



impact

111-211-211
engro.com



DCI/PTHE D'HAMIDI PARTNERSHIP DESIGN

Annual & Sustainability Report 2012

about the cover

As Pakistan's premier conglomerate, Engro is committed to creating sustainable impact at every level of business. Our engagement with stakeholders, communities, employees and the nation at large is an embodiment of this philosophy and continues to foster a culture of Enabling Excellence – for all those lives we continue to touch through our efforts. Our Annual & Sustainability Report 2012 focuses on driving and highlighting the impact across our business portfolio right down to stakeholders at the base of the pyramid. Our vision for sustainable businesses in Pakistan remains at the heart of this impact and is a reiteration of our commitment to improve lives, empower livelihoods and inspire a meaningful change today and for generations to come.

The design of this report has been carefully selected to showcase the technique of pixel dust to highlight the momentum and impact of our efforts at various levels. The unique treatment emphasizes the integration of objects to create a lasting and meaningful impact that is in sync with the theme laid out in this report. The concept has, therefore, been used as a visual metaphor for impact and essentially helps to harness our considerable contributions towards business, society and community - in an innovative and inspirational way.



impact

delivering impact

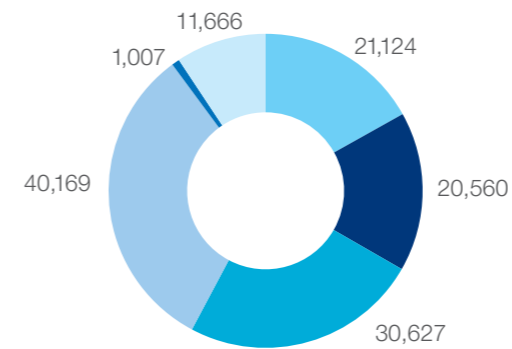


Our Vision	03	Sustainability Report	97
Engro at a Glance	04	Approach and Framework	101
Key Figures and Highlights	05	Stakeholder Engagement	103
Our Businesses at a Glance	07	Regular Engagement	108
Report Boundaries & Standards	09		
Our Materiality Concerns	10	Economic Sustainability	109
		Our Economic Investments Strategy	111
Company Information	11	Our Key Risks and Mitigating Actions	112
Notice of the Meeting	13	Strengthening Our Impact – SWOT Analysis	113
Chairman's Message	19	Our Strategic Corporate Objectives 2013	116
		Engro's Growth – Fuelling Pakistan's Growth	117
Governance and Management	21	Executing Impact	120
Our Organogram	23		
Our Holding Structure	24	Our People	125
Board of Directors	25	Our People Investments Strategy	127
Directors' Profile	27	Our People-centric Performance	130
Core Values	33	Our People-centric Highlights	134
Our Governance Framework	35	Employee Engagement Survey	135
Our Approach to Governance	37	Leadership Competency Model (LCM)	138
Our Governance Performance	39	Championing Occupational Health & Safety	141
Our Audit Report Results	41	Our People Focused Objectives for 2013	146
Speakout Policy	42		
Business Continuity Planning	43	Benefitting Communities	147
Board Committees	44	Our Social Investments Strategy	149
Functional Committees	45	Our Social Investments Performance	151
Our Governance Objectives for 2013	46	Technical Training College	155
		IMV – Impact Assessment	157
Directors' Report	47	Our Environmental Stewardship	167
President's Message	49	Our Approach to Eco-efficiency	170
Operational Highlights	51	Our Environmental Performance	171
External Environment	52	International Standards and Certifications	175
Organizational Overview	54	Product Stewardship	176
Business Review	55	Green Office Initiative	177
Future Outlook	71		
Horizontal and Vertical Analyses	73	Financial Statements	183
Notes on Analysis	79	GRI Index	355
Summary	80	Commitment to the United Nations Global Compact	365
Financial Ratios	81	Assurance Statement	366
Statement of Value Addition	84	Glossary	368
Key Shareholding and Shares Traded	85	Proxy Form	370
Pattern of Holding of Shares	89		
Category of Shareholding	92		
Shareholder Information	93		
Share Price Sensitivity Analysis	94		
Awards and Recognition	95		

To be the premier Pakistani enterprise with a global reach passionately pursuing value creation for all stakeholders.



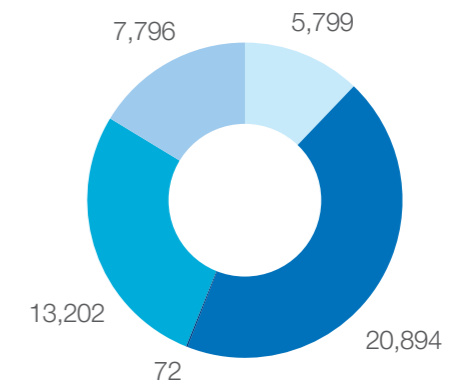
Business Revenues (Rs. in million)



Consolidated Revenue (Rs. in million)
125,151

- Eximp
- Polymer
- Fertilizers
- Foods
- Netherlands
- Powergen

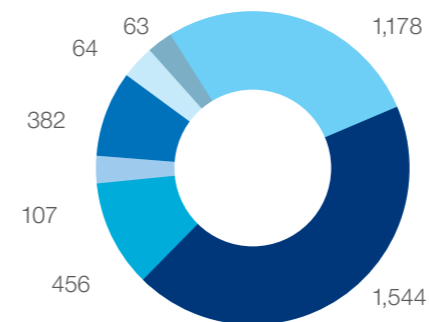
Wealth Generated (Rs. in million)



Consolidated Wealth Generated (Rs. in million)
47,763

- To Employees
- To Government
- To Society
- To Providers of Capital
- Retained for reinvestment and future growth

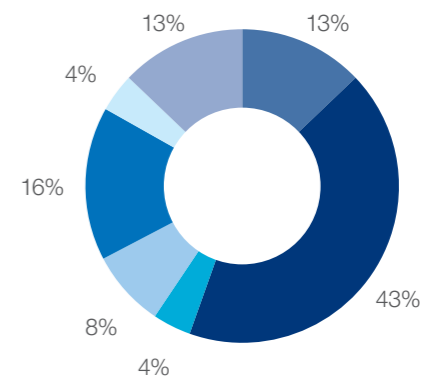
Employees



Total Employees
3,794

- Fertilizers
- Foods
- Polymer
- Powergen
- Eximp
- Vopak
- Corp

CSR (Rs. in million)



Total Social Spend in 2012 (Rs. in million)
186*

- Education
- Livelihoods
- CPI
- Fixed Cost
- Health
- Relief & Rehabilitation
- Others

* Engro and Donor spend inclusive but exclusive of fixed cost
* Pie Chart shows spend inclusive of fixed cost totaling Rs. 211 million

key figures

Sales Revenue (Rs. in million)

2012 **125,151**
2011 **114,612**

Weighted Average
number of ordinary shares (in thousands)

2012 **511,269**
2011 **393,284**

Total Assets (Rs. in million)

2012 **189,587**
2011 **184,064**

Total Equity (Rs. in million)

2012 **43,247**
2011 **41,890**

Profit After Tax (Rs. in million)

2012 **1,333**
2011 **8,060**

Earnings Per Share (In Rs.)

2012 **2.61**
2011 **15.77 (Restated)**

Market Capitalization (Rs. in million)

2012 **47,057**
2011 **36,457**

EBITDA (Rs. in million)

2012 **26,330**
2011 **28,179**

Dividends Paid (Rs. in million)

2012 **796**
2011 **2,383**

Capital Expenditure (Rs. in million)

2012 **6,025**
2011 **12,256**



our businesses at a glance

Engro's investments in agriculture, foods, energy and chemicals were designed to take advantage of Pakistan's economic needs.

Corporate Performance (Rs. in million)

	Revenue	Net income	Taxes paid	Dividends declared	Sales growth	No. of shareholders
2008	40,973	4,126	1,026	1,278	20%	13,163
2009	58,152	3,807	1,956	1,788	42%	13,980
2010	79,976	6,790	2,378	1,965	38%	13,939
2011	114,612	8,060	3,214	2,361	43%	16,419
2012	125,151	1,333	2,015	-	9%	18,768

Engro Corporation Limited Engro Corporation Limited is a holding company, created following the demerger of Engro Chemical Pakistan Limited on January 1, 2010.

Engro Corp is one of Pakistan's largest conglomerates with the company's business portfolio spanning across sectors including chemical fertilizers, PVC resin, a bulk liquid chemical terminal, foods, power generation and commodity trade.

Engro Fertilizers Limited Engro Fertilizers Limited, an Engro Corporation subsidiary, is one of the leading fertilizer manufacturing and marketing companies in the country. It is primarily engaged in the manufacturing and marketing of urea and NPK fertilizers. As an example of the synergies between Engro's business lines, Engro Eximp imports phosphate based fertilizers, which are distributed and marketed through Engro Fertilizer's network as an extension of Engro's overall fertilizer portfolio.

The business offers a wide variety of fertilizer brands besides urea, which include some of the most trusted brand names by Pakistani farmers. These include Engro Zorawar, a high-phosphate fertilizer developed for alkaline soils. Engro Zarkhez is a high-end blended fertilizer product that offers a unique balance of nutrients for a wide variety of crops. Zingro is an imported zinc micro nutrient, meant to overcome zinc deficiency in a diverse range of crops.

Engro Foods Limited Engro Foods Limited is an 88% owned subsidiary engaged in the manufacturing, processing and marketing of dairy products, ice cream and fruit juices. The business owns two milk processing plants in Sukkur & Sahiwal and operates a dairy farm in Nara. As an example of Engro's pursuit of excellence, the business has established several brands that have already become household names in Pakistan such as Olper's (milk), Omore (ice cream), Olper's Lite (low fat milk), Dairy Omung (UHT dairy liquid), Tarang (tea whitener), Omung Lassi and Olfrute

(fruit juice) amongst others. The business has also acquired and operates Al Safa Halal, a meat processing company based in Canada.

Engro Powergen Limited Engro Powergen Limited owns and operates Engro Powergen Qadirpur Limited, a 220 megawatt power plant and the group's first initiative in the power sector of Pakistan, which is 10% directly owned by the holding company and 84% owned by Engro Powergen. The remainder is owned by the International Finance Corporation (IFC), a subsidiary of the World Bank, and employees.

In 2010, Engro Powergen entered into a joint venture with the Sindh government, to establish the Sindh Engro Coal Mining Company Limited, to mine coal from Thar Block-II.

Engro Polymer & Chemicals Limited Engro Polymer & Chemicals Limited is a 56% owned subsidiary of the group and the only manufacturer of polyvinyl chloride (PVC) in the country, in addition to manufacturing and marketing caustic soda. The Company's vinyl chloride monomer (VCM) plant began production in the first quarter of 2010 successfully making the plant the only fully integrated Chemical Complex in Pakistan. The firm markets its products under the name of "SABZ".

Engro Eximp (Private) Limited Engro Eximp (Private) Limited is the group's commodity trading business that deals primarily in the import and trading of phosphate-based fertilizers for Engro Fertilizers Limited such as DAP, MAP, MOP and SOP, and also imports micro-nutrients like Zinc Sulphate, which it supplies as raw materials to Engro Fertilizer's Zarkhez plant for manufacturing blended fertilizers.

In addition, Eximp also manages the procurement, processing and export of rice to markets in the Middle East and the European Union. Over the past five years, Engro Eximp has become the single largest importer of phosphates and potash fertilizers in Pakistan.

Engro Vopak Terminal Limited Engro Vopak Terminal Limited is a joint venture with Royal Vopak of the Netherlands, Engro owns 50% of Engro Vopak Terminal Limited, a business engaged in the handling, regasification and storage of chemicals and liquefied petroleum gas (LPG).

The business launched Pakistan's first cryogenic import facility for ethylene, in line with the group's overall motto of pursuing and enabling excellence.

Elengy Terminal Pakistan Limited Elengy Terminal Pakistan Limited is a 100% owned subsidiary of the company, which has been created to establish and operate a terminal for the handling, regasification, storage, treatment and processing of Liquefied Natural Gas (LNG), Re-gasified Liquefied Natural Gas (RLNG), Liquid Petroleum Gas (LPG), Natural Gas Liquid (NGL) and all other related liquids, gases and chemical & petroleum products.

report boundaries & standards

With our second integrated report we intend to provide our stakeholders with a balanced account of our performance and position on issues that are material to Engro.

In response to our growing footprint we have adopted a new structure for our Annual & Sustainability Report for 2012. This year's report has two main sections:

Annual Report: provides a brief summary of the activities and performance of our main businesses along with key financial data relevant to our shareholders.

Sustainability Report: reports on Group level performance and progress in programs and commitments. This is done in relation to GRI framework and UN Global Compact (UNGC) dimensions that serve as the blueprint for creating sustainable corporate and social value. The report also fulfills our obligation to provide Communication on Progress (CoP) to the UN Global Compact. An adherence to these global standards ensures that Engro lives up to its commitments. By having to report data along the same parameters every year, our stakeholders will be able to monitor our progress on the promises we make to invest in their future.

The reporting period for this integrated report is January 1, 2012 to December 31, 2012. The report describes our activities at the consolidated group level and for the following business segments: fertilizers, foods, energy, petrochemicals, trading and chemical storage and handling.

Moreover, this annual and sustainability report contains forward-looking statements about Engro Corporation's future plans, objectives, beliefs and performance that are not historical facts. These are based on current expectations, estimates, forecasts and projections about the industries in which we operate and beliefs and assumptions of the management. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. We would, therefore, caution our readers not to place undue reliance on forward-looking statements. Furthermore, the company and/or its

subsidiaries undertake no obligation to update any forward-looking statement as a result of new information, future events or other developments.

