9,613)	(4,938)	(8,970)	(3,206)
Gratuity Fund					
Present value of defined benefit obligation	**35,488**	26,048	22,888	19,600	16,145
Fair value of plan assets	**(30,903)**	(27,618)	(21,821)	(21,742)	(15,665)
Deficit / (Surplus)	**4,585**	(1,570)	1,067	(2,142)	480

34.11 During the year, Rs. 20,322 (2009: Rs. 22,620) has been recognized in the profit and loss account in respect of defined contribution provident fund.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousand)

35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	2010			2009		
	Directors			Directors		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	Rupees					
Managerial remuneration	**15,238**	**-**	**305,022**	12,538	-	244,946
Retirement benefit funds	**1,605**	**-**	**12,515**	1,355	-	9,159
Bonus paid	**1,475**	**-**	**42,356**	-	-	-
Employee share option scheme	**-**	**-**	**-**	986	-	2,850
Other benefits	**1,236**	**-**	**23,185**	1,425	-	21,392
Directors Fee	**-**	**1,800**	**-**	-	175	-
Total	**19,554**	**1,800**	**383,078**	16,304	175	278,347
Number of persons	**1**	**9**	**163**	1	9	141

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 Director's indemnity insurance policy, purchased by the Company amounts to Rs. 712 (2009: Rs. 400).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
36. CASH GENERATED FROM OPERATIONS		
Loss before taxation	**(1,289,450)**	(249,144)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	**23,885**	10,769
Depreciation	**1,016,117**	509,198
Amortization	**4,764**	3,701
Amortization of deferred employee share compensation expense	**-**	3,836
Provision for slow moving stores and spares	**3,867**	3,867
Income on short term investments and bank deposits	**(14,399)**	(61,878)
Gain realized on sale of short term investments	**-**	(35,168)
Provision against SED	**13,301**	15,565
Provision against duty on import of raw material	**47,227**	-
Finance costs	**1,411,956**	596,264
Interest accrued on Workers' profits participation fund	**1,676**	4,034
Profit on disposal of operating assets	**(3,115)**	(1,619)
	2,505,279	1,048,569
Working capital changes - note 36.1	**(1,187,539)**	690,993
	28,290	1,490,418

36.1 **Working capital changes**

	2010	2009
(Increase) / Decrease in current assets		
Stores, spares and loose tools	**(444,904)**	(69,477)
Stock-in-trade	**(451,165)**	(445,900)
Trade debts	**(255,528)**	(266,728)
Loans, advances, deposits, prepayments and other receivables (net)	**65,800**	(10,230)
	(1,085,797)	(792,335)
(Decrease) / Increase in current liabilities		
Trade and other payables	**(101,742)**	1,483,328
	(1,187,539)	690,993

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances - note 14	**321,496**	190,064
Short term running finance - note 20	**(1,330,388)**	(394,241)
	(1,008,892)	(204,177)

	2010	2009
	Rupees	
38. FINANCIAL INSTRUMENTS BY CATEGORY		
38.1 **Financial assets as per balance sheet**		
Loans and receivables		
Long term loans and advances	**40,323**	47,475
Trade debts - considered good	**591,770**	336,242
Loans, deposits, and other receivables	**108,212**	94,142
Cash and bank balances	**321,496**	190,064
	1,061,801	667,923
38.2 **Financial liabilities as per balance sheet**		
Financial liabilities measured at amortized cost		
Non-current and current portion of long term borrowings	**12,264,653**	12,151,556
Derivative financial instruments	**110,864**	19,935
Short term borrowings	**1,580,388**	394,241
Trade and other payables	**2,761,147**	2,544,317
Accrued interest/mark-up	**192,691**	202,207
	16,909,743	15,312,256

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 Financial risk factors

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

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company used to manage the currency risk through forward exchange contracts. However, since 2008, the Company has been unable to hedge its foreign exchange risk exposure due to restriction on forward-covers imposed by the State Bank of Pakistan. Currently, the Company manages the foreign currency risk through close monitoring of currency market. At December 31, 2010 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 74,685 (2009: Rs. 84,095) and Rs. 6,055,444 (2009: Rs. 7,007,487), respectively.

At December 31, 2010, 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. 194,375 (2009: Rs. 225,010), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profitability would have been offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

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

To manage its cash flow interest rate risk, the Company has entered into floating to fixed rate interest swaps on its foreign currency borrowings and floating to floating rate cross currency interest 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

At December 31, 2010, 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. 89,993 (2009: Rs. 81,548) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) Other price risk

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

b) Credit risk

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

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, 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 is 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:

	2010	2009
	Rupees	
Long term loan and advances	**40,323**	47,475
Trade debts - considered good	**591,770**	336,242
Loans, deposits and other receivables	**108,212**	94,142
Cash and bank balances	**321,496**	190,064
	1,061,801	667,923

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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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 Limited	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) Limited	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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010			2009		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Long term borrowings	**1,361,293**	**10,903,360**	**12,264,653**	1,016,393	11,135,163	12,151,556
Derivative financial instruments	**-**	**110,864**	**110,864**	-	19,935	19,935
Short term borrowings	**1,580,388**	**-**	**1,580,388**	394,241	-	394,241
Trade and other payables	**2,761,147**	**-**	**2,761,147**	2,544,317	-	2,544,317
Accrued interest / mark-up	**192,691**	**-**	**192,691**	202,207	-	202,207
	5,895,519	**11,014,224**	**16,909,743**	4,157,158	11,155,098	15,312,256

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. 110,864 (2009: Rs. 19,935) 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.

	2010	2009
	Rupees	
The gearing ratio as at December 31 is as follows:		
Long term borrowings - note 17	**10,903,360**	11,135,163
Total equity	**6,906,342**	6,359,673
Total capital	**17,809,702**	17,494,836
Gearing ratio	**0.612**	0.636

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

41. SEGMENT INFORMATION

41.1 Last year, the Company declared commercial production of Caustic soda and also commenced supply of surplus power to Karachi Electric Supply Company Limited (KESC). Therefore, based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

- Poly Vinyl Chloride (PVC), PVC compounds 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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	PVC, PVC compounds and allied chemicals		Caustic soda and allied chemicals		Power supply		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	Rupees							
Revenue	**11,657,883**	10,495,567	**2,855,637**	890,271	**114,541**	185,279	**14,628,061**	11,571,117
Cost of sales	**(10,526,305)**	(9,263,052)	**(1,831,420)**	(539,136)	**(76,412)**	(114,018)	**(12,434,137)**	(9,916,206)
Distribution and marketing expenses	**(389,484)**	(374,733)	**(215,192)**	(90,407)	**-**	-	**(604,676)**	(465,140)
Allocated depreciation	**(716,855)**	(397,527)	**(254,960)**	(106,176)	**(34,650)**	(2,120)	**(1,006,465)**	(505,823)
Profit before unallocated expenses	**25,239**	460,255	**554,065**	154,552	**3,479**	69,141	**582,783**	683,948
Unallocated expenses								
Administrative expenses							**(311,136)**	(205,389)
Other operating expenses							**(171,271)**	(231,701)
Other operating income							**22,130**	100,262
Finance costs							**(1,411,956)**	(596,264)
Taxation							**475,621**	17,355
Loss after taxation							**(813,829)**	(231,789)
Total segment assets	**13,649,824**	13,190,511	**5,748,046**	6,368,873	**106,785**	132,333	**19,504,655**	19,691,717
Unallocated assets							**4,629,427**	2,864,318
Total assets							**24,134,082**	22,556,035

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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

Nature of relationship	Nature of transactions	2010	2009
		Rupees	
Holding Company			
- Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	Purchase of services	**13,791**	17,309
	Sale of goods	-	3,195
	Sale of services	-	3,313
	Sale of steam and electricity	-	51,736
	Use of operating assets	**2,850**	4,139
	Pension fund contribution	**3,585**	4,119
	Provident fund contribution	**2,910**	3,036
	Medical contribution	**113**	88
	Gratuity fund contribution	-	252
Subsidiary Company			
- Engro Polymer Trading (Pvt) Limited	Sale of goods	**2,103,269**	1,330,435
	Sale of services	**663**	353
	Reimbursement for expense	**158**	-
Associated Company			
- Mitsubishi Corporation	Purchase of goods	**7,807,024**	7,941,021
	Sale of goods	-	106,941
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	**5,528**	-
	Sale of goods	**23,533**	-
	Sale of services	**3,103**	-
	Sale of steam and electricity	**47,908**	-
	Use of operating assets	**1,262**	-
	Reimbursement for expense	**712**	-
	Medical insurance	**193**	-
- Engro Vopak Terminal Limited	Purchase of services	**1,030,972**	1,564,559
	Sale of services	**217**	1,614
- Engro PowerGen Limited	Sale of services	-	424
- Engro PowerGen Qadirpur Limited (formerly Engro Energy Limited)	Sale of goods	**203**	-
	Reimbursement for services	**4**	-
- Engro Foods Limited	Sale of goods	**10,521**	301
- Sind Engro Coal Mining Company Limited	Sale of services	**217**	-
-Engro Foundation (formerly Engro Community Welfare Foundation)	Donation	**522**	-
- Central Insurance Company Limited	Insurance	**4,977**	4,701
- ICI Pakistan Limited	Directors fee	-	10
	Purchase of goods	**41,120**	13,016
- IGI Pakistan Limited	Purchase of services	**2,744**	2,304
- Dawood Hercules Chemicals Ltd	Purchase of services	**14,400**	5,745
	Sales of goods	**2,295**	-
- Lahore University of Management Sciences	Purchase of services	**113**	156
- Management Association of Pakistan	Annual subscription	**12**	24
- Port Qasim Authority	Purchase of services	-	300
	Purchase of goods	-	5,138

