engro polymer & chemicals

future redefined

Annual Report 2012

Engro Polymer & Chemicals Ltd. (EPCL) is proud to share its Annual Report 2012. This report presents Stakeholders' Information, Corporate Governance, the Directors' Report and the Financial Statements for the year ended December 31, 2012.

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

We welcome feedback, suggestions and queries which can be directed to:

Haseeb Hafeezuddeen
Chief Financial Officer
e-mail: haseebh@engro.com

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

Water plays a vital and critical role in all aspects of life. It is essential for domestic use, agriculture and food production. Insufficient access to clean water causes multiple deaths and illnesses for children daily. It is also one of the predominant causes of poverty and decreased opportunities for many. The amount of available clean water decreases every year and this water shortage has become the greatest problem of our time. Engro Polymer & Chemicals Limited (EPCL) has taken the initiative to improve this condition by introducing the Demand Based Irrigation System in Galiat, Abbottabad to conserve water.

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mission

Our mission is to achieve innovative growth which creates value for our stakeholders, customers and employees. Our commitment is to maintain the highest standards of ethics, safety and environmental responsibility.

statement of best practices

Overall, work towards creating an environment which promotes the realization of our mission and values, by focusing on behavioral modification and systematic changes.

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

Think EPCL, by placing the Company's interests above individual, sectional, and departmental interests.

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

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

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

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

Recognize individual needs and help fulfil 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.

Recognize team and individual efforts to change by celebrating both lessons and successes.

core values

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

Ethics & Integrity

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

Health, Safety & Environment

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

Innovation & Risk Taking

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

Our People

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

Community & Society

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

business ethics

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

Our policy does not stop there. Even where the law is permissive, EPCL chooses the course of highest integrity. Local customs and traditions differ from place to place, and this must be recognized. But honesty is not subject to criticism in any culture. Shades of dishonesty simply invite demoralizing 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 we get results. He might think it best not to tell higher management all that he is doing, not to record all transactions accurately in his books and records, and to deceive the Company's internal and external auditors. He would be wrong on all counts.

We do care how we get results. We expect compliance with our standards of integrity throughout the organization. We will not tolerate an employee who achieves results at the cost of violating 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 do not 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 the organization think that 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 demoralization of the organization. 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.

stakeholder's information

company information

Board of Directors
Muhammad Aliuddin Ansari - Chairman
Khalid Siraj Subhani - Chief Executive
Muhammad Afnan Ahsan
Isar Ahmed
Kimihide Ando
Shahzada Dawood
Shabbir Hashmi
Waqar Malik
Takashi Yoshida
Naz Khan*

*Naz Khan joined on February 04, 2013
in place of Mr. Asif Qadir

Company Secretary
Kaleem Ahmad

Chief Financial Officer
Haseeb Hafeezuddeen

Corporate Audit Manager
Muneeza Kassim

Auditors
A.F. Ferguson & Company
Chartered Accountants
State Life Building No. 1-C, I.I. Chundrigar Road
Karachi-74000, Pakistan
Tel: +92(21) 32426682-6 / 32426711-5
Fax +92(21) 32415007 / 32427938

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

Bankers / Lenders
Allied Bank Ltd.
Askari Bank Ltd.
Bank Al Falah Ltd.
Bank Al Habib Ltd.
Barclays Bank PLC., Pakistan
Citibank N.A.
Deutsche Bank AG
Faysal Bank Ltd.
Habib Bank Ltd.
HSBC Bank Middle East Limited-Pakistan
International Finance Corporation
MCB Bank Ltd.
Meezan Bank Ltd.
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Ltd.
Summit Bank Ltd.
United Bank Ltd.

Registered Office
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4, Clifton,
Karachi-75600.

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

Website
www.engropolymer.com

business at a glance

Engro Polymer & Chemicals Limited (EPCL) was established in 1997 and is the only fully integrated Chlor-Vinyl Chemical Complex in Pakistan after officially declaring commercial production of the VCM plant in 2010. It is involved in the manufacturing, marketing and distribution of PVC and Chlor-Vinyl allied products.

The Company has the capacity to produce 150 kilo tons of PVC and 106 kilo tons of Caustic Soda per year through its state-of-the-art Chlor-Alkali unit, as well as 20 kilo tons of Sodium Hypochorite in the same time-frame.

EPCL's Products

PVC (Poly-Vinyl-Chloride)

PVC suspension resin is the primary product of Engro Polymer & Chemicals Ltd. Produced in a wide range of K-values: AU 58, AU 60, AU 72, AU 67R and AU 67S, which are used in the manufacture of varied PVC based products. The different grades of resin offer a diverse range of properties that can be used in all the processing methods.

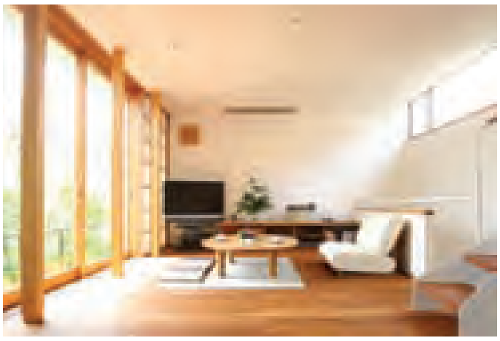
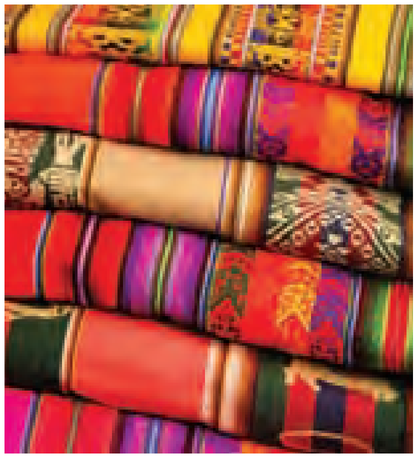
PVC is produced by the polymerization of ethylene (a petrochemical) and chlorine, which is obtained from the electrolysis of common salt. In the domestic market PVC resin is mainly used to manufacture PVC pipes. Other sectors include artificial leather, shoes, rigid and soft sheets, garden hose, windows and doors etc.

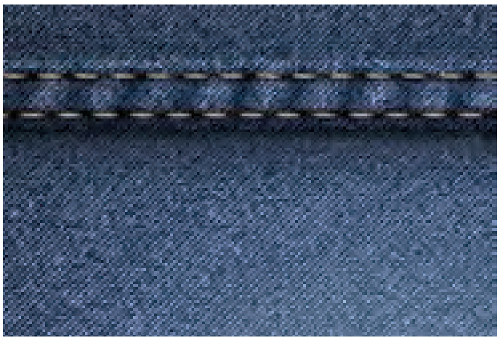
Caustic Soda

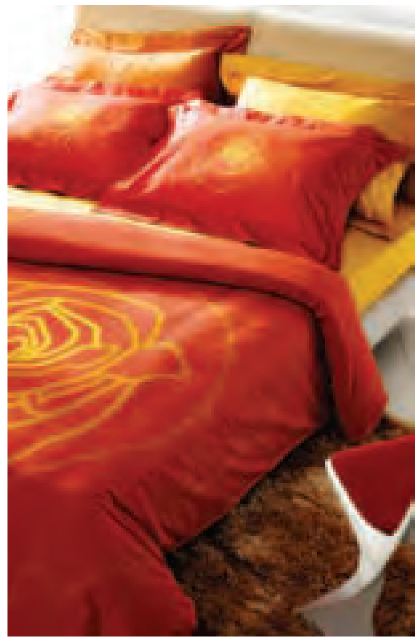
Caustic soda is produced and sold as 50% solution in water. It is largely used in the textile industry for processing, soap industry as a raw material, as well as several other industries for water treatment.

Sodium Hypochlorite

Sodium Hypochlorite is a by-product in the manufacturing process of Caustic Soda. Engro Polymer & Chemicals Ltd. manufacturers and sells it as liquid with available chlorine (15% weight by volume). It is used extensively as a bleaching agent and disinfectant for water treatment. Due to limited production, sales focus has been in the south region only, where the entire production is consumed.

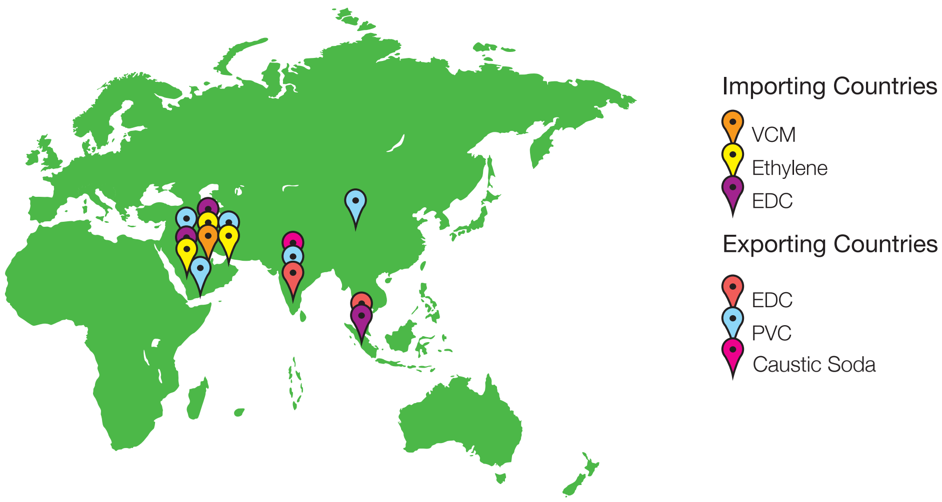





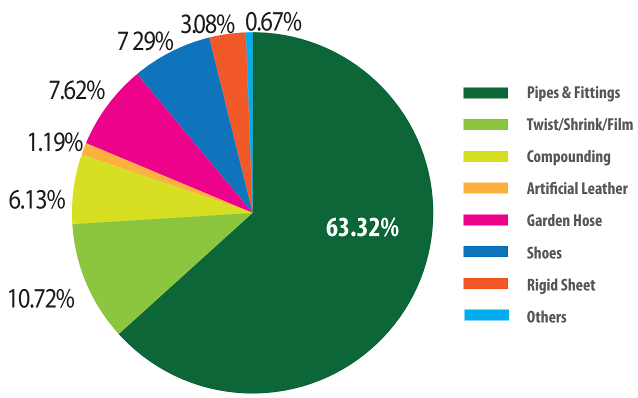




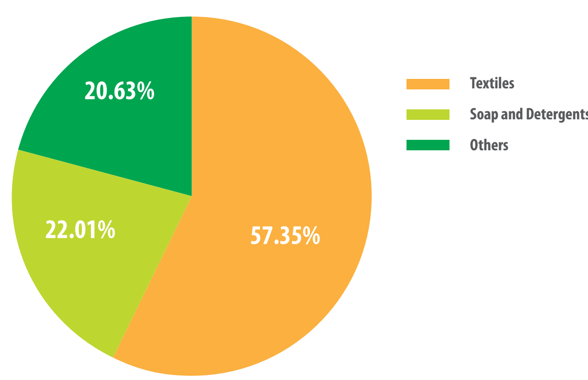

EPCL's geographical presence



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

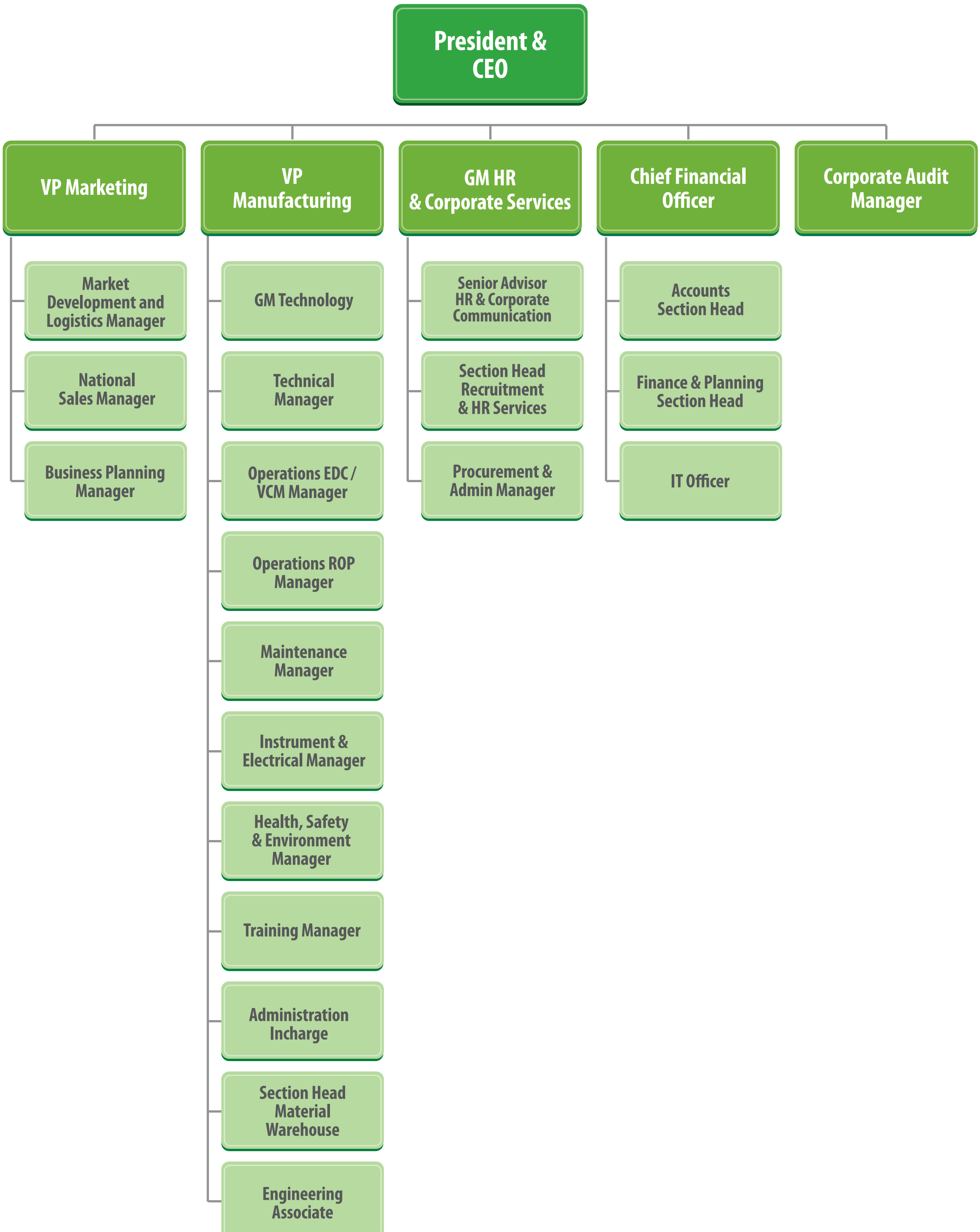


2012 PVC sector-wise sales



2012 Caustic soda sector-wise sales

organizational structure



the following framework outlines EPCL's approach towards creating meaningful value

The Board of Directors represents shareholders' interests and works with the President & CEO in deciding the overall strategic vision and direction of the Company.

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

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

stakeholder engagement

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

EPCL understands its wider stakeholder community to include:

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

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

Regular stakeholder engagement

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

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

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

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

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

key highlights & major achievements

Safe man-hours **10.58 Million** & total recoverable injury rate (TRIR) = **0.12**

President's Award for **Best Safety Performance** 2012 – **Non Manufacturing**

1st year of Profit after backward integration – **Rs.77 Million**

Settled 'Delayed start up' & other insurance claims – **Rs.423 Million**

Stable VCM Plant Operations – **146 Kilo Tons** (vs. 98 Kilo Tons in 2011)

Exported surplus VCM **12 Kilo Tons**

Initiated **Hydrogen sales**

awards, achievements and accreditations

Certifications

DuPont Certification

DuPont's Process Safety system has been acknowledged as one of the top safety management systems worldwide. In 2011, the Company attained a DuPont rating of 3.2 in the Process Safety Management systems (PS) audit over and above 3 in Process Safety and Risk Management (PSRM).

This system thoroughly outlines every aspect of safety guidelines relating to the safety of process, safe work procedures, risk management, quality assurance, guidance on safety and manufacturing and transportation of highly hazardous chemicals in a way that is in accord with OSHA and EPA regulations.

EMS- ISO 14001 Certification

EPCL is ISO 14001 Certified via United Registrar of Systems Ltd. (URS), which is endorsed by United Kingdom Accreditation Services (UKAS). Accordingly, the Company has amplified its focus on health, safety and environmental policies.

QMS- ISO 9001:2008 Certification

The company was able to acquire ISO 9001-2000 Certification in 1999 which meant increased customer satisfaction via documented systems and procedures raising the bar of standards fulfilling challenging objective by training personnel. In the year 2010 and subsequently in 2012, the company was able to obtain ISO 9001:2008 Certification for PVC Manufacturing and Marketing. The Surveillance Audit was of extreme implication and no NCR was reported during the audit.

GRI Certification

GRI is a network-based association pioneering the progress of the world's most commonly used sustainability reporting framework and is devoted to its continuous advancement and use worldwide. EPCL is Pakistan's first organization that has qualified for the Global Reporting Initiative (GRI). This certification will aid the Company to put the reporting framework on standardized pattern into context and to plan, report and assess sustainability reports in an improved manner. In 2009 and 2010 the evaluation was done by a third party and the Company secured an A+. Subsequently in 2011 and 2012 the evaluation was carried out on a self evaluation basis and the Company secured an A+.

Credibility

Best Corporate Report Awards

For three consecutive years from 2009 to 2011, EPCL was nominated for this award. The Company secured second position for 2009 & 2010 and was awarded fourth position for 2011 by the Joint Evaluation Committee of ICAP-ICMAP from a wide selection of reports belonging to companies from the pharmaceutical, chemicals & fertilizer sector. This award represents the Company's commitment to maintain high standards in financial and sustainability reporting for the benefit of all stakeholders of the Company.

The evaluation committee's criterion was based on the transparent disclosure of information regarding financial statements, Director's Report and corporate governance.

UNGC Global Compact

The Company formally signed the UNGC in 2010 to partake in the initiative. This meant that EPCL had officially committed itself to follow the ten values stated in the Compact. EPCL entered this contract in order to achieve the highly esteemed worldwide standard of sustainable and socially responsible policies under the umbrella of the UNGC Global Compact. The Company partook in the UNGC-Master Training Program as one of the principal participants amid the chosen 20 candidates for the US ESCAPE PROGRAM held in March 2011. Moreover, the company reported its First Communication on Progress in 2012 from the time when it had become a signatory of the UNGC.

EPCL makes an effort to work within principle-based structure with the UNGC that unites the hard work of other UN agencies, civil societies and local labor groups to oppose human rights abuses, deterioration of the environment and corporate dishonesty.

summary of profit & loss account and balance sheet

Amounts in Rs. (M)

	2007	2008	2009	2010	2011	2012
PROFIT AND LOSS						
Net sales	6,063	7,868	11,571	14,628	16,886	20,446
Gross profit	988	1,132	1,152	1,192	2,075	3,453
Operating profit	617	492	347	123	630	1,813
Profit / (loss) before tax	576	459	(249)	(1,289)	(1,117)	166
Profit / (loss) after Tax	422	353	(232)	(814)	(729)	50
BALANCE SHEET						
Property, plant and equipment	4,709	16,135	19,361	19,199	18,538	17,634
Intangibles, investments, deferred taxation and long term Loans & advances	150	167	109	434	1,021	1,015
Current assets	4,604	1,977	3,086	4,501	4,969	6,308
Current liabilities	1,404	2,705	4,681	6,163	9,550	11,030
Non current liabilities	1,828	9,008	11,515	11,064	8,840	7,728
Share capital	4,436	5,204	5,204	6,635	6,635	6,635
Shareholders equity	5,177	6,566	6,360	6,906	6,139	6,198

summary of cash flow statement

Amounts in Rs. (M)

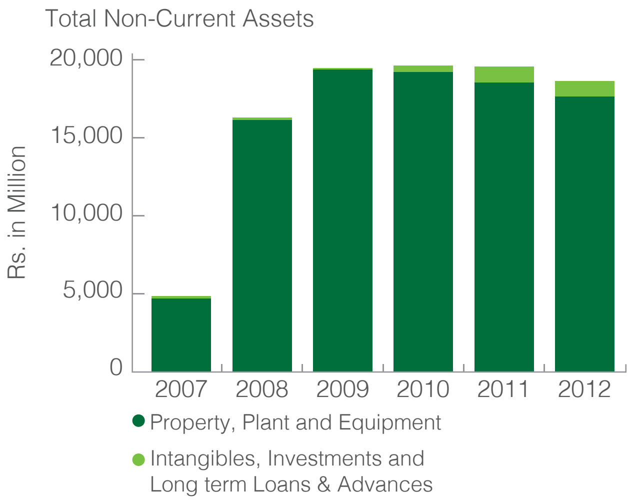
	2007	2008	2009	2010	2011	2012
Cash generated from operations	880	665	1,490	105	4,724	2,852
Finance costs	(37)	(354)	(561)	(1,421)	(1,795)	(1,670)
Long term loans and advances	(84)	(10)	60	7	3	(12)
Retirement benefits paid	–	–	(11)	(12)	(41)	(69)
Income tax paid	(45)	(184)	(290)	(333)	(381)	(270)
Net cash flow from operating activities	714	117	688	(1,654)	2,509	831
Purchase of operating assets and intangibles	(2,453)	(11,165)	(3,746)	(880)	(533)	(364)
Retention money against Project payments	–	452	(553)	–	–	–
Proceeds from disposal of operating assets	2	4	6	15	18	18
Purchases of short term investments	(3,272)	–	–	–	(540)	(750)
Proceeds from sale of short term investments	516	2,915	35	–	546	754
Income on investments and bank deposits	28	117	62	14	6	8
Net cash flow from investing activities	(5,179)	(7,677)	(4,196)	(851)	(503)	(334)
Proceeds from long term borrowings	1,240	6,638	4,179	1,390	–	700
Proceeds from short term borrowings	–	–	–	–	–	1,250
Repayment of borrowings	(229)	–	(130)	(1,104)	(1,613)	(2,945)
Issue of share capital	4,118	229	–	1,414	–	–
Dividend	(422)	(253)	–	–	–	–
Net cash flow from financing activities	4,707	6,614	4,049	1,777	(1,613)	(995)
Net cash flow	242	(946)	541	(805)	393	(499)
Cash Generated from Operations-Direct Method						
Cash flows from customers	6,021	7,977	11,305	14,373	17,263	20,412
Cash payment to suppliers and others	(5,141)	(7,312)	(9,815)	(14,268)	(12,539)	(17,560)
Cash generated from operations	880	665	1,490	105	4,724	2,852

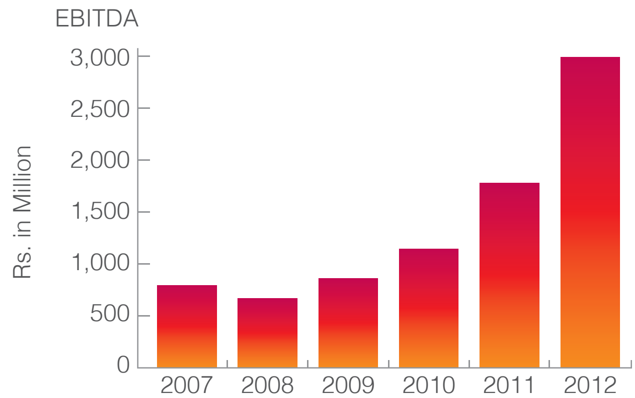
key financial information

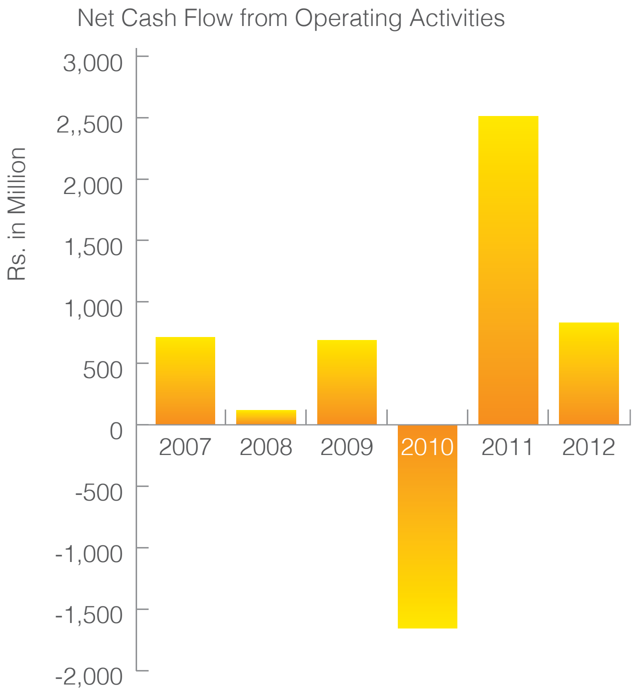
	Unit	2007	2008	2009	2010	2011	2012
Profitability ratios							
Gross profit ratio	%	16.30	14.39	9.96	8.15	12.29	16.87
Net profit / (loss) to sales	%	6.95	4.49	(2.01)	(5.56)	(4.32)	0.24
EBITDA	Rs. in M	794	670	860	1,144	1,793	2,992
EBITDA to sales	%	13.10	8.51	7.43	7.82	10.62	14.62
Operating leverage ratio	No. of Times	(24.59)	(0.58)	(0.65)	(2.58)	25.55	10.18
Return on equity	%	8.14	5.38	(3.65)	(11.79)	(11.87)	0.81
Return on capital employed	%	6.44	2.43	(1.33)	(4.57)	(4.94)	0.36
Liquidity ratios							
Cash flow from operations to sales	No. of Times	0.15	0.08	0.13	0.01	0.28	0.14
Cash to current liabilities	No. of Times	0.14	(0.28)	(0.04)	(0.16)	(0.06)	(0.10)
Current ratio	No. of Times	3.28	0.73	0.66	0.73	0.52	0.57
Quick ratio	No. of Times	2.56	0.26	0.28	0.29	0.15	0.16
Activity / turnover ratios							
Fixed assets turnover	No. of Times	1.29	0.49	0.60	0.76	0.91	1.16
Debtor turnover	No. of days	8.15	4.77	5.37	9.83	7.35	3.71
Inventory turnover	No. of days	69.05	56.32	48.43	49.73	55.77	59.23
Creditor turnover	No. of days	71.00	49.99	46.61	63.22	123.05	164.88
Operating cycle	No. of days	6.20	11.10	7.18	(3.65)	(59.93)	(101.93)
Capital structure ratios							
Interest cover ratio	No. of Times	15.04	14.50	0.58	0.09	0.36	1.1
Long term debt to equity ratio	No. of Times	0.26	1.21	1.75	1.58	1.40	1.22
Weighted average cost of debt	%	9.52	14.72	11.51	10.99	12.09	11.21
Financial leverage	%	55	258	372	358	333	309
Earning assets to total assets	%	55	91	90	86	81	77
Investment / market ratios							
Number of outstanding shares	No. in M	444	520	520	663	663	663
Earnings per share - basic and diluted	Rs.	1.64	0.68	(0.42)	(1.29)	(1.10)	0.07
Dividend per share - Note (ii)	Rs.	2.10	0.54	–	–	–	–
Dividend payout ratio - Note (ii)	%	128	79	–	–	–	–
Dividend cover ratio - Note (ii)	No. of Times	0.78	1.26	–	–	–	–
Price earning ratio - Note (i)	No. of Times	–	4.66	(2.34)	(9.05)	(14.99)	0.69
Dividend yield ratio - Note (i) & (ii)	%	–	4	–	–	–	–
Market value per share (year end)	Rs.	–	14.58	17.94	4.25	7.34	10.12
Market value per share (highest)	Rs.	–	28.31	27.00	18.80	15.87	13.82
Market value per share (lowest)	Rs.	–	12.66	12.11	9.57	7.15	8.20
Break up value per share	Rs.	11.67	12.63	12.23	10.42	9.26	9.35

