

# journey of excellence



111-211-211  
engro.com

DCP/THE D'AMADIO PARTNERSHIP DESIGN

Financial Report 2011



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# standalone accounts

- Statement of Compliance with the Code of Corporate Governance
- Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance
- Management Statement of Compliance with Employees Share Option Scheme
- Independent Assurance Report to the Members on the Statement of Compliance with Employees Share Option Scheme
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# statement of compliance

with the code of corporate governance

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

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

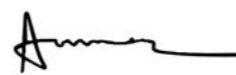
1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. During 2011, the Board included four independent non-executive directors, four non-executive directors and of the remaining five, who were all Executives of the Company, three were appointed as chief executives of Engro subsidiaries and did not therefore devote their full time to the business of the Company. Due to the diversified nature of the shareholding structure of the Company there is no single majority shareholder as such.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board of directors during the year.
5. A 'Statement of Ethics and Business Practices', has been circulated to all the directors and employees of the Company, which is in the process of being signed.
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 along with 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 the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The members of the Board are well aware of their duties and responsibilities as outlined by corporate laws and listing regulations.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
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 Code.
15. The Board has formed an audit committee. It comprises of 4 members all of whom are non-executive directors including the Chairman.
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 Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. 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.
20. The Related Party transactions have been placed before the Audit Committee and approved by the Board of Directors alongwith pricing methods for such transactions.
21. We confirm that all other material principles contained in the Code have been complied with.



Hussain Dawood  
Chairman

Karachi  
Dated: February 16, 2012



Asad Umar  
President & CEO

## 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 Code of Corporate Governance for the year ended December 31, 2011 prepared by the Board of Directors of Engro Corporation Limited (the Company) 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 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 controls, the Company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2011.



Chartered Accountants  
Karachi  
Date: March 01, 2012

Engagement Partner: Imtiaz A. H. Laliwala

# management statement of compliance

with employees share option scheme

The Engro Corporation Limited (the Company) as of December 31, 2011 has implemented its Employees Share Option Scheme (the Scheme), as approved by the shareholders of the Company, and has complied with the requirements of the Scheme and the Public Companies (Employees Stock Option Scheme) Rules, 2001 issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I) 2001 dated May 11, 2001.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# independent assurance report to the members on the statement of compliance

with employees share option scheme

## Scope of our work

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

## Responsibility of Company's Management

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

## Responsibility of Independent Assurance Provider

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

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

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

## Conclusion

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



Chartered Accountants  
Karachi  
Date: March 01, 2012

Engagement Partner: Imtiaz A. H. Laliwala

# auditors' report to the members

We have audited the annexed balance sheet of Engro Corporation Limited as at December 31, 2011 and the related 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) As more fully explained in note 33 to the financial statements, due to fire at the Company's old premises on August 19, 2007 certain records, documents and books of account of the Company relating to prior years were destroyed. Records in electronic form remained intact and certain hard copy records relating to financial year 2005 and 2006 have not been recreated;
- (b) in our opinion, except for the matter referred to in paragraph (a), proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (c) in our opinion:
  - (i) the balance sheet and statement of comprehensive income 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;
- (d) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of the total comprehensive income, changes in equity and its cash flows for the year then ended; and
- (e) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 that Ordinance.



Chartered Accountants  
Karachi  
Dated: March 01, 2012

Engagement Partner: Imtiaz A. H. Laliwala

# balance sheet

as at december 31, 2011

(Amounts in thousand)

	Note	2011	2010
		------(Rupees)-----	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	127,869	136,178
Long term investments	5	27,555,904	26,136,701
Long term loans and advances	6	3,008,341	1,623,514
		<u>30,692,114</u>	<u>27,896,393</u>
<b>Current assets</b>			
Loans, advances and prepayments	7	18,856	139,910
Other receivables	8	213,955	197,453
Taxes recoverable		104,028	-
Short term investments	9	1,908,581	1,970,603
Cash and bank balances	10	488,689	806,584
		<u>2,734,109</u>	<u>3,114,550</u>
Investment classified as held for sale	5	-	-
<b>TOTAL ASSETS</b>		<u><u>33,426,223</u></u>	<u><u>31,010,943</u></u>

(Amounts in thousand)

## EQUITY & LIABILITIES

### Equity

Share capital	11	3,932,843	3,277,369
Share premium		10,550,061	10,550,061
Employee share option compensation reserve	12	74,813	74,813
General reserve		4,429,240	4,429,240
Unappropriated profit		7,261,800	8,722,156
		<u>22,315,914</u>	<u>23,776,270</u>
<b>Total equity</b>		<u>26,248,757</u>	<u>27,053,639</u>

### Liabilities

#### Non-current liabilities

Deferred taxation	13	30,270	1,297
Retirement and other service benefit obligations		6,262	1,550
		<u>36,532</u>	<u>2,847</u>

#### Current liabilities

Trade and other payables	14	371,083	267,044
Accrued interest / mark-up		319,500	65,000
Borrowings	15	6,371,268	3,384,536
Taxation		-	57,247
Unclaimed dividends		79,083	180,630
		<u>7,140,934</u>	<u>3,954,457</u>
<b>Total liabilities</b>		<u>7,177,466</u>	<u>3,957,304</u>

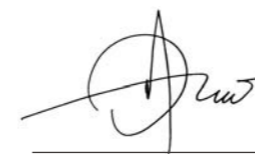
### Total liabilities

Contingencies and commitments


## TOTAL EQUITY & LIABILITIES

	Note	2011	2010
		------(Rupees)-----	
		<u><u>33,426,223</u></u>	<u><u>31,010,943</u></u>

The annexed notes from 1 to 36 form an integral part of these financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# statement of comprehensive income

for the year ended december 31, 2011


(Amounts in thousand except for earnings per share)

	Note	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Dividend income	17	1,928,019	1,640,000
Royalty income	18	469,416	257,584
		2,397,435	1,897,584
Administrative expenses	19	(569,463)	(388,652)
		1,827,972	1,508,932
Other operating income	20	1,147,010	433,947
Other operating expenses	21	(739,724)	(38,773)
<b>Operating Profit</b>		2,235,258	1,904,106
Finance cost	22	(784,397)	(92,131)
<b>Profit before taxation</b>		1,450,861	1,811,975
Taxation	23	(27,131)	(136,016)
<b>Profit for the year</b>		1,423,730	1,675,959
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		1,423,730	1,675,959
		------(Rupees)-----	(Restated)
Earnings per share - basic and diluted	24	3.62	4.26

The annexed notes from 1 to 36 form an integral part of these financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# statement of changes in equity

for the year ended december 31, 2011

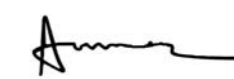
(Amounts in thousand)

	Share capital	Capital reserves Share premium Employees shareoption compensation reserve	Revenue reserves Hedging reserve General reserve Unappropriated profit	Total			
<b>Balance as at January 1, 2010</b>	2,979,426	10,550,061	288,258	(609,719)	4,429,240	9,250,972	26,888,238
<b>Total comprehensive income for the year ended December 31, 2010</b>	-	-	-	-	-	1,675,959	1,675,959
<b>Transactions with owners</b>							
<b>Transfer of Fertilizer Undertaking</b>							
Transfer of hedging reserve to Engro Fertilizers Limited	-	-	-	609,719	-	-	609,719
<b>Other transactions with owners</b>							
Final dividend for the year ended December 31, 2009 @ Rs. 2 per share	-	-	-	-	-	(595,886)	(595,886)
Interim dividends - 1st @ Rs. 2 per share	-	-	-	-	-	(655,473)	(655,473)
- 2nd @ Rs. 2 per share	-	-	-	-	-	(655,473)	(655,473)
Bonus shares issued during the year in the ratio of 1 share for every 10 shares held	297,943	-	-	-	-	(297,943)	-
Effect of changes in number of share options	-	-	(213,445)	-	-	-	(213,445)
	297,943	-	(213,445)	-	-	(2,204,775)	(2,120,277)
	297,943	-	(213,445)	609,719	-	(2,204,775)	(1,510,558)
<b>Balance as at December 31, 2010</b>	3,277,369	10,550,061	74,813	-	4,429,240	8,722,156	27,053,639
<b>Total comprehensive income for the year ended December 31, 2011</b>	-	-	-	-	-	1,423,730	1,423,730
<b>Transactions with owners</b>							
Final dividend for the year ended December 31, 2010 @ Rs. 2 per share	-	-	-	-	-	(655,474)	(655,474)
Interim dividends - 1st @ Rs. 2 per share	-	-	-	-	-	(786,569)	(786,569)
- 2nd @ Rs. 2 per share	-	-	-	-	-	(786,569)	(786,569)
Bonus shares issued during the year in the ratio of 1 share for every 5 shares held	655,474	-	-	-	-	(655,474)	-
	655,474	-	-	-	-	(2,884,086)	(2,228,612)
<b>Balance as at December 31, 2011</b>	3,932,843	10,550,061	74,813	-	4,429,240	7,261,800	26,248,757

The annexed notes from 1 to 36 form an integral part of these financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO



# statement of cash flows

for the year ended december 31, 2011

(Amounts in thousand)

	Note	2011 ------(Rupees)-----	2010
<b>Cash Flows From Operating Activities</b>			
Cash generated from operations	27	(26,424)	24,128
Retirement and other service benefits paid		(37,040)	(18,954)
Taxes paid		(159,433)	(78,371)
Long term loans and advances - net		(5,486)	(2,502)
Net cash utilized in operating activities		(228,383)	(75,699)
<b>Cash Flows From Investing Activities</b>			
Purchases of property, plant and equipment (PPE)		(36,419)	(104,063)
Sale proceeds on disposal of PPE		1,875	4,477
Long term investments		(2,071,160)	(2,408,900)
Proceeds from disposal of long term investments		641,883	-
Income on deposits / other financial assets including income earned on subordinated loan to subsidiaries		667,407	168,551
Dividends received		2,018,204	1,662,500
Net cash generated from / (utilized in) investing activities		1,221,790	(677,435)
<b>Cash Flows From Financing Activities</b>			
Loan to Engro Fertilizer Limited		(1,500,000)	(1,500,000)
Proceeds from loan to subsidiary		-	300,000
Repayment of loan to subsidiary		-	(300,000)
Payment of financial charges		(475,341)	(17,131)
Proceeds from long term finances (net)		2,932,176	3,374,536
Dividends paid		(2,330,159)	(1,828,300)
Net cash (utilized in) / generated from financing activities		(1,373,324)	29,105
Net decrease in cash and cash equivalents		(379,917)	(724,029)
Cash and cash equivalents at beginning of the year		2,777,187	3,501,216
Cash and cash equivalents at end of the year	28	<u>2,397,270</u>	<u>2,777,187</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# notes to the financial statements

for the year ended december 31, 2011

(Amounts in thousand)

## 1. LEGAL STATUS AND OPERATIONS

Engro Corporation Limited (the Company), is a public listed company incorporated in Pakistan under the Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore and Islamabad stock exchanges of Pakistan. The principal activity of the Company, is to manage investments in subsidiary companies and joint venture, engaged in fertilizers, PVC resin manufacturing and marketing, control and automation, food, energy, exploration and chemical terminal and storage businesses. The Company's registered office is situated at 7th & 8th floors, The Harbour Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi.

## 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 at fair value and recognition of certain staff retirement and other service benefits at present value.

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

### 2.1.4 Initial application of standards, amendments or an interpretation to existing standards

#### a) Standards, amendments to published standards and interpretation that are effective in 2011 and are relevant to the Company

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

- IFRS 7 (amendment) 'Nature and extent of risk arising from financial instrument'. The amendment is part of the IASB's annual improvements project published in May 2010. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendments only affects disclosures, which have been made.
- IAS 1 (amendment) 'Statement of changes in equity'. The amendment is part of the IASB's annual improvements project published in May 2010. This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendments only affects disclosures, which have been made.

(Amounts in thousand)

- IAS 34 'Interim financial reporting'. The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around (a) the circumstances likely to affect fair values of financial instruments and their classification, (b) transfers of financial instruments between different levels of the fair value hierarchy and (c) changes in classification of financial assets and changes in contingent liabilities and assets. The amendment will only affect the disclosures in the Company's condensed interim financial information.

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

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

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

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

- IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). These amendments are a part of IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset.
- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.
- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after January 1, 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard is likely to effect the financial statements and hence its effects therefore need to be assessed by the Company.
- IFRS 12, 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IAS 1 (Amendment), 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

(Amounts in thousand)

- IAS 19 (Revised), 'Employee benefits' (effective for periods beginning on or after January 1, 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.
- IAS 27 (Revised) 'Separate financial statements' (effective for periods beginning on or after January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (Revised) 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

There are no other standards, amendments and interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 2.2 Property, plant and equipment

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except freehold land and capital work-in-progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 2.20). The cost of self constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Disposal of asset is recognised when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating expenses / income' in the statement of comprehensive income.

Depreciation is charged to the statement of comprehensive income using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life at rates given in note 4.1. Depreciation on addition is charged from the month following the month in which the asset is available for use and on disposals upto the preceding month of disposal.

Depreciation method, useful lives and residual values are reviewed annually.

## 2.3 Impairment of non-financial assets

Non-financial assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sale and value in use. Reversal of impairment loss is restricted to the original cost of the asset.

(Amounts in thousand)

#### 2.4 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the statement of comprehensive income.

#### 2.5 Investments

Investment in subsidiary, associates and joint venture companies are initially recognised at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognised as an expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognised in the statement of comprehensive income.

#### 2.6 Financial assets

##### 2.6.1 Classification

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

##### a) Financial assets at fair value through profit or loss

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

##### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

##### 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 and ability to hold to maturity.

##### d) Available-for-sale financial assets

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

##### 2.6.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised 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 recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. 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 are subsequently 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 statement of comprehensive income 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 recognised in the statement of comprehensive income as part of 'Other operating income' when the Company's right to receive payments is established.

Changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of 'Other operating income'. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of 'Other operating income' when the Company's right to receive payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Impairment testing of other receivables is described in note 2.9.

#### 2.7 Financial liabilities

Financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value less directly attributable transactions costs, if any, and subsequently measured at amortized cost using effective interest method.

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 statement of comprehensive income.

#### 2.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle either on a net basis, or realize the asset and settle the liability simultaneously.

#### 2.9 Other receivables

These are recognised initially at fair value and subsequently measured at amortized cost using effective interest method less provision for impairment, if any. A provision for impairment is established if 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 provision is charged to the statement of comprehensive income. Trade debts and other receivables considered irrecoverable are written-off.

#### 2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows includes cash in hand, balance with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, if any.

(Amounts in thousand)

#### 2.11 Share capital

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

#### 2.12 Employees' share option scheme

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

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

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in the statement of comprehensive income, employee compensation expense in the statement of comprehensive income will be reversed equal to the amortized portion with a corresponding effect to employee share option compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognised in the statement of comprehensive income is reversed with a corresponding reduction to employee share option compensation reserve in the balance sheet.

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

#### 2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### 2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

#### 2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(Amounts in thousand)

#### 2.15.1 Current

The current income tax charge is based on the taxable income for the year calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

#### 2.15.2 Deferred

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### 2.16 Retirement and other service benefit obligations

##### 2.16.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

##### The Company operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary; and
- defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Company to the fund at rates ranging from 12.5% to 13.75% of basic salary.

##### 2.16.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than the defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method, related details of which are given in note 26 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

Contributions require assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

The Company operates defined benefit funded gratuity scheme for its management employees.

Annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Company's employment.

(Amounts in thousand)

#### 2.16.3 Employees' compensated absences

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

#### 2.17 Provisions

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

#### 2.18 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees, which is Company's functional and presentation 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 recognised in the statement of comprehensive income, except where such gains and losses are directly attributable to the acquisition, construction or production of a qualifying asset, in which case, such gains and losses are capitalized as part of the cost of that asset.

#### 2.19 Revenue recognition

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

- Income on deposits and other financial assets is recognised on accrual basis.
- Royalty income from subsidiary companies is recognized on an accrual basis in accordance with the agreement entered therewith.
- Dividend income from investments is recognised when the Company's right to receive payment has been established.

#### 2.20 Borrowing costs

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

#### 2.21 Research and development costs

Research and development costs are charged to income as and when incurred.

#### 2.22 Earnings per share

The Company presents basic and diluted earnings per share (EPS) in respect of its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### 2.23 Dividend and appropriation to reserves

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

(Amounts in thousand)

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### 3.1 Property, plant and equipment

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

#### 3.2 Impairment of investments in subsidiaries, associates and joint venture

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

#### 3.3 Investments stated at fair value through profit or loss

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgment.

#### 3.4 Income Taxes

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

#### 3.5 Fair value of employee share options

The management has determined the fair value of options issued under the Employee Share Option Scheme at the grant date using Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 12.

#### 3.6 Provision for retirement and other service benefits 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 obligation and the underlying assumptions are disclosed in notes 26.1.3 and 26.1.6 respectively.

### 4. PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	------(Rupees)-----	
Operating assets (note 4.1)	122,145	117,083
Capital work-in-progress (note 4.3)	5,724	19,095
	<u>127,869</u>	<u>136,178</u>

(Amounts in thousand)

#### 4.1 Operating assets

	Furniture fixture and equipment	Vehicles	Total
	------(Rupees)-----		
<b>As at January 1, 2010</b>			
Cost	2,120	75,705	77,825
Accumulated depreciation	(792)	(22,394)	(23,186)
Net book value	<u>1,328</u>	<u>53,311</u>	<u>54,639</u>
<b>Year ended December 31, 2010</b>			
Opening net book value	1,328	53,311	54,639
Additions (note 4.3)	57,888	27,080	84,968
Disposals (note 4.2)			
Cost	-	(11,437)	(11,437)
Accumulated depreciation	-	7,246	7,246
	-	(4,191)	(4,191)
Depreciation charge (note 19)	(2,427)	(15,906)	(18,333)
Net book value	<u>56,789</u>	<u>60,294</u>	<u>117,083</u>
<b>As at December 31, 2010 / January 1, 2011</b>			
Cost	60,008	91,348	151,356
Accumulated depreciation	(3,219)	(31,054)	(34,273)
Net book value	<u>56,789</u>	<u>60,294</u>	<u>117,083</u>
<b>Year ended December 31, 2011</b>			
Opening net book value	56,789	60,294	117,083
Additions (note 4.3)	29,691	20,099	49,790
Disposals (note 4.2)			
Cost	-	(8,050)	(8,050)
Accumulated depreciation	-	6,175	6,175
	-	(1,875)	(1,875)
Depreciation charge (note 19)	(23,960)	(18,893)	(42,853)
Net book value	<u>62,520</u>	<u>59,625</u>	<u>122,145</u>
<b>As at December 31, 2011</b>			
Cost	89,699	103,397	193,096
Accumulated depreciation	(27,179)	(43,772)	(70,951)
Net book value	<u>62,520</u>	<u>59,625</u>	<u>122,145</u>
Annual rate of depreciation (%)	15 to 45	18.75 to 22.5	

(Amounts in thousand)

#### 4.2 The details of operating assets disposed off during the year are as follows:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
------(Rupees)-----					
<b>Vehicles</b>					
By Company policy to existing executives	Asif Tajik Asad Umar Andalib Alavi	2,550 2,750 2,750	1,925 2,125 2,125	625 625 625	625 625 625
		<u>8,050</u>	<u>6,175</u>	<u>1,875</u>	<u>1,875</u>
2010		<u>11,437</u>	<u>7,246</u>	<u>4,191</u>	<u>4,477</u>

#### 4.3 Capital work-in-progress

	Furniture, fixture and equipment	Advances to suppliers	Total
	------(Rupees)-----		
<b>Year ended December 31, 2010</b>			
Additions during the year	67,631	36,432	104,063
Transferred to operating assets (note 4.1)	(57,888)	(27,080)	(84,968)
Balance as at December 31, 2010	<u>9,743</u>	<u>9,352</u>	<u>19,095</u>
<b>Year ended December 31, 2011</b>			
Balance as at January 1, 2011	9,743	9,352	19,095
Additions during the year	24,268	12,151	36,419
Transferred to operating assets (note 4.1)	(29,691)	(20,099)	(49,790)
Balance as at December 31, 2011	<u>4,320</u>	<u>1,404</u>	<u>5,724</u>

### 5 LONG TERM INVESTMENTS

Subsidiary companies - at cost (note 5.1)  
Less: Investments in Avanceon Limited,  
classified as held for sale (note 5.1.2)

Joint venture company - at cost  
Engro Vopak Terminal Limited  
45,000,000 Ordinary shares of Rs. 10 each,  
equity held 50% (2010: 50%)

Others - at cost  
Arabian Sea Country Club Limited  
500,000 Ordinary shares of Rs. 10 each,  
equity held 6% (2010: 6%)  
Agrimall (Private) Limited (note 5.3)

	2011	2010
	------(Rupees)-----	
	27,100,904	25,681,701
	-	-
	<u>27,100,904</u>	<u>25,681,701</u>
	450,000	450,000
	5,000	5,000
	-	-
	<u>27,555,904</u>	<u>26,136,701</u>

(Amounts in thousand)

### 5.1 Subsidiary companies

	2011		2010	
	Equity % held	Investment at cost (Rupees)	Equity % held	Investment at cost (Rupees)
<b>Quoted</b>				
Engro Polymer & Chemicals Limited 372,810,000 (2010: 372,810,000) Ordinary shares of Rs. 10 each	56.19	3,651,300	56.19	3,651,300
Engro Foods Limited 673,000,000 (2010: 700,000,000) Ordinary shares of Rs. 10 each (note 5.1.1)	89.97	6,730,000	100	7,000,000
<b>Unquoted</b>				
Engro Fertilizers Limited 1,072,800,000 (2010: 1,072,800,000) Ordinary shares of Rs. 10 each	100	10,739,144	100	10,739,144
Engro Eximp (Private) Limited 113,925,000 (2010: 48,010,000) Ordinary shares of Rs. 10 each (note 5.1.1)	100	1,895,100	100	480,100
Engro PowerGen Limited 36,476,000 (2010: 36,476,000) Ordinary shares of Rs. 10 each	100	3,106,700	100	3,106,700
Engro Foods Netherlands B.V 20,000 (2010: Nil) Ordinary shares of Euro 1 each (note 5.1.1)	100	656,160	-	-
Engro Management Services (Private) Limited 250,000 (2010: 250,000) Ordinary shares of Rs. 10 each (note 5.5)	100	2,500	100	2,500
Avanceon Limited 25,066,667 (2010: 25,066,667) Ordinary shares of Rs. 10 each (note 5.1.2) Less: Provision for impairment (note 5.1.3)	62.67	381,957 (381,957) -	62.67	381,957 - 381,957
Engro Powergen Qadirpur Limited 32,000,000 (2010: 32,000,000) Ordinary shares of Rs. 10 each (note 5.2)	10	320,000 27,100,904	10	320,000 25,681,701

(Amounts in thousand)

### 5.1.1 During the year:

- Engro Eximp (Private) Limited has issued bonus shares to the Company at 134.3% i.e. 64,500,000 shares;
- the Company has purchased 1,415,000 right shares of Rs. 10 each at a premium of Rs. 990 per share, issued by Engro Eximp (Private) Limited;
- the Company has partially disposed off its shareholding of 27,000,000 ordinary shares in Engro Foods Limited to the general public through an Offer for Sale document dated June 24, 2011 at an offer price of Rs. 25 per share;
- Engro Foods Limited has issued 48,000,000 right shares which upon renunciation by the Company were privately placed with institutional investors; and
- the Company has incorporated a wholly owned subsidiary, Engro Foods Netherlands B.V in Netherlands through which it has acquired an existing brand of halal meat business known as 'Al-Safa', engaged in supplying a variety of packaged halal foods across North America.

5.1.2 The Company, on December 31, 2011, has signed a Memorandum of Understanding (MoU) with Mr. Bakhtiar Wain (Wain), a minority shareholder of Avanceon Limited (Avanceon) to fully take over Avanceon's Pakistan and UAE operations / companies excluding the USA operations / companies. As per MoU the restructuring agreed is as follows:

- the Company shall transfer all of its shareholding in Avanceon (currently at 62.67%) to Wain increasing his shareholding therein to 100% and as such acquiring control thereof. Upon such transfer all disclosed and undisclosed liabilities, whether existing or future, of the Avanceon Limited Pakistan and the Avanceon FZE (UAE) entities shall be the sole liability of Messrs Wains;
- Messrs Wains shall transfer to the Company (or its nominee) respective equity interest in Engro Innovative Inc., USA aggregating 62.67% of the total paid-up equity / voting shares thereof, including the subordinated loan given by Avanceon FZE, UAE, to Avanceon LP, USA;
- the Company shall pay Rs. 118,000 to the banks / financial institutions of Avanceon to reduce the bank liabilities and return of the Corporate Guarantees extended by the Company; and
- the Company shall extend a secured loan of Rs. 41,000 to Avanceon / Wains to be disbursed directly to the banks / financial institutions.

The Company, accordingly has classified the investment in Avanceon as Held for Sale, net of impairment (note 5.1.3).

5.1.3 The Company has decided to exit entirely from all Avanceon operations including that of USA through the aforementioned restructuring (note 5.1.2). The Company has determined the recoverable amount of its investment in Avanceon, prior to its classification as Held for Sale, and of the subordinated loan including accrued interest (notes 7 and 8) provided thereto to be nil. Accordingly, an impairment loss for the carrying amount of investment (Rs. 381,957), loan (Rs. 241,318) and accrued interest (Rs. 35,411) has been recognised in these financial statements.

5.2 On April 27, 2011, the Board of Directors of the Company had resolved to offer its direct 10% shareholding in Engro PowerGen Qadirpur Limited, i.e. 32,000,000 ordinary shares to general public and institutional investors through an Offer for Sale and classified it as 'Held for sale'. However, on December 19, 2011, the Board decided not to divest on revisiting its overall business plans. Accordingly, the investment being no longer held for sale has been reclassified to long term investments.

(Amounts in thousand)

5.3 During the year, the Company has disposed off its entire shareholding in the paid-up capital of Agrimall (Private) Limited, which was transferred free of cost to it, at a consideration of Rupee one through a Share Purchase Agreement.

5.4 Value of the above investments, based on the net assets of the investee companies as at December 31, 2011 are as follows:

	2011	2010
	------(Rupees)-----	
Engro Polymer & Chemicals Limited	3,506,734	3,925,355
Engro Fertilizers Limited	18,617,058	13,639,592
Engro Eximp (Private) Limited	2,617,038	1,131,703
Engro Management Services (Private) Limited	2,921	2,639
Engro Foods Limited	6,511,077	5,124,360
Engro Foods Limited Netherlands B.V.	554,749	-
Engro Powergen Qadirpur Limited	510,951	419,309
Engro Vopak Terminal Limited	1,729,089	526,902
Engro PowerGen Limited	4,716,979	3,866,018
Avanceon Limited	(73,267)	28,520
Arabian Sea Country Club Limited (June 30, 2010)	5,569	5,569
Agrimall (Private) Limited (June 30, 2008)	-	(4,096)

5.5 Subsequent to the year end, the Board of Directors of Engro Management Services (Private) Limited (EMSL) in its meeting held on February 7, 2012, has resolved to wind-up EMSL voluntarily.

5.6 On January 4, 2012, the Company has incorporated a new wholly owned subsidiary, Elengy Terminal Pakistan Limited, for LNG project. No capital has been injected yet. The related expenses incurred upto December 31, 2011 have been charged off (note 19.2).

(Amounts in thousand)

## 6 LONG TERM LOANS AND ADVANCES

- Considered good

Long term loans and advances to:

- Executives (note 6.1)
- Other employees

Less: Current portion shown under current assets (note 7)

Subordinated loan to subsidiaries - unsecured:

- Engro Fertilizers Limited (note 6.2)
- Avanceon Limited (note 6.3)
- Less: Current portion shown under current assets (note 7)

### 6.1 Reconciliation of the carrying amount

of loans and advances to executive  
Balance as at January 1  
Transferred to the Fertilizer Undertaking

Disbursements  
Repayments/amortization  
Balance as at December 31

	2011	2010
	------(Rupees)-----	
Long term loans and advances to:		
- Executives (note 6.1)	14,312	4,340
- Other employees	49	-
	14,361	4,340
Less: Current portion shown under current assets (note 7)	6,020	1,485
	8,341	2,855
Subordinated loan to subsidiaries - unsecured:		
- Engro Fertilizers Limited (note 6.2)	3,000,000	1,500,000
- Avanceon Limited (note 6.3)	241,318	241,318
Less: Current portion shown under current assets (note 7)	(241,318)	(120,659)
	-	120,659
	3,008,341	1,623,514
Balance as at January 1	4,340	282,246
Transferred to the Fertilizer Undertaking	-	(280,408)
	4,340	1,838
Disbursements	13,260	4,728
Repayments/amortization	(3,288)	(2,226)
Balance as at December 31	14,312	4,340

6.2 The loan enhanced to Rs. 3,000,000, carries mark-up based on a margin of 1% over and above mark-up payable by the Company for rupee finances of like maturities, such mark-up being payable on a semi-annual basis. The loan is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable in one lump sum payment due on September 14, 2015.

6.3 The loan carries markup at the rate of six months KIBOR plus margin of 4% payable on a quarterly basis. The loan is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable in two installments due on October 23, 2011 and April 23, 2012 respectively.



(Amounts in thousand)

## 7 LOANS, ADVANCES AND PREPAYMENTS

	2011	2010
	------(Rupees)-----	------(Rupees)-----
<b>Considered good</b>		
Current portion of long term loans and advances to executives and other employees (note 6)	6,020	1,485
Prepayments	12,836	17,766
	18,856	19,251
<b>Considered doubtful</b>		
Current portion of subordinated loan to Avanceon Limited, a subsidiary company (note 6)	241,318	120,659
Less: Provision for impairment (note 5.1.3)	(241,318)	-
	-	120,659
	18,856	139,910
<b>8 OTHER RECEIVABLES</b>		
<b>Considered good</b>		
Accrued income on deposits / investments	9,366	4,555
Due from:		
- Subsidiary companies		
- Engro Eximp (Private) Limited	2,000	86
- Engro Foods Limited	6,508	1,390
- Engro Foods Netherlands B.V	1,103	-
- Engro Polymer & Chemicals Limited	7,442	902
- Engro Powergen Qadirpur Limited (note 8.1)	26,076	485
- Sindh Engro Coal Mining Company Limited	512	-
- Engro Fertilizers Limited (note 8.2)	150,758	54,062
- Engro PowerGen Limited	616	196
- Engro Foods Supply Chain Limited	272	227
- Joint Venture		
- Engro Vopak Terminal Limited, net	343	90,185
	195,630	147,533
Others	8,959	750
<b>Considered doubtful</b>		
Due from Avanceon Limited	35,411	44,615
Less: Provision for impairment (note 5.1.3)	(35,411)	-
	-	44,615
	213,955	197,453

8.1 This mainly includes interest on subordinated loan amounting Rs. 25,557 (2010: Nil).

8.2 This mainly includes interest on subordinated loan amounting Rs. 129,304 (2010: Rs. 51,851).

(Amounts in thousand)

8.3 The maximum amount due from joint venture/subsidiary companies at the end of any month during the year aggregated to as follows:

	2011	2010
	------(Rupees)-----	------(Rupees)-----
Subsidiary companies		
- Engro Eximp (Private) Limited	5,215	3,268
- Engro Foods Limited	41,070	18,950
- Engro Foods Netherlands B.V	1,103	-
- Engro Powergen Qadirpur Limited	26,076	4,034
- Engro Polymer & Chemicals Limited	7,409	13,183
- Avanceon Limited	44,972	44,615
- Sindh Engro Coal Mining Company Limited	6,263	-
- Engro PowerGen Limited	1,452	1,432
- Engro Management Services (Private) Limited	10	2,138
- Engro Fertilizers Limited	150,758	64,863
Joint venture		
- Engro Vopak Terminal Limited	180,891	180,551

8.4 As at December 31, 2011, receivables aggregating to Rs. 49,727 (2010: Rs. 31,415) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2011	2010
	------(Rupees)-----	------(Rupees)-----
Upto 3 months	11,164	9,974
3 to 6 months	9,936	9,915
More than 6 months	28,627	11,526
	49,727	31,415

## 9 SHORT TERM INVESTMENTS

Financial assets at fair value through profit or loss:

- Term Deposits (note 9.1)	1,200,000	-
- Treasury Bills (note 9.2)	708,102	-
- Mutual fund securities (note 9.3)	479	1,970,603
	1,908,581	1,970,603

(Amounts in thousand)

- 9.1 These represents short term placements of less than 2 months with financial institutions at the rate of 12% per annum.
- 9.2 These represents Treasury Bills having face value to Rs. 718,000 discounted using effective rate of 11.91% per annum.
- 9.3 These represents investments in various money market funds which are valued at their respective net assets value at balance sheet date.

## 10 CASH AND BANK BALANCES

Cash at banks on:  
- deposit accounts (note 10.1)  
- current accounts

Cash in hand

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
	488,535	739,982
	4	66,552
	488,539	806,534
	150	50
	<u>488,689</u>	<u>806,584</u>

- 10.1 These carry return ranging from 10% to 11.25% (2010: 10% to 12.5%).