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

Nature of relationship	Nature of transactions	2010	2009
		Rupees	
Related parties by virtue of common directorship			
- Pakistan Institute of Corporate Governance	Purchase of services	**28**	80
- Arabian Sea Country Club	Purchase of services	**1,185**	-
- Inbox Business Technologies (Pvt) Ltd	Setup of software	**-**	150
- Avanceon Limited	Purchase of goods	**2,504**	2,470
	Purchase of services	**115**	575
Contribution to staff retirement benefits	Pension Fund	**8,214**	6,195
	Provident Fund	**20,402**	17,587
	Gratuity Fund	**3,892**	3,410
Key management personnel	Managerial remuneration	**52,573**	45,911
	Retirement benefit funds	**5,981**	4,607
	Bonus	**15,686**	11,819
	Employee share option scheme	**-**	2,542
	Other benefits	**10,377**	11,498

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

42.3 The related party status of outstanding balances as at December 31, 2010 are disclosed in the respective notes.

43. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2010	**2009**	**2010**	**2009**	
	Kilo Tons				
PVC	**150**	150	**115**	116	Production planned as per market demand
EDC	**127**	127	**96**	35	
Caustic soda	**106**	106	**93**	34	
	Mega Watts				
Power	**64**	64	**41**	18	

43.1 The new VCM plant with a capacity of 220,000 Metric tons commenced commercial production from September 30, 2010. Further, the new PVC plant commenced commercial production from January 1, 2009, while the Chlor-alkali, EDC and Power plants commenced commercial production from August 1, 2009.

44. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which are not material.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 7, 2011 by the Board of Directors of the Company.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Consolidated Financial Statements

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, 2010 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, 2010 and the results of their operations, changes in equity and cash flows for the year then ended.

A.F. Ferguson & Co.

Chartered Accountants
Karachi
Date: February 14, 2011

Engagement Partner: Sohail Hasan

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2010

(Amounts in thousand)

ASSETS	Note	2010	2009
		Rupees	
Non-Current Assets			
Property, plant and equipment	4	**19,198,729**	19,360,686
Intangible assets	5	**20,856**	11,816
Long term loans and advances	6	**40,323**	47,475
Deferred taxation	7	**323,378**	-
		19,583,286	19,419,977
Current Assets			
Stores, spares and loose tools	8	**633,799**	192,762
Stock-in-trade	9	**2,176,960**	1,605,438
Trade debts - considered good	10	**369,400**	439,905
Loans, advances, deposits, prepayments and other receivables	11	**380,846**	410,881
Taxes recoverable	12	**654,155**	451,603
Short term investments	13	**-**	61,398
Cash and bank balances	14	**682,894**	217,531
		4,898,054	3,379,518
TOTAL ASSETS		**24,481,340**	22,799,495
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**6,634,688**	5,203,677
Share premium		**964,029**	975,438
Employee share compensation reserve	16	**8,384**	9,313
Hedging reserve		**(72,062)**	(12,958)
(Accumulated loss) / Unappropriated profit		**(549,179)**	220,173
		6,985,860	6,395,643
Non-Current Liabilities			
Long term borrowings	17	**10,903,360**	11,135,163
Derivative financial instruments	18	**110,864**	19,935
Deferred taxation	7	**-**	321,520
Retirement and other service benefit obligations	19	**50,091**	38,312
		11,064,315	11,514,930
Current Liabilities			
Current portion of long term borrowings	17	**1,361,293**	1,016,393
Short term borrowings	20	**1,780,388**	594,241
Trade and other payables	21	**2,960,982**	3,002,022
Accrued interest / mark-up	22	**197,480**	205,772
Provisions	23	**131,022**	70,494
		6,431,165	4,888,922
Commitments	24		
TOTAL EQUITY AND LIABILITIES		**24,481,340**	22,799,495

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

Asif Qadir

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand except for loss per share)

	Note	2010	2009
		Rupees	
Net revenue	25	**14,618,492**	11,632,108
Export rebate		**102**	667
		14,618,594	11,632,775
Cost of sales	26	**(13,314,604)**	(10,418,592)
Gross profit		**1,303,990**	1,214,183
Distribution and marketing expenses	27	**(642,782)**	(483,814)
Administrative expenses	28	**(312,526)**	(205,742)
Other operating expenses	29	**(170,257)**	(232,011)
Other operating income	30	**35,942**	116,422
Operating profit		**214,367**	409,038
Finance costs	31	**(1,438,988)**	(606,175)
Loss before taxation		**(1,224,621)**	(197,137)
Taxation	32	**454,340**	3,441
Loss for the year		**(770,281)**	(193,696)
			(Restated)
		Rupees	
Loss per share - basic and diluted	33	**(1.22)**	(0.35)

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

Asif Qadir
Asif Qadir
President & Chief Executive

Kimihide Ando
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
Loss for the year	**(770,281)**	(193,696)
Other comprehensive income:		
Hedging reserve		
Loss arising during the year	**(160,262)**	(478)
Less:		
- Reclassification adjustments for losses included in profit and loss	**65,267**	22,557
- Adjustments for amounts transferred to initial carrying amount of hedged items	**4,066**	18,140
Income tax relating to hedging reserve	**31,825**	(14,077)
Other comprehensive (loss) / income for the year - net of tax	**(59,104)**	26,142
Total comprehensive loss for the year	**(829,385)**	(167,554)

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

Asif Qadir
Asif Qadir
President & Chief Executive

Kimihide Ando
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
	Rupees					
Balance as at January 1, 2009	5,203,677	975,438	9,858	(39,100)	413,869	6,563,742
Unvested share options lapsed during the year - note 16.2.1	-	-	(545)	-	-	(545)
Total comprehensive loss for the year	-	-	-	26,142	(193,696)	(167,554)
Balance as at December 31, 2009	**5,203,677**	**975,438**	**9,313**	**(12,958)**	**220,173**	**6,395,643**
Vested share options lapsed during the year - note 16.2.1	**-**	**-**	**(929)**	**-**	**929**	**-**
Share capital issued - note 15.1	**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**

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

Asif Qadir
Asif Qadir
President & Chief Executive

Kimihide Ando
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	Note	2010	2009
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	**585,276**	1,542,650
Finance costs paid		**(1,447,280)**	(563,637)
Long term loans and advances		**7,152**	60,310
Retirement benefits paid		**(12,106)**	(10,957)
Income tax paid		**(355,141)**	(302,392)
Net cash (utilized in) / generated from operating activities		**(1,222,099)**	725,974
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		**(866,238)**	(3,739,678)
- intangible assets		**(13,804)**	(6,255)
Retention money against Project payments		**-**	(553,445)
Proceeds from disposal of property, plant and equipment		**15,193**	6,179
Purchases of short term investments		**(451,568)**	(156,627)
Proceeds from sale of short term investments		**512,966**	178,034
Income on short term investments and bank deposits		**28,211**	63,807
Net cash utilized in investing activities		**(775,240)**	(4,207,985)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		**1,140,090**	4,178,484
Repayments of long term borrowings		**(1,026,993)**	(130,000)
Proceeds from issue of share capital		**1,431,011**	-
Share issuance cost		**(17,553)**	-
Net cash generated from financing activities		**1,526,555**	4,048,484
Net change in cash and cash equivalents		**(470,784)**	566,473
Cash and cash equivalents at beginning of the year		**(176,710)**	(743,183)
Cash and cash equivalents at end of the year	37	**(647,494)**	(176,710)

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

Asif Qadir
Asif Qadir
President & Chief Executive

Kimihide Ando
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

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

The Company was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company is listed on the Karachi, Islamabad and Lahore Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan 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 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). During the year, 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 the 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 financial 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 (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

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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.

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

a) Standards, amendments to published standards and interpretations effective in 2010 and relevant

The following amendments to published standards are mandatory for the financial year beginning January 1, 2010:

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This amendment does not have a significant effect on the current year's financial statements.

- IAS 17 (Amendment) 'Classification of leases of land and buildings'. The amendment deletes the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17. The Company's current accounting policy is in line with the requirements of IAS 17 and the Ordinance, and therefore, there is no effect of this amendment on the Company's financial statements.