Engro Corporation's integrated report has been reviewed by the external auditors A. F. Ferguson & Company, Chartered Accountants for its accounts whereas the sustainability section has been reviewed by United Registrar of Systems, one of the world's leading inspection, verification, testing and certification companies.

As a leading Pakistani conglomerate we are committed to ideals of transparency. This report is a reflection of our beliefs and principles, and provides the platform from where we will build our reporting for the future. This report is part of a dialogue between us and all who might be interested in our financial performance and social responsibility initiatives. We welcome feedback, suggestions and queries on this communication which can be directed to:



NAILA KASSIM
Corporate Communications
nkassim@engro.com
+9221-111 211 211

our materiality concerns

Our approach for materiality is to have a Group-level assessment and provide guidance for all business units to complete individual analysis of their prioritized issues.

For a conglomerate as diverse as Engro, a holistic assessment of materiality cannot cover all issues faced by individual businesses. Our approach is, therefore, to have a Group-level materiality assessment and provide guidance for all business units to complete the individual assessments of their own prioritized issues.

However, we continue to monitor the key issues on an ongoing basis through general trend spotting, media monitoring, stakeholder engagement and internal reviews. We also review our material issues when preparing our integrated annual and sustainability report. The report, therefore, gives our stakeholders a comprehensive overview and analysis of issues that are of crucial significance to the Company and its businesses.

These issues are comprehensively linked to **Engro's Sustainability Strategy and overarchingly subscribe to The UN Millennium Development Goals** – these provide a broader view on worldwide challenges and guide how we can align our strategy and operations to contribute to tackling some of these challenges pertaining to the sphere of economic, social and environmental challenges in the purview of our own sustainability strategy.

We realize that there are sources and viewpoints we do not consider. Yet, we find that this approach provides the best illustration of the issues that are material to Engro.

Material Issues

Materiality Issues	Our Response
Business Conduct & Governance	Corporate Governance Accountability & Transparency
Safety	Health & Safety Strategy and Performance
Environmental Impact and Climate Change	Environmental Stewardship Strategy and Performance
Human Rights & Labor Standards	Our People Investments Strategy Human Rights Framework
Sustainable Economic Development	Our Financial Investments Our Economic Impact

reporting impact



Board of Directors

Hussain Dawood – Chairman
Muhammad Aliuddin Ansari – President & CEO
Shahzada Dawood
Khalid Siraj Subhani
Shabbir Hashmi
Ruhail Mohammad
Saad Raja
Abdul Samad Dawood
Sarfaraz A. Rehman
Khawaja Iqbal Hassan
Shahid Hamid Pracha
Afnan Ahsan

Company Secretary

Andalib Alavi

Bankers

Standard Chartered Bank Pakistan Limited
MCB Bank Limited
Allied Bank Limited
United Bank Limited
Habib Bank Limited
JS Bank Limited
Bank Al-Habib Limited
Bank Al-Falah Limited
Askari Bank Limited
Citibank Limited
NIB Bank Limited
Samba Bank Limited
Faysal Bank Limited

Auditors

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

Registered Office

Engro Corporation Limited
8th Floor, The Harbor Front Building
HC # 3, Marine Drive, Block 4, Clifton
Karachi – 75600, Pakistan
Tel: +92(21) 35297501 – 35297510
Fax: +92(21) 35810669
Email: info@engro.com
Website: www.engro.com

notice of the meeting



Notice is hereby given that the Forty Seventh Annual General Meeting of Engro Corporation Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Tuesday, April 30, 2013 at 10.00 a.m. to transact the following business:

Ordinary Business

- 1 To receive and consider the Audited Accounts for the year ended December 31, 2012 and the Directors' and Auditors' Reports thereon.
- 2 To appoint Auditors and fix their remuneration.

Special Business

- 3 To consider, and if thought fit, to pass the following resolution as a Special Resolution:

"RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to lend to Engro Polymer & Chemicals Limited, a Subsidiary Company, a subordinated long term loan of upto Rs.1 billion."

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

"RESOLVED that Article 61 of the Articles of Association of the Company be amended to read as follows:

The remuneration of Directors who are executives of the Company and the remuneration of a Director for providing extra services to the Company including the holding of the office of Chairman and the remuneration of Directors for attending meetings of the Board or a Committee formed by the Board shall from time to time be determined by the Board of Directors, provided that a Director who is an executive of the Company shall not be entitled to any remuneration for attending meetings of the Board or a Committee

formed by the Board. The Directors may also be paid all travelling, hotel and other expenses, properly incurred by them in attending and returning from meetings of the Directors or any Committee of the Directors or general meetings of the Company or in connection with the business of the Company.

By Order of the Board

Karachi,
Dated: February 15, 2013

ANDALIB ALAVI
Vice President - Legal
& Company Secretary



notice of the meeting

N.B.

- The Share Transfer Books of the Company will be closed from Tuesday, April 23, 2013 to Tuesday, April 30, 2013 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Pvt.) Limited, 1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00p.m) on Monday, April 22, 2013 will be treated to have been in time for the purpose of attending the meeting.
- A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

Statement under Section 160 of the Companies Ordinance, 1984

This Statement is annexed to the Notice of the Forty Seventh Annual General Meeting of Engro Corporation Limited to be held on Tuesday, April 30, 2013 at which certain Special Business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special Business.

ITEM (3) OF THE AGENDA

Engro Polymer & Chemicals Ltd. (E.Polymer) is a subsidiary of Engro Corporation Limited, with other large shareholders being the International Finance Corporation (14.64%) and Mitsubishi Corporation (10.24%). The Company had obtained approval at the previous AGM for extending a long term loan of upto Rs. 1 billion and a running finance facility of upto Rs. 2 billion to E.Polymer. During the year, the Running Finance facility was utilized however the Long

Term loan was not utilized. The Long Term approval was obtained to provide support, if required, for repayment of Banking loans of Rs. 950 million by E.Polymer. That loan of E.Polymer has been repaid. However, with VCM plant stabilizing and higher than plan VCM production in 2013, E.Polymer is planning to de-bottle neck the PVC plant to capitalize on conversion of the extra VCM for improved margins. E.Polymer is presently exploring and evaluating the options available for obtaining its funding requirements of approximately Rs.1 billion, for this project as well as for other reliability enhancement projects but may face difficulty in obtaining the financing required. Since Engro Corporation Limited owns 56.19% of the shares of E.Polymer, it is advisable that the Company be in a position to extend a long term loan to E.Polymer for upto Rs. 1 billion. The Company is confident that E.Polymer can repay the loan as operations have now stabilized.

The Directors have carried out the required due diligence for the purpose of extending these loans.

The information required under S.R.O. 27(I)/2012 is provided below:

- Name of investee Company or associated undertaking along with criteria based on which the associated relationship is established:**
E.Polymer is a subsidiary company of Engro Corporation, which makes it an Associated Company.
- Amount of Loans or Advances:**
Long term loan of upto Rs.1 billion.
- Purpose of Loans or Advances and benefits likely to accrue to the investing Company and its members from such loans or advances:**
The purpose of the long term loan has been explained above.

- In case any Loan has already been granted to the said associate company or associated undertaking, the complete details thereof:**

During the year, the Company provided a Running Finance facility of upto Rs. 950 million to E.Polymer for meeting its working capital requirements. The outstanding amount of this facility as of December 31, 2012 was Rs. 800 million. The loan is subordinated to the financing provided to E.Polymer by its banking creditors and carries markup at the rate of 3 months KIBOR plus 3.5% per annum, payable quarterly.

- Financial position, including main items of balance sheet and profit and loss account of the associated company or associated undertaking on the basis of its latest financial statements:**

Audited Accounts for the year ended December 31, 2012 showed:

	Rs. in million
Assets	
Property, Plant & Equipment	17,634
Stock In Trade	3,052
Short Term Investment	170
Other Assets	4,235
	<u>25,091</u>
Liabilities	
Borrowings	11,589
Trade & other Payables	6,768
Other Liabilities	406
	<u>18,763</u>
Equity	<u>6,328</u>
Profit & Loss	
Revenue	<u>20,606</u>
Operating Profit	<u>1,871</u>
Profit after Tax	<u>77</u>

- Average borrowing cost of the investing company:**
Average mark-up of around 14.5% per annum for Long Term loans and at an average of 3M KIBOR + 2% for Short Term loans.
- Rate of interest, mark up, profit, fees or commission etc. to be charged:**
Higher than the markup payable by Engro Corporation Limited on its borrowing of like or similar maturities at the time of disbursement.
- Sources of funds from where loans or advances will be given:**
Internal cash generation and further borrowing, if required.
- Where loans or advances are being granted using borrowed funds; justification for granting loan or advance out of borrowed funds; detail of guarantees/assets pledged for obtaining such funds, if any; and repayment schedules of borrowing of the investing company:**
The loans shall be made from the Company's dividend and other income and, if required, from the proceeds of Long Term borrowings. Justification of lending out of proceeds of Long Term borrowings is to provide support to a subsidiary as well as to earn a higher return.
- Particulars of collateral security to be obtained against loan to the borrowing company or undertaking, if any:**
No security will be obtained since Engro Corporation Limited is the largest shareholder of E.Polymer and the other lenders have prior rights and charges. Engro Corporation Limited does not expect that E.Polymer will have any problem with repayment of loan.
- If the loans or advances carry conversion feature:**
Nil

notice of the meeting

(xii) Repayment schedule and terms of loans or advances to be given to the investee company:

Repayment of the long term subordinated loan shall be in installments, repayable in full five years after disbursement with payment of markup on semi-annual basis.

(xiii) Salient feature of all agreements entered or to be entered with its associated company or associated undertaking with regards to proposed investment:

As detailed above.

(xiv) Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associates company or associated undertaking or the transaction under consideration:

Except for Mr. Shabbir Hashmi, the directors of Engro Corporation Limited have no personal interest in E.Polymer which is a direct subsidiary of the Company, except that some Directors of Engro Corporation Limited are Directors of E.Polymer and hold one share each in E.Polymer, as nominees of Engro Corporation Limited. Mr. Shabbir Hashmi holds 200,000 shares of E.Polymer.

The following Directors of E.Polymer hold shares in Engro Corporation Limited: Mr. Muhammad Aliuddin Ansari (199,506), Mr. Isar Ahmad (12,647), Mr. M. Afnan Ahsan (100), Shahzada Dawood (842,410), Mr. Shabbir Hashmi (135,543) and Mr. Khalid S. Subhani (865,714).

(xv) Any other important details necessary for the members to understand the transaction:

N/A

(xvi) In case of investment in a project of an associated company or associated undertaking that has not commenced operations:

N/A

ITEM (4) OF THE AGENDA

It is proposed that the existing Article 61 of the Articles of Association of the Company be amended to empower the Board of Directors, to decide on the remuneration of the Directors, including for providing extra services.

Note relating to Engro Foods Limited

Engro Foods Limited (E.Foods) is a subsidiary of Engro Corporation Limited. It is engaged in the manufacture, processing and sales of dairy products, ice cream etc. In 2012, the shareholders approved the extending of a long term loan of upto Rs. 3 billion to E.Foods to enable it to finance its future capital expenditure for expansion of its business, as and when required. The Long Term loan approved in 2012 remains unutilized by E.Foods to date of this notice, therefore, the approval from last year will remain effective through 2013 to fund the financing needs of E.Foods for its business expansion.

The Directors had carried out the required due diligence for the purpose of extending this Long Term loan.

The information required under S 4(2) of S.R.O 27(I)/2012 is provided below:

(a) Total Investment Approved
Long Term loan of upto Rs. 3 billion

(b) Amount of investment made to date
None

(c) Reasons for not having made complete investment so far where resolution required it to be implemented in specified time.

The Long Term loan remains unutilized as E.Foods used the internally generated funds for financing its capital expenditure for expansion.

(d) Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company.

The profits of E.Foods have grown three folds during 2012 i.e. from Rs. 891 million in 2011 to Rs. 2,595 million in 2012.

By Order of the Board

Karachi,
Dated: February 15, 2013

ANDALIB ALAVI
Vice President - Legal
& Company Secretary



We will continue to implement action consistent with our corporate motto 'Enabling Excellence' in everything that we think and do.



Engro has come through a very challenging year in which it was tested to the full. It is under such trying circumstances that the true worth of a company and its adherence to its values can be evidenced.

During the year whilst we were subjected to severe external pressures we performed in complete consonance with our core values of ethics & integrity, safety, innovation and risk taking. Resultantly, we were able to deal successfully with all challenges through this prism without any compromise.

With the President's desire to take early retirement, the Company determined a broad change in the senior leadership which was a test of our succession planning. This event again proved that Engro's genetic makeup constitutes both, robust management systems, and a professional workforce that is unparalleled in its depth and breadth. Our people remain our core strength. In the years ahead, we will further invest in our employees to improve their skills and capabilities by growing the enabling work environment to facilitate their development and contribution.

Our definition of sustainability starts with our vision which is to make a positive difference in people's lives, and includes accountability for the results we achieve with the communities we engage with. Through Engro Foundation, and by collaboration with other organizations, we provide services in the areas of education, health, livelihood, infrastructure development, and emergency relief.

While pursuing profitable activities, we continue to identify and implement sustainable ways for growing our businesses. Our strategy revolves around achieving greater eco-efficiency through efficient use of natural resources; stewarding product safety; increasing commitment to climate change with a focus on an environmental management system that continues to lower costs and increase efficiencies. We intend to continue our efforts to operate safely, keeping in consideration the long-term economic, social and environmental effects of our operations.