## 11 SHARE CAPITAL

### 11.1 Authorised Capital

2011 ------(No. of Shares)-----	2010 ------(No. of Shares)-----		2011 ------(Rupees)-----	2010 ------(Rupees)-----
<u>450,000,000</u>	<u>350,000,000</u>	Ordinary Shares of Rs. 10 each (note 11.3)	<u>4,500,000</u>	<u>3,500,000</u>

### Issued, subscribed and paid-up capital

2011 ------(No. of Shares)-----	2010 ------(No. of Shares)-----		2011 ------(Rupees)-----	2010 ------(Rupees)-----
185,354,484	185,354,484	Ordinary shares of Rs. 10 each fully paid in cash	1,853,545	1,853,545
207,929,697	142,382,335	Ordinary shares of Rs. 10 each issued as	2,079,298	1,423,824
<u>393,284,181</u>	<u>327,736,819</u>	fully paid bonus shares	<u>3,932,843</u>	<u>3,277,369</u>

(Amounts in thousand)

### 11.2 Movement in issued, subscribed and paid-up share capital during the year

2011 ------(No. of Shares)-----	2010 ------(No. of Shares)-----		2011 ------(Rupees)-----	2010 ------(Rupees)-----
327,736,819	297,942,563	As at January 1	3,277,369	2,979,426
		Ordinary shares of Rs. 10		
		each issued during the		
		year as fully paid		
		bonus shares (note 11.3)		
<u>65,547,362</u>	<u>29,794,256</u>		<u>655,474</u>	<u>297,943</u>
<u>393,284,181</u>	<u>327,736,819</u>		<u>3,932,843</u>	<u>3,277,369</u>

### 11.3 During the year, the Company:

- increased its authorized share capital from Rs. 3,500,000 to Rs. 4,500,000; and
- issued bonus shares in the ratio of 1 share for every 5 shares held.

### 11.4 As at December 31, 2011 associated companies held 186,500,772 (2010: 158,516,740) ordinary shares in the Company.

## 12 EMPLOYEE SHARE OPTION SCHEME

Under the Employee Share Option Scheme (the Scheme), senior employees who are critical to the business operations were granted options to purchase 5 million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Compensation Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant, for employees who were granted shares on or before June 30, 2008 and ended on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012.

For options granted after June 30, 2008, the vesting period will end such number of days after December 31, 2010 as is equal to the number of days between the date the initial option letters were issued and the date of grant of the later options. However, the later options can also only be exercised upto December 31, 2012.

In 2008, the grant date was changed to August 23, 2007, from the date approved in the original scheme. Further, consequent to the issue of right shares in 2008 and in 2010, the entitlements were increased to 5,500,000 shares and 7,700,000 shares respectively and the exercise price was adjusted to Rs. 267.73 per share and Rs. 205.52 per share respectively. These changes have been duly approved by the Securities and Exchange Commission of Pakistan (SECP). The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the financial statements.

Consequent to the demerger, the employees transferred to Engro Fertilizers Limited have surrendered their existing share options against which new share options have been granted under a new scheme of Engro Fertilizers Limited.

(Amounts in thousand)

12.1 Deferred employee compensation expense

	2011	2010
	------(Rupees)-----	
Balance at January 1	-	90,065
Options surrendered by employees transferred to Engro Fertilizers Limited	-	(67,811)
Amortisation for the year	-	(22,254)
Balance at December 31	-	-

12.2 Employee share option compensation reserve

Balance at January 1	74,813	288,258
Options surrendered by employees transferred to Engro Fertilizers Limited	-	(213,445)
Balance at December 31	74,813	74,813

12.3 Movement in share options outstanding at end of the year is as follows:

	2011	2010
	------(Numbers)-----	
Balance at January 1	1,135,909	4,376,818
Options surrendered by employees transferred to Engro Fertilizers Limited	-	(3,240,909)
Balance at December 31 (note 12.3.1)	1,135,909	1,135,909

12.3.1 The abovementioned share options do not include the effect of bonus and right shares which make the total number of share options outstanding at end of the year to 2,309,076 (2010: 1,924,230).

12.4 Further, consequent to the bonus issue in the current year, the entitlements were increased to 2,309,076 shares from 1,924,230 shares (adjusted with the effect of forfeiture) respectively and the exercise price was adjusted to Rs. 155.70 from Rs. 186.84 respectively. These changes have been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the financial statements.

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

Fair value of the share options at grant date	Rs. 65.86 per share
Share price at grant date	Rs. 220
Exercise price	Rs. 277
Annual volatility	34.54%
Risk free rate used	10.77%

(Amounts in thousand)

12.6 Employee-wise detail of options granted to senior management personnel/other personnel upto or in excess of five percent of total options granted is as follows:

Name of employee	No. of share options
Asad Umar	924,000
Ruhail Muhammed	554,400
Andalib Alavi	369,600
Tahir Jawaid	369,600
Naveed Hashmi	91,476

12.6.1 Abovementioned shares include the impact of bonus and right shares.

13. DEFERRED TAXATION

	2011	2010
	------(Rupees)-----	
Debit / (credit) balances arising on account of:		
- accelerated depreciation allowance	1,786	1,822
- recoupable minimum turnover tax	(4,795)	-
- provision for retirement benefits	(1,649)	(525)
- provision for impairment against subordinated loan and interest thereon	(96,855)	-
- amortization of transaction costs incurred on borrowings	131,783	-
	30,270	1,297

14. TRADE AND OTHER PAYABLES

Creditors	9,554	5,678
Accrued liabilities (note 14.1)	267,612	205,306
Contractors' deposits and retentions	714	3,574
Workers' welfare fund (note 14.2)	66,590	36,979
Sales tax payable	4,333	-
Others	22,280	15,507
	371,083	267,044

14.1 Accrued liabilities

Salaries, wages and other employee benefits	102,483	77,411
Vacation accruals	11,039	8,366
Advertisement	1,000	45,996
Commission	-	50,000
Consultancy services	24,170	2,228
Contingent consideration payable to minority shareholder in Avanceon Limited (note 21.1)	19,230	-
Others (note 14.1.1)	109,690	21,305
	267,612	205,306

(Amounts in thousand)

14.1.1 This includes Rs. 41,604 (2010: Nil) payable to Engro Vopak Terminal Limited - Joint Venture.

14.2 The Workers' Welfare Fund Ordinance 1971 (Ordinance) was amended by the Finance Acts of 2006 and 2008 to (i) modify the basis of calculating WWF payable, and (ii) expand the net of WWF to include 'non-manufacturing' companies, respectively. Assessments issued under the amended Ordinance were challenged by certain companies. In 2010 a Division Bench of the Sindh High Court (SHC) upheld these amendments. Subsequently, however, this matter went before a Full Bench of the SHC which suspended, on an interim basis, the operation of the said assessments. The matter is still pending at the SHC. During August 2011, the Lahore High Court (LHC) passed an order striking down the said amendments on the basis that WWF contributions are in the nature of a "fee" rather than a "tax" therefore the Ordinance may not be amended through a money bill. However, the Company, on prudent basis, has provided for the Workers' Welfare Fund for the year.

## 15 BORROWINGS

Engro Rupiya Certificate I (note 15.1)  
Engro Rupiya Certificate II (note 15.2)

	2011	2010
	----- (Rupees) -----	
	3,768,502	3,384,536
	2,602,766	-
	<u>6,371,268</u>	<u>3,384,536</u>

15.1 Represents amount raised from general public against the issuance of Engro Rupiya Certificates I (net of unamortized transaction cost of Rs. 124,178). The profit is payable semi-annually at the fixed rate of 14.5% from the date of investment by the Certificate holders. The Certificates are issued for a tenure of three years and are structured to redeem 0.1% of principal in five equal semi-annual installments in the first 30 months and the remaining 99.9% principal in 36th month from the date of issue. The Certificate holder, however, may ask the Company for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

15.2 During the year, the Company has issued Engro Rupiya Certificate II to general public and received subscription money thereagainst amounting to Rs. 2,754,820. (net of unamortized transaction cost of Rs.74,024). The profit is payable semi-annually at the fixed rate of 14.5% from the date of investment by the Certificate holders. The Certificates are issued for a tenure of three years and are structured to redeem 100% of the principal amount in the 36th month from the date of issue. The Certificate holder, however, may ask the Company for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

15.3 The proceeds from these borrowings were utilized for extending subordinated loans to subsidiary companies. Any surplus funds were invested in treasury bills, mutual funds and term deposits with banks.

The Certificates are secured by way of first ranking pari passu floating charge over all the present and future movable properties of the Company except for present and future trade marks, copy rights and certain investment in subsidiary companies.

The IGI Investment Bank Limited has been appointed as Trustee in respect of these certificates.

(Amounts in thousand)

## 16. CONTINGENCIES AND COMMITMENTS

2011                      2010  
----- (Rupees) -----

### Contingencies

16.1 Corporate Guarantees issued in favour of Subsidiary Companies:

- Engro Fertilizers Limited (note 16.2)	61,141,010	65,642,000
- Engro Powergen Qadirpur Limited (note 16.3)	900,604	857,000
- Avanceon Limited (note 16.4)	242,000	242,000

16.2 The Company in addition to above has also issued a Corporate Guarantee to International Finance Corporation (IFC) for USD 80,000 under the Amended Agreement entered into by the Subsidiary Company with IFC. As at December 31, 2011, the total amount of the facility has been drawn down by the Subsidiary Company. Further, IFC has an option to convert a tranche of the disbursed loan amounting to USD 15,000, into ordinary shares of the Company at Rs. 205 per ordinary share (reduced to Rs. 155.30 and Rs. 186.36 as at June 30, 2011 and December 31, 2010 respectively consequent to bonus issues) calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of notices issued by IFC to exercise the conversion option. Such option is to be exercised within a period of no more than five years from the date of disbursement of loan (i.e. December 28, 2009).

The Company has also entered into an agreement with the Subsidiary Company that in the event IFC exercises the aforementioned conversion option, the IFC loan amount then outstanding against the Subsidiary Company would stand reduced by the conversion option amount and the Subsidiary Company would pay the rupee equivalent of the corresponding conversion amount to the Company which would simultaneously be given to the Subsidiary Company as a subordinated loan, carrying mark-up payable by the Company for rupee finances of like maturities plus a margin of 1%. The effect of IFC conversion in substance would result in a loan from the Company having the same repayment terms / dates as that of the extinguished loan of IFC i.e. three half yearly installments commencing from September 15, 2015.

16.3 Represents Corporate Guarantee amounting to USD 10,000 issued to Allied Bank Limited to open DSRA letter of credit in favour of the Subsidiary Company's senior long term lenders.

16.4 The Company has extended corporate guarantees to banks and financial institutions aggregating Rs. 242,000 (plus accrued markup) against finance facilities extended to Avanceon Limited by the banks/financial institutions. Pursuant to the Memorandum of Understanding entered into by the Company referred to in note 5.1.2, the Company has requested these banks to release the aforementioned bank guarantees.

### Commitments

16.5 The Company has committed to invest an amount of Rs 562,000 in Engro Polymer and Chemicals Limited by way of subscription to right shares.

(Amounts in thousand)

## 17. DIVIDEND INCOME

	2011	2010
	----- (Rupees) -----	
Subsidiary Company		
- Engro Eximp (Private) Limited	705,000	1,100,000
- Engro PowerGen Limited	591,499	-
- Engro PowerGen Qadirpur Limited	91,520	-
	<u>1,388,019</u>	<u>1,100,000</u>
Joint Venture		
- Engro Vopak Terminal Limited	540,000	540,000
	<u>1,928,019</u>	<u>1,640,000</u>

## 18. ROYALTY INCOME

The Company has granted Engro Fertilizers Limited, a Subsidiary Company, the right to use trade marks and copy rights for marketing of fertilizer products under a licensing agreement effective January 1, 2010.

## 19. ADMINISTRATIVE EXPENSES

Salaries, wages and staff welfare (note 19.1)	225,859	167,934
Staff recruitment, training, safety and other expenses	13,944	8,092
Repairs and maintenance	2,428	7,836
Advertising, promotion and corporate branding	50,869	70,405
Rent, rates and taxes	47,012	19,149
Communication, stationery and other office expenses	9,970	8,496
Travel	14,172	13,954
Depreciation (note 4.1)	42,853	18,333
Legal and professional charges	39,179	3,495
Donations	34,000	39,175
Other expenses (note 19.2)	89,177	31,783
	<u>569,463</u>	<u>388,652</u>

19.1 Salaries, wages and staff welfare includes Rs. 27,573 (2010: Rs. 19,213 ) in respect of staff retirement benefits.

19.2 Includes Rs. 21,700 (2010: Rs.14,450) in respect of directors' fees and Rs. 41,604 related to LNG project (note 5.6).

(Amounts in thousand)

## 20. OTHER OPERATING INCOME

	2011	2010
	----- (Rupees) -----	
<b>Financial assets:</b>		
Income on deposits/other financial assets (note 20.1)	765,180	308,612
<b>Non financial assets:</b>		
Service charges (note 20.2)	6,394	6,397
Employees share option compensation expense written back	-	101,224
Capital gain on partial disposal of investment in Engro Foods Limited (note 5.1.1)	371,781	-
Gain on disposal of property, plant and equipment	-	286
Others	3,655	17,428
	<u>1,147,010</u>	<u>433,947</u>

20.1 Includes Rs. 490,494 (2010: Rs. 94,612) in respect of profit earned on subordinated loan to subsidiary companies.

20.2 Represents service charge on guarantee of US\$ 10,000 extended to senior lender of Engro Powergen Qadirpur Limited.

## 21. OTHER OPERATING EXPENSES

	2011	2010
	----- (Rupees) -----	
Impairment loss (note 5.1.3)	658,686	-
Charge for contingent consideration (note 21.1)	50,730	-
Workers' welfare fund	29,611	36,979
Auditors' remuneration (note 21.2)	604	1,587
Professional tax	93	207
	<u>739,724</u>	<u>38,773</u>

21.1 Represents obligation of the Company towards the minority shareholder of Avanceon Limited which was contingent upon occurrence of certain future events and conditions as per the terms of the Share Purchase Agreement. Based on the outcome of these events and conditions, the Company has recorded an expense amounting to Rs. 50,730, out of which Rs. 31,500 has been paid by the Company as at December 31, 2011, and the balance is shown under accrued liabilities (note 14.1).

### 21.2 Auditors' remuneration

	2011	2010
	----- (Rupees) -----	
Fee for the		
- audit of annual financial statements	165	150
- review of half yearly financial statements	95	75
Certifications, audit of retirement funds and other advisory services	167	1,279
Reimbursement of expenses	177	83
	<u>604</u>	<u>1,587</u>

(Amounts in thousand)

## 22 FINANCE COST

	2011	2010
	------(Rupees)-----	
Interest/mark-up on borrowings	729,841	82,131
Amortization of transaction costs	54,556	10,000
	<u>784,397</u>	<u>92,131</u>

## 23 TAXATION

Current		
- for the year	60,332	135,618
- for prior years (note 23.2)	(62,174)	-
	<u>(1,842)</u>	<u>135,618</u>
Deferred		
	28,973	398
	<u>27,131</u>	<u>136,016</u>

### 23.1 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 rate as follows:

	2011	2010
	------(Rupees)-----	
Profit before tax	1,450,861	1,811,975
Tax calculated at the rate of 35%	507,801	634,191
Effect of exemption from tax on certain income	(610,890)	(320,527)
Effect of applicability of lower tax rate and other tax credits / debits	130,220	(177,648)
Tax charge for the year	<u>27,131</u>	<u>136,016</u>

23.2 During the year, the Company has claimed transaction costs incurred on Engro Rupiya Certificate I and II in its return of total income and adjusted the provision for tax accordingly.

## 24 EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, after taking into the effect of options granted on Company's shares to (i) employees under the Employee Share Option Scheme (based on average annual market share price of 2011) and (ii) IFC referred to in note 16.2.

	2011	2010
	------(Rupees)-----	
Profit after taxation	<u>1,423,730</u>	<u>1,675,959</u> (Restated)
Weighted average number of ordinary shares (in thousand)	<u>393,284</u>	<u>393,284</u>

(Amounts in thousand)

## 25 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements for remuneration, including all benefits, to chief executive, directors and executives of the Company are given below:

	2011			2010		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	------(Rupees)-----					
Managerial remuneration	62,741	30,287	132,149	42,194	18,615	83,306
Retirement benefits funds	5,783	2,931	16,603	4,788	2,236	11,596
Other benefits	33	37	4,118	11,630	6,764	13,276
Fees	-	11,600	-	-	14,450	-
Total	<u>68,557</u>	<u>44,855</u>	<u>152,870</u>	<u>58,612</u>	<u>42,065</u>	<u>108,178</u>
Number of persons including those who worked part of the year	<u>1</u>	<u>12</u>	<u>59</u>	<u>1</u>	<u>12</u>	<u>44</u>

25.1 The Company also makes contributions based on actuarial calculations to gratuity funds and provides certain household items for use of some employees and directors. Cars are also provided for use of some employees and directors.

25.2 Premium charged in the financial statements in respect of directors indemnity insurance policy, purchased by the Company during the year, amounts to Rs. 1,082 (2010: Rs. 791).

## 26 RETIREMENT BENEFITS

### 26.1 Defined benefit Gratuity plan

The latest actuarial valuation of the defined benefit gratuity plan was carried out as at December 31, 2011, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

(Amounts in thousand)

#### 26.1.1 Balance Sheet Reconciliation

Defined Benefit  
Gratuity Plans Funded  
2011 2010  
------(Rupees)-----

Present value of funded obligation	104,576	115,956
Fair value of plan assets	(113,689)	(125,199)
Surplus	(9,113)	(9,243)
Unrecognized actuarial gain	11,222	15,986
Payable to associated companies	108	(8,421)
Unrecognized past service cost	915	1,678
Net (asset) / liability at end of the year	<u>3,132</u>	<u>-</u>

#### 26.1.2 Movement in net (asset)/liability recognised

Net (asset)/liability at beginning of the year	-	-
Expense recognised	3,132	1,762
Amounts paid to the Fund	-	(1,762)
Net (asset)/liability at end of the year	<u>3,132</u>	<u>-</u>

#### 26.1.3 Movement in defined benefit obligation

As at beginning of the year	115,956	68,020
Current service cost	6,093	3,449
Interest cost	18,773	8,309
Benefits paid during the year	(20,000)	-
Actuarial (gain)/loss on obligation	(4,774)	27,757
Liability transferred to DC Gratuity Funds	(3,051)	-
Liability transferred in respect of inter-company transfer	(8,421)	8,421
As at end of the year	<u>104,576</u>	<u>115,956</u>

#### 26.1.4 Movement in fair value of plan assets

As at beginning of the year	125,199	81,520
Expected return on plan assets	20,608	9,579
(Repayment to) / Contribution by the Company	-	1,762
Benefits paid during the year	(20,000)	-
Actuarial gain/ (loss) on plan assets	(9,175)	32,338
Assets transferred to DC Gratuity Fund	(2,943)	-
As at end of the year	<u>113,689</u>	<u>125,199</u>

#### 26.1.5 Charge for the year

Current service cost	6,093	3,449
Interest cost	18,773	8,309
Expected return on plan assets	(20,608)	(9,579)
Recognition of curtailment gain	1,050	-
Amortisation of unrecognized past service cost	(76)	(129)
Net actuarial (gain)/loss recognised during the year	<u>-</u>	<u>(288)</u>
	<u>3,132</u>	<u>1,762</u>

(Amounts in thousand)

#### 26.1.6 Principal actuarial assumptions used in the actuarial valuation

Defined Benefit  
Gratuity Plans Funded  
2011 2010  
------(%)-----

Discount rate	12.5	14.5
Expected per annum rate of return on plan assets	12.5	14.5
Expected per annum rate of increase in future salaries	12.5	14.5

------(Rupees)-----

#### 26.1.7 Actual return on plan assets

11,433 41,917

#### 26.1.8 Plan assets comprise of the following

	2011		2010	
	Rupees	(%)	Rupees	(%)
	------(Rupees)-----			
Fixed income instruments	84,736	75%	98,462	78%
Cash	1,109	1%	5,890	5%
Others	27,844	24%	20,847	17%
	<u>113,689</u>		<u>125,199</u>	

26.1.9 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.

#### 26.1.10 Comparison of five years

	2011	2010	2009	2008	2007
	------(Rupees)-----				
Present value of defined benefit obligation	(104,576)	(115,956)	(339,182)	(296,469)	(587,655)
Fair value of plan assets	<u>113,689</u>	<u>125,199</u>	<u>409,228</u>	<u>359,222</u>	<u>683,808</u>
Surplus	<u>9,113</u>	<u>9,243</u>	<u>70,046</u>	<u>62,753</u>	<u>96,153</u>

#### 26.2 Defined contribution plans

An amount of Rs. 11,455 (2010: Rs. 7,956) has been charged during the year in respect of defined contribution plans maintained by the Company.

(Amounts in thousand)

## 27 CASH GENERATED FROM OPERATIONS

	2011	2010
	------(Rupees)-----	
Profit before taxation	1,450,861	1,811,975
Adjustment for non-cash charges and other items:		
Depreciation	42,853	18,333
Gain on disposal of property, plant and equipment	-	(286)
Provision for retirement and other service benefits	32,285	20,455
Income on deposits / other financial assets	(765,180)	(308,612)
Dividend income	(1,928,019)	(1,640,000)
Financial charges	784,397	92,131
Employee share compensation expense - net	-	(78,970)
Capital Gain on the partial disposal of investment in Engro Foods Limited	(371,781)	-
Provision against long term investment	381,957	-
Provision for other receivables	35,411	-
Provision for loans, advances, and prepayments	241,318	-
Working capital changes (note 27.1)	69,474	109,102
	<u>(26,424)</u>	<u>24,128</u>

### 27.1 Working capital changes

(Increase) / decrease in current assets

- Loans, advances, deposits and prepayments	395	(15,563)
- Other receivables (net)	(34,960)	8,435
	<u>(34,565)</u>	<u>(7,128)</u>

Increase in current liabilities

- Trade and other payables including other service benefits (net)	104,039	116,230
	<u>69,474</u>	<u>109,102</u>

## 28 CASH AND CASH EQUIVALENTS

Short term investments (note 9)	1,908,581	1,970,603
Cash and bank balances (note 10)	488,689	806,584
	<u>2,397,270</u>	<u>2,777,187</u>

(Amounts in thousand)

## 29 FINANCIAL INSTRUMENTS BY CATEGORY

	2011	2010
	------(Rupees)-----	
<b>Financial assets as per balance sheet</b>		
- <b>Loans and receivables</b>		
Long term loans	3,000,000	1,620,659
Loans and deposits	18,856	120,659
Other receivables	213,955	197,453
Cash and bank balances	488,689	806,584
	<u>3,721,500</u>	<u>2,745,355</u>
- <b>Fair value through profit and loss</b>		
Short term investments	<u>1,908,581</u>	<u>1,970,603</u>
<b>Financial liabilities as per balance sheet</b>		
- <b>Financial liabilities measured at amortized cost</b>		
Trade and other payables	300,160	230,065
Borrowings	6,371,268	3,384,536
Accrued interest / mark-up	319,500	65,000
Unclaimed dividends	79,083	180,630
	<u>7,070,011</u>	<u>3,860,231</u>

## 30 FINANCIAL RISK MANAGEMENT

### 30.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost efficient funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

Risk management is carried out by the Company's Finance and Planning department under policies approved by the Management Committee.

#### a) Market risk

##### i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company has given guarantees in favour of its subsidiary companies amounting to USD 90,000 (2010: USD 105,400). The devaluation/revaluation of currency will only impact contingent liabilities and the impact on post tax profit for the year is nil.

##### ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to cash flow interest rate risk.



(Amounts in thousand)

iii) **Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument 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 instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as all of its investments are in subsidiary companies which are stated at cost. Further, the Company's investments in money market mutual funds are exposed to price risk due to changes in NAV of mutual funds.

As December 31, 2010, if fair value (NAV) had been 1% higher/lower with all other variables held constant post tax profit for the year would have been higher/lower by Rs. 5 (2010: Rs. 17,735).

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk arises from deposits with banks and financial institutions, loans and advances, deposits, bank guarantees and other receivables. The credit risk on liquid funds and mutual fund securities is limited because counter parties are financial institutions with a reasonably high credit rating. The Company maintains an internal policy to place funds with commercial banks/mutual funds having a minimum short term credit rating of A1/AM3.

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 under:

	2011	2010
	------(Rupees)-----	
Long term loans	3,000,000	1,620,659
Loans and deposits	18,856	120,659
Other receivables	164,228	166,038
Short term investments	1,908,581	1,970,603
Bank balances	488,539	806,534
	<u>5,580,204</u>	<u>4,684,493</u>

(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no or negligible defaults in recent history, however, no losses incurred. The credit quality of Company's liquidity can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Askari Bank Limited	PACRA	A1+	AA
Allied Bank Limited	PACRA	A1+	AA
Bank Al Habib Limited	PACRA	A1+	AA+
Bank Al-Falah Limited	PACRA	A1+	AA
Citibank N.A.	S&P	A1	A+
Habib Bank Limited	JCR-VIS	A1+	AA+
JS Bank Limited	PACRA	A1	A
MCB Bank Limited	PACRA	A1+	AA+
NIB Bank Limited	PACRA	A1+	AA-
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+

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 projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

These objectives are achieved by maintaining sufficient cash and marketable securities.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2011			2010		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	------(Rupees)-----					
<b>Financial liabilities</b>						
Trade and other payables	300,160	-	300,160	230,065	-	230,065
Accrued interest / mark-up	319,500	-	319,500	65,000	-	65,000
Borrowings	6,371,268	-	6,371,268	3,384,536	-	3,384,536
Unclaimed dividends	79,083	-	79,083	180,630	-	180,630
	<u>7,070,011</u>	<u>-</u>	<u>7,070,011</u>	<u>3,860,231</u>	<u>-</u>	<u>3,860,231</u>

(Amounts in thousand)

### 30.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for share holders and benefit for other stake holders and to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The proportion of borrowings to equity at the year end was:

	2011	2010
	------(Rupees)-----	
Total Borrowings	6,371,268	3,384,536
Total Equity	26,248,757	27,053,639
	<u>32,620,025</u>	<u>30,438,175</u>
Total borrowings to equity ratio	<u>20%</u>	<u>11%</u>

The Company finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk.

### 30.3 Fair value of financial assets and liabilities

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

(Amounts in thousand)

### 31 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise subsidiaries, joint venture companies, other companies with common directors, retirement benefit funds, directors and key management personnel. Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2011	2010
	------(Rupees)-----	
<b>Subsidiary companies</b>		
Purchases and services	11,982	-
Services rendered	191,801	149,053
Mark-up from subsidiaries	422,544	94,612
Disbursement of loan	1,500,000	1,500,000
Mark-up paid to subsidiaries	-	7,116
Repayment of loan	-	300,000
Royalty Income	469,416	257,584
<b>Associated companies</b>		
Purchases and services	6,667	4,271
Dividend paid	855,569	574,111
Donations	34,000	38,750
Investment in Mutual Funds	910,000	1,332,000
Redemption of investment in Mutual Funds	1,200,542	945,490
<b>Joint ventures</b>		
Services rendered	2,124	1,504
<b>Others</b>		
Dividend paid	6,795	19,446
Remuneration of key management personnel	147,357	102,726

### 32 DONATIONS

Donations include the following in which a director or his spouse is interested:

Name of Donor	Interest in Donee	Name and address of Donee	2011	2010
			------(Rupees)-----	
Asad Umar, Khalid Mansoor and Khalid S. Subhani	Chairman and Trustees	Engro Foundation	34,000	38,600
Hussain Dawood and Asad Umar	Chairman and Director	Karachi Education Initiative	-	150
			<u>34,000</u>	<u>38,750</u>

(Amounts in thousand)

33 **LOSS OF CERTAIN ACCOUNTING RECORDS**

During 2007, a fire broke out at PNSC Building, Karachi where the Company's registered office was located. Immediately following this event the Company launched its Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal.

The fire destroyed a substantial portion of its hard copy records, related to the financial years 2005, 2006 and the period January 1, 2007 to August 19, 2007 although, electronic data remained intact due to the aforementioned Disaster Recovery Plan. The Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the financial year 2007. Hard copy records related to the already reported financial years 2005 and 2006 have not been recreated.

34 **NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE**

34.1 The Board of Directors in its meeting held on February 16, 2012 has proposed a final cash dividend of Rs. 2 per share (2010: Rs.2 per share final cash dividend) and bonus issue in the ratio of three shares for every ten shares held i.e. 30% bonus, for approval of the members at the Annual General Meeting to be held on 30 Mar, 2012.

The financial statements for the year ended December 31, 2011 do not include the effect of the proposed cash dividend and bonus issue, which will be accounted for in the financial statements for the year ending December 31, 2012.

34.2 The Board of Directors of Engro Vopak Terminal Limited, a joint venture company, in its meeting held on January 31, 2012 has proposed a final cash dividend of Rs. 16 per share for the year ended December 31, 2011, amounting to Rs. 1,440,000, of which the proportionate share of the Company amounts to Rs. 720, 000.

These financial statement for the year ended December 31, 2011 do not include the effect of the aforementioned dividend income, which will be accounted for in the financial statements for the ending December 31, 2012 once the propose dividend is approved in the Annual General Meeting of Engro Vopak Terminal Limited.

35 **DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorized for issue on February 16, 2012 by the Board of Directors of the Company.

36 **CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified for better presentation, wherever considered necessary, the effect of which is not material.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# consolidated accounts

- Auditors' Report to the Members

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- Financial Statements

## auditors' report to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Corporation Limited (the Holding Company) and its subsidiary companies (the Group) as at December 31, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of the Holding Company and its subsidiary companies except for Avanceon FZE (UAE), Avanceon LP (USA) and Engro Innovative Inc. (USA), subsidiary companies of Avanceon Limited, were audited by other firms of auditors whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the reports of such auditors. 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 test 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 Corporation Limited (the Holding Company) and its subsidiary companies as at December 31, 2011 and the results of their operations, changes in equity and cash flows for the year then ended.

Without qualifying our opinion we draw attention to note 52 to the consolidated financial statements and as more fully explained therein, due to a fire at the Holding Company's old premises on August 19, 2007, certain records, documents and books of account of the Holding Company relating to prior years ended December 31, 2007, 2006 and 2005 were destroyed. To date, the Holding Company has been able to reconstruct books of account pertaining to the year ended December 31, 2007.