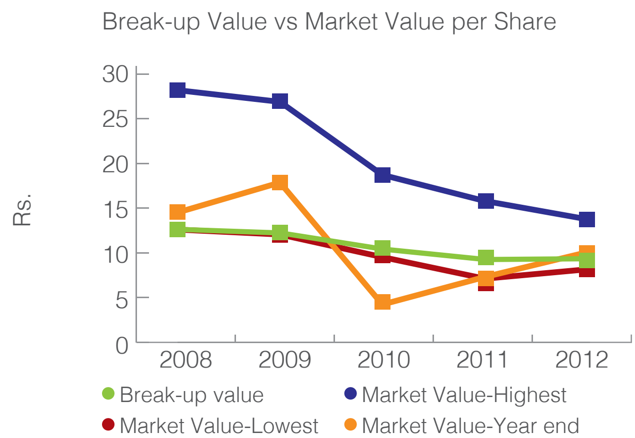
Note (i) Company was listed during 2008
Note (ii) Dividend paid during 2008 was the Final dividend declared during 2007

graphical presentation









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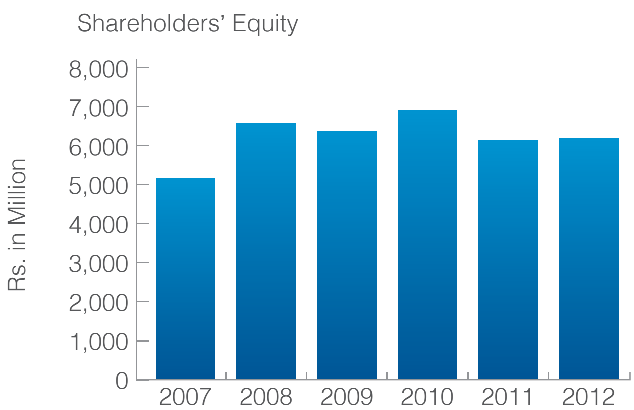
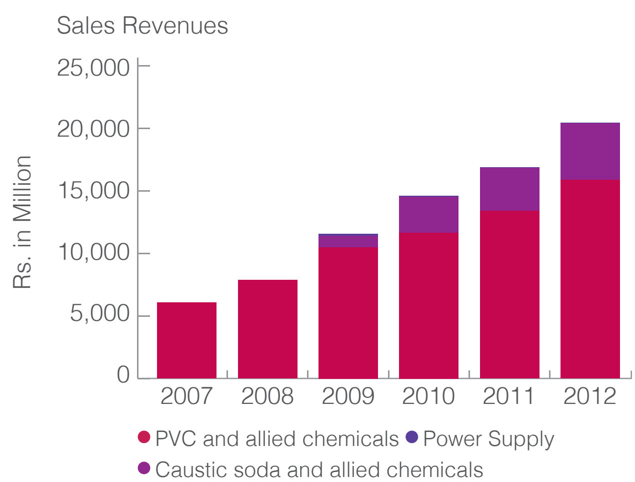




balance sheet vertical and horizontal analysis

Amounts in Rs. M

	2007	2008	2009	2010	2011	2012
ASSETS						
Non-Current Assets	4,859	16,302	19,470	19,633	19,559	18,649
Current Assets	4,604	1,977	3,086	4,501	4,969	6,308
Total Assets	9,463	18,279	22,556	24,134	24,528	24,957
EQUITY AND LIABILITIES						
Equity	5,177	6,566	6,360	6,906	6,139	6,199
Advance against issue of share capital	1,054	–	–	–	–	–
Non-Current Liabilities	1,828	9,008	11,515	11,064	8,839	7,728
Current Liabilities	1,404	2,705	4,681	6,164	9,550	11,030
Total Equity & Liabilities	9,463	18,279	22,556	24,134	24,528	24,957

Vertical Analysis % of Balance Sheet Total	2007	2008	2009	2010	2011	2012
ASSETS						
Non-Current Assets	51%	89%	86%	81%	80%	75%
Current Assets	49%	11%	14%	19%	20%	25%
Total Assets	100%	100%	100%	00%	100%	100%
EQUITY AND LIABILITIES						
Equity	55%	36%	28%	29%	25%	25%
Advance against issue of share capital	11%	–	–	–	–	–
Non-Current Liabilities	19%	49%	51%	46%	36%	31%
Current Liabilities	15%	15%	21%	25%	39%	44%
Total Equity & Liabilities	100%	100%	100%	100%	100%	100%

Horizontal Analysis Year on Year	2008 over 2007	2009 over 2008	2010 over 2009	2011 over 2010	2012 over 2011
ASSETS					
Non-Current Assets	236%	19%	1%	–	(5%)
Current Assets	57%	56%	46%	10%	27%
Total Assets	93%	23%	7%	2%	2%
EQUITY AND LIABILITIES					
Equity	27%	-3%	9%	-11%	1%
Advance against issue of share capital	-100%	–	–	–	–
Non-Current Liabilities	393%	28%	-4%	-20%	(13%)
Current Liabilities	93%	73%	32%	55%	15%
Total Equity & Liabilities	93%	23%	7%	2%	2%

profit and loss account
vertical and horizontal analysis

Amounts in Rs. M

	2007	2008	2009	2010	2011	2012
Net Sales	6,063	7,868	11,571	14,628	16,886	20,466
Cost of Sales	(5,075)	(6,736)	(10,419)	(13,437)	(14,811)	(17,014)
Gross Profit	988	1,132	1,152	1,191	2,075	3,452
Distribution and marketing expenses	(258)	(312)	(469)	(609)	(854)	(1,134)
Administrative expenses	(131)	(163)	(205)	(311)	(386)	(478)
Other operating expenses	(70)	(289)	(231)	(171)	(226)	(528)
Other operating income	88	124	100	22	21	501
Operating profit	617	492	347	122	630	1,813
Finance costs	(41)	(33)	(596)	(1,412)	(1,747)	(1,647)
(Loss) / Profit before taxation	576	459	(249)	(1,290)	(1,117)	166
Taxation	(154)	(106)	17	476	388	(116)
(Loss) / Profit after taxation	422	353	(232)	(814)	(729)	50

Vertical Analysis

% of Sales	2007	2008	2009	2010	2011	2012
Net Sales	100%	100%	100%	100%	100%	100%
Cost of sales	-84%	-86%	-90%	-92%	-88%	-83%
Gross profit	16%	14%	10%	8%	12%	17%
Distribution and marketing expenses	-4%	-4%	-4%	-4%	-5%	-6%
Administrative expenses	-2%	-2%	-2%	-2%	-2%	-2%
Other operating expenses	-1%	-4%	-2%	-1%	-1%	-3%
Other operating income	1%	2%	1%	–	–	2%
Operating profit	10%	6%	3%	1%	4%	9%
Finance costs	-1%	–	-5%	-10%	-10%	-8%
(Loss) / Profit before taxation	10%	6%	-2%	-9%	6%	1%
Taxation	-3%	-1%	–	3%	2%	-1%
(Loss) / Profit after taxation	7%	4%	-2%	-6%	-4%	0%

Horizontal Analysis
Year on Year

	2008 over 2007	2009 over 2008	2010 over 2009	2011 over 2010	2012 over 2011
Net Sales	30%	47%	26%	15%	21%
Cost of sales	33%	55%	29%	10%	15%
Gross Profit	15%	2%	3%	74%	66%
Distribution and marketing expenses	21%	50%	30%	40%	33%
Administrative expenses	24%	26%	51%	24%	24%
Other operating expenses	313%	-20%	-26%	32%	134%
Other operating income	41%	-19%	-78%	-5%	2,286%
Operating profit	-20%	-29%	-65%	245%	188%
Finance costs	-20%	1,706%	137%	24%	-6%
(Loss) / Profit before taxation	-20%	-154%	418%	-13%	115%
Taxation	-31%	-116%	2,643%	-18%	-130%
(Loss) / Profit after taxation	-16%	-166%	251%	-10%	107%

corporate governance

governance framework

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

In recognition of the importance of good Corporate Governance on the basis of proper management policies, the Company pursues a policy of conformity to the accepted guidelines of all the stock exchanges of Pakistan and the Securities and Exchange Commission of Pakistan (SECP). The Board of Directors is committed to honest, ethical, knowledgeable and comprehensive management and to implement good Corporate Governance as a means of achieving maximum success and effectiveness. In short, good Corporate Governance is a tool for enhancing the value of the Company and its sustainable growth. The work of developing good Corporate Governance is ongoing, and aims to incorporate standards universally practiced. Improvements in good Corporate Governance have been continually focused upon.

The internal environment

The Company has structured its organisation in a way that corresponds well to its business plan and clearly assigned responsibilities to each department. High quality personnel are hired and all staff are given continuous opportunities to develop their knowledge and competence and become good ethical representatives of the Company's commitment in policy to professional business standards. The Company also encourages staff to participate in and understand their work, while instilling in them the responsibility of reducing risk. The work is constantly being upgraded and improved and fashioned in such a way that internal controls are an integral part of operations. Various operating manuals have been produced to ensure efficiency of operations and avoid duplication of effort.

Internal Control Framework

Responsibility

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

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

Framework

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

Risk Assessment

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

Control Activities

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

Review

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

Audit

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

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

Salient features of Internal Audit Charter

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

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

Directors

The Board comprises of one executive, two independent & seven non-executive Directors, of whom two are executives in other Engro companies. They have the collective responsibility of ensuring that the affairs of the Company are managed competently and with integrity.

A non-executive Director, Mr. Muhammad Aliuddin Ansari, chairs the Board and the Chief Executive Officer is Mr. Khalid S. Subhani. Biographical details of the Directors are given on pages 29 to 31.

A Board of Directors' meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board met six times including meetings for long-term planning, giving consideration both to the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a detailed analysis on businesses and full papers on matters where the Board will be required to make a decision or give its approval.

Board Activities in 2012

In 2012, the Board's activities were characterized by prospective issues of central importance. A great deal of attention was paid to strategic issues such as development of sustainable operations, cash flow management and foreign exchange strategy. At the final Board meeting of the year, the Directors approved the Corporate Plan for 2013.

Director's Name	Committee Members		Attendance		
	Board Audit Committee	HR & Remuneration Committee	Board Meetings	Board Audit Committee	HR & Remuneration Committee
Mr. Muhammad Aliuddin Ansari*		✓	4/6		2/4
Mr. Khalid Siraj Subhani			5/6		
Mr. Asad Umar**		✓	1/6		2/4
Mr. Asif Qadir***	✓		4/6	3/6	
Mr. Muhammad Afnan Ahsan*			4/6		
Mr. Isar Ahmed	✓	✓	5/6	6/6	3/4
Mr. Khalid Mansoor****			1/6		
Mr. Kimihide Ando	✓	✓	4/6	4/6	2/4
Mr. Shahzada Dawood			1/6		
Mr. Shabbir Hashmi	✓		6/6	6/6	
Mr. Takashi Yoshida			6/6		
Mr. Waqar Malik		✓	5/6		4/4

*Co-opted directors effective July 24, 2012 include Mr. Muhammad Aliuddin Ansari and Mr. Muhammad Afnan Ahsan

**Mr. Asad Umar resigned on Apr 30, 2012

***Mr. Asif Qadir resigned on October 31, 2012

****Mr. Khalid Mansoor resigned on Apr 30, 2012

governance performance

Enterprise Risk Management (ERM) System

Engro Polymer & Chemicals Limited launched the Lean Enterprise Risk Management (ERM) in 2011. It is the policy of Engro Polymer & Chemicals Limited to view risk management as integral to the creation, protection and enhancement of shareholder value by managing the uncertainties that could influence the achievement of corporate goals and objectives.

It runs throughout the organisation's strategy, assessing the amount of risk it is willing to accept and assigning responsibility throughout the organization. It is a continuous cycle lead by the Chief Risk Officer (CRO) endorsed by the Board of Directors and Management, with the objective of proactively managing risks across the company over the years.

Business risks & Challenges

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

Reduction in domestic demand of PVC and Caustic Soda	EPCL's annual production capacity of PVC is 150 K tons which is in the optimum range for Pakistan market. Over the years the Company has developed an export base in the international market and is in a reasonably comfortable position to export surplus quantities of PVC. Caustic soda was launched in 2009 in the domestic market and the product gained market penetration in a very short period of time. Production capacity of EPCL currently caters to one-third of the domestic demand. In a scenario where demand is reduced, EPCL would be in a position to maintain its sales volume on account of its competitive advantage in terms of more efficient operations and product quality. In addition to this EPCL also has the capability to export Caustic soda.
Risk of availability of raw materials for PVC	Raw material required to produce PVC is Ethylene. Availability of Ethylene will not be an issue for the next few years as additional capacities have come online. In addition to this, EPCL has the infrastructure to produce PVC by importing VCM and exporting EDC.
Increase in crude oil prices resulting in increase of Ethylene prices	The financials of the business are affected by PVC-Ethylene margins. As both PVC and Ethylene are part of the Chlor Vinyl chain, therefore, increase in Ethylene prices would also push PVC prices higher to an extent.
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, 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, 2012, EPCL's outstanding borrowings were Rs. 9,585 million out of which Rs. 3,472 million (USD 36 million) represents foreign currency borrowings which are linked to LIBOR. Foreign currency borrowings outstanding to the extent of USD 24 million have been hedged through a fixed interest rate swap for the entire tenor of the loan. As at December 31, 2012, the Company also has outstanding cross currency interest rate swap agreements amounting to USD 7.1 million to hedge its interest rate on floating rate local currency borrowings from a consortium of banks.

Liquidity risk management

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

Foreign currency risk management

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

Audit Report Ratings

In 2012, EPCL had 27% of its Internal Audit Reports rated as Management Attention required (MAR) against a target of 10% set for all Engrop group companies. There were no 'unsatisfactory' rated reports.

External validation of Corporate Governance

A review report has been obtained from the external auditors, Messrs. A. F. Ferguson & Co. Chartered Accountants whereby it has been validated that the Company has adhered to the Statement of Compliance as annexed in the Financial Statements section on page 59 of this Annual Report and that the Statement of Compliance is in line with best practices as contained in the Code of Corporate Governance.

board of directors

profile of board of directors

Muhammad Aliuddin Ansari
Chairman

Muhammad Aliuddin Ansari is the President & Chief Executive Officer of Engro Corporation Limited since May 2012. He is a graduate of Business Administration with a specialization in Finance & Investments. Ali started his career as an Investment Manager at Bank of America in London which later became Worldinvest after a management buyout. He worked as CEO Pakistan and later as COO Emerging Europe for Credit Lyonnais Securities Asia (CLSA). He has also worked as CEO AKD Securities and was instrumental in launching Online Trading, Venture Capital and Private Equity investments in Pakistan. In 2006 he partnered with an Oil & Gas company to form Dewan Drilling, Pakistan's first independent Drilling company which he led as its CEO before joining Engro.

Ali is a member of the Board of Directors of Engro Corporation Limited, Engro Fertilizers Limited, Engro Eximp (Private) Limited, Engro Eximp AgriProducts (Private) Limited, Sindh Engro Coal Mining Company Limited, Dawood Hercules Corporation Limited, Dewan Drilling Limited, Dewan Petroleum (Private) Limited, Pakistan Chemical & Energy Sector Skill Development Company and Pakistan Business Council. He has chaired a number of SECP committees and also served on the Boards of the Karachi Stock Exchange, NCCPL, Lucky Cement and Al Meezan Investment Management amongst others. He joined the Board in 2012.

Khalid Siraj Subhani
President & Chief Executive

Khalid Siraj Subhani is the President and Chief Executive Officer of Engro Polymer & Chemicals Limited and Senior Vice President of Engro Corporation Limited.

He is a Director on the Boards of Engro Corporation Limited, Engro Fertilizers Limited, Engro Eximp (Private) Limited, The Hub Power Company Limited, Laraib Energy Limited and Pakistan Japan Business Forum. He is Chairman on the Board of Engro Polymer Trading (Private) Limited. He has also served as Chairman on the Board of Avanceon in the past.

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

He is a member of the Pakistan Engineering Council, Business Advisory Council of the Society for Human Resource Management (SHRM) Forum Pakistan, Faculty Selection Board of Institute of Business Administration - Sukkur, and Standing Committee on Environment of Federation of Pakistan Chambers of Commerce & Industry. He has also been a member of Federal Government's Committee on Dawood Engineering College rejuvenation and American Institute of Chemical Engineers.

He graduated from NED University of Engineering and Technology, Pakistan with a degree in Chemical Engineering and has completed programs on advance management from MIT and Hass School of Business Management, University of Berkeley, USA.

Kimihide Ando

Director

Kimihide Ando was posted as General Manager for Pakistan, Mitsubishi Corporation in April 2010. This is his second assignment to Pakistan, the 1st of which was during 1998 – 2003. He has a Bachelor of Liberal Arts degree from the International Christian University, Tokyo and joined Mitsubishi Corporation, Japan in 1982. He has spent most of his career in the Chemical Group. During his tenure, other than Pakistan he was assigned to Egypt, Iraq, Saudi Arabia, Malaysia and Indonesia, and has diverse experience in Marketing, Chemicals, HRD and Manufacturing. He is also Director of Tri-Pack Films Limited. Moreover, he is Vice Chairman of PJBF (Pakistan Japan Business Forum) and is also a Vice President of OICCI (Overseas Investors Chamber of Commerce and Industry) and Trustee of FDSK (the Foundation for Diffusion of Scientific Knowledge). He joined the Board in 2010.

Shahzada Dawood

Director

Shahzada Dawood serves as a Director on the Boards of Dawood Hercules Corporation Ltd, Engro Corporation Ltd, DH Fertilizers Ltd, Dawood Corporation (Pvt) Ltd, Engro Foods Ltd, Engro Powergen Ltd, Engro Power Gen Qadirpur Ltd, Engro Vopak Terminal Ltd, Pebbles (Pvt) Ltd, Patek (Pvt) Ltd, Sirius (Pvt) Ltd and Tenaga Generasi Ltd. He also serves as a Director of Dawood Lawrencepur Ltd and Engro Fertilizers Ltd. He is a Trustee of The Dawood Foundation, which is one of the largest public charitable trusts in Pakistan, supporting education and health initiatives. He serves as a Member of the Board of Governors of the National Management Foundation, the sponsoring body of Lahore University of Management Sciences (LUMS). Mr. Dawood is an M.Sc. in Global Textile Marketing from Philadelphia University, USA, an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance.

Waqar Ahmed Malik

Director

Waqar had a distinguished career spanning over 27 years in the chemical industry with the ICI plc group, UK and later with Akzo Nobel in Pakistan and the UK. In the last 15 years he has held senior leadership positions with these groups, which included Chief Executive of ICI Pakistan Limited, Chief Executive and Chairman Pakistan PTA Limited (now Lotte Pakistan Limited).

His other current engagements are Chairman of Sui Southern Gas Corporation and Director of IGI Insurance Limited. He has also served as Director on the Board of State Bank of Pakistan, Oil & Gas Development Company Limited, President of the Overseas Investors Chamber of Commerce & Industry and Management Association of Pakistan.

An Alumnus of Harvard Business School and INSEAD, and is a Fellow of the Institute of Chartered Accountants in England & Wales. He joined the Board in 2007.

Isar Ahmad

Director

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

Afnan Ahsan
Director

Afnan Ahsan is the Chief Executive Officer of Engro Foods Limited since 2011.

Mr. Ahsan has an extensive career of 20+ years in leading multinationals like Coca-Cola, Pepsi Cola and Nestle. He brings with him a wealth of experience and learning in Business Management across several geographies namely South Africa, Canada, South East Asia and Pakistan. His expertise includes Mergers & Acquisitions, Marketing, Sales, Food & Beverages, Manufacturing and Supply Chain Management. He holds an MBA in Finance & Marketing from Arkansas State University, USA.

Prior to joining Engro Foods, Mr. Ahsan was working with Nestle as Senior VP & Business Executive Manager in Philippines leading their Beverages Business. During his career with Nestle he has also been involved in the water & ice cream businesses. He joined the Board in 2012.

Takashi Yoshida
Director

Takashi Yoshida has been with Mitsubishi Corporation for 28 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 Board in 2010.

Shabbir Hashmi
Director

Shabbir Hashmi has more than 30 years of project finance and private equity experience. At Actis Capital, one of the largest private equity investors in the emerging market, he had led the Pakistan operations. Prior to Actis, he was responsible for a large regional portfolio of CDC Group Plc for Pakistan and Bangladesh. He also had a long stint with USAID and later briefly with the World Bank in Pakistan, specializing in planning and development of energy sector of the country. Apart from holding more than 24 board directorships as a nominee of CDC/Actis in the past, he is currently serving as an independent director on several companies from manufacturing to financial services. He is also on the board of governors of The HelpCare Society which is operating K-12 schools in Lahore for underprivileged children. He is an engineer from Dawood College of Engineering & Technology, Pakistan and holds an MBA from J.F. Kennedy University, USA.

Naz Khan*
Director

Naz Khan is the Chief Financial Officer at Engro Corporation Limited. Prior to her current position, she also worked as Chief Executive Officer of KASB Funds Limited. Her association with Pakistan's capital markets spans over 19 years during which she has been actively involved in primary as well as secondary markets for both debt and equity securities. She has also held key positions of Executive Director, Head of Money Market and Fixed Income, Head of Investment Advisory Division and Co-Head of Investment Banking Division at KASB Securities Limited, where she led major capital market transactions on the debt and equity side. Ms. Khan has also worked as a consultant for the Asian Development Bank on Mortgage Backed Securities.

*Naz Khan joined the Board on February 04, 2013 in place of Mr. Asif Qadir.

management committee

From Left to Right: Haseeb Hafeezuddeen, Jahangir Piracha, Khalid Siraj Subhani, Asif Tajik, Arshaduddin Ahmed & Syed Nayyar Iqbal Raza

Khalid Siraj Subhani

President & CEO

Please refer to profile of Board of Directors' on page 29.

Arshaduddin Ahmed

VP Marketing

Arshaduddin Ahmed is an Associate member of the Institute of Chartered Accountants of Pakistan. He also holds a Bachelors degree in Civil Engineering and is also a qualified Cost & Management Accountant. He started his professional career as Finance Manager with ARTAL, a Belgian conglomerate involved in food business in Pakistan. Having worked in Finance for two years he was transferred to one of the affiliates as Business Unit Head to look after the overall Business Operation. In 2001 the company was acquired by Nestle Pakistan and Arshad continued to work as the Head of Operations looking after the Water Business. After working for more than four years with Nestle, he joined Engro Polymer & Chemicals Limited in September 2005 as Chief Financial Officer. In February 2012, with the restructuring of the Marketing Division, he took the charge as VP Marketing, looking after Sales, Business Planning and Market Development activities.

Asif Tajik

VP Manufacturing

Asif Tajik is the Vice President Manufacturing at Engro Polymer & Chemicals Ltd, with over 29 years of experience of which 23 years of services are with Exxon/Engro Pakistan. Asif is known for administrative qualities due to his prior 4.5 years of experience with the Armed Forces.