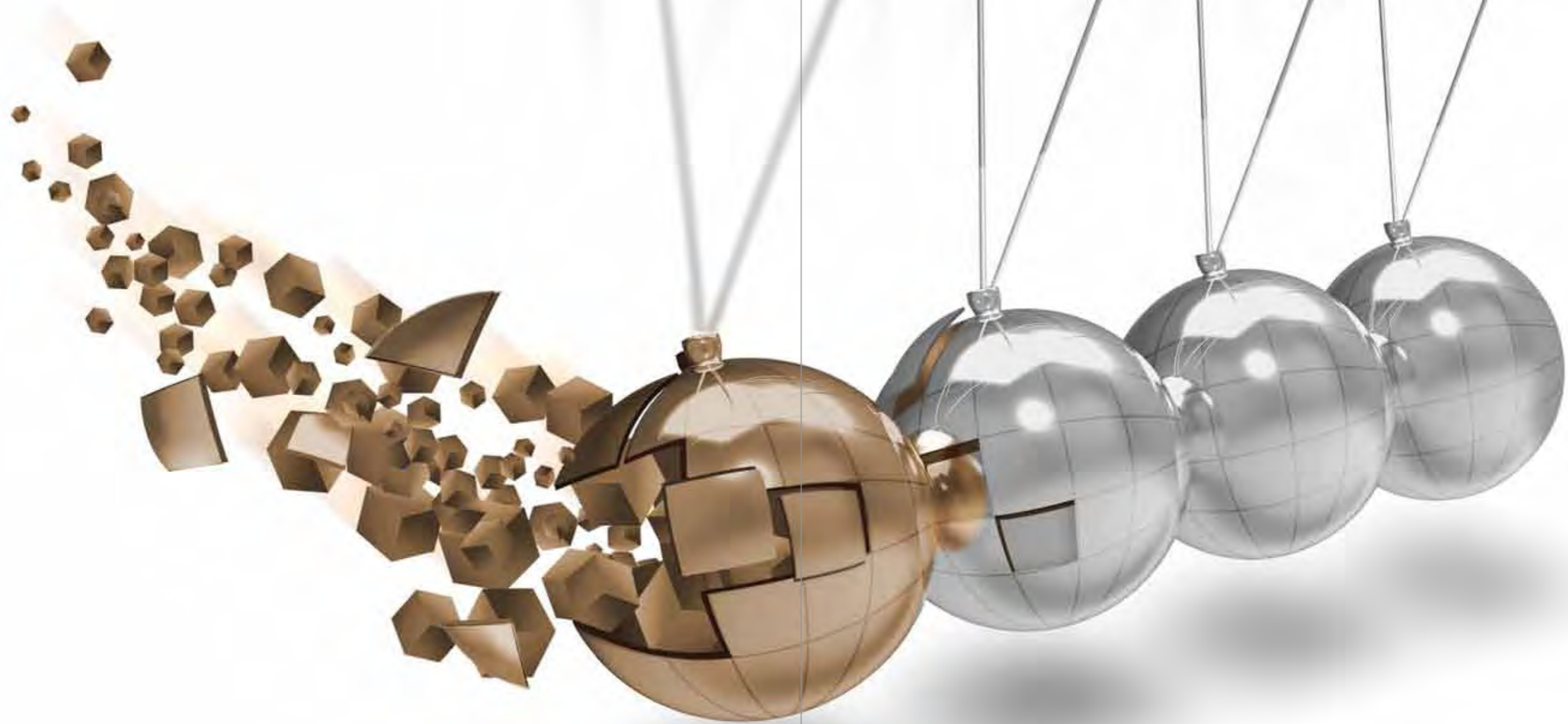
Most importantly, we remain unflinchingly committed to all our stakeholders, including our shareholders, employees, investors and suppliers. Our demonstrated transparency in all our corporate engagements form the signature of our company performance. We will continue to implement action consistent with our corporate motto "Enabling Excellence" in everything that we think and do. This report is a manifestation of our uncompromising commitment to excellence.

A handwritten signature in black ink, appearing to read 'Hussain Dawood', written over a circular graphic element.

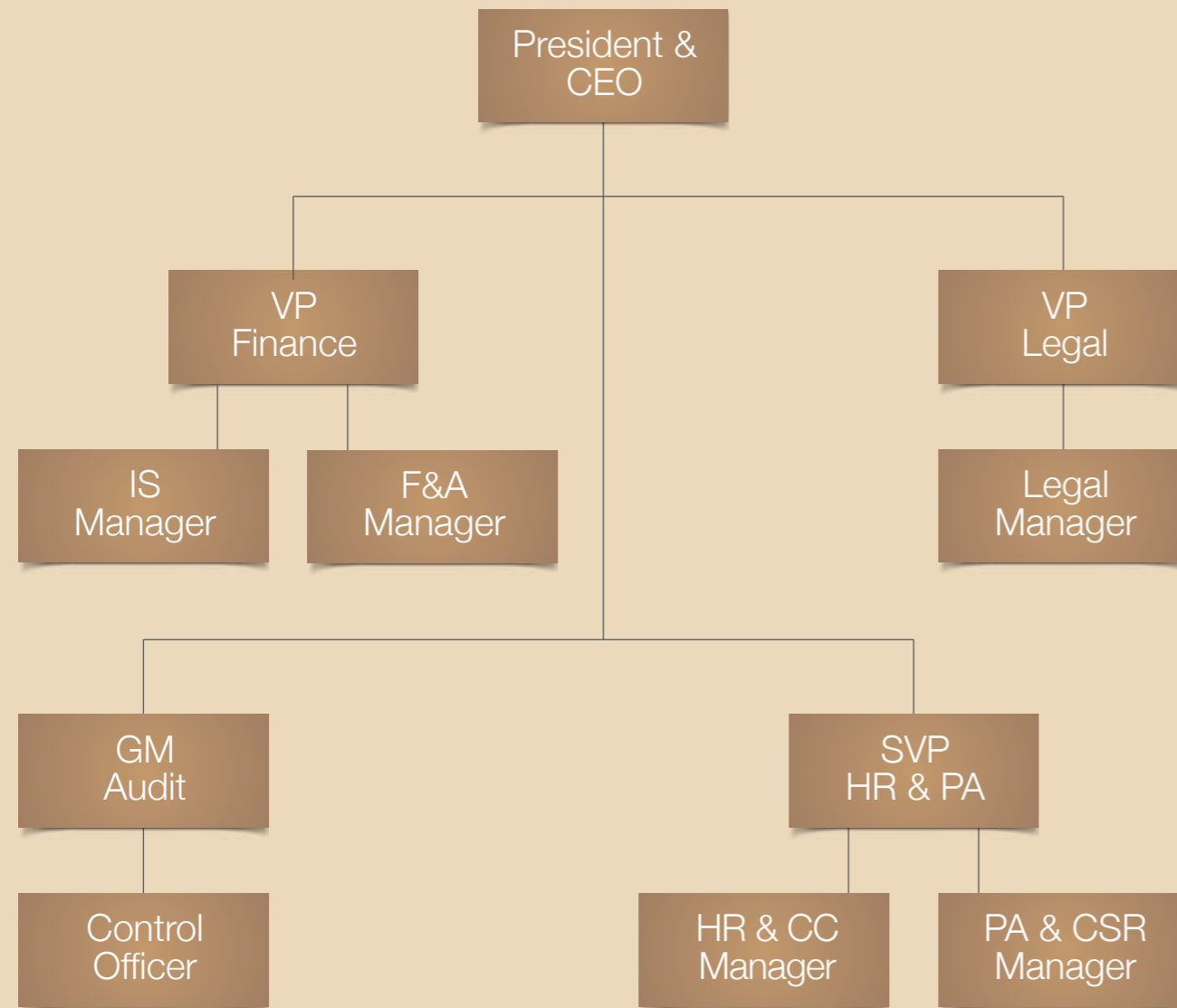
HUSSAIN DAWOOD
Chairman

supervising impact

Our governance and management framework creates mechanisms designed to ensure that the company lives up to its commitments and responsibilities – ensuring creation of a system that encourages voluntary reporting so as to reduce the incidences of irregularities.



our organogram



SVP = Senior Vice President
 VP = Vice President
 GM = General Manager
 HR = Human Resources
 PA = Public Affairs
 CC = Corporate Communications
 CSR = Corporate Social Responsibility
 F&A = Finance & Accounting
 IS = Information System

* Connecting lines indicate reporting channels.

our holding structure

Engro Corporation Limited is a holding company that provides the long term vision for the company as well as the guiding policies, and oversees performance of the subsidiaries and affiliates.



- Engro Powergen owns and operates Engro Powergen Qadirpur Limited which is 10% directly owned by the holding company and 84% owned by Engro Powergen. The remainder is owned by the International Finance Corporation (IFC), a subsidiary of the World Bank.
- In 2011, Engro Foods Netherlands B.V. was incorporated as a wholly owned subsidiary of Engro Corp. It acquired Al-Safa, a 'halal' meat business operating in North America.

board of directors



From left to right (standing)

Shabbir Hashmi
Shahzada Dawood
Saad Raja

Ruhail Mohammed
Shahid Hamid Pracha
Khawaja Iqbal Hassan

From left to right (sitting)

Hussain Dawood (Chairman)
Muhammad Aliuddin Ansari (President & CEO)
Khalid Siraj Subhani

Sarfraz A. Rehman
Afnan Ahsan
Abdul Samad Dawood

directors' profile



Hussain Dawood
Chairman

Hussain Dawood is the Chairman of Dawood Hercules Corporation Ltd, Engro Corporation Ltd, The Hub Power Company Limited, Pakistan Poverty Alleviation Fund, Karachi Education Initiative, Karachi School for Business & Leadership and The Dawood Foundation.

The Dawood Foundation has contributed to the establishment of many institutions in Karachi and Lahore including the Karachi School for Business & Leadership; Dawood College of Engineering and Technology; the Dawood Public School for Girls; the Aga Khan University Hospital; the Lahore University of Management Sciences; the Beaconhouse National University; the Shaukat Khanum Cancer Hospital; the Al-Shifa Eye Hospital, Rawalpindi; Citizen Foundation Schools at Shekhupura and Daharki; the GIK Institute of Engineering Sciences and Technology, Topi; the FG Dawood Public School, Muzaffarabad; the Cradle to Cradle Institute in San Francisco; and the Acumen Fund; New York.

His social responsibilities include Memberships of the World Economic Forum and it's Global Agenda Councils of Anti-Corruption and Education, and the Asia House in London. He is the Honorary Consul of Italy in Lahore and was conferred the award "Ufficiale Ordine Al merito della Repubblica Italiana" by the Republic of Italy.

Hussain Dawood is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK. He joined the Board in 2003.



Muhammad Aliuddin Ansari
President & Chief Executive

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

Ali is a member of the Board of Directors of Engro Corporation Limited, Engro Fertilizers Limited, Engro Eximp (Private) Limited, Engro Eximp AgriProducts (Private) Limited, Sindh Engro Coal Mining Company, Dawood Hercules Corporation Limited, Dewan Drilling Limited, Dewan Petroleum (Private) Limited, Pakistan Chemical & Energy Sector Skill Development Company and Pakistan Business Council. He has chaired a number of SECP committees and also served on the Boards of the Karachi Stock Exchange, NCCPL, Lucky Cement and Al Meezan Investment Management amongst others. He joined the Board in 2009.

directors' profile



Shahzada Dawood
Director

Shahzada Dawood serves as a Director on the Boards of Dawood Hercules Corporation Ltd, Engro Corporation Ltd, DH Fertilizers Ltd, Dawood Corporation (Pvt) Ltd, Engro Foods Ltd, Engro Powergen Ltd, Engro Powergen Qadirpur Ltd, Engro Vopak Terminal Ltd, Pebbles (Pvt) Ltd, Patek (Pvt) Ltd, Engro Polymer & Chemicals Limited, Sirius (Pvt) Ltd and Tenaga Generasi Ltd. He also serves as a Director of Dawood Lawrencepur Ltd and Engro Fertilizers Ltd. He is a Trustee of The Dawood Foundation, which is one of the largest public charitable trusts in Pakistan, supporting education and health initiatives. He serves as a Member of the Board of Governors of the National Management Foundation, the sponsoring body of Lahore University of Management Sciences (LUMS). He is an M.Sc. in Global Textile Marketing from Philadelphia University, USA, and an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance. He joined the Board in 2003.



Khalid Siraj Subhani
Director

Khalid S. Subhani is the President and Chief Executive Officer for Engro Polymer & Chemicals Limited.

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

Mr. Subhani began his career in the Manufacturing Division at Exxon Chemical Pakistan Limited in 1983 and has held a variety of leadership roles within the Company, including long term assignment with Esso Chemical Canada. He has served as Manager for New Projects, General Manager for Operations, Vice President for Manufacturing, Senior Vice President for Manufacturing and New Ventures and as President & Chief Executive Officer for Engro Fertilizers Limited. He is a member of the Pakistan Engineering Council, Business Advisory Council of the Society for Human Resource Management (SHRM) Forum Pakistan, Faculty Selection Board of Institute of Business Administration - Sukkur, and Standing Committee on Environment of Federation of Pakistan Chambers of Commerce & Industry. He has also been a member of Federal Government's Committee on Dawood Engineering College rejuvenation and American Institute of Chemical Engineers.

He graduated from NED University of Engineering and Technology, Pakistan with a degree in Chemical Engineering and has completed programs on advance management from MIT and Hass School of Business Management, University of Berkeley, USA. He joined the Board in 2006.