Chartered Accountants  
Karachi  
Date: March 01, 2012

Engagement Partner: Imtiaz A. H. Laliwala

# consolidated balance sheet

as at december 31, 2011

(Amounts in thousand)

	Note	2011 ------(Rupees)-----	2010
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	134,509,689	128,712,148
Exploration and evaluation expenditure	5	432,485	356,286
Biological assets	6	496,809	428,293
Intangible assets	7	737,803	877,323
Long term investments	8	1,716,692	514,505
Long term loans and advances	9	165,253	193,458
		<u>138,058,731</u>	<u>131,082,013</u>
<b>Current assets</b>			
Stores, spares and loose tools	10	6,343,995	4,910,941
Stock-in-trade	11	11,603,851	8,843,677
Trade debts	12	6,214,643	5,131,408
Deferred employee compensation expense	13	986	4,829
Derivative financial instruments	14	239,184	3,148
Loans, advances, deposits and prepayments	15	2,289,313	2,474,076
Other receivables	16	1,985,049	1,287,827
Taxes recoverable		3,050,258	2,494,314
Short term investments	17	8,332,154	4,426,188
Cash and bank balances	18	4,417,885	4,120,031
		<u>44,477,318</u>	<u>33,696,439</u>
Assets attributable to discontinued operations	19	468,125	-
<b>Total Assets</b>		<u><u>183,004,174</u></u>	<u><u>164,778,452</u></u>

(Amounts in thousand)

	Note	2011 ------(Rupees)-----	2010
<b>Equity &amp; Liabilities</b>			
<b>Equity</b>			
Share Capital	20	3,932,843	3,277,369
Share premium		10,550,061	10,550,061
Employee share option compensation reserve	13	146,280	162,455
Hedging reserve	21	(573,437)	(927,438)
Revaluation reserve on business combination		94,496	104,698
Maintenance reserve	22	197,577	197,577
Exchange revaluation reserve		35,725	28,883
General reserves		4,429,240	4,429,240
Unappropriated profit		18,985,446	12,776,146
		<u>33,865,388</u>	<u>27,321,622</u>
		<u>37,798,231</u>	<u>30,598,991</u>
<b>Non Controlling Interest</b>		<u>4,091,558</u>	<u>3,516,024</u>
<b>Total Equity</b>		<u>41,889,789</u>	<u>34,115,015</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	23	82,560,415	89,151,849
Derivative financial instruments	14	702,214	805,154
Obligations under finance lease	24	1,295	18,998
Deferred taxation	25	3,986,577	2,471,226
Employee housing subsidy	26	19,144	347,886
Deferred liabilities	27	161,219	117,279
		<u>87,430,864</u>	<u>92,912,392</u>
<b>Current liabilities</b>			
Trade and other payables	28	23,396,316	12,614,214
Accrued interest / mark-up	29	3,114,122	2,619,453
Current portion of			
- borrowings	23	21,565,668	15,543,787
- obligations under finance lease	24	3,884	13,310
- deferred liabilities	27	34,636	23,047
Short term borrowings	30	4,284,404	5,715,775
Derivative financial instruments	14	452,625	1,040,829
Unclaimed dividends		79,083	180,630
		<u>52,930,738</u>	<u>37,751,045</u>
<b>Total Liabilities</b>		<u>140,361,602</u>	<u>130,663,437</u>
Liabilities associated with discontinued operations	19	752,783	-
<b>Contingencies and Commitments</b>	31		
<b>Total Equity &amp; Liabilities</b>		<u><u>183,004,174</u></u>	<u><u>164,778,452</u></u>

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# consolidated profit and loss account

for the year ended december 31, 2011

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

	Note	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Net sales	32	114,611,837	79,975,765
Cost of sales	33	(82,530,581)	(59,702,130)
<b>Gross Profit</b>		<u>32,081,256</u>	<u>20,273,635</u>
Selling and distribution expenses	34	(7,144,965)	(6,078,320)
Administrative expenses	35	(3,031,569)	(2,211,360)
		<u>21,904,722</u>	<u>11,983,955</u>
Other operating income	36	2,056,545	897,321
Other operating expenses	37	(1,929,709)	(837,180)
Finance cost	38	(12,314,593)	(4,321,688)
Share of income from joint venture	39	1,742,187	554,725
		<u>11,459,152</u>	<u>8,277,133</u>
<b>Profit before taxation</b>		<u>11,459,152</u>	<u>8,277,133</u>
Taxation	40	(3,647,761)	(1,836,131)
<b>Profit for the year</b>		<u>7,811,391</u>	<u>6,441,002</u>
Profit / (Loss) attributable to:			
- Discontinued operations	19	(144,344)	(151,973)
- Continuing operations		<u>7,955,735</u>	<u>6,592,975</u>
		<u>7,811,391</u>	<u>6,441,002</u>
Profit / (Loss) attributable to:			
- Owners of the Holding Company		8,060,448	6,790,049
- Non Controlling Interest		(249,057)	(349,047)
		<u>7,811,391</u>	<u>6,441,002</u>
		------(Rupees)-----	------(Rupees)-----
			Restated
<b>Basic earnings / (loss) per share from:</b>	41		
- Discontinued operations		(0.18)	(0.24)
- Continuing operations		20.68	17.51
		<u>20.50</u>	<u>17.27</u>
<b>Diluted earnings / (loss) per share from:</b>	41		
- Discontinued operations		(0.18)	(0.24)
- Continuing operations		20.45	17.51
		<u>20.27</u>	<u>17.27</u>

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# consolidated statement of comprehensive income

for the year ended december 31, 2011

(Amounts in thousand)

	Note	2011 ------(Rupees)-----	2010 ------(Rupees)-----
<b>Profit for the year</b>		7,811,391	6,441,002
<b>Other comprehensive income</b>			
Hedging reserve - cash flow hedges	21		
Losses arising during the year		(598,983)	(1,828,460)
Less:			
- Reclassification adjustments for losses / (gains) included in profit and loss		221,397	65,267
- Adjustments for amounts transferred to initial carrying amount of hedged items (capital work in progress)		900,441	1,245,762
		<u>522,855</u>	<u>(517,431)</u>
Revaluation reserve on business combination		(21,974)	(21,974)
Exchange differences on translation of foreign operations		6,703	114,996
		<u>507,584</u>	<u>(424,409)</u>
<b>Income tax relating to:</b>			
Hedging reserve - cash flow hedges		(183,115)	181,100
Revaluation reserve on business combination		7,691	7,691
		<u>(175,424)</u>	<u>188,791</u>
Other comprehensive income for the year, net of tax		<u>332,160</u>	<u>(235,618)</u>
		<u>8,143,551</u>	<u>6,205,384</u>
<b>Total comprehensive income for the year</b>		<u>8,143,551</u>	<u>6,205,384</u>
Total comprehensive income attributable to:			
- Owners of the Holding Company		8,411,089	6,541,477
- Non Controlling Interest		(267,538)	(336,093)
		<u>8,143,551</u>	<u>6,205,384</u>
Total comprehensive income attributable to equity shareholders arises from			
- Discontinued operations		(144,539)	(154,947)
- Continuing operations		<u>8,288,090</u>	<u>6,360,331</u>
		<u>8,143,551</u>	<u>6,205,384</u>

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

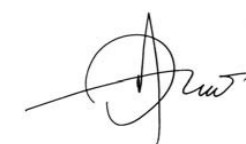
# consolidated statement of statement of changes in equity

for the year ended december 31, 2011

(Amounts in thousand)

	Attributable to owners of the Holding Company											Non controlling Interest	Total
	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Revaluation reserve on business combination	Maintenance reserve	Exchange revaluation reserve	General reserve	Unappropriated Profit	Sub total			
Balance as at 1 January, 2010	2,979,426	10,550,061	318,242	(617,000)	114,900	-	(43,185)	4,429,240	8,387,520	26,119,204	3,225,191	29,344,395	
Total comprehensive income for the year ended December 31, 2010													
Profit for the year	-	-	-	-	-	-	-	-	6,790,049	6,790,049	(349,047)	6,441,002	
Other comprehensive income	-	-	-	(310,438)	(10,202)	-	72,068	-	-	(248,572)	12,954	(235,618)	
Transactions with owners													
Bonus shares issued during the year in the ratio of 1 for every 10 shares	297,943	-	-	-	-	-	-	-	(297,943)	-	-	-	
Issue of shares by Engro Polymer and Chemicals Limited	-	-	-	-	-	-	-	-	-	626,926	-	626,926	
Maintenance reserve created by Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited (formerly Engro Energy Limited)	-	-	-	-	-	197,577	-	-	(197,577)	-	-	-	
Vested options lapsed during the year	-	-	(929)	-	-	-	-	-	929	-	-	-	
Effect of changes in number of share options issued	-	-	(154,858)	-	-	-	-	-	-	(154,858)	-	(154,858)	
Final dividend for the year ended December 31, 2009 @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(595,886)	(595,886)	-	(595,886)	
Interim dividend - 1st @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(655,473)	(655,473)	-	(655,473)	
- 2nd @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(655,473)	(655,473)	-	(655,473)	
Balance as at December 31, 2010	3,277,369	10,550,061	162,455	(927,438)	104,698	197,577	28,883	4,429,240	12,776,146	30,598,991	3,516,024	34,115,015	
Total comprehensive income for the year ended December 31, 2011													
Profit for the year	-	-	-	-	-	-	-	-	8,060,448	8,060,448	(249,057)	7,811,391	
Other comprehensive income	-	-	-	354,001	(10,202)	-	6,842	-	-	350,641	(18,481)	332,160	
Transactions with owners													
Issue of right shares by Engro Foods Limited	-	-	-	-	-	-	-	-	649,359	649,359	567,175	1,216,534	
Partial disposal of investment in Engro Foods Limited	-	-	-	-	-	-	-	-	-	-	270,000	270,000	
Capital gain on the partial disposal of investment in Subsidiary Company (Engro Foods Limited)	-	-	-	-	-	-	-	-	371,781	371,781	-	371,781	
Bonus shares issued during the year in the ratio of 1 for every 10 shares	655,474	-	-	-	-	-	-	-	(655,474)	-	-	-	
Vested options lapsed during the year	-	-	(11,798)	-	-	-	-	-	11,798	-	-	-	
Effect of changes in number of share options issued	-	-	(4,377)	-	-	-	-	-	-	(4,377)	58,610	54,233	
Dividend paid to indirect minority	-	-	-	-	-	-	-	-	-	-	(52,713)	(52,713)	
Final dividend for the year ended December 31, 2010 @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(655,474)	(655,474)	-	(655,474)	
Interim dividend - 1st @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(786,569)	(786,569)	-	(786,569)	
- 2nd @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(786,569)	(786,569)	-	(786,569)	
Balance as at December 31, 2011	3,932,843	10,550,061	146,260	(573,437)	94,496	197,577	35,725	4,429,240	18,965,446	37,796,231	4,091,558	41,889,789	

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.



Hussain Dawood  
Chairman



Asad Umar  
President & CEO



Hussain Dawood  
Chairman



Asad Umar  
President & CEO

# consolidated statement of cash flows

for the year ended december 31, 2011

(Amounts in thousand)

Note	2011	2010
	----- (Rupees) -----	
<b>Cash flows from operating activities</b>		
Cash generated from operations	31,830,734	5,875,276
Retirement and other service benefits paid	(333,837)	(215,227)
Financial charges paid	(11,819,924)	(3,381,861)
Taxes paid	(3,213,554)	(2,378,136)
Long term loans and advances - net	28,205	(42,498)
Net cash generated from / (utilized in) operating activities	16,491,624	(142,446)
<b>Cash flows from investing activities</b>		
Exploration and evaluation expenditure incurred	(76,199)	(339,268)
Purchases of property, plant & equipment, intangible assets and biological assets	(12,179,888)	(20,813,639)
Sale proceeds on disposal of property, plant & equipment and biological assets	112,577	476,825
Income on deposits / other financial assets	1,291,784	372,526
Dividends received	630,000	562,500
Net cash utilized in investing activities	(10,221,726)	(19,741,056)
<b>Cash flows from financing activities</b>		
(Repayments) / proceeds from borrowings - net	(533,843)	17,831,952
Obligations under finance lease - net	(4,154)	(6,525)
Issuance of shares to Non Controlling Interest	895,785	-
Proceeds from issuance of shares by subsidiary company	1,027,255	626,926
Dividends paid	(2,382,872)	(1,828,304)
Net cash generated from financing activities	(997,829)	16,624,049
Net increase in cash and cash equivalents	5,272,069	(3,259,453)
Cash and cash equivalents at beginning of the year	2,830,444	6,089,897
Cash and cash equivalents at end of the year	8,102,513	2,830,444

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.

# notes to the consolidated financial statements

for the year ended december 31, 2011

(Amounts in thousand)

## 1. LEGAL STATUS AND OPERATIONS

Engro Corporation Limited - the Holding Company, is a public listed company incorporated in Pakistan under the Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore and Islamabad stock exchanges of Pakistan. The principal activity of the Holding Company, is to manage investments in subsidiary companies and joint venture, engaged in fertilizers, PVC resin manufacturing and marketing, control and automation, food, energy, exploration and chemical terminal and storage businesses. The Holding Company's registered office is situated at 7th & 8th Floors, The Harbour Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi.

### 1.2 The "Group" consists of:

**Holding Company-** Engro Corporation Limited

**Subsidiary companies,** companies in which the Holding Company owns over 50% of voting rights, or companies directly controlled by the Holding Company:

	%age of direct holding	
	2011	2010
• Engro Fertilizers Limited (note 1.3.1)	100	100
• Engro Eximp (Private) Limited (note 1.3.2)	100	100
• Engro Management Services (Private) Limited (note 1.3.3)	100	100
• Engro PowerGen Limited (note 1.3.4)	100	100
• Engro Foods Netherlands B.V. (note 1.3.5)	100	-
• Engro Foods Limited (note 1.3.6)	89.97	100
• Avanceon Limited (note 1.3.7)	62.67	62.67
• Engro Polymer and Chemicals Limited (note 1.3.8)	56.19	56.19

#### Joint Venture Company:

• Engro Vopak Terminal Limited (note 1.4)	50	50
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### 1.3 Subsidiary companies

#### 1.3.1 Engro Fertilizers Limited

Engro Fertilizers Limited (EFL), a wholly owned subsidiary of the Holding Company, is a public company incorporated in Pakistan on June 29, 2009 under the Companies Ordinance, 1984. The principal activity of EFL is manufacturing, purchasing and marketing of fertilizers.

During the year, EFL declared commencement of commercial production effective June 24, 2011 of its Urea Expansion project 'Enven Plant' adjacent to the existing Dharki Plant. The capacity of Enven Plant is 1.3 million tons of Urea per annum.

#### 1.3.2 Engro Eximp (Private) Limited

Engro Eximp (Private) Limited (EEL), a wholly owned subsidiary of the Holding Company, is a private limited company, incorporated in Pakistan on January 16, 2003 under the Companies Ordinance 1984. EEL is principally engaged in the following trading businesses:

a) Fertilizer Trading: EEL imports and sells different types of fertilizers and other related products through Engro Fertilizers Limited, an associated undertaking, which has been appointed as a selling agent under an agreement effective January 1, 2010.

b) Rice Trading: EEL is also engaged in rice business whereby bulk quantities of unprocessed rice and paddy are procured from local suppliers, processed and packed for selling locally as well as for export to foreign buyers. Processing of rice for the crop season 2010 is currently outsourced by EEL to its subsidiary company, Engro Foods Supply Chain (Private) Limited (EFSC) and to third party contractors. However, the Board of Directors of EEL in their meeting held on September 30, 2011 have approved restructuring in the rice business whereby EEL will only act as an agent for EFSC in procurement of seeds, paddy and raw rice and EFSC will operate the rice business from the crop season 2011.

In 2010, EEL had subscribed to thirty percent share capital of EFSC. However, pursuant to the EEL's Board of Directors' approval in their meeting held on September 30, 2011, EEL has acquired the remaining seventy percent share capital of EFSC from Engro Foods Limited, an associated undertaking. By virtue of such transfer, EFSC has become wholly owned subsidiary of EEL.

EFSC was incorporated in Pakistan on November 3, 2009, under the Companies Ordinance, 1984. The principal activity of EFSC is to produce, manufacture and trade all kinds of raw, processed and prepared food products including agriculture, dairy and farming products. EFSC has setup a rice processing plant in District Sheikhpura, which was commissioned last year and started commercial production from drying unit of the rice processing plant from November 7, 2010. During the year, commercial production of milling unit on line 1 commenced on June 1, 2011 and milling unit on line 2 and parboiling commenced on July 1, 2011 for processing from paddy/unprocessed rice to finished brown rice.

EEL has also set up a wholly owned offshore subsidiary company in JAFZA, Dubai under the name Engro EXIMP FZE for off-shore trading of fertilizers, sugar and palm oil. EEL intends to subscribe upto seventeen thousand nine hundred and eighty three (17,983) shares amounting to UAE dirhams seventeen million nine hundred eighty three thousand only over a period of time. The balances consolidated in these financial statements in respect of Engro EXIMP FZE, as there being no operations, are based on the unaudited financial statements.

#### 1.3.3 Engro Management Services (Private) Limited

Engro Management Services (Private) Limited (EMSL), a wholly owned subsidiary of the Holding Company, is a private limited company incorporated in Pakistan on January 23, 2003 under the Companies Ordinance, 1984. EMSL had been registered as a modaraba management company but subsequently was deregistered on account of not launching the modaraba. Subsequent to the year end, the Board of Directors of EMSL in its meeting held on February 7, 2012 has resolved to wind-up EMSL voluntarily. There are no assets and liabilities which required material adjustments.

#### 1.3.4 Engro PowerGen Limited

Engro PowerGen Limited is a wholly owned subsidiary incorporated as a private limited company in Pakistan on May 31, 2008 under the Companies Ordinance, 1984, and was converted to an unlisted public company effective August 11, 2009. It is established with the primary objective to analyse potential opportunities in the Power Sector and undertake Independent Power Projects (IPPs) based on feasibility of new ventures. Following are the subsidiaries of Engro PowerGen Limited.

	% age of holding of Engro Powergen
Engro Powergen Qadirpur Limited	85%
Sindh Engro Coal Mining Company Limited	60%



(Amounts in thousand)

- Engro Powergen Qadirpur Limited (EPQL) is an unlisted public company incorporated in Pakistan on February 28, 2006 under the Companies Ordinance, 1984 with the primary objective to undertake the business of power generation, distribution, transmission and sale. EPQL completed construction and testing of its 217.3 MW combined cycle power plant and has commenced commercial operations on March 27, 2010. The electricity generated is transmitted to National Transmission and Despatch Company (NTDC) under the Power Purchase Agreement (PPA) dated October 26, 2007. This agreement is valid for a period of 25 years.
- Sindh Engro Coal Mining Company Limited (SECMC) is a public unlisted company, incorporated in Pakistan on October 15, 2009 under the Companies Ordinance, 1984. It was formed under a Joint Venture Agreement (JVA), dated September 8, 2009, between the Government of Sindh (GoS), EPGL, and the Holding Company. The JVA was formed consequent to the selection of the SECMC as GoS's joint venture partner, through an International Competitive Bidding process, for the development, construction and operation of an open cast lignite mine in Block-II of Thar Coal Field, Sindh (the Project), with an annual mining capacity of 6.5 million tons of coal to be subsequently increased to 13 million tons in later years. As per the aforementioned JVA, SECMC initiated a Detailed Feasibility Study (DFS) in November 2009 through a team of International Consultants and local experts to confirm the technical, environmental, social and economic viability of the Project. The DFS was carried out on an area of 79.6 sq. km allocated to the SECMC in Thar Coal field. On August 31, 2010, SECMC completed the DFS which was approved by the Technical Committee of GoS. SECMC is waiting for GoS to complete infrastructure work related to the project in order to proceed with the same.

Under JV Agreement, GoS has granted a mining lease for 30 years to SECMC for exploration and mining activities in Thar Block-II, based on the bankable feasibility study conducted by SECMC, Thar Block-II has estimated coal reserves of approximately 2 billion tons, of which 195 million tons will be mined at the rate of 6.5 million tons per year over the period of the mining lease. During the year, SECMC and EPGL have also received a firm proposal for Engineering, Procurement & Construction contract (EPC) for 6.5 million tons per annum mining capacity and 1,200 MW power plant from an international contractor.

#### 1.3.5 Engro Foods Netherlands B.V.

During the year, the Holding Company has incorporated a wholly owned subsidiary, Engro Foods Netherlands B.V. (EFN), in Netherlands. The principal activity of EFN is marketing and selling of Halal food. For this purpose, EFN has acquired an existing brand of halal meat business known as 'Al-Safa', engaged in supplying variety of packaged halal foods across North America, through Engro Food Canada Limited (EFCL), a wholly owned subsidiary of EFN, incorporated in Canada on April 5, 2011 having its registered office situated at 1900 Minnesota Court, Unit No. 112, Mississauga, ON L5N 3C9; and Engro Foods US LLC, a wholly owned subsidiary of EFCL, incorporated as a limited liability company on April 11, 2011 and registered in Delaware, USA.

The balances consolidated in these financial statements in respect of standalone figures of EFN, there being no operations of its own, are based on the unaudited financial statements. The financial statements of its subsidiaries are however audited.

#### 1.3.6 Engro Foods Limited

Engro Foods Limited (EFL), a 89.97% owned subsidiary of the Holding Company, was incorporated in Pakistan on April 26, 2005, under the Companies Ordinance, 1984, as a private limited company but was converted to an unlisted public limited company effective from April 27, 2006. The principal activity of EFL is to manufacture, process and sell dairy, ice cream and other food products. EFL also owns and operates a dairy farm.

During the year, the Holding Company partially disposed off its share holding of 27,000,000 ordinary shares in EFL to the general public through an Offer for Sale document dated June 24, 2011 at an offer price of Rs. 25 per share. Further,

(Amounts in thousand)

during the year, EFL issued 48,000,000 right shares which upon renunciation by the Holding Company were privately placed with institutional investors. The shares of EFL are now quoted on the Karachi and Lahore Stock Exchanges. During the year, EFL has disposed of its entire holding in EFSC to EEL as referred to in note 1.3.2.

#### 1.3.7 Avanceon Limited

Avanceon Limited, a 62.67% owned subsidiary of the Holding Company, was incorporated in Pakistan on March 26, 2003 as a private limited company which was changed to public company on March 31, 2008 under the Companies Ordinance, 1984. The principal activity of Avanceon Limited is to trade in products of automation and control equipments and provide related technical services. Avanceon Limited consists of following subsidiaries:-

	% age of holding of Avanceon Limited
- Avanceon Free Zone Establishment, UAE;	100%
- Engro Innovative Inc., USA;	100%
- Innovative Automation (Private) Limited;	100%
- Avanceon LP, USA; and	70%
- Avanceon GP LLC, USA.	70%

- Avanceon Free Zone Establishment, UAE is a Free Zone Establishment with limited liability formed under the laws of Jebel Ali Free Zone Authority, U.A.E and was registered on February 28, 2004. The principal activity of the establishment is to trade in products of automation and control equipment and provide related technical support.

- Engro Innovative Inc., USA a wholly owned subsidiary of Avanceon Free Zone Establishment was incorporated in the State of Pennsylvania on October 25, 2006, as a Corporation Service Company under the provisions of Business Corporation Law of 1988. Its principal activity is to explore investment opportunities in automation industry in USA and provide related technical support from its holding companies.

- Innovative Automation (Private) Limited was incorporated in Pakistan as a private company limited by shares under the Companies Ordinance, 1984 on December 4, 2008. It is a wholly owned subsidiary of Avanceon Limited.

- Avanceon LP, USA a 70% owned subsidiary of Engro Innovative Inc., is a Pennsylvania Limited Partnership. The Partnership provides innovative technology solutions to clients in various industries. The Partnership designs, develops, implements and provides support of automated manufacturing process for their customers.

- Avanceon GP LLC, a 70% owned subsidiary of Engro Innovative Inc., is a Pennsylvania Limited Liability Corporation, which is a general partner with 0.01% general partner interest in Avanceon LP.

The Holding Company, on December 31, 2011, has signed a Memorandum of Understanding with Mr. Bakhtiar Wain, a minority shareholder of Avanceon Limited to fully take over Avanceon's Pakistan and UAE operations / companies excluding the USA operations / companies. The Holding Company intends to disposed off the USA operations / companies as well and the automation business will be discontinued, as stated in note 19.

#### 1.3.8 Engro Polymer and Chemicals Limited

Engro Polymer and Chemicals Limited (EPCL), a 56.19% owned subsidiary of the Holding Company was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984 and is listed on Karachi, Lahore and Islamabad Stock Exchanges of Pakistan. The principal activity of EPCL is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, caustic soda and other related chemicals. It is also engaged in supply of surplus power generated from its power plant to Engro Fertilizers Limited (NPK Plant) and Karachi Electricity Supply Company Limited.

(Amounts in thousand)

Further, EPCL has a wholly owned subsidiary - Engro Polymer Trading (Private) Limited, which is a private limited company incorporated in Pakistan under the Companies Ordinance, 1984. The Company's principal activity is to purchase, market and export Poly Vinyl Chloride (PVC), PVC compounds and related chemicals.

#### 1.3.9 Elengy Terminal Pakistan Limited

On January 4, 2012, the Holding Company has incorporated a new wholly owned subsidiary, Elengy Terminal Pakistan Limited, for LNG project. No capital has been injected yet. The related expenses incurred upto December 31, 2011 have been charged off.

#### 1.4 Joint Venture Company - Engro Vopak Terminal Limited

Engro Vopak Terminal Limited (EVTL), a 50% share joint venture of the Holding Company is an unlisted public limited company incorporated in Pakistan in 1995 under the Companies Ordinance, 1984. EVTL has been granted the exclusive concession, right and license to design, finance, insure, construct, test, commission, complete, operate, manage and maintain an Integrated Liquid Chemical Terminal and Storage Farm at the south western zone of Port Qasim on Build, Operate and Transfer (BOT) basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

2.1.1 These consolidated financial statements have been prepared under the historical cost convention, except for remeasurement of certain financial assets and financial liabilities at fair value through profit or loss, derivative financial instruments, biological assets at fair value and certain staff retirement and other service benefits at present value.

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

2.1.3 The preparation of consolidated 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 Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.1.4 Initial application of standards, amendments or an interpretation to existing standards

#### a) Standards, amendments to published standards and interpretations that are effective in 2011 and are relevant to the Group

The following standards, amendments to published standards and interpretations are mandatory for the financial year beginning January 1, 2011:

- IFRS 7 (Amendment), 'Financial instruments: Disclosures'. The amendment emphasizes the interaction between

(Amounts in thousand)

quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment only affects disclosures in the Group's consolidated financial statements which have been made.

- IAS 1 (Amendment), 'Presentation of financial statements'. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment only affects disclosures in the Group's consolidated financial statements.

- IAS 34 (Amendment), 'Interim financial reporting'. This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets, changes in contingent liabilities and assets. The amendment will only affect the disclosures in the Group's condensed interim financial information.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. This interpretation does not have any impact on the current year's consolidated financial statements.

#### b) Standards, amendments to published standards and interpretations that are effective in 2011 but not relevant to the Group

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2011 are considered not to be relevant.

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

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

- IFRS 7 (Amendment) 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). 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 securitization of financial assets. The amendment will only affect the disclosures in the Group's consolidated financial statements.
- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

(Amounts in thousand)

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after January 1, 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard is likely to effect the consolidated financial statements and hence its effects therefore need to be assessed by the Group.
- IFRS 11 'Joint arrangements' (effective for periods beginning on or after January 1, 2013). This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
- IFRS 12 'Disclosures of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard will only affect the disclosures in the Group's consolidated financial statements.
- IFRS 13 'Fair value measurement' (effective for periods beginning on or after 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 on how it should be applied where its use is already required or permitted by other standards within IFRSs. It is unlikely that this standard will have any significant impact on Group's consolidated financial statements.
- IAS 1 (Amendment), 'Financial statement presentation' (effective for periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassified to profit or loss subsequently (reclassification adjustments). The amendments will only affect the disclosures in the Group's financial statements.
- IAS 12 (Amendment), 'Income taxes' (effective for periods beginning on or after January 1, 2012). Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.
- IAS 19 (Amendment), 'Employee benefits' (effective for periods beginning on or after July 1, 2013). The amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments are likely to effect the consolidated financial statements of the Group and hence their effects therefore need to be assessed by the Group.
- IAS 28 (Revised) 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted

(Amounts in thousand)

following the issue of IFRS 11. It is unlikely that the standard will have significant effect on the Group's financial statements as the Group has no investment in associates and joint ventures.

- IFRIC 20, 'Stripping costs in the production phase of a surface mine'(effective for periods beginning on or after January 1, 2013). The interpretation sets out the accounting for overburden waste removal (stripping costs) in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. This amendment will not have any effect on the Group's financial statements.

#### 2.1.5 Basis of consolidation

##### i) Subsidiaries

Subsidiaries are all entities over which the holding company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-recognized from the date the control ceases. These consolidated financial statements include Engro Corporation Limited (the Holding Company) and all companies in which it directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors (the Subsidiaries).

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities (including contingent liabilities) assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### ii) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(Amounts in thousand)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## 2.2 Property, plant and equipment

### 2.2.1 Owned assets

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except free-hold land and capital work-in-progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Disposal of asset is recognized when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating expenses/ income' in the profit and loss account.

Depreciation is charged to profit and loss account using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life. Depreciation on addition is charged from the month following the month in which the asset is available for use and on disposals upto the preceding month of disposal.

Depreciation method, useful lives and residual values are reviewed annually.

### 2.2.2 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Outstanding obligations under the lease less finance cost allocated to future periods are shown as a liability.

Finance cost under lease agreements are allocated to the periods during the lease term so as to produce a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

(Amounts in thousand)

## 2.3 Biological assets

Livestock are measured at their fair value less estimated point-of-sale costs. Fair value of livestock is determined by an independent valuer on the basis of best available estimate for livestock of similar attributes. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Gains or losses arising from changes in fair value less estimated point-of-sale costs of livestock and milk are recognized in the profit and loss account.

"Crops in the ground and at the point of harvest at balance sheet date are measured at cost being an approximation of fair value, as these are presently being used as internal consumption for cattle feed and have a very short biological transformation and consumption cycle."

## 2.4 Exploration and evaluation expenditure

Exploration and evaluation activity includes detailed feasibility study and all other related studies to ensure bankability of the project including other ancillary cost related thereto.

Expenditures relating to the aforementioned feasibility studies, which support the technical feasibility and commercial viability of an area, are capitalized as exploration and evaluation assets.

Capitalised exploration and evaluation expenditure is recorded at cost less impairment charges. As the asset is not available for use, it is not depreciated.

Cash flows associated with exploration and evaluation expenditure are classified as investing activities in the statement of cash flows.

## 2.5 Intangible assets

### a) Goodwill

Goodwill represents the difference between the consideration paid for acquiring interests in a company and the value of the Group's share of its net assets at the date of acquisition.

### b) Brands

These are stated at cost less impairment, if any. Carrying amounts of these intangibles are subject to impairment review at each balance sheet date and where conditions exist, impairment is recognized.

The useful lives of intangible assets are reviewed at each balance sheet date to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset.

### c) Computer software and licenses

Costs associated with maintaining computer software programmes are recognized as an expense when incurred. However, costs that are directly attributable to identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software (license fee) 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 and license cost treated as intangible assets are amortized from the date the software is put to use on a straight-line basis over a period of 3 to 10 years.

(Amounts in thousand)

d) **Rights for future gas utilization**

Rights for future gas utilization represents premium paid to the Government of Pakistan for allocation of 100 MMCFD natural gas for a period of 20 years from SNGPL network initially from Qadirpur gas field at a predetermined price for a period of ten years commencing from the date of commercial production. The rights are being amortised from the date of commercial production on a straight-line basis over the remaining allocation period.

2.6 **Impairment of non-financial assets**

Assets that are subject to depreciation/amortisation are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Reversal of impairment loss is restricted to the original cost of the asset.

2.7 **Non current assets (or disposal groups) held-for-sale**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit and loss account.

2.8 **Investments**

The Group's interest in jointly controlled entity has been accounted for using equity method in these consolidated financial statements.

2.9 **Financial assets**

2.9.1 **Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, 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 categorised 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. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

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 and ability to hold to maturity.

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

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

(Amounts in thousand)

2.9.2 **Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised 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 recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group 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 are subsequently carried at amortised cost using the effective interest method.

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

Changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity 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 recognised in the profit and loss account as part of other income. Dividends on available for sale equity instruments are recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

2.10 **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.11 **Financial liabilities**

Financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recognised initially at fair value less directly attributable transactions costs, if any, and subsequently measured at amortised cost using effective interest method.

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.

2.12 **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Group has a legally enforceable right to offset the recognised amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.13 **Derivative financial instruments and hedging activities**

Derivatives are recognised initially at fair value; attributable transaction cost are recognised in profit and loss account when incurred. Subsequent to initial recognition, derivatives are measured at fair values, and changes therein are

(Amounts in thousand)

accounted for as described below.

#### Cash flow hedges

Changes in fair value of derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedge item affects profit and loss account.

#### Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit and loss account.

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Further, the Holding Company has also issued a conversion option on IFC loan to Engro Fertilizers Limited, a Subsidiary Company. The fair values of various derivative instruments, the conversion option and other derivatives used for hedging purposes, are disclosed in note 14.

#### 2.14 Stores, spares and loose tools

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. For items which are slow moving and / or identified as surplus to the Group's requirements, adequate provision is made for any excess book value over estimated realisable value. The Group reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

#### 2.15 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material and certain purchased products in transit which are stated at cost (invoice value) plus other charges incurred thereon till the balance sheet date. Cost in relation to finished goods include applicable purchase cost and manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

Net realisable value signifies the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessarily to be incurred in order to make the sales.

#### 2.16 Trade debts and other receivables

These are recognised initially at fair value plus directly attributable transaction costs, if any and subsequently measured at amortised cost using effective interest method less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is charged to profit and loss account. Trade debts and other receivables considered irrecoverable are written-off.

#### 2.17 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows includes cash in hand and in transit, balance with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts / short term borrowings. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(Amounts in thousand)

#### 2.18 Share capital

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

#### 2.19 Employees' share option scheme

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

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

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

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

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

#### 2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### 2.21 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

#### 2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### 2.22.1 Current

The current income tax charge is based on the taxable income for the year calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(Amounts in thousand)

#### 2.22.2 Deferred

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### 2.23 Employees' housing subsidy scheme

Employees compensation expense under Housing Subsidy Scheme is recognized by the Group as an expense on a straight line basis over the vesting period with a corresponding credit to employee housing subsidy shown as long term liability in the balance sheet.

When an employee leaves the Group before the vesting period and after recognition of an employee compensation expense in the profit and loss account, employee compensation expense in the profit and loss account will be reversed equal to the amortized portion with a corresponding effect to employee housing subsidy in the balance sheet.

On expiry of the vesting period, amounts disbursed under the scheme will be set-off against the employee housing subsidy.

#### 2.24 Employee benefits

##### 2.24.1 Defined contribution plans

A defined contribution plan is the post - employment benefit plan under which a Group pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the profit and loss account when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

##### The Holding Company operates:

- a defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Holding Company and employees to the fund at the rate of 10% of basic salary; and
- a defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Holding Company to the fund at the rate ranging from 12.5% to 13.75% of basic salary.

Engro Fertilizers Limited and Engro Eximp (Private) Limited contributes in the aforementioned defined contribution plans, operated by the Holding Company.

Engro Foods Limited, Engro Polymer and Chemicals Limited, Engro PowerGen Limited and Avanceon Limited operate defined contribution provident funds for their permanent employees. Monthly contributions are made both by the respective companies and their employees to the funds at the rate of 10% of basic salary.

##### 2.24.2 Defined benefit plans

A defined benefit plan is the post-employment benefit plan other than the defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method, related details of which are

(Amounts in thousand)

given in note 43 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

Contributions require assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

The Holding Company operates defined benefit funded gratuity schemes for its management employees.

Annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Holding Company's employment.

Engro Fertilizers Limited and Engro Eximp (Private) Limited contributes to the aforementioned Funded defined benefit plan, operated by the Holding Company.

##### Engro Fertilizers Limited also operates:

- defined benefit funded pension scheme for its management employees.
- defined benefit funded gratuity schemes for its non-management employees.

The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme.

Actuarial gains on curtailment of defined benefit pension scheme (curtailed) is recognised immediately once the certainty of recovery is established.

Annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Engro Fertilizers Limited's employment.