Hired in Admin Services at Head Office, on moving to Daharki, He became Shop Section Head in 1994 and was promoted to Field Maintenance Manager in 1997. Since then, due to his commitment and consistency in work performance, he was promoted to senior positions several times as Planning/Project Unit Manager in 1998, Engineering Manager in 2001, Maintenance Manager in 2003, I&E Manager in 2005, General Manager Manufacturing EFert in 2007, moved to Karachi as General Manager New Venture Division in Aug 2011 and took charge as VP Manufacturing of the Company in December 2011.

He did his Bachelors in Mechanical Engineering and also attained a Post Graduate Degree in Business Administration. In addition to that he is equipped with diverse range of experience in the Fertilizer Industry including the handling of administrative and technical jobs. He has always been fascinated by working on people management which always inspired him to do more.

Haseeb Hafeezuddeen

Chief Financial Officer

Haseeb Hafeezuddeen is working with Engro Polymer & Chemicals Ltd as the Chief Financial Officer since July 05, 2012.

Before joining EPCL, Haseeb worked as Chief Financial Officer in Universal Terminal Ltd. Karachi (Byco Group Co.) where he served for about 1.5 years. Prior to this, he was VP Finance of Packaging Products Ltd. Company in Saudi Arabia for about 3 years. Haseeb also worked at Shell where he served on different assignments in Pakistan and the Middle East for about 10 years. Haseeb has 20 years of financial management experience.

He received his MBA degree from Institute of Business Administration, Graduate Diploma in Public Accountancy from McGill University and is qualified as a Certified Public Accountant.

Jahangir Piracha

General Manager - HR & Corporate Services

Jahangir Piracha is working as General Manager Human Resource & Corporate Services since January 2011. Before moving to EPCL, he worked as Production Manager and HSE Manager at Engro Fertilizer Limited. He has extensive experience in various aspects of operations management, process engineering, HSE and HR. He holds a Bachelors' degree in Chemical Engineering from the University of Engineering and Technology, Lahore, Pakistan.

Syed Nayyar Iqbal Raza

Manager - Market Development & Logistics

Nayyar holds a Bachelors degree in Mechanical Engineering. He started his professional career as Area Engineer with Unilever Pakistan Limited in the Soap & Edible oil factory in Rahim Yar Khan. He was there for three years. He joined Jalal engineering in Karachi and worked for three years. In 1986 he joined Exxon Chemicals in Daharki where he worked in different capacities for 12 years. He was seconded to EVTL as a Project Manager and was there for two years. Moving back to Engro he worked on the NPK fertilizer project and after its completion joined the Company in the maintenance department in 2001. He was made Technical Manager in 2003 and recently moved in as the Market Development and Logistics Manager. Nayyar is being with Exxon / Engro for the last 26 years.

principal board committees

The Board Audit Committee (BAC)

This committee meets at minimum once every quarter and assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, systems of internal control, risk management and the audit processes. The BAC has the power to call for information from the management and to consult directly with the external auditors or their advisors as considered appropriate.

The Chief Financial Officer and the Head of Internal Audit regularly attend BAC meetings by invitation to discuss matters relating to the financial statements and audits. The Committee also meets with external auditors independently. The Committee met six times during 2012.

Members

Mr. Isar Ahmad (Chairman)

Mr. Kimihide Ando (Director)

Mr. Shabbir Hashmi (Director)

Ms. Naz Khan (Director)

The **Secretary of the Committee** is

Ms. Muneeza Kassim.

The HR & Remuneration Committee (HRRC)

This committee meets with the aim of reviewing and recommending all elements of the Compensation system, as well as the Organization and Employee Development policies relating to Senior Executives including members of the Management Committee. It reviews the key human resource initiatives and the organizational structure of the Company.

The President attends HRRC meetings by invitation, and the Committee met four times during 2012. The members of the Committee are as follows:

Members

Mr. Muhammad Aliuddin Ansari (Chairman)

Mr. Isar Ahmad (Director)

Mr. Kimihide Ando (Director)

Mr. Waqar Malik (Director)

The **Secretary of the Committee** is

Mr. Jahangir Piracha.

functional committees

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

Management Committee (MC)

The Management Committee reviews and endorses long term strategic plans, capital and expense budgets, as well as the development and stewardship of business plans. It also reviews the effectiveness of risk management processes and internal control.

Members

Mr. Khalid Siraj Subhani (Chairman)

Mr. Arshaduddin Ahmed

Mr. Asif Tajik

Mr. Jahangir Piracha

Mr. Haseeb Hafeezuddeen

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

Corporate HSE Committee

The committee meets quarterly to review and promote HSE standards, monitor HSE performance, personnel safety as well as Process safety. The overall company strategic thinking, planning & direction setting in the field of HSE is the main mandate of the committee.

The Committee ensures that all are in line with the Company's HSE policy and objectives.

Members

Mr. Khalid Siraj Subhani (Chairman)

Mr. Arshaduddin Ahmed

Mr. Asif Tajik

Mr. Jahangir Piracha

Mr. Haseeb Hafeezuddeen

The **Secretary of the Committee** is Mr. Rameez Ahmad Fraz

Committee for Organization & Employee Development (COED)

The Committee is responsible for the review of Compensation, Organization, and Training and Development of all employees of the Company, as well as for reviewing the organization's structure.

Members

Mr. Khalid Siraj Subhani (Chairman)

Mr. Arshaduddin Ahmed

Mr. Asif Tajik

Mr. Jahangir Piracha

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

president's review

In 2012 the Management of the Company continued its focus on safe business operations while increasing production at all plants and I am pleased to announce that the Company achieved its safety targets for the year.

During 2012 the Company efficiently carried out a routine maintenance turnaround at the Plant which resulted in stable, reliable and efficient operations of the integrated production facility and PVC and VCM production increased by 21% and 49% respectively over the previous year.

PVC margins remain squeezed in 2012 due to lower international demand and cost push pressure. Slowdown in Europe, China and India affected demand of PVC keeping international prices lower whereas unrest in the Middle East fuelled uncertainty of crude oil supply, pushing international Ethylene prices higher.

Despite the challenges posed by the global economy, the Company maintained a positive long term outlook and achieved sales growth on the back of significantly improved operational performance.

Stable production, market development initiatives and better implementation of Government's PVC scrap import regulations resulted in 19% PVC sales growth for the Company. The domestic PVC market grew by 5% as the pipe sector continued to be the major consumer of PVC in addition to healthy demand from other sectors including cable, packaging etc. Caustic Soda sales during the year remained stable and were in line with production. PVC and Caustic Soda demand during 2013 is expected to remain stable to bullish.

Going forward, the Management plans to continue its focus on safe and stable plant operations coupled with improving operational efficiencies across all aspects of the business with the objective to reap optimal economic benefits of the integrated operations.

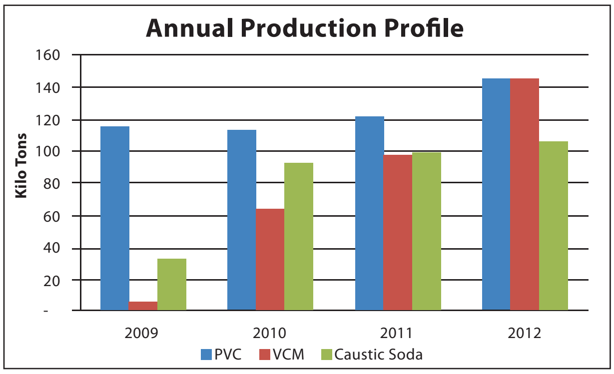
I would like to thank our shareholders, customers, employees and business partners for their support to the Company and look forward to our valuable business partnership in 2013.

Khalid Siraj Subhani
President & Chief Executive

directors' report

business review

The year 2012 saw a significant improvement in the manufacturing operations. The Company produced 146 kilo tons of PVC and VCM each which constitutes 21% and 49% increase in production over last year, respectively. Caustic Soda production during the year was 107 Kilo dry metric tons. The continuous focus of the management to ensure safe and stable operations have shown material improvements and the management's sharp focus in this area continues.

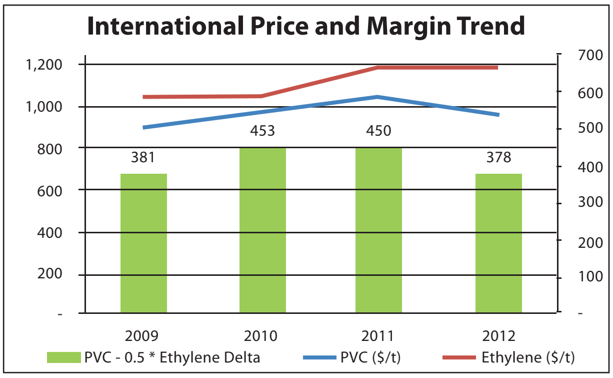


Focused sales and market development strategies backed by stable production resulted in achieving healthy growth in sales volumes over prior years. In 2012 the Company sold 133 kilor tons of PVC in the domestic market as compared to 112 kilo tons last year. The growth of 19% in sales was higher than the PVC industry demand growth which is estimated to be around 5%. Estimated PVC market share of the Company during 2012 increased from around 70% to approximately 79%.

Whilst the pipe sector continued to be the largest consumer of PVC, other sectors like shoes, electric cable, packaging sectors etc. also showed growth during the year. PVC demand in Pakistan continues to be derived from the agriculture, construction and infrastructure development sectors.

Primary focus of the Company is to sell PVC in the domestic market while the surplus production is exported. During 2012 the Company exported 13 kilo tons of PVC compared to 11 kilo tons last year.

During 2012, PVC margins remained dampened due to lower demand and cost push pressures. Economic slowdown in major PVC consuming countries like China, India and the Euro Zone resulted in lower international PVC prices, whereas, international Ethylene prices continued to be on the high side because of globally high crude oil prices in the wake of geo-political tensions and supply side constraints.



PVC's excellent economic cost to performance ratio continues to make it a choice material for many industries globally in a number of applications, mainly pipes, which is evident from rising global capacities to meet demand growth. Stable VCM operation led to high production volumes due to which the Company exported 12 kilo ton of VCM during the year.

In 2012 the Company sold 90 kilo dry metric tons of Caustic Soda in the domestic market as compared to 87 kilo dry metric tons last year with estimated market share in 2012 of approximately 35%. The company continued to dominate the South market selling most of its production whereas the remaining production was sold in the North market. The Company has a strong customer base within and outside Pakistan which is more than sufficient to sell all its production. During the year the Company availed export opportunities to acquire good margins and exported 6 kilo dry metric tons of Caustic Soda.

The Company sold 20 kilo tons of Sodium Hypochlorite in the domestic market during 2012 as compared to 18 kilo tons last year.

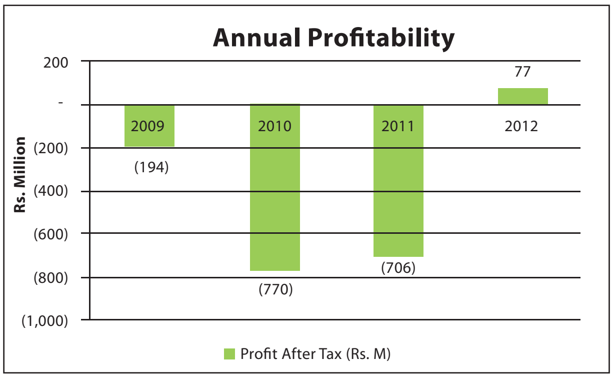
The Company worked meticulously on margin management and benefitted from low international product pricing, raw materials procurement contract optimizations and a dynamic pricing process.

In Q4 2012 the Company entered into an arrangement and initiated sale of Hydrogen to a company located at Port Qasim which will add value to the margins of the Company.

Going forward, the Management plans to continue to maintain its focus on safe and stable plant operations coupled with improving operational efficiencies across all aspects of the business. The objective will be to reap optimal economic benefits of the integrated operations.

financial review

The Company made a profit after tax of Rs.77 million on consolidated basis as compared to a loss of Rs.706 million last year. The improvement in financial performance of the Company despite lower PVC margins was mainly attributable to higher production volumes resulting in higher sales. In addition to this receipt of the insurance claim also positively impacted the bottom line by Rs 275 million (after tax).



Company's 2012 revenue increased to Rs. 21 billion from Rs. 17 billion in 2011, a growth of 21% mainly attributable to higher sales volumes. Gross profit increased by Rs. 1.4 billion, an increase of 65% over 2011 attributable to both higher sales volumes and stable plant operations during the year.

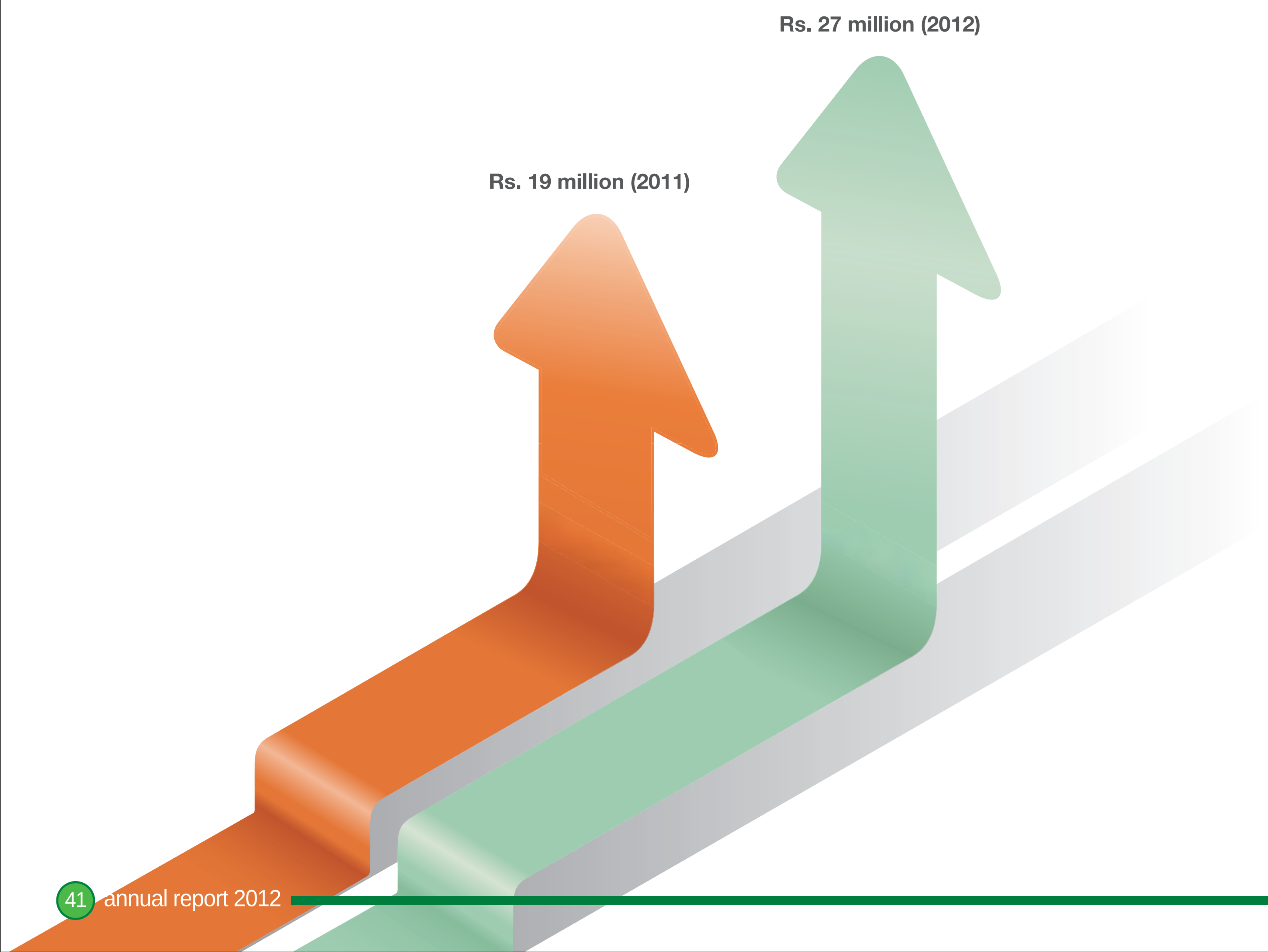
Distribution and marketing expenses increased by Rs. 287 million, which was mainly attributable to higher volumes of product sold and diesel price hike during the year. Net foreign exchange losses during the year increased from Rs. 405 million in 2011 to Rs. 790 million in 2012. This was on account of higher devaluation of Pak Rupee against US Dollar during the year (Rs. 7.2 as compared to Rs. 4.3 in 2011). Foreign exchange loss is mainly associated with foreign currency liabilities represented by loans and payable for raw materials. The Company has taken foreign currency liabilities in order to take advantage of LIBOR – KIBOR arbitrage.

Cash generation from operations was lower by Rs. 1.4 billion as compared to 2011 though EBITDA was almost at par with last year helped by revised terms of credit (120 days to 180 days) and low usance charges on procurement of Ethylene.

In order to bridge its operating requirements during 2012, the company opted for net Rs.800 M borrowings from Engro Corporation. Further, the company took a fresh loan of Rs. 691 million from banks in addition to repaying of Rs. 2.5 billion of debt during the year. The Company successfully made timely repayments of all loan installments related to Syndicate and IFC long term loans. The Company will continue to monitor its financing strategy to ensure adequate liquidity at an optimal cost for its developmental and business initiatives.

engro polymer trading (pvt.) ltd. financial results

Engro Polymer & Trading (Private) Limited. is a wholly owned subsidiary of Engro Polymer & Chemicals Limited. The Company's principal activity is to purchase, market and sell PVC, PVC compounds, Caustic Soda and other related chemicals. The Company posted a profit after tax of Rs. 27 million in 2012 compared to Rs. 19 million in 2011. Higher profits are attributable to higher volume of exports leading to a growth in gross profit of 30% compared to last year. This was marginally offset by higher transportation expenses, proportionate to increase in export volumes.



health, safety & environment (HSE)

HSE continues to be the Company's top priority. The Company places particular emphasis on changing peoples' behavior to improve safety. The Company's health and safety is aligned with DuPont's best practices and it aims to comply with Occupational Safety and Health Administration (OSHA) standards. Management Safety Audit program is one of the key elements of EPCL's behavioral safety program where each Executive and Manager along with other employees go out to engage with the people and identify unsafe acts and conditions.

After successfully achieving a rating of over 3 in Process Safety and Risk management (PSRM), the Company also implemented the DuPont's Personal Safety Management (PSM).

In the year 2012, the Fleet Accident Frequency Ratio for non manufacturing operations remained 1.41 and there was an improvement of around 25% achieved versus last year's FAFR. Zero recordable injuries were reported in the year 2012 resulting in Zero Total Recordable Injury Rate (TRIR). The Company's non-manufacturing operations were awarded Engro Corporation's best safety corporate award for the second consecutive year in 2012. EPCL's head office operations were audited by World Wildlife Fund (WWF) and achieved the WWF Green Office certification.

The Company is pleased to report that its approach to occupational health and safety is aligned with DuPont and has also achieved the EMS-ISO 14001 certification.

Going forward the Company will be working on the implementation of revised PSRM standards, DuPont OHIH modules implementation, WWF Green Office implementation at Plant Site, British Safety Council (BSC) Five Star Program implementation and the launch of a Safety Behavior Campaign - "ZERO MAKES YOU A HERO".

company's key HSE highlights in 2012

- Achieved 10.6 million man-hours without a lost workday injury by year end

- DuPont has elevated the Process Safety & Risk Management standards. EPCL has embarked upon the revision of PSRM Level-2 procedures on revised and elevated standard. One major initiative taken by the Company was the alignment of leading indicators with the latest Centre for Chemical Process Safety (CCPS) guidelines. Process and personnel safety leading indicators have been separated and these are now giving a true reflection of site safety performance. The Company also launched the occupational health & industrial hygiene (OHIH) program. OHIH Level I & II procedures were developed & implemented. Food handler's health screening criteria was revised as per OHIH requirements.

- In the environment area, a British Safety Council (BSC) 5-star environmental audit program was launched. This will help in elevating the overall environmental standards of the site.

- To sustain the ISO 14000, internal & external audits were conducted and certification was renewed without any major non conformance.

- The Green Office initiative was launched at the Head Office & received certification from World Wildlife Fund (WWF).

- EPCL has acquired the membership to three major institutions, which includes Centre for Chemical Process Safety (CCPS), British Safety Council (BSC) and National Safety Council (NSC).

- Safety trainings were enforced by the Management team and 100 percent attendance was made compulsory. Trainings involved permanent as well as contractual employees and third party contractors. All employees were tested at the end of trainings on their cumulative knowledge base of safety standards that are required to be upheld in the due course of operations.

- To ensure continued focus on occupational and non-occupational safety, a certain portion of an employee's objectives is based on performing Management Safety Audits (MSAs) of areas related to other departments.

- Safety Management System at EPCL aligned with DuPont Safety System.

- Process Safety & Risk Management (PSRM) standard elevated as per revised DuPont Standard.

- British Safety Council (BSC) Five Star Program was launched for the evaluation of occupational health and safety management system.

- ISO 9001:2008 and ISO 14001 external audits were carried out and no major non-conformity (NC) was reported.

- OHIH program launched at the Plant Site.

- Process & personnel safety leading indicators were revised as per CCPS guidelines.

- EPCL non-manufacturing was awarded Engro Corporation Safety Award.

corporate social responsibility (CSR)

In 2012 the Company continued to play a vibrant role in Pakistan's social development. EPCL's hydropower scheme was inaugurated in the region of Kalam and Jalband to provide electricity which benefitted the locals during the year's harsh winters. The project was executed with the assistance of representatives of the Pakistan Army, Nazims and beneficiaries. The project is serving the electricity needs of hundreds of houses and thousands of residents. Almost 2,300 people have benefited from the project.

EPCL's Demand Based Irrigation System was inaugurated in Galiat and Abbottabad in June 2012. Local farmers are now able to double their crop yield and hundreds of families have directly and indirectly benefited from it.

Community investment and welfare scheme programs continue providing scholarships for children that reside in the Port Qasim area of Karachi and this initiative has demonstrated success over the past five years.

The Company in collaboration with Engro Foundation and HANDS, launched the Engro-Hunar Scholarship Program and selected eight students from the underprivileged areas of Gagar Phatak, Port Qasim, for scholarships at Hunar Foundation DMS institute. These students will be doing a twelve month certified course in welding, plumbing and mechanical trades and will have a chance to sit for the City & Guilds UK certification.

EPCL's is also a significant and recurrent donor of various NGOs, hospitals and institutes namely The Aga Khan University Hospital, Kidney Centre, Flood Victims and HOPE etc.

The Company also established a nursery at Palak Village. The broad-leaves nursery was established on one and half acre of land in the first half of 2012. The Company supervises the plantation and ensures that the beating up of the plantation is timed accurately in order to realize high survival outcomes.

human resources

Engro's core values of ethics, integrity, health, safety, innovation, risk taking, people, commitment to society and community were re-launched during 2012. Necessary measures were taken based on the Employee Engagement Survey results and Companywide Performance Assessment and Compensation (PAC) sessions were conducted.

The need to build careers and organizational development became the main focus in 2012 and an extensive framework has been created to develop the soft skills of employees. The Company shifted from general training programs to business school trainings and in-house customized training sessions.

The main focus in 2012 has been on communication between various departments of the Company and Human Resources. General Manager HR conducted various formal and informal communication sessions with the managers and employees periodically. Apart from this, face-to-face sessions have become a norm in the Company, where the employees can have informal discussions with the CEO.

As a measure to enhance work life balance, membership for all permanent employees was arranged at Arena. The Company finally relocated and reunited with its Engro family at The Harbor Front building. The office buildings at the plant are being rebuilt and revamped to create a motivating work environment. The Lahore office was not to be ignored and has also been renovated.

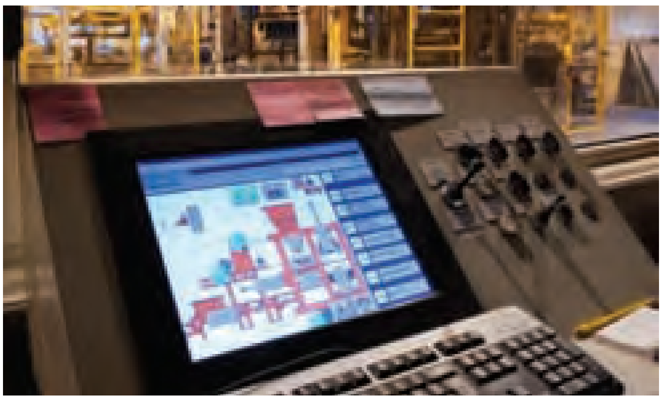
There is strong focus on the hiring of the best possible talent. Competent and progressive employees are hired solely based on merit. The recruitment team went on extensive recruitment drives to gain the best possible resources. In 2012, 115 new employees were hired.

The Engro family focuses on diversity and female members are considered an integral part of the organization. In 2012, twelve new female employees were hired as opposed to seven in 2011.