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

b) Revision of existing standard that has been early adopted by the Company

- IAS 24 (Revised), 'Related party disclosures'. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party. Application of the revised standard has resulted in the identification of additional related parties as disclosed in note 42.

c) Standards, amendments to published standards and interpretations effective in 2010 but not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company's accounting for its financial assets. The Company is yet to assess the full impact of IFRS 9, however, initial indications are that it may not affect the Company's financial assets significantly, as currently the Company does not have any assets classified as 'available for sale'.

- IFRIC 14 (Amendment) 'Prepayments of a minimum funding requirement' (effective for periods beginning on or after January 1, 2011). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendment corrects this. The Company's retirement benefit funds are not subject to any minimum funding requirement, hence, these amendments will have no impact on the Company's financial statements.

- IFRIC 19 'Extinguishing financial liabilities with equity instruments' (effective for periods beginning on or after January 1, 2011). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Company has not renegotiated the terms of a financial liability and offered any of its shares to its creditors, therefore, this interpretation is not expected to have any material impact on the Company's financial statements.

- Amendments to following standards as a result of improvements to International Financial Reporting Standards 2010, issued by IASB in May 2010:

    - IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instrument. The amendment will only affect the disclosures in the Company's financial statements.

    - IAS 1 (Amendment) 'Presentation of financial statements' (effective for periods beginning on or after January 1, 2011). The 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 amendment will only affect the disclosures in the Company's financial statements.

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- IAS 34 (Amendment) 'Interim financial reporting' (effective for periods beginning on or after January 1, 2011). This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets, changes in contingent liabilities and assets.

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

2.2 **Property, plant and equipment**

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

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

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

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

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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.

(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.

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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 or loss account within 'other operating income / expenses' in the period in which they arise. Dividend income from financial assets at 'fair value through profit or loss' is recognized in the profit and loss account as part of 'other income' when the Company's right to receive payments is established. Gain or loss on sale of investment at 'fair value through profit or loss' are recognized in the statement of comprehensive income 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 or loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of 'other income'. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of 'other income' when the Company's right to receive payments is established.

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

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables are described in note 2.7.

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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.

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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.

2.8 **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.

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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.

2.12 **Retirement and other service benefit obligation**

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 scheme**

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

2.12.3 **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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

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.

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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 income.

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).

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

- minimize foreign currency exposure's impact on the Company's financial performance; and

- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(a) **Fair value hedge**

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

(b) **Cash flow hedge**

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 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.

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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 includes 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:

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(Amounts in thousand)

3.1 **Property, plant and equipment and intangible assets**

The Company reviews appropriateness of the useful life and residual value 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.

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 **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.

3.6 **Provision for retirement and other service benefit obligations**

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

	2010	2009
	Rupees	
4. PROPERTY, PLANT AND EQUIPMENT		
Operating assets - note 4.1	**19,138,589**	14,112,080
Capital work-in-progress - note 4.4	**60,140**	5,248,606
	19,198,729	19,360,686

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4.1 Operating assets

	Leasehold land	Buildings 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, 2009										
Cost	194,127	227,102	2,726,544	119,280	26,122	-	1,691	94,191	85,932	3,474,989
Accumulated depreciation	(13,350)	(52,513)	(1,254,708)	(54,314)	(11,917)	-	(774)	(54,240)	(45,530)	(1,487,346)
Net book value	180,777	174,589	1,471,836	64,966	14,205	-	917	39,951	40,402	1,987,643
Year ended December 31, 2009										
Opening net book value	180,777	174,589	1,471,836	64,966	14,205	-	917	39,951	40,402	1,987,643
Additions	-	168,221	12,076,638	275,128	-	50,023	32,158	16,820	29,811	12,648,799
Disposals - note 4.3										
- Cost	-	-	-	-	-	-	-	(133)	(13,458)	(13,591)
- Accumulated depreciation	-	-	-	-	-	-	-	74	8,957	9,031
Net book value	-	-	-	-	-	-	-	(59)	(4,501)	(4,560)
Depreciation charge - note 4.2	(3,934)	(10,033)	(466,383)	(11,696)	(1,306)	(1,042)	(754)	(12,920)	(11,734)	(519,802)
Closing net book value	176,843	332,777	13,082,091	328,398	12,899	48,981	32,321	43,792	53,978	14,112,080
As at 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
Net book value	-	-	-	-	-	-	-	(216)	(11,701)	(11,917)
Writeoffs - note 4.3										
- Cost	-	-	-	-	-	-	-	(1,593)	-	(1,593)
- Accumulated depreciation	-	-	-	-	-	-	-	1,432	-	1,432
Net book value	-	-	-	-	-	-	-	(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)
Closing 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 December 31, 2010										
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
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	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
4.2 Depreciation charge has been allocated as follows:		
Cost of sales - note 26	**1,002,457**	502,452
Distribution and marketing expenses - note 27	**4,008**	3,371
Administrative expenses - note 28	**9,652**	3,375
Capital work-in-progress	**-**	10,604
	1,016,117	519,802

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	900	464	436	408	By Company policy to existing / seperating executives	Mr. Zahid Tufail
"	900	603	297	323		Mr. Muhammad Iftikhar Ahmed
"	879	577	302	275		Mr. Rasim M Qureshi
"	890	459	431	431		Mr. Imran Shamim Ahmed
"	900	627	273	281		Mr. Anoop Lal
"	900	660	240	225		Mr. Shakil ur Rehman
"	1,309	947	362	327		Syed Ashar Hussain
"	900	668	232	225		Mr. Irfan Ahmad
"	900	651	249	225		Mr. Tauseef Ali
"	1,269	278	991	932		Mr. Jawwad Hassan
"	1,239	174	1,065	1,026		Syed Muhammad Raza
"	900	660	240	225		Mr. Zubair Ashraf Choudry
"	900	660	240	225		Mr. Sohail Ahmed
"	1,269	178	1,091	1,051		Syed Muzammil Ali
"	900	668	232	225		Mr. Muzaffar Islam
"	900	651	249	225		Mr. Kaleem Asghar
"	900	422	478	422		Mr. Zaki A. Sharif
"	1,844	605	1,239	1,066		Mr. Tariq Raza Ahmed
"	1,300	81	1,219	1,198		Mr. Irfan Ahmad
"	1,269	397	872	1,250	Insurance claim	EFU General Insurance
"	1,199	262	937	1,025		
Furniture, fixtures and equipment	97	28	69	55	Insurance claim	EFU General Insurance
Aggregate amount of assets having net book value less than Rs. 50 each	15,421	15,087	334	3,548		
	37,885	25,807	12,078	15,193		
2009	13,591	9,031	4,560	6,179		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and Machinery	Building on leasehold land	Ethylene pipeline and power cables	Water and gas pipelines	Furniture, fixtures and equipment	Advances for vehicles	Other ancillary costs (note 4.4.2)	Total
	Rupees							
Year ended December 31, 2009								
Balance as at January 1, 2009	12,523,057	163,301	61,486	233,016	19,170	6,863	1,140,230	14,147,123
Additions during the year	1,830,574	31,717	2,395	15,860	3,129	31,263	1,827,684	3,742,622
Transferred to operating assets	(10,608,848)	(162,008)	(63,589)	(246,083)	(16,820)	(29,811)	(1,513,980)	(12,641,139)
Balance as at December 31, 2009	3,744,783	33,010	292	2,793	5,479	8,315	1,453,934	5,248,606
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 4.4.1)	**(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**

4.4.1 As referred to in note 1.2, the Company, during the year, has declared commercial operations of the VCM plant and transferred the related costs of the plant to operating assets.

4.4.2 The ancillary costs transferred to operating assets comprise:

	2010	2009
	Rupees	
Salaries, wages and benefits	**266,192**	296,612
Training and travelling	**46,102**	38,544
Borrowing costs, being capitalized at a rate of 10.14% (2009: 12.08%) - net	**673,922**	960,644
Legal and professional	**55,746**	56,606
Depreciation	**555,799**	9,334
Storage and handling	**15,053**	64,186
Others	**68,714**	88,054
	1,681,528	1,513,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2009	
Cost	13,596
Accumulated amortization	(4,334)
Net book value	9,262
Year ended December 31, 2009	
Opening net book value	9,262
Additions at cost	6,255
Amortization charge - note 28	(3,701)
Closing net book value	11,816
As at 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**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
6. LONG TERM LOANS AND ADVANCES		
- Considered good		
Executives - notes 6.1, 6.2 and 6.4		
- Chief Executive	-	416
- Other executives	**55,299**	90,748
	55,299	91,164
Less: Current portion shown under current assets - note 11	**(22,014)**	(52,831)
	33,285	38,333
Other employees - note 6.3	**28,882**	22,719
Less: Current portion shown under current assets - note 11	**(21,844)**	(13,577)
	7,038	9,142
	40,323	47,475

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

	2010			2009		
	Chief Executive	Other Executives	Total	Chief Executive	Other Executives	Total
	Rupees					
Balance at beginning of the year	416	90,748	91,164	3,118	117,395	120,513
Disbursements	-	28,473	28,473	-	31,220	31,220
Repayments	(416)	(63,922)	(64,338)	(2,702)	(57,867)	(60,569)
Balance at end of year	-	55,299	55,299	416	90,748	91,164

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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

6.4 The maximum aggregate amount due from Chief Executive and executives at the end of any month during the year was Rs. 48,607 (2009: Rs. 111,540). 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.