##### Engro Foods Limited operates:

- "defined benefit funded gratuity plan for its permanent employees. The gratuity plan provides for a graduated scale of benefits dependent on the length of service of an employee on terminal date, subject to the completion of minimum qualifying period of service. Gratuity is based on employees' last drawn salary."

Actuarial gains and losses are recognized over the expected future services of current members, using the recommended approach under IAS 19 – Employee Benefits as determined by the actuary.

- defined benefit unfunded pension scheme for two of its management employees. Pension is calculated by multiplying last drawn pensionable salary, as per the Scheme, to the years of service.

##### Engro Polymer and Chemicals Limited operates:

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

(Amounts in thousand)

- defined benefit funded gratuity scheme for its management employees. The scheme provides gratuity based on employees' last drawn salary. Gratuity is payable on retirement, separation or death to ex-employees, or their spouses thereafter.
- defined benefit unfunded scheme for death in service gratuity for its permanent employees. Gratuity is payable on death of employee to surviving spouse and dependent children.

**Engro Powergen Limited operates:**

- defined benefit funded gratuity schemes for its management and non-management employees.

**Avanceon Limited operates:**

- defined benefit gratuity scheme for some of its employees in accordance with United Arab Emirates Federal Laws.

**2.24.3 Employees' compensated absences**

The Group accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

**2.25 Provisions**

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

**2.26 Foreign currency transactions and translation**

2.26.1 These financial statements are presented in Pakistan Rupees, which is the Group's functional and presentation 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.

2.26.2 The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

**2.27 Revenue recognition**

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

- Sales revenue is recognised when product is despatched to customers or services are rendered.

(Amounts in thousand)

- Income on deposits and other financial assets is recognised on accrual basis.
- Dividend income from investments is recognised when the Group's right to receive payment has been established.

Revenue from sale of electricity is recognised as follows:

- Capacity revenue based on the capacity made available; and
- Energy revenue based on the Net Electrical Output (NEO) delivered.
- Contract revenue and contract costs relating to long-term construction contracts are recognised as revenue and expenses respectively by reference to stage of completion of contract activity at the balance sheet date. Stage of completion of a contract is determined by applying 'cost-to-cost method'. Under cost-to-cost method, stage of completion of a contract is determined by reference to the proportion that contract cost incurred to date bears to the total estimated contract cost. When it is probable that contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract can not be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

**2.28 Borrowing costs**

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

**2.29 Research and development costs**

Research and development costs are charged to income as and when incurred, except for certain development costs which are recognised as intangible assets when it is probable that, the developed project will be a success and certain criteria, including commercial and technical feasibility have been met.

**2.30 Government grant**

Government grant that compensates the Group for expenses incurred is recognised in the profit and loss account on a systematic basis in the same period in which the expenses are recognised. Government grants are deducted in reporting the related expenses.

**2.31 Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Holding Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**2.32 Dividend and appropriation to reserves**

Dividends and reserve appropriations are recognized as a liability in the period in which these are approved.

**2.33 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 Holding Company that makes strategic decisions.



(Amounts in thousand)

### 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.

#### 3.1 Property, plant and equipment

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

#### 3.2 Exploration and evaluation expenditure

Exploration and evaluation expenditure are assessed on annual basis for possible impairment based on the estimated recoverable amount thereof.

#### 3.3 Biological assets

The fair values of biological assets – (Dairy livestock) is determined semi-annually by utilizing the services of an independent expert/valuer. These valuations are mainly based on market and livestock conditions existing at the end of each reporting period.

#### 3.4 Investments stated at fair value through profit and loss

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgment.

#### 3.5 Derivatives

The Group 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. The Group has calculated the fair value of conversion option on IFC loan using the option pricing model.

#### 3.6 Stock-in-trade and stores & spares

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

#### 3.7 Income Taxes

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

#### 3.8 Fair value of employee share options

The management has determined the fair value of options issued under the Employee Share Option Scheme at the grant date using Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 13.

#### 3.9 Provision for retirement and other service benefits 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 obligation and the underlying assumptions are disclosed in note 43.

#### 3.10 Impairment of financial assets

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

(Amounts in thousand)

### 4. PROPERTY, PLANT & EQUIPMENT

2011                      2010  
------(Rupees)-----

Operating assets, at net book value (note 4.1)

129,611,671              58,106,575

Capital work-in-progress

3,663,429                69,528,996

- Expansion and other projects (note 4.4)

1,234,589                1,076,577

- Capital spares (note 4.5)

134,509,689            128,712,148

(Amounts in thousand)

#### 4.1 Operating assets

	Land		Building		Pipelines	Plant and Machinery		Catalyst	Furniture fixture and equipments		Vehicles		Total		
	Freehold	Leasehold	Freehold	Leasehold		Owned	Leased		Owned	Leased	Owned	Leased		Owned	Leased
<b>As at January 1, 2010</b>															
Cost	472,523	319,068	2,528,030	775,763	471,334	29,795,425	12,946	429,715	824,665	22,698	827,086	48,551	36,527,804		
Accumulated depreciation	-	(60,287)	(473,727)	(128,541)	(81,803)	(8,467,538)	(4,471)	(302,061)	(470,985)	(15,929)	(302,441)	(40,948)	(10,348,731)		
Net book value	472,523	258,781	2,054,303	647,222	389,531	21,327,887	8,475	127,654	353,680	6,769	524,645	7,603	26,179,073		
<b>Year ended December 31, 2010</b>															
Opening net book value	472,523	258,781	2,054,303	647,222	389,531	21,327,887	8,475	127,654	353,680	6,769	524,645	7,603	26,179,073		
Amortization of revaluation surplus	-	(2,572)	-	(1,140)	3,355	(33,649)	-	-	-	-	-	-	(34,006)		
Additions (note 4.1.2 and 4.4)	17,591	86,791	3,213,225	38,495	1,272,706	29,650,431	-	56,123	210,094	3,581	474,324	7,786	35,031,147		
Disposals (note 4.3)															
Cost	-	(49,560)	(18,547)	-	-	(126)	-	-	(20,558)	-	(115,592)	(15,077)	(219,460)		
Accumulated depreciation	-	9,994	18,547	-	-	71	-	-	19,943	-	65,736	13,124	127,415		
	-	(39,566)	-	-	-	(55)	-	-	(615)	-	(49,856)	(1,953)	(92,045)		
Depreciation charge (note 4.2)	-	(9,373)	(205,543)	(19,012)	(54,158)	(2,340,253)	(2,630)	(31,740)	(129,802)	(5,223)	(172,408)	(7,452)	(2,977,594)		
Net book value	490,114	294,061	5,061,985	665,565	1,611,434	48,604,361	5,845	152,037	433,357	5,127	776,705	5,984	58,106,575		
<b>As at December 31, 2010</b>															
Cost	490,114	353,727	5,722,708	813,118	1,747,395	59,412,081	12,946	485,838	1,014,201	26,279	1,185,818	41,260	71,305,485		
Accumulated depreciation	-	(59,666)	(660,723)	(147,553)	(135,961)	(10,807,720)	(7,101)	(333,801)	(580,844)	(21,152)	(409,113)	(35,276)	(13,198,909)		
Net book value	490,114	294,061	5,061,985	665,565	1,611,434	48,604,361	5,845	152,037	433,357	5,127	776,705	5,984	58,106,575		
<b>Year ended December 31, 2011</b>															
Opening net book value	490,114	294,061	5,061,985	665,565	1,611,434	48,604,361	5,845	152,037	433,357	5,127	776,705	5,984	58,106,575		
Amortization of revaluation surplus	-	(2,572)	-	(1,140)	3,355	357	-	-	-	-	-	-	-		
Additions (note 4.1.2 and 4.4)	7,902	2,809	1,440,919	556,133	336,541	73,669,891	-	1,030,752	268,517	25,130	307,253	-	77,645,847		
Reclassifications															
Cost	-	-	-	-	101,634	(109,197)	-	-	61	-	7,502	-	-		
Accumulated depreciation	-	-	-	-	(6,129)	6,672	-	-	-	-	(543)	-	-		
	-	-	-	-	95,505	(102,525)	-	-	61	-	6,959	-	-		
Disposals (note 4.3)															
Cost	-	-	(950)	-	-	(1,405)	-	-	(13,786)	-	(152,521)	-	(168,662)		
Accumulated depreciation	-	-	439	-	-	852	-	-	12,845	-	96,381	-	110,517		
	-	-	(511)	-	-	(553)	-	-	(941)	-	(56,140)	-	(58,145)		
Write offs (note 4.3)															
Cost	-	-	-	-	-	(5,574)	-	-	-	-	-	-	(5,574)		
Accumulated depreciation	-	-	-	-	-	254	-	-	-	-	-	-	254		
	-	-	-	-	-	(5,320)	-	-	-	-	-	-	(5,320)		
Transferred to discontinued operations (note 19)															
Cost	(28,536)	-	(42,260)	-	-	(3,386)	-	-	(144,157)	(29,686)	(10,471)	-	(258,496)		
Accumulated depreciation	-	-	369	-	-	2,593	-	-	122,154	5,515	10,109	-	140,740		
	(28,536)	-	(41,891)	-	-	(793)	-	-	(22,003)	(24,171)	(362)	-	(117,756)		
Depreciation charge (note 4.2)	-	(10,100)	(294,737)	(50,741)	(93,740)	(4,905,950)	(4,582)	(181,344)	(187,273)	(5,365)	(219,714)	(5,984)	(5,959,530)		
Net book value	469,480	284,196	6,165,765	1,169,817	1,953,095	117,259,468	1,263	1,001,445	491,718	721	814,701	-	129,611,671		
<b>As at December 31, 2011</b>															
Cost	469,480	353,964	7,120,417	1,368,111	2,188,925	132,962,410	12,946	1,516,590	1,124,836	21,723	1,337,581	41,260	148,518,600		
Accumulated depreciation	-	(69,766)	(954,652)	(198,294)	(235,830)	(15,702,942)	(11,683)	(515,145)	(633,118)	(21,002)	(522,880)	(41,260)	(18,906,929)		
Net book value	469,480	284,196	6,165,765	1,169,817	1,953,095	117,259,468	1,263	1,001,445	491,718	721	814,701	-	129,611,671		
Annual rate of depreciation %	-	2 to 5	2.5 to 10	2.5	5	5 to 16.67	5 to 10	20 to 33.33	5 to 45	20	12 to 25	20			

(Amounts in thousand)

#### 4.1.1 Operating assets include:

- equipment costing Rs. 135,495 (2010: Rs. 135,469) having net book value of Rs. 79,604 (2010: Rs. 93,337) mounted on transport contractors' vehicles; and
- freezers and trikes held by third parties costing Rs. 825,002 (2010: Rs. 482,023), having a net book value of Rs. 621,164 (2010: Rs. 392,258).

4.1.2 Includes exchange loss capitalized amounting to Rs. 520,573 (2010: Rs. 294,000) pertaining to Engro Powergen Qadirpur Limited.

4.2 Depreciation charge for the year has been allocated as follows:

	2011	2010
	------(Rupees)-----	
Cost of sales (note 33)	5,279,946	2,634,394
Selling and distribution expenses (note 34)	185,916	100,553
Administrative expenses (note 35)	173,457	113,935
Capital work in progress (note 4.4)	320,211	128,712
	<u>5,959,530</u>	<u>2,977,594</u>

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

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
------(Rupees)-----					
<b>Building - Freehold</b>					
Negotiation	Ghulam Murtaza Nara Canal, District Rohri	950	439	511	490
Plant and machinery					
Assets written off		5,574	254	5,320	-
Items having net book value upto Rs.50 each		1,405	852	553	229
<b>Vehicles</b>					
By Company policy to existing/separating executives	Ahmad Naeem Aftab Pasha	900	661	239	225
	Ahmad Shakoore	1,466	1,100	366	367
	Amir Mahmud	1,389	304	1,085	1,107
	Asghar Naveed	1,389	260	1,129	1,129
	Askari Hazoor Syed	1,329	395	934	976
	Atif Aboobakar	900	591	309	225
	S. Attaullah Shah Bokhari	1,071	803	268	265
	Bilal Asad Kayani	1,329	478	851	813
	Dr.Amina Waheed	900	661	239	225
	Dr.Muhammad Sajid	1,359	382	977	1,359
	Faisal Shafiq	879	659	220	220
	Farman Ahmad Khan Lodhi	900	661	239	225
	Farooq M. Saleem	900	661	239	225
	Farooq Nazim Shah	1,500	1,055	445	375
	Hasan Akram	900	647	253	225
	Kashan M.Niazi	1,439	652	787	1,439
	Khalid Shamsher	900	675	225	225
	Balance carried forward	19,450	10,645	8,805	9,625

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------(Rupees)-----			
Balance brought forward		19,450	10,645	8,805	9,625
M.Azhar Malik		1,329	498	831	831
M.Khurram Farooq		1,389	347	1,042	1,389
M.Minhajul Haq		900	661	239	225
Mahmood Siddiqui		1,329	395	934	893
Muhammad Majid Latif		1,060	547	513	464
Mohammad Ali Khadim		1,500	1,078	422	375
Mudassar Y. Rathore		1,500	1,125	375	375
Mudassir Siddiqui		1,329	519	810	1,329
Muhammad Mudassir		879	659	220	220
Muzaffar A. Khan		1,389	347	1,042	1,059
Rais Azhar		900	661	239	225
S.Muhammad Mustafa		1,401	285	1,116	1,056
Syed Abul Fazal Rizvi		1,500	1,048	452	375
Syed Hussain Abid		900	647	253	225
Syed Mohammad Ali		1,500	1,078	422	375
Wasim Khalid		900	647	253	225
Zaid Bin Zeeshan		1,389	195	1,194	1,236
Azeem Abro		599	539	60	120
Adnan Rafiq		537	84	453	500
Amir Rauf		50	34	16	20
Fahad		600	495	105	245
Farrukh Waseem		54	49	5	11
Fatima Ahmad		1,289	524	765	806
Hamza Bin Zahid Lodhi		632	452	180	202
Hashim Ali		51	38	13	18
Hassan Zeb		600	540	60	120
Ijaz Ali		600	540	60	120
Irfan Ahmed		57	51	6	11
Kanwer Anwer Saeed		1,500	1,125	375	516
Khalid Ur Rehman		57	51	6	11
M. Abbas Hayat		600	540	60	120
Malik M. Shoaib		57	51	6	11
Malik Yasir Khan		632	403	229	270
Abrar		408	367	41	81
Muhammad Hussain		57	51	6	11
Muhammad Yahya		63	15	48	53
Naveed Shahid		632	403	229	286
Omayer Arshad		1,300	305	995	995
Saad Kamran		600	529	71	120
Saeed Ahmed		51	39	12	23
Sajjad Hussain		612	528	84	181
Sanam Lodhi		603	542	61	131
Sharjeel Hussain		503	387	116	151
Sheikh Wajid		59	53	6	12
Sohaib Akhiyar		57	51	6	11
Syed Ali Akbar		6,750	2,109	4,641	4,649
Tehseen Ullah		408	367	41	88
Umar Farooq Shahid		449	288	161	206
Usman		504	435	69	102
Waqas Azhar		899	675	224	260
Farhan Ansari		900	661	239	225
Ziauddin		900	633	267	239
Mohammed Ali Ansari		1,500	1,031	469	375
Rizwan Ahmed Taqi		900	647	253	225
Balance carried forward		47,164	26,369	20,795	22,402

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------(Rupees)-----			
Balance brought forward		47,164	26,369	20,795	22,402
Farrukh Iqbal Qureshi		1,500	938	563	375
Zia Naeem Siddiqui		1,500	984	516	375
Syed Nayyar Iqbal Raza		1,500	1,031	469	375
Adeeb Ahmed Malik		900	581	319	281
Nasir Khaliq Qureshi		900	647	253	225
Zafar Ali		900	619	281	225
Abdul Qayoom Shaikh		900	506	394	309
Syed Muhammad Ali		893	600	293	223
Jahanzeb Dal		900	661	239	225
Usama Hassan Siddiqui		900	591	309	225
Athar Abrar Khawaja		900	534	366	225
Salima Hemani		1,199	506	693	599
Tahir Masood		1,199	487	712	563
Khurram Abdullah		1,269	416	853	852
Ather Zia		1,239	484	755	679
Syed kamal Ahmed		1,269	397	872	814
Shafaq Maqsood		1,300	223	1,077	1,015
Syed Muhammad Kazim Raza		1,325	248	1,077	1,036
Kaleem Asghar		1,354	21	1,333	1,227
Khalid Mansoor		4,482	4,034	448	3,000
Shahid Mehmood		2,485	1,863	622	688
Sohail Ahmed		1,079	523	556	612
Kamran Kamal		1,439	742	697	757
Asif Tajik		2,550	1,925	625	625
Asad Umar		2,750	2,125	625	625
Andalib Alavi		2,750	2,125	625	625
Abdullah Uraizee		884	663	221	557
Aftab Ahmed		555	555	-	467
Aftab Ahmed		900	647	253	1,067
Aftab Ahmed		560	513	47	457
Aftab Ahmed		885	885	-	613
Aftab Ahmed		555	500	55	616
Asghar Khan		1,482	1,358	124	800
Faiz Gul		21	21	-	30
Farooq Raza		555	500	55	360
Farrukh Zindani		879	733	146	528
Farrukh Zindani		605	545	60	412
Farrukh Zindani		555	509	46	404
Farrukh Zindani		555	509	46	373
Mudassir Ali		605	526	79	450
Muhammad Akram Khan		555	500	55	533
Muhammad Dawood		898	883	15	669
Muhammad Dawood		900	708	192	645
Muhammad Dawood		900	810	90	630
Muhammad Dawood		555	527	28	470
Muhammad Iltifat		555	555	-	421
Muhammad Iltifat		555	555	-	366
Muhammad Iltifat		555	499	56	411
Muhammad Iltifat		555	537	18	410
Muhammad Nawaz		555	499	56	382
Muhammad Safdar Murad		899	764	135	716
Noman Ahmed Siddiqui		915	755	160	1,200
S. Mohammad Saeed		555	499	56	414
Sh. M. Wasseemuddin		555	499	56	371
Balance carried forward		58,485	40,865	17,621	31,552

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------(Rupees)-----			
Balance brought forward		58,485	40,865	17,621	31,552
Shoaib		555	555	-	356
Sultan Jan Niazi		849	764	85	737
Sultan Jan Niazi		836	808	28	787
Sultan Jan Niazi		849	835	14	714
Sultan Jan Niazi		836	808	28	886
Sultan Jan Niazi		555	527	28	513
Sultan Jan Niazi		879	659	220	878
Syed Ammar Faheem		735	603	132	540
Waris Ali Gilani		892	681	211	614
Wasim Mirza		610	549	61	553
Wasim Mirza		1,015	571	444	1,043
Yasir Khan		1,099	989	110	672
Zahid Qadri		900	732	168	858
Zahid Qadri		900	675	225	789
Zahid Qadri		850	850	-	559
Zubair Ahmed Memon		769	769	-	731
Zubair Ahmed Memon		795	795	-	616
Saeed-ur-Rehman		626	626	-	553
Zahid Qadri		740	740	-	620
Imran Ahmed		499	499	-	419
Zahid Qadri		449	449	-	390
Anis Ahmed Khan		774	774	-	725
Saeed-ur-Rehman		555	444	111	489
Sultan Jan Niazi		1,039	747	292	586
Insurance claims	EFU General Insurance Ltd.	4,954	1,040	3,914	4,714
	Jubilee Insurance General Ltd.	3,863	1,013	2,850	3,379
		152,521	96,381	56,140	87,300
Furniture, fixtures & equipment	EFU General Insurance Ltd.	1,003	583	420	547
Insurance claims	Imran	441	265	176	86
Sale through bid	Jahanghir	206	19	187	76
Items having net book value upto Rs.50 each		12,136	11,978	158	1,535
		13,786	12,845	941	2,244
		174,236	110,771	63,465	90,263
2011		174,236	110,771	63,465	90,263
2010		219,460	127,415	92,045	413,880

(Amounts in thousand)

## 4.6 Capital work in progress - Expansion and other projects

	Plant and machinery	Building & civil works including pipelines	Furniture, fixture and equipment	Advances to suppliers	Other ancillary costs (note 4.4.3)	Total
	------(Rupees)-----					
<b>Year ended December 31, 2010</b>						
Balance as at January 1, 2010	63,842,649	7,734,725	192,195	293,243	12,118,732	84,181,544
Additions during the year	8,642,098	3,624,262	386,819	478,431	8,453,087	21,584,697
Reclassifications	(467,615)	2,063,379	(14,355)	58,578	(1,639,987)	-
Transferred to						
- operating assets (note 4.1)	(26,573,208)	(4,294,161)	(213,540)	(472,863)	(3,309,084)	(34,862,856)
- intangible assets (note 7)	(30,890)	-	(50,605)	(138,578)	-	(220,073)
- stores and spares	(1,154,316)	-	-	-	-	(1,154,316)
<b>Balance as at December 31, 2010</b>	<b>44,258,718</b>	<b>9,128,205</b>	<b>300,514</b>	<b>218,811</b>	<b>15,622,748</b>	<b>69,528,996</b>
<b>Year ended December 31, 2011</b>						
Balance as at January 1, 2011	44,258,718	9,128,205	300,514	218,811	15,622,748	69,528,996
Additions during the year	6,623,316	1,316,190	291,250	358,011	2,683,152	11,271,919
Reclassifications	24,489,176	(7,356,096)	(122,563)	(179,217)	(16,831,300)	-
Transferred to						
- operating assets (note 4.1)	(74,213,791)	(2,325,649)	(261,685)	(296,987)	-	(77,098,112)
- intangible assets (note 7)	-	-	(33,561)	(5,813)	-	(39,374)
- stores and spares	-	-	-	-	-	-
<b>Balance as at December 31, 2011</b>	<b>1,157,419</b>	<b>762,650</b>	<b>173,955</b>	<b>94,805</b>	<b>1,474,600</b>	<b>3,663,429</b>

4.4.1 During the year, Engro Fertilizers Limited (EFL), a subsidiary company, declared commencement of commercial production effective June 24, 2011 of its Urea Expansion project 'Enven Plant', adjacent to existing Daharki Plant. Accordingly, EFL transferred costs related thereto aggregating to Rs. 71,335,320 to operating assets in the year which is in addition Rs. 11,274,907 capitalized in previous years bringing the total current cost to Rs. 82,610,228. The capacity of the Enven Plant is 1.3 million tons of urea per annum. The trial production sales credited to the cost of Enven Plant amounted to Rs. 2,526,330. Other ancillary cost transferred to operating assets during the year includes borrowing costs amounting to Rs. 13,942,555. EFL ceased capitalization of borrowing costs of the main Enven Plants on April 30, 2011 (the date when substantially all the activities necessary to prepare the main Enven plants were completed i.e. physical construction) except for the borrowing cost on certain efficiency units which were completed during June 2011. Borrowing costs incurred subsequently have been expensed. Other ancillary cost also includes depreciation and amortization, salaries, wages and benefits, legal and professional charges etc.

4.4.2 During the year, Engro Foods Supply Chain (Private) Limited (EFSC), a subsidiary of Engro Eximp (Private) Limited commenced commercial production of its milling unit, drying boiler and additional drying unit and transferred costs related thereto aggregating to Rs. 1,918,114 to operating assets. The ancillary and other related costs capitalized amounts to Rs. 198,056 which mainly comprises of salaries, wages and other benefits, travelling, legal and professional charges.

(Amounts in thousand)

4.4.3 The ancillary costs includes net borrowing cost of Rs. 13,942,555 (2010: Rs. 11,330,245) capitalized at borrowing rates ranging from 13.37% to 17.10% (2010: 11.52% to 17.22%). The ancillary costs, other than net borrowing costs and storages & handling cost, capitalized include depreciation, amortization, salaries, wages and benefits, legal and professional charges, etc. Upon aforementioned commencement of commercial production and transfer of cost from capital work-in-progress to operating assets, the related ancillary cost has also been allocated to plant and machinery, pipelines and building & civil work in their respective cost ratio.

#### 4.5 Capital spares

These mainly include Rs. 393,652 (2010: Rs. 318,110) and Rs. 840,936 (2010: Rs. 758,466) in respect of Engro Fertilizers Limited (Enven Plant) and Engro Powergen Qadirpur Limited (Power Plant) respectively.

### 5. EXPLORATION AND EVALUATION EXPENDITURE

	2011 ------(Rupees)-----	2010
Consultancy charges	263,324	259,982
Salaries, wages and staff welfare	86,299	45,023
Travelling expense	19,151	15,378
Purchased services	17,344	7,303
Rent, security and accommodation expenses	24,249	13,310
Subscription for intellectual data	5,881	5,947
Fees charged by GoS/SCA under MoU	1,452	1,452
Exploration licence fees and other related charges	4,584	2,720
Accumulated depreciation	4,518	1,254
Other expenses	5,683	3,917
	<u>432,485</u>	<u>356,286</u>

### 6. BIOLOGICAL ASSETS

Dairy livestock (note 6.1)		
- mature	250,339	257,537
- immature	243,960	164,066
	<u>494,299</u>	<u>421,603</u>
Crops - feed stock	2,510	6,690
	<u>496,809</u>	<u>428,293</u>

#### 6.1 Reconciliation of carrying amounts of livestock

Carrying amount at the beginning of the year	421,603	434,906
Add:		
- Purchases during the year	-	40,830
- Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical / price changes	90,830	14,309
Less: Decreases due to deaths / disposals	(18,134)	(68,442)
Carrying amount at the end of the year, which approximates the fair value	<u>494,299</u>	<u>421,603</u>

(Amounts in thousand)

6.2 As at December 31, 2011, Engro Foods Limited (EFL), a subsidiary company, held:

- 1,593 (2010: 1,476) mature assets able to produce milk and 1,325 (2010: 1,035) immature assets that are being raised to produce milk in the future. During the year, EFL produced approximately 5,679,360 litres (2010: 5,273,854 litres) of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 270,042 (2010: Rs. 236,827), determined at the time of milking.
- 3 (2010: 3) mature Bulls and 120 (2010: 77) immature male calves. Mature bulls are used for insemination and subsequent disposal at the end of their inseminating life.

6.3 The valuation of dairy livestock as at December 31, 2011 has been carried out by an independent valuer. In this regard, the valuer examined the physical condition of the livestock in October 2011, assessed the key assumptions and estimates and also relied on representations made by EFL as at December 31, 2011. Further, in the absence of an active market of the EFL's dairy livestock in Pakistan, market and replacement values of similar livestock from active markets in USA, Germany, Argentina and Australia have been used as basis of valuation model by the independent valuer. Mature bulls and immature male calves were not included in the fair valuation due to the insignificant value in use.

(Amounts in thousand)

## 7 INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilization	Development cost	Brand	Goodwill	Total
	------(Rupees)-----					
<b>As at January 1, 2010</b>						
Cost	192,696	102,312	6,000	-	419,912	720,920
Accumulated amortization	(128,340)	-	(6,000)	-	(1,222)	(135,562)
Net book value	64,356	102,312	-	-	418,690	585,358
<b>Year ended December 31, 2010</b>						
Opening net book value	64,356	102,312	-	-	418,690	585,358
Adjustment of exchange revaluation	5	-	-	-	119,771	119,776
Additions at cost	218,022	-	-	-	-	218,022
Write-off						
Cost	(287)	-	-	-	-	(287)
Accumulated amortisation	271	-	-	-	-	271
	(16)	-	-	-	-	(16)
Adjustment of exchange revaluation	(1)	-	-	-	-	(1)
Amortization charge (note 7.1)	(45,816)	-	-	-	-	(45,816)
Closing net book value	236,550	102,312	-	-	538,461	877,323
<b>As at December 31, 2010</b>						
Cost	410,435	102,312	6,000	-	539,683	1,058,430
Accumulated amortization	(173,885)	-	(6,000)	-	(1,222)	(181,107)
Net book value	236,550	102,312	-	-	538,461	877,323
<b>Year ended December 31, 2011</b>						
Opening net book value	236,550	102,312	-	-	538,461	877,323
Adjustment of exchange revaluation	-	-	-	-	16,181	16,181
Additions at cost (note 7.2)	71,946	-	-	376,919	43,757	492,622
Impairment charge (note 19)	-	-	-	-	(554,642)	(554,642)
Transferred to discontinued operations (note 19)						-
Cost	(23,869)	-	(6,000)	-	-	(29,869)
Accumulated amortisation	9,582	-	6,000	-	-	15,582
	(14,287)	-	-	-	-	(14,287)
Amortization charge (note 7.1)	(76,738)	(2,656)	-	-	-	(79,394)
Closing net book value	217,471	99,656	-	376,919	43,757	737,803
<b>As at December 31, 2011</b>						
Cost	458,512	102,312	-	376,919	44,979	982,722
Accumulated amortization	(241,041)	(2,656)	-	-	(1,222)	(244,919)
Net book value	217,471	99,656	-	376,919	43,757	737,803

(Amounts in thousand)

7.1 Amortization charge for the year has been allocated as follows:

	2011	2010
	------(Rupees)-----	
Cost of sales (note 33)	7,332	4,166
Selling and distribution expenses (note 34)	54,213	26,412
Administrative expenses (note 35)	13,813	7,120
Capital work in progress (note 4.4)	4,036	8,118
	79,394	45,816

7.2 During the year, on May 6, 2011, Engro Foods Canada Limited (EFCL), a subsidiary of Engro Foods Netherlands B.V., acquired the asset of Al Safa Halal Inc. and Al Safa Halal Limited, as specified in the respective asset purchase agreements. Such assets mainly comprise of the brand 'Al Safa' a halal meat business engaged in supplying variety of packaged halal food across North America.

The aforementioned acquisition has also given rise to Goodwill amounting to Rs. 43,757 representing excess cost paid over and above the fair value of assets acquired at the date of acquisition.

## 8 LONG TERM INVESTMENTS

### Unquoted

Joint venture company - Engro Vopak Terminal Limited (EVTL) - (note 8.1 to 8.3)

	2011	2010
Joint venture company - Engro Vopak Terminal Limited (EVTL) - (note 8.1 to 8.3)	1,711,692	509,505
Associated companies		
- Agrimall (Private) Limited (note 8.4)	-	-
- Arabian Sea Country Club Limited 500,000 Ordinary shares of Rs. 10 each	5,000	5,000
	1,716,692	514,505

### 8.1 Details of Investment in Joint Venture companies

#### Engro Vopak Terminal Limited

At beginning of the year  
Add: Share of income after tax for the year  
Less:  
- Dividend received during the year  
- Dividend receivable

	2011	2010
At beginning of the year	509,505	494,780
Add: Share of income after tax for the year	1,742,187	554,725
Less:		
- Dividend received during the year	540,000	450,000
- Dividend receivable	-	90,000
	1,711,692	509,505

8.2 As at December 31, 2011, the Holding Company held 45,000,000 ordinary shares (2010: 45,000,000 ordinary shares) of EVTL representing 50% of equity held.

(Amounts in thousand)

8.3 The summary of financial information of EVTL as of December 31, is as follows:

	2011	2010
	------(Rupees)-----	
- Total assets	5,407,149	5,400,154
- Total liabilities	1,948,971	4,346,350
- Total equity	3,458,178	1,053,804
- Total revenue	2,286,303	2,302,747
- Profit for the year	3,484,374	1,109,449

8.4 During the year, the Holding Company has disposed off its entire share holding in the paid-up capital of Agrimall (Private) Limited, which was transferred free of cost to it, at a consideration of Rupee one through a Share Purchase Agreement.

## 9 LONG TERM LOANS AND ADVANCES

- Considered good

### Long term loans

Executives (note 9.1 and 9.2)

Other employees (note 9.2 and 9.3)

Less: Current portion shown under current assets (note 15)

Others

	2011	2010
	------(Rupees)-----	
Executives	253,956	387,977
Other employees	53,330	264,452
	307,286	652,429
Less: Current portion	154,602	472,366
	152,684	180,063
Others	12,569	13,395
	165,253	193,458

### 9.1 Reconciliation of the carrying amount of loans and advances to executives:

Balance as at January 1

Disbursements

Repayments/amortization

Balance as at December 31

Balance as at January 1	387,977	386,824
Disbursements	166,200	135,859
Repayments/amortization	(300,221)	(134,706)
Balance as at December 31	253,956	387,977

### 9.2 Long term loans include:

- interest free services incentive loans to executives of Rs. 88,992 (2010: Rs. 71,782) repayable in equal monthly installments over a three years period or in one lump sum payment at the end of such period;
- disbursements to executives under housing subsidy scheme amounting to Rs. 9,803 (2010: Rs. 182,910);
- advances of Rs. 49,924 (2010: Rs. 45,802) and Rs. 8,964 (2010: Rs. 8,231) to employees for car earn out assistance and house rent advance respectively; and

(Amounts in thousand)

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

9.3 Includes interest free loans given to workers of Rs. 25,063 (2010: Rs. 49,446) pursuant to Collective Labour Agreement and disbursement to workers under housing subsidy scheme amounting to Rs. 10,923 (2010: Rs. 186,124).

9.4 The maximum amount outstanding at the end of any month from the executives of the Group aggregated Rs. 293,635 (2010: Rs. 398,654).

9.5 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.