Shabbir Hashmi
Director

Shabbir Hashmi has more than 30 years of project finance and private equity experience. At Actis Capital, one of the largest private equity investors in the emerging market, he had led the Pakistan operations. Prior to Actis, he was responsible for a large regional portfolio of CDC Group Plc for Pakistan and Bangladesh. He also had a long stint with USAID and later briefly with the World Bank in Pakistan, specializing in planning and development of energy sector of the country. Apart from holding more than 24 board directorships as a nominee of CDC/Actis in the past, he is currently serving as an independent director on several companies from manufacturing to financial services. He is also on the board of governors of HelpCare Society which is operating K-12 schools in Lahore for the underprivileged children. He is an engineer from Dawood College of Engineering & Technology, Pakistan and holds an MBA from J.F. Kennedy University, USA. He has been serving as an independent director on the Board since 2006.



Ruhail Mohammed
Director

Ruhail Mohammed is currently the Chief Executive Officer of Engro Fertilizers Limited. Prior to his current position, he was the Chief Financial Officer of Engro Corporation Limited and also the Chief Executive Officer of Engro Powergen Limited. He holds an MBA degree in Finance from the Institute of Business Administration Karachi, and is also a Chartered Financial Analyst.

Ruhail has 25 years of Financial & Commercial experience and prior to becoming CEO has worked in areas such as treasury, commodity & currency trading, derivatives, merger & acquisitions, risk management, strategy & financial planning. He has worked in these areas in Pakistan, UAE and Europe.

He is on the Board of Engro Corporation Limited and its various subsidiaries. In addition, he is also on the Boards of Cyan Limited, Hub Power Company Limited & Pakistan Institute of Corporate Governance. He joined the Board in 2006.



Saad Raja
Director

Saad Raja is an engineer from UET, Lahore and with an MBA from the London Business School. He joined DFJ ePlant ventures in 2002, prior to which he had worked at senior management levels in the international asset management and investment sector.

His diverse experiences have included tenures with Diachi Life Mizuho Asset Management and Industrial Bank of Japan – Asset Management International. He joined the Board in 2009.

directors' profile



Abdul Samad Dawood
Director

Abdul Samad is a graduate in Economics from University College London, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance. He is the CEO of Cyan Limited, Dawood Corporation Private Limited, and Patek Pvt. Limited. He is a Director on the Board of Dawood Hercules Corporation Limited, The Hub Power Company Limited, Sui Northern Gas Pipeline Limited, Dawood Lawrencepur Limited, Engro Fertilizers Limited, Engro Foods Limited, Engro Eximp (Private) Limited, International Industries Limited, DH Fertilizers Limited, Tenaga Generasi Limited, WWF Pakistan and Pebbles (Pvt.) Limited. He is a member of Young President Organization, Pakistan Chapter. He joined the Board in 2009.



Sarfaraz Ahmed Rehman
Director

Sarfaraz is a chartered accountant by qualification and has 29 years of professional work experience, mainly in the FMCG industry with some time spent in the Healthcare industry also. He started his career with Unilever in 1983 and spent time in Finance, Marketing Services, Management Accounting and Cost savings projects. He then moved to Smithkline Beecham where he was involved in the Merger and Strategic Planning at the time of the merger.

Later he spent several years abroad with Jardine Matheson/Olayan mainly in Finance and Business Development. Sarfaraz then moved to PepsiCo and spent several years managing the Pakistan and Afghanistan Unit. Later he was also involved with postings and consultancy assignments primarily outside Pakistan between 2004 and 2005.

On his return to Pakistan, Sarfaraz launched Engro Foods Limited in 2005 and for over six years was in the position of CEO Engro Foods.

Lately Sarfaraz has decided to move out of commercial operations into philanthropy and is now heading Dawood Foundation. In this role he is hoping to affect mass education, by bringing in the use of online technology. He is also involved with the launch of the Karachi Business School for Leadership, which has successfully commenced its operations in September 2012. He joined the Board in 2012.



Khawaja Iqbal Hassan
Director

Khawaja Iqbal Hassan graduated cum laude from the University of San Francisco with majors in Finance and Marketing. He started his career with Citibank N.A. where he held key positions including Regional Business Head and Vice President in Saudi Arabia, Turkey and Pakistan. He is the founder and former Chief Executive Officer of Global Securities Pakistan Limited and NIB Bank Limited. He currently serves as a member on the Board of Directors of The State Bank of Pakistan, ICI Pakistan Limited and the Karachi Grammar School. He has also served on the boards of the Civil Aviation Authority of Pakistan (CAA), Pakistan Steel Mills, NIB Bank Limited, Habib Bank Limited, National Fullerton Asset Management Company Limited, Global Securities Limited, Citicorp Investment Bank Pakistan, The Pakistan Fund, The Lahore School of Management Sciences and the Central Depository Company of Pakistan. Mr. Hassan has also been a member of the Prime Minister of Pakistan's Task Force on Foreign Exchange Reserves Management, Corporate Tax Reform and Capital Markets Reform. He was awarded the Sitara-i-Imtiaz by the Government of Pakistan for meritorious contribution to national interests. He joined the Board in 2012.



Shahid Hamid Pracha
Director

Shahid Pracha is Chief Executive of Dawood Hercules Corporation Limited and Chairman of DH Fertilizers Limited, Dawood Lawrencepur Limited, and Tenaga Generasi Limited. He is also a Director on the Boards of HUBCO, Cyan Ltd., Engro Powergen Ltd. and Engro Powergen Qadirpur Ltd. He previously served as Chief Executive of the Dawood Foundation, the philanthropic arm of the Dawood Hercules Group. Mr. Pracha is a graduate electrical engineer from the University of Salford, UK and prior to joining the Dawood Group, spent a major part of his career with ICI Pakistan's operations in a variety of senior roles including a period of international secondment with the parent company in the UK. He is also a founding member of the Pakistan Society for Human Resource Managers and previously served as the first CEO of the Karachi Education Initiative, the sponsoring entity of the Karachi School for Business & Leadership. He joined the Board in 2012.



Afnan Ahsan
Director

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

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

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

core values

Our core values define every aspect of our way of doing business ensuring that we value the five hats we wear.

Innovation & Risk Taking

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

Ethics & Integrity

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

Community & Society

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

Health, Safety & Environment

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

Our People

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



our governance framework

Our governance framework is designed to ensure that the company lives up to its core values and principles, institutionalizing Engro's commitment to enabling excellence in everything we do. Through concrete processes and mechanisms, we fulfill our responsibilities with everyone we interact with whether it be our customers, suppliers, communities or the government.

Compliance Statement

The Board of Directors has throughout the year 2012 complied with the 'Code of Corporate Governance' as per the listing requirements of the stock exchanges and the 'Corporate and Financial Reporting Framework' of the Securities & Exchange Commission of Pakistan.

Risk Management Process

Management at all subsidiaries periodically reviews major financial and operating risks faced by the business. In the year 2011, an Enterprise-wide Risk Management (ERM) system was deployed at all Engro Companies which continued to enhance our governance framework throughout 2012.



Internal Control Framework

Responsibility:

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

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

Framework:

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

Review:

The Board meets quarterly to consider Engro's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators.

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

There is a companywide policy governing appraisal and approval of investment expenditure and asset disposals. Post completion reviews are performed on all material investment expenditure.

Audit:

Engro has an Internal Audit function. The Board Audit Committee annually reviews the appropriateness of resources and authority of this function. The Head of Internal Audit functionally reports to the Audit Committee. The Board Audit Committee approves the audit program, based on an annual risk assessment of the operating areas. The Internal Audit function carries out reviews on the financial, operational and compliance controls, and reports on findings to the Board Audit Committee, Chief Executive and the divisional management.

Directors

Since April 2012, the Board has comprised of one executive director, three independent directors and eight non-executive directors of whom three are executives in other Engro Companies. The Board has the collective responsibility for ensuring that the affairs of Engro are managed competently and with integrity.

A non-executive Director, Mr. Hussain Dawood, chairs the Board and the Chief Executive Officer is Mr. Muhammad Aliuddin Ansari. Biographical details of the Directors are given previously in this section.

A Board of Directors' meeting calendar is issued annually which schedules the meetings of the Board and the Board Audit Committee. The full Board met 9 times including meetings for longer term planning, giving consideration both to the opportunities and risks of future strategy.

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

our approach to governance

Engro's pursuit of profit is underlined by a commitment to be ethical in all that we do. As a result, Engro's work ethos embodies some of the highest standards of corporate governance in Pakistan.

Empowerment with Accountability

Whilst we seek to empower our employees to facilitate business decision making we also hold them accountable for their actions. During performance of various job tasks employees are required to ensure that they conduct themselves in a manner that reflects positively on the company.

As part of deploying a rigorous internal control framework all our employees are held to the highest of standards and are responsible for:

- Complying with all applicable laws, company policies and procedures.
- Maintaining appropriate ethical behavior in all internal and external dealings.
- Reporting any suspected misconduct, illegal activity, fraud, abuse of company assets or other violation of ethical standards.
- Submit an ethics compliance declaration.

Our Supporting Infrastructure to Aid in Ethical Conduct

Orientation:

- Brief to new hires about policies on ethical business conduct.

Reinforcement:

- Workshops on Ethics carried out periodically.
- All vendors, contractors and customers are sent the Ethics Policy statement, which has been translated into Urdu, periodically with a request to ensure compliance in their dealings with the company.
- Clauses related to Ethics and Conflicts of Interest are mandatory in all contracts entered into by the company.

Monitoring of Compliance:

- Voluntary disclosure of actual or suspected non-compliance through Irregularity Reporting system
- Irregularity reports are shared with management and Board Audit Committee on a quarterly basis.
- Whistleblower system whereby employees are encouraged to raise red flags and help strengthen the control environment.
- Whistleblower complaints and results of their investigations are also reported to Board Audit Committee every quarter.
- Periodic Business Practices review involving all Engro companies and employees to identify questionable business practices. All identified issues are reported directly to the Board of Directors.

We are also cognizant of the fact that our employees may encounter a variety of legal issues while taking decisions to conduct business and, therefore, they need to be aware of the legal implications of their actions. Consequently, to mitigate risks associated with non-compliance we continue to host information and training sessions that promote compliance to the law and strengthen awareness of systems and protocols that have been instituted to monitor and report any such violations. We also encourage our employees to seek clarification from their respective supervisors and company's legal advisors to ensure that we remain fully compliant with all applicable laws, rules and regulations.

As an enabler of ethical excellence we believe in promoting fair trade and a free-market competitive system – an objective that all our companies seek to pursue. While all our companies compete vigorously in the marketplace, they

also ensure compliance with the Competition Act 2010 and, therefore, compete on the merits of their product quality, prices, service and the customer loyalty we create by fulfilling the needs of all our consumers and clients. In order to reinforce our commitment to the competition laws, all Engro companies have joined up to the requirements of the voluntary competition compliance code initiative of the CCP and implemented all its requirements. Furthermore, we also strive to ensure that all our employees remain transparent in their dealings and are accurate in describing the attributes of the Company's products.

Our employees often have access to confidential information on future plans and financial data. Such individuals-commonly referred to as 'insiders' can use this information in the public domain for trading or tipping others to trade in the Company's securities or use this information to exercise any share options granted by the Company to the employees. To discourage insider trading all our employees are educated about the ethical and legal implications of such actions.

Yet even as we monitor the behavior of our employees and suppliers, we also make it a point to ensure that Engro treats them fairly. The company makes it a point to pay its suppliers on time and has a specific policy to ensure that payments are made and approved within the stipulated time. We believe our commitment to living up to our financial obligations in a timely manner sets us apart from many of our competitors.

In essence, Engro's governance strategy is designed to ensure that the company lives up to its core values and principles, institutionalizing Engro's commitment to enabling excellence in everything we do.



our governance performance

Engro's approach towards corporate governance is comprehensive to ensure maximum transparency. It begins with a system of audits and reporting that is designed to catch irregularities in time. This system is reinforced through the nurturing of a culture of voluntary reporting that ensures irregularities are checked early. This emphasis on transparency and ethical practices has played a significant role in developing our employees as responsible professionals and citizens.

In 2011, the organization set itself the objective to implement an Enterprise wide Risk Management (ERM) system across the company, its subsidiaries and its ventures – an initiative that continued in 2012. Through the implementation of this program the company and its subsidiaries now have a more efficient system in place to anticipate, analyze and mitigate risks that may impact the ability to achieve corporate objectives. As part of the ERM process, management across the company has begun to identify and assess critical risks and develop comprehensive mitigation plans. As we go forward we intend to augment the ERM process to improve risk management and protect shareholders value through better performance.

Furthermore, through the year we continued to focus on our internal control framework and ensured that all departments, subsidiaries and joint ventures attained a level of efficiency in their corporate governance as reflected in their audit reports. On the whole, 13% of the

In 2012 our governance team worked extensively to develop and implement a plan to strengthen employee understanding on core values.

group's audit reports received a Management Attention Required (MAR) rating in 2012, although there were no 'unsatisfactory' reports.

In 2012 our governance team worked extensively to develop and implement a plan to strengthen employee understanding on core values. A comprehensive plan has thus been developed through the year to promote and foster a culture of ethical excellence. As part of promoting ethical behavior amongst our employees "Embracing Ethical Excellence (E3)" program will be launched which is designed to strengthen awareness of core values amongst employees along with increasing their understanding on how to incorporate concepts of ethics, transparency and fairness in their regular business interactions and work practices. Moreover, "Code of Conduct" booklets detailing the core values, business principles and guidelines for business conduct was developed and circulated.

In 2012, we also conducted an evaluation of the internal audit function including inputs from Chairman of the Board Audit Committees, CEOs, Divisional Heads and external auditors. This exercise concluded that our risk and audit division is adequately operating to ensure that robust systems are in place for (a) ethical conduct (b) governance and (c) effective internal control.