	2010	2009
	Rupees	
7. DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	**(4,141,621)**	(3,061,376)
- net borrowing costs capitalized	-	(207,133)
	(4,141,621)	(3,268,509)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	**4,097,320**	2,725,269
- recoupable minimum turnover tax	**204,227**	108,789
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	**36,594**	46,581
- provision against custom duty and SED refundable	**27,639**	6,454
- provision for slow moving stores and spares	**2,707**	1,353
- fair value of hedging instrument	**38,803**	6,977
- share issuance cost, net to equity	**57,709**	51,566
	4,464,999	2,946,989
	323,378	(321,520)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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, 2010 amount to Rs. 11,706,630 (2009: Rs. 7,786,483), on which the deferred income tax asset has been recognized.

	2010	**2009**
	Rupees	
8. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	**43,253**	20,194
Spares	**602,290**	176,435
	645,543	196,629
Less:		
- Provision for slow moving stores and spares - note 8.1	**7,734**	3,867
- Stores and spares written-off	**4,010**	-
	633,799	192,762

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

	2010	**2009**
	Rupees	
Balance at beginning of the year	**3,867**	-
Add: Recognized during the year - note 26	**3,867**	3,867
Balance at end of the year	**7,734**	3,867

	2010	**2009**
	Rupees	
9. STOCK-IN-TRADE		
Raw and packing materials - note 9.1	**895,627**	1,168,171
Work-in-process	**4,749**	17,579
Finished goods		
- own manufactured product - note 9.2	**1,276,584**	410,653
- purchased product	**-**	9,035
	1,276,584	419,688
	2,176,960	1,605,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

9.1 This includes stock-in-transit amounting to Nil (2009: Rs. 248,065) and stocks held at the storage facilities of the following related parties:

	2010	2009
	Rupees	
Engro Vopak Terminal Limited	**601,050**	595,104
Dawood Hercules Chemicals Limited	**4,425**	1,635
	605,475	596,739

9.2 This includes carrying value of PVC resin net of realizable value reduction of Rs. 17,162 (2009: Rs. 21,084).

9.3 During the year, expired chemicals and PVC resin amounting to Rs. 9,380 (2009: Nil) and Rs. 4,386 (2009: Nil) respectively, have been written-off.

	2010	2009
	Rupees	
10. TRADE DEBTS, considered good		
Secured - note 10.1	**349,273**	256,730
Unsecured - note 10.2	**20,127**	183,175
	369,400	439,905

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

10.2 Includes due from following related parties:

	2010	2009
	Rupees	
Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	**-**	1,070
Engro Fertilizers Limited	**1,158**	-
Engro Energy Limited	**240**	-
Mitsubishi Corporation	**-**	164,228
	1,398	165,298

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
11. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 6		
- executives	**22,014**	52,831
- employees	**21,844**	13,577
	43,858	66,408
Advances to employees for reimburseable expenses	**2,006**	824
Advances to suppliers and others - note 11.1	**58,865**	59,818
Deposits	**90,260**	23,145
Prepayments	**70,376**	66,357
Receivable from Government		
- sales tax refundable	**104,178**	189,044
- export rebate claim	**646**	544
- octroi/duty claims	**152**	152
	104,976	189,740
Accrued return on investments	**11**	92
Receivable from Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	**-**	1,318
Receivable from Engro Fertilizers Limited	**3,998**	-
Other receivables	**6,496**	3,179
	380,846	410,881
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 23.1	**(36,687)**	(36,687)
	-	-
Sales tax refundable	**140**	140
Less: Provision for impairment	**(140)**	(140)
	-	-
	380,846	410,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

11.1 Includes advances to Avanceon Limited, a related party, amounting to Rs. 2,185 (2009: Nil).

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

11.3 As at December 31, 2010, receivables aggregating to Rs. 54,870 (2009: 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, advances, deposits, prepayments and other receivables are neither past due nor impaired.

12. TAXES RECOVERABLE

12.1 During the year, the Company received a notice of demand of Rs. 213,172 in respect of Tax year 2008. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 207,370 and has not considered the brought forward losses amounting to Rs. 974,770 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 12.3.

The Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending. While the appeal proceedings were pending, the Officer Inland Revenue (OIR) adjusted a sum of Rs. 180,768 in the aforementioned demand against the Company's assessed refunds. Consequently, the Company has paid the balance amount of Rs. 32,404 'under protest'. Further, the OIR has issued two show cause notices dated December 9, 2010 for the levy of additional tax relating to Tax year 2008 aggregating to Rs. 8,106. Subsequent to year end, replies to the show cause notices have been filed for withdrawal thereof. The Company's management is of the view that since the matter is pending with the Commissioner Inland Revenue (Appeals), no cohesive recovery measures can be initiated unless a decision is obtained from an independent forum outside the departmental hierarchy. Further, no formal order creating a demand has been received to date in response of show cause replies submitted by the Company.

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

12.2 During the month of December 2010, the Company has also received a notice of demand of Rs. 163,206 in respect of Tax year 2009. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 546,050 and has not considered the brought forward losses amounting to Rs. 499,376 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 12.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts in thousand)

The entire demand of Rs. 163,206 has been adjusted vide OIR order dated December 20, 2010 against assessed refundable taxes. Subsequent to year end, the Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending.

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

12.3 While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed the claim of First Year Allowance (FYA) 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 this disallowance which was decided by the Commissioner of Income Tax (Appeals) in favor of the Company. The department, therefore, filed second appeal before the Income Tax Appellate Tribunal (ITAT). A similar disallowance had also been made for the assessment year 2001-2002 by the Taxation Officer in 2003. However, upon appeal, this matter was ultimately decided in Company's favor in 2005 by the Income Tax Appellate Tribunal (ITAT).

During the year, the ITAT in departmental appeal pertaining to assessment year 2000-2001, decided the aforementioned matter against the Company by departing from the previous order for the assessment year 2001-2002. The disallowance of FYA amounts to Rs. 1,884,359.

This disallowance resulted in tax deductible timing differences, the effects of which have been recognized in the financial statements after taking into account the consequential effects of the ITAT Order in the tax years subsequent to 2000-2001. Consequently, the Company has revised its income tax returns for the tax years 2003 to 2007 and 2009 resulting in a tax liability of Rs. 86,769 for tax year 2008, which has been settled by adjustment out of recoupable minimum tax brought forward of prior years and refunds available in other tax years as mentioned in note 12.1 above.

13. SHORT TERM INVESTMENTS
- At fair value through profit or loss

	2010	2009
	Rupees	
Mutual fund securities - note 13.1	-	61,398

13.1 During the year, the Company has redeemed the investments which were made in open end mutual funds.

14. CASH AND BANK BALANCES

	2010	2009
	Rupees	
Cash in hand	**630**	970
Cash at bank		
- on current accounts	**297,942**	129,269
- on saving accounts - note 14.1	**384,322**	68,292
	682,264	197,561
Short term deposits - note 14.2	-	19,000
	682,894	217,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

14.1 Includes Rs. 20,742 (2009: Rs. 23,718) kept in a separate bank account in respect of security deposits.

14.2 The deposit had a maturity of one month and carried mark up at the rate of 8% per annum.

	2010	2009
	Rupees	
15. SHARE CAPITAL		
Authorized capital		
700,000,000 (2009: 700,000,000) ordinary shares of Rs. 10 each	**7,000,000**	7,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2009: 520,367,677) ordinary shares of Rs. 10 each, fully paid in cash	**6,634,688**	5,203,677

15.1 During the year, the Company issued 143,101,111 ordinary shares of Rs. 10 each at par as right shares to the existing share holders, ranking pari passu in all respects with the existing shares of the Company. Transaction costs incurred thereagainst amounting to Rs. 11,409, net of tax, have been recognized as a deduction from share premium.

15.2 As at December 31, 2010, Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) - the Holding Company, holds 372,809,989 (2009: 292,399,992) 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. 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 maximum number of options to be issued to a single eligible employee is for 1,200,000 ordinary shares.