## 10 STORE, SPARE AND LOOS TOOLS

2011 2010  
------(Rupees)-----

Consumable stores

Spares & loose tools, including in transit (note 10.1)

Less: Provision for surplus and slow moving items

Consumable stores	603,784	441,432
Spares & loose tools	5,846,697	4,537,027
	6,450,481	4,978,459
Less: Provision	106,486	67,518
	6,343,995	4,910,941

10.1 Includes spares for the Enven Plant amounting to Rs. 3,003,490 (2010: Rs. 2,297,695). These also include left over items amounting to Rs. 211,013 transferred subsequent to capitalization of the Enven Plant.

## 11 STOCK-IN-TRADE

2011 2010  
------(Rupees)-----

Raw materials and packing materials (note 11.1)

Unprocessed rice (note 11.2)

Fuel stock (note 11.3)

Work-in-process

Finished goods:

- own manufactured product

- purchased product (note 11.1 and 11.4)

Less: Provision for slow moving inventory

Raw materials and packing materials	4,487,796	3,446,063
Unprocessed rice	2,508,999	1,701,354
Fuel stock	424,240	471,270
Work-in-process	152,947	53,313
Finished goods:		
- own manufactured product	2,351,888	1,724,312
- purchased product	1,677,981	1,482,939
Less: Provision	-	(35,574)
	4,029,869	3,171,677
	11,603,851	8,843,677

(Amounts in thousand)

11.1 **This includes:**

- inventories in transit amounting to Rs. 143,877 (2010: Rs. 1,540,653);
- carrying value of PVC resin in respect of finished goods of Engro Polymer and Chemicals Limited, net of realizable value reduction of Rs. 14,931 (2010: Rs. 17,162) and write off of 87 m tons of PVC resin amounting to Rs. 4,965 (2010: 89 m tons of PVC resin amounting to Rs. 4,386);
- finished goods of Engro Foods Limited carried at net realizable value amounting to Rs. 32,611 (2010: Rs. 30,731);
- inventories held at storage facilities of third parties amounting to Rs. 508,735 (2010: Rs. 319,547); and
- inventories held at storage facilities of following related parties:

	2011	2010
	------(Rupees)-----	
Engro Vopak Terminal Limited	717,858	601,050
Dawood Hercules Chemicals Limited	6,387	4,425
	<u>724,245</u>	<u>605,475</u>

11.2 "Includes unprocessed rice in possession of third party contractors amounting to Rs. 1,074,401 (2010: Rs. 1,484,674) for processing on behalf of Engro Eximp (Private) Limited."

11.3 Represents High Speed Diesel (HSD) purchased by Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited, for operating the power plant in case supply of gas is unavailable. As per clause (b) of section 5.14 of the Power Purchase Agreement, EPQL is required to maintain HSD at a level sufficient for operating the power plant, at full load for seven days.

11.4 These are net of provision and write-offs amounting to Rs. 23,283 (2010: Rs. 29,691) and Rs. 200 (2010: Rs. 9,380) respectively.

## 12 TRADE DEBTS

	2011	2010
	------(Rupees)-----	
<b>Considered good</b>		
- secured (note 12.1)	5,938,797	4,755,732
- unsecured	275,846	383,017
	6,214,643	5,138,749
<b>Considered doubtful</b>	12,717	131,784
	6,227,360	5,270,533
Provision for impairment (note 12.2)	12,717	139,125
	<u>6,214,643</u>	<u>5,131,408</u>

12.1 Trade debts are normally secured by way of bank guarantees and letters of credit from customers except for trade debts of Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited, amounting to Rs. 4,442,256 (2010: Rs. 2,965,430), which are secured by a guarantee from the Government of Pakistan under the Implementation Agreement. Trade Debts of EPQL include an amount of Rs. 47,246 (2010: Rs. 527,999) which will be invoiced after the revised tariff and quarterly indexations have been notified in the Official Gazette of Government of Pakistan.

(Amounts in thousand)

12.2 As at December 31, 2011, trade debts aggregating to Rs. 12,717 (2010: Rs. 139,125) were impaired and provided for, which are past due for more than six months.

12.3 The movement in provision during the year is as follows:

	2011	2010
	------(Rupees)-----	
Balance as at January 1	139,125	40,507
Add: Provision made during the year and recognised in selling and distribution expenses (note 34)	-	130,972
Less:		
- Balances reversed / written off	(653)	(32,354)
- Transferred to discontinued operations (note 19)	(125,755)	-
Balance as at December 31	<u>12,717</u>	<u>139,125</u>

12.4 As at December 31, 2011, trade debts aggregating to Rs. 3,301,958 (2010: Rs. 1,795,870) were past due but not impaired. These relate to various customers for which there is no recent history of default. The ageing analysis of these trade debts is as follows:

	2011	2010
	------(Rupees)-----	
Upto 3 months	2,889,102	1,640,533
3 to 6 months	382,795	57,701
More than 6 months	30,061	97,636
	<u>3,301,958</u>	<u>1,795,870</u>

## 13 EMPLOYEES' SHARE OPTION SCHEME

### 13.1 Engro Corporation Limited (ECL), the Holding Company

Under the Employee Share Option Scheme (the Scheme) of ECL, senior employees who are critical to the business operations are granted options to purchase 5 million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Compensation Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant for employees who were granted shares on or before June 30, 2008 and ended on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012.

For options granted after June 30, 2008, the vesting period will end such number of days after December 31, 2010 as is equal to the number of days between the date the initial option letters were issued and the date of grant of the latter options. However, the latter options can also only be exercised upto December 31, 2012.

In 2008, the grant date was changed to August 23, 2007, from the date approved in the original scheme. Further, consequent to the issue of right shares in 2008 and 2010, the entitlements were increased to 5.5 million ordinary shares and 7.7 million ordinary shares respectively and the exercise price was adjusted to Rs. 267.73 per share and Rs. 205.52



(Amounts in thousand)

per share respectively. These changes have been duly approved by the Securities and Exchange Commission of Pakistan (SECP). The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in these consolidated financial statements.

As at December 31, 2011, share options of 1,135,909 (2010: 1,135,909) were outstanding. The above mentioned share options do not include the effect of bonus and right shares which makes the total number of share options outstanding at the end of the year to 2,309,076 (2010: 1,924,230). Further, consequent to issue of bonus shares, the exercise price was also adjusted to Rs. 155.70 from Rs. 186.84 per share duly approved by SECP. However, such adjustment has no effect on the fair value of share options recognized in the financial statements.

### 13.2 Engro Fertilizers Limited (EFL)

Consequent to the demerger of the fertilizer business of ECL, the employees transferred to EFL and holding share options of the Holding Company were, on surrender thereof, granted share options under a new Employee Share Option Scheme (the Scheme) of EFL. Under the Scheme, employees were granted options to purchase 4,937,100 ordinary shares of the Engro Fertilizers Limited at an exercise price of Rs. 98 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee are the same as the number of options of the Holding Company surrendered by them. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period for employees who were initially granted options on or before June 30, 2008 in the Holding Company, has started from January 1, 2010 and has ended on December 31, 2010, whereafter these options can be exercised within a period of two years ending December 31, 2012.

For options which were initially granted by the Holding Company after June 30, 2008, the vesting period will end such number of days after December 31, 2010 as is equal to the number of days between the date the initial option letters were issued and the date of grant of the later options by the Holding Company. However, the later options can also only be exercised up to December 31, 2012.

As at December 31, 2011, share options of 4,890,000 (2010: 4,914,000) were outstanding. The above mentioned share options do not include the effect of bonus shares issued in the fourth quarter of 2010, which makes the total number of share options outstanding at the end of the current year equal to 17,607,240. Further, consequent to issue of bonus shares, the exercise price was also adjusted to Rs. 27.22 per share, duly approved by SECP. However, such adjustment has no effect on the fair value of share options recognized in these consolidated financial statements.

### 13.3 Engro Polymer and Chemicals Limited (EPCL)

The Employees' Share Option Scheme (the Scheme) of EPCL, the subsidiary company, was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the Scheme, senior employees who were considered critical to the business operations were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to how critical an employee was considered to the business and his abilities, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ended on December 31, 2009, whereafter the options can be exercised within a period of two years. Further, employees who joined EPCL by October 31, 2008 and those promoted to the eligible employee grade by the same date have also been granted options on similar terms. The exercise period under the Scheme expired on December 31, 2011, due to which all outstanding share options have lapsed.

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

(Amounts in thousand)

the Scheme was originally approved.

During 2010, EPCL adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and had increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issuance of right shares during the year, which has been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options recognised in these consolidated financial statements.

### 13.4 Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited

The Employees' Share Option Scheme (the Scheme) of EPQL, was approved by its shareholders in their Extraordinary General Meeting (EGM) held on April 18, 2008. According to the scheme senior employees who are critical to the business operations were to be granted options to purchase 9.3 million newly issued ordinary shares. The options are exercisable in 2011 and 2012 at the exercise prices of Rs. 15 per share and Rs. 17 per share respectively.

The number of options granted has been calculated in accordance with the criticality of employee to the business and their ability, subject to the approval of the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant and ended on December 31, 2010, where after these options can be exercised within a period of two years. Employees who joined by June 30, 2009 and those who were promoted by the same date, were also granted options. However, the length of vesting period is the same as for the initial recipients of options.

During the year, EPQL has also allocated additional options to certain eligible employees at exercise price of Rs. 17 per share and last date for exercise of option is December 31, 2012. Vesting period for these additional options is one year from the date of grant of options.

As at December 31, 2011, share options of 2,700,000 (2010: 6,000,000) were outstanding.

### 13.5 Engro Foods Limited (EFL)

The Employee's Share Option Scheme (the Scheme) of EFL, a subsidiary company, was approved by the shareholders of EFL, in their meeting held on October 8, 2007, for granting of options to its certain eligible critical employees upto 21 million new ordinary shares. The Scheme was approved by the SECP on July 10, 2008 (the grant date).

Under the Scheme, vesting period commenced from the date of grant and ended on December 31, 2010. Those eligible employees who joined EFL after the date of grant but before December 31, 2008 are also entitled to these options, however, their vesting period will commence when they attained the right to these options and will comprise of the same number of days as the vesting period of all other eligible employees. The maximum number of options to be issued to an eligible employee is for 2.5 million ordinary shares. The options are exercisable within 4 years in 2011, 2012, 2013 and 2014 at the exercise prices of Rs. 17 per share, Rs. 19 per share, Rs. 21 per share and Rs. 23 per share respectively. During the year, 3,788,855 ordinary shares at Rs. 17 per share were issued to employees who exercised their share options under the Scheme.

(Amounts in thousand)

### 13.6 Deferred employee compensation expense

	2011	2010
	------(Rupees)-----	
Balance as at January 1	4,829	100,461
Options issued during the year	1,800	59,878
Options lapsed due to employee resignation	(276)	(69,103)
Amortisation for the year	(5,367)	(86,407)
Balance as at December 31	986	4,829
Less: Current portion shown under current assets	(986)	(4,829)
Long term portion of deferred employee compensation expense	-	-

### 13.7 Employee share option compensation reserve

Balance as at January 1	162,455	318,242
Add: Options issued during the year	1,800	59,878
Less: Options lapsed due to employee resignation	(17,975)	(215,665)
Balance as at December 31	146,280	162,455

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

	Holding Company	Subsidiary Companies			
	Engro Corporation Limited	Engro Fertilizers Limited	Engro Polymer and Chemicals Limited	Engro Foods Limited	Engro Powergen Qadirpur Limited
Fair value of the share options at grant date	Rs. 65.86	Rs. 11.94	Rs. 1.86	Nil	Rs. 1.29
Share price at grant date	Rs. 220	Rs. 87.61	Rs. 18	Rs. 5.61	Rs. 9.90
Exercise price	Rs. 277	Rs. 98	Rs. 22	Rs. 17	Rs. 15
Annual volatility	34.54%	41.64%	15.13%	10%	30.19%
Risk free rate used	10.77%	12.21%	10.12%	14%	14.20%

(Amounts in thousand)

## 14 DERIVATIVE FINANCIAL INSTRUMENTS

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Conversion option on IFC loan	-	63,082	-	367,442
Cash flow hedges:				
Foreign exchange forward contracts (note 14.1)	239,184	48,250	3,148	234,055
Foreign exchange option contracts	-	-	-	12,464
Interest rate swaps (note 14.2)	-	1,043,507	-	1,232,022
	239,184	1,154,839	3,148	1,845,983
Less: Current portion shown under current assets / liabilities				
Conversion option on IFC loan	-	-	-	367,442
Cash flow hedges:				
Foreign exchange forward contracts	239,184	48,250	3,148	234,055
Foreign exchange option contracts	-	-	-	12,464
Interest rate swaps	-	404,375	-	426,868
	239,184	452,625	3,148	673,387
	239,184	452,625	3,148	1,040,829
	-	702,214	-	805,154

### 14.1 Foreign exchange forward contracts

14.1.1 Engro Fertilizers Limited (EFL), a subsidiary company, entered into various forward exchange contracts to hedge its foreign currency exposure. As at December 31, 2011, EFL had forward exchange contracts to purchase Euros Nil (2010: Euros 2,698) at various maturity dates matching the anticipated payment dates for commitments with respect to the urea expansion project. The fair value of these contracts, as at December 31, 2011 is Nil (2010: Rs. 2,638 positive).

14.1.2 EFL also entered in various USD:PKR forward contracts to hedge its foreign currency exposure. As at December 31, 2011, EFL had forward contracts to purchase USD 222,214 (2010: USD 85,000) at various maturity dates to hedge its foreign currency exposure, primarily loan obligations. The net fair value of these contracts as at December 31, 2011 is positive and amounted to Rs. 163,429 (2010: Rs. 234,055 negative).

14.1.3 Engro Eximp (Private) Limited (EEL), a subsidiary company, entered into various USD:PKR forward exchange contracts to hedge its foreign currency exposure. As at December 31, 2011, EEL had forward exchange contracts to purchase \$ 81,286 (2010: Nil) at various maturity dates. The fair value of these contracts, as at December 31, 2011 is positive and amounted to Rs. 55,471 (2010: Nil) matching the anticipated payment dates for liabilities with respect to import of fertilizers.

14.1.4 Engro Foods Limited (EFL), a subsidiary company, entered into various foreign currency forward contracts with banks to hedge its foreign currency exposure. These contracts have maturity dates approximately matching with the anticipated payment dates for commitments with respect to import of plant and machinery. The fair value of the outstanding forward contracts as at December 31, 2011 is negative and amounts to Rs. 27,966 (2010: Rs. 510 positive).

### 14.2 Interest rate swaps

14.2.1 Engro Fertilizers Limited (EFL), a subsidiary company, entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of USD 109,500 (2010: USD 150,000) amortising up to September 2014. Under the swap agreement, EFL would receive USD-LIBOR from Citibank N.A Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swaps as at December 31, 2011 is negative and amounted to Rs. 449,789 (2010: Rs. 654,163 negative).

(Amounts in thousand)

14.2.2 EFL also entered into another interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from a consortium of Development Finance Institutions for a notional amount of USD 69,545 (2010: USD 85,000) amortising upto April 2016. Under the swap agreement, EFL would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap as at December 31, 2011 is negative and amounted to Rs. 436,455 (2010: Rs. 466,995 negative).

14.2.3 Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, entered into interest rate swap agreement with banks for notional amounts aggregating US\$ 29,334 to partially hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, EPCL would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi-annually. The fair value of the interest rate swaps as at December 31, 2011 is negative and amounted to Rs. 151,319 (2010: Rs. 111,680).

14.2.4 During the year, EPCL also entered into two cross-currency interest rate swap agreements for notional amounts of US\$ 4,016 and US\$ 4,786 respectively, with local banks to further hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under these swap agreements, EPCL would receive six month KIBOR plus 2.25% and six month KIBOR respectively, on the relevant PKR notional amounts and will pay six month USD-LIBOR plus 3.70% and USD-LIBOR plus 1.83% respectively, on the relevant USD notional amounts, which will be settled semi annually. As at December 31, 2011, EPCL has three outstanding cross currency interest rate swap agreements with local banks for a notional amount of US\$ 10,268. The fair value of the cross-currency interest rate swaps as at December 31, 2011 is negative and amounted to Rs. 5,944 (2010: Rs. 816 positive).

## 15 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2011	2010
	------(Rupees)-----	
Current portion of long term loans and advances to executives and other employees - considered good (note 9)	154,602	472,366
Advances to executives and other employees (note 15.1 and 15.2)	39,753	35,159
Loan to Descon Engineering Limited - considered good, unsecured (note 15.3)	650,000	650,000
Advance and deposits	630,216	420,115
Delayed payment charges (note 15.4)	271,892	-
Prepayments:		
- insurance	197,383	75,948
- gas charges (note 15.5)	109,986	573,843
- others	236,993	248,157
	2,290,825	2,475,588
Less: Provision for impairment (note 15.6)	1,512	1,512
	<u>2,289,313</u>	<u>2,474,076</u>

15.1 This represents interest free advances to executives for house rent, given in accordance with the Group's policy.

15.2 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 8,121 (2010: Rs. 7,279).

15.3 Represents interest free loan to Descon Engineering Limited, a contractor to the Enven Plant. The loan, repayable on demand, is given against a Corporate Bond/Guarantee and promissory note.

(Amounts in thousand)

15.4 Represents mark-up receivable as Delayed Payment charges from National Transmission and Despatch Company in accordance with the terms of the Power Purchase Agreement. These include mark-up invoiced amounting to Rs. 170,130 (2010: Rs. 14,583), of which Rs. 146,813 is overdue. The aging of overdue delayed payment charges is as follows:

	2011	2010
	------(Rupees)-----	
Upto 3 months	59,558	-
3 to 6 months	87,255	-
	<u>146,813</u>	<u>-</u>

15.5 Represents payments made to Sui Northern Gas Pipeline Limited by Engro Fertilizers Limited (EFL), under Take or Pay arrangement in respect of the Enven Plant as per the agreement. EFL is confident that such prepayments will be adjusted, prior to the expiry period against the expected gas consumption in the coming months.

15.6 As at December 31, 2011, loans and advances aggregating to Rs. 1,512 (2010: Rs. 1,512) were impaired and provided for, which are past due for more than six months. The movement in provision during the year is as follows:

	2011	2010
	------(Rupees)-----	
Balance as at January 1	1,512	5,816
Add: Provision made during the year	-	(4,304)
Balance as at December 31	<u>1,512</u>	<u>1,512</u>

## 16 OTHER RECEIVABLES

Receivable from Government of Pakistan for:

- Sales tax (note 16.1 and 16.2)	1,223,444	783,775
Less: Provision for impairment	140	140
	<u>1,223,304</u>	<u>783,635</u>

- Special excise duty refundable (note 28.6)	36,687	36,687
Less: Provision for impairment	36,687	36,687
	<u>-</u>	<u>-</u>

- Customs duty claims refundable (note 16.3)	18,043	18,043
Less: Provision for impairment	18,043	18,043
	<u>-</u>	<u>-</u>

- Others	1,192	991
	<u>1,224,496</u>	<u>784,626</u>

Reimbursable cost from NTDC in respect of:

- Workers' profits participation fund	144,915	55,585
- Workers' welfare fund	57,966	22,234

Accrued income on deposits / investments

Receivable from Engro Vopak Terminal Limited (note 16.4)	22,196	21,739
Claims on suppliers and insurance companies	4,942	94,258
	<u>9,339</u>	<u>10,028</u>

Receivable from Tetra Pak Pakistan Limited (note 16.5)

Others	311,785	165,876
Less: Provision for impairment	209,875	137,293
	<u>465</u>	<u>3,812</u>

	209,410	133,481
	<u>1,985,049</u>	<u>1,287,827</u>

(Amounts in thousand)

16.1 Last year balance of sales tax included Rs. 57,135 on account of sales tax levied in 2008 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609(1)/2004. The Holding Company had paid the demand made under protest and filed an appeal before the Collector, Sales Tax and Federal Excise. Further, the Ministry of Food, Agriculture and Livestock had also recommended through its letter dated June 27, 2008 that the said grade of MAP should be assessed at deemed value of import with retrospective effect. An appeal has been filed before the Collector, Sales Tax and Federal Excise and the management is confident that it will be decided in Engro Fertilizers Limited's (EFL) favour. However, during the year, EFL has adjusted the sales tax receivable in the monthly returns filed with sales tax authorities subsequent to withdrawal of SRO 535(I)/2008 as referred to in note 32.4.

16.2 Includes sales tax refundable of Engro Foods Limited (EFL), amounting to Rs. 827,268 (2010: Rs. 518,439). Sales tax has been zero rated on EFL's supplies (output), raw materials, components and assemblies imported or purchased locally by EFL for manufacturing in respect of its dairy operations.

16.3 The Customs Appellate Tribunal, Karachi Bench, through its order dated October 31, 2011, disposed off the appeal of Engro Polymer and Chemicals Limited (EPCL) 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 EPCL'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 EPCL. Therefore, based on prudence, full provision is carried against the aforementioned custom duty refundable.

16.4 The maximum amounts due from joint venture, Engro Vopak Terminal Limited, at the end of any month during the year aggregated to Rs. 180,891 (2010: Rs. 180,551).

16.5 Includes marketing support subsidy receivable, under an agreement dated April 7, 2011, quantity size discount and investment support allowance, net off payable on account of packaging material purchased by Engro Foods Limited, a subsidiary company.

16.6 As at December 31, 2011 receivables aggregating to Rs. 221,935 (2010: Rs. 22,796) were past due but not impaired. The ageing analysis of these loans and advances is as follows:

(Amounts in thousand)

	2011	2010
	------(Rupees)-----	
Upto 3 months	87,712	6,988
3 to 6 months	102,065	6,162
More than 6 months	32,158	9,646
	<u>221,935</u>	<u>22,796</u>

As at December 31, 2011, receivables aggregating to Rs. 55,335 (2010: Rs. 58,682) were deemed to be impaired being outstanding for more than six months and provided for.

	2011	2010
	------(Rupees)-----	
The movement in provision during the year is as follows:		
Balance as at January 1	58,682	180,533
Provision reversed during the year	(3,347)	(121,851)
Balance as at December 31	<u>55,335</u>	<u>58,682</u>

## 17 SHORT TERM INVESTMENTS

### Financial assets at fair value through profit or loss

Fixed income placements (note 17.1)	2,777,500	61,303
Treasury bills	708,126	-
Money market funds (note 17.2)	4,372,596	4,364,885

### Loans and receivables

Reverse repurchase of treasury bills (note 17.3)	473,932	-
	<u>8,332,154</u>	<u>4,426,188</u>

17.1 These represents foreign and local currency deposits with various banks, at the interest rates ranging from 10% to 13.10% per annum (2010: 12.55% per annum).

17.2 These represents investments in various money market funds and are valued at their respective net assets values as at the balance sheet dates.

17.3 These represents reverse repurchase of treasury bills at the interest rate of 11.7% per annum (2010: Nil).

(Amounts in thousand)

## 18 CASH AND BANK BALANCES

	2011	2010
	----- (Rupees) -----	
Balances with banks in:		
- deposit accounts (note 18.1 to 18.3)	3,424,581	3,483,357
- current accounts	984,704	568,763
Balances in hand:		
- cheques / demand drafts / cash in transit (note 18.4)	-	59,135
- cash	8,600	8,776
	<u>4,417,885</u>	<u>4,120,031</u>

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

18.2 This includes Rs. 20,475 (2010: Rs. 16,757) held in foreign currency bank accounts and carry return at the rate of 0.25% per annum (2010: 0.25% per annum).

18.3 Local currency deposits carry return at the rate of 12% per annum (2010: 11% per annum).

18.4 Represents banking instruments received by Engro Foods Limited, a subsidiary company, from distributors at regional offices in respect of future sales but not yet deposited in the bank account.

## 19 DISCONTINUED OPERATIONS

The Holding Company entered into automation business in 2003 by acquiring 51% shareholding in Avanceon Limited (Avanceon) from Wains. Over the years, the shareholding increased to 62.67% as Avanceon opened an office in UAE and entered in USA market by acquiring 70% stake in an automation business. Since inception, the Holding Company has invested Rs. 381,957 thousand (i.e. 62.67% shareholding) and also provided a loan amounting to Rs. 241,318 thousand. The loan has outstanding interest on it amounting to Rs. 35,411 thousand.

Avanceon on a consolidated basis has been incurring losses since 2007. Currently, the consolidated accumulated losses stand at 615,260 thousand and consolidated negative equity at Rs. 188,385 thousand (if the goodwill relating to acquisition of US business is not considered, the negative equity totals Rs. 616,822 thousand). Due to these losses, Avanceon has faced liquidity issues from time to time.

In early 2011, the Holding Company decided to divest Avanceon and engaged a Dubai based consultant to find an equity partner, however, no substantial progress has been made so far due to recession in the market in which Avanceon operates.

Consequently, the Board in its meeting of December 16, 2011 considered various options available to it and decided to sell Avanceon Pakistan & UAE businesses to Bakhtiar Wain (BW) (minority interest holder of Avanceon) and signed an MOU (subject to final agreement and approvals) in this regard which states:

- The Holding Company shall transfer its 62.67% shareholding in Pakistan & UAE businesses to BW as well as waive the subordinated loan and accrued interest thereon. After such transfer, the Wains shall have the full ownership of the business, its rights, obligations and liabilities.
- Pending final sell of US business, the Wains shall transfer the Holding Company's proportionate interest in US business to the Holding Company or its nominee.

(Amounts in thousand)

- In order to settle the bank liabilities, the Holding Company shall pay Rs. 118,000 thousand to the banks and extinguish its bank guarantees. A loan of Rs. 41,000 thousand shall be given to Avanceon for repayment of banks' facilities and which shall be repaid to the Holding Company within a year. In case, banks do not accord their approvals for the above arrangement, then the likely scenario is that both parties have to settle their own portion of liabilities after realization of assets of Avanceon.

At December 31, 2011, in the books of the Holding Company, the investment and subordinated loans of Rs. 381,957 thousand and Rs. 241,318 thousand respectively plus accrued interest thereon amounting to Rs. 35,411 thousand have been recognized as impaired and fully provided for in the standalone financial statements of the Holding Company. Accordingly, in these consolidated financial statements, an amount of Rs. 554,642 thousand recorded as goodwill on acquisition of the Avanceon business has been considered as impaired, in view of the divestment, continued losses and future projections of the business.

The aforementioned goodwill of Rs. 554,642 thousand includes the US business as well. Since US business has incurred losses during four out of the last five years, lack of substantial buyers' interest and future projections of the business due to low economic activities in the US evidence that there is no goodwill, hence the US portion of the goodwill has also been provided for.

An analysis of the discontinued operations as required by IFRS-5 is as under:

	2011 (Rupees)
a) <b>Assets</b>	
Property, plant & equipment	117,756
Intangible assets - software	14,287
Long term deposits	13,904
Deferred taxation	20,412
Stock in trade	61,582
Trade debts	173,594
Loans, advances, deposits and others	57,892
Cash and bank balances	8,698
	<u>468,125</u>
b) <b>Liabilities</b>	
Long term borrowings	35,710
Obligations under finance lease	22,975
Deferred liabilities	16,335
Trade and other payables	305,943
Short term borrowings	371,820
	<u>752,783</u>

(Amounts in thousand)

c) **Results of operations**

Sales	1,268,006	1,828,088
Cost of sales	(919,638)	(1,295,130)
Gross profit	348,368	532,958
Administrative and selling expenses	(503,501)	(630,732)
Other operating income and expenses (net)	86,987	25,308
Loss from operations	(68,146)	(72,466)
Finance costs (net)	(74,489)	(82,495)
Loss before tax	(142,635)	(154,961)
Taxation (net)	(1,709)	2,988
Loss for the year from discontinued operations	(144,344)	(151,973)

Loss attributable to the holders of the Holding Company

	2011	2010
	------(Rupees)-----	
1,268,006	1,828,088	
(919,638)	(1,295,130)	
348,368	532,958	
(503,501)	(630,732)	
86,987	25,308	
(68,146)	(72,466)	
(74,489)	(82,495)	
(142,635)	(154,961)	
(1,709)	2,988	
(144,344)	(151,973)	
(71,347)	(95,849)	
(23,362)	170,743	
(36,386)	(7,000)	
5,599	(59,725)	
(54,149)	104,018	

d) **Cash flows**

Operating cash flows	(23,362)	170,743
Investing cash flows	(36,386)	(7,000)
Financing cash flows	5,599	(59,725)
	(54,149)	104,018

20 **SHARE CAPITAL**

20.1 **Authorised Capital**

2011	2010	
------(No. of Shares)-----		
450,000,000	350,000,000	Ordinary shares of Rs. 10 each (note 20.3)

Issued, subscribed and paid-up capital

2011	2010	
------(No. of Shares)-----		
393,284,183	327,736,819	Ordinary shares of Rs. 10 each

20.2 **Movement in issued, subscribed and paid-up capital during the year**

2011	2010	
------(No. of Shares)-----		
327,736,819	297,942,563	As at January 1
65,547,364	29,794,256	Ordinary shares of Rs. 10 each issued during the year as fully paid bonus shares (note 20.3)
393,284,183	327,736,819	

2011	2010
------(Rupees)-----	
4,500,000	3,500,000

2011	2010
------(Rupees)-----	
3,932,843	3,277,369

2011	2010
------(Rupees)-----	
3,277,369	2,979,426
655,474	297,943
3,932,843	3,277,369

(Amounts in thousand)

20.3 During the year the Holding Company:

- increased authorized capital from Rs. 3,500,000 to Rs. 4,500,000; and
- issued bonus shares in the ratio of 1 share for every 5 shares held.

20.4 Associated companies held 186,500,772 (2010: 158,516,740) ordinary shares in the Holding Company at year end.

21 **HEDGING RESERVE**

Fair values of:

- Forward foreign exchange contracts (note 14.1)
- Foreign currency option contracts
- Interest rate swaps (note 14.2)

Less: Deferred tax  
Less: Minority interest

	2011	2010
	------(Rupees)-----	
(28,871)	(230,907)	
-	(12,464)	
(922,237)	(1,232,022)	
(951,108)	(1,475,393)	
332,888	516,385	
44,783	31,570	
377,671	547,955	
(573,437)	(927,438)	

21.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges, net off associated gains / losses recognized in initial cost of the hedged item and profit and loss account, where applicable.

22 **MAINTENANCE RESERVE**

In accordance with the Power Purchase Agreement (PPA), Engro Powergen Qadir Limited (EPQL), subsidiary of Engro PowerGen Limited, is required to establish and maintain a separate reserve fund (the Fund) with a depository institution for payment of major maintenance expenses. Any interest income resulting from the depository arrangements of the Fund is to remain in the Fund to the extent of any short fall from the contractual limit.

Under the PPA, 1/24th of the annual operating and maintenance budget of the Power Plant less fuel expenses is required to be deposited into the Fund on each capacity payment date until such reserve equals to nine such deposits. After the second agreement year and thereafter, the Fund may be re-established at such other level that EPQL and National Transmission and despatch Company (NTDC) mutually agree.