The Employee Engagement Survey was launched again in the fourth quarter of 2012 to gauge the improvement in the engagement levels of our people, based on the corrective measures taken all around the year. 85% of employees participated in giving their feedback via the engagement survey. The results achieved surpassed company ratio by two-folds.

information systems

Continuous improvement of business processes and IT infrastructure with the changing technologies and business dynamics was ensured during 2012. The Company has an Enterprise Resource Planning System, Electronic Communication and Network Infrastructure, Disaster Recovery Management System in addition to exploring new avenues of development. During the year the Company focused on alignment of business systems across all Engro companies. During the year the Company implemented the SAP Human Capital Management (HCM) module and the Safety Management Information System.



corporate review

Summary of shareholding in the Company

The shareholding in the Company as at December 31, 2012 is as follows:

Shareholders' Category	No. of Shareholders	No. of Shares Held	Percentage of Holding
Directors, Chief Executive Officer, and their spouse			
and minor children.	9	200,009	0.03
Associated Companies, undertakings and related parties.	4	539,762,128	81.35
Banks Development Financial Institutions,			
Non Banking Financial Institutions.	6	2,852,833	0.43
Insurance Companies	2	345,000	0.05
Modarabas and Mutual Funds	6	3,164,173	0.48
Share holders holding 10%	3	537,914,987	81.08
General Public (individuals) :			
a. Local	36,279	82,644,582	12.46
b. Foreign	-	-	-
Others	101	34,700,063	5.23

Category of Shareholding

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

1. Associated Companies, Undertakings and Related Parties

Names of holders	No. of Shares Held
Engro Corporation Limited	372,809,990
International Finance Corporation	97,155,000
Mitsubishi Corporation	67,949,998
EPCL Employees' Trust	1,847,140
Total	539,762,128

2. Mutual Funds

Names of holders	No. of Shares Held
CDC - Trustee AKD Index Tracker Fund	28,673
CDC - Trustee AKD Opportunity Fund	1,000,000
CDC - Trustee First Habib Stock Fund	10,000
Golden Arrow Selected Stocks Fund Limited	1,995,500
Total	3,034,173

3. Directors and their spouse and minor children

Names	No. of Shares Held
Muhammad Aliuddin Ansari	1
Khalid Siraj Subhani	1
Afnan Ahsan	1
Isar Ahmad	1
Kimihide Ando	1
Shahzada Dawood	1
Shabbir Hashmi	200,001
Waqar Malik	1
Takashi Yoshida	1
Total	200,009

4. Executives	2,621,000

5. Public sector companies and corporations: no holdings

6. Banks, Development Finance Institutions, Non Banking Finance Companies, Insurance Companies, Takaful, Modarbas & Pension Funds	3,327,833

7. Shareholders holding five percent or more voting rights in the Company

Names of holders	No. of Shares Held	Percentage of Holding
Engro Corporation Limited	372,809,990	56.19
International Finance Corporation	97,155,000	14.64
Mitsubishi Corporation	67,949,998	10.24
Total	537,914,98	81.07

8. Details of purchase / sale by Directors, Executive and their spouse and minor children.

Names of holders	Date of Purchase / Sale	Shares Purchased	Shares Sold	Rate
Muzaffar Islam	February 6, 2012	-	7,625	11.25
Zafar Ali	February 12, 2012	8,023	-	8.30
Zafar Ali	February 14, 2012	5,000	-	8.60
Zafar Ali	February 15, 2012	1,000	-	9.40
Zubair Ashraf Ch.	February 15, 2012	-	88,543	9.34
Muzaffar Islam	February 16, 2012	20,000	-	8.50
Zafar Ali	February 16, 2012	5,000	-	10.37
S. Nayyar Iqbal Raza	March 5, 2012	-	69,000	11.40
Muzaffar Islam	March 6, 2012	3,500	-	10.10
Muhammad Ali Ansari	March 9, 2012	-	100,000	12.00
Waqar Ahmed Malik	March 12, 2012	-	10,000	11.00
Muzaffar Islam	March 26, 2012	14,000	-	11.40
Rahim Khan	March 26, 2012	-	55,000	12.05
Muhammad Salman Durrani	April 9, 2012	-	45,000	11.47
Zafar Ali	April 9, 2012	20,000	-	12.85
Zafar Ali	April 10, 2012	10,000	-	12.80
Muhammad Salman Durrani	April 12, 2012	-	17,600	12.40
Zubair Ashraf Ch.	April 12, 2012	69,700	-	12.64
Zafar Ali	April 13, 2012	9,500	-	12.65
Syed Muhammad Farooq Ahmed	April 18, 2012	7,700	-	12.90
Muzaffar Islam	April 23, 2012	6,165	-	13.20
Zubair Ashraf Ch.	April 24, 2012	8,000	-	12.90
Zubair Ashraf Ch.	April 27, 2012	10,000	-	11.95
Sarah Hadi	April 30, 2012	-	6,000	12.45
Zubair Ashraf Ch.	May 11, 2012	4,000	-	11.98
Zubair Ashraf Ch.	May 14, 2012	22,300	-	11.92
Adeeb Ahmed	May 14, 2012	-	30,000	9.96
Zubair Ashraf Ch.	May 16, 2012	2,500	-	11.83
Adeeb Ahmed	May 16, 2012	50,000	-	11.57
Adeeb Ahmed	May 22, 2012	-	10,000	11.85
Adeeb Ahmed	May 29, 2012	-	10,000	11.90
Rahim Khan	June 14, 2012	10,000	-	10.42
Syed Kashif Ali	June 18, 2012	5	-	10.13
S. Nayyar Iqbal Raza	June 28, 2012	-	100,614	10.07
Syed Kashif Ali	July 4, 2012	-	5	10.16
Favad Soomro	July 27, 2012	-	46,000	9.50
Muzaffar Islam	August 28, 2012	-	20,000	9.75
Muzaffar Islam	August 31, 2012	10,000	-	9.72
Syed Khurram Hussain	September 26, 2012	-	10,000	9.65
Syed Khurram Hussain	September 26, 2012	-	10,000	9.65
Muhammad Ali Ansari	September 26, 2012	-	100,000	11.20
Syed Khurram Hussain	October 1, 2012	-	10,000	9.50
Jahanzeb Dal	November 22, 2012	-	24,000	9.06
Rahim Khan	November 30, 2012	5,000	-	10.18
Rahim Khan	December 10, 2012	-	5,000	11.16
Total		301,393	774,387	

pattern of shareholding

Pattern of holding of the shares held by the shareholders as at December 31, 2012.

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
368	1	100	13,435
22,737	101	500	11,034,749
7,941	501	1,000	5,648,953
3,521	1,001	5,000	8,574,531
764	5,001	10,000	6,010,130
266	10,001	15,000	3,384,608
179	15,001	20,000	3,323,289
134	20,001	25,000	3,143,346
89	25,001	30,000	2,514,831
42	30,001	35,000	1,379,719
41	35,001	40,000	1,593,630
28	40,001	45,000	1,221,600
60	45,001	50,000	2,953,059
17	50,001	55,000	897,142
14	55,001	60,000	815,510
16	60,001	65,000	1,014,815
10	65,001	70,000	681,702
9	70,001	75,000	654,871
6	75,001	80,000	472,703
8	80,001	85,000	661,413
1	85,001	90,000	90,000
9	90,001	95,000	839,641
31	95,001	100,000	3,091,912
7	100,001	105,000	722,060
4	105,001	110,000	429,002
2	110,001	115,000	220,237
3	115,001	120,000	350,917
7	120,001	125,000	865,451
1	125,001	130,000	126,365
2	130,001	135,000	269,000
1	140,001	145,000	142,500
5	145,001	150,000	746,078
3	150,001	155,000	458,198
1	155,001	160,000	158,850
2	160,001	165,000	327,922
2	165,001	170,000	340,000
5	175,001	180,000	889,758
1	180,001	185,000	185,000
2	185,001	190,000	376,075
12	195,001	200,000	2,387,908
3	200,001	205,000	608,900
2	205,001	210,000	417,298
2	210,001	215,000	428,000
1	220,001	225,000	221,000
1	225,001	230,000	225,064
2	245,001	250,000	500,000
1	260,001	265,000	263,000
1	265,001	270,000	268,700
1	280,001	285,000	282,500
4	295,001	300,000	1,195,475

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
2	305,001	310,000	616,922
1	315,001	320,000	316,869
1	335,001	340,000	339,798
2	345,001	350,000	699,000
1	355,001	360,000	355,350
1	360,001	365,000	364,425
1	375,001	380,000	376,500
1	380,001	385,000	385,000
2	395,001	400,000	800,000
1	400,001	405,000	402,000
2	445,001	450,000	895,455
2	495,001	500,000	1,000,000
1	565,001	570,000	569,925
1	605,001	610,000	608,199
1	745,001	750,000	750,000
1	765,001	770,000	770,000
4	995,001	1,000,000	4,000,000
1	1,045,001	1,050,000	1,049,061
1	1,405,001	1,410,000	1,407,775
1	1,770,001	1,775,000	1,770,833
1	1,845,001	1,850,000	1,847,140
1	1,995,001	2,000,000	1,995,500
1	2,335,001	2,340,000	2,335,485
1	2,545,001	2,550,000	2,550,000
1	2,625,001	2,630,000	2,625,943
1	2,840,001	2,845,000	2,843,677
1	3,595,001	3,600,000	3,600,000
1	16,855,001	16,860,000	16,858,097
1	67,945,001	67,950,000	67,949,998
1	97,150,001	97,155,000	97,155,000
1	372,805,001	372,810,000	372,809,989
36,408			663,468,788

Major Judgment Areas

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

Accounting Standards

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

Provident, Pension & Gratuity 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, 2012 and the financial statements of those have been audited up to June 30, 2011.

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, 2011	
Net assets as per last audited financial statements	147,630,843	109,015,260	35,308,214
Fixed Income Investments	95,113,700	96,504,957	28,236,095
Mutual Funds	4,498,484	2,249,241	-
Equity Investments	23,102,718	5,488,544	137,130
Receivables	18,365,919	5,025,613	3,099,097
Cash at Bank	6,849,935	717,403	3,897,927
Payables	(299,913)	(970,498)	(62,035)
Net assets as per last audited financial statements	147,630,843	109,015,260	35,308,214

Compliance with Corporate Governance

The Board of Directors reviews all significant matters of the Company. These include the 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.

Dividends

Accumulated loss of the Company on a consolidated basis stands at Rs. 1,179 million; therefore the Board has not announced any dividend during the year.

Auditors

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

six years financial summary

investors information for the last six years based on standalone financial statements for engro polymer & chemicals limited.

Amounts in Rs. (M)

Summury of profit & loss account and balance sheet	2007	2008	2009	2010	2011	2012
PROFIT AND LOSS						
Net sales	6,063	7,868	11,571	14,628	16,886	20,446
Gross profit	988	1,132	1,152	1,192	2,075	3,453
Operating profit	617	492	347	123	630	1,813
Profit / (loss) before tax	576	459	(249)	(1,289)	(1,117)	166
Profit / (loss) after Tax	422	353	(232)	(814)	(729)	50
BALANCE SHEET						
Property, plant and equipment	4,709	16,135	19,361	19,199	18,538	17,634
Intangibles, investments, deferred taxation and long term Loans & advances	150	167	109	434	1,021	1,015
Current assets	4,604	1,977	3,086	4,501	4,969	6,308
Current liabilities	1,404	2,705	4,681	6,163	9,550	11,030
Non current liabilities	1,828	9,008	11,515	11,064	8,840	7,728
Share capital	4,436	5,204	5,204	6,635	6,635	6,635
Shareholders equity	5,177	6,566	6,360	6,906	6,139	6,198

Summury of key financial ratios	Unit	2007	2008	2009	2010	2011	2012
Profitability ratios							
Gross profit ratio	%	16.30	14.39	9.96	8.15	12.29	16.87
Net profit / (loss) to sales	%	6.95	4.49	(2.01)	(5.56)	(4.32)	0.24
EBITDA	Rs. in M	794	670	860	1,144	1,793	2,992
EBITDA to sales	%	13.10	8.51	7.43	7.82	10.62	14.62
Operating leverage ratio	No. of Times	(24.59)	(0.58)	(0.65)	(2.58)	25.55	10.18
Return on equity	%	8.14	5.38	(3.65)	(11.79)	(11.87)	0.81
Return on capital employed	%	6.44	2.43	(1.33)	(4.57)	(4.94)	0.36
Capital structure ratios							
Interest cover ratio	No. of Times	15.04	14.50	0.58	0.09	0.36	1.1
Long term debt to equity ratio	No. of Times	0.26	1.21	1.75	1.58	1.40	1.22
Weighted average cost of debt	%	9.52	14.72	11.51	10.99	12.09	11.21
Financial leverage	%	55	258	372	358	333	309
Earning assets to total assets	%	55	91	90	86	81	77

Liquidity ratios							
Cash flow from operations to sales	No. of Times	0.15	0.08	0.13	0.01	0.28	0.14
Cash to current liabilities	No. of Times	0.14	(0.28)	(0.04)	(0.16)	(0.06)	(0.10)
Current ratio	No. of Times	3.28	0.73	0.66	0.73	0.52	0.57
Quick ratio	No. of Times	2.56	0.26	0.28	0.29	0.15	0.16
Activity / turnover ratios							
Fixed assets turnover	No. of Times	1.29	0.49	0.60	0.76	0.91	1.16
Debtor turnover	No. of days	8.15	4.77	5.37	9.83	7.35	3.71
Inventory turnover	No. of days	69.05	56.32	48.43	49.73	55.77	59.23
Creditor turnover	No. of days	71.00	49.99	46.61	63.22	123.05	164.88
Operating cycle	No. of days	6.20	11.10	7.18	(3.65)	(59.93)	(101.93)
Investment / market ratios							
Number of outstanding shares	No. in M	444	520	520	663	663	663
Earnings per share - basic and diluted	Rs.	1.64	0.68	(0.42)	(1.29)	(1.10)	0.07
Dividend per share	Rs.	2.10	0.54	–	–	–	–
Dividend payout ratio	%	128	79	–	–	–	–
Dividend cover ratio	No. of Times	0.78	1.26	–	–	–	–
Price earning ratio	No. of Times	–	4.66	(2.34)	(9.05)	(14.99)	0.69
Dividend yield ratio	%	–	4	–	–	–	
Market value per share (year end)	Rs.	–	14.58	17.94	4.25	7.34	10.12
Market value per share (highest)	Rs.	–	28.31	27.00	18.80	15.87	13.82
Market value per share (lowest)	Rs.	–	12.66	12.11	9.57	7.15	8.20
Break up value per share	Rs.	11.67	12.63	12.23	10.42	9.26	9.35

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

financial statements

statement of compliance

with the code of corporate governance

Engro Polymer & Chemicals Limited for the year ended December 31, 2012.

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of 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 CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. As at December 31, 2012 the Board included the following members:

Category	Name
Independent Directors	Waqar A. Malik Shabbir Hashmi
Executive Directors	Khalid S. Subhani
Non-Executive Directors	Muhammad Aliuddin Ansari Shahzada Dawood Afnan Ahsan Isar Ahmad Kimihide Ando Takashi Yoshida

The independent directors meet the criteria of independence under clause i(b) of the CCG. Out of the non-executive directors, two are executives in other Engro Group Companies.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).

3. All the resident Directors of the Company are registered as tax payers and none of them have 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. Two casual vacancies occurred on the Board on April 30, 2012 and were filled up within 85 days each. A casual vacancy that occurred on the Board on October 31, 2012 was not filled up within 90 days however the Company is making good progress to achieve compliance in 1st quarter 2013.

5. The Company has prepared a "Code of Conduct" comprising of Ethics and Business Practices Policies and has ensured that appropriate steps have been taken to disseminate it through the company along with its supporting policies and procedures.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.

7. 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 and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, alongwith the agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. One of the directors has attended the directors' training course conducted by the Pakistan Institute of Corporate Governance (PICG) and the remaining directors will acquire the required directors' training certification within the time specified in clause (xi) of the Code, unless exempt thereunder.

10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

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

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

13. 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.

14. The Company has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed an Audit Committee comprising 4 members. A casual vacancy currently exists. Of the remaining 3 members two are non-executive directors and one is an independent director and the Chairman of the Committee is a non-executive director.

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

17. The Board has formed a Human Resource and Remuneration Committee. It comprises of 4 members, of whom 3 are non-executive directors and one is an independent director. The non-executive directors are also directors on other Engro Group Companies and the Chairman of the Committee is a non-executive director.

18. The Board has set up an effective internal audit function managed by suitably qualified and experienced personnel that are involved in the internal audit function on a full time basis.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 the ICAP.

20. 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.

21. The "closed period", prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchanges.

22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.

23. We confirm that all other material principles enshrined in the CCG have been complied with.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

Date: February 04, 2013

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A.F.FERGUSON & CO.

review report to the members on statement of compliance

with best practices of code of corporate governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Engro Polymer and Chemicals Limited (the Company) for the year ended December 31, 2012 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 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's 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 requires the Company to place before the Board of Directors for their consideration and approval of 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 reÌect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2012.

Chartered Accountants
Karachi
Date: March 15, 2013
Engagement Partner: Waqas A. Sheikh

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A.F.FERGUSON & CO.

auditors' report to the members

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

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

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2012 and of the profit, total comprehensive loss, changes in equity and its cash flows for the year then ended; and

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

Chartered Accountants
Karachi
Date: February 26, 2013
Engagement Partner: Waqas A. Sheikh

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balance sheet

as at december 31, 2012

(Amounts in thousand)	Note	2012	2011
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	17,633,526	18,537,582
Intangible assets	5	30,864	31,104
Long term investment	6	50,000	50,000
Long term loans and advances	7	49,340	37,803
Deferred taxation	8	885,117	902,138
		18,648,847	19,558,627
Current Assets			
Stores, spares and loose tools	9	1,478,662	1,098,891
Stock-in-trade	10	3,052,402	2,469,563
Trade debts	11	267,868	213,674
Loans, advances, deposits, prepayments and other receivables	12	393,880	220,905
Taxes recoverable	13	1,025,700	859,971
Cash and bank balances	14	89,300	106,228
		6,307,812	4,969,232
TOTAL ASSETS		24,956,659	24,527,859
EQUITY AND LIABILITIES			
Equity			
Share capital	15	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(92,077)	(102,221)
Accumulated loss		(1,308,239)	(1,357,965)
		6,198,401	6,138,531
Non-Current Liabilities			
Long term borrowings	16	7,531,866	8,620,195
Derivative financial instruments	17	141,656	157,263
Retirement and other service benefit obligations	18	54,534	62,107
		7,728,056	8,839,565
Current Liabilities			
Current portion of long term borrowings	16	2,052,981	2,491,828
Short term borrowings	19	2,004,084	722,340
Trade and other payables	20	6,763,364	6,024,183
Accrued interest / mark-up	21	121,555	144,734
Provisions	22	88,218	166,678
		11,030,202	9,549,763
TOTAL EQUITY AND LIABILITIES		24,956,659	24,527,859
Commitments	23		

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

profit and loss account

for the year ended december 31, 2012

[Amounts in thousand except for earnings / (loss) per share]	Note	2012	2011
		Rupees	
Net revenue	24	20,466,332	16,885,802
Cost of sales	25	(17,013,767)	(14,810,642)
Gross profit		3,452,565	2,075,160
Distribution and marketing expenses	26	(1,134,662)	(853,818)
Administrative expenses	27	(478,361)	(386,402)
Other operating expenses	28	(527,744)	(226,318)
Other operating income	29	501,055	21,418
Operating profit		1,812,853	630,040
Finance costs	30	(1,647,137)	(1,746,972)
Profit / (Loss) before taxation		165,716	(1,116,932)
Taxation	31	(115,990)	387,664
Profit / (Loss) for the year		49,726	(729,268)
Earnings / (Loss) per share - basic and diluted	32	0.07	(1.10)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of comprehensive income

for the year ended december 31, 2012

(Amounts in thousand)	2012	2011
	Rupees	
Profit / (Loss) for the year	49,726	(729,268)
Other comprehensive income / (loss):		
Hedging reserve		
Loss arising during the year	(34,987)	(77,505)
Less:		
Reclassification adjustments for losses included in profit and loss	50,594	31,107
Income tax relating to hedging reserve	(5,463)	16,239
Other comprehensive income / (loss) for the year - net of tax	10,144	(30,159)
Total comprehensive income / (loss) for the year	59,870	(759,427)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of changes in equity

for the year ended december 31, 2012

(Amounts in thousand)

	Share Capital	RESERVES — CAPITAL: Share premium	RESERVES — CAPITAL: Employees' share compensation reserve	RESERVES — CAPITAL: Hedging reserve	RESERVES — REVENUE: Accumulated loss	Total
	Rupees					
Balance as at January 1, 2011	6,634,688	964,029	8,384	(72,062)	(628,697)	6,906,342
Vested share options lapsed during the year	-	-	(8,384)	-	-	(8,384)
Total comprehensive loss for the year	-	-	-	(30,159)	(729,268)	(759,427)
Balance as at December 31, 2011	6,634,688	964,029	-	(102,221)	(1,357,965)	6,138,531
Total comprehensive income for the year	-	-	-	10,144	49,726	59,870
Balance as at December 31, 2012	6,634,688	964,029	-	(92,077)	(1,308,239)	6,198,401

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

statement of cash flows

for the year ended december 31, 2012

(Amounts in thousand)	Note	2012	2011
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	2,851,911	4,723,526
Finance costs paid		(1,670,316)	(1,794,929)
Long term loans and advances		(11,537)	2,520
Retirement benefits paid		(69,054)	(41,485)
Income tax paid		(270,161)	(380,903)
Net cash generated from operating activities		830,843	2,508,729
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(354,002)	(514,248)
- intangible assets		(10,227)	(18,790)
Proceeds from disposal of property, plant and equipment		18,520	18,396
Purchase of short term investments		(750,000)	(540,126)
Proceeds from sale of short term investments		753,968	545,920
Income on bank deposits		7,722	6,191
Net cash utilized in investing activities		(334,019)	(502,657)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		700,000	-
Repayments of long term borrowings		(2,495,496)	(1,363,292)
Proceeds from short term borrowings		1,250,000	-
Repayments of short term borrowings		(450,000)	(250,000)
Net cash utilized in financing activities		(995,496)	(1,613,292)
Net (decrease) / increase in cash and cash equivalents		(498,672)	392,780
Cash and cash equivalents at beginning of the year		(616,112)	(1,008,892)
Cash and cash equivalents at end of the year	36	(1,114,784)	(616,112)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

notes to the financial statements

for the year ended december 31, 2012

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 Engro Polymer and Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited. The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals. The Company is also engaged in the supply of surplus power generated from its power plants to Engro Fertilizers Limited.

1.2 In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). In 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-Alkali and power plants (Gas turbines). On September 30, 2010, the Company declared commercial operations of the VCM plant, after which the integrated chemical complex is complete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative 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 take precedence.

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

(Amounts in thousand)

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

a) Standards, amendments to published standards and interpretations that are effective in 2012 and are relevant to the Company

The following amendment to published standard is mandatory for the financial year beginning on January 1, 2012:

- IFRS 7 (Amendment), 'Financial Instruments: Disclosures' on transfer of assets. These amendments arise from the IASB's review of off-balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment only affects the disclosures in the Company's financial statements.

b) Standards, amendments to published standards and interpretations effective in 2012 but are not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2012 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2012 and have not been early adopted by the Company:

- IFRS 9 'Financial instruments' (effective for periods beginning on January 1, 2015). IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. 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.

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

- IFRS 13, 'Fair value measurement' (effective for periods beginning on January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance and how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of IFRS 13, however, initial indications are that it may not affect the Company's financial statements significantly.

(Amounts in thousand)

- IAS 1 (Amendment), 'Financial statements presentation' (effective for periods beginning on July 1, 2012). The main change resulting from this amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment will only affect disclosures in the Company's financial statements.

- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on January 1, 2013). The amendment eliminates the corridor approach and recognizes all actuarial gains and losses in 'other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gain and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognized in the financial statements, and result in changes in benefit classification and presentation. The Company is in the process to assess the impacts of this amendment.

- IAS 32 (Amendment), 'Financial instruments: Presentation' (effective for periods beginning on January 1, 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have any significant impact on the Company's financial statements.

  Amendments to following standards as a result of annual improvements to International Financial Reporting Standards 2011, issued by IASB in May 2012:

• IAS 16 (Amendment) 'Property, plant and equipment' (effective for periods beginning on January 1, 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

• IAS 32 (Amendment) 'Financial instruments: Presentation' (effective for periods beginning on January 1, 2013). The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12. So, income tax related to distributions is to be recognised in the profit and loss account, and income tax related to the costs of equity transactions is to be recognised in equity. The Company's current accounting treatment is already in line with this amendment.

• IAS 34 (Amendment) 'Interim financial reporting' (effective for periods beginning on January 1, 2013). The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments' whereby a measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The amendment will only affect the disclosures in Company's condensed interim financial information.

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

(Amounts in thousand)

2.2 Property, plant and equipment

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

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

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

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount and the resulting impairment loss is recognized in income. The recoverable amount is the higher of fair value, less expected selling expenses, and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in income, however, is restricted to the original cost of the asset.

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

2.3 Intangible assets - Computer software

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

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

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 and is recognized in income. Reversal of impairment losses are also recognized in income, however, is restricted to the original cost of the asset.

2.4 Investments in subsidiaries

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

(Amounts in thousand)

2.5 Financial instruments

2.5.1 Financial assets

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

a) Financial assets at fair value through profit or loss

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

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.

(Amounts in thousand)

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

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

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

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

2.5.2 Financial liabilities

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

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.

(Amounts in thousand)

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 older than ten years, and is recognized in the profit and loss account.

2.7 Stock-in-trade

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

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

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

2.8 Trade debts and other receivables

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

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

2.9 Cash and cash equivalents

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

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.

(Amounts in thousand)

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 benefits

2.12.1 Pension scheme

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

2.12.2 Gratuity fund

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

Actuarial valuation of these schemes is carried out atleast once in every three years. The amount recognized in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, if any, as reduced by the fair value of plan assets.

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

2.12.3 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.

2.12.4 Compensated absences

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

2.12.5 Other benefits

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

(Amounts in thousand)

2.13 Trade and other payables

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

2.14 Provisions

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

2.15 Taxation

2.15.1 Current

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

2.15.2 Deferred

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

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

2.16 Foreign currency transactions and translation

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

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).