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 the year, the Company has adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and has increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issuance of right shares during the year, which has been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

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

	2010	2009
	Rupees	
16.2.1 Employee share compensation reserve		
Balance at beginning of the year	**9,313**	9,858
Unvested share options lapsed during the year	-	(545)
Vested share options lapsed during the year	**(929)**	-
Balance at end of the year	**8,384**	9,313
16.2.2 Deferred employee share compensation expense		
Balance at beginning of the year	-	4,381
Unvested share options lapsed during the year	-	(545)
Amortization for the year	-	(3,836)
Balance at end of the year	-	-

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

Total number of share options issued	5,300,000
Percentage increase in entitlement	27.50%
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

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17. LONG TERM BORROWINGS, Secured

	Mark - up rate per annum	Installments Number	Installments Commencing from	2010 Rupees	2009 Rupees
Syndicated term finance I	6 months KIBOR + 2.25%	13 half yearly	November 2010	**5,428,997**	5,655,127
Syndicated term finance II	6 months KIBOR + 3%	13 half yearly	June 2010	**1,377,948**	1,485,599
Syndicated term finance III (note 17.1)	6 months KIBOR + 2%	Single	June 2012	**742,000**	-
Master Istisna finance I (note 17.2)	6 months KIBOR + 1.5%	6 half yearly	November 2010	**100,000**	-
Master Istisna finance II (note 17.2)	6 months KIBOR + 2%	3 half yearly	June 2011	**200,000**	-
International Finance Corporation (IFC)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	**4,415,708**	5,010,830
				12,264,653	12,151,556
Less: Current portion shown under current liabilities				**(1,361,293)**	(1,016,393)
				10,903,360	11,135,163

17.1 During the year, 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 an arrangement fee at 1%. As at December 31, 2010, the whole amount of the facility has been drawn down. This facility is secured by:

(i) mortgage by deposit of title deeds over leasehold land measuring 68 acres together with the building, plant and machinery and other equipment thereon. This charge ranks second to the charges listed in note 17.3 below; and

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

17.2 During the year, the Company has entered into two Master Istisna Agreements (the Agreements) for facilities of Rs. 100,000 and Rs. 200,000, respectively. The entire amount of the facilities has been drawn down by the Company. All amounts due under the Agreements are payable in tranches by way of a series of Istisna transactions, each Istisna transaction being treated as a separate agreement. Since the management's intention is 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. The Istisna facilities are secured as follows:

(i) Master Istisna I facility is secured 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 Istisna II facility is secured 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.

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17.3 The finances, other than those referred in note 17.1 and 17.2, are secured by:

(i) a first mortgage by deposit of title deeds over Project Properties;

(ii) a first mortgage by deposit of title deeds over leasehold land together with the buildings, plant, machinery and other equipment thereon; and

(iii) hypothecation by way of:

- a first charge over all Project Assets; and

- a first charge over 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, 2010, 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 has entered into a cross-currency interest rate swap agreement for the notional amount of US$ 4,000 with a bank to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR on the relevant Pak Rupees notional amount and will pay six month USD-LIBOR plus 0.95% on the relevant US$ notional amount, which will be settled semi annually. As at December 31, 2010, the Company has an outstanding cross currency interest rate swap agreement with a local bank for a notional amount of US$ 3,594.

18.2 As at December 31, 2010 the Company has outstanding interest rate swap agreements with banks for the notional amounts aggregating to US$ 34,666 to hedge its interest rate exposure on the floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six months USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi annually.

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18.3 Details of the swap agreement are as follows:

Notional Amounts US $	Effective Date	Termination Date	Rate %	Fair values 2010	Fair values 2009
				Rupees	
Cross - Currency Interest Rate Swap Agreement					
3,594	September 9, 2010	June 15, 2015	LIBOR + 0.95	**(816)**	-
Interest Rate Swap Agreements					
13,000	December 15, 2008	June 15, 2017	3.385	**54,957**	23,770
4,333	June 15, 2009	June 15, 2017	3.005	**13,487**	1,838
13,000	June 15, 2009	June 15, 2017	2.795	**32,452**	(4,570)
4,333	June 15, 2009	June 15, 2017	2.800	**10,784**	(1,103)
34,666				**111,680**	19,935
38,260				**110,864**	19,935

	2010	2009
	Rupees	
19. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS		
Service incentive plan	**44,654**	34,172
Additional death gratuity - note 34	**5,437**	4,140
	50,091	38,312

	2010	2009
	Rupees	
20. SHORT TERM BORROWINGS		
Running finance utilized under mark-up arrangements - note 20.1	**1,330,388**	394,241
Short term finance - note 20.2	**450,000**	200,000
	1,780,388	594,241

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20.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounts to Rs. 1,925,000 (2009: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 0.9% to relevant period KIBOR plus 1.5% (2009: relevant period KIBOR plus 0.9% to relevant period KIBOR plus 3%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 12.83% to 14.84% per annum (2009: 12.39% to 17.37% per annum). These facilities are secured by a floating charge over stocks and book debts of the Company.

20.2 During the year, the short term financing arrangement of Rs. 200,000 with a local bank has been extended upto February 28, 2011. The finance carries mark-up at the equivalent State Bank of Pakistan rate plus 1% per annum. The finance is secured by a floating charge of Rs. 250,000 upon all present and future current assets of the Company. Further, during the year, the Company has also obtained short term finance from a local bank amounting to Rs. 250,000. The facility carries mark up at the rate of 13.9% per annum and is repayable by January 19, 2011. The facility is secured by a joint pari passu floating charge over all present and future stocks and receivables.

20.3 As at December 31, 2010, the facilities for opening letters of credit aggregate to Rs. 5,644,000 (2009: Rs. 4,794,000), against which Rs. 2,017,000 (2009: Rs. 1,933,000) has been utilized. The facilities carry commission at the rate of 0.05% flat.

21. TRADE AND OTHER PAYABLES

	2010	2009
	Rupees	
Trade and other creditors - note 21.1	**1,840,915**	1,198,391
Accrued liabilities	**665,812**	523,718
Advances from customers	**141,761**	399,002
Retention money against project payments	**238,447**	801,718
Security deposits	**17,610**	23,610
Workers' profits participation fund - note 21.2	**76**	28,659
Workers' welfare fund	**1,801**	-
Sales tax and SFED payable	**43,772**	25,145
Withholding tax payable	**5,770**	974
Others	**5,018**	805
	2,960,982	3,002,022

21.1 Includes amount due to following related parties:

	2010	2009
- Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	**377**	-
- Mitsubishi Corporation	**1,690,399**	1,152,402
- Engro Vopak Terminal Limited	**86,679**	77,045
	1,777,455	1,229,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2010	2009
	Rupees	
21.2 Workers' profits participation fund		
Balance at beginning of the year	**28,659**	24,625
Add: Interest thereon - note 31	**1,676**	4,034
	30,335	28,659
Less: Payments made during the year	**30,259**	-
Balance at end of the year	**76**	28,659

22. ACCRUED INTEREST / MARK-UP

	2010	2009
Finance cost accrued on:		
- long term borrowings	**135,946**	196,483
- short term borrowings	**61,534**	9,289
	197,480	205,772

23. PROVISIONS

	2010	2009
Balance at beginning of the year	**70,494**	54,929
Add: Recognized during the year - notes 23.1 and 23.2	**60,528**	15,565
Balance at end of the year	**131,022**	70,494

23.1 Provision for SED on import of plant and machinery

As at December 31, 2010, the Company has paid Rs. 94,611 (2009: 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 (2009: 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 (FBR) to obtain a clarification in respect of the adjustment in the monthly sales tax returns. 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), 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 the year, 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 Commissioner Inland Revenue (Appeals).

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The Company is confident that the ultimate outcome of the matter will be in its favour, however, based on prudence is carrying a provision in this respect. Further, a provision for surcharge and penalty thereon amounting to Rs. 25,871 (2009: Rs. 12,570) has also been made.

23.2 **Provision for duty on import of raw material**

In 2009, the Company 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 from 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. During the year, 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, however, based on prudence, a provision amounting to Rs. 47,227 (2009: Nil) in respect of custom duty on such raw materials has been made.

24. COMMITMENTS

24.1 Capital expenditure for the Project, referred to in note 1.2, under the contracts signed as at December 31, 2010, but not yet incurred amounts to Nil (2009: Rs. 721,859).

24.2 Performance guarantees issued by the banks on behalf of the Company as at December 31, 2010 amounts to Rs. 942,774 (2009: Rs. 581,111).