(Amounts in thousand)

## 23 BORROWINGS

### Secured (Non-participatory)

	Note	Mark - up rate p.a.	Instalments		2011	2010
			Number	Commencing from	-----Rupees-----	
Engro Corporation Limited						
Listed & Secured Engro Rupiya Certificate 1	23.1	14.5%	6 half yearly	January 15, 2011	3,768,502	3,384,536
Listed & Secured Engro Rupiya Certificate 2	23.1	14.5%	Bullet	September 15, 2014	2,602,766	-
Engro Fertilizers Limited						
Long term finance utilised under mark-up arrangements:						
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	-	225,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	200,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	775,000	925,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	1,550,000	1,850,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	193,750	231,250
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	77,500	92,500
HSBC Middle East Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	193,750	231,250
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	387,500	462,500
National Bank of Pakistan		6 months KIBOR + 1.1%	8 half yearly	September 4, 2011	1,387,500	1,500,000
Syndicated finance	23.2	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	18,198,436	18,165,889
Islamic offshore finance	23.3	6 months LIBOR + 2.57%	8 half yearly	March 28, 2011	9,784,189	12,755,717
DFI Consortium finance	23.4	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	6,250,169	7,284,352
International Finance Corporation	23.5	6 months LIBOR + 6%	3 half yearly	September 15, 2015	4,144,709	3,889,941
International Finance Corporation	23.5	6 months LIBOR + 6%	3 half yearly	September 15, 2016	2,604,858	-
Bank Islami Pakistan Limited		6 months KIBOR + 2.4%	14 half yearly	May 25, 2010	454,273	499,800
Pak Kuwait Investment Company (Private) Limited		6 months KIBOR + 2.35%	10 half yearly	April 30, 2012	496,449	495,323
Faysal Bank Limited		6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	1,498,382	1,497,929
Dubai Islamic Bank Limited		6 Months KIBOR + 2.11%	10 half yearly	December 31, 2012	492,738	490,400
Silk Bank Limited		6 Months KIBOR + 2.35%	10 half yearly	January 21, 2013	299,517	299,405
Standard Chartered Bank		6 Months KIBOR + 2.40%	10 half yearly	September 17, 2012	991,380	989,094
Samba Bank Limited		6 Months KIBOR + 2.40%	10 half yearly	September 30, 2012	496,787	495,934
Habib Metropolitan Bank Limited		6 Months KIBOR + 2.40%	10 half yearly	June 21, 2013	199,965	199,965
National Bank of Pakistan		6 Months KIBOR + 2.40%	6 half yearly	March 28, 2013	993,100	990,949
Habib Bank Limited	23.9	6 Months KIBOR + 1.5%	Bullet	October 28, 2011	-	1,000,000
Allied Bank Limited	23.9	6 Months KIBOR + 1%	Bullet	November 29, 2011	-	149,942
Standard Chartered Bank Limited	23.10	6 Months KIBOR + 1.5%	3 installments	April 18, 2011	-	1,500,000

(Amounts in thousand)

								2011	2010
								-----Rupees-----	
Certificates									
Term Finance Certificates - 2nd Issue	23.6	6 months KIBOR + 1.55%					3,973,084	3,970,694	
Term Finance Certificates - 3rd Issue	23.7	6 months KIBOR + 2.4%					1,976,494	1,972,993	
Sukuk Certificates		6 months KIBOR + 1.5%	2 half yearly	March 6, 2015			2,989,029	2,986,590	
Privately Placed Sub-Ordinated Term Finance Certificates	23.8						5,976,758	5,959,269	
							66,385,317	71,311,686	
Engro Polymer and Chemicals Limited									
Syndicated term finance I	23.14	6 months KIBOR + 2.25%	13 half yearly	November 2010			4,898,377	5,428,997	
Syndicated term finance II	23.14	6 months KIBOR + 3%	13 half yearly	June 2010			1,241,089	1,377,948	
Syndicated term finance III	23.12	6 months KIBOR + 2%	Single	June 2012			747,333	742,000	
Master Istisna I	23.13	6 months KIBOR + 1.5%	6 half yearly	May 2013			100,000	100,000	
Master Istisna II	23.13	6 months KIBOR + 2%	3 half yearly	June 2012			199,000	200,000	
International Finance Corporation (IFC)	23.14	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010			3,926,224	4,415,708	
							11,112,023	12,264,653	
Engro Foods Limited									
Faysal Bank Limited		6 month KIBOR + 1.4%	6 half yearly	August 21, 2009			58,333	175,000	
Syndicated Finance I		6 month KIBOR + 0.69%	4 half yearly	February 20, 2015			1,500,000	1,500,000	
Syndicated Finance II		6 month KIBOR + 2.6%	5 half yearly	July 10, 2012			1,200,000	1,200,000	
Habib Bank Limited		6 month KIBOR + 2.25%	6 half yearly	September 3, 2011			416,667	500,000	
Syndicated Finance III	23.15		6 half yearly	February 16, 2013			1,000,000	500,000	
Citibank, N.A.	23.15		Bullet	February 1, 2013			700,000	-	
Pak Kuwait Investment Company (Private) Limited	23.15		6 half yearly	June 30, 2014			250,000	-	
Syndicated Finance IV		10.40%	6 half yearly	January 22, 2013			-	250,000	
Syndicated Long Term Finance		10.40%	6 half yearly	March 3, 2012			-	665,051	
Certificate									
Sukuk Certificates		6 month KIBOR + 0.69%	4 half yearly	July 13, 2015			950,000	950,000	
							6,075,000	5,740,051	
Engro Eximp (Private) Limited									
Syndicated Finance I	23.18	6 month KIBOR + 2%	6 half yearly	January 22, 2013			500,000	-	
Syndicated Long Term Finance I	23.18	As per notification of State Bank of Pakistan	8 half yearly	March 3, 2012			999,999	-	
Bilateral Term Finance	23.19	6 month KIBOR + 2%	6 half yearly	November 28, 2013			250,000	-	
Syndicated Term Finance II	23.19	6 month KIBOR + 2.25%	6 half yearly	February 11, 2014			861,558	-	
Syndicated Long Term Finance II	23.19	As per notification of State Bank of Pakistan	8 half yearly	February 22, 2013			89,423	-	
							2,700,980	-	
Avanceon Limited									
MCB Bank Limited		6 months KIBOR + 2.25%	16 quarterly	September 30, 2009			-	18,750	
Faysal Bank Limited		6 months KIBOR + 2%	20 quarterly	September 30, 2008			-	27,500	
Habib Bank Limited		3 months LIBOR + 3% with a floor of 8%	20 quarterly	December 31, 2007			-	82,610	
							-	128,860	
Engro PowerGen Limited									
DFI Consortium finance	23.22	6 months LIBOR + 3%	20 half yearly	December 15, 2010			11,481,495	11,865,850	
							104,126,083	104,695,636	
Less: Current portion shown under current liabilities									
							21,565,668	15,543,787	
							82,560,415	89,151,849	

(Amounts in thousand)

23.1 Represents amount raised from general public against the issuance of Engro Rupiya Certificates I (net of redemptions and unamortized transaction costs). The profit is payable semi-annually at the fixed rate of 14.5% from the date of investment by the Certificate holders. The Certificates are issued for a tenure of three years and are structured to redeem 0.1% of principal in five equal semi-annual installments in the first 30 months and the remaining 99.9% principal in 36th month from the date of issue. The Certificate holder, however, may ask the Company for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

During the year, the Company issued Engro Rupiya Certificate II to general public and received subscription money there against amounting to Rs. 2,754,820. The amount represents balance outstanding (net of redemptions and unamortized transaction costs). The profit is payable semi-annually at the fixed rate of 14.5% from the date of investment by the Certificate holders. The Certificates are issued for a tenure of three years and are structured to redeem 100% of the principal amount in the 36th month from the date of issue. The Certificate holder, however, may ask the Company for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

The Certificates are secured by way of first ranking pari passu floating charge over all the present and future movable properties of the Company except for present and future trade marks, copy rights and certain investment in subsidiary companies.

The IGI Investment Bank Limited has been appointed as Trustee in respect of these certificates.

#### Engro Fertilizers Limited

23.2 This represents a syndicated finance agreement with Allied Bank Limited, Bank Alfalah Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Standard Chartered and United Bank Limited which was fully disbursed. Some of the banks have sold down their share to other banks.

23.3 This represents an offshore Islamic Finance Facility Agreement of USD 150,000 with Citi Bank, Dubai Islamic Bank, Habib Bank Limited, National Bank of Pakistan, SAMBA Financial Group and Standard Chartered Bank. Two installments, each amounting to USD 20,250 were paid during the year on respective due dates.

23.4 This represents an agreement amounting to USD 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID. Two installments, each amounting to USD 7,727 were paid during the year on respective due dates.

23.5 The Holding Company entered into a C Loan Agreement (Original Agreement) dated September 29, 2009 with International Finance Corporation (IFC) for USD 50,000, divided into Tranche A (USD 15,000) and Tranche B (USD 35,000). Both Tranche A and B were fully disbursed as at December 31, 2009 and transferred to the Company under the scheme of demerger effective January 1, 2010. However, the option given to convert the Tranche A loan amount of USD 15,000 shall remain upon the Holding Company's ordinary shares at Rs. 205 per ordinary share (reduced to Rs.155.30 and Rs.186.36 as at December 31, 2011 and December 31, 2010 respectively consequent to bonus issues) calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option. Such option is to be exercised within a period of no more than five years from the date of disbursement of the loan (December 28, 2009). Tranche B, however, is not convertible. The Holding Company, upon shareholders' approval in the Annual General Meeting of February 27, 2010, has entered into an agreement with the Company that in the event IFC exercises the aforementioned conversion option (Tranche A), the loan amount then outstanding against the Company would stand reduced by the conversion option amount and the Company would pay the rupee equivalent of the corresponding conversion amount to the Holding Company which would simultaneously be given to the Company as a subordinated loan, carrying mark-up payable by the Holding Company for rupee finances of like maturities plus a margin of 1%. The effect of IFC conversion in substance would result in a loan from the Holding Company having the same repayment terms / dates as that of Tranche A.

(Amounts in thousand)

On December 22, 2010, the Company and IFC entered into an amended agreement for further disbursement of USD 30,000 over and above the aforementioned disbursed amount of USD 50,000. The amount has been fully disbursed as at June 30, 2011. The salient features of the Original Loan essentially remained the same. The additional loan of USD 30,000 is divided into (i) 30% convertible loan on the shares of the Company at Rs. 41.67 per ordinary share calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option and (ii) 70% non-convertible loan. The additional loan is repayable by September 15, 2017 in three equal installments and carries interest at six months LIBOR plus a spread of 6% or 10% depending on the listing status of the Company at various intervals. However, the management is confident that it will comply with the requirements of listing and avail the spread of 6% for the entire loan tenor, and hence no related provision for the differential aggregating to Rs. 59,332 as at December 31, 2011 has been made in these consolidated financial statements.

The fair value of the aforementioned conversion options, included in note 14, on the date of disbursement amounted to Rs. 338,647 and Rs. 63,000 for the original and additional loan respectively and is being amortised using effective interest method. The residual amount, representing the loan liability component is shown as long term borrowings. The fair value of these options as at December 31, 2011 amounted to Rs. 63,082 (2010: Rs. 367,442).

23.6 These represent secured and listed Term Finance Certificates (TFCs) of Rs. 4,000,000. The TFCs are structured to redeem 0.28% of principal in the first 84 months and remaining 99.72% principal in two equal semi-annual installments. First Dawood Islamic Bank is the trustee for these TFCs.

23.7 These represent secured and listed Term Finance Certificates (TFCs) of Rs. 2,000,000. The TFCs are structured to redeem as follows:

Year	Redemption %age
1	0.04%
2	0.04%
3	7.96%
4	7.96%
5	12.00%
6	12%
7	60%

IGI Investment Bank Limited has been appointed as trustee in respect of these TFCs.

23.8 This represents Subordinated Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively. The PPTFCs are perpetual in nature with a five year call and a ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% whereas the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. IGI Investment Bank Limited is the trustee for these TFCs. During the year, the aforementioned TFCs have been listed on the Over-The-Counter (OTC) market of the Karachi Stock Exchange.

23.9 These loans were secured against a ranking charge over the assets of EFL and were repaid during the year.

23.10 These loans, repaid during the year, were secured against a ranking charge over the assets of EFL and Corporate Guarantee by the Holding Company.

23.11 The above finances, excluding those covered in notes 23.5, 23.8, 23.9 and 23.10, are secured by an equitable mortgage upon the immovable property of EFL and hypothecation charge over current and future fixed assets of EFL. All other loans are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.



(Amounts in thousand)

**Engro Polymer and Chemicals Limited (EPCL)**

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

- (i) a second charge over leasehold land together with the building, plant and machinery and other equipment thereon; and
- (ii) a second charge by way of hypothecation over all present and future fixed assets of EPCL.

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

- i) Master Istisna I facility by a joint pari passu equitable mortgage over land and buildings and a pari passu hypothecation charge over plant and machinery, stocks and receivables amounting to Rs. 134,000; and
- ii) Master Istisna II facility by a mortgage over land and buildings subordinated to the mortgage listed in note 22.14 and hypothecation by way of subordinated charge over all present and future fixed assets of EPCL amounting to Rs. 267,000.

23.14 Finances, other than those referred to in note 23.12 and 23.13, 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.

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

**Engro Foods Limited (EFL)**

23.15 During the year, EFL has further utilized the Syndicated Term Finance Facility III obtained from syndicate of banks led by NIB Bank Limited to the extent of Rs. 1,000,000 and obtained loans of Rs. 700,000 and Rs. 250,000 from Citibank, N.A. and Pak Kuwait Investment Company (Private) Limited, respectively.

23.16 EFL's finances are secured by a registered subordinate floating charge / mortgage over the present and future operating assets of EFL upto a maximum of Rs. 8,062,500.

23.17 The rates of mark-up on EFL's finances are KIBOR based and range from 14.02% to 16.4% (2010: 12.71% to 15.12%) per annum.

(Amounts in thousand)

**Engro Eximp (Private) Limited (EEL)**

23.18 Last year, Engro Foods Supply Chain (Private) Limited (EFSC), a subsidiary of EEL, entered into a 5 year Syndicated Term Finance Facility (STFF) with a syndicate of banks to the extent of Rs. 1,500,000. Subsequently, on August 30, 2010, a supplemental syndicated term finance facility was entered into by EFSC with the syndicate, according to which the STFF was reduced to Rs. 500,000 and the balance of Rs. 1,000,000 was converted into a Syndicated Long Term Finance Facility (LTFF) in accordance with the plant and machinery scheme, set out by the State Bank of Pakistan (SBP) (MFD Circular no. 7, dated December 31, 2007). This LTFF currently carries mark-up at rates ranging from 11.1% to 12.6% per annum. Mark-up is subject to change by SBP from time to time through its notifications.

23.19 During the year, EFSC also entered into a 5 year Bilateral Term Finance Facility with a bank to the extent of Rs. 250,000 and also entered into a 5 year Syndicated Term Finance Facility (STFF - II) with a syndicate of banks to the extent of Rs. 1,000,000. Of this aggregate sale price, up to Rs. 900,000 can be disbursed in conventional STFF format. The remaining Rs. 100,000 is to be disbursed under a Syndicated Long Term Finance Facility (LTFF) in accordance with SBP terms and conditions as with the Subsidiary Company's other LTFF facility. The LTFF currently carries mark-up at a rate of 12.6% per annum.

23.20 Transaction costs amounting to Rs.14,799 (2010: Nil) have been netted off against the draw down amount of Rs. 875,000 and are being amortized over the period of the loan. The unamortized balance as at year end amounts to Rs. 13,441 (2010: Nil).

23.21 Finances of EFSC are secured by a registered floating charge / mortgage over its present and future operating assets upto a maximum of Rs. 3,437,511.

**Engro PowerGen Limited (EPGL)**

23.22 "Engro Powergen Qadirpur Limited (EPQL), subsidiary of EPGL entered into a financing agreement with consortium comprising of International Finance Corporation, DEG, FMO, Proparco, Swed Fund and OFID amounting to USD 144,000. The finances carry markup at the rate of six months LIBOR plus 3% payable semi-annually over a period of twelve years. The principal is repayable in twenty semi-annual payments/installments commenced from December 15, 2010. As at December 31, 2011, the outstanding balance of the borrowing was USD 128,655 (2010: USD 139,065).

The borrowings are secured by an equitable mortgage on the immovable property and the hypothecation of current and future assets of EPQL, except receivables from National Transmission and Despatch Company (NTDC) in respect of Energy Purchase Price."

**24 OBLIGATIONS UNDER FINANCE LEASE**

Present value of minimum lease payments (note 24.1)  
Less: Current portion shown under current liabilities

	2011	2010
	------(Rupees)-----	
	5,179	32,308
	(3,884)	(13,310)
	<u>1,295</u>	<u>18,998</u>

24.1 Includes mark-up free leases of milk cooling chillers, obtained by Engro Foods Limited (EFL), a subsidiary company, under a tripartite arrangement with the Bank of Punjab and Pakistan Dairy Development Corporation (PDDC). Under this arrangement, mark-up will be borne by PDDC whereas Engro Foods Limited's obligation is restricted to the extent of principal amount, payable in 20 equal installments by April 15, 2013. The principal outstanding under this arrangement amounts to Rs. 5,179 (2010: Rs. 7,368).

(Amounts in thousand)

24.2 The amount of future payments for the finance leases and the period in which these payments will become due are as follows:

	2011		2010	
	Minimum lease payments	Finance costs	Present value of minimum lease payments	Present value of minimum lease payments
	-----Rupees-----			
Not later than one year	3,884	-	3,884	13,310
Later than one year but not later than 5 years	1,295	-	1,295	18,998
	<u>5,179</u>	<u>-</u>	<u>5,179</u>	<u>32,308</u>

## 25 DEFERRED TAXATION

Credit / (debit) balances arising on account of:

	2011	2010
	-----Rupees-----	
- Accelerated depreciation allowance	22,774,576	8,442,891
- Net borrowing costs capitalised	131,783	-
- Fair value of hedging instruments	(332,888)	(516,385)
- Recoupable carried forward tax losses (note 25.1)	(16,592,494)	(4,878,393)
- Tax on subsidiary reserves	127,909	7,690
- Tax on fair value adjustment	139,598	139,598
- Recoupable minimum turnover tax	(1,522,252)	(513,965)
- Unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	(89,500)	(63,004)
- Share issuance cost	(70,816)	(57,709)
- Others	(579,339)	(89,497)
	<u>3,986,577</u>	<u>2,471,226</u>

25.1 Deferred income tax asset is recognised 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 on which the deferred income tax asset has been recognized as at December 31, 2011 amount to:

	2011	2010
	-----Rupees-----	
- Engro Fertilizers Limited	31,738,886	928,030
- Engro Polymer and Chemicals Limited	12,915,477	11,706,630
- Engro Foods Limited	234,657	1,235,746
- Engro Foods Netherlands B.V.	137,854	-
- Engro Eximp (Private) Limited	1,969,471	29,661
- Engro PowerGen Limited	410,780	-
- Avanceon Limited	-	38,200

## 26 EMPLOYEE HOUSING SUBSIDY

Represents unvested balance of Employee Housing Subsidy Scheme (the Scheme) transferred to Engro Fertilizers Limited, a subsidiary company, as at January 1, 2010 upon transfer of fertilizer undertaking by the Holding company. As per the Scheme, which expired on December 31, 2009, employees who were not entitled for Employee Share Options were provided Housing Subsidy to be vested / amortized over a period of 2.5 years of employee service. the amortized amount charged in the profit and loss account amounted to Rs. 5,095. The expected future charge will be Rs. 1,581 for the year ending December 31, 2012.

(Amounts in thousand)

## 27 DEFERRED LIABILITIES

Deferred income on sale and leaseback arrangement for vehicles (note 27.1)

Retirement and other service benefits obligations (note 27.2)

27.1 Deferred income on sale and leaseback arrangements

Balance as at January 1

Less: Amortization during the year

Balance as at December 31

27.2 Retirement and other service benefits obligations

Other retirement and service benefit plans

Less: Current portion shown under current liabilities

## 28 TRADE AND OTHER PAYABLES

Creditors (note 28.1)

Accrued liabilities (note 28.2)

Advances from customers (note 28.3)

Deposits from dealers/ distributors refundable on termination of dealership

Retention money

Contractors'/ suppliers' deposits

Workers' profits participation fund (note 28.4)

Workers' welfare fund

Sales tax payable

Provision for duty on import of raw material (note 28.5)

Provision for special excise duty (note 28.6)

Others

28.1 Includes liabilities against various usance letters of credits for import of fertilizers payable upto 180 days from the bill of lading / bill of exchange date.

28.2 Includes liabilities accrued for salaries wages and other benefits, freight expenses, deferred marketing allowances, gas charges, etc.

28.3 Includes advances received from dealers / customers against fertilizer product pending orders.

2011 2010  
-----Rupees-----

-	30
161,219	117,249
<u>161,219</u>	<u>117,279</u>
30	111
(30)	(81)
<u>-</u>	<u>30</u>
195,855	140,326
34,636	23,047
<u>161,219</u>	<u>117,279</u>

14,213,570	4,843,729
3,946,576	3,942,056
3,582,904	2,663,585
26,885	30,186
109,301	286,773
103,344	97,775
217,932	24,478
513,356	199,069
49,628	53,530
75,181	47,227
91,498	83,795
466,141	342,011
<u>23,396,316</u>	<u>12,614,214</u>

(Amounts in thousand)

	2011	2010
	------(Rupees)-----	
<b>28.4 Workers' profits participation fund</b>		
Payable at the beginning of the year	24,478	31,045
Interest charge for the year	225	1,676
Allocation for the year (note 37)	457,718	294,156
Less: Amount paid to the Trustees of the Fund	(264,489)	(302,399)
Payable to the fund	<u>217,932</u>	<u>24,478</u>

28.5 In 2009, Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis from customs duty. The letter alleged that EPCL 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). EPCL responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. During the year, the tax department has shown its disagreement with EPCL's view and has demanded further information, to which EPCL has responded.

Although, no formal order creating a demand has yet been received by EPCL, based on prudence, a provision amounting to Rs. 75,100 (2010: Rs. 47,227) in respect of duty on such raw materials has been made.

28.6 As at December 31, 2011, EPCL had paid Rs. 94,611 (2010: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount, EPCL had adjusted Rs. 57,924 (2010: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by EPCL and approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by EPCL in monthly sales tax returns.

"Pending such clarification, EPCL based on prudence had made provision for the amount adjusted of Rs. 57,924 and for the remaining balance of Rs. 36,687 included in loans, advance deposits, prepayments and other receivables. However, in 2009, EPCL received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that EPCL, by adjusting the aforementioned SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted were recoverable from EPCL under the Federal Excise Act, 2005 alongwith default surcharge and penalty. During the year, the EPCL was granted a stay order from the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand."

EPCL filed an appeal with Commissioner Inland Revenue (Appeals) against the order issued by the Additional Commissioner and the appeal was decided against EPCL. Subsequently, EPCL has now filed an appeal with the Income Tax Appellate Tribunal against the decision of Commissioner Inland Revenue (Appeals).

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

(Amounts in thousand)

## 29 ACCRUED INTEREST/MARK-UP

	2011	2010
	------(Rupees)-----	
Accrued interest/mark-up on secured:		
- long term borrowings	3,055,502	2,545,406
- short term borrowings	<u>58,620</u>	<u>74,047</u>
	<u>3,114,122</u>	<u>2,619,453</u>

## 30 SHORT TERM BORROWINGS

### Secured

30.1 The facility for short term running finance available to the Group from various banks amounts to Rs. 18,850,000 (2010: Rs. 16,474,230) including Rs. 1,450,000 (2010: Rs. 1,450,000) for Bank Guarantees interchangeable with short term finance. The rates of mark up range from 12.67% to 15.29% (2010: 12.83% to 15.19%) and the facilities are secured by floating charge upon all current and future book debts, inventories, stores and spares and other movable assets of the Group.

30.2 Engro Powergen Qadirpur Limited (EPQL), a subsidiary company, entered into the Working Capital Facility Agreement (the Agreement) with Allied Bank Limited, NIB Bank Limited, KASB Bank Limited, The Bank of Punjab, Habib Metropolitan Bank Limited, Soneri Bank Limited, Bank Al-Falah and Pak Kuwait Investment Company. The available working capital facility under the agreement amount to Rs. 3,000,000 (2010: Rs. 2,000,000). The facility carries mark-up at the rate of 3 months KIBOR plus 2% per annum (3 months KIBOR plus 2% per annum). The facility is secured by (i) lien over Energy Purchase Price (EPP) account and charge over present and future receivables from the Power Purchaser in respect of EPP and (ii) first charge over current assets of the EPQL (excluding revenue accounts) and subordinated charge over present and future plant, machinery, equipments and other movable assets and immovable properties of EPQL. The use of facility is restricted for payments of operations and maintenance cost of the Power Plant and payments to fuel suppliers against purchase of fuel.

30.3 During the year, Engro Eximp (Private) Limited, a subsidiary company, obtained funds under the Export Refinance Scheme (ERF) of the State Bank of Pakistan (SBP). As at December 31, 2011, funds outstanding under the ERF-II facility amounted to Rs. 204,482 (2010: 96,072) carrying mark-up at the rate of 11.00% per annum (2010: 10% per annum).

30.4 The facilities for opening letters of credit and guarantees of subsidiary companies as at December 31, 2011 amounts to Rs. 11,587,000 (2010: Rs. 9,417,757).

### Unsecured

30.5 During the year, Engro Fertilizers Limited repaid its obligation of Rs.1,000,000 (face value) upon maturity of the 6 months Commercial Paper, issued in September 2010, carrying mark-up of 14.14% per annum.

## 31 CONTINGENCIES AND COMMITMENTS

### Contingencies

	2011	2010
	------(Rupees)-----	
31.1 Corporate Guarantees issued in favour of Subsidiary Companies:		
- Engro Fertilizers Limited (note 31.2)	61,141,010	65,642,000
- Engro Powergen Qadirpur Limited (note 31.3 and 31.4)	900,604	857,000
- Avanceon Limited (note 31.5)	<u>242,000</u>	<u>242,000</u>

(Amounts in thousand)

31.2 The Holding Company, in addition to above, has also issued a Corporate Guarantee to International Finance Corporation (IFC) for USD 80,000 under the Amended Agreement entered into by Engro Fertilizers Limited with IFC (note 23.5).

31.3 Represents Corporate Guarantee amounting to USD 10,000 issued to Allied Bank Limited to open DSRA letter of credit in favour of Engro Powergen Qadirpur Limited's senior long term lenders.

31.4 The Holding Company and Engro Fertilizers Limited, by virtue of the scheme of demerger had extended project completion support to the lenders of Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited for USD 15,400 (2009: USD 15,400). These projects supports were contingent upon occurrence or non-occurrence of specified future events. However, during the year, the aforementioned guarantees have expired after the completion of the project.

31.5 The Holding Company has extended corporate guarantees to banks and financial institutions aggregating to Rs. 242,000 (plus accrued markup) against finance facilities extended to Avanceon Limited by the banks/financial institutions. Pursuant to the Memorandum of Understanding entered into by the Holding Company, the release of aforementioned bank guarantees has been requested by the Holding Company to the bank.

31.6 The Holding Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Holding Company Rs. 47,800 whereas the award for the earlier years is awaited. The award for the second arbitration has not been recognised due to inherent uncertainties arising from its challenge in the High Court of Sindh.

31.7 Bank guarantees of Rs.1,015,730 (2010: Rs. 1,214,295) have been issued in favour of third parties by Engro Fertilizers Limited.

31.8 Claims, including pending lawsuits, against Engro Fertilizers limited not acknowledged as debts amounted to Rs. 34,938 (2010: Rs. 36,018).

31.9 Engro Fertilizers Limited is contesting a penalty of Rs. 99,936 paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

31.10 "Engro Fertilizers Limited has filed a constitutional petition in the High Court of Sindh, Karachi against the Ministry of Petroleum and Natural Resource (MPNR), Ministry of Industries and production (MIP) and Sui Northern Gas Pipeline Company Limited (SNGPL) for continuous supply of 100 MMCFD gas per day to the Enven Plant and to prohibit from suspending, discontinuing or curtailing the aforesaid supply. The High Court of Sindh, in its order dated October 18, 2011, has ordered that SNGPL should supply 100 MMCFD of gas per day to the petitioner's new plant. However, five petitions have been filed in the Supreme Court of Pakistan against the aforementioned order of High Court of Sindh by SNGPL, MPNR, Agritech Limited, PakAarab Fertilizers and Kohinoor Mills Limited along with 21 other companies (mainly engaged in textile business). The aforementioned petition are pending for further hearing. Engro Fertilizers Limited's management, as confirmed by the legal advisor, considers the chances of petition being allowed to be remote."

Further, Engro Fertilizers Limited upon continual curtailment of gas after the aforementioned decision of the High Court has filed an application in respect of Contempt of Court under Article 199 and 201 of the Constitution of Pakistan. Engro Fertilizers Limited, in the aforementioned application has submitted that SNGPL and MPNR has failed to restore supply of gas to its plant inspite the judgment of High Court in their favour. A show cause notice has also been issued against MPNR and SNGPL dated December 31, 2011 by the High Court. The application is pending for hearing and no orders have yet been passed in this regard.

(Amounts in thousand)

31.11 All Pakistan Textile Processing Mills Association (APTMA), Shan Dying & Printing Industries (Private) Limited, Agritech Limited (Agritech) and 27 others have each contended, through separate proceedings filed before the Lahore High Court that the supply to the Engro Fertilizers Limited's (EFL) expansion plant is premised on the output of Qadirpur gas field exceeding 500 MMCFD by 100 MMCFD and the Gas Sale and Purchase Agreement (GSA) dated April 11, 2007 with Sui Northern Gas Pipe Line Limited (SNGPL) be declared void abinitio because the output of Qadirpur has infact decreased. Agritech has additionally alleged discrimination in that it is receiving less gas than the other fertilizer companies on the SNGPL system. EFL has out rightly rejected these contentions, and is of the view that it has a strong case for the reasons that (i) 100 MMCFD gas has been allocated to EFL through a transparent international competitive bidding process held by the Government of Pakistan, and upon payment of valuable license fee; (ii) GSA which guarantees uninterrupted supply of gas to the expansion plant, with right to first 100 MMCFD gas production from the Qadirpur field; and (iii) both EFL and gas field (Qadirpur), that is to initially supply gas to EFL, are in Sindh. Also, neither the gas allocation by Government nor the GSA predicates the gas supply upon Qadirpur field producing 100 MMCFD over and above 500 MMCFD. The petition is pending for hearing and no orders have yet been passed in this regard. However, The EFL's management, as confirmed by the legal advisor, considers the chances of the petition being allowed to be remote.

31.12 Last year, a lawsuit was filed against Engro Foods Supply Chain (Private) Limited (EFSCL), a subsidiary of Engro Foods Limited, in the Civil Court, Sheikhpura by certain previous co-workers claiming pre-emptive rights over a portion of the land, acquired by EFSCL for construction of its rice processing plant. EFSCL has filed its written statement thereagainst and the case is currently being heard. However, EFSCL based on the opinion of legal advisor is confident that the matter will be decided in its favour and accordingly, the financial effect, if any, has not been recognized in these consolidated financial statements.

31.13 Engro Foods Limited has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (2010: Rs. 33,993) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (2010: Rs. 34,350) under the contract for supply of gas;
- Irrigation and Power Department, Government of Sindh amounting to Rs. 100 (2010: Rs. 100) under an agreement for disposal of treated waste water;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (2010: Rs. 258,800) under Sales Tax Rules 2006, against refund claim of input sales tax. Against these guarantees, sales tax refunds amounting to Rs. 172,000 (2010: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 5,351 (2010: Rs. 3,217), as collateral against supplies.

31.14 Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited, has provided a bank guarantee of Rs. 1,596,126 representing an amount equivalent to three months contractual quantities of gas in accordance with the terms of Gas Supply Agreement between EPQL and Sui Northern Gas Pipeline Company.

31.15 Engro PowerGen Limited (EPGL) has furnished a bank guarantee amounting to USD 25 to Alternate Energy Development Board (AEDB) for the fulfillment of obligations under the Letter of Intent (LOI) for establishing an approximately 50 MW windpower generation project in Gharao Wind Corridor. Under the LOI, EPGL is required to complete the feasibility studies and achieve various milestones stated therein with in a period of 18 months thereof. The guarantee expires on September 29, 2012.

(Amounts in thousand)

### Commitments

31.16 Details of commitments as at December 31, 2011 entered by the Holding Company and its subsidiaries are as follows:

	2011	2010
	------(Rupees)-----	
31.161 Capital expenditure contracted but not incurred by:		
- Engro Foods Limited	661,295	696,170
- Engro Eximp (Private) Limited	523,862	113,971
- Engro Fertilizers Limited	596,378	1,630,879
	<u>1,781,535</u>	<u>2,441,020</u>
31.162 Letters of credit / contracts by:		
- Engro Foods Limited for purchase of commodities	1,575,350	-
- Engro Eximp (Private) Limited for import of fertilizers	26,225	-
- Avanceon Limited for capital expenditure	135,011	-
- Engro PowerGen Limited for senior lenders	685,140	658,757
	<u>2,421,726</u>	<u>658,757</u>
31.163 Bank guarantees by:		
- Engro Eximp (Private) Limited for infrastructure cess	284,769	488,000
- Avanceon Limited for various contracts	134,197	106,027
	<u>418,966</u>	<u>594,027</u>
31.164 Performance guarantees issued by banks on behalf of Engro Polymer and Chemicals Limited	<u>849,035</u>	<u>942,774</u>
31.165 Post dated cheques provided to customs authorities by:		
- Engro Eximp (Private) Limited	10,992	-
- Engro Foods Limited	153,342	-
- Avanceon Limited	12,469	-
	<u>176,803</u>	<u>-</u>
31.166 In addition to above, the Holding Company has committed to invest an amount of Rs. 562,000 in Engro Polymer and Chemicals Limited by way of subscription to right shares.		
31.167 The Group is obligated leases for computer and office equipment and for storage and handling of Ethylene Di Chloride (EDC) and Caustic soda. The total lease rentals due under these lease arrangements are payable in monthly installments. The future aggregate lease payments under these arrangements are as follows:		
	2011	2010
	------(Rupees)-----	
Not later than 1 year	14,746,005	1,271,657
Later than 1 year and no later than 5 years	59,411,860	57,600
Later than 5 years	53,886,852	50,400
	<u>128,044,717</u>	<u>1,379,657</u>

(Amounts in thousand)

### 32 NET SALES

Own manufactured product (note 32.1 to 32.3)  
Less: Sales tax (note 32.4)

2011      2010  
------(Rupees)-----

98,228,824	63,194,878
8,780,376	2,986,339
<u>89,448,448</u>	<u>60,208,539</u>
28,666,921	19,857,003
3,503,532	89,777
<u>25,163,389</u>	<u>19,767,226</u>
<u>114,611,837</u>	<u>79,975,765</u>

Purchased product/ services rendered  
Less: Sales tax (note 32.4)

32.1 Includes export sales by Engro Foods Limited, Engro Polymer and Chemicals Limited, Avanceon Limited and Engro Eximp (Private) Limited amounting to Rs. 614,560 (2010: Rs. 20,998), Rs. 1,563,055 (2010: Rs. 2,094,043), Nil (2010: Rs. 185,028) and Rs. 1,463,320 (2010: Rs. 362,370) respectively.

32.2 Includes sale of electricity by Engro Polymer and Chemicals Limited and Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited amounting to Nil (2010: Rs. 80,306) and Rs. 8,338,210 (2010: Rs. 5,727,336) respectively.

32.3 Sales are net of marketing allowances of Rs. 61,302 (2010: Rs. 123,542), special excise duty Rs. 93,600 (2010: Rs. 120,773) and discounts of Rs. 351,215 (2010: Rs. 95,438).