(Amounts in thousand)

- Fair value hedge

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

- Cash flow hedge

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

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

  Amounts accumulated in comprehensive income are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. stock-in-trade or property, plant and equipment) 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 sales in case of stock-in-trade, or in depreciation in case of property, plant and equipment.

  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. stock-in-trade or property, plant and equipment) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

  The fair values of various derivative instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve are shown in statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(Amounts in thousand)

2.18 Revenue recognition

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

- sales are recognized when the product is dispatched to customers;

- revenue from the supply of electricity is recorded based upon the output delivered;

- dividend income is recognized when the Company's right to receive the payment is established; and

- return on deposits is recognized on accrual basis using the effective interest method.

2.19 Borrowing costs

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

2.20 Segment reporting

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

2.21 Dividend and appropriation to reserves

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Property, plant and equipment and intangible assets

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

(Amounts in thousand)

3.2 Derivative hedging financial instruments designated as cash flow hedges

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

3.3 Stock-in-trade

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

3.4 Income taxes

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

3.5 Deferred tax asset

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

3.6 Provision for retirement and other service benefit obligations

The present value of these obligations depend on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in notes 33.2 and 33.7 respectively.

4. PROPERTY, PLANT AND EQUIPMENT

	2012	2011
	Rupees	
Operating assets, at net book value - notes 4.1	17,476,546	18,375,445
Capital work-in-progress - note 4.4	156,980	162,137
	17,633,526	18,537,582

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines: Water	Pipelines: VCM	Pipelines: Ethylene	Pipelines: Gas	Furniture, fixtures and equipment	Vehicles	Total
	Rupees									
As at January 1, 2011										
Cost	194,127	432,578	20,730,013	398,968	26,122	50,315	33,849	126,394	134,650	22,127,016
Accumulated depreciation	(21,218)	(73,051)	(2,664,500)	(85,844)	(14,529)	(3,550)	(3,220)	(76,775)	(45,740)	(2,988,427)
Net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Year ended December 31, 2011										
Opening net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Additions - note 4.4	-	5,146	368,625	-	-	-	-	8,229	30,251	412,251
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(371)	(34,591)	(34,962)
Accumulated depreciation	-	-	-	-	-	-	-	325	18,738	19,063
	-	-	-	-	-	-	-	(46)	(15,853)	(15,899)
Write offs - note 4.3										
Cost	-	-	(5,574)	-	-	-	-	(399)	-	(5,973)
Accumulated depreciation	-	-	254	-	-	-	-	351	-	605
	-	-	(5,320)	-	-	-	-	(48)	-	(5,368)
Depreciation charge - note 4.2	(3,934)	(11,066)	(1,077,772)	(19,948)	(1,306)	(2,516)	(1,692)	(14,756)	(21,138)	(1,154,128)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
As at January 1, 2012										
Cost	194,127	437,724	21,093,064	398,968	26,122	50,315	33,849	133,853	130,310	22,498,332
Accumulated depreciation	(25,152)	(84,117)	(3,742,018)	(105,792)	(15,835)	(6,066)	(4,912)	(90,855)	(48,140)	(4,122,887)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Year ended December 31, 2012										
Opening net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Additions - note 4.4	-	48,854	259,888	-	-	-	-	7,082	43,335	359,159
Disposals - note 4.3										
Cost	-	-	-	-	-	-	-	(650)	(30,400)	(31,050)
Accumulated depreciation	-	-	-	-	-	-	-	599	14,358	14,957
	-	-	-	-	-	-	-	(51)	(16,042)	(16,093)
Write offs - note 4.3										
Cost	-	-	(10,882)	-	-	-	-	(503)	-	(11,385)
Accumulated depreciation	-	-	3,861	-	-	-	-	415	-	4,276
	-	-	(7,021)	-	-	-	-	(88)	-	(7,109)
SED Cost Adjustment - note 22.1.2										
Cost	-	-	(78,195)	-	-	-	-	-	-	(78,195)
Accumulated depreciation	-	-	12,309	-	-	-	-	-	-	12,309
	-	-	(65,886)	-	-	-	-	-	-	(65,886)
Depreciation charge - note 4.2	(3,934)	(11,581)	(1,093,290)	(19,948)	(1,306)	(1,692)	(2,516)	(13,901)	(20,802)	(1,168,970)
Closing net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
As at December 31, 2012										
Cost	194,127	486,578	21,263,875	398,968	26,122	50,315	33,849	139,782	143,245	22,736,861
Accumulated depreciation	(29,086)	(95,698)	(4,819,138)	(125,740)	(17,141)	(7,758)	(7,428)	(103,742)	(54,584)	(5,260,315)
Net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Annual rate of depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5	5 to 33	5 to 25	

(Amounts in thousand)

	2012	2011
	Rupees	
4.2 Depreciation charge has been allocated as follows:		
Cost of sales - note 25	1,157,612	1,141,768
Distribution and marketing expenses - note 26	4,767	4,450
Administrative expenses - note 27	6,591	7,910
	1,168,970	1,154,128

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	999	799	200	636	By auction	Mr. Sultan Jan Niazi
"	555	444	111	517		"
"	555	444	111	516		"
"	555	444	111	468		Mr. Imran Sheikh
"	1,269	496	773	714	By Company policy to existing / separating employees	Mr. Tahir Rashid
"	9,200	3,019	6,181	7,000		Mr. Asif Qadir
"	6,536	2,043	4,493	4,494		Mr. Asif Qadir
"	1,500	984	516	398		Mr. Muhammad Naveed Rizvi
"	1,269	714	555	496		Mr. Sadiq Akber
"	1,269	773	496	317		Mr. Rahim Anwar
"	1,775	1,276	499	443		Mr. Syed Ali Akbar
"	1,895	711	1,184	1,125		Mr. Syed Ashar Hussain
"	1,199	824	375	300		Mr. Imran Baloch
"	1,269	833	436	317		Mr. Aneeq Ahmed
Furniture, fixture and equipment	174	149	25	23		Mr. Asif Qadir
"	95	71	24	24		Mr. Yoshigo Shiga
Equipment - Laptop	102	39	63	58	By insurance claim	EFU insuarance claim
Plant and machinery - note 28.4	10,882	3,861	7,021	-		
Aggregate amount of assets having net book value less than Rs. 50 each	1,337	1,309	28	674		
	42,435	19,233	23,202	18,520		
2011	40,935	19,668	21,267	18,396		

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and Machinery	Building on leasehold land	Furniture, fixtures and equipments	Advances for vehicles & software	Total
			Rupees		
Year ended December 31, 2011					
Balance as at January 1, 2011	55,622	450	905	3,163	60,140
Additions during the year	474,367	5,088	7,324	27,469	514,248
Transferred to operating assets - note 4.1	(368,625)	(5,146)	(8,229)	(30,251)	(412,251)
Balance as at December 31, 2011	161,364	392	-	381	162,137
Year ended December 31, 2012					
Balance as at January 1, 2012	161,364	392	-	381	162,137
Additions during the year	245,947	53,264	7,494	47,297	354,002
Transferred to operating assets - note 4.1	(259,888)	(48,854)	(7,082)	(43,335)	(359,159)
Balance as at December 31, 2012	147,423	4,802	412	4,343	156,980

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2011	
Cost	33,655
Accumulated amortization	(12,799)
Net book value	20,856
Year ended December 31, 2011	
Opening net book value	20,856
Additions at cost	18,790
Amortization charge - note 27	(8,542)
Closing net book value	31,104
As at January 1, 2012	
Cost	52,445
Accumulated amortization	(21,341)
Net book value	31,104
Year ended December 31, 2012	
Opening net book value	31,104
Additions at cost	10,227
Amortization charge - note 27	(10,467)
Closing net book value	30,864
As at December 31, 2012	
Cost	62,672
Accumulated amortization	(31,808)
Net book value	30,864

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

(Amounts in thousand)

	2012	2011
	Rupees	
6. LONG TERM INVESTMENT		
Subsidiary - at cost		
Engro Polymer Trading (Private) Limited		
5,000,000 (2011: 5,000,000) ordinary shares of Rs. 10 each	50,000	50,000
7. LONG TERM LOANS AND ADVANCES - Considered good		
Executives - notes 7.1, 7.2 and 7.4	74,752	53,502
Less: Current portion shown under current assets - note 12	(30,253)	(18,027)
	44,499	35,475
Employees - note 7.3	14,423	10,884
Less: Current portion shown under current assets - note 12	(9,582)	(8,556)
	4,841	2,328
	49,340	37,803

7.1 No loans and advances were due from Chief Executive at the beginning or at end of the year. Reconciliation of the carrying amount of loans and advances to executives is as follows:

	2012	2011
	Rupees	
Balance at beginning of the year	53,502	55,299
Disbursements	55,555	28,561
Repayments	(34,305)	(30,358)
Balance at end of the year	74,752	53,502

7.2 These include interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. Advances for vehicles are charged to profit and loss account over a period of 3 years.

7.3 These include interest free loans to employees for home appliances and investments, given in accordance with the terms of employment. Loans are repayable in accordance with the terms stated in note 7.2.

7.4 The maximum aggregate amount due from the executives at the end of any month during the year was Rs. 91,519 (2011: Rs. 66,973). These are secured by way of promissory notes.

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

(Amounts in thousand)

8. DEFERRED TAXATION

	2012	2011
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(4,149,265)	(4,195,902)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 8.1	4,412,854	4,520,417
- recoupable minimum turnover tax	420,691	377,524
- tax amortization	-	73
- unpaid liabilities and provision for retirement and other service benefits	50,770	38,835
- provision against custom duty and SED refundable	37,191	44,380
- provision for slow moving stores and spares	5,588	4,060
- fair value of hedging instrument	49,579	55,042
- share issuance cost, net to equity	57,709	57,709
	5,034,382	5,098,040
	885,117	902,138

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, 2012 amount to Rs. 12,608,153 (2011: Rs. 12,915,477) which is entirely attributable to unabsorbed tax depreciation.

9. STORES, SPARES AND LOOSE TOOLS

	2012	2011
	Rupees	
Consumable stores	102,008	80,055
Spares	1,392,620	1,041,544
	1,494,628	1,121,599
Less:		
- Provision for slow moving stores and spares - note 9.1	15,966	11,601
- Stores and spares written-off - note 25	-	11,107
	1,478,662	1,098,891

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

	2012	2011
	Rupees	
Balance at the beginning of the year	11,601	7,734
Add: Provided during the year - note 25	4,365	3,867
Balance at the end of the year	15,966	11,601

(Amounts in thousand)

10. STOCK-IN-TRADE

	2012	2011
	Rupees	
Raw and packing materials - note 10.1	2,218,014	1,694,992
Work-in-progress	-	24,258
Finished goods - own manufactured product - note 10.2	834,388	750,313
	3,052,402	2,469,563

10.1 This includes stock-in-transit amounting to Nil (2011: Rs. 131,830) and stocks held at the storage facilities of the following parties:

	2012	2011
	Rupees	
Engro Vopak Terminal Limited, a related party	918,703	717,858
Dawood Hercules Corporation Limited, a related party	2,773	6,387
Al-Rahim Trading Company (Private) Limited	520,158	342,984
	1,441,634	1,067,229

10.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 20,822 (2011: Rs. 14,931) and write-off of Nil. (2011: 87 M tons of PVC resin amounting to Rs. 4,965).

11. TRADE DEBTS - considered good

	2012	2011
	Rupees	
Secured - note 11.1	214,570	149,259
Unsecured - note 11.2	53,298	64,415
	267,868	213,674

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

11.2 Include amounts due from the following related parties:

	2012	2011
	Rupees	
- Engro Polymer Trading (Private) Limited	1,403	43,114
- Engro Foods Limited	2,788	2,473
	4,191	45,587

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

(Amounts in thousand)

	2012	2011
	Rupees	
12. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 7		
- executives	30,253	18,027
- employees	9,582	8,556
	39,835	26,583
Advances to employees for reimbursable expenses	1,432	5
Advances to suppliers and others	69,209	88,315
Deposits	42,800	24,292
Prepayments	84,437	81,458
Receivable from Government of Pakistan		
- Sales tax and Federal excise duty refundable	101,693	-
- octroi/duty claims	152	152
	101,845	152
Receivable from Engro Vopak Terminal Limited	1,436	-
Receivable from Engro Fertilizers Limited	3,658	-
Salt penalty recoverable from suppliers	34,005	-
Other receivables	15,223	100
	393,880	220,905
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 12.1 and 12.2	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 12.2 and 22.1.1	(36,687)	(36,687)
	-	-
	393,880	220,905

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

During the year, the Company has filed an appeal with the High Court of Sindh against the aforesaid order of the Tribunal. However, based on prudence, the Company is maintaining full provision against the aforementioned custom duty refundable till such time that all available legal courses are exhausted.

(Amounts in thousand)

12.2 As at December 31, 2012, receivables aggregating to Rs. 54,730 (2011: Rs. 54,730) were deemed to be impaired and have been provided for in full based on prudence. The remaining balances of loans, deposits, and other receivables are neither past due nor impaired.

13. TAXES RECOVERABLE

13.1 Tax year 2008

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

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

In 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by the Company before the ATIR. The department has also filed an appeal against the said appellate order challenging the actions of the CIR(A).

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

13.2 Tax year 2009

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

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

In 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order has been filed before the ATIR. The department has also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

(Amounts in thousand)

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

13.3 Assessment year 2000-2001

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

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

	2012	2011
	Rupees	
14. CASH AND BANK BALANCES		
Cash in hand	755	719
Cash at bank:		
- current accounts	74,713	91,275
- saving accounts	13,832	14,234
	88,545	105,509
	89,300	106,228
15. SHARE CAPITAL		
Authorized capital		
800,000,000 (2011: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2011: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash - note 15.1	6,634,688	6,634,688

(Amounts in thousand)

15.1 As at December 31, 2012, Engro Corporation Limited (the Holding Company) holds 372,809,989 ordinary shares of Rs.10 each (2011: 372,809,989 ordinary shares of Rs. 10 each).

16. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments Number	Installments Commencing from	2012 Rupees	2011 Rupees
Syndicated term finance I (note 16.3)	6 months KIBOR + 2.25%	13 half yearly	November 2010	4,254,218	4,898,377
Syndicated term finance II (note 16.3)	6 months KIBOR + 3%	13 half yearly	June 2010	1,068,045	1,241,089
Syndicated term finance III	6 months KIBOR + 2%	Single	June 2012	-	747,333
Syndicated term finance IV (note 16.1)	6 months KIBOR + 2.55%	6 half yearly	May 2013	490,764	-
Master Istisna I	6 months KIBOR + 1.5%	6 half yearly	May 2013	100,000	100,000
Master Istisna II	6 months KIBOR + 2%	3 half yearly	June 2012	-	199,000
Master Istisna III (note 16.2)	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	-
International Finance Corporation (IFC) (note 16.3)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	3,471,820	3,926,224
				9,584,847	11,112,023
Less: Current portion shown under current liabilities				(2,052,981)	(2,491,828)
				7,531,866	8,620,195

16.1 During the year, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 500,000. The facility, in addition to the mark-up, also carries a one time arrangement fee of 1.25%. This facility is secured by:

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

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

16.2 During the year, the Company entered into Master Istisna agreement for a facility of Rs. 200,000 for a period of thirty six months. Amount due under the agreement is payable in tranches by way of a series of Istisna transactions, with each Istisna transaction treated as a separate agreement. As the management intends to roll over each Istisna transaction on repayment date to the expiry date of the facility, the above mentioned financing has been included in long term borrowings of the Company. The facility is secured by a mortgage over land and buildings subordinated to the mortgage listed in note 16.3 and hypothecation by way of subordinated charge over all present and future fixed assets of the Company.

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 and stocks.

(Amounts in thousand)

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

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

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

16.4 Under the terms of the agreements for long term borrowings from IFC and syndicates of banks, the Company is required to comply with certain debt covenants. As at December 31, 2012, all debt covenants have been complied with except for current ratio and debt service coverage ratio. Waiver for current ratio deviation has been obtained from IFC, whereas, waiver has been applied with local syndicate for current ratio and debt service coverage ratio.

17. DERIVATIVE FINANCIAL INSTRUMENTS

17.1 As at December 31, 2012, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US$ 7,167, 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 plus margin, where applicable, on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually.

17.2 As at December 31, 2012, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 24,000 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually.

17.3 Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Rate %	Fair Values 2012	Fair Values 2011
				Rupees	Rupees
Interest Rate Swap Agreements			Fixed Rate		
9,000	December 15, 2008	June 15, 2017	3.385	60,061	66,962
3,000	June 15, 2009	June 15, 2017	3.005	17,240	18,573
9,000	June 15, 2009	June 15, 2017	2.795	47,110	49,505
3,000	June 15, 2009	June 15, 2017	2.800	15,701	16,279
24,000				140,112	151,319
Cross Currency Interest Rate Swap Agreements			Floating Rate		
1,748	September 9, 2010	June 15, 2015	LIBOR + 0.95	(1,388)	2,164
2,468	January 18, 2011	January 19, 2016	LIBOR + 3.70	264	365
2,951	July 6, 2011	June 30, 2016	LIBOR + 1.83	2,668	3,415
7,167				1,544	5,944
31,167				141,656	157,263

(Amounts in thousand)

	2012	2011
	Rupees	

18. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2012	2011
Service incentive plan	54,534	55,077
Additional death gratuity - note 33	-	7,030
	54,534	62,107

19. SHORT TERM BORROWINGS

	2012	2011
Running finance utilized under mark-up arrangements - note 19.1	1,204,084	722,340
Sub-ordinate loan from Engro Corporation Limited - note 19.2	800,000	-
	2,004,084	722,340

19.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements amount to Rs. 1,700,000 (2011: 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 1.0% to 2.5% (2011: relevant period KIBOR plus 1.0% to 1.5%) per annum. During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.38% to 13.64% (2011: 12.92% to 15.29%) per annum. The facilities are secured by a floating charge over stocks and book debts of the Company.

19.2 During the year on April 10, 2012, the Company entered into a loan agreement with Engro Corporation Limited, amounting to Rs. 950,000 for meeting its working capital requirements. The loan is subordinated to the finances provided to the Company by its banking creditors and carries markup at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

19.3 The facility for opening letters of credit as at December 31, 2012 aggregate to Rs. 6,683,000 (2011: Rs. 7,537,000). The amount utilized at December 31, 2012 was Rs. 5,098,000 (2011: Rs. 4,612,000). The facilities carry commission at the rate of 0.05% flat (2011: 0.05% flat).

20. TRADE AND OTHER PAYABLES

	2012	2011
	Rupees	
Trade and other creditors - note 20.1	5,143,772	4,455,741
Accrued liabilities	836,383	743,131
Advances from customers	723,545	735,377
Retention money against project payments	19,280	17,563
Security deposits	8,470	11,477
Workers' profits participation fund - note 20.2	9,229	164
Workers welfare fund	6,515	-
Sales tax and SED payable	-	45,295
Withholding tax payable	4,313	9,002
Others	11,857	6,433
	6,763,364	6,024,183

(Amounts in thousand)

	2012	2011
	Rupees	
20.1 Includes amount due to following related parties:		
- Engro Corporation Limited	4,211	6,344
- Mitsubishi Corporation	5,008,730	4,280,474
- Engro Foods Limited	255	-
- Engro Fertilizers Limited	4,719	7,730
- Engro Vopak Terminal Limited	84,549	81,264
- Engro Powergen Limited	2,880	-
- Engro Powergen Qadirpur Limited	81	-
- Dawood Hercules Corporation Limited	-	24
	5,105,425	4,375,836
20.2 Workers' profits participation fund		
Balance at beginning of the year	164	76
Add:		
- Allocation for the year - note 28	9,065	-
- Refund from contractors	-	88
Balance at end of the year	9,229	164

	2012	2011
	Rupees	
21. ACCRUED INTEREST / MARK-UP		
Finance cost accrued on:		
- long term borrowings	99,235	117,812
- short term running finance utilized under mark-up arrangements	22,320	26,922
	121,555	144,734
22. PROVISIONS		
Provision for SED on import of plant and machinery - note 22.1	-	91,498
Provision for duty on import of raw materials - note 22.2	88,218	75,180
	88,218	166,678

(Amounts in thousand)

22.1 Provision for SED on import of plant and machinery

	2012	2011
	Rupees	
Balance at beginning of the year	91,498	83,795
Recognized during the year - note 22.1.1	6,328	7,703
Reversal during the year - note 22.1.1 and 22.1.2	(97,826)	-
Balance at end of the year	-	91,498

22.1.1 The Company had paid Rs. 94,611 (2011: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of Rs. 94,611, the Company had adjusted Rs. 57,924 (2011: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by the Company in 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 other receivables (note 12). However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. Accordingly, a further provision for surcharge and penalty thereon amounting to Rs. 39,902 (2011: Rs. 33,574) was also recognized.

The Company, however, continued to contest this matter with the tax department at the prescribed appellate forums. On June 15, 2012, this matter was decided in favor of the Company by the Appellate Tribunal Inland Revenue (ATIR). As no further appeal was filed by the tax department against the aforementioned order of ATIR, the provisions relating to the adjustment of SED against the sales tax, and the related default surcharge and penalty amounts have been reversed.

22.1.2 The above reversal has been accounted for by adjusting the written down value of operating assets to the extent of capitalization in respective Plant and Machinery items amounting Rs. 65,886 (note 4.1). Further Rs. 31,940, representing default surcharge of Rs. 19,631 and the related depreciation of Rs. 12,309 which was charged to income till the reversal of provision, has been credited to other operating income (note 29).

22.2 Provision for duty on import of raw materials

	2012	2011
	Rupees	
Balance at beginning of the year	75,180	47,227
Recognized during the year - note 22.2.1	13,038	27,953
Balance at end of the year	88,218	75,180

(Amounts in thousand)

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

Although, no formal order creating a demand has yet been received by the Company, based on prudence, provision amounting to Rs. 88,218 (2011: Rs. 75,180) in respect of customs duty on such raw materials has been recognized.

23. COMMITMENTS

23.1 The aggregate facility for performance guarantees to be issued by banks on behalf of the Company as at December 31, 2012 amounts to Rs. 1,165,000 (2011: Rs. 1,215,000). The amount utilized thereagainst as at December 31, 2012 was Rs. 641,000 (2011: Rs. 640,450).

23.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Company (Private) Limited and Dawood Hercules Corporation Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till April 30, 2019. The future aggregate lease payments under these arrangements are as follows:

	2012	2011
	Rupees	
Not later than 1 year	50,780	59,030
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	19,200	36,000
	127,580	152,630

(Amounts in thousand)

24. NET REVENUE

	2012	2011
	Rupees	
Gross local sales	23,348,044	19,781,755
Less:		
- Sales tax	3,144,510	3,006,889
- Special excise duty	-	93,600
- Discounts	81,132	15,391
	3,225,642	3,115,880
	20,122,402	16,665,875
Export sales	298,261	192,779
Supply of electricity - note 24.1	45,669	27,148
	20,466,332	16,885,802

24.1 Supply of electricity represents supply of surplus power to Engro Fertilizers Limited - a related party.

25. COST OF SALES

	2012	2011
	Rupees	
Opening stock of work-in-progress	24,258	4,749
Raw and packing materials consumed	10,626,249	9,337,524
Salaries, wages and staff welfare - note 25.1	714,149	608,266
Fuel, power and gas	2,821,702	2,140,401
Repairs and maintenance	340,047	242,642
Depreciation - note 4.2	1,157,612	1,141,768
Consumable stores	248,451	254,857
Purchased services	59,139	42,996
Storage and handling	981,658	893,594
Training and travelling	24,459	18,935
Communication, stationery and other office expenses	6,237	8,519
Insurance	70,251	59,947
Provision for slow moving stores and spares - note 9.1	4,365	3,867
Expired chemicals written-off	-	200
Stores and spares written-off - note 9	-	11,107
Other expenses	19,265	19,646
	17,073,584	14,784,269
Closing stock of work-in-progress	-	(24,258)
Cost of goods manufactured	17,097,842	14,764,760
Opening stock of finished goods	750,313	796,195
Closing stock of finished goods	(834,388)	(750,313)
	(84,075)	45,882
	17,013,767	14,810,642

(Amounts in thousand)

25.1 Includes Rs. 46,819 (2011: Rs. 32,830) in respect of staff retirement and other benefits, referred to in note 33.

26. DISTRIBUTION AND MARKETING EXPENSES

	2012	2011
	Rupees	
Salaries, wages and staff welfare - note 26.1	82,427	66,401
Advertising, sales promotion and entertainment	117,220	89,667
Product transportation and handling	860,740	652,372
Rent, rates and taxes	32,468	11,294
Purchased services	4,649	5,956
Insurance	1,058	1,213
Depreciation - note 4.2	4,767	4,450
Training and travelling	14,405	8,766
Communication, stationery and other office expenses	3,404	3,335
Others	13,524	10,364
	1,134,662	853,818

26.1 Includes Rs. 6,437 (2011: Rs. 3,931) in respect of staff retirement and benefits, referred to in note 33.

27. ADMINISTRATIVE EXPENSES

	2012	2011
	Rupees	
Salaries, wages and staff welfare - note 27.1	225,877	182,092
Rent, rates and taxes	33,666	41,295
Purchased services	70,596	46,726
Insurance	1,568	677
Depreciation - note 4.2	6,591	7,910
Amortization - note 5	10,467	8,542
Training and travelling expenses	79,101	59,583
Communication, stationery and other office expenses	26,869	27,459
Others	23,626	12,118
	478,361	386,402

27.1 Includes Rs. 16,290 (2011: Rs. 12,237) in respect of staff retirement and benefits, referred to in note 33.

(Amounts in thousand)

	2012	2011
	Rupees	
28. OTHER OPERATING EXPENSES		
Legal and professional charges	19,434	10,118
Auditors' remuneration - note 28.1	2,483	2,237
Donations - note 28.2 and 28.3	2,296	7,096
Workers' profits participation fund - note 20.2	9,065	-
Workers' welfare fund	6,515	-
Foreign exchange loss - net	480,842	201,547
Damaged items of operating assets written-off - note 28.4	7,109	5,320
	527,744	226,318

28.1 Auditors' remuneration

Fee for:		
- Annual statutory audit	785	690
- Half yearly review	215	190
- Review of compliance with Code of Corporate Governance	50	50
	1,050	930
Taxation and other advisory services	1,328	1,212
Reimbursement of expenses	105	95
	2,483	2,237

28.2 Includes donation to Engro Foundation - a related party, amounting to Rs. 2,010 (2011: Nil).

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

28.4 During the year, damaged furnace tubes related to the VCM and other plants having a net book value of Rs. 7,021 (2011: Rs. 5,320) have been written-off.