24.3 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 (EDC) and Caustic soda, respectively. The total lease rentals due under these lease arrangements are payable in monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:

	2010	2009
	Rupees	
Not later than 1 year	**59,840**	43,398
Later than 1 year and not later than 5 years	**57,600**	57,600
Later than 5 years	**50,400**	64,800
	167,840	165,798

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	2010	2009
	Rupees	
25. NET REVENUE		
Gross local sales	**15,005,513**	12,226,263
Supply of electricity - note 25.1	**114,541**	214,924
	15,120,054	12,441,187
Less:		
- Sales tax	**2,474,538**	2,165,095
- Special excise duty	**120,773**	103,988
- Discounts	**294**	3,437
	2,595,605	2,272,520
	12,524,449	10,168,667
Export sales	**2,094,043**	1,463,441
	14,618,492	11,632,108

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

	2010	2009
Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	**-**	47,070
Engro Fertilizers Limited	**34,235**	-
Karachi Electricity Supply Company Limited	**80,306**	167,854
	114,541	214,924

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	2010	2009
	Rupees	
26. COST OF SALES		
Opening stock of work-in-progress	**17,579**	21,293
Raw and packing materials consumed	**9,199,788**	7,904,707
Salaries, wages and staff welfare - note 26.2	**461,280**	211,896
Fuel, power and gas	**1,768,043**	771,237
Repairs and maintenance	**224,141**	49,292
Depreciation - note 4.2	**1,002,457**	502,452
Consumable stores	**336,069**	91,649
Purchased services	**118,485**	54,458
Storage and handling	**882,897**	339,425
Training and travelling expenses	**18,934**	5,943
Communication, stationery and other office expenses	**7,861**	2,971
Insurance	**79,890**	51,050
Provision for slow moving stores and spares - note 8.1	**3,867**	3,867
Expired chemicals written-off	**9,380**	-
Other expenses	**32,059**	18,558
	14,145,151	10,007,505
Closing stock of work-in-progress - note 9	**(4,749)**	(17,579)
Cost of goods manufactured	**14,157,981**	10,011,219
Opening stock of finished goods	**410,653**	810,355
Closing stock of finished goods - note 9	**(1,276,584)**	(410,653)
	(865,931)	399,702
Cost of sales - own manufactured product	**13,292,050**	10,410,921
- purchased product - note 26.1	**22,554**	7,671
	13,314,604	10,418,592

26.1 Cost of sales - purchased product

	2010	2009
Opening stock	**9,035**	155
Add: Purchases	**13,519**	16,551
Less: Closing stock - note 9	-	(9,035)
	22,554	7,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26.2 Includes Rs. 21,950 (2009: Rs. 17,805) in respect of staff retirement and other benefits, referred to in note 34.

	2010	2009
	Rupees	
27. DISTRIBUTION AND MARKETING EXPENSES		
Salaries, wages and staff welfare - note 27.1	**57,065**	50,641
Advertising, sales promotion and entertainment	**64,056**	50,921
Product transportation and handling	**487,311**	359,969
Rent, rates and taxes	**9,775**	3,625
Purchased services	**3,860**	3,367
Insurance	**1,082**	1,002
Depreciation - note 4.2	**4,008**	3,371
Training and travelling expenses	**7,441**	6,473
Communication, stationery and other office expenses	**2,690**	2,041
Other expenses	**5,494**	2,404
	642,782	483,814

27.1 Includes Rs. 3,491 (2009: Rs. 5,182) in respect of staff retirement and other benefits, referred to in note 34.

	2010	2009
	Rupees	
28. ADMINISTRATIVE EXPENSES		
Salaries, wages and staff welfare - note 28.1	**126,800**	76,563
Rent, rates and taxes	**28,689**	17,088
Purchased services	**39,590**	24,057
Insurance	**980**	645
Depreciation - note 4.2	**9,652**	3,375
Amortization - note 5	**4,764**	3,701
Training and travelling expenses	**60,532**	47,760
Communication, stationery and other office expenses	**32,501**	22,191
Other expenses	**9,018**	10,362
	312,526	205,742

28.1 Includes Rs. 8,284 (2009: Rs. 10,402) in respect of staff retirement and other benefits, referred to in note 34.

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	2010	2009
	Rupees	
29. OTHER OPERATING EXPENSES		
Legal and professional	**21,997**	8,030
Auditors' remuneration - note 29.1	**3,982**	1,582
Donations - notes 29.2 and 29.3	**15,207**	7,527
Foreign exchange loss (net)	**126,308**	213,373
Workers' welfare fund		
- for the year	**1,729**	-
- for prior year	**1,034**	-
	2,763	-
Others	-	1,499
	170,257	232,011

29.1 Auditors' remuneration

	2010	2009
	Rupees	
Fee for:		
- annual statutory audit	**650**	580
- half yearly review	**180**	165
- review of compliance with Code of Corporate Governance	**50**	50
	880	795
Taxation and other advisory services	**2,814**	650
Reimbursement of expenses	**288**	137
	3,982	1,582

29.2 Includes donation to Engro Foundation (formerly Engro Community Welfare Foundation), a related party, amounting to Rs. 522 (2009: Nil) 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.

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	2010	2009
	Rupees	
30. OTHER OPERATING INCOME		
On financial assets		
Income on short term investment and bank deposits	**17,222**	63,869
Unrealized fair value gain on short term investments	**-**	2,464
Gain on sale of short term investments	**10,989**	36,693
Foreign exchange gain (net)	**-**	10,180
Others	**2,057**	149
	30,268	113,355
On non-financial assets		
Profit on disposal of operating assets	**3,115**	1,619
Scrap sales	**2,559**	1,448
	5,674	3,067
	35,942	116,422

	2010	2009
31. FINANCE COSTS		
Interest /Mark-up on:	**1,272,070**	554,898
- long term borrowings	**136,093**	28,000
- short term borrowings	**1,408,163**	582,898
Guarantee commission	**6,131**	2,511
Accrued interest on payable to Workers' profits participation fund - note 21.2	**1,676**	4,034
Bank charges and others	**23,018**	16,732
	1,438,988	606,175

	2010	2009
32. TAXATION		
Current		
- for the year - note 32.1	**167,709**	71,787
- for prior years	**57,657**	(97)
	225,366	71,690
Deferred		
- for the year	**(552,215)**	(75,131)
- for prior years	**(127,491)**	-
	(679,706)	(75,131)
	(454,340)	(3,441)

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32.1 Current year charge represents minimum tax at the rate of 1% (2009: 0.5%) of the turnover in accordance with section 113 of the Income Tax Ordinance, 2001 and tax on export sales under presumptive tax regime.

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:

	2010	2009
	Rupees	
Loss before taxation	**(1,224,621)**	(197,137)
Tax calculated at applicable rate of 35%	**(428,617)**	(68,998)
Tax effect of exempt income and income subject to lower tax rates	**(1,410)**	(14,384)
Prior year tax charge	**57,657**	-
Permanent difference due to donation and depreciation of land	**6,699**	4,010
Un-recoupable minimum turnover tax	**(26,507)**	15,720
Effect of adjustments in opening written down values and carried forward losses	**(62,162)**	60,211
Tax expense for the year	**(454,340)**	(3,441)

33. LOSS PER SHARE - Basic and diluted

There is no dilutive effect on the basic loss per share of the Company, since the average market price of the Company's share is less than the exercise price of the share options granted to the employees, referred to in note 16. The basic loss per share of the Company is based on:

	2010	2009
	Rupees	
Loss for the year	**(770,281)**	(193,696)
		(Restated)
Weighted average number of ordinary shares (in thousand)	**629,701**	558,126

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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'. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2010	2009	2010	2009	2010	2009
	Rupees					
34.1 Balance sheet reconciliation						
Present value of defined benefit obligations	**110,835**	78,994	**35,488**	26,048	**-**	-
Fair value of plan assets	**(97,803)**	(88,607)	**(30,903)**	(27,618)	**-**	-
Deficit / (Surplus)	**13,032**	(9,613)	**4,585**	(1,570)	**-**	-
Present value of unfunded obligations	**-**	-	**-**	-	**4,977**	4,523
Unrecognized net actuarial (losses) / gains	**(11,084)**	9,613	**(4,137)**	1,570	**460**	(383)
Net liability at the end of the year	**1,948**	-	**448**	-	**5,437**	4,140

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2010	2009	2010	2009	2010	2009
34.2 Movement in the defined benefit obligations						
Obligations as at January 1	**78,994**	68,644	**26,048**	22,888	**4,523**	3,359
Current service cost	**8,551**	6,841	**3,844**	3,270	**759**	680
Interest cost	**12,081**	9,704	**3,988**	3,300	**537**	481
Actuarial losses / (gains)	**12,660**	-	**5,683**	-	**(842)**	3
Benefits paid	**(1,851)**	(6,195)	**(4,130)**	(3,410)	**-**	-
Liability recognized in respect of transfers	**400**	-	**55**	-	**-**	-
Obligations as at December 31	**110,835**	78,994	**35,488**	26,048	**4,977**	4,523

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	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2010	2009	2010	2009	2010	2009
			Rupees			
34.3 Movement in the fair value of plan assets						
Fair value as at January 1	**88,607**	73,582	**27,618**	21,821	-	-
Expected return on plan assets	**12,334**	10,350	**3,940**	3,160	-	-
Actuarial losses	**(7,953)**	-	**(24)**	-	-	-
Employer contributions	**6,266**	6,195	**3,444**	3,410	-	-
Benefits paid	**(1,851)**	(1,520)	**(4,130)**	(773)	-	-
Liability recognized in respect of transfers	**400**	-	**55**	-	-	-
Fair value as at December 31	**97,803**	88,607	**30,903**	27,618	-	-
34.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	**8,551**	6,841	**3,844**	3,270	**759**	680
Interest cost	**12,081**	9,704	**3,988**	3,300	**537**	481
Expected return on plan assets	**(12,334)**	(10,350)	**(3,940)**	(3,160)	-	-
Recognition of actuarial (gains) / losses	**(84)**	-	**-**	-	**1**	3
Expense	**8,214**	6,195	**3,892**	3,410	**1,297**	1,164
34.5 Actual return on plan assets	**13,995**	(3,867)	**4,485**	(222)	-	-