A survey benchmarking our ethics and integrity with global standards was also conducted at Engro Fertilizers during 2012 that highlighted areas of improvement pertaining to our various governance aspects. The survey received a successful response rate of over 81% which further helped

us in highlighting the improvement areas which will be focused upon for driving greater operational excellence.

Further, in 2012, as part of the internal audit plan, we conducted a shareholder's audit of Engro Fertilizers to provide Engro Corporation, as the shareholder, reasonable assurance that the business of Engro Fertilizers:

- is being conducted in a safe and ethical manner;
- best practices and principles of corporate governance are being upheld; and
- an effective system of identifying, assessing and managing all strategic and business risks exist.



our audit report results

Engro was successfully able to improve its governance to the point where none of the company's business lines got an “unacceptable” rating on any of their audit reports.

Engro's governance structure puts emphasis on thorough and frequent audits of every department, where every financial transaction is scrutinized, and system compliance audits are conducted. Each audit

report is given one of four possible ratings based on the degree of compliance with the company's policies, (in descending order of acceptability) Good, Satisfactory, Management Attention Required (MAR) and Unsatisfactory.

Audit Report 2012

Company	Unacceptable	Management Attention Required	Satisfactory	Good	Total
Fertilizers	0	5	29	1	35
Polymer	0	6	15	1	22
Foods	0	2	44	2	48
PowerGen	0	0	28	0	28
EXIMP	0	3	11	0	14
ECorp	0	4	6	1	11
Total	0	20	133	5	158
Percentage	0	13%	84%	3%	100%

speakout policy

When it comes to encouraging high standards, Engro ensures adherence to the codes of ethics and governance laid out in the company's guidelines. There is an active policy that encourages employees to speak out when they see violations of the code of corporate governance or ethics.

Engro is one of the very few companies in Pakistan that has a whistleblower protection policy. It is part of our commitment to our people that we want to create the environment where people do not feel that their job would be at stake if they report negative information.

The whistleblower policy ensures that employees are able to lodge complaints through e-mail as well as through a toll-free telephone number. Each complaint is taken up by the Board Audit Committee and thoroughly investigated.

While Engro is devoted to the idea of achieving excellence in everything it does. To this end, we are making public the data collected by our reporting mechanisms, so that all of our stakeholders can be aware of our efforts - and the

degree of success we have had - in achieving the highest standards of corporate ethics and governance.

The data in the table below has been made available to its stakeholders, in order to ensure a high level of transparency, which we believe will inculcate a culture of responsibility and ethical behaviour across the entire organisation.

The increase in whistleblower-linked investigations is an example of the success of the SpeakOut campaign, which created awareness within the firm's employees of a policy meant to protect them and the firm. Of the cases reported, many were found to lack merit.

Governance Data (number of incidents)

Year	Whistle-blower Investigations
2008	04
2009	11
2010	26
2011	56
2012	50



business continuity planning (bcp)

In the event of any untoward and unexpected situation, our businesses are fully equipped to initiate their BCP response protocols; therefore, ensuring the continuity of important operations at the very least and restoration of key operations.

Engro continues to engage in rigorous crisis management on a consolidated basis and for our diverse business segments as well. In recent years given our robust expansion such an exercise has become all the more critical to driving operational excellence. The holistic crisis management exercises that we conduct are reflective of the increasing diversity and complexity of risks that accompanies our business expansion.

As part of the comprehensive exercise, all our businesses continue to engage in Business Continuity Planning cycles on an ongoing basis. BCP refers to an action plan formulated in advance with the aim of preventing breakdown of important company operations or restoring and restarting them in as little time as possible if they are interrupted by the occurrence of an unexpected event such as a natural disaster or incident. We have formulated BCPs – with detailed standard operating procedures (SOPs) for backup of important company assets including physical and virtual data – for different types of crises such as natural disasters, new infectious diseases, international or national political problems and various other external incidents. In the event of any such untoward and unexpected situation, our businesses are fully equipped to initiate their BCP response protocols and work to ensure the continuity of important operations at the very least and quickly restore such operations.

board committees

The Board has established three committees, chaired by independent non-executive directors as follows:

Board Compensation Committee

The committee meets multiple times through the year to review and recommend all elements of the Compensation, Organization and Employee Development policies relating to the senior executives' remuneration and to approve all matters related to the remuneration of the executives of all companies and members of the management committee.

The President attends Board Compensation Committee meetings by invitation. The committee met five times during 2012.

Members

Hussain Dawood (Chairman)
Abdul Samad Dawood (Director)
Sarfraz A. Rehman (Director)
Shabbir Hashmi (Director)
Shahzada Dawood (Director)

The Secretary of the Committee is
Tahir Jawaid, Senior Vice President, HR and PA.

The Board Audit Committee

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

The Chief Financial Officer regularly attends the Board Audit Committee meetings by invitation to present the accounts. After each meeting, the Chairman of the Committee reports to the Board. The Committee met four times during 2012.

Members

Shabbir Hashmi (Chairman)
Khawaja Iqbal Hassan (Director)
Sarfraz A. Rehman (Director)
Shahid Hamid Pracha (Director)

The Secretary of the Committee is
Naveed A Hashmi, General Manager
Corporate Audit.

The Board Investment Committee

The Committee assists the Board in reviewing the Company's investment transactions and performances, and in overseeing the Company's capital and financial resources. The Committee meets on need basis, and met seven times during 2012 giving its recommendations to the Board.

Members

Abdul Samad Dawood (Chairman)
Khawaja Iqbal Hassan (Director)
Saad Raja (Director)
Shahid Hamid Pracha (Director)

The Secretary of the Committee is
Eqan Ali Khan, Senior Manager Finance
and Accounting.



functional committees

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

EXCOM

EXCOM is headed by the President & CEO, and includes the corporate functional heads of HR and Finance as well as CEOs of all Engro Corp subsidiaries. The committee meets to discuss performance appraisals; matters which are common and cut across all subsidiaries; and works in an advisory capacity to the President.

Committee Members

Muhammad Aliuddin Ansari (Chairman)
Abdul Samad Khan
Afnan Ahsan
Khalid S. Subhani
Naz Khan
Ruhail Mohammed
Shamsuddin A. Shaikh
Sheikh Imran-ul-Haque
Tahir Jawaid

Committee for Organizational and Employee Development (COED)

The COED is responsible for the review of Compensation, Organization, Training and Development matters of all employees. Each of the Engro subsidiaries has their own COED while EXCOM looks after decision on group wise basis. The members of COED at Engro Corporation (standalone) are as follows:

Committee Members

Muhammad Aliuddin Ansari (Chairman)
Andalib Alavi
Naveed A. Hashmi
Naz Khan
Tahir Jawaid

The Secretary of the COED is Naila Kassim, Manager HR & Corporate Communications Engro Corporation Limited.

Engro Foundation Board

Engro Foundation serves as a single platform for community engagement activities and social investments of Engro affiliates. By pooling their financial and managerial resources under the Foundation, Engro affiliates seek to create large scale social impact through which people have access to choices and opportunities for development. Engro Foundation is governed by a Board of Trustees.

Board of Trustees

Muhammad Aliuddin Ansari (Chairman)
Abdul Samad Khan
Afnan Ahsan
Khalid S. Subhani
Ruhail Mohammed
Shamsuddin A. Shaikh
Tahir Jawaid

The Secretary of the Board is Favad Soomro, Director, Engro Foundation.



our governance objectives for 2013

Engro's primary objective for 2013 will be to achieve an MAR result in less than 10% of its audit reports. Furthermore, we will continue to monitor progress on Enterprise Risk Management (ERM) across all Engro companies. The organization will also aim to review implementation of mitigation plans across the businesses and highlight cross-cutting issues if any identified through ERM at multiple companies and report to management.

'Embracing Ethical Excellence'— a holistic approach to improving Ethics Awareness & Training will also be deployed through the year.

Moreover, the practice of internal resource development, which will be achieved through the organization of synergy forums for internal auditors will be continued to further cement the governance framework within the company. The internal audit department will work towards the timely completion of audit plans and develop and implement a methodology to assess the overall state of Internal Control.

The core of Engro's governance structure revolves around the thorough and frequent audits of every department.



reviewing impact

The Directors of Engro Corporation Limited are pleased to submit the forty seventh annual report and the audited accounts for the year ended December 31, 2012.

Principal Activities

Engro Corporation is concerned with the oversight of subsidiaries and affiliates. Its current portfolio consists of investments in the areas of fertilizers, foods, petrochemicals, energy, chemical storage & handling, and trading.



president's message

Our core business and sustainability efforts go hand-in-hand. It is not only part of our values; it is in our own interest to add value and 'grow the pie' by delivering efficient, sustainable solutions to our customers and partners



Engro has faced a very challenging year in 2012 due to government's poor policies and default of its sovereign obligation. This caused our new EnVen plant to shut down which resulted in large and unprecedented losses at Engro Fertilizers severely limiting its debt servicing capacity. There were other challenges arising out of the major growth phase of the past few years which had surfaced in Engro Polymer and our new rice plant as well as the early retirement of a number of our senior most management.

The critical issues faced by the Company in 1H 2012, posed a formidable threat in which our very survival was at stake. However, when met with tough challenges our strongest asset – our people – displayed the zeal and resolve to overcome these hurdles through sheer determination and displayed the 'spirit of engro' – the ability to rise to the challenge. The management systems that Engro has built up over the years and takes great pride in, proved their worth and allowed us to rapidly assess and address the issues on multiple fronts.

By the 4th quarter we had affected a turnaround in our troubled areas. Fertilizers converted EnVen to run on our old base plant gas and gained substantially on efficiency; further studies and projects have provided us huge flexibility in using gas of various qualities and from multiple sources. At Polymer we were able to stabilise and operate our VCM plant at its designed capacity and the company is back in profit after 3 consecutive years of losses. The production issues at our rice plant were addressed and the plant operated at its designed capacity during the season. We ensured that other parts of our group remained unaffected. Foods put in a stellar growth both in revenue and profits, Qadirpur power plant had excellent operational performance and results, it dealt well with the circular debt issues and Engro Vopak posted another

good year. In the face of tremendous pressure we did not compromise on our core values.

Safety remained on top of our agenda and safety numbers improved across the board. Our ethics & integrity remained uncompromised and we used innovation and risk taking to solve our problems.

We at Engro believe in aligning our interests with Pakistan's which continues to be affected by a chronic energy crisis. We are uniquely placed to help the nation overcome this major challenge with our understanding of the issue based on a major in-house study, skilled people and management systems that deliver projects. We have positioned our LNG project as a leading contender and made tremendous progress on the Thar Coal Project which can be launched once we are re-assured that the government will honour its contractual commitments.

We strongly believe that our success and growth are closely linked to the continued development of societies in which we operate – most importantly, we Care. This commitment is amply displayed by the fact that in 2012, in collaboration with an increasing number of partners, we spent Rs. 186 million on various CSR programs. We have had a much bigger impact through our businesses in alleviating poverty by working with farmers and improving their income levels. We are uniquely placed to impact the lives of millions by the introduction of best practices in the agriculture sector.

Going forward we intend to increase our emphasis on 'creating sustainable livelihoods' under Engro Foundation – the single front for all CSR activities of our businesses – to cement our position as an enabler of opportunities for the under-privileged and also significantly drive forward our 'inclusive businesses' model whereby we focus on creating sustainable value that not

only benefits us but a vast majority that constitute the base of the pyramid in our country.

Our core business and sustainability efforts go hand-in-hand. It is not only part of our values; it is in our own interest to add value and 'grow the pie' by delivering efficient, sustainable solutions to our customers and partners, thus enabling growth and development of businesses as well as societies. As part of our sustainability initiatives, we have commissioned a pilot on – grid solar power generation site at Daharki which is the largest in Pakistan – yet again we are the first. Our approach to sustainability is no different from our approach to the rest of our business – we pursue excellence.

I take this opportunity to present special thanks to our bankers, shareholders and employees for standing by us in our hour of need and for putting your trust in us. We took the tough and unprecedented decisions of re-profiling Fertilizer's debts and not paying a dividend which were required to face the existential threat. Despite all the challenges, we remain optimistic and highly confident of posting a strong performance in 2013 by enhancing our revenues, driving efficiencies & cost control and repaying your trust. We will lay the foundation of our next level of growth by strengthening our organization on all fronts as we aim to make Engro a strong, focused regional player.

This report is part of our commitment to transparency as well as to the engagement that we have promised our stakeholders. It is also part of a process whereby we solicit feedback on the success and failure of our efforts through the year.

ALI ANSARI
President & CEO

operational highlights

Engro Foods posted a robust revenue growth of 35% and declared its highest ever profit of Rs. 2,595 million against a profit of Rs. 891 million in 2011.

Our fertilizers business faced the brunt of continued gas curtailment to fertilizer industry producing 974 K tons urea during the year down from 1,279 K tons in 2011.

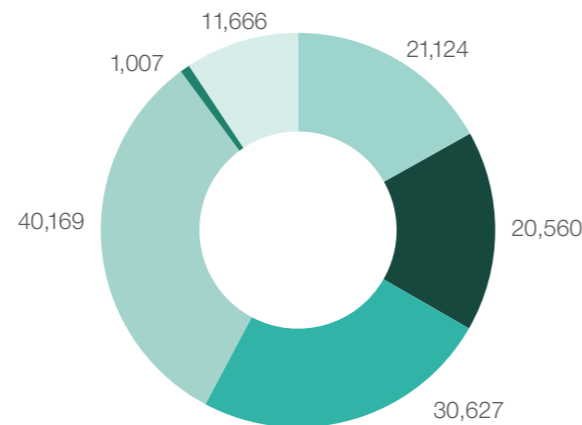
The year 2012 saw significant improvements in plant operations in our petrochemicals business with consolidated profit after tax of Rs. 77 million in 2012 as compared to a loss after tax of Rs. 706 million in 2011.