	2012	2011
	Rupees	
29. OTHER OPERATING INCOME		
On financial assets		
Income on bank deposits	7,722	6,191
Gain on investments in mutual funds held for trading	3,968	5,794
On non-financial assets		
Insurance claim - note 29.1	423,281	-
Reversal of provision for SED - note 22.1.2	31,940	-
Profit on disposal of operating assets	2,427	2,449
Scrap sales	26,255	5,293
Others	5,462	1,691
	501,055	21,418

29.1 This represents insurance claims received on account of loss of profit and property damage, incurred as a result of fire incident at the site of Plant in December 2009 amounting to Rs. 391,000 and Rs. 32,281, respectively.

(Amounts in thousand)

30. FINANCE COSTS

	2012	2011
	Rupees	
Interest/mark-up on:		
- long term borrowings	1,142,303	1,403,529
- short term borrowing	63,194	-
- running finances	98,435	113,018
	1,303,932	1,516,547
Foreign exchange loss on borrowings	314,542	209,176
Guarantee commission	5,030	5,173
Bank charges and others	23,633	16,076
	1,647,137	1,746,972

31. TAXATION

	2012	2011
Current		
- for the year - note 31.1	103,955	168,459
- for prior years	477	6,397
	104,432	174,856
Deferred		
- for the year	11,558	(549,054)
- for prior years	-	(13,466)
	11,558	(562,520)
	115,990	(387,664)

31.1 Current year charge represents minimum tax at the rate of 0.5% (2011: 1%) of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

31.2 Relationship between tax expense and accounting profit

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

	2012	2011
	Rupees	
Profit / (Loss) before taxation	165,716	(1,116,932)
Tax calculated at applicable rate of 35% (2011: 35%)	58,001	(390,926)
Tax effect of presumptive tax regime and income subject to lower tax rates	(2,866)	(6,593)
Prior year tax charge	477	6,397
Permanent difference due to donations and depreciation of land	2,181	3,458
Un-recoupable minimum turnover tax	57,805	-
Others	392	-
Tax expense for the year	115,990	(387,664)

(Amounts in thousand)

32. EARNINGS / (LOSS) PER SHARE - Basic and diluted

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

	2012	2011
	Rupees	
Profit / (Loss) for the year	49,726	(729,268)
	Number in thousands	
Weighted average number of ordinary shares	663,469	663,469

33. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2012 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2012	2011	2012	2011	2012	2011
33.1 Balance sheet reconciliation	Rupees					
Present value of defined benefit obligations	150,494	132,499	51,561	42,778	-	-
Fair value of plan assets	(149,406)	(117,134)	(47,578)	(36,729)	-	-
Deficit	1,088	15,365	3,983	6,049	-	-
Present value of unfunded obligations	-	-	-	-	-	6,147
Unrecognized net actuarial (losses) / gains	(1,088)	(15,365)	(4,025)	(6,049)	-	883
Payable in respect of transfers	-	-	42	-	-	-
Net liability at the end of the year	-	-	-	-	-	7,030

33.2 Movement in the defined benefit obligations

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011	Additional Death Gratuity Scheme 2012	Additional Death Gratuity Scheme 2011
Obligation as at January 1	132,499	110,835	42,778	35,488	6,147	4,977
Current service cost	13,441	10,617	5,263	4,950	173	861
Interest cost	17,659	16,404	5,791	5,409	892	732
Actuarial gains	(10,559)	(4,084)	(1,069)	(2,410)	(1,413)	(423)
Benefits paid	(2,546)	(1,273)	(1,160)	(767)	-	-
Liability recognized in respect of transfers	-	-	(42)	108	-	-
Effects of curtailment and settlement	-	-	-	-	(5,799)	-
Obligation as at December 31	150,494	132,499	51,561	42,778	-	6,147

(Amounts in thousand)

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011	Additional Death Gratuity Scheme 2012	Additional Death Gratuity Scheme 2011
	Rupees					
33.3 Movement in the fair value of plan assets						
Fair value as at January 1	117,134	97,803	36,729	30,903	-	-
Expected return on plan assets	14,333	14,642	4,439	4,793	-	-
Actuarial gains / (losses)	3,483	(8,365)	758	(4,387)	-	-
Employer contributions	17,002	14,327	6,812	6,079	-	-
Benefits paid	(2,546)	(1,273)	(1,160)	(767)	-	-
Transferred to other group companies	-	-	-	108	-	-
Fair value as at December 31	149,406	117,134	47,578	36,729	-	-
33.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	13,441	10,617	5,263	4,950	173	861
Interest cost	17,659	16,404	5,791	5,409	892	732
Expected return on plan assets	(14,333)	(14,642)	(4,439)	(4,793)	-	-
Recognition of actuarial (gains) / losses	235	-	197	65	(2,296)	-
Effects of curtailment and settlement	-	-	-	-	(5,799)	-
Expense / (Income)	17,002	12,379	6,812	5,631	(7,030)	1,593
33.5 Actual return on plan assets	19,580	9,338	5,144	3,660	-	-

33.6 Expected future costs for the year ending December 31, 2013:

	Rupees
- Pension Fund	15,483
- Gratuity Fund	6,674
	22,157

33.7 Principal assumptions used in the actuarial valuation:

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011
Discount rate per annum	12.0%	12.5%	12.0%	12.5%
Expected rate of return per annum on plan assets	12.0%	12.5%	12.0%	12.5%
Expected rate of increase per annum in future salaries	11.0%	11.5%	11.0%	11.5%

33.8 Plan assets comprise of following:

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011
	Rupees			
Equity	35,857	28,112	11,419	8,815
Debt	113,549	89,022	36,159	27,914
	149,406	117,134	47,578	36,729

(Amounts in thousand)

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

33.10 Historical information of staff retirement benefits:

	2012	2011	2010	2009	2008
	Rupees				
Pension Fund					
Present value of defined benefit obligation	150,494	132,499	110,835	78,994	68,644
Fair value of plan assets	(149,406)	(117,134)	(97,803)	(88,607)	(73,582)
Deficit / (Surplus)	1,088	15,365	13,032	(9,613)	(4,938)
Gratuity Fund					
Present value of defined benefit obligation	51,561	42,778	35,488	26,048	22,888
Fair value of plan assets	(47,578)	(36,729)	(30,903)	(27,618)	(21,821)
Deficit / (Surplus)	3,983	6,049	4,585	(1,570)	1,067

33.11 During the year, Rs. 38,535 (2011: Rs. 21,894) has been recognized in the profit and loss account in respect of defined contribution provident fund.

34. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

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

	2012			2011		
	Director			Director		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	Rupees					
Managerial remuneration	21,303	-	406,843	21,549	-	399,960
Retirement benefit funds	9,165	-	68,938	3,422	-	12,644
Bonus paid	3,801	-	67,856	3,676	-	32,411
Other benefits	2,863	-	40,786	2,654	-	25,380
Directors Fee	-	2,900	-	-	3,101	-
Total	37,132	2,900	584,423	31,301	3,101	470,395
Number of persons at year end	1	9	198	1	9	209

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

34.2 Premium charged in the financial statements in respect of Directors' indemnity insurance policy, purchased by the Company amounts to Rs. 620 (2011: Rs. 341).

(Amounts in thousand)

35. CASH GENERATED FROM OPERATIONS

	2012	2011
	Rupees	
Profit / (Loss) before taxation	165,716	(1,116,932)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	61,481	53,501
Depreciation and amortization	1,179,437	1,162,670
Reversal of employee compensation reserve	-	(8,384)
Provision for slow moving stores and spares	4,365	3,867
Provision for net realizable value of stock-in-trade	20,822	14,931
Write-off of damaged items of property, plant and equipment	7,109	5,320
Write-off of PVC resin and expired chemicals	-	5,165
Income on bank deposits	(7,722)	(6,191)
Gain on investments in mutual funds held for trading	(3,968)	(5,794)
Unrealized foreign exchange loss on borrowings	259,200	189,640
Amortization of prepaid financial charges	9,120	21,022
Unrealized foreign exchange loss on imports and retention money	120,002	132,841
Finance costs	1,647,137	1,746,972
Profit on disposal of operating assets	(2,427)	(2,449)
(Reversal) / Recognition of provision against Special Excise Duty (SED)	(25,612)	7,703
Provision against concessionary duty on import of raw materials	13,038	27,953
Working capital changes - note 35.1	(595,787)	2,491,691
	2,851,911	4,723,526

35.1 WORKING CAPITAL CHANGES

	2012	2011
Decrease / (Increase) in current assets		
Stores, spares and loose tools	(384,136)	(468,959)
Stock-in-trade	(603,661)	(433,276)
Trade debts	(54,194)	378,096
Loans, advances, deposits, prepayments and other receivables - net	(172,975)	22,519
	(1,214,966)	(501,620)
Increase in current liabilities		
Trade and other payables	619,179	2,993,311
	(595,787)	2,491,691

(Amounts in thousand)

	2012	2011
	Rupees	

36. CASH AND CASH EQUIVALENTS

	2012	2011
Cash and bank balances - note 14	89,300	106,228
Running finance utilized under mark-up arrangements - note 19	(1,204,084)	(722,340)
	(1,114,784)	(616,112)

37. FINANCIAL INSTRUMENTS BY CATEGORY

37.1 Financial assets as per balance sheet

Loans and receivables at amortized cost

	2012	2011
Long term loans	24,383	37,803
Trade debts - considered good	267,868	213,674
Loans, deposits and other receivables	127,399	49,359
Cash and bank balances	89,300	106,228
	508,950	407,064

37.2 Financial liabilities as per balance sheet

Financial liabilities measured at amortized cost

	2012	2011
Long term borrowings	9,584,847	11,112,023
Short term borrowings	2,004,084	722,340
Trade and other payables	6,019,762	5,234,345
Accrued interest/mark-up	121,555	144,734
	17,730,248	17,213,442
Derivatives used for hedging at fair value		
Derivative financial instruments	141,656	157,263

37.3 Fair values of financial assets and liabilities

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

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

(Amounts in thousand)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

38.1 Financial risk factors

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

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company manages the currency risk through forward exchange contracts.

At December 31, 2012, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 169,326 (2011: Rs. 71,283) and Rs. 6,599,557 (2011: Rs. 8,027,784) respectively.

At December 31, 2012, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit / loss for the year would have been lower / higher by Rs. 208,982 (2011: Rs. 258,586), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profits or losses would be inversely effected by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term running finances utilized under mark-up arrangements. 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 variable to variable cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

(Amounts in thousand)

At December 31, 2012, if interest rate on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been higher / lower by Rs. 75,328 (2011: Rs. 78,923) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) Other price risk

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity security price risk as the Company deals in securities. However, the Company is not exposed to equity securities price risk as at December 31, 2012 as the Company has no investments in listed securities.

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations. Credit risk arises from deposits with banks and financial institutions, trade debts, loans, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

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

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

	2012	2011
	Rupees	
Long term loan	24,383	37,803
Trade debts - considered good	267,868	213,674
Loan, deposits and other receivables	127,399	49,539
Bank balances	88,545	105,509
	508,195	406,525

(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	A+
Citibank N.A.	Moody's	P1	A1
Deutsche Bank	S & P	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
Standard Chartered Bank Pakistan Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Summit Bank 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 liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

(Amounts in thousand)

	2012			2011		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial liabilities						
Long term borrowings	2,052,981	7,531,866	9,584,847	2,491,828	8,620,195	11,112,023
Derivative financial instruments	-	141,656	141,656	-	157,263	157,263
Trade and other payables	6,019,762	-	6,019,762	5,243,345	-	5,243,345
Accrued interest / mark-up	121,555	-	121,555	144,734	-	144,734
Short term borrowings	2,004,084	-	2,004,084	722,340	-	722,340
	10,198,382	7,673,522	17,871,904	8,602,247	8,777,458	17,379,705

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.141,656 (2011: Rs.157,263) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

39. CAPITAL RISK MANAGEMENT

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

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

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 16, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio of the Company is as follows:

	2012	2011
	Rupees	
Long term borrowings - note 16	7,531,866	8,620,195
Total equity	6,198,401	6,138,531
Total capital	13,730,267	14,758,726
Gearing ratio	0.549	0.584

(Amounts in thousand)

40. SEGMENT INFORMATION

40.1 Based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

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

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

Finance costs, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investment, long term loans and advances, loans, advances, prepayments and other receivables, taxes recoverable, and cash and bank balances.

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

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	Rupees							
Segment profit and loss								
Revenue	15,878,624	13,398,506	4,542,039	3,460,148	45,669	27,148	20,466,332	16,885,802
Less:								
Cost of sales (excluding depreciation)	(13,571,513)	(11,888,012)	(2,278,696)	(1,776,086)	(5,946)	(4,776)	(15,856,155)	(13,668,874)
Distribution and marketing expenses (excluding depreciation)	(788,266)	(620,200)	(341,629)	(229,168)	-	-	(1,129,895)	(849,368)
Allocated depreciation	(846,332)	(863,027)	(288,463)	(255,607)	(27,584)	(27,584)	(1,162,379)	(1,146,218)
Profit before unallocated expenses	672,513	27,267	1,633,251	1,199,287	12,139	(5,212)	2,317,903	1,221,342
Unallocated expenses								
Administrative expenses							(478,361)	(386,402)
Other operating expenses							(527,744)	(226,318)
Other operating income							501,055	21,418
Finance costs							(1,647,137)	(1,746,972)
Taxation							(115,990)	387,664
Profit / (Loss) for the year							49,726	(729,268)
Segment assets								
Total segment assets	14,642,414	14,007,625	6,297,304	5,698,350	59,527	80,818	20,999,245	19,786,793
Unallocated assets							3,957,414	4,741,066
Total assets							24,956,659	24,527,859

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

(Amounts in thousand)

41. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	2012	2011
		Rupees	
Holding Company			
- Engro Corporation Limited	Purchase of services	17,847	8,805
	Sale of services	-	246
	Purchase of goods	547	-
	Use of operating assets	3,328	2,349
	Markup on Subordinated Loan	62,508	-
	Reimbursement made	6,400	1,560
	Reimbursement received	1,323	187
	Pension fund contribution	5,034	4,552
	Provident fund contribution	8,581	6,255
	Medical contribution	167	225
	Gratuity fund contribution	1,749	1,188
Subsidiary Company			
- Engro Polymer Trading (Private) Limited	Sale of goods	1,627,298	1,206,080
	Sale of services	1,110	1,138
	Reimbursement received	28	-
	Markup on Working Capital Loan	686	-
	Loan received and repaid	100,000	-
Associated Company			
- Mitsubishi Corporation	Purchase of goods	9,942,467	8,491,864
	Sale of goods	60,405	192,278
	Purchase of services	58	-
	Reimbursement made	8,677	-
- Arabian Sea Country Club	Purchase of services	1,159	455
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	7,962	12,801
	Purchase of goods	4,470	169
	Sale of goods	19,399	24,974
	Sale of services	4,814	1,504
	Sale of steam and electricity	57,476	41,134
	Use of operating assets	7,396	1,049
	Reimbursement made	8,458	-
	Reimbursement received	10,775	-
	Medical contribution	-	4
	Use of EPCL operating assets	802	-
- Engro Vopak Terminal Limited	Purchase of services	849,582	792,787
	Sale of services	-	622
	Reimbursement made	19,439	7,828
	Reimbursement received	15,529	-
- Engro Foundation	Reimbursement received	760	-
	Donation	2,010	-
- Engro PowerGen Qadirpur Limited	Sale of goods	-	112
	Reimbursement made	81	-
	Reimbursement received	2,768	-
- Engro PowerGen Limited	Reimbursement made	2,345	-
	Reimbursement received	7	-
	Use of operating assets	542	-
- Engro Foods Limited	Sale of goods	53,927	37,480
	Sale of services	-	61
	Reimbursement made	167	-
	Use of operating assets	196	-
- Akzo Nobel (formerly ICI Pakistan Limited)	Purchase of goods	53,841	28,833
- IGI Insurance Company Limited	Purchase of services	1,121	2,691
- Dawood Hercules Corporation Limited	Sale of goods	234	1,525
	Purchase of services	14,400	14,400
- Lahore University of Management Sciences	Purchase of services	1,256	1,002
- Pakistan Institute of Corporate Governance	Purchase of services	15	-
- Avanceon Limited	Purchase of goods	-	9,871
- Karachi education initiative	Purchase of services	-	840
- Pakistan Japan Business Forum	Annual subscription	-	20
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	451	253
- The Karachi Stock Exchange	Annual subscription	-	463
Directors' fee		2,900	3,101
Contribution to staff retirement benefits	Pension fund	17,002	14,327
	Provident fund	38,535	21,894
	Gratuity fund	6,812	6,079
Key management personnel	Managerial remuneration	71,139	71,331
	Retirement benefit funds	10,471	10,464
	Bonus	23,677	20,686
	Other benefits	13,314	12,779

(Amounts in thousand)

41.2 The related party status of outstanding balances as at December 31, 2012 are disclosed in the respective notes.

42. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2012	2011	2012	2011	
	Kilo tons				
PVC	150	150	146	122	Production planned as per market demand and in house consumption need
EDC	127	127	110	104	
Caustic soda	106	106	107	100	
VCM	220	220	146	98	
	Mega Watts				
Power	64	64	45	45	

43. CORRESPONDING FIGURES

During the year, for better presentation, the following reclassifications were made by the Company:

Description	Rupees	Head of account in financial statements for the year ended December 31, 2011	Head of account in financial statements for the year ended December 31, 2012
Foreign exchange loss on borrowings	209,176	Other operating expenses	Finance costs

The effect of other reclassifications is not material.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 04, 2013 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated financial statements

pwc

A.F.FERGUSON & CO.

auditors' report to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Polymer and Chemicals Limited (the Holding Company) and its subsidiary company, Engro Polymer Trading (Private) Limited as at December 31, 2012 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, 2012 and the results of their operations, changes in equity and cash flows for the year then ended.

Chartered Accountants
Karachi
Date: February 26, 2013
Engagement Partner: Waqas A. Sheikh

A. F. Ferguson & Co., Chartered Accountants, a member firm of the the PwC network
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Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan Tel: +93 (779) 315320+93 (799) 315320

consolidated balance sheet

as at december 31, 2012

(Amounts in thousand)	Note	2012	2011
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	17,633,526	18,537,582
Intangible assets	5	30,864	31,104
Long term loans and advances	6	49,340	37,803
Deferred taxation	7	885,117	902,138
		18,598,847	19,508,627
Current Assets			
Stores, spares and loose tools	8	1,478,662	1,098,891
Stock-in-trade	9	3,052,436	2,508,579
Trade debts	10	266,465	292,605
Loans, advances, deposits, prepayments and other receivables	11	404,115	324,406
Taxes recoverable	12	1,026,562	860,486
Short term investments	13	169,545	-
Cash and bank balances	14	94,732	114,435
		6,492,517	5,199,402
TOTAL ASSETS		25,091,364	24,708,029
EQUITY AND LIABILITIES			
Equity			
Share capital	15	6,634,688	6,634,688
Share premium		964,029	964,029
Hedging reserve		(92,077)	(102,221)
Accumulated loss		(1,178,636)	(1,255,645)
		6,328,004	6,240,851
Non-Current Liabilities			
Long term borrowings	16	7,531,866	8,620,195
Derivative financial instruments	17	141,656	157,263
Retirement and other service benefit obligations	18	54,534	62,107
		7,728,056	8,839,565
Current Liabilities			
Current portion of long term borrowings	16	2,052,981	2,491,828
Short term borrowings	19	2,004,084	722,340
Trade and other payables	20	6,768,466	6,101,686
Accrued interest / mark-up	21	121,555	145,081
Provisions	22	88,218	166,678
		11,035,304	9,627,613
TOTAL EQUITY AND LIABILITIES		25,091,364	24,708,029
Commitments	23		

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated profit and loss account

for the year ended december 31, 2012

[Amounts in thousand except for earnings / (loss) per share]	Note	2012	2011
		Rupees	
Net revenue	24	20,605,601	17,049,998
Cost of sales	25	(17,050,461)	(14,892,203)
Gross profit		3,555,140	2,157,795
Distribution and marketing expenses	26	(1,179,186)	(891,770)
Administrative expenses	27	(479,499)	(387,880)
Other operating expenses	28	(537,688)	(232,423)
Other operating income	29	512,195	35,913
Operating profit		1,870,962	681,635
Finance costs	30	(1,659,061)	(1,758,750)
Profit / (Loss) before taxation		211,901	(1,077,115)
Taxation	31	(134,892)	370,649
Profit / (Loss) for the year		77,009	(706,466)
Earnings / (Loss) per share - basic and diluted	32	0.12	(1.06)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of comprehensive income

for the year ended december 31, 2012

(Amounts in thousand)	2012	2011
	Rupees	
Profit / (Loss) for the year	77,009	(706,466)
Other comprehensive income / (loss):		
Hedging reserve		
Loss arising during the year	(34,987)	(77,505)
Less:		
Reclassification adjustments for losses included in profit and loss	50,594	31,107
Income tax relating to hedging reserve	(5,463)	16,239
Other comprehensive income / (loss) for the year - net of tax	10,144	(30,159)
Total comprehensive income / (loss) for the year	87,153	(736,625)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of changes in equity

for the year ended december 31, 2012

(Amounts in thousand)

		RESERVES				
		CAPITAL			REVENUE	
	Share Capital	Share premium	Employees' share compensation reserve	Hedging reserve	Accumulated loss	Total
	Rupees					
Balance as at January 1, 2011	6,634,688	964,029	8,384	(72,062)	(549,179)	6,985,860
Vested share options lapsed during the year	-	-	(8,384)	-	-	(8,384)
Total comprehensive loss for the year	-	-	-	(30,159)	(706,466)	(736,625)
Balance as at December 31, 2011	6,634,688	964,029	-	(102,221)	(1,255,645)	6,240,851
Total comprehensive income for the year	-	-	-	10,144	77,009	87,153
Balance as at December 31, 2012	6,634,688	964,029	-	(92,077)	(1,178,636)	6,328,004

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated statement of cash flows

for the year ended december 31, 2012

(Amounts in thousand)	Note	2012	2011
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	3,039,061	4,589,219
Finance costs paid		(1,682,587)	(1,811,149)
Long term loans and advances		(11,537)	2,520
Retirement benefits paid		(69,054)	(41,485)
Income tax paid		(289,410)	(398,202)
Net cash generated from operating activities		986,473	2,340,903
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(354,002)	(514,248)
- intangible assets		(10,227)	(18,790)
Proceeds from disposal of property, plant and equipment		18,520	18,396
Purchase of short term investments		(1,079,000)	(896,126)
Proceeds from sale of short term investments		922,769	911,728
Income on bank deposits		9,517	11,018
Net cash utilized in investing activities		(492,423)	(488,022)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		700,000	-
Repayments of long term borrowings		(2,495,497)	(1,363,292)
Proceeds from short term borrowings		1,150,000	-
Repayments of short term borrowings		(350,000)	(450,000)
Net cash utilized in financing activities		(995,497)	(1,813,292)
Net (decrease) / increase in cash and cash equivalents		(501,447)	39,589
Cash and cash equivalents at beginning of the year		(607,905)	(647,494)
Cash and cash equivalents at end of the year	36	(1,109,352)	(607,905)

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

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

consolidated notes to the financial statements

for the year ended december 31, 2012

(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 Karachi, Lahore and Islamabad Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited. The address of its registered office is 16th Floor, The Harbor Front Building, HC-3 Marine Drive, Block 4 Clifton, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals. The Company is also engaged in the supply of surplus power generated from its power plants to Engro Fertilizers Limited.

1.2 In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). In 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-Alkali and power plants (Gas turbines). On September 30, 2010, the Company declared commercial operations of the VCM plant, after which the integrated chemical complex is complete.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities (including derivative 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 take precedence.

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

(Amounts in thousand)

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

a) Standards, amendments to published standards and interpretations that are effective in 2012 and are relevant to the Company

The following amendment to published standard is mandatory for the financial year beginning on January 1, 2012:

- IFRS 7 (Amendment), 'Financial Instruments: Disclosures' on transfer of assets. These amendments arise from the IASB's review of off-balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment only affects the disclosures in the Company's financial statements.

b) Standards, amendments to published standards and interpretations effective in 2012 but are not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2012 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

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

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2012 and have not been early adopted by the Company:

- IFRS 9 'Financial instruments' (effective for periods beginning on January 1, 2015). IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. 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.

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on January 1, 2013). This standard builds on the existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining the control where this is difficult to assess. This is relevant to consolidated financial statements of the company and is not expected to have any significant impact.