34.6 **Expected future costs for the year ending December 31, 2011:**

	Rupees
- Pension Fund	12,379
- Gratuity Fund	5,631
- Additional Death Gratuity Scheme	1,593
	19,603

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

	Pension Fund		Gratuity Fund	
	2010	2009	2010	2009
Discount rate	**14.5%**	14%	**14.5%**	14%
Expected rate of return per annum on plan assets	**14.5%**	14%	**14.5%**	14%
Expected rate of increase per annum in future salaries	**13.5%**	13%	**13.5%**	13%

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FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

34.8 **Plan assets comprise of following:**

	Pension Fund		Gratuity Fund	
	2010	**2009**	**2010**	**2009**
	Rupees			
Equity	**25,429**	36,329	**4,635**	11,323
Debt	**72,374**	47,848	**26,268**	13,809
Others	-	4,430	-	2,486
	97,803	88,607	**30,903**	27,618

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:**

Pension Fund	**2010**	**2009**	**2008**	**2007**	**2006**
	Rupees				
Present value of defined benefit obligation	**110,835**	78,994	68,644	53,267	44,310
Fair value of plan assets	**(97,803)**	(88,607)	(73,582)	(62,237)	(47,516)
Deficit / (Surplus)	**13,032**	(9,613)	(4,938)	(8,970)	(3,206)
Gratuity Fund					
Present value of defined benefit obligation	**35,488**	26,048	22,888	19,600	16,145
Fair value of plan assets	**(30,903)**	(27,618)	(21,821)	(21,742)	(15,665)
Deficit / (Surplus)	**4,585**	(1,570)	1,067	(2,142)	480

34.11 During the year, Rs. 20,322 (2009: Rs. 22,620) has been recognized in the profit and loss account in respect of defined contribution provident fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	2010			2009		
	Directors			Directors		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	Rupees					
Managerial remuneration	**15,238**	**-**	**305,022**	12,538	-	244,946
Retirement benefit funds	**1,605**	**-**	**12,515**	1,355	-	9,159
Bonus paid	**1,475**	**-**	**42,356**	-	-	-
Employee share option scheme	**-**	**-**	**-**	986	-	2,850
Other benefits	**1,236**	**-**	**23,185**	1,425	-	21,392
Directors Fee	**-**	**1,800**	**-**	-	175	-
Total	**19,554**	**1,800**	**383,078**	16,304	175	278,347
Number of persons	**1**	**9**	**163**	1	9	141

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 Director's indemnity insurance policy, purchased by the Company amounts to Rs. 870 (2009: Rs. 400).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

		2010	2009
		Rupees	
36.	**CASH GENERATED FROM OPERATIONS**		
	Loss before taxation	**(1,224,621)**	(197,137)
	Adjustments for non cash charges and other items:		
	Provision for staff retirement and other service benefits	**23,885**	10,769
	Depreciation	**1,016,117**	509,198
	Amortization	**4,764**	3,701
	Amortization of deferred employee share compensation expense	**-**	3,836
	Provision for slow moving stores and spares	**3,867**	3,867
	Income on short term investments and bank deposits	**(17,222)**	(63,869)
	Gain realized on sale of short term investments	**(10,989)**	(36,693)
	Unrealized gain on revaluation of short term investments	**-**	(2,464)
	Provision against SED	**13,301**	15,565
	Provision against duty on import of raw material	**47,227**	-
	Finance costs	**1,438,988**	602,141
	Interest accrued on Workers' profits participation fund	**1,676**	4,034
	Profit on disposal of operating assets	**(3,115)**	(1,619)
		2,518,499	1,048,466
	Working capital changes - note 36.1	**(708,602)**	691,321
		585,276	1,542,650

		2010	2009
36.1	**Working capital changes**		
	(Increase) / Decrease in current assets		
	Stores, spares and loose tools	**(444,904)**	(69,477)
	Stock-in-trade	**(571,522)**	(445,965)
	Trade debts	**70,505**	(370,391)
	Short term finance	**250,000**	200,000
	Loans, advances, deposits, prepayments and other receivables (net)	**30,035**	(109,860)
		(665,886)	(795,693)
	(Decrease) / Increase in current liabilities		
	Trade and other payables	**(42,716)**	1,487,014
		(708,602)	691,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010	2009
	Rupees	
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances - note 14	**682,894**	217,531
Short term running finance - note 20	**(1,330,388)**	(394,241)
	(647,494)	(176,710)

	2010	2009
	Rupees	
38. FINANCIAL INSTRUMENTS BY CATEGORY		
38.1 **Financial assets as per balance sheet**		
At fair value through profit and loss		
Short term investments	-	61,398
Loans and receivables		
Long term loans and advances	**40,323**	47,475
Trade debts - considered good	**369,400**	439,905
Loans, deposits, and other receivables	**144,623**	94,142
Cash and bank balances	**682,894**	217,531
	1,237,240	799,053
	1,237,240	860,451
38.2 **Financial liabilities as per balance sheet**		
Financial liabilities measured at amortized cost		
Non-current and current portion of long term borrowings	**12,264,653**	12,151,556
Derivative financial instruments	**110,864**	19,935
Short term borrowings	**1,780,388**	594,241
Trade and other payables	**2,767,802**	2,548,242
Accrued interest/mark-up	**197,480**	205,772
	17,121,187	15,519,746

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

39.1 Financial risk factors

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

a) **Market risk**

i) **Currency risk**

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company used to manage the currency risk through forward exchange contracts. However, since 2008, the Company has been unable to hedge its foreign exchange risk exposure due to restriction on forward-covers imposed by the State Bank of Pakistan. Currently, the Company manages the foreign currency risk through close monitoring of currency market. At December 31, 2010 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 265,289 (2009: Rs. 248,323) and Rs. 6,055,444 (2009: Rs. 7,009,120), respectively.

At December 31, 2010, 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. 200,570 (2009: Rs. 219,726), mainly as a result of foreign exchange losses / gains on translation of US Dollar-denominated liabilities. However, this change in profitability would have been offset by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) **Interest rate risk**

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

To manage its cash flow interest rate risk, the Company has entered into floating to fixed rate interest swaps on its foreign currency borrowings and floating to floating rate cross currency interest 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

At December 31, 2010, 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. 91,293 (2009: Rs. 82,848) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) **Other price risk**

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

b) Credit risk

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

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, 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 is 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:

	2010	**2009**
	Rupees	
Long term loan and advances	**40,323**	47,475
Trade debts - considered good	**369,400**	439,905
Loans, deposits and other receivables	**144,623**	94,142
Short term investments	-	61,398
Cash and bank balances	**682,894**	217,531
	1,237,240	860,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(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 Limited	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) Limited	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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	2010			2009		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Long term borrowings	**1,361,293**	**10,903,360**	**12,264,653**	1,016,393	11,135,163	12,151,556
Derivative financial instruments	-	**110,864**	**110,864**	-	19,935	19,935
Short term borrowings	**1,780,388**	-	**1,780,388**	594,241	-	594,241
Trade and other payables	**2,767,802**	-	**2,767,802**	2,548,242	-	2,548,242
Accrued interest / mark-up	**197,480**	-	**197,480**	205,772	-	205,772
	6,106,963	**11,014,224**	**17,121,187**	4,364,648	11,155,098	15,519,746

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. 110,864 (2009: Rs. 19,935) 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.