Our investments in Thar Coal Project secured sovereign guarantee commitment from the government for financing the debt portion of Thar Block II mining project amounting to USD 600-700 million.

Business Revenues (Rs. in million)

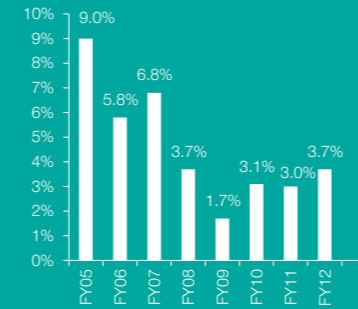
Consolidated Revenue
(Rs. in million)
125,151

- Eximp
- Polymer
- Fertilizers
- Foods
- Netherlands
- Powergen



external environment

Pakistan GDP Growth

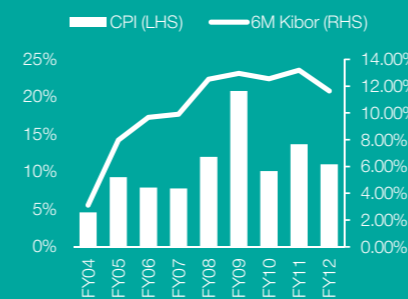


Economic Environment

Slow growth in the global economy continued throughout 2012 with global output growing at an estimated 3.2% as compared to 3.9% in 2011. Fiscal austerity measures to address sovereign debt crises and financial sector fragility were the key challenges to global growth. The European Union (EU) economy fared worse this year as it contracted by an estimated 0.4% as compared to a 1.4% growth in 2011. The growth rates of developing economies have also decreased from 6.3% in 2011 to an estimated 5.1% in 2012, with the high profile Chinese economy slowing down from 9.3% in 2011 to an estimated 7.8% in 2012. China's largest trading partner is EU, and although China remains the world's largest exporter, the slowdown in Europe has weighed down its economic growth.

In 2012, Pakistan's economy continued to be hit by energy shortages, deteriorating security situation and slow global economic recovery. Investor confidence remained weak as private investment shrank for the fourth consecutive year despite a 250 bps reduction in policy rate in the second half of 2012. Rising Government borrowings to cover growing fiscal deficits continued to crowd out private investment and to create liquidity and inflationary pressures. Low foreign investment and high debt repayments led to 7.9% devaluation in the local currency viz-a-viz the US dollar.

YoY Inflation (CPI)

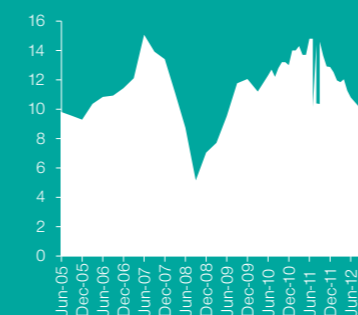


Agriculture Environment

In 2012, severe droughts in Central Asia and Eastern Europe led to an estimated 5.5% decline in world wheat production decreasing world stocks to use ratio to an estimated 24.0% from 27.5%. Consequently, international wheat prices rose sharply in June and July and stayed high for the rest of the year. In Pakistan, the wheat crop economics did not improve despite increase in wheat support price in 2011/12 due to rising input costs, especially energy and fertilizer. The rise in wheat prices led to a 10% increase in flour prices for the common man from Rs.30 per kg in 2011 to Rs.33 per kg in 2012.

Global rice and sugar production is estimated to have increased by 1% and 2.2% respectively, as compared to 2011. Rice world stock to use ratio increased from 33.6% to an estimated 35.5%, whilst sugar's stock to use ratio increased for a third consecutive year to an estimated 36.2% as compared to 35.2% in 2011. Increased export availability led to 5.5% decrease in prices of traded rice whilst higher production led to a 20% drop in sugar prices. Rice production in Pakistan increased by around 2.0% to 6.3 million tons primarily due to increased area under cultivation and sugar cane production in Pakistan is estimated to have increased by 4.0% to 61 million tons during 2012.

FX Reserves with SBP (US\$bn)

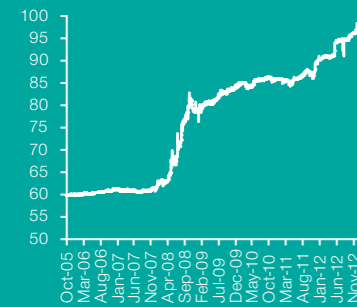


Sources: SBP, PBS, Economic Survey of Pakistan, IMF, USDA, FAO, APTMA, PCGA

World cotton production is estimated to have declined by 6% to 25.3 million tons in 2012 as farmers switched to alternate crops. International cotton prices in second half of 2012 were around 25% below prices during the same period last year. Cotton prices in Pakistan during second half of 2012 remained near similar levels as second half of 2011. Arrivals as of mid-March 2013 were estimated at 12.8 million bales as compared to total arrivals of 14.5 million bales in entire previous season.

external environment

USD-PKR Parity

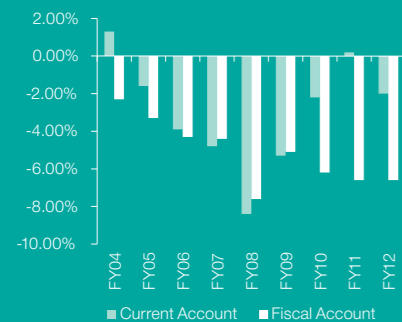


Energy Environment

International oil prices moved sharply in 2012 reflecting regional economic and political concerns. In the second quarter Brent oil prices crashed from highs of \$125 per barrel to lows of about \$91 per barrel as concerns grew over a slowdown in global economic growth fuelled by the Eurozone crisis. However, subsequently, in the third quarter most of the price decrease was recovered as rising geo-political tensions between Iran and the West pushed Brent prices above \$115 per barrel.

In Pakistan, acute energy shortage continued throughout 2012, affecting all facets of the domestic economy. With burgeoning public resentment to countrywide power load shedding, the government rushed to implement stop gap measures to increase power supply like diverting gas from the fertilizer sector, supposedly to the power sector which did not receive it. The government once again failed to take concrete steps to solve the underlying issue of circular debt. Moreover, it was not able to provide any relief to the country by bringing in LNG imports to supplement the dwindling gas supplies. There was no economic rationality to the gas allocation and existing priority orders for allocation were not followed. Firm contracts were not honoured despite court rulings whilst non-firm obligations were fulfilled causing chaos and economic harm.

Pakistan Twin Deficits (% GDP)



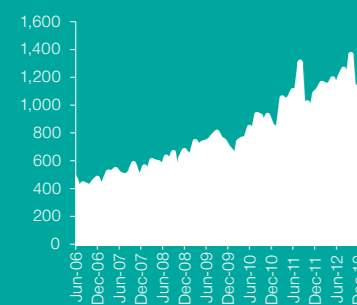
Fertilizer Sector Impact

The government's unjust and highly discriminatory gas allocation policy towards and in between domestic fertilizer producers resulted in massive gas curtailment to fertilizer plants on the SNGPL network and Engro Enven in particular. This resulted in the third straight year of decline in overall urea production in the country, from 4.9 million tons in 2011 to 4.2 million tons in 2012 - a 14% decline. Consequently there was a shortfall in supply and higher year on year prices of urea which curtailed demand. The country's domestic urea sales witnessed a decline of 12% with cumulative sales of 5.2 million tons compared to 5.9 million tons during 2011. The decline in urea off-take is directly attributable to poor farm economics leading to lower application on crops.

Domestically produced urea sales declined as a proportion of total sales. This was caused due to a large differential between the prices of domestically produced urea and imported urea during early part of the year. The price difference between domestically produced and imported urea peaked at Rs. 500 per bag by early February, 2012. This resulted in imported urea achieving the highest ever market share of 52% during the first quarter. This price anomaly later narrowed down to Rs. 50 per bag by June, 2012 consequent to a rise in imported urea prices and drop in domestically produced urea prices. With the reduction of price anomaly, off takes of locally produced urea started improving from the second quarter onwards.

These highly anomalous policies resulted in imports of about 1.4 million tons of urea at a cost of USD 645 million on which the government paid huge subsidies of Rs. 35 billion. Fertilizer plants receiving gas made windfall profits and those deprived of gas made massive losses. The country suffered the consequences and farmers were the worst affected.

Remittances (US\$m)



Sources:
SBP, PBS, Economic Survey of Pakistan, IMF,
USDA, FAO, APTMA, PCGA

organizational overview

Engro Fertilizers Limited, a wholly owned subsidiary of Engro Corporation is primarily engaged in the manufacturing and marketing of urea and NPK fertilizers and provides phosphates marketing and distribution services to Engro Eximp (Private) Limited. As one of the leading fertilizer manufacturing and marketing companies, the business offers a wide variety of fertilizer brands, which include some of the most trusted brand names by Pakistani farmers.

Engro Foods Limited is a listed company primarily engaged in manufacturing, processing and sales of dairy products, ice cream and fruit juices. In addition the business also operates a dairy farm that provides a rich source of milk to the business for its product needs. The business is 88.37% owned subsidiary of Engro Corp whereas the remaining 11.63% is owned by general public. It has established several brands that have already become household names in Pakistan such as Olper's, Tarang, Dairy Omung, Olper's Lite, Olfrute and Omore, amongst others. The business also acquired a meat processing and marketing company based in Canada, Al-Safa Halal in 2011.

Engro Polymer & Chemicals Limited is a 56% owned subsidiary of the Company and is listed on all three stock exchanges of the country. It is the only manufacturer of PVC in the country and also manufactures and markets caustic soda. The business produces all its energy from its combined cycle power plants.

Engro Powergen Qadirpur Limited is a 94% owned subsidiary whilst IFC & employees own the remaining 6% equity stake. Of our holding, 10% is held directly and 84% through our power holding company Engro Powergen Limited which also has a 60% shareholding in Sindh Engro Coal Mining Company – a joint venture with the Government of Sindh which has a 40% shareholding.

Engro Vopak Terminal Limited, the company's chemical storage and handling business is a 50:50 joint venture with Royal Vopak of Netherlands and is engaged in the handling and storage of chemicals and LPG.

Engro Eximp (Private) Limited is a wholly owned subsidiary of the company and is primarily engaged in the trading of phosphatic & other fertilizers as well as HPO, milk powder and sugar.

It also has a wholly owned subsidiary Engro Eximp Agriproducts Limited which is engaged in the rice procurement and processing business for onward sale to domestic and export market.

Elengy Terminal Pakistan Limited is a 100% owned subsidiary of the company, which has been created to establish and operate a terminal for the handling, regasification, storage, treatment and processing of Liquefied Natural Gas (LNG), Re-gasified Liquefied Natural Gas (RLNG), Liquid Petroleum Gas (LPG), Natural Gas Liquid (NGL) and all other related liquids, gases and chemical & petroleum products.



business review

The critical issues faced by the Company posed a formidable threat to its profitability. However, the Company took various immediate and long term measures to address the same and achieved a consolidated profit of Rs. 1,333 million against a profit after tax of Rs. 8,060 million in 2011.

Engro Corporation on a consolidated basis saw a major decline in profitability in 2012 as compared to 2011 mainly due to its urea operations which were severely impacted by gas curtailment and also faced lower margins due to an unparalleled gas price increase in the form of Gas Infrastructure Development Cess on feed stock gas. Whilst the company succeeded in having long-term gas supply plans approved by the ECC, the new urea plant did not receive gas for a single day in the second half of the year.

In the fertilizer trading business, flat international phosphates prices led to the inability of the imported fertilizer segment to capture gains such as those in 2011. On a positive note, higher profitability of the growing foods business and the stabilized operations of the polymer business partly offset the losses in the fertilizer business. Additionally, the energy business continued to maintain its performance but was faced with the ongoing circular debt issue which critically impacted the businesses' liquidity and cash flows. The chemical storage and handling business posted healthy results but the profitability was lower than in 2011 due to a one off tax reversal gain realized in 2011.

The critical issues faced by the Company posed a formidable threat to its profitability. However, the Company took various immediate and long term measures to address the same and achieved a consolidated profit after tax of Rs. 1,333 million against a profit after tax of Rs. 8,060 million in 2011.

Consolidated Revenue (Rs. in million)

125,151

Consolidated Profit After Tax (Rs. in million)

1,333



Fertilizers

Engro Fertilizers Limited made a net loss after tax of Rs. 2,935 million for the year 2012 against a profit of Rs. 4,588 million for the year 2011. The loss during 2012 was primarily due to lower production owing to unprecedented gas curtailment and increased gas cost, in the form of Gas Infrastructure Development Cess, which the Company was unable to recover due to long urea supply. However the bottom line gap with 2011 was also widened because of capitalization on part of the fixed costs during previous year. Despite the above mentioned difficulties, the Company still managed to record a profit after tax of Rs. 43 m in the fourth quarter of 2012. This was achieved mainly due to successful conversion of EnVen plant on Mari gas bringing in incremental production and enhancement of margins.

The Company faced the brunt of continued gas curtailment to fertilizer industry producing 974 K tons urea during the year down from 1,279 K tons in 2011. During 2012, the Company received gas from SNGPL for only 45 days and that too at 76% translating into a significant curtailment of 91% from its annual allocation to its newly constructed urea plant forcing the plant to shut down. In comparison, the Company received gas from SNGPL for 189 days in 2011. In addition, approximately 9% curtailment continued on gas from Mari during 2012. This impacted the bottom line of the Company throughout the year resulting in the first ever loss for the business. The unanticipated gas shut down by the government and the eventual plant closure forced the Company to restructure its debt obligations arising directly out of a heavy investment of USD 1.1 billion for a state of the art urea plant – an investment backed by the government to provide 100 mmscfd of gas to the plant.