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

(Amounts in thousand)

- IFRS 13 'Fair value measurement' (effective for periods beginning on January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance and how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of IFRS 13, however, initial indications are that it may not affect the Company's financial statements significantly.

- IAS 1 (Amendment) 'Financial statements presentation' (effective for periods beginning on July 1, 2012). The main change resulting from this amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment will only affect disclosures in the Company's financial statements.

- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on January 1, 2013). The amendment eliminates the corridor approach and recognizes all actuarial gains and losses in 'other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gain and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognized in the financial statements, and result in changes in benefit classification and presentation. The Company is in the process to assess the impacts of this amendment.

- IAS 32 (Amendment), 'Financial instruments: Presentation' (effective for periods beginning on January 1, 2014). This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have any significant impact on the Company's financial statements.

  Amendments to following standards as a result of annual improvements to International Financial Reporting Standards 2011, issued by IASB in May 2012:

• IAS 16 (Amendment) 'Property, plant and equipment' (effective for periods beginning on January 1, 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. It is unlikely that the amendment will have any significant impact on the Company's financial statements.

• IAS 32 (Amendment) 'Financial instruments: Presentation' (effective for periods beginning on January 1, 2013). The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12. So, income tax related to distributions is to be recognised in the profit and loss account, and income tax related to the costs of equity transactions is to be recognised in equity. The Company's current accounting treatment is already in line with this amendment.

• IAS 34 (Amendment) 'Interim financial reporting' (effective for periods beginning on January 1, 2013). The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments' whereby a measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The amendment will only affect the disclosures in Company's condensed interim financial information.

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

(Amounts in thousand)

2.1.5 Basis of consolidation

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

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

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

2.2 Property, plant and equipment

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

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

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

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount and the resulting impairment loss is recognized in income. The recoverable amount is the higher of fair value, less expected selling expenses, and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in income, however, is restricted to the original cost of the asset.

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

2.3 Intangible assets - Computer software

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

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

(Amounts in thousand)

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

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.

(Amounts in thousand)

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

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

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

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

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 older than ten years, and is recognized in the profit and loss account.

2.6 Stock-in-trade

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

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

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

2.7 Trade debts and other receivables

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

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

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.

(Amounts in thousand)

2.10 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.

2.11 Retirement and other service benefits

2.11.1 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.

2.11.2 Gratuity fund

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

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.

2.11.3 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.

2.11.4 Compensated absences

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

2.11.5 Other benefits

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

(Amounts in thousand)

2.12 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.

2.13 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.

2.14 Taxation

2.14.1 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.

2.14.2 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.

2.15 Foreign currency transactions and translation

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

2.16 Derivatives financial instruments and hedging activities

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

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

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

(Amounts in thousand)

- Fair value hedge

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

- Cash flow hedge

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

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

  Amounts accumulated in comprehensive income are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. stock-in-trade or property, plant and equipment) 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 sales in case of stock-in-trade, or in depreciation in case of property, plant and equipment.

  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. stock-in-trade or property, plant and equipment) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

  The fair values of various derivative instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve are shown in statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(Amounts in thousand)

2.17 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.

2.18 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 case, such costs are capitalized as part of the cost of that asset. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.19 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.

2.20 Dividend and appropriation to reserves

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Property, plant and equipment and intangible assets

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

(Amounts in thousand)

3.2 Derivative hedging financial instruments designated as cash flow hedges

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

3.3 Stock-in-trade

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

3.4 Income taxes

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

3.5 Deferred tax asset

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

3.6 Provision for retirement and other service benefit obligations

The present value of these obligations depend on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in notes 33.2 and 33.7 respectively.

4. PROPERTY, PLANT AND EQUIPMENT

	2012	2011
	Rupees	
Operating assets, at net book value - notes 4.1	17,476,546	18,375,445
Capital work-in-progress - note 4.4	156,980	162,137
	17,633,526	18,537,582

(Amounts in thousand)

4.1 Operating assets

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines				Furniture, fixtures and equipment	Vehicles	Total
				Water	VCM	Ethylene	Gas			
					Rupees					
As at January 1, 2011										
Cost	194,127	432,578	20,730,013	398,968	26,122	50,315	33,849	126,394	134,650	22,127,016
Accumulated depreciation	(21,218)	(73,051)	(2,664,500)	(85,844)	(14,529)	(3,550)	(3,220)	(76,775)	(45,740)	(2,988,427)
Net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Year ended December 31, 2011										
Opening net book value	172,909	359,527	18,065,513	313,124	11,593	46,765	30,629	49,619	88,910	19,138,589
Additions - note 4.4	-	5,146	368,625	-	-	-	-	8,229	30,251	412,251
Disposals - note 4.3										
- Cost	-	-	-	-	-	-	-	(371)	(34,591)	(34,962)
- Accumulated depreciation	-	-	-	-	-	-	-	325	18,738	19,063
	-	-	-	-	-	-	-	(46)	(15,853)	(15,899)
Write offs - note 4.3										
- Cost	-	-	(5,574)	-	-	-	-	(399)	-	(5,973)
- Accumulated depreciation	-	-	254	-	-	-	-	351	-	605
	-	-	(5,320)	-	-	-	-	(48)	-	(5,368)
Depreciation charge - note 4.2	(3,934)	(11,066)	(1,077,772)	(19,948)	(1,306)	(2,516)	(1,692)	(14,756)	(21,138)	(1,154,128)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
As at January 1, 2012										
Cost	194,127	437,724	21,093,064	398,968	26,122	50,315	33,849	133,853	130,310	22,498,332
Accumulated depreciation	(25,152)	(84,117)	(3,742,018)	(105,792)	(15,835)	(6,066)	(4,912)	(90,855)	(48,140)	(4,122,887)
Net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Year ended December 31, 2012										
Opening net book value	168,975	353,607	17,351,046	293,176	10,287	44,249	28,937	42,998	82,170	18,375,445
Addition88s - note 4.4	-	48,854	259,888	-	-	-	-	7,082	43,335	359,159
Disposals - note 4.3										
- Cost	-	-	-	-	-	-	-	(650)	(30,400)	(31,050)
- Accumulated depreciation	-	-	-	-	-	-	-	599	14,358	14,957
	-	-	-	-	-	-	-	(51)	(16,042)	(16,093)
Write offs - note 4.3										
- Cost	-	-	(10,882)	-	-	-	-	(503)	-	(11,385)
- Accumulated depreciation	-	-	3,851	-	-	-	-	415	-	4,276
	-	-	(7,021)	-	-	-	-	(88)	-	(7,109)
SED Cost Adjustment - note 22.1.2										
- Cost	-	-	(78,195)	-	-	-	-	-	-	(78,195)
- Accumulated depreciation	-	-	12,309	-	-	-	-	-	-	12,309
	-	-	(65,886)	-	-	-	-	-	-	(65,886)
Depreciation charge - note 4.2	(3,934)	(11,581)	(1,093,290)	(19,948)	(1,306)	(1,692)	(2,516)	(13,901)	(20,802)	(1,168,970)
Closing Net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
As at December 31, 2012										
Cost	194,127	485,578	21,263,875	398,968	26,122	50,315	33,849	139,782	143,245	22,736,861
Accumulated depreciation	(29,086)	(95,698)	(4,819,138)	(125,740)	(17,141)	(7,758)	(7,428)	(103,742)	(54,584)	(5,260,315)
Net book value	165,041	390,880	16,444,737	273,228	8,981	42,557	26,421	36,040	88,661	17,476,546
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5	5 to 33	5 to 25	

(Amounts in thousand)

	2012	2011
	Rupees	

4.2 Depreciation charge has been allocated as follows:

	2012	2011
Cost of sales - note 25	1,157,612	1,141,768
Distribution and marketing expenses - note 26	4,767	4,450
Administrative expenses - note 27	6,591	7,910
	1,168,970	1,154,128

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	999	799	200	636	By auction	Mr. Sultan Jan Niazi
“	555	444	111	517		“
“	555	444	111	516		“
“	555	444	111	468		Mr. Imran Sheikh
“	1,269	496	773	714	By Company policy to existing / separating employees	Mr. Tahir Rashid
“	9,200	3,019	6,181	7,000		Mr. Asif Qadir
“	6,536	2,043	4,493	4,494		Mr. Asif Qadir
“	1,500	984	516	398		Mr. Muhammad Naveed Rizvi
“	1,269	714	555	496		Mr. Sadiq Akber
“	1,269	773	496	317		Mr. Rahim Anwar
“	1,775	1,276	499	443		Mr. Syed Ali Akbar
“	1,895	711	1,184	1,125		Mr. Syed Ashar Hussain
“	1,199	824	375	300		Mr. Imran Baloch
“	1,269	833	436	317		Mr. Aneeq Ahmed
Furniture, fixture and equipment	174	149	25	23		Mr. Asif Qadir
“	95	71	24	24		Mr. Yoshigo Shiga
Equipment - Laptop	102	39	63	58	By insurance claim	EFU insuarance claim
Plant and machinery - note 28.4	10,882	3,861	7,021	-		
Aggregate amount of assets having net book value less than Rs. 50 each	1,337	1,309	28	674		
	42,435	19,233	23,202	18,520		
2011	40,935	19,668	21,267	18,396		

(Amounts in thousand)

4.4 Capital work-in-progress

	Plant and Machinery	Building on leasehold land	Furniture, fixtures and equipments	Advances for vehicles & software	Total
			Rupees		
Year ended December 31, 2011					
Balance as at January 1, 2011	55,622	450	905	3,163	60,140
Additions during the year	474,367	5,088	7,324	27,469	514,248
Transferred to operating assets - note 4.1	(368,625)	(5,146)	(8,229)	(30,251)	(412,251)
Balance as at December 31, 2011	161,364	392	-	381	162,137
Year ended December 31, 2012					
Balance as at January 1, 2012	161,364	392	-	381	162,137
Additions during the year	245,947	53,264	7,494	47,297	354,002
Transferred to operating assets - note 4.1	(259,888)	(48,854)	(7,082)	(43,335)	(359,159)
Balance as at December 31, 2012	147,423	4,802	412	4,343	156,980

5. INTANGIBLE ASSETS - Computer software

	Rupees
As at January 1, 2011	
Cost	33,655
Accumulated amortization	(12,799)
Net book value	20,856
Year ended December 31, 2011	
Opening net book value	20,856
Additions at cost	18,790
Amortization charge - note 27	(8,542)
Closing net book value	31,104
As at January 1, 2012	
Cost	52,445
Accumulated amortization	(21,341)
Net book value	31,104
Year ended December 31, 2012	
Opening net book value	31,104
Additions at cost	10,227
Amortization charge - note 27	(10,467)
Closing net book value	30,864
As at December 31, 2012	
Cost	62,672
Accumulated amortization	(31,808)
Net book value	30,864

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

(Amounts in thousand)

6. LONG TERM LOANS AND ADVANCES - Considered good

	2012	2011
	Rupees	
Executives - notes 6.1, 6.2 and 6.4	74,752	53,502
Less: Current portion shown under current assets - note 11	(30,253)	(18,027)
	44,499	35,475
Employees - note 6.3	14,423	10,884
Less: Current portion shown under current assets - note 11	(9,582)	(8,556)
	4,841	2,328
	49,340	37,803

6.1 No loans and advances were due from Chief Executive at the beginning or at end of the year. Reconciliation of the carrying amount of loans and advances to executives is as follows:

	2012	2011
	Rupees	
Balance at beginning of the year	53,502	55,299
Disbursements	55,555	28,561
Repayments	(34,305)	(30,358)
Balance at end of the year	74,752	53,502

6.2 These include interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly installments. Loans for home appliances are repayable in 5 equal annual installments. Advances for vehicles are charged to profit and loss account over a period of 3 years.

6.3 These include interest free loans to employees for home appliances and investments, given in accordance with the terms of employment. Loans are repayable in accordance with the terms stated in note 6.2.

6.4 The maximum aggregate amount due from the executives at the end of any month during the year was Rs. 91,519 (2011: Rs. 66,973). These are secured by way of promissory notes.

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

(Amounts in thousand)

7. DEFERRED TAXATION

	2012	2011
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(4,149,265)	(4,195,902)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,412,854	4,520,417
- recoupable minimum turnover tax	420,691	377,524
- tax amortization	-	73
- unpaid liabilities and provision for retirement and other service benefits	50,770	38,835
- provision against custom duty and SED refundable	37,191	44,380
- provision for slow moving stores and spares	5,588	4,060
- fair value of hedging instrument	49,579	55,042
- share issuance cost, net to equity	57,709	57,709
	5,034,382	5,098,040
	885,117	902,138

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, 2012 amount to Rs. 12,608,153 (2011: Rs. 12,915,477) which is entirely attributable to unabsorbed tax depreciation.

8. STORES, SPARES AND LOOSE TOOLS

	2012	2011
	Rupees	
Consumable stores	102,008	80,055
Spares	1,392,620	1,041,544
	1,494,628	1,121,599
Less:		
- Provision for slow moving stores and spares - note 8.1	15,966	11,601
- Stores and spares written-off - note 25	-	11,107
	1,478,662	1,098,891

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

	2012	2011
	Rupees	
Balance at the beginning of the year	11,601	7,734
Add: Provided during the year - note 25	4,365	3,867
Balance at the end of the year	15,966	11,601

(Amounts in thousand)

9. STOCK-IN-TRADE

	2012	2011
	Rupees	
Raw and packing materials - note 9.1	2,218,014	1,694,992
Work-in-progress	-	24,258
Finished goods - own manufactured product - note 9.2	834,422	789,329
	3,052,436	2,508,579

9.1 This includes stock-in-transit amounting to Nil (2011: Rs. 131,830) and stocks held at the storage facilities of the following parties:

	2012	2011
	Rupees	
Engro Vopak Terminal Limited, a related party	918,703	717,858
Dawood Hercules Corporation Limited, a related party	2,773	6,387
Al-Rahim Trading Company (Private) Limited	520,158	342,984
	1,441,634	1,067,229

9.2 This includes carrying value of PVC resin, net of realizable value reduction of Rs. 20,822 (2011: Rs. 14,931) and write-off of Nil. (2011: 87 M tons of PVC resin amounting to Rs. 4,965).

10. TRADE DEBTS - considered good

	2012	2011
	Rupees	
Secured - note 10.1	214,570	271,304
Unsecured - note 10.2	51,895	21,301
	266,465	292,605

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

	2012	2011
	Rupees	
10.2 Includes amount due from Engro Foods Limited - a related party	2,788	2,473

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

(Amounts in thousand)

	2012	2011
	Rupees	
11. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 6		
- executives	30,253	18,027
- employees	9,582	8,556
	39,835	26,583
Advances to employees for reimbursable expenses	1,432	5
Advances to suppliers and others	69,209	88,315
Deposits	42,800	24,292
Prepayments	84,489	83,173
Receivable from Government of Pakistan		
- Sales tax and Federal excise duty refundable	111,876	101,140
- octroi/duty claims	152	152
	112,028	101,292
Receivable from Engro Vopak Terminal Limited	1,436	-
Receivable from Engro Fertilizers Limited	3,658	-
Salt penalty recoverable from suppliers	34,005	-
Other receivables	15,223	100
	404,115	323,760
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 11.1 and 11.2	(18,043)	(18,043)
	-	-
Special Excise Duty (SED) refundable	36,687	36,687
Less: Provision for impairment - note 11.2 and 22.1.1	(36,687)	(36,687)
	-	-
Export rebate claim	646	646
Less: Provision for impairment - note 11.2	(646)	-
	-	646
Sales tax refundable	140	140
Less: Provision for impairment - note 11.2	(140)	(140)
	-	-
	404,115	324,406

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

During the year, the Company has filed an appeal with the High Court of Sindh against the aforesaid order of the Tribunal. However, based on prudence, the Company is maintaining full provision against the aforementioned custom duty refundable till such time that all available legal courses are exhausted.

(Amounts in thousand)

11.2 As at December 31, 2012, receivables aggregating to Rs. 55,516 (2011: Rs. 54,870) were deemed to be impaired and have been provided for in full, based on prudence. The remaining balances of loans, deposits, and other receivables are neither past due nor impaired.

12. TAXES RECOVERABLE

12.1 Tax year 2008

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

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

In 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by the Company before the ATIR. The department has also filed an appeal against the said appellate order challenging the actions of the CIR(A).

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

12.2 Tax year 2009

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

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

In 2011, through an appellate order, the CIR(A) maintained certain additions aggregating to Rs. 493,971 including disallowance of finance cost amounting to Rs. 457,282 and remanded back the issue of imputed interest on loans to employees and executives. An appeal against the said appellate order has been filed before the ATIR. The department has also filed an appeal against the said appellate order challenging the action of CIR(A) deleting the addition on account of provision for the retirement benefits.

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

(Amounts in thousand)

12.3 Assessment year 2000-2001

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

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

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

	2012	2011
	Rupees	
Mutual fund securities - note 13.1	169,545	-

13.1 These represent investments in various money market funds which are valued at their respective net asset values at the balance sheet date.

14. CASH AND BANK BALANCES

	2012	2011
	Rupees	
Cash in hand	755	719
Cash at bank:		
- current accounts	75,363	92,456
- saving accounts	18,614	21,260
	93,977	113,716
	94,732	114,435

15. SHARE CAPITAL

	2012	2011
Authorized capital		
800,000,000 (2011: 800,000,000) ordinary shares of Rs. 10 each	8,000,000	8,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2011: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash - note 15.1	6,634,688	6,634,688

(Amounts in thousand)

15.1 As at December 31, 2012, Engro Corporation Limited (the Holding Company) holds 372,809,989 ordinary shares of Rs.10 each (2011: 372,809,989 ordinary shares of Rs. 10 each).

16. LONG TERM BORROWINGS, secured

Title	Mark-up rate per annum	Installments Number	Installments Commencing from	2012 Rupees	2011 Rupees
Syndicated term finance I (note 16.3)	6 months KIBOR + 2.25%	13 half yearly	November 2010	4,254,218	4,898,377
Syndicated term finance II (note 16.3)	6 months KIBOR + 3%	13 half yearly	June 2010	1,068,045	1,241,089
Syndicated term finance III	6 months KIBOR + 2%	Single	June 2012	-	747,333
Syndicated term finance IV (note 16.1)	6 months KIBOR + 2.55%	6 half yearly	May 2013	490,764	-
Master Istisna I	6 months KIBOR + 1.5%	6 half yearly	May 2013	100,000	100,000
Master Istisna II	6 months KIBOR + 2%	3 half yearly	June 2012	-	199,000
Master Istisna III (note 16.2)	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	-
International Finance Corporation (IFC) (note 16.3)	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	3,471,820	3,926,224
				9,584,847	11,112,023
Less: Current portion shown under current liabilities				(2,052,981)	(2,491,828)
				7,531,866	8,620,195

16.1 During the year, the Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 500,000. The facility, in addition to the mark-up, also carries a one time arrangement fee of 1.25%. This facility is secured by:

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

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

16.2 During the year, the Company entered into Master Istisna agreement for a facility of Rs. 200,000 for a period of thirty six months. Amount due under the agreement is payable in tranches by way of a series of Istisna transactions, with each Istisna transaction treated as a separate agreement. As the management intends to roll over each Istisna transaction on repayment date to the expiry date of the facility, the above mentioned financing has been included in long term borrowings of the Company. The facility is secured by a mortgage over land and buildings subordinated to the mortgage listed in note 16.3 and hypothecation by way of subordinated charge over all present and future fixed assets of the Company.

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 and stocks.

(Amounts in thousand)

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

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

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

16.4 Under the terms of the agreements for long term borrowings from IFC and syndicates of banks, the Company is required to comply with certain debt covenants. As at December 31, 2012, all debt covenants have been complied with except for current ratio and debt service coverage ratio. Waiver for current ratio deviation has been obtained from IFC, whereas waiver has been applied with local syndicate for current ratio and debt service coverage ratio.

17. DERIVATIVE FINANCIAL INSTRUMENTS

17.1 As at December 31, 2012, the Company has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating US$ 7,167, 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 plus margin, where applicable, on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually.

17.2 As at December 31, 2012, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US$ 24,000 to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually.

17.3 Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Rate %	Fair Values 2012	Fair Values 2011
				Rupees	Rupees
Interest Rate Swap Agreements			Fixed Rate		
9,000	December 15, 2008	June 15, 2017	3.385	60,061	66,962
3,000	June 15, 2009	June 15, 2017	3.005	17,240	18,573
9,000	June 15, 2009	June 15, 2017	2.795	47,110	49,505
3,000	June 15, 2009	June 15, 2017	2.800	15,701	16,279
24,000				140,112	151,319
Cross Currency Interest Rate Swap Agreements			Floating Rate		
1,748	September 9, 2010	June 15, 2015	LIBOR + 0.95	(1,388)	2,164
2,468	January 18, 2011	January 19, 2016	LIBOR + 3.70	264	365
2,951	July 6, 2011	June 30, 2016	LIBOR + 1.83	2,668	3,415
7,167				1,544	5,944
31,167				141,656	157,263

(Amounts in thousand)

	2012	2011
	Rupees	
18. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS		
Service incentive plan	54,534	55,077
Additional death gratuity - note 33	-	7,030
	54,534	62,107

19. SHORT TERM BORROWINGS		
Running finance utilized under mark-up arrangements - note 19.1	1,204,084	722,340
Sub-ordinate loan from Engro Corporation Limited - note 19.2	800,000	-
	2,004,084	722,340

19.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements amount to Rs. 1,700,000 (2011: 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 1.0% to 2.5% (2011: relevant period KIBOR plus 1.0% to 1.5%) per annum. During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.38% to 13.64% (2011: 12.92% to 15.29%) per annum. The facilities are secured by a floating charge over stocks and book debts of the Company.

19.2 During the year on April 10, 2012, the Company entered into a loan agreement with Engro Corporation Limited, amounting to Rs. 950,000 for meeting its working capital requirements. The loan is subordinated to the finances provided to the Company by its banking creditors and carries markup at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

19.3 The facility for opening letters of credit as at December 31, 2012 aggregate to Rs. 6,683,000 (2011: Rs. 7,537,000). The amount utilized at December 31, 2012 was Rs. 5,098,000 (2011: Rs. 4,612,000). The facilities carry commission at the rate of 0.05% flat (2011: 0.05% flat).

	2012	2011
	Rupees	
20. TRADE AND OTHER PAYABLES		
Trade and other creditors - note 20.1	5,143,772	4,461,867
Accrued liabilities	836,994	743,647
Advances from customers	723,545	803,243
Retention money against project payments	19,280	17,563
Security deposits	8,470	11,477
Workers' profits participation fund - note 20.2	9,229	164
Workers welfare fund	11,006	2,994
Sales tax and SED payable	-	45,295
Withholding tax payable	4,313	9,002
Others	11,857	6,434
	6,768,466	6,101,686

(Amounts in thousand)

20.1 Includes amount due to following related parties:

	2012	2011
	Rupees	
- Engro Corporation Limited	4,211	6,344
- Mitsubishi Corporation	5,008,730	4,283,409
- Engro Foods Limited	255	-
- Engro Fertilizers Limited	4,719	7,730
- Engro Vopak Terminal Limited	84,549	81,264
- Engro Powergen Limited	2,880	-
- Engro Powergen Qadirpur Limited	81	-
- Dawood Hercules Corporation Limited	-	24
	5,105,425	4,378,771

20.2 Workers' profits participation fund

	2012	2011
Balance at beginning of the year	164	76
Add:		
- Allocation for the year - note 28	9,065	-
- Refund from contractors	-	88
Balance at end of the year	9,229	164

21. ACCRUED INTEREST / MARK-UP

	2012	2011
	Rupees	
Finance cost accrued on:		
- long term borrowings	99,235	118,159
- short term running finance utilized under mark-up arrangements	22,320	26,922
	121,555	145,081

22. PROVISIONS

	2012	2011
Provision for SED on import of plant and machinery - note 22.1	-	91,498
Provision for duty on import of raw materials - note 22.2	88,218	75,180
	88,218	166,678

(Amounts in thousand)

22.1 Provision for SED on import of plant and machinery

	2012	2011
	Rupees	
Balance at beginning of the year	91,498	83,795
Recognized during the year - note 22.1.1	6,328	7,703
Reversal during the year - note 22.1.1 and 22.1.2	(97,826)	-
Balance at end of the year	-	91,498

22.1.1 The Company had paid Rs. 94,611 (2011: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of Rs. 94,611, the Company had adjusted Rs. 57,924 (2011: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by the Company in 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 other receivables (note 11). However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 alongwith default surcharge and penalty. Accordingly, a further provision for surcharge and penalty thereon amounting to Rs. 39,902 (2011: Rs. 33,574) was also recognized.

The Company, however, continued to contest this matter with the tax department at the prescribed appellate forums. On June 15, 2012, this matter was decided in favor of the Company by the Appellate Tribunal Inland Revenue (ATIR). As no further appeal was filed by the tax department against the aforementioned order of ATIR, the provisions relating to the adjustment of SED against the sales tax, and the related default surcharge and penalty amounts have been reversed.

22.1.2 The above reversal has been accounted for by adjusting the written down value of operating assets to the extent of capitalization in respective Plant and Machinery items amounting to Rs. 65,886 (note 4.1). Further Rs. 31,940, representing default surcharge of Rs. 19,631 and the related depreciation of Rs. 12,309 which was charged to income till the reversal of provision, has been credited to other operating income (note 29).

22.2 Provision for duty on import of raw materials

	2012	2011
	Rupees	
Balance at beginning of the year	75,180	47,227
Recognized during the year - 22.2.1	13,038	27,953
Balance at end of the year	88,218	75,180

(Amounts in thousand)

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

Although, no formal order creating a demand has yet been received by the Company, based on prudence, provision amounting to Rs. 88,218 (2011: Rs. 75,180) in respect of customs duty on such raw materials has been recognized.