32.4 Effective March 15, 2011, the Federal Government of Pakistan vide SRO/229/(1)/2011 has withdrawn SRO 535/1/2008 under which import and supply of fertilizers were exempt from payment of sales tax. Accordingly, sales tax has been charged to its customers from the date of withdrawal of the aforementioned SRO.

2011      2010  
------(Rupees)-----

### 33 COST OF SALES

Raw and packing materials consumed including unprocessed rice  
Salaries, wages and staff welfare (note 33.1)  
Fuel and power  
Repairs and maintenance  
Depreciation (note 4.2)  
Amortization (note 7.1)  
Consumable stores  
Staff recruitment, training, safety and other expenses  
Purchased services  
Storage and handling  
Travel  
Communication, stationery and other office expenses  
Insurance  
Rent, rates and taxes  
Stock - finished goods written off

37,752,061	32,253,583
3,048,318	2,118,689
11,283,844	4,833,217
1,361,671	850,164
5,279,946	2,634,394
7,332	4,166
544,140	518,701
61,505	48,129
817,203	630,855
1,343,628	882,897
203,848	114,654
219,950	138,934
418,798	319,680
163,489	114,663
200	27,912

(Amounts in thousand)

	2011	2010
	------(Rupees)-----	
Provision against:		
- obsolete stock	18,118	-
- slow moving spares	3,950	-
Provision against sales tax refundable (written back)	-	(121,539)
Other expenses	82,468	69,719
Cost of goods manufactured	62,610,469	45,438,818
Add: Opening stock of work-in-process	53,313	62,663
Less: Closing stock of work-in-process	152,947	53,313
	(99,634)	9,350
Cost of goods manufactured	62,510,835	45,448,168
Add: Opening stock of finished goods manufactured	1,724,312	863,140
Less: Closing stock of finished goods manufactured	2,413,470	1,724,312
	(689,158)	(861,172)
Cost of goods sold:		
- own manufactured product	61,821,677	44,586,996
- purchased product (note 33.2)	20,697,769	13,830,863
- others	11,135	1,284,271
	<u>82,530,581</u>	<u>59,702,130</u>

33.1 Salaries, wages and staff welfare includes Rs. 164,913 (2010: Rs. 135,677) in respect of staff retirement benefits.

	2011	2010
	------(Rupees)-----	
33.2 <b>Cost of sales - purchased product</b>		
Opening stock	1,482,939	401,607
Add: Purchases	20,892,811	14,912,195
Less: Closing stock	1,677,981	1,482,939
	<u>20,697,769</u>	<u>13,830,863</u>

#### 34 SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and staff welfare (note 34.1)	933,484	1,072,685
Staff recruitment, training, safety and other expenses	40,452	41,436
Product transportation and handling	3,400,836	2,682,792
Repairs and maintenance	32,732	23,437
Advertising and sales promotion	2,014,433	1,596,875
Rent, rates and taxes	173,270	203,609
Communication, stationery and other office expenses	122,547	89,295
Travel	131,558	150,190
Depreciation (note 4.2)	185,916	100,553
Amortization (note 7.1)	54,213	26,412
Purchased services	11,400	13,001
Others	44,124	78,035
	<u>7,144,965</u>	<u>6,078,320</u>

(Amounts in thousand)

34.1 Salaries, wages and staff welfare include Rs. 75,218 (2010: Rs. 114,692) in respect of staff retirement benefits.

#### 35 ADMINISTRATIVE EXPENSES

	2011	2010
	------(Rupees)-----	
Salaries, wages and staff welfare	1,485,473	945,109
Staff recruitment, training, safety and other expenses	108,827	34,684
Repairs and maintenance	23,354	29,369
Advertising and sales promotion	65,053	70,405
Rent, rates and taxes	272,664	211,510
Communication, stationery and other office expenses	205,308	139,482
Travel	116,489	127,788
Depreciation (note 4.2)	173,457	113,935
Amortization (note 7.1)	13,813	7,120
Purchased services	248,785	185,668
Donations (note 50)	82,654	135,945
Others	235,692	79,373
Provision for impairment of trade debts	-	130,972
	<u>3,031,569</u>	<u>2,211,360</u>

#### 36 OTHER OPERATING INCOME

	2011	2010
	------(Rupees)-----	
<b>Financial assets:</b>		
Income on deposits / other financial assets	1,291,784	399,862
Exchange gain	21,084	11,355
<b>Non financial assets:</b>		
Service charges	6,394	92
Gain on fair value adjustments of embedded derivatives	367,360	-
Delayed payment charges - overdue receivables	66,480	-
Gain on curtailed defined benefit pension plan	-	4,073
Gain on disposal of property, plant and equipment	26,798	321,835
Gain on disposal of biological assets	2,095	-
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	90,830	14,309
Share option compensation scheme expense written back	-	101,224
Others	183,720	44,571
	<u>2,056,545</u>	<u>897,321</u>

(Amounts in thousand)

### 37 OTHER OPERATING EXPENSE

	2011	2010
	------(Rupees)-----	
Workers' profits participation fund (note 28.4)	457,718	294,156
Workers' welfare fund	242,113	199,069
Legal and professional charges	254,688	150,705
Research and development (including salaries and wages)	33,820	43,040
Provision for impairment (note 7)	554,642	-
Loss on death / sales of biological assets	-	5,357
Foreign exchange loss	280,098	64,453
Loss on fair value adjustments of embedded derivative	-	28,795
Auditors' remuneration (note 37.1)	16,357	22,530
Professional tax	93	625
Others	90,180	28,450
	<u>1,929,709</u>	<u>837,180</u>

#### Auditor's remuneration:

The aggregate amount charged in respect of auditors' remuneration, including remuneration of auditors' of foreign subsidiaries, is as follows:

Fee for the		
- audit of annual financial statements	8,189	8,110
- review of half yearly financial statements	1,943	1,015
- special audit and other advisory services	846	
Certifications, audit of retirement benefit funds other advisory services and review of compliance with Code of Corporate Governance	1,617	11,972
Tax services	1,428	90
Reimbursement of expenses	2,334	1,343
	<u>16,357</u>	<u>22,530</u>

### 38 FINANCE COST

Interest/mark-up on		
- Long term borrowings	8,846,137	3,324,269
- Short term borrowings	1,616,458	776,021
Accrued interest on Workers' profits participation fund (note 28.4)	225	1,676
Foreign exchange loss on borrowings	1,495,193	120,802
Financial charges on usance letters of credit	112,805	-
Others	243,775	98,920
	<u>12,314,593</u>	<u>4,321,688</u>

### 39 SHARE OF INCOME FROM JOINT VENTURE

Engro Vopak Terminal Limited		
Share of income before taxation	2,680,288	853,423
Less: Share of reversal for taxation	(938,101)	(298,698)
	<u>1,742,187</u>	<u>554,725</u>

(Amounts in thousand)

### 40 TAXATION

	2011	2010
	------(Rupees)-----	
Current		
- for the year	2,220,775	1,333,929
- for prior years	110,243	(409,471)
	<u>2,331,018</u>	<u>924,458</u>
Deferred		
- for the year	1,330,209	1,039,056
- for prior years	(13,466)	(127,383)
	<u>1,316,743</u>	<u>911,673</u>
	<u>3,647,761</u>	<u>1,836,131</u>

40.1 As a result of demerger, all pending tax issues of the Fertilizer Undertaking have been transferred to Engro Fertilizers Limited, a subsidiary company. Major issues pending before the tax authorities are described below:

During the year, the tax department finalized the audit for the financial year 2009 and raised a demand of Rs. 1,110,862, subsequently rectified to Rs. 982,958 which included Rs. 561,595 demanded against financial year 2008. The department while assessing the tax liability of the E-Fert for the aforementioned year, disallowed adjustment of refund amounting to Rs. 443,554 pertaining to financial year 2007. Engro Fertilizers Limited filed an appeal with the Commissioner Inland Revenue (Appeals) for the stay of the outstanding demand who in its order dated May 14, 2011 granted the stay and restrained the department from taking any coercive action unless the assessed refund of Rs. 443,554 is adjusted. Subsequently, the demand has been partially adjusted against refunds arising from the effect of appeal orders for income / financial years 1995 – 2002, as discussed below.

Engro Corporation Limited (the Holding Company) in its tax return for financial years 2006 to 2008 (tax years 2007 to 2009) claimed the benefit of Group Relief under section 59B of the Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from its wholly owned subsidiary, Engro Foods Limited, amounting to Rs. 428,744, Rs. 622,103 and Rs. 450,000 respectively.

The tax department had raised demands of Rs. 476,479 (rectified to Rs. 406,644), Rs. 910,845 and Rs.1,670,814 for financial years 2006, 2007 and 2008 respectively, mainly on account of disallowance of Group Relief (in all three years), inter corporate dividend (in 2007 and 2008) and write down of inventories to net realisable value (in 2008) besides certain other issues. Uptill last year, the Holding Company had paid Rs. 170,000, Rs. 400,000 and Rs 600,000 for financial years 2006, 2007 and 2008 respectively. Stay by the High Court of Sindh for payment of balance amount for financial year 2006 was granted to the Holding Company pending decision of the appeal filed by the Holding Company before the Income Tax Appellate Tribunal (ITAT). However, for financial year 2007 the issue of Group Relief was decided by the Commissioner Inland Revenue (Appeals I) in Engro Fertilizers Limited's favour against which the tax department filed an appeal with ITAT. The Holding Company had filed appeal with the Commissioner Inland Revenue (Appeals I) for financial year 2008 and stay by the Department for the payment of the balance amount was granted to the Holding Company for financial year 2008 till December 31, 2010. However, the tax department upon expiry of the stay period raised a payment demand of Rs. 509,218 (after adjustment of Rs. 561,596 from filed refund of financial year 2009) on January 27, 2011, against which the management has requested the department to apply its assessed refunds against these demands.

During the year, appeal effect orders were received relating to financial / income years 1995 to 2002. Appeal effects relating to financial years 2005, 2006 and 2007 are pending at the department level. The tax department has however, filed reference application against the ITAT decisions before the Sindh High Court, which is pending for hearing. Engro

(Amounts in thousand)

Fertilizers Limited is confident that all pending issues, including the references filed by the department in the High Court, will eventually be decided in its favour.

40.2 Sindh Engro Coal Mining Company Limited, a subsidiary company of Engro PowerGen Limited (EPGL), has claimed exploration and evaluation expenditure incurred against other income in the income tax return filed for the year ended December 31, 2011 under section 100(2)(3) of part II of Fifth Schedule of the Income Tax Ordinance, 2001. Such expenditure, upto the date of commercial production, to the extent it cannot be set off in the year is treated as a loss, which is available for set off against future income within ten years from the commencement of commercial production. The current year's provision has been determined on aforementioned basis and prior year provision has been adjusted accordingly. The loss carried forward as at December 31, 2011 aggregated to Rs. 410,796 which has been recognized to off set the deferred tax liability recorded on exploration and evaluation expenditure.

40.3 As at December 31, 2011 Engro PowerGen Limited, a subsidiary company, has loss available for carry forward amounting to Rs. 6,452,191 (2010: Rs. 6,449,843) of which the tax effects of losses aggregating Rs. 410,796 (2010: Rs. 341,968) has been recognized. These losses include losses of a subsidiary company (Engro Powergen Qadirpur Limited) amounting to Rs. 5,954,862 (2010: Rs. 6,021,342) representing unabsorbed tax depreciation.

40.4 Engro Foods Limited (EFL) has been designated as part of the Group of the Holding Company by the Securities and Exchange Commission of Pakistan (SECP) through its letter dated February 26, 2010. Such designation was mandatory for availing Group tax relief under section 59 B(2)(g) of the Ordinance and a requirement under the Group Companies Registration Regulations, 2008 (the Regulations) notified by the SECP on December 31, 2008.

Further, the Appellate Tribunal, in respect of surrender of aforementioned tax losses by EFL to the Holding Company for the years ended December 31, 2006 and 2007, decided the appeals last year in favour of the Holding Company, whereby, allowing the surrender of tax losses by EFL to the Holding Company. The tax department has filed reference application thereagainst before the Sindh High Court, which is pending for hearing. However, in any event, should the reference application be upheld and the losses are returned to EFL, it will only culminate into recognition of deferred income tax asset thereon with a corresponding liability to the Holding Company for refund of the consideration received. As such there will be no effect on the results of EFL.

EFL's appeal against the order of Commissioner Inland Revenue (CIR) for reduction of tax loss from Rs. 1,224,964 to Rs. 1,106,493 for the tax year 2007, is currently in the process of being heard. However, EFL, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

Last year, in respect of EFL, the Commissioner Inland Revenue raised a demand of Rs. 337,386 for tax year 2008 by disallowing the provision for gratuity, advances and stock written-off, repair and maintenance, provision for bonus, sales promotion and advertisement expenses. Further, in the aforementioned order the consideration receivable from the Holding Company on surrender of tax loss has been added to income for the year. EFL had filed an appeal thereagainst before the Commissioner Appeals. The Commissioner Appeals through his order dated September 16, 2011, has decided certain matters in favour of EFL whereby withdrawing the demand amounting to Rs. 222,357. EFL has filed an appeal at the Tribunal level for the remainder matters remanded back or decided against EFL. Based on the opinion of tax consultant, EFL is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

40.5 Engro Eximp (Private) Limited's (EEL) major operating activities are taxable under the Final Tax Regime. Accordingly, tax is charged at the import value of the goods under Part II of the First Schedule, export proceeds under Division IV of Part 3 of the First Schedule and commission income under Division II of Part 4 of the First Schedule of the Income Tax Ordinance,

(Amounts in thousand)

2001. However, profit on bank accounts, capital gains on investments and income on local rice sales are taxable under the Normal Tax Regime.

In 2010, the tax department raised demands of Rs. 239,902 and Rs. 1,708,621 for financial years 2006 and 2008 respectively, mainly on the disallowance of subsidy received by EEL on imported phosphatic fertilizer from the Government of Pakistan as allowable expense. The Commissioner Inland Revenue, on EEL's appeal thereagainst, had set aside the aforementioned amended orders with the directions to the Additional Commissioner Inland Revenue for denovo proceedings. The Additional Commissioner Inland Revenue has initiated the proceedings as directed, which are in progress. EEL is however confident that the above matters will be decided in its favour without any additional tax liability and as such has not made provision for the aforementioned demand in these financial statements.

40.6 Following are the taxation matters pertaining to Engro Polymer and Chemicals Limited (EPCL):

40.61 The Deputy Commissioner Inland Revenue (DCIR) through the order dated November 26, 2009 raised a tax demand of Rs. 213,172 against EPCL, a subsidiary company. The demand for tax year 2008 arose as a result of additions on account of trading liabilities of Rs. 47,582 under section 34(5) of the Income Tax Ordinance, 2001 (Ordinance); disallowance of provision for retirement benefits of Rs. 5,899; adding imputed interest on loans to employees and executives of Rs. 16,069 to income; disallowing finance cost of Rs. 134,414 and not considering adjustment of minimum tax paid for tax years 2004 to 2007 against the above demand.

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

During the year, through an appellate order, the CIR(A) maintained certain additions aggregating Rs. 189,810 including finance cost amounting to Rs. 134,414 and remanded back the issue of imputed interest on loans to employees and executives and directed the DCIR to allow credit of the minimum tax charged for the period of tax years 2004 to 2007. An appeal against the said appellate order has been filed by EPCL 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 EPCL, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matters would be favorable and consequently has not recognized the effects for the same in the financial statements.

40.62 Further for tax year 2009, the DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for the retirement benefits of Rs. 14,239; disallowing provision against receivable of Special Excise Duty of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss as per the revised return as a consequence of the matters explained below.

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

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



(Amounts in thousand)

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

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

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

#### 40.7 Relationship between tax expense and accounting profit

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

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Profit before tax	11,459,152	8,277,133
Tax calculated at the rate of 35%	4,010,703	2,896,997
Depreciation on exempt assets not deductible for tax purposes	38,575	34,495
Effect of exemption from tax on certain income	(339,658)	(392,005)
Effect of applicability of lower tax rate and other tax credits / debits	30,655	(450,035)
Prior year tax charge	96,777	(406,127)
Un-recoupable minimum turnover tax	(183,623)	164,199
Net effect of consolidation adjustments	(5,668)	(11,393)
Tax charge for the year	<u>3,647,761</u>	<u>1,836,131</u>

(Amounts in thousand)

#### 41 EARNINGS / (LOSS) PER SHARE - BASIC AND DILUTED

There is a dilutive effect on the basic earnings per share of the Group, after taking into the effect of options granted on Holding Company's shares to (i) employees of the Holding Company under the Employee Share Option Scheme and (ii) IFC loan of Engro Fertilizers Limited referred to in note 23.5. Such dilution is based on the average market price of the Holding Company's shares, which is higher than the respective exercise prices of options granted under Employee Share Option Scheme and IFC loan.

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Profit / (loss) after taxation (attributable to the owners of the Holding Company) from:		
- Discontinued operations	(71,347)	(95,849)
- Continuing operations	8,131,795	6,885,898
	<u>8,060,448</u>	<u>6,790,049</u>

The information necessary to calculate basic and diluted earnings per share is as follows:

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Profit for the year from continuing operations	8,131,795	6,885,898
Add: Interest on IFC loan of USD 15,000 (net of tax) - note 41.1	86,619	-
Profit used for the determination of Diluted EPS	<u>8,218,414</u>	<u>6,885,898</u>
	------(Numbers)-----	------(Numbers)-----
Weighted average number of ordinary shares	393,284	393,284
Add: Weighted average adjustments for (note 41.1):		
Assumed conversion of employees' share options	153	-
Assumed conversion of USD 15,000 IFC loan	8,381	-
	<u>8,534</u>	<u>-</u>
Weighted average number of shares for determination of diluted EPS	<u>401,818</u>	<u>393,284</u>

41.1 As at December 31, 2010, there was no diluted effect on the basic earnings per share of the Group since the average annual market share price of the Holding Company's share was less than the exercise price of the options granted on the Holding Company's shares to employees (note 13) and IFC (note 23.5).

(Amounts in thousand)

#### 42 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the consolidated financial statements for remuneration, including all benefits, to chief executives, directors and executives of the Group are given below:

	2011			2010		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	------(Rupees)-----					
Managerial remuneration	189,083	30,287	2,089,937	176,657	18,615	1,858,348
Retirement benefits funds	19,784	2,931	247,558	16,795	2,236	233,696
Other benefits	21,754	37	352,793	43,429	6,859	371,791
Fees	71	25,070	-	-	25,205	-
<b>Total</b>	<b>230,692</b>	<b>58,325</b>	<b>2,690,288</b>	<b>236,881</b>	<b>52,915</b>	<b>2,463,835</b>
Number of persons including those who worked part of the year	10	43	897	8	54	1,098

42.1 The Group also makes contributions based on actuarial calculations to pension and gratuity funds and provides certain household items for use of some employees. Cars are also provided for use of Chief Executives and directors and some employees.

42.2 Premium charged in these consolidated financial statements in respect of directors indemnity insurance policy, purchased by the Group amounted to Rs. 5,552 (2010: Rs. 3,558).

#### 43 RETIREMENT BENEFITS

##### 43.1 Defined benefit plans

The latest actuarial valuation of the defined benefit gratuity plan was carried out as at December 31, 2011, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

##### 43.1.1 Engro Corporation Limited, Holding Company

##### 43.1.1.1 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded	
	2011	2010
	------(Rupees)-----	
Present value of funded obligation	104,576	115,956
Fair value of plan assets	(113,689)	(125,199)
Surplus	(9,113)	(9,243)
Unrecognised actuarial gain	11,222	15,986
Payable to associated companies	108	(8,421)
Unrecognised past service cost	915	1,678
<b>Net (asset) / liability at end of the year</b>	<b>3,132</b>	<b>-</b>

(Amounts in thousand)

##### 43.1.1.2 Movement in net (asset)/liability recognised

Net (asset)/liability at beginning of the year  
(Reversal)/expense recognised  
Amounts received from/(paid to) the Fund  
Net (asset)/liability at end of the year

Defined Benefit Gratuity Plans Funded  
2011 2010  
------(Rupees)-----

-	-
3,132	1,762
-	(1,762)
<b>3,132</b>	<b>-</b>

##### 43.1.1.3 Movement in defined benefit obligation

As at beginning of the year  
Current service cost  
Interest cost  
Benefits paid during the year  
Actuarial (gain)/loss on obligation  
Liability transferred to Defined Contribution Gratuity Funds  
Liability reversed in respect of inter-company transfer  
Liability transferred in respect of inter-company transfer  
As at end of the year

115,956	68,020
6,093	3,449
18,773	8,309
(20,000)	-
(4,774)	27,757
(3,051)	-
(8,421)	-
-	8,421
<b>104,576</b>	<b>115,956</b>

##### 43.1.1.4 Movement in fair value of plan assets

As at beginning of the year  
Expected return on plan assets  
(Repayment to) / Contribution by the Company  
Benefits paid during the year  
Actuarial gain/ (loss) on plan assets  
Assets transferred to Defined Contribution Gratuity Fund  
As at end of the year

125,199	81,520
20,608	9,579
-	1,762
(20,000)	-
(9,175)	32,338
(2,943)	-
<b>113,689</b>	<b>125,199</b>

##### 43.1.1.5 Charge for the year

Current service cost  
Interest cost  
Expected return on plan assets  
Recognition of curtailment gain  
Amortisation of unrecognized past service cost  
Net actuarial (gain)/loss recognised during the year

6,093	3,449
18,773	8,309
(20,608)	(9,579)
(1,050)	-
(76)	(129)
-	(288)
<b>3,132</b>	<b>1,762</b>

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded	
	2011	2010
	------(Rupees)-----	
<b>43.1.16 Principal actuarial assumptions used in the actuarial valuation</b>		
Discount rate	12.5	14.5
Expected per annum rate of return on plan assets	12.5	14.5
Expected per annum rate of increase in future salaries	12.5	14.5
	------(Rupees)-----	
<b>43.1.17 Actual return on plan assets</b>	<u>11,433</u>	<u>41,917</u>

**43.1.18 Plan assets comprise of the following**

	2011		2010	
	Rupees	%	Rupees	%
Fixed income instruments	84,736	75%	98,462	79%
Cash	1,109	1%	5,890	5%
Others	27,844	24%	20,847	17%
	<u>113,689</u>		<u>125,199</u>	

43.1.19 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.

**43.1.4.10 Comparison of five years:**

	2011	2010	2009	2008	2007
	------(Rupees)-----				
Present value of defined benefit obligation	(104,576)	(115,956)	(339,182)	(296,469)	(587,655)
Fair value of plan assets	<u>113,689</u>	<u>125,199</u>	<u>409,228</u>	<u>359,222</u>	<u>683,808</u>
Surplus / (Deficit)	<u>9,113</u>	<u>9,243</u>	<u>70,046</u>	<u>62,753</u>	<u>96,153</u>

**43.1.11 Defined contribution plans**

An amount of Rs. 11,455 (2010: Rs. 7,956) has been charged during the year in respect of defined contribution plans maintained by the Company.

(Amounts in thousand)

**43.12 Engro Fertilizers Limited, Subsidiary Company**

**43.12.1 Balance sheet reconciliation**

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2011	2010	2011	2010
	------(Rupees)-----			
Present value of funded obligation	277,645	269,523	32,023	31,230
Fair value of plan assets	(256,976)	(289,580)	(37,023)	(34,855)
Surplus	20,669	(20,057)	(5,000)	(3,625)
Payable to associated companies		2,875	-	-
Unrecognised actuarial gain / (loss)	(22,636)	12,161	401	(448)
Payable to Defined Contribution Gratuity Fund	2,454	-	-	-
Unrecognised past service cost	4,253	5,021	-	-
Net (asset) / liability at end of the year	<u>4,740</u>	<u>-</u>	<u>(4,599)</u>	<u>(4,073)</u>

**43.12.2 Movement in net (asset)/liability recognised**

Net (asset)/liability at beginning of the year	-	-	(4,073)	(31,887)
(Reversal)/expense recognised	4,740	15,470	(526)	(4,073)
Amounts received from/(paid to) the Fund	-	(15,470)	-	31,887
Net (asset)/liability at end of the year	<u>4,740</u>	<u>-</u>	<u>(4,599)</u>	<u>(4,073)</u>

**43.12.3 Movement in defined benefit obligation**

As at beginning of the year after transfer of Fertilizer Undertaking	269,523	241,276	31,230	28,703
Current service cost	14,582	17,735	-	-
Interest cost	32,901	29,510	4,286	3,264
Benefits paid during the year	(7,516)	(6,785)	(3,377)	(3,197)
Actuarial (gain) / loss on obligation	49,473	(8,235)	(116)	2,460
Settlement gain	(8,126)	-	-	-
Liability transferred in respect of inter-company transfer	(445)	(3,978)	-	-
Liability transferred to Defined Contribution Gratuity Fund	(69,324)	-	-	-
Actual distribution during the year	(3,423)	-	-	-
As at end of the year	<u>277,645</u>	<u>269,523</u>	<u>32,023</u>	<u>31,230</u>

(Amounts in thousand)

43.12.4 Movement in fair value of plan assets

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2011	2010	2011	2010
	-----Rupees-----			
At beginning of the year	289,580	263,645	34,855	62,645
Expected return on plan assets	33,726	30,947	4,812	7,337
(Repayment to) / Contribution by the Company	-	15,470	-	(31,887)
Benefits paid during the year	(10,939)	(6,785)	(3,377)	(3,197)
Actuarial gain / (loss) on plan assets	14,676	(12,594)	733	(43)
Assets transferred in respect of transfers	(3,197)	-	-	-
Assets transferred to Defined Contribution Gratuity Fund	(66,870)	-	-	-
Liability transferred in respect of inter-company transfer	-	(1,103)	-	-
As at end of the year	<u>256,976</u>	<u>289,580</u>	<u>37,023</u>	<u>34,855</u>
<b>43.12.5 Charge for the year</b>				
Current service cost	14,582	17,735	-	-
Interest cost	32,901	29,510	4,286	3,264
Expected return on plan assets	(33,726)	(30,947)	(4,812)	(7,337)
Settlement gain (note 43.1.2.11)	(8,678)	-	-	-
Amortisation of unrecognized past service cost	(339)	(372)	-	-
Amortisation of actuarial gain	-	(456)	-	-
	<u>4,740</u>	<u>15,470</u>	<u>(526)</u>	<u>(4,073)</u>
<b>43.12.6 Actual return on plan assets</b>	<u>48,402</u>	<u>18,353</u>	<u>5,545</u>	<u>7,294</u>

43.12.7 Principal actuarial assumptions used in the actuarial valuation

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2011	2010	2011	2010
	-----Rupees-----			
Discount rate	12.5%	14.5%	12.5%	14.5%
Expected per annum rate of return on plan assets	12.5%	14.5%	12.5%	14.5%
Expected per annum rate of increase in pension	-	-	4.5%	6.5%
Expected per annum rate of increase in future salaries	11.5%	13.5%	12.5%	14.5%

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	December 31, 2011			
	Rupees		Rupees	
	%		%	
<b>43.12.8 Plan assets comprise of the following</b>				
Fixed income instruments	250,033	97%	36,103	98%
Cash / (Payable)	6,943	3%	323	1%
Others	-	0%	597	2%
	<u>256,976</u>		<u>37,023</u>	

43.12.9 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.

43.12.10 During the year, the subsidiary company recognised a gain of Rs. 526 on curtailed defined benefit plan. In 2005, the Holding Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited) MPT Employees Pension Fund (the Fund) for the benefit of management employees, including those transferred to the Company after demerger. Employees joining the Holding Company from July 1, 2005 onwards became members of the new Fund. Members of the existing pension fund (a defined benefit plan) were given a one-time option exercisable upto June 15, 2005 to join the new Fund effective July 1, 2005.

43.12.11 Engro Fertilizers Limited has recognised a gain of Rs. 8,678 on settlement of liability of those employees who have accepted the offer to opt out of defined benefit gratuity plan as more fully explained in note 2.24.2.

43.12.12 Expected future cost / (reversal) for the year ending December 31, 2012 is as follows:

	Rupees
- MPT Pension Fund	<u>(625)</u>
- MPT Gratuity Fund	<u>4,951</u>
- Non-MPT Gratuity Fund	<u>12,337</u>

43.12.13 Defined contribution plans

An amount of Rs. 43,436 has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

(Amounts in thousand)

43.13 Engro Polymer and Chemicals Limited, Subsidiary Company

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

43.13.1 Balance sheet reconciliation

43.13.2 Movement in the defined benefit obligations

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

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2011	2010	2011	2010	2011	2010
	-----Rupees-----					

43.13.3 Movement in the fair value of plan assets

Fair value as at January 1	97,803	88,607	30,903	27,618	-	-
Expected return on plan assets	14,642	12,334	4,793	3,940	-	-
Actuarial losses	(8,365)	(7,953)	(4,387)	(24)	-	-
Employer contributions	7,576	6,266	3,141	3,444	-	-
Benefits paid	(1,273)	(1,851)	(767)	(4,130)	-	-
Transferred to other group companies	-	400	108	55	-	-
Fair value as at December 31	110,383	97,803	33,791	30,903	-	-

(Amounts in thousand)

43.13.4 The amounts recognized in the profit and loss account are as follows:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2011	2010	2011	2010	2011	2010
	-----Rupees-----					
Current service cost	10,617	8,551	4,950	3,844	861	759
Interest cost	16,404	12,081	5,409	3,988	732	537
Expected return on plan assets	(14,642)	(12,334)	(4,793)	(3,940)	-	-
Recognition of actuarial (gains) / loss	-	(84)	65	-	-	1
Expense	12,379	8,214	5,631	3,892	1,593	1,297
43.13.5 Actual return on plan assets	9,338	13,995	3,660	4,485	-	-

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

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

43.13.7 Principal assumptions used:

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

43.13.8 Plan assets comprise of following:

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

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

(Amounts in thousand)

43.13.10 Historical information of staff retirement benefits:

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

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

(Amounts in thousand)

43.14 Engro Powergen Limited, Subsidiary Company

Defined benefit plan

The latest actuarial valuation of the defined benefit plans in respect of funded defined benefit gratuity scheme was carried out as at December 31, 2011, using the Projected Unit Credit Method. Details of the defined benefit plan as updated, are as follows:

	2011	2010
	------(Rupees)-----	
43.14.1 Balance sheet reconciliation		
Present value of defined benefit obligation	10,685	7,913
Fair value of plan assets	(6,107)	(5,099)
Deficit	4,578	2,814
Unrecognised actuarial loss/(gain)	(2,182)	68
Payable to group companies	118	-
Unrecognised past service cost	(437)	(471)
Net liability at end of the year	2,077	2,411
43.14.2 Movement in net liability recognized		
Net liability at beginning of the year	2,411	797
Expense recognized	2,077	1,614
Net contribution	(2,411)	-
Net liability at end of the year	2,077	2,411
43.14.3 Movement in defined benefit obligation		
As at January 1	7,913	3,742
Current service cost	1,713	1,383
Interest cost	1,266	529
Actuarial (gain)/loss on obligation	1,160	(87)
Liability transferred in respect of inter-company transfer	(1,367)	2,346
As at December 31	10,685	7,913
43.14.4 Movement in fair value of plan assets		
As at January 1	5,099	2,009
Expected return on plan assets	935	335
Contributions by the Company	2,411	-
Actuarial gain/(loss) on assets	(1,089)	409
Asset transferred in respect of inter-company transfer	(1,249)	2,346
As at December 31	6,107	5,099

(Amounts in thousand)

	2011	2010
	-----Rupees-----	
<b>43.1.4.5 Cost charged for the year</b>		
Current service cost	1,713	1,383
Interest cost	1,266	529
Expected return on plan assets	(935)	(335)
Amortisation of past service cost	-	33
Net actuarial (gain) / loss recognized for the year	33	4
	<u>2,077</u>	<u>1,614</u>

43.1.4.6 Principal actuarial assumptions used in the actuarial valuation are as follows:

	2011	2010
	-----Rupees-----	
Discount rate	12.5	14.5
Expected per annum rate of return on plan assets	12.5	14.5
Expected per annum rate of increase in future salaries	12.5	14.5
<b>43.1.4.7 Actual return on plan assets</b>	<u>(154)</u>	<u>743</u>

43.1.4.8 Plan assets comprise of the following:

	2011		2010	
	Rupees	%	Rupees	%
Cash and cash equivalent	5,769	94	5,051	99
Others	338	6	48	1
	<u>6,107</u>	<u>100</u>	<u>5,099</u>	<u>100</u>

43.1.4.9 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.

43.1.4.10 Comparison from the last five years:

	2011	2010	2009	2008	2007
	-----Rupees-----				
Present value of defined benefit obligation	10,685	7,913	3,742	2,186	49
Fair value of plan assets	(6,107)	(5,098)	(2,009)	(1,681)	-
Deficit	<u>4,578</u>	<u>2,815</u>	<u>1,733</u>	<u>505</u>	<u>49</u>

43.1.4.11 Expected future cost for the year ending December 2012 is Rs. 3,199.

43.1.4.12 Defined Contribution Plan

An amount of Rs. 16,806 (2010: Rs. 13,392) has been charged during the period in respect of defined contribution plan maintained by the Company.