Given the adverse liquidity situation, the fertilizer business approached majority of the lenders for re-profiling of various finance facilities. Approvals were obtained from lenders for the deferral of loan installment cumulating to Rs. 5.3 billion in 2H 2012. The availability of gas and loan re-profiling are essential for smooth operations of the fertilizer business, a point also highlighted by the external auditors in their audit report. The management is cognizant of the significance of this issue and, together with the fertilizer industry, has been working with the GoP to resolve the same.

business review

During 2012, our Fertilizer business was able to successfully convert EnVen plant on Mari gas bringing in incremental production and enhancement of margins.

Despite a 321-day gas outage to the plant and the efficiency debit due to operation at a lower load level, the EnVen plant operated at better than the design efficiency of the most efficient competitors in the industry.

As a result, the fertilizer business recorded urea sales of about 937 K tons vs. 1,261 K tons in 2011, with a sizable portion of 346 k Tons coming in the fourth quarter of 2012. Zarkhez sales were 80 k Tons as opposed to 103 k Tons in 2011. The overall Potash market in Pakistan declined by 28% during 2012 to 20 K nutrient tons compared to 27 K nutrient tons in 2011.

On the ongoing energy crisis and gas curtailment to the plant, the Company continued to lobby at multiple fronts. The Company filed a Contempt of Court application against the Ministry of Petroleum and Natural Resources (MPNR) and SNGPL for not supplying gas in line with the earlier High Court judgment which was given in the Company's favour. The application is pending for adjudication. All Pakistan Textile Processing Mills Association, Shan Dying & Printing Industries (Private) Limited, Agritech Limited and 27 others each filed separate proceedings before the Lahore High Court for cancellation of the Company's Gas Sale and Purchase Agreement with SNGPL. No orders have been passed in this matter and in the current year the petitions have been adjourned sine die.

The Company, along with other fertilizer Companies, received a show cause notice from the Competition Commission of Pakistan (CCP) for initiating action under the Competition Act 2010 in relation to unreasonable increase in the price of fertilizer. The Company has responded in detail that factors resulting in such increase were mainly the imposition of infrastructure cess & sales tax and only partially due to gas curtailment. The 2012 urea business's financial results clearly indicate that the price increases have no way near been enough to overcome the production shortfall due to gas curtailment. Therefore, the Company is hopeful that there will be no adverse action taken against the Company. The hearing has been concluded in the current year and order is awaited.

The Phosphates business, managed by the Company's trading business – Engro Eximp, reported a profit after tax of PKR 315 million in FY 2012 as compared to a profit of PKR 1,530 million in 2011. The phosphate fertilizer demand in Pakistan increased to 1,188 kTons from 1,161 k Tons in 2011. The business sold 262 k Tons of phosphates in 2012 against 336 k Tons in 2011 achieving a market share of 22% vs 29% in 2011. The phosphate industry faced considerable uncertainty throughout the year 2012. The lower market share resulted primarily from EXIMP's decision of not matching lower competitor prices particularly in the month of September when the competitor liquidated excess inventory. The international market price, too, remained almost flat between USD 584 and USD 600 per ton during January-December 2012, consequently limiting any opportunity for trading gains.

Revenue (Rs. in million)

48,866

Profit After Tax (Rs. in million)

(2,598)



Foods

Engro Foods posted a robust revenue growth of 35% and declared its highest ever profit of Rs. 2,595 million against a profit of Rs. 891 million in 2011. In 2012, the Company continued its pursuit of excellence by delivering on its philosophy of elevating consumer delight worldwide. Focused investment and growth, diversification of the existing product portfolio and effective product mix management along with a strong emphasis on consolidation through the various business segments remained the key elements in the achievements of their results in 2012.

The Company continued its aggressive business strategy of growth and diversification and achieved volume growth in dairy and juices of 24% in 2012. The volumetric growth resulted in securing a market share of 51% in 2012 as opposed to 44% in 2011 UHT dairy segment. Growth in the ambient UHT milk segment was driven by tea creamers where Tarang maintained its leadership and demonstrated strong volumetric growth. Olper's continued to show strong performance through the year while Omung also continued to do well. Omung Lassi – the new entrant in the market – continued to reflect strong performance in its newly formed category. With a positive consumer response to our range of fruity nectar, we are confident that Olfrute juices will also do well.

The ice cream market showcased a downward spiral due to the continued energy shortage that severely impacted the cold chain infrastructure in the country. As a result, the ice cream segment registered a decline of 6% vs. 2011. Additionally, increased competition kept prices down, making ice cream more affordable for the consumers. Omore's volume declined by 3% in 2012 but with an overall market share of 25% vs. 24% in 2011.

Focused investment and growth, through the various business segments remained the key elements in the achievement of our stellar results in 2012.

Given these external factors and continued investments in product development and diversification of cold chain infrastructure, the segment made an operational loss of Rs. 409 million as compared to a loss of Rs. 405 million in 2011.

The Company's Nara Dairy Farm continued to remain a rich and nutritious source of raw material for our dairy segment. The Farm currently produces 24,275 liters per day with a total herd size of 3,901 animals of which 1,814 are part of the milking cycle. Due to higher yields and optimal utilization of farm housing capacity, the Nara Farm registered a loss of only Rs. 21 million in 2012 as opposed to an operational loss of Rs. 107 million in 2011.

Engro Foods Canada posted sales of Canadian \$ 11.0 million and a loss after tax of Canadian \$ 2.4 million. Since Engro Corporation currently owns the equity stake in Engro Foods Canada, this loss is not included in the company's financial performance mentioned below and will be accounted for once Engro Foods buys the equity shares from the holding company as per agreement and post approval of the regulator.

The Rice business, managed by Engro Eximp Agriproducts (formerly known as Engro Foods Supply Chain), sold 39 k Tons of finished rice equivalent products in the local and export markets during the year 2012. It posted a net loss of Rs. 770 million in 2012 versus a net loss of Rs. 805 million in 2011. The loss is attributable to limited plant operations which did not allow for bulk paddy procurement in 2011 and due to high energy costs. However, plant issues were addressed by third quarter 2012 and during the paddy season starting in October 2012 the procurement team in line with the company's plans made the highest ever procurement of paddy by a single entity in the history of Pakistan. Plant achieved more than 90% of its designed capacity on all drying lines during the paddy season.

Our trading business – Engro Eximp – also continued to provide Sugar and Hydrogenated Palm Oil (HPO) to cater to Engro Foods demand for the respective commodities as well as local buyers. The Sugar and Palm oil trading business reported a profit after tax of Rs. 27 million in FY 2012.

Revenue (Rs. in million)
41,176
 Profit After Tax (Rs. in million)
2,375



Petrochemicals

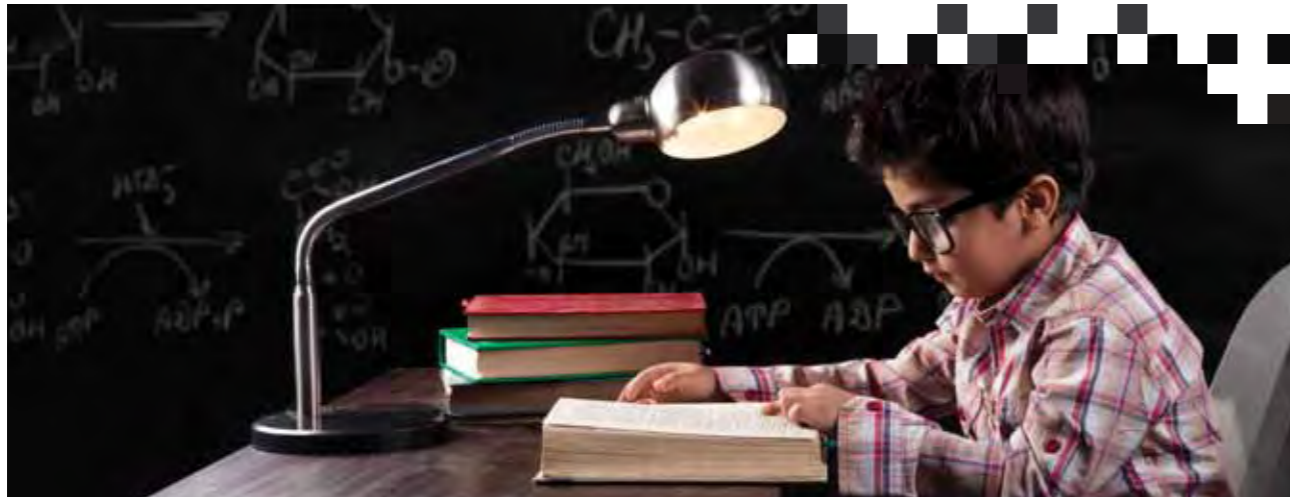
The year 2012 saw significant improvements in plant operations at EPCL over last year. The business posted a consolidated profit after tax of Rs. 77 million in 2012 as compared to a loss after tax of Rs. 706 million in 2011. The improvement in financial performance despite lower PVC margins was mainly attributable to higher production and sales and due to the receipt of an insurance claim which positively impacted the bottom line by Rs 254 million. PVC production grew by 21% to 146 KT and VCM production increased by 49% to 146 KT. Caustic soda production was 107 KDMT in 2012 as compared to 100 KDMT in 2011 and sodium hypochlorite production was 21 KT as compared to 19 KT in the previous year. Management continued to concentrate on safe and stable plant operations to increase operational performance.

Focused sales and market development strategies backed by stable production resulted in achieving healthy growth in sales volumes over prior years. In 2012 the Company sold 133 KT of PVC in the domestic market as compared to 112 KT in the previous year (19% growth in sales). The growth in the sales was higher than the PVC industry demand which is estimated to be around 5%. Resultantly, the Company's PVC market share increased from around 70% in 2011 to approximately 79% in 2012.

In 2012 the Company sold 90 KDMT of Caustic Soda in the domestic market as compared to 87 KDMT in the previous year achieving an estimated market share of approximately 35%. The Company has a strong customer base within and outside Pakistan which is more than sufficient to sell all its production. During the year the Company availed export opportunities to acquire good margins and exported 6 KDMT of Caustic Soda.

In 2012, economic slowdown in major PVC consuming countries like China, India and the Euro Zone resulted in lower international PVC prices, whereas, international Ethylene prices continued to be on the high side because of globally high crude oil prices and supply side constraints. This dampened PVC margins.

Revenue (Rs. in million)
20,606
 Profit After Tax (Rs. in million)
77



Energy

During the year 2012, Engro Powergen Qadirpur Limited reported profits of Rs. 2,101 million vs. Rs. 1,786 million in 2011. The plant demonstrated a Billable Availability of 100.4%. It dispatched a total Net Electrical Output of 1,766 GWh to the National Grid with a load factor of 93.8% as compared to 88.7% in 2011. During the year, the plant also went through its second major maintenance exercise (Combustion Inspection) that was completed safely and successfully before time. As a result the company will carry forward 3 days to its un-scheduled allowance in Q1, 2013. The Company also achieved a remarkable aggregate rating of 3.58 in the DuPont external audit becoming the first Engro group company to have received the Certification within 2.5 years. The Company continues to focus on plant performance improvement initiatives to ensure its reliability and availability to the national grid and ensure maximum benefit for all stakeholders.

The total revenue billed during FY 2012 to PEPCO was Rs. 13,176 million against which the total receipts from PEPCO during the year were Rs. 10,106 million. This resulted in further build-up of over-dues from PEPCO which stood Rs. 5,787 million as on Dec 31, 2012 against over-dues of Rs. 3,023 million as on Dec 31, 2011. The Company has been actively pursuing PEPCO to reduce the overdue receivable amount. Due to mounting overdues, the company was unable to fulfill its entire obligation towards SNGPL resulting in overdue amount payable to SNGPL of Rs. 2,683 million vs Nil in 2011.

On the Thar Coal Project, Sindh Engro Coal Mining Company (SECMC) and Thar Coal Energy Board (TCEB) managed to secure a landmark decision by the Prime Minister on the Thar Coal project which entailed:

- All conversion of existing oil-based power plants should be based on Thar Coal specification and new coal based power projects should also be designed on Thar Coal specification

Our Qadirpur plant also achieved a remarkable aggregate rating of 3.58 in the DuPont external audit becoming the first Engro group company to have received the certification within 2.5 years.

- Coal off-take agreement between GENCO and SECMC for supply of coal for existing Jamshoro power plant as well as new 600 MW power plant at Jamshoro be finalized; and
- Sovereign guarantee for financing the debt portion of Thar Block II mining project amounting to USD 600-700 million shall be provided by the Government of Pakistan

Although aforementioned decisions have not been yet implemented, SECMC, along with TCEB and Government of Sindh (GoS) are actively pursuing the Coal Off-take Agreement with Ministry of Water & Power and issuance of Sovereign Guarantee with Ministry of Finance. A Detailed Feasibility Study has been initiated on the Coal Transport system from Thar to Jamshoro both via Road and Rail. The Company also conducted a detailed technical, environmental and economic analysis to compare Thar-vs-Imported Hard Coal for Jamshoro Conversion project which concluded that Thar Coal being indigenous is indeed more economical versus imported coal. Moreover, SECMC sent a team to Indonesia which confirmed the availability of Thar equivalent coal which can be utilized in the Jamshoro conversion project during the interim period till Thar Coal becomes available. The immediate implementation of PM's decisions can initiate the Thar Coal mining project on a fast track basis and put the country on the road to energy security. Currently, discussions are being held with Government on blending Thar coal with imported coal for power plants.