23. COMMITMENTS

23.1 The aggregate facility for performance guarantees to be issued by banks on behalf of the Company as at December 31, 2012 amount to Rs. 1,598,000 (2011: Rs. 1,648,000). The amount utilized thereagainst as at December 31, 2012 was Rs. 930,932 (2011: Rs. 849,035).

23.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Company (Private) Limited and Dawood Hercules Corporation Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till April 30, 2019. The future aggregate lease payments under these arrangements are as follows:

	2012	2011
	Rupees	
Not later than 1 year	50,780	59,030
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	19,200	36,000
	127,580	152,630

(Amounts in thousand)

24. NET REVENUE

	2012	2011
	Rupees	
Gross local sales	21,720,746	18,575,675
Less:		
- Sales tax	3,144,510	3,006,889
- Special excise duty	-	93,600
- Discounts	81,132	15,391
	3,225,642	3,115,880
	18,495,104	15,459,795
Export sales	2,064,828	1,563,055
Supply of electricity - note 24.1	45,669	27,148
	20,605,601	17,049,998

24.1 Supply of electricity represents supply of surplus power to Engro Fertilizers Limited - a related party.

25. COST OF SALES

	2012	2011
	Rupees	
Opening stock of work-in-progress	24,258	4,749
Raw and packing materials consumed	10,626,249	9,337,524
Salaries, wages and staff welfare - note 25.1	714,149	608,266
Fuel, power and gas	2,821,702	2,140,401
Repairs and maintenance	340,047	242,642
Depreciation - note 4.2	1,157,612	1,141,768
Consumable stores	248,451	254,857
Purchased services	59,139	42,996
Storage and handling	981,658	893,594
Training and travelling	24,459	18,935
Communication, stationery and other office expenses	6,237	8,519
Insurance	70,251	59,947
Provision for slow moving stores and spares - note 8.1	4,365	3,867
Expired chemicals written-off	-	200
Stores and spares written-off	-	11,107
Other expenses	16,977	19,646
	17,071,296	14,784,269
Closing stock of work-in-progress	-	(24,258)
Cost of goods manufactured	17,095,554	14,764,760
Opening stock of finished goods	789,329	916,772
Closing stock of finished goods	(834,422)	(789,329)
	(45,093)	127,443
	17,050,461	14,892,203

25.1 Includes Rs. 46,819 (2011: Rs. 32,830) in respect of staff retirement and other benefits, referred to in note 33.

(Amounts in thousand)

26. DISTRIBUTION AND MARKETING EXPENSES

	2012	2011
	Rupees	
Salaries, wages and staff welfare - note 26.1	82,427	66,401
Advertising, sales promotion and entertainment	117,220	89,667
Product transportation and handling	905,264	690,146
Rent, rates and taxes	32,468	11,294
Purchased services	4,649	6,122
Insurance	1,058	1,213
Depreciation - note 4.2	4,767	4,450
Training and travelling	14,405	8,766
Communication, stationery and other office expenses	3,404	3,347
Others	13,524	10,364
	1,179,186	891,770

26.1 Includes Rs. 6,437 (2011: Rs. 3,931) in respect of staff retirement and benefits, referred to in note 33.

27. ADMINISTRATIVE EXPENSES

	2012	2011
	Rupees	
Salaries, wages and staff welfare - note 27.1	225,877	182,092
Rent, rates and taxes	33,666	41,295
Purchased services	71,734	48,195
Insurance	1,568	677
Depreciation - note 4.2	6,591	7,910
Amortization - note 5	10,467	8,542
Training and travelling expenses	79,101	59,583
Communication, stationery and other office expenses	26,869	27,459
Others	23,626	12,127
	479,499	387,880

27.1 Includes Rs. 16,290 (2011: Rs. 12,237) in respect of staff retirement and benefits, referred to in note 33.

(Amounts in thousand)

28. OTHER OPERATING EXPENSES

	2012	2011
	Rupees	
Legal and professional charges	33,703	20,651
Auditors' remuneration - note 28.1	2,777	2,306
Donations - note 28.2 and 28.3	2,296	7,096
Workers' profits participation fund - note 20.2	9,065	-
Workers' welfare fund	8,012	1,192
Foreign exchange loss - net	474,726	195,858
Damaged items of operating assets written-off - note 28.4	7,109	5,320
	537,688	232,423

28.1 Auditors' remuneration

	2012	2011
Fee for:		
- Annual statutory audit	835	730
- Half yearly review	236	200
- Review of compliance with Code of Corporate Governance	50	50
	1,121	980
Taxation and other advisory services	1,551	1,231
Reimbursement of expenses	105	95
	2,777	2,306

28.2 Includes donation to Engro Foundation - a related party, amounting to Rs. 2,010 (2011: Nil).

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

28.4 During the year, damaged furnace tubes related to the VCM and other plants having a net book value of Rs. 7,021 (2011: Rs. 5,320) have been written-off.

29. OTHER OPERATING INCOME

	2012	2011
	Rupees	
On financial assets		
Income on bank deposits	9,517	11,018
Gain on investments in mutual funds held for trading	13,313	15,602
On non-financial assets		
Insurance claim - note 29.1	423,281	-
Reversal of provision for SED - note 22.1.2	31,940	-
Profit on disposal of operating assets	2,427	2,449
Scrap sales	26,255	5,293
Others	5,462	1,551
	512,195	35,913

29.1 This represents insurance claims received on account of loss of profit and property damage, incurred as a result of fire incident at the site of Plant in December 2009 amounting to Rs. 391,000 and Rs. 32,281, respectively.

(Amounts in thousand)

	2012	2011
	Rupees	

30. FINANCE COSTS

	2012	2011
Interest/mark-up on:		
- long term borrowings	1,142,303	1,403,529
- short term borrowings	62,508	-
- running finances	99,572	116,548
	1,304,383	1,520,077
Foreign exchange loss on borrowings	314,542	209,176
Guarantee commission	8,071	6,559
Bank charges and others	32,065	22,938
	1,659,061	1,758,750

31. TAXATION

	2012	2011
Current		
- for the year - note 31.1	122,927	184,454
- for prior years	407	7,417
	123,334	191,871
Deferred		
- for the year	11,558	(549,054)
- for prior years	-	(13,466)
	11,558	(562,520)
	134,892	(370,649)

31.1 Current year charge represents minimum tax at the rate of 0.5% (2011: 1%) of the turnover, in accordance with section 113 of the Income Tax Ordinance, 2001.

31.2 Relationship between tax expense and accounting profit

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

	2012	2011
	Rupees	
Profit / (Loss) before taxation	211,901	(1,077,115)
Tax calculated at applicable rate of 35% (2011: 35%)	74,165	(376,990)
Tax effect of presumptive tax regime and income subject to lower tax rates	(58)	(4,534)
Prior year tax charge	407	7,417
Permanent difference due to donation and depreciation of land	2,181	3,458
Un-recoupable minimum turnover tax	57,805	-
Effect of adjustments in opening written down values and carried forward losses	392	-
Tax expense for the year	134,892	(370,649)

(Amounts in thousand)

32. EARNINGS / (LOSS) PER SHARE - Basic and diluted

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

	2012	2011
	Rupees	
Profit / (Loss) for the year	77,009	(706,466)
	Number in thousands	
Weighted average number of ordinary shares	663,469	663,469

33. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2012 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2012	2011	2012	2011	2012	2011
33.1 Balance sheet reconciliation	Rupees					
Present value of defined benefit obligations	150,494	132,499	51,561	42,778	-	-
Fair value of plan assets	(149,406)	(117,134)	(47,578)	(36,729)	-	-
Deficit	1,088	15,365	3,983	6,049	-	-
Present value of unfunded obligations	-	-	-	-	-	6,147
Unrecognized net actuarial (losses) / gains	(1,088)	(15,365)	(4,025)	(6,049)	-	883
Payable in respect of transfers	-	-	42	-	-	-
Net liability at the end of the year	-	-	-	-	-	7,030

33.2 Movement in the defined benefit obligations

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011	Additional Death Gratuity Scheme 2012	Additional Death Gratuity Scheme 2011
Obligation as at January 1	132,499	110,835	42,778	35,488	6,147	4,977
Current service cost	13,441	10,617	5,263	4,950	173	861
Interest cost	17,659	16,404	5,791	5,409	892	732
Actuarial gains	(10,559)	(4,084)	(1,069)	(2,410)	(1,413)	(423)
Benefits paid	(2,546)	(1,273)	(1,160)	(767)	-	-
Liability recognized in respect of transfers	-	-	(42)	108	-	-
Effects of curtailment and settlement	-	-	-	-	(5,799)	-
Obligation as at December 31	150,494	132,499	51,561	42,778	-	6,147

(Amounts in thousand)

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011	Additional Death Gratuity Scheme 2012	Additional Death Gratuity Scheme 2011
	Rupees					
33.3 Movement in the fair value of plan assets						
Fair value as at January 1	117,134	97,803	36,729	30,903	-	-
Expected return on plan assets	14,333	14,642	4,439	4,793	-	-
Actuarial gains / (losses)	3,483	(8,365)	758	(4,387)	-	-
Employer contributions	17,002	14,327	6,812	6,079	-	-
Benefits paid	(2,546)	(1,273)	(1,160)	(767)	-	-
Transferred to other group companies	-	-	-	108	-	-
Fair value as at December 31	149,406	117,134	47,578	36,729	-	-
33.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	13,441	10,617	5,263	4,950	173	861
Interest cost	17,659	16,404	5,791	5,409	892	732
Expected return on plan assets	(14,333)	(14,642)	(4,439)	(4,793)	-	-
Recognition of actuarial (gains) / losses	235	-	197	65	(2,296)	-
Effects of curtailment and settlement	-	-	-	-	(5,799)	-
Expense / (Income)	17,002	12,379	6,812	5,631	(7,030)	1,593
33.5 Actual return on plan assets	19,580	9,338	5,144	3,660	-	-

33.6 Expected future costs for the year ending December 31, 2013:

	Rupees
- Pension Fund	15,483
- Gratuity Fund	6,674
- Additional Death Gratuity Scheme	-
	22,157

33.7 Principal assumptions used in the actuarial valuation:

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011
Discount rate per annum	12.0%	12.5%	12.0%	12.5%
Expected rate of return per annum on plan assets	12.0%	12.5%	12.0%	12.5%
Expected rate of increase per annum in future salaries	11.0%	11.5%	11.0%	11.5%

33.8 Plan assets comprise of following:

	Pension Fund 2012	Pension Fund 2011	Gratuity Fund 2012	Gratuity Fund 2011
	Rupees			
Equity	35,857	28,112	11,419	8,815
Debt	113,549	89,022	36,159	27,914
	149,406	117,134	47,578	36,729

(Amounts in thousand)

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

33.10 Historical information of staff retirement benefits:

	2012	2011	2010	2009	2008
	Rupees				
Pension Fund					
Present value of defined benefit obligation	150,494	132,499	110,835	78,994	68,644
Fair value of plan assets	(149,406)	(117,134)	(97,803)	(88,607)	(73,582)
Deficit / (Surplus)	1,088	15,365	13,032	(9,613)	(4,938)
Gratuity Fund					
Present value of defined benefit obligation	51,561	42,778	35,488	26,048	22,888
Fair value of plan assets	(47,578)	(36,729)	(30,903)	(27,618)	(21,821)
Deficit / (Surplus)	3,983	6,049	4,585	(1,570)	1,067

33.11 During the year, Rs. 38,535 (2011: Rs. 21,894) has been recognized in the profit and loss account in respect of defined contribution provident fund.

34. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

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

	2012			2011		
	Director			Director		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	Rupees					
Managerial remuneration	21,303	-	406,843	21,549	-	399,960
Retirement benefit funds	9,165	-	68,938	3,422	-	12,644
Bonus paid	3,801	-	67,856	3,676	-	32,411
Other benefits	2,863	-	40,786	2,654	-	25,380
Directors Fee	-	2,900	-	-	3,101	-
Total	37,132	2,900	584,423	31,301	3,101	470,395
Number of persons at year end	1	9	198	1	9	209

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

34.2 Premium charged in the financial statements in respect of Directors' indemnity insurance policy, purchased by the Company amounts to Rs. 620 (2011: Rs. 341).

(Amounts in thousand)

	2012	2011
	Rupees	
35. CASH GENERATED FROM OPERATIONS		
Profit / (Loss) before taxation	211,901	(1,077,115)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	61,481	53,501
Depreciation and amortization	1,179,437	1,162,670
Reversal of employee compensation reserve	-	(8,384)
Provision for slow moving stores and spares	4,365	3,867
Provision for net realizable value of stock-in-trade	20,822	14,931
Write-off of damaged items of property, plant and equipment	7,109	5,320
Write-off of PVC resin and expired chemicals	-	5,165
Income on bank deposits	(9,517)	(11,018)
Gain on investments in mutual funds held for trading	(13,313)	(15,602)
Unrealized foreign exchange loss on borrowings	259,200	189,640
Amortization of prepaid financial charges	9,120	21,022
Unrealized foreign exchange loss on imports and retention money	120,002	132,841
Finance costs	1,659,061	1,758,750
Profit on disposal of operating assets	(2,427)	(2,449)
(Reversal) / Recognition of provision against Special Excise Duty (SED)	(25,612)	7,703
Provision against concessionary duty on import of raw materials	13,038	27,953
Working capital changes - note 35.1	(455,606)	2,320,424
	3,039,061	4,589,219

	2012	2011
35.1 WORKING CAPITAL CHANGES		
Decrease / (Increase) in current assets		
Stores, spares and loose tools	(384,136)	(468,959)
Stock-in-trade	(564,679)	(351,715)
Trade debts	26,140	76,795
Loans, advances, deposits, prepayments and other receivables - net	(79,709)	56,440
	(1,002,384)	(687,439)
Increase in current liabilities		
Trade and other payables	546,778	3,007,863
	(455,606)	2,320,424

(Amounts in thousand)

	2012	2011
	Rupees	

36. CASH AND CASH EQUIVALENTS

	2012	2011
Cash and bank balances - note 14	94,732	114,435
Running finance utilized under mark-up arrangements - note 19	(1,204,084)	(722,340)
	(1,109,352)	(607,905)

37. FINANCIAL INSTRUMENTS BY CATEGORY

37.1 Financial assets as per balance sheet

Loans and receivables at amortized cost

	2012	2011
Long term loans	24,383	37,803
Trade debts - considered good	266,465	292,605
Loans, deposits and other receivables	127,399	49,539
Cash and bank balances	94,732	114,435
	512,979	494,382

37.2 Financial liabilities as per balance sheet

Financial liabilities measured at amortized cost

	2012	2011
Long term borrowings	9,584,847	11,112,023
Short term borrowings	2,004,084	722,340
Trade and other payables	6,020,373	5,240,988
Accrued interest/mark-up	121,555	145,081
	17,730,859	17,220,432

Derivatives used for hedging at fair value

	2012	2011
Derivative financial instruments	141,656	157,263

37.3 Fair values of financial assets and liabilities

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

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

(Amounts in thousand)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

38.1 Financial risk factors

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

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company manages the currency risk through forward exchange contracts.

At December 31, 2012, the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 172,337 (2011: Rs. 150,214) and Rs. 6,599,557 (2011: Rs. 8,027,784) respectively.

At December 31, 2012, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, post-tax profit / loss for the year would have been lower / higher by Rs. 208,885 (2011: Rs. 256,021), mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated liabilities. However, this change in profits or losses would be inversely effected by a corresponding change in margins as bulk of revenues is linked with movements in exchange rates.

ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term running finances utilized under mark-up arrangements. 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 variable to variable cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, the Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

(Amounts in thousand)

At December 31, 2012, if interest rate on Company's borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been higher/lower by Rs. 75,328 (2011: Rs. 76,923) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) Other price risk

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those change are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is exposed to equity security price risk as the Company deals in securities. However, as at December 31, 2012, the Company is exposed to insignificant price risk due to its investments in mutual fund securities.

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations. Credit risk arises from deposits with banks and financial institutions, trade debts, loans, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

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

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

	2012	2011
	Rupees	
Long term loan	24,383	37,803
Trade debts - considered good	266,465	292,605
Loan, deposits and other receivables	127,399	49,539
Bank balances	93,977	114,435
	512,224	494,382

(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 and mutual funds 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	A+
Citibank N.A.	Moody's	P1	A1
Deutsche Bank	S & P	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
Standard Chartered Bank Pakistan Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Summit Bank Limited	JCR-VIS	A2	A-

Investments	Rating agency	Rating
HBL Asset Management Limited	JCR-VIS	AM3+
ABL Asset Management Company Limited	JCR-VIS	AM2-
UBL Fund Managers	JCR-VIS	AM2
Askari Investment Management	PACRA	AM3+
Al Meezan Investment Management Limited	JCR-VIS	AM2-

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 liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows:

(Amounts in thousand)

	2012			2011		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees					
Financial liabilities						
Long term borrowings	2,052,981	7,531,866	9,584,847	2,491,828	8,620,195	11,112,023
Derivative financial instruments	-	141,656	141,656	-	157,263	157,263
Trade and other payables	6,020,373	-	6,020,373	5,249,989	-	5,249,989
Accrued interest / mark-up	121,555	-	121,555	145,081	-	145,081
Short term borrowings	2,004,084	-	2,004,084	722,340	-	722,340
	10,198,993	7,673,522	17,872,515	8,609,238	8,777,458	17,386,696

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.141,656 (2011: Rs.157,263) in the maturity analysis because the contractual maturities are essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis as well as maturity date.

39. CAPITAL RISK MANAGEMENT

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

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

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as long term borrowings, as disclosed in note 16, divided by total capital. Total capital is calculated as 'equity' as shown in the balance sheet plus long term borrowings.

The gearing ratio of the Company is as follows:

	2012	2011
	Rupees	
Long term borrowings - note 16	7,531,866	8,620,195
Total equity	6,328,004	6,240,851
Total capital	13,859,870	14,861,046
Gearing ratio	0.543	0.580

40. SEGMENT INFORMATION

40.1 Based on the internal management reporting structure, the Company is organized into three business segments based on the products produced and sold as follows:

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

(Amounts in thousand)

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

Finance costs, other operating income and expenses, and taxation are managed at Company level. Further, unallocated assets include long term investment, long term loans and advances, loans, advances, prepayments and other receivables, taxes recoverable, and cash and bank balances.

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

	Poly Vinyl Chloride (PVC) and allied chemicals		Caustic soda and allied chemicals		Power Supply		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	Rupees							
Segment profit and loss								
Revenue	15,867,421	13,562,702	4,692,511	3,460,148	45,669	27,148	20,605,601	17,049,998
Less:								
Cost of sales (excluding depreciation)	(13,608,207)	(12,049,022)	(2,278,696)	(1,696,637)	(5,946)	(4,776)	(15,892,849)	(13,750,435)
Distribution and marketing expenses (excluding depreciation)	(832,790)	(658,152)	(341,629)	(229,168)	-	-	(1,174,419)	(887,320)
Allocated depreciation	(846,332)	(783,578)	(288,463)	(335,056)	(27,584)	(27,584)	(1,162,379)	(1,146,218)
Profit before unallocated expenses	580,092	71,950	1,783,723	1,199,287	12,139	(5,212)	2,375,954	1,266,025
Unallocated expenses								
Administrative expenses							(479,499)	(387,880)
Other operating expenses							(537,688)	(232,423)
Other operating income							512,195	35,913
Finance costs							(1,659,061)	(1,758,750)
Taxation							(134,892)	370,649
Profit / (Loss) for the year							77,009	(706,466)
Segment assets								
Total segment assets	14,642,414	14,086,556	6,297,304	5,698,350	59,527	80,818	20,999,245	19,865,724
Unallocated assets							4,092,119	4,842,305
Total assets							25,091,364	24,708,029

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

(Amounts in thousand)

41. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	2012	2011
		Rupees	
Holding Company			
- Engro Corporation Limited	Purchase of services	17,847	8,805
	Sale of services	-	246
	Purchase of goods	547	-
	Use of operating assets	3,328	2,349
	Markup on Subordinated Loan	62,508	-
	Reimbursement made	6,400	1,560
	Reimbursement received	1,323	187
	Pension fund contribution	5,034	4,552
	Provident fund contribution	8,581	6,255
	Medical contribution	167	225
	Gratuity fund contribution	1,749	1,188
Associated Company			
- Mitsubishi Corporation	Purchase of goods	9,942,467	8,491,864
	Sale of goods	1,201,300	1,047,728
	Purchase of services	58	-
	Reimbursement made	8,677	-
- Arabian Sea Country Club	Purchase of services	1,159	455
Related parties by virtue of common directorship			
- Engro Fertilizers Limited	Purchase of services	7,962	12,801
	Purchase of goods	4,470	169
	Sale of goods	19,399	24,974
	Sale of services	4,814	1,504
	Sale of steam and electricity	57,476	41,134
	Use of operating assets	7,396	1,049
	Reimbursement made	8,458	-
	Reimbursement received	10,775	-
	Medical contribution	-	4
	Use of EPCL operating assets	802	-
- Engro Vopak Terminal Limited	Purchase of services	849,582	792,787
	Sale of services	-	622
	Reimbursement made	19,439	7,828
	Reimbursement received	15,529	-
- Engro Foundation	Reimbursement received	760	-
	Donation	2,010	-
- Engro PowerGen Qadirpur Limited	Sale of goods	-	112
	Reimbursement made	81	-
	Reimbursement received	2,768	-
- Engro PowerGen Limited	Reimbursement made	2,345	-
	Reimbursement received	7	-
	Use of operating assets	542	-
- Engro Foods Limited	Sale of goods	53,927	37,480
	Sale of services	-	61
	Reimbursement made	167	-
	Use of operating assets	196	-
- Akzo Nobel (formerly ICI Pakistan Limited)	Purchase of goods	53,841	28,833
- IGI Insurance Company Limited	Purchase of services	1,121	2,691
- Dawood Hercules Corporation Limited	Sale of goods	234	1,525
	Purchase of services	14,400	14,400
- Lahore University of Management Sciences	Purchase of services	1,256	1,002
- Pakistan Institute of Corporate Governance	Purchase of services	15	-
- Avanceon Limited	Purchase of goods	-	9,871
- Karachi education initiative	Purchase of services	-	840
- Pakistan Japan Business Forum	Annual subscription	-	20
- Overseas Investors Chamber of Commerce & Industries	Annual subscription	451	253
- The Karachi Stock Exchange	Annual subscription	-	463
Directors' fee		2,900	3,101
Contribution to staff retirement benefits	Pension fund	17,002	14,327
	Provident fund	38,535	21,894
	Gratuity fund	6,812	6,079
Key management personnel	Managerial remuneration	71,139	71,331
	Retirement benefit funds	10,471	10,464
	Bonus	23,677	20,686
	Other benefits	13,314	12,779

(Amounts in thousand)

41.2 The related party status of outstanding balances as at December 31, 2012 are disclosed in the respective notes.

42. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2012	2011	2012	2011	
	Kilo tons				
PVC	150	150	146	122	Production planned as per market demand and in house consumption need
EDC	127	127	110	104	
Caustic soda	106	106	107	100	
VCM	220	220	146	98	
	Mega Watts				
Power	64	64	45	45	

43. CORRESPONDING FIGURES

During the year, for better presentation, the following reclassifications were made by the Company:

Description	Rupees	Head of account in financial statements for the year ended December 31, 2011	Head of account in financial statements for the year ended December 31, 2012
Foreign exchange loss on borrowings	209,176	Other operating expenses	Finance costs

The effect of other reclassifications is not material.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 04, 2013 by the Board of Directors of the Company.

Khalid Siraj Subhani
President & Chief Executive

Kimihide Ando
Director

notice of
annual general meeting

NOTICE IS HEREBY GIVEN that the Fifteenth Annual General Meeting of Engro Polymer & Chemicals Limited will be held at the Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Thursday, April 25th, 2013 at 10.00 a.m. to transact the following business:

ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 3l, 2012 and the Directors' and Auditors' Reports thereon.

(2) To appoint Auditors and fix their remuneration.

By Order of the Board

KALEEM AHMAD
Company Secretary

Karachi,
February 04, 2013

N.B.

(1) The Share Transfer Books of the Company will be closed from Thursday, April 11, 2013 to Thursday April 25, 2013 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Pvt.) Limited, First Floor, State Life Building No.1-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00p.m) on Wednesday, April 10, 2013 will be treated as being in time for the purposes to attend the meeting.

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

By Order of the Board

KALEEM AHMAD
Company Secretary

Karachi,
February 04, 2013

proxy form

The Company Secretary
Engro Polymer & Chemicals Limited
16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4,
Clifton, Karachi-75600.

I/We ____

of ____ being a member of ENGRO POLYMER & CHEMICALS LIMITED and holder of ____________ ordinary shares as per share register
(Number of Shares)

Register Folio No. __________ and/or CDC Participant I.D. No __________ and Sub Account No. __________
hereby appoint ______________ of __________ or failing him/her ____________________ of __________ as my/our proxy to vote for me and on my/our behalf at the annual general meeting of the Company to be held on the 25th day of April, 2013 and at any adjournment thereof.

Signed this ______________________ day of __________ 2013.

Witnessess:

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)

Note:

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 (CNIC) or Passport with this proxy form before submission to the Company.

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

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

engro polymer & chemicals

Head Office: 16th Floor, The Harbour Front Building,
HC-3, Marine Drive, Block 4, Clifton, Karachi-75600.

AFFIX
CORRECT
POSTAGE

engro polymer & chemicals

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