	2010	2009
	Rupees	
The gearing ratio as at December 31 is as follows:		
Long term borrowings - note 17	**10,903,360**	11,135,163
Total equity	**6,985,860**	6,395,643
Total capital	**17,889,220**	17,530,806
Gearing ratio	**0.609**	0.635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

41. SEGMENT INFORMATION

41.1 Last year, the Company declared commercial production of Caustic soda and also commenced supply of surplus power to Karachi Electric Supply Company Limited (KESC). Therefore, based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

- Poly Vinyl Chloride (PVC), PVC compounds 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

	PVC, PVC compounds and allied chemicals		Caustic soda and allied chemicals		Power supply		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	Rupees							
Revenue	**11,648,416**	10,518,968	**2,855,637**	928,528	**114,541**	185,279	**14,618,594**	11,632,775
Cost of sales	**(10,404,315)**	(9,262,986)	**(1,831,420)**	(539,136)	**(76,412)**	(114,018)	**(12,312,147)**	(9,916,140)
Distribution and marketing expenses	**(423,582)**	(390,036)	**(215,192)**	(90,407)	**-**	-	**(638,774)**	(480,443)
Allocated depreciation	**(716,855)**	(397,527)	**(254,960)**	(106,176)	**(34,650)**	(2,120)	**(1,006,465)**	(505,823)
Profit before unallocated expenses	**103,664**	468,419	**554,065**	192,809	**3,479**	69,141	**661,208**	730,369
Unallocated expenses								
Administrative expenses							**(312,526)**	(205,742)
Other operating expenses							**(170,257)**	(232,011)
Other operating income							**35,942**	116,422
Finance costs							**(1,438,988)**	(606,175)
Taxation							**454,340**	3,441
Loss after taxation							**(770,281)**	**(193,696)**
Total segment assets	**13,427,455**	13,190,511	**5,748,046**	6,368,873	**106,785**	132,333	**19,282,286**	19,691,717
Unallocated assets							**5,199,054**	3,107,778
Total assets							**24,481,340**	**22,799,495**

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

Nature of relationship	Nature of transactions	2010	2009
		Rupees	
Holding Company			
- Engro Corporation Limited (formerly Engro Chemical Pakistan Limited)	Purchase of services	**13,791**	17,309
	Sale of goods	-	3,195
	Sale of services	-	3,313
	Sale of steam and electricity	-	51,736
	Use of operating assets	**2,850**	4,139
	Pension fund contribution	**3,585**	4,119
	Provident fund contribution	**2,910**	3,036
	Medical contribution	**113**	88
	Gratuity fund contribution	-	252
Associated Company			
- Mitsubishi Corporation	Purchase of goods	**7,806,819**	7,941,021
	Sale of goods	**1,463,117**	1,268,211
		-	
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	**5,528**	-
	Sale of goods	**23,533**	-
	Sale of services	**3,103**	-
	Sale of steam and electricity	**47,908**	-
	Use of operating assets	**1,262**	-
	Reimbursement for services	**712**	-
	Medical insurance	**193**	-
- Engro Vopak Terminal Limited	Purchase of services	**1,030,972**	1,564,559
	Sale of services	**217**	1,614
- Engro PowerGen Limited	Sale of services	-	424
- Engro PowerGen Qadirpur Limited (formerly Engro Energy Limited)	Sale of goods	**203**	-
	Reimbursement for services	**4**	-
- Engro Foods Limited	Sale of goods	**10,521**	301
- Sind Engro Coal Mining Company Limited	Sale of services	**217**	-
-Engro Foundation (formerly Engro Community Welfare Foundation)	Donation	**522**	-
- Central Insurance Company Limited	Insurance	**4,977**	4,701
- ICI Pakistan Limited	Directors fee	-	10
	Purchase of goods	**41,120**	13,016
- IGI Pakistan Limited	Purchase of services	**2,744**	2,304
- Dawood Hercules Chemicals Ltd	Purchase of services	**14,400**	5,745
	Sales of goods	**2,295**	-
- Lahore University of Management Sciences	Purchase of services	**113**	156
- Management Association of Pakistan	Annual subscription	**12**	24
- Port Qasim Authority	Purchase of services	-	300
	Purchase of goods	-	5,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

Nature of relationship	Nature of transactions	2010	2009
		Rupees	
Related parties by virtue of common directorship			
- Pakistan Institute of Corporate Governance	Purchase of services	**28**	80
- Arabian Sea Country Club	Purchase of services	**1,185**	-
- Inbox Business Technologies (Pvt) Ltd	Setup of software	-	150
- Avanceon Limited	Purchase of goods	**2,504**	2,470
	Purchase of services	**115**	575
- UBL Funds		-	100,000
Contribution to staff retirement benefits	Pension Fund	**8,214**	6,195
	Provident Fund	**20,402**	17,587
	Gratuity Fund	**3,892**	3,410
Key management personnel	Managerial remuneration	**52,573**	45,911
	Retirement benefit funds	**5,981**	4,607
	Bonus	**15,686**	11,819
	Employee share option scheme	-	2,542
	Other benefits	**10,377**	11,498

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

42.3 The related party status of outstanding balances as at December 31, 2010 are disclosed in the respective notes.

43. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2010	2009	2010	2009	
	Kilo Tons				
PVC	**150**	150	**115**	116	Production planned as per market demand
EDC	**127**	127	**96**	35	
Caustic soda	**106**	106	**93**	34	
	Mega Watts				
Power	**64**	64	**41**	18	

43.1 The new VCM plant with a capacity of 220,000 Metric tons commenced commercial production from September 30, 2010. Further, the new PVC plant commenced commercial production from January 1, 2009, while the Chlor-alkali, EDC and Power plants commenced commercial production from August 1, 2009.

44. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousand)

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 7, 2011 by the Board of Directors of the Company.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Notice of AGM & Proxy Form

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirteenth Annual General Meeting of Engro Polymer & Chemicals Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road Karachi, on Thursday, April 14, 2011 at 10.am. to transact the following business:

A. ORDINARY BUSINESS

1) To receive and consider the Audited Accounts for the year ended December 31, 2010 and the Director's and Auditors' Reports thereon.

2) To appoint Auditors and fix their remuneration.

3) To elect 10 directors in accordance with the Companies Ordinance, 1984 for a period of three years commencing from April 16, 2011. The retiring Directors are M/s. Asad Umar, Asif Qadir, Isar Ahmad, Kimihide Ando, Shahzada Dawood, Shabbir Hashmi, Waqar A. Malik, Khalid Mansoor, Khalid S. Subhani and Takashi Yoshida.

B. SPECIAL BUSINESS

4) To consider, and if thought fit , to pass the following Resolution as a Special Resolution:

"RESOLVED that the Authorized Capital of the Company be increased from Rs. 7,000,000,000 to Rs. 8,000,000,000 and that

a) Clause V of the Memorandum of Association of the Company be and is hereby amended to read as follows:

"V. The authorized share capital of the company is Rs. 8,000,000,000 (Rupees Eight Billion) divided into 800,000,000 (Eight Hundred Million) shares of the nominal value of Rs.10.00 (Rupees Ten) each with the rights, privileges and conditions attached thereto as are provided for the time being, with power to increase and reduce the capital of the Company and to divided the shares in the capital for the time being, into several classes."

b) Paragraph one of Article 4 of the Articles of Association of the company be and is herby amended to read as follows:

"4. The authorized share capital of the Company is Rs. 8,000,000,000 (Rupees Eight Billion) dived into 800,000,000 (Eight Hundred Million) ordinary shares of Rs. 10/- each."

By Order of the Board

Karachi,

February 7, 2011

Arshaduddin Ahmed
Company Secretary

N.B

1. The Directors of the Company have fixed, under sub-section (1) of Section 178 of the Companies Ordinance, 1984, the number of elected directors of the Company at 10.

2. The share transfer books of the Company will be closed from Thursday, March 31, 2011 to Thursday, April 14. 2011 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Put) Limited, First Floor, State Life Building No. 1-A, I.I Chundrigar Road, Karachi-74000 by the close of business (05:00 pm) on Wednesday, March 30, 2011 will be treated as being in time for the purposes to attend the meeting.

3. 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.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

The statement is annexed to the Notice of the Thirteenth Annual General Meeting of Engro Polymer & Chemicals Limited to be held on April 14, 2011 at which certain special business is to be transacted. The purpose of this statement is to set forth the material facts concerning such special business.

ITEM (4) OF THE AGENDA
The Company has signed a loan agreement amounting to Rs. 950 million with the banks. The terms of the loan include one bullet repayment through own cash generation or equity injection or a combination of both to be decided by the banks. This may result in a requirement to issue Right shares for which authorized capital is not sufficient and will have to be increased. The Board of Directors proposes that the Authorized Capital be increased from Rs. 7,000,000,000 to Rs. 8,000,000,000.

Engro Polymer & Chemicals Ltd.

Proxy Form

I/We ____________________

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

and holder of ____________________ Ordinary Shares as per Share

(Number of Shares)

Register Folio No. __________ and/or CDC Participant I. D. No. __________ and Sub Account No.

hereby appoint ____________________ of ____________________

or failing him ____________________

of ____________________

as my proxy to vote for me and on my behalf at the Annual General Meeting of the Company to be held on the 14th day of April, 2011 and at any adjournment thereof.

Signed this __________ day of ____________________ 2011.

1. **Signature** ____________________
   Name ____________________
   Address ____________________
   ____
   CNIC or
   Passport No. ____________________

2. **Signature** ____________________
   Name ____________________
   Address ____________________
   ____
   CNIC or
   Passport No. ____________________

Signature

Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Notes:

i) Proxies in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A Proxy need not be a member of the Company.

ii) CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy before submission to the Company.

iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.

iv) In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Engro Polymer & Chemicals Ltd.
Head Office: First Floor, Bahria Complex I, 24 M.T. Khan Road, Karachi-74000, Pakistan.
UAN: 111 411 411 PABX: +92-21-35610610, 35610743, 35610753 Fax: +92-21-35611690
Website: www.engropolymer.com

Designed by: Adétude (Pvt.) Limited