(Amounts in thousand)

43.1.5 Engro Foods Limited, Subsidiary Company

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2011 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

	Funded Gratuity Fund		Unfunded Pension Scheme		Total	
	2011	2010	2011	2010	2011	2010
	-----Rupees-----					
<b>43.1.5.1 Reconciliation of obligations as at year end</b>						
Present value of defined benefit obligation	(171,407)	(137,469)	-	-	(171,407)	(137,469)
Fair value of plan assets	129,997	82,509	-	-	129,997	82,509
Deficit	(41,410)	(54,960)	-	-	(41,410)	(54,960)
Present value of unfunded obligations	-	-	-	(1,307)	-	(1,307)
Payable to group companies	396	(1,410)	-	-	396	(1,410)
Unrecognized actuarial (gain)/ loss	27,277	40,593	-	(2,125)	27,277	38,468
Net liability at end of the year	<u>(13,737)</u>	<u>(15,777)</u>	<u>-</u>	<u>(3,432)</u>	<u>(13,737)</u>	<u>(19,209)</u>
<b>43.1.5.2 Movement in liability</b>						
Net liability at beginning of the year	(15,777)	-	(3,432)	(2,585)	(19,209)	(2,585)
Transfers to defined contribution pension scheme	-	-	3,432	-	3,432	-
Charge for the year	(64,937)	(31,554)	-	(847)	(64,937)	(32,401)
Contributions	66,977	15,777	-	-	66,977	15,777
Net liability at end of the year	<u>(13,737)</u>	<u>(15,777)</u>	<u>-</u>	<u>(3,432)</u>	<u>(13,737)</u>	<u>(19,209)</u>
<b>43.1.5.3 Movement in fair value of plan assets</b>						
Fair value of plan assets at beginning of the year	82,509	58,688	-	-	82,509	58,688
Expected return on plan assets	14,857	8,752	-	-	14,857	8,752
Contributions for the year	66,977	15,777	-	-	66,977	15,777
Transfers	(3,383)	4,054	-	-	(3,383)	4,054
Benefits paid during the year	(18,000)	(2,096)	-	-	(18,000)	(2,096)
Actuarial gain / (loss) on assets	(12,963)	(2,666)	-	-	(12,963)	(2,666)
Fair value of plan assets at end of the year	<u>129,997</u>	<u>82,509</u>	<u>-</u>	<u>-</u>	<u>129,997</u>	<u>82,509</u>

(Amounts in thousand)

43.15.4 Movement in present value of defined benefit obligations/ unfunded obligations

Present value of defined benefit obligations at beginning of the year	137,469	77,010	-	2,372	137,469	79,382
Service cost	52,266	28,764	-	530	52,266	29,294
Interest cost	25,767	10,783	-	317	25,767	11,100
Transfers	(9,999)	2,645	-	-	(9,999)	2,645
Benefits paid during the year	(18,000)	(2,096)	-	-	(18,000)	(2,096)
Liability reversed	8,421	-	-	-	8,421	-
Actuarial (gain) / loss	(24,520)	20,363	-	(1,912)	(24,520)	18,451
<b>Present value of defined benefit obligation/ unfunded obligation at end of the year</b>	<b>171,404</b>	<b>137,469</b>	<b>-</b>	<b>1,307</b>	<b>171,404</b>	<b>138,776</b>

43.15.5 Cost charged to profit and loss account

Current service cost	52,266	28,764	-	530	52,266	29,294
Interest cost	25,770	10,783	-	317	25,770	11,100
Expected return on plan assets	(14,857)	(8,752)	-	-	(14,857)	(8,752)
Recognition of actuarial (gain) / loss	1,758	759	-	-	1,758	759
<b>Cost for the year</b>	<b>64,937</b>	<b>31,554</b>	<b>-</b>	<b>847</b>	<b>64,937</b>	<b>32,401</b>

43.15.6 In addition, salaries, wages and benefits also include Rs. 59,515 (2010: Rs. 73,284) in respect of defined contribution provident fund and pension scheme.

43.15.7 Principal actuarial assumptions used are as follows:

	Gratuity Fund		Un-funded Pension Scheme	
	2011	2010	2011	2010
Discount rate	12.5%	14.5%	-	14.5%
Expected per annum rate of return on plan assets	12.5%	14.5%	-	14.5%
Expected per annum rate of increase in future salaries	11.5%	14.5%	-	14.5%
Expected per annum rate of increase in pension	-	-	-	6.5%
<b>42.15.8 Actual return on plan assets</b>	<b>5,232</b>	<b>6,086</b>	<b>-</b>	<b>-</b>

(Amounts in thousand)

43.15.9 Plan assets comprise of following:

	Gratuity Fund			
	Rupees	2011 %	Rupees	2010 %
Held to maturity investments				
- Pakistan Investment Bonds (PIBs)	46,278	36%	3,239	4%
- Term Finance Certificates (TFCs)	50,802	39%	17,351	21%
- Regular Income Certificates (RICs)	18,633	14%	19,000	23%
- Treasury Bills	-	-	19,479	24%
	115,713	89%	59,069	72%
Mutual fund securities (Equity Fund) - Units	2,112	2%	8,962	11%
Listed securities	7,855	6%	1,826	2%
Balances with banks	1,352	1%	11,537	14%
Others	2,965	2%	1,115	1%
	<b>129,997</b>	<b>100%</b>	<b>82,509</b>	<b>84%</b>

43.15.10 The expected return on plan assets has been 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. Expected return on equity investments reflect long-term real rates of return experienced in the market.

43.15.11 Expected contributions to post employment benefit plans for the year ending December 31, 2012 are Rs. 54,322.

43.15.12 Historical information of staff retirement benefits:

	2011	2010	2009	2008	2007	2006
	-----Rupees-----					
Present value of obligations	(171,407)	(137,469)	(77,010)	(39,033)	(18,947)	(8,088)
Fair value of plan assets	129,997	82,509	58,688	29,417	15,464	-
Deficit	<u>(41,410)</u>	<u>(54,960)</u>	<u>(18,322)</u>	<u>(9,616)</u>	<u>(3,483)</u>	<u>(8,088)</u>



(Amounts in thousand)

43.16 Engro Eximp (Private) Limited, Subsidiary Company

43.16.1 Defined benefit plans of Holding Company

The latest actuarial valuation of the defined benefit plan was carried out as at December 31, 2011, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

43.16.2 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded	
	2011	2010
	------(Rupees)-----	
Present value of funded obligation	63	2,670
Fair value of plan assets	(68)	(2,842)
Surplus	(5)	(172)
Unrecognized actuarial (loss) / gain	(236)	358
Payable to Defined Contribution Gratuity Fund	117	-
Unrecognized prior service cost	27	29
Net liability at end of the year	(97)	215

43.16.3 Movement in net liability recognized

Net liability at beginning of the year	215	-
Expense recognized	(97)	215
Amount paid by the Fund	(215)	-
Net liability at end of the year	(97)	215

43.16.4 Movement in present value of defined benefit obligation

As at beginning of the year	2,670	-
Defined benefit obligations in respect of employees transferred from associated companies	-	1,183
Current service cost	313	244
Interest cost	199	145
Actuarial loss on obligation	185	1,098
Liability transferred to Defined Contribution Gratuity Fund	(3,304)	-
As at end of the year	63	2,670

43.16.5 Movement in fair value of plan assets

As at beginning of the year	2,842	-
Fair value of planned assets in respect of employees transferred from associated companies	-	1,418
Expected return on plan assets	214	167
Contribution by the Company	215	-
Actuarial gain on plan assets	(14)	1,257
Assets transferred to Defined Contribution Gratuity Fund	(3,189)	-
As at end of the year	68	2,842

(Amounts in thousand)

43.16.6 Charge for the year

	2011	2010
	------(Rupees)-----	
Current service cost	313	244
Interest cost	199	145
Expected return on plan assets	(214)	(167)
Recognition of past service cost	(2)	(2)
Net actuarial gain recognized during the year	(393)	(5)
	(97)	215

43.16.7 Principal actuarial assumptions used in the actuarial valuation

	2011	2010
	------(%)-----	
Discount rate	12.5%	14.5%
Expected per annum rate of return on plan assets	12.5%	14.5%
Expected per annum rate of increase in pension		
Expected per annum rate of increase in future salaries	12.5%	14.5%

43.16.8 Actual return on plan assets

	2011	2010
	------(Rupees)-----	
	200	1,424

43.16.9 Plan assets comprise of the following

	2011		2010	
	Rupees	%	Rupees	%
Debt Instrument	52	77%	2,360	83%
Equity Instrument	16	23%	482	17%
	68		2,842	

43.16.10 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.

43.16.11 Expected future cost for the year ending December 31, 2012 is Rs 56.

(Amounts in thousand)

43.1.6.12 Defined benefit scheme of the Subsidiary Company - Engro Foods Supply Chain (Private) Limited

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Staff retirement and other service benefits - Gratuity scheme (note 43.1.6.13)	1,841	176

The latest actuarial valuation of the scheme was carried out as at December 31, 2011, using the 'Projected Unit Credit Method'. Details of the scheme are as follows:

43.1.6.13 Reconciliation of obligations as at year end

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Present value of defined benefit obligation	1,228	3,168
Receivable from associated companies	(2,530)	(2,530)
Unrecognized actuarial gain / (loss)	3,143	(462)
Net liability at end of the year	1,841	176

43.1.6.14 Movement in liability

Net liability at beginning of the year	176	-
Charge for the year	1,665	176
Net liability at end of the year	1,841	176

43.1.6.15 Movement in present value of defined benefit obligations

Present value of defined benefit obligations at beginning of the year	3,168	-
Service cost	1,419	176
Interest cost	547	-
Transfers from Engro Corporation Limited, a related party	-	-
Benefits paid during the year	6,822	2,530
Actuarial (gain) / loss	(10,159)	-
	(569)	462
Present value of defined benefit obligations at end of the year	1,228	3,168

(Amounts in thousand)

43.1.6.16 Cost charged to statement of comprehensive income

	2011 ------(Rupees)-----	2010 ------(Rupees)-----
Current service cost	1,419	176
Interest cost	547	-
Expected return on plan assets	(342)	-
Amortization of actuarial loss	41	-
Expense for the year	1,665	176

43.1.6.17 Principal actuarial assumptions used are as follows:

	2011 ------(%)-----	2010 ------(%)-----
Discount rate and expected return on plan assets	12.5%	14.5%
Expected per annum rate of increase in future salaries	11.5%	14.5%

43.1.6.18 Expected future cost for the year ending December 31, 2012 is Rs. 965.

43.1.6.19 Defined contribution plans

An amount of Rs. 9,576 (2010: Rs. 8,153) has been charged during the year in respect of defined contribution plans maintained by the Ultimate Holding Company (Engro Corporation Limited).

(Amounts in thousand)

#### 44 CASH GENERATED FROM OPERATIONS

	2011 ------(Rupees)-----	2010
Profit before taxation	11,459,152	8,277,133
Adjustment for non-cash charges and other items:		
Depreciation	5,959,530	2,848,882
Amortisation	79,394	37,698
Profit on disposal of property, plant and equipment - net	(26,798)	(307,526)
(Gain) / loss on sale/ death of biological assets	(2,095)	5,357
Gain on fair value adjustments of embedded derivatives	(367,360)	-
Provision for retirement and other service benefits	71,864	215,227
Income on deposits / other financial assets	(1,291,784)	(388,873)
Share of income from joint venture companies (note 39)	(1,742,187)	(554,725)
Gain arising from changes in fair value less estimated point of sale costs of biological assets	(90,830)	(14,309)
Financial charges (note 38)	12,314,593	4,200,886
Employee share compensation expense - net	5,367	(30,316)
Employee Housing Subsidy expense	5,095	105,797
Provision for impairment (note 7)	554,642	-
Provision for surplus and slow moving stores and spares	38,968	19,633
Provision for doubtful trade debts	-	98,618
Provision for loans and advances	-	(4,304)
Provision reversed / (provided) for other receivables	3,347	(157)
Working capital changes (note 44.1)	4,859,836	(8,633,745)
	<u>31,830,734</u>	<u>5,875,276</u>
44.1 Working capital changes		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(1,472,022)	(3,479,042)
- Stock-in-trade	(2,821,756)	(5,023,706)
- Trade debts	(1,256,829)	(1,693,493)
- Loans, advances, deposits and prepayments	112,967	(1,097,347)
- Other receivables (net)	(790,569)	(170,869)
	<u>(6,228,209)</u>	<u>(11,464,457)</u>
Increase / (decrease) in current liabilities		
- Trade and other payables	11,088,045	2,830,712
	<u>4,859,836</u>	<u>(8,633,745)</u>

(Amounts in thousand)

#### 45 CASH AND CASH EQUIVALENTS

Cash and bank balances (note 18 and 45.1)	4,426,583	4,120,031
Short term investments (note 17)	8,332,154	4,426,188
Short-term borrowings (note 30 and 45.1)	(4,656,224)	(5,715,775)
	<u>8,102,513</u>	<u>2,830,444</u>

45.1 These include balances in respect of the discontinued operations of the Holding Company as disclosed in note 19 to these consolidated financial statements.

#### 46 FINANCIAL INSTRUMENTS BY CATEGORY

	2011 ------(Rupees)-----	2010
<b>Financial assets as per balance sheet</b>		
- Loans and receivables		
Loans and advances	1,800,506	1,723,784
Trade debts	6,214,643	5,131,408
Other receivables	559,329	500,119
Cash and bank balances	4,417,885	4,120,031
	<u>12,992,363</u>	<u>11,475,342</u>
- Fair value through profit and loss		
Short term investments	8,332,154	4,426,188
- Derivatives used for hedging	239,184	3,148
	<u>8,332,154</u>	<u>4,426,188</u>
<b>Financial liabilities as per balance sheet</b>		
- Financial liabilities measured at amortised cost		
Borrowings	108,410,487	110,411,411
Liabilities against assets subject to finance lease	5,179	32,308
Trade and other payable	18,865,817	9,092,435
Accrued interest / mark-up	3,114,122	2,619,453
Unclaimed dividends	79,083	180,630
	<u>130,474,688</u>	<u>122,336,237</u>
- Fair value through profit and loss		
Conversion option on IFC loan	63,082	367,442
- Derivatives used for hedging	1,091,757	1,478,541
	<u>1,091,757</u>	<u>1,478,541</u>

(Amounts in thousand)

## 47 FINANCIAL RISK MANAGEMENT

### 47.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on having cost efficient funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

Risk management is carried out by the Group's Finance and Planning departments under guidance of the respective Management Committees.

#### a) Market risk

##### i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

This exists due to the Group's exposure resulting from outstanding import payments, foreign currency loan liabilities and related interest payments. A foreign exchange risk management policy has been developed and approved by the management. The policy allows the Group to take currency exposure for limited periods within predefined limits while open exposures are rigorously monitored. The Group ensures to the extent possible that it has options available to manage exposure, either through forward contracts, options or prepayments, etc. subject to the prevailing foreign exchange regulations.

Engro Fertilizers Limited, is exposed to currency risk on foreign currency borrowing of USD 259,045 as at December 31, 2011, out of which the Company has Rupee/USD hedge of USD 217,450.

Engro Foods Limited's (EFL), exposure to currency risk is limited as all the foreign purchases are made against on sight letter of credit where the payment is made on the date of delivery with no credit period. EFL imports plant and machinery and certain raw materials which exposes it to currency risk, primarily with respect to liabilities denominated in US Dollars. EFL manages the currency risk relating to US Dollar and Euro through forward exchange contracts.

Engro PowerGen Limited's, exposure resulting from outstanding import payments, foreign currency loan liabilities and related interest payments is limited as all the fluctuation in foreign exchange rates are recovered through adjustment in tariff as per the Power Purchase Agreement.

Engro Polymer and Chemical Limited (EPCL), is exposed to currency risk arising 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, EPCL is significantly exposed to currency risk because of the expected volatility in exchange rates. EPCL manages the currency risk through forward exchange contracts.

Engro Eximp (Private) Limited (EEL), is exposed to currency risk against outstanding import payments. EEL ensures to the extent possible that it has options available to manage exposure through forward contracts subject to the prevailing foreign exchange regulations.

(Amounts in thousand)

At December 31, 2011, if the Pakistan Rupee had weakened / strengthened by 1% against US Dollars with all other variables held constant, consolidated post tax profit for the year would have been lower / higher by Rs. 386,252 (2010: Rs. 332,992), mainly as a result of foreign exchange losses / gains on translation of US Dollar denominated liability.

##### ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from short and long-term borrowings and obligations under finance lease. These are benchmarked to variable rates which expose the Group to cash flow interest rate risk.

The Group analyses its interest rate exposure on a regular basis by monitoring interest rate trends to determine whether they should enter into hedging alternatives.

Interest rate risk of the Engro Fertilizers Limited arising on foreign currency loans are hedged through interest rate swaps. Engro Fertilizers Limited has entered into Interest Rate Swaps for USD 179,045 out of its non-current foreign currency borrowings of USD 259,045 as on December 31, 2011 (note 14.2). Rates on short term loans vary as per market movement.

Engro PowerGen Limited's exposure to interest rate risk is limited as the unfavorable fluctuations in the interest rates will be recovered through adjustment in tariff as per the Power Purchase Agreement

Engro Foods Limited's (EFL), interest rate risk arises primarily from long and short term borrowings. Borrowings at variable rates expose EFL to cash flow interest rate risk. As there are no borrowings at fixed rates, EFL is not exposed to fair value interest rate risk. EFL analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into account various other financing options available. For borrowing at variable rates, the rates are determined in advance for stipulated periods with reference to KIBOR.

To manage its cash flow interest rate risk, Engro Polymer and Chemicals Limited (EPCL) has entered into floating to fixed rate interest swaps on its foreign currency borrowings and floating to floating rate cross currency interest rate swap on its local borrowings. Under the interest rate swap agreements, EPCL 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.

As at December 31, 2011, if interest rates on Group's borrowings had been 1% higher/lower with all other variables held constant, consolidated post tax profit for the year would have been lower/higher by Rs. 352,259 (2010: Rs. 168,628), mainly as a result of interest exposure on variable rate borrowings.

##### iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument 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 instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Group's investments in money market mutual funds are exposed to price risk related to interest rate instruments.

(Amounts in thousand)

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits, bank guarantees and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with a reasonably high credit rating or mutual funds which in turn are deposited in banks and government securities. The Group maintains internal policies to place funds with commercial banks/mutual funds having a minimum short term credit rating of A1 and AM3.

Engro Fertilizers Limited and Engro Eximp (Private) Limited is exposed to a concentration of credit risk on its trade debts by virtue of all its customers being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees inland letter of credits and by the fact that the exposure is spread over a wide customer base.

Engro Polymer and Chemicals Limited is not materially exposed to credit risk as unsecured credit is provided to selected parties with no history of default. Moreover, major part of trade debts is secured by bank guarantees and letters of credit from customers.

Engro Foods Limited has significant concentration of credit risk resulting from receivable from Tetra Pak Pakistan Limited, short term investments and deposits with banks and financial institutions amounting to Rs. 1,956,513 (2010: Rs. 346,057). The credit risk on liquid funds is limited because the counter parties are banks and investment funds with reasonably high credit rating.

The credit risk arising on account of acceptance of bank guarantees is managed by ensuring that the bank guarantees are issued by banks of reasonably high credit ratings as approved by the management.

The Group 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 under:

	2011	2010
	------(Rupees)-----	
Loans and advances	1,798,994	1,723,784
Trade debts	2,912,685	3,335,538
Other receivables	337,394	477,323
Short term investments	8,332,154	4,426,188
Bank balances	4,417,885	4,120,031
	<u>17,799,112</u>	<u>14,082,864</u>

(Amounts in thousand)

The credit quality of receivables can be assessed with reference to their historical performance with no or negligible defaults in recent history, however, no losses incurred. The credit quality of Group's bank balances and short term investments can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	Short term	Long term
ABL Cash Fund	JCR-VIS		-	AA+(f)
Allied Bank Limited	PACRA		A1+	AA
Askari Bank Limited	PACRA		A1+	AA
Askari Sovereign Fund	PACRA		-	AA+(f)
Bank Al Falah Limited	PACRA		A1+	AA
Bank Al Habib Limited	PACRA		A1+	AA+
Bank Islami Pakistan	PACRA		A1	A
Bank of Punjab	PACRA		A1+	AA-
Barclays Bank PLC, Pakistan	S & P		A1+	AA-
Burj Bank Limited	JCR-VIS		A-2	A
Citibank N.A.	S & P		A1	A+
Deutsche Bank AG	Moody's		P-1	Aa3
Dubai Islamic Bank	JCR-VIS		A1	A
Faysal Bank Limited	PACRA		A1+	AA
Habib Bank Limited	JCR-VIS		A1+	AA+
Habib Metropolitan Bank	PACRA		A1+	AA+
HBL Money Marketing Fund	JCR-VIS		-	AA+(f)
HSBC Bank Middle East Ltd.	Moody's		P-1	A1
JS Bank Limited	PACRA		A1	A
MCB Bank Limited	PACRA		A1+	AA+
MCB Cash Management Optimiser Fund	PACRA		-	AA+(f)
Meezan Bank Limited	JCR-VIS		A1+	AA-
Meezan Cash Fund	JCR-VIS		-	AA(f)
NAFA Government Securities Fund	PACRA		-	AAA(f)
National Bank of Pakistan	JCR-VIS		A-1+	AAA
NIB Bank Limited	PACRA		A1+	AA-
SAMBA Bank Limited	PACRA		A1+	AAA
Silk Bank Limited	JCR-VIS		A2	A-
Sindh Bank Limited	JCR-VIS		A1	AA-
Soneri Bank Limited	PACRA		A1+	AA-
Standard Chartered Bank (Pakistan) Limited	PACRA		A1+	AAA
Summit Bank (formerly Arif Habib Bank)	JCR-VIS		A2	A
UBL Liquidity Fund	JCR-VIS		-	AA+(f)
United Bank Limited	JCR-VIS		A1+	AA+
Zarai Taraqiat Bank Limited	JCR-VIS		A1+	AAA
Pak Oman Investment Company Limited	JCR-VIS		A-1+	AA+
Optimiser Fund	PACRA		-	AA+(f)

(Amounts in thousand)

c) **Liquidity risk**

Liquidity risk represents the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to dynamic nature of the business, the Group maintains flexibility in funding by maintaining committed credit lines available.

The Group's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2011			2010		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	----- (Rupees) -----					
Financial liabilities						
Derivatives	452,625	702,214	1,154,839	1,040,829	805,154	1,845,983
Trade and other payables	18,865,817	-	18,865,817	9,092,435	-	9,542,533
Accrued interest / mark-up	3,114,122	-	3,114,122	2,619,453	-	2,619,453
Liabilities against assets subject to finance lease	3,884	1,295	5,179	13,310	18,998	32,308
Borrowings	25,850,072	82,560,415	108,410,487	21,259,562	89,151,849	110,411,411
Unclaimed dividends	79,083	-	79,083	180,630	-	180,630
	<u>48,365,603</u>	<u>83,263,924</u>	<u>131,629,527</u>	<u>34,656,317</u>	<u>89,976,001</u>	<u>124,632,318</u>

47.2 **Capital risk management**

The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for share holders and benefit for other stake holders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group's strategy is to ensure compliance with the Prudential Regulations issued by the State Bank of Pakistan and with the agreements executed with financial institutions so that the total long term borrowings to equity ratio does not exceed the lender covenants. The total long term borrowings to equity ratio as at December 31, 2011 and 2010 are as follows:

(Amounts in thousand)

	2011	2010
	----- (Rupees) -----	
Borrowings	104,126,083	104,695,636
Total Equity	41,889,789	34,115,015
	<u>146,015,872</u>	<u>138,810,651</u>
Total borrowings to equity ratio	71%	75%

The Group finances its operations through equity, borrowings and management of working capital with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

47.3 **Fair value estimation**

The below table analyzes financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

The following table presents the Group's assets and liabilities that are measured at fair value as at December 31, 2011:

	Level 1	Level 2	Level 3	Total
	----- (Rupees) -----			
Assets				
Financial assets at fair value through profit and loss				
- Short term investments - Mutual Fund Securities	4,372,596	-	-	4,372,596
Derivatives used for hedging	-	239,184	-	239,184
	<u>4,372,596</u>	<u>239,184</u>	<u>-</u>	<u>4,611,780</u>
Liabilities				
Derivatives				
- Derivatives used for hedging	-	1,091,757	-	1,091,757
- Conversion options on IFC loan	-	63,082	-	63,082
	<u>-</u>	<u>1,154,839</u>	<u>-</u>	<u>1,154,839</u>

47.4 **Fair value of financial assets and liabilities**

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

48 **SEGMENT REPORTING**

A Business segment is a group of assets and operations engaged in providing products that are subject to risk and returns that are different from those of other business segments.

Type of segments	Nature of business
Fertilizer	Manufacture, purchase and market fertilizers.
Polymer	Manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and related chemicals.
Food	Manufacture, process and sell dairy and other food products.
Power	Includes Independent Power Projects (IPP)
Other operations	Includes engineering and automation businesses.

	Fertilizer	Polymer	Food	Power	Other operations	Elimination - net	Consolidated							
	2011	2011	2011	2011	2011	2011	2011							
	2010	2010	2010	2010	2010	2010	2010							
	Rupees													
Revenue from external customers (note 32)	55,823,127	36,280,206	17,049,898	14,618,594	31,939,599	21,050,039	8,339,210	5,727,336	1,268,006	2,284,891	192,897	14,699	114,611,837	79,975,765
Segment gross profit / (loss)	20,642,054	12,839,633	2,157,795	1,303,990	6,481,534	4,428,157	2,286,349	1,606,942	348,368	634,958	163,156	(240,045)	32,081,256	20,273,635
Segment expenses - net of other income	(3,553,275)	(2,917,965)	(1,522,316)	(1,106,845)	(4,722,792)	(3,500,544)	(504,691)	(110,772)	(1,343,956)	(1,074,661)	305,548	(28,407)	(11,341,482)	(8,739,214)
Income on deposits / other financial assets (note 36)	589,200	143,133	26,620	17,222	22,164	10,070	379,028	11,337	765,265	308,841	(490,493)	(101,730)	1,291,784	388,873
Financial charges (note 38)	(7,922,839)	(1,658,067)	(1,739,214)	(1,438,988)	(1,442,088)	(664,710)	(429,250)	(400,336)	(914,321)	(218,023)	133,119	179,238	(12,314,593)	(4,200,886)
Share of income from joint venture (note 39)	-	-	-	-	-	-	-	-	1,742,187	554,725	-	-	1,742,187	554,725
Income tax (charge) / credit (note 40)	(3,540,951)	(2,064,641)	370,649	454,340	(812,889)	(96,113)	(15,511)	(7,588)	(28,840)	(133,028)	(120,219)	10,899	(3,647,761)	(1,836,131)
Segment profit after tax / (loss)	6,214,189	5,842,073	(706,466)	(770,281)	25,929	176,860	1,717,925	1,099,583	568,703	272,812	(8,889)	(180,045)	7,811,391	6,441,002
Segment assets	106,848,430	103,137,514	23,805,891	24,157,962	25,334,544	14,030,946	21,282,393	19,075,705	34,366,519	32,113,990	(60,350,295)	(28,247,170)	181,287,482	164,288,947
Investment in joint venture / associate (note 8)	-	-	-	-	-	-	-	-	-	-	1,716,692	509,505	1,716,692	509,505
Total segment assets	106,848,430	103,137,514	23,805,891	24,157,962	25,334,544	14,030,946	21,282,393	19,075,705	34,366,519	32,113,990	(28,633,603)	(27,737,665)	183,004,174	164,778,452
Total segment liabilities	90,211,120	88,366,216	17,565,039	17,172,102	12,937,879	8,486,607	15,550,694	14,378,817	8,262,414	5,011,202	(3,412,751)	(2,751,504)	141,114,385	130,663,440
Capital expenditure including biological assets	2,275,040	15,035,998	533,038	880,042	6,112,361	4,360,135	(111,428)	763,065	(36,419)	113,667	-	-	8,772,593	21,152,907
Depreciation (note 4.2)	3,132,016	791,117	1,154,128	1,016,117	1,036,528	713,640	552,308	384,688	84,550	47,596	-	24,436	5,959,530	2,977,594
Amortization of intangibles (note 7.1)	17,626	19,111	8,542	4,764	42,396	14,160	10,830	6,361	-	1,574	-	-	79,394	45,970

(Amounts in thousand)

48.1 Discontinued operations pertaining to Avanceon Limited, as more fully discussed in note 19, have been classified under 'Other operations'.

#### 49 TRANSACTIONS WITH RELATED PARTIES

Related party comprise subsidiaries, joint venture companies, associates, other companies with common directors, retirement benefit funds, directors and key management personnel. Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2011	2010
	----- (Rupees) -----	
Associated Companies		
Purchases and services	11,737,975	9,994,924
Services rendered	56,382	126,132
Dividends paid	855,569	574,111
Payment of interest on TFCs and repayment of principal amount	200,388	120,454
Investment in mutual funds	2,665,967	1,632,000
Redemption of mutual funds	2,634,900	1,137,794
Joint Ventures		
Purchase of services	800,615	1,030,972
Services rendered	2,124	1,504
Others		
Dividends paid	6,795	19,446
Remuneration of key management personnel	552,969	419,763

#### 50 DONATIONS

Donations include the following in which a director or his spouse is interested:

	Interest in donee	Name and address of donee	2011	2010
			----- (Rupees) -----	
Mr. Hussain Dawood and Mr. Asad Umar	Chairman Director	Karachi Education Initiative	-	150
Mr. Asad Umar and Mr. Khalid Siraj Subhani	Director	Engro Foundation	78,879	71,040
			<u>78,879</u>	<u>71,190</u>

(Amounts in thousand)

## 51 PRODUCTION CAPACITY

		Designed Annual Capacity		Actual Production	
		2011	2010	2011	2010
Urea (note 51.1 and 51.2)	Metric Tons	2,275,000	975,000	1,279,378	971,913
NPK	Metric Tons	100,000	100,000	113,172	100,270
PVC Resin	Metric Tons	150,000	150,000	122,000	115,000
EDC	Metric Tons	127,000	127,000	104,000	96,000
Caustic soda	Metric Tons	106,000	106,000	98,000	93,000
VCM (note 51.3)	Metric Tons	220,000	74,000	100,000	64,000
Power (note 51.4)	Mega watts	279.7	281.3	235	254
Dairy and juices	Thousand Litres	525,009	446,503	388,236	314,650
Drying unit of rice processing plant	Metric Tons	134,000	40,000	24,456	19,778
Ice cream	Thousand Litres	35,527	19,032	17,763	12,672

51.1 This includes 1,300,000 MT designed capacity of Urea plant II. The plant II (Enven) commenced commercial production on June 24, 2011 and produced 326,994 MT till December 31, 2011.

51.2 Urea plant also produced Nil (2010: 611) metric tons of Liquid Ammonia for outside sale.

51.3 The new VCM plant with a capacity of 220,000 Metric tons commenced commercial production from September 30, 2010.

51.4 Actual energy delivered by the plant is dependent on the load demanded by WAPDA and plant availability

## 52 LOSS OF CERTAIN ACCOUNTING RECORDS

During 2007, a fire broke out at PNSC Building, Karachi where the Head Office and registered office of the Holding Company was located. Immediately following this event the Holding Company launched its Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal.

The fire destroyed a substantial portion of its hard copy records related to the financial years 2005, 2006 and the period January 01, 2007 to August 19, 2007 although, electronic data remained intact due to the Company's Disaster Recovery Plan. The Holding Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the financial year 2007. Hard copy records related to the already reported financial years 2005 and 2006 have not been recreated.

## 53 NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

53.1 The Board of Directors of the Holding Company in its meeting held on February 16, 2012 has proposed a final cash dividend of Rs. 2 per share (2010: Rs. 2 per share final cash dividend) and bonus issue in the ratio of 3 for every 10 shares held i.e. 30% bonus, for approval of the members at the Annual General Meeting to be held on March 30, 2012.

The consolidated financial statements for the year ended December 31, 2011 do not include the effect of the proposed cash dividends, which will be accounted for in the consolidated financial statements for the year ending December 31, 2012.

(Amounts in thousand)

53.2 The Board of Directors of Engro Vopak Terminal Limited, a joint venture company, in its meeting held on January 31, 2012 has proposed a final cash dividend of Rs. 16 per share for the year ended December 31, 2011, amounting to Rs. 1,440,000, of which the proportionate share of the Holding Company amounts to Rs. 720,000.

These consolidated financial statements for the year ended December 31, 2011 do not include the effect of the aforementioned dividend income which will be accounted for in the consolidated financial statements for the year ending December 31, 2012 once the proposed dividend is approved in the Annual General Meeting of Engro Vopak Terminal Limited.

## 54 LIST OF SUBSIDIARY COMPANIES, AND JOINT VENTURE

Name of subsidiaries	Financial year end
Engro Fertilizers Limited	December 31st
Engro Foods Limited	December 31st
Engro Eximp (Private) Limited	December 31st
Engro Management Services (Private) Limited	December 31st
Engro Polymer and Chemicals Limited	December 31st
Engro PowerGen Limited	December 31st
Engro Foods Netherlands B.V.	December 31st
Avanceon Limited	December 31st
Name of Joint Venture	
Engro Vopak Terminal Limited	December 31st

## 55 CORRESPONDING FIGURES

For better presentation, corresponding figure of 'foreign exchange loss on borrowings' amounting to Rs. 120,802 has been reclassified from 'Other expenses' (note 37) to 'Finance cost' (note 38) in these financial statements. The effect of other rearrangements and reclassifications, if any, are not material.

## 56 DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on February 16, 2012 by the Board of Directors of the Holding Company.

Hussain Dawood  
Chairman

Asad Umar  
President & CEO