The energy business declared a consolidated net profit of Rs. 2,035 million for the year ended December 2012 as compared to Rs. 1,718 million for the corresponding period last year.

Revenue (Rs. in million)

11,666

Profit After Tax (Rs. in million)

2,035



Chemical Storage & Handling

Engro Vopak Terminal Limited (EVTL) declared a profit after tax of Rs. 1,488 million for 2012 against a profit after tax of Rs. 3,484 million in 2011. The Company's actual throughput for the year 2012 was 1,101 kt vs. 1,092 kt in 2011 due to increased imports of Phosphoric Acid. Also, during the year, contract with Lotte Pakistan PTA Limited for reception, storage and delivery of Paraxylene and Acetic Acid has been renewed for five years till November 2017.

The Company completed 15 years of safe operations without lost work injury in November 2012 and made history this year by securing second position amongst 84 Vopak terminals in the Vopak SHE Global Awards 2011.

No progress was made in appeal filed by EVTL in Sindh High Court in 2011 against CCP decision of penalty of Rs. 10 million related to exemption of Implementation Agreement with PQA. A written statement was filed by CCP lawyer and EVTL has filed its response thereto. Subsequent to year end, hearing was fixed but time granted on request of CCP lawyer.

During the year, remaining constitution petitions pending in Sindh High Court in respect of applicable tax rates were decided in EVTL's favor. The tax department has filed appeals in the Supreme Court challenging Sindh High Court decision in all 8 cases. Our legal advisor has provided opinion that it is not probable that Supreme Court will reverse the decision of High Court and therefore the current year tax is charged on presumptive tax system. The decision if reversed would result in a payable of Rs. 1.9 billion to the tax authorities.

In 2001, three MEG importers filed a civil suit against PQA pertaining to closing of PQA berth for handling of chemicals; and forcing importers to shift their import to EVTL due to exclusive right of EVTL. Due to lack of PQA's interest, this case is still pending and EVTL loses significant revenue each year. During the year, EVTL has filed application in Sindh High Court to become a party in these cases so that decision can be expedited.

Revenue (Rs. in million)

2,376

Profit After Tax (Rs. in million)

1,488

LNG

During the year, the company continued its efforts to position itself for the short and long-term LNG imports business at Port Qasim through Engro Vopak and Elengy Terminal Pakistan Limited (ETPL).

Automation

In 2011, Engro Corp's Board decided to sell the company's interest in the automation business. Through an MOU signed on December 31st 2011, between Engro Corp and the Wain family, it was agreed that Engro Corp will transfer its 62.67% shareholding in the Pakistan and UAE businesses to the Wain family. In 2012, as per shareholders' approval at the 46th Annual General Meeting held on 30th March 2012, the company transferred its shares. Moreover, regarding its 43.87% stake in Avanceon LP, USA, the company entered into a Redemption Agreement with Mr. Robert Alan Zeigenfuse, a minority interest holder in Avanceon LP, whereby the company has effectively sold its equity interests to him.

Health, Safety & Environment

The company is highly conscious of its HSE responsibility and continued to work relentlessly towards increasing efficiencies and reducing environmental impact of all of its industrial and office locations during 2012. The Company continued its endeavors to align HSE management systems and processes to international best practices which were regularly assessed and audited internally as well as by third parties.

The Company is committed to reducing its environmental and carbon footprint and as a result a number of initiatives have been taken at all stages of production and at all levels within the company to ensure that we continue to champion environmental stewardship through our efforts. All of Engro's facilities are NEQS compliant and follow the highest standards for ensuring health and safety of all our employees and individuals connected with our businesses. The company conducts routine overview of operating procedures with specific focus on HSE hazards, emergency operations, and safe work practices. Our continuous focus on achieving excellence in health and safety resulted in achievement of a Total Recordable Injury Rate (TRIR) of 0.17 in 2012.

Being a socially responsible company, we continue to focus on environmental aspects of our operations and risk mitigation plans with a constant emphasis to invest in upgrading systems and standards to international benchmarks.

A detailed description of our HSE performance is discussed in the People section of the Sustainability Part of the report.

Total Recordable Injury Rate (TRIR)

0.17



Employee Relations & Organizational Development

As a responsible employer, Engro respects its employees' rights, and endeavors to provide a safe and healthy workplace, fair policies & procedures, freedom of opinion & expression and open dialogue. The company's commitment to provide a congenial work environment to all its employees in accordance with our sense of purpose and core values is constantly reaffirmed through our policies and best in-class practices.

In 2012, the Company continued to work towards enhancing employee satisfaction, offering attractive and fair compensation benefits, increasing gender diversity, and enabling personal and professional development of the employees to nurture future corporate leaders. Various in-house and outsourced training courses, seminars and workshops in the areas of management, plant operation and maintenance, information technology, finance, etc. were arranged throughout the year.

A detailed description of our HR performance is discussed in the People section of the Sustainability part of the report.

To ensure that Engro remains the most sought after employer among graduates and experienced professionals alike, the company continues to implement its holistic strategy for employee and organizational development.

Employee Strength

3,794



Social Investments

As part of the Company's enduring commitment towards improving the life of its stakeholders, and especially host communities, Engro spent Rs. 186 million (including donor funding) under its social commitments in 2012.

The social investment programs were managed by Engro Foundation – the single CSR front for all our subsidiaries. The Engro Foundation together with its partners worked in the areas of education, health, infrastructure, livelihoods and disaster management to provide socio-economic opportunities to a multitude of individuals and households in our host communities.

In 2012 the salient programs that illustrated our focus included the Technical Training College, Women Empowerment through Livestock Development (WELD) and Engro Hunar Scholarship Programs.

A detailed description of our social investments performance is discussed in the Benefiting Communities section of the report.

Challenges confronting the economic, social and business environment of the country throughout 2012 presented Engro Foundation with significant opportunities to build upon our core areas with a greater focus on livelihood interventions and community outreach programs.

Social Spend-CSR (Rs. in million)

186

business review

Dividend and Bonus

Keeping in mind the challenges faced by the Company on gas supply for its fertilizer business during the year and the resultant impact on Company's profitability and cash flows, the Board decided not to declare any dividend or bonus share issue for the year ended December 31, 2012.

Capital Investment, Capital Structure and Finance

During the year, the Company issued 30% bonus shares which increased the paid-up capital of the Company to Rs. 5,113 million. Shareholders' funds (excluding hedging reserves) at the year-end totaled Rs. 38,882 million.

Additions to property, plant and equipment stood at Rs. 8,029 million mainly representing additions/modifications to urea plant and Foods expansion.

Net long term borrowings at year end decreased to Rs. 100,694 million (2011: Rs. 104,126 million) primarily due to the net debt repayments of Rs. 6,266 million.

Lower cash was generated from operations during the year (Rs. 22,487 million versus Rs. 31,831 million in 2011) on account of increased working capital of Rs. 7,485 million as compared to last year. This increase in working capital is attributed to increased inventory and debts.

The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2012 is 70:30 (2011: 71:29). However aforementioned ratio does not factor in revaluation of base urea plant at Daharki, post revaluation Debt to Equity drops to 62:38. The liquidity position of the Company remains strong with a year-end current ratio of 1.33 (2011:1.41).

Major Judgment Areas

Main areas related to Group relief & Group tax, sales tax, special excise duty, apportionment of gross profit etc. in the subsidiaries are detailed in Notes to the Accounts (Note 41)

Management Information Systems

We continue to enhance efficiencies by increasing the SAP footprint in the Company from the existing implementation of financial, accounting and human resource applications.

Accounting Standards

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

Credit Rating

As a result of the gas supply situation at the Fertilizers business, Pakistan Credit Rating Agency in its annual review of the Company's credit worthiness has lowered Engro Corp's long term's and short term's ratings as "A"(Single A) and "A1" (A One) respectively. These ratings reflect the Company's financial and management strength and denote a low expectation of credit risk and the capacity for timely payment of financial commitment.

Treasury Management

The treasury activities are controlled and carried out in accordance with the policies approved by the Board. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available at all times and that exposure to financial risk is minimized. The risks managed by the Treasury function are liquidity risk, interest rate and currency risk. We use derivative financial instruments to manage our exposure to foreign exchange rate, interest rate, and the objective is to reduce volatility in cash flow and earnings. The treasury function does not operate as a profit center.

Interest Rate Management

At the end of 2012, Engro Corp's consolidated borrowings were Rs. 101 billion. A significant portion of this amount is of foreign currency, which is linked to LIBOR (note 23 of the accounts). Interest rates on foreign currency borrowings are hedged through a fixed interest rate swap

for the entire tenor of the loans (note 14 of the accounts). The local currency borrowings are all based on KIBOR which is monitored regularly for adverse movements which may be mitigated by fixing the same.

Liquidity Risk

In order to maintain adequate liquidity for its working capital requirements, the Boards of each subsidiary have approved adequate short term funded facilities.

Engro's policy is to ensure that adequate short term funding and committed bank facilities are available to meet the forecast peak borrowing requirements. We mitigate liquidity risk by careful monitoring of our cash flow needs, regular communication with our credit providers, and careful selection of financially strong banks to participate in our operating lines.

Foreign Currency Risk

Where deemed appropriate, we eliminate currency exposure on purchases of goods and foreign currency loans through the use of forward exchange contracts and options as permitted by the prevailing foreign currency regulations. Some of the businesses have natural hedges for their foreign currency exposures e.g. the power business foreign currency exposure is taken by WAPDA, polymer's has a natural hedge due to its product pricing being on imported parity basis while Engro Vopak has certain dollar denominated contracts, and for the fertilizers business we have hedged US\$ 177 million out of its total foreign currency borrowings of US\$ 232 million. We continue to monitor foreign currency trends and take appropriate actions when required.

Employee Share Option Scheme

The Corporation and each of its subsidiaries have been granted share options. The details of each scheme are explained in note 13 of the accounts.

Pension, Gratuity and Provident Fund

The Company maintains plans that provide post-employment and retirement benefits to its employees.

These include a contributory provident fund, a defined contributory (DC) pension plan, a non contributory gratuity scheme for all employees and a defined benefit (DB) pension scheme for the annuitants retired before July 1, 2005 (DB pension for annuitants has moved to Efert).

The above mentioned plans are funded schemes recognized by the tax authorities. The latest actuarial valuation of management pension and gratuity schemes was carried out at December 31, 2012 and the financial statements of these have been audited up to December 31, 2011. The latest audited accounts for the provident fund cover year ended June 30, 2012. The Company has fully paid all its obligations on all the above schemes.

Rupees in Million			
	Provident Fund	Pension Fund	Gratuity Fund
Audited upto	June 30 2012	December 31 2011	December 31 2011
Net Assets as per last audited financial statements	1,279	657	359
DSCs/PIBs/RICs	725	694	318
TFCs	95	134	12
Shares	165	143	73
Bank Deposits /T-Bills	200	8	25
Receivables	110	2	9
Payables	(16)	(324)	(78)
Total	1,279	657	359

Auditors

Messrs A.F. Ferguson & Co., Chartered Accountants, have been appointed as the statutory auditors of the Company. The Board Audit Committee and the Board of Directors of the Company have endorsed the communication.

Pattern of Shareholding

Major shareholders of Engro Corporation Limited are The Dawood Group including Dawood Hercules

Corporation Limited (DH). Other Shareholders are Engro group company employees, annuitants and their relatives, local and foreign institutions and the general public.

A statement of the general pattern of shareholding along with pattern of shareholding of certain classes of shareholders whose disclosure is required under the reporting framework and the statement of purchase and sale of shares by Directors, Company Executives and their spouse including minor children during 2012 is shown later in this section of this report.

The Company's stock is amongst the traded shares on all the Stock Exchanges of the country.

Board of Directors

Statement of Director Responsibilities

The directors confirm compliance with Corporate and Financial Reporting Framework of the SECP Code of Governance for the following:

- The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards and reclassification of capital spares. Accounting estimates are based on reasonable prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures there from have been adequately disclosed.

- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Board & Board Committees Meetings and Attendance

In 2012, the Board of Directors held 9 meetings to cover its complete cycle of activities. The attendance record of the Directors is as follows;

Director's Name	Meetings Attended
Mr. Hussain Dawood	9/9
Mr. Muhammad Aliuddin Ansari	8/9
Mr. Abdul Samad Dawood	9/9
Mr. Shahzada Dawood	7/9
Mr. Shabbir Hashmi	9/9
Mr. Ruhail Mohammed	9/9
Mr. Saad Raja	7/9
Mr. Khalid S. Subhani	9/9
Mr. Asif Qadir ***	1/1
Mr. Khawaja Iqbal Hassan *	6/8
Mr. Shahid Hamid Pracha *	7/8
Mr. Asad Umar **	3/3
Mr. Khalid Mansoor **	3/3
Mr. Isar Ahmad ***	1/1
Mr. Arshad Nasar ***	1/1
Mr. Afnan Ahsan ****	5/5
Mr. Sarfaraz A. Rehman ****	5/5

The Board Audit Committee held 4 meetings during 2012. The attendance record of the Committee is as follows;

Director's Name	Meetings Attended
Mr. Isar Ahmad ***	1/1
Mr. Muhammad Aliuddin Ansari	1/1
Mr. Abdul Samad Dawood	2/2
Mr. Shabbir Hashmi	4/4
Mr. Khawaja Iqbal Hassan *	3/3
Mr. Shahid Hamid Pracha *	3/3
Mr. Sarfaraz A. Rehman ****	2/2

The Board Investment Committee met 7 times during 2012. The attendance record of the Committee is as follows;

Director's Name	Meetings Attended
Mr. Muhammad Aliuddin Ansari	2/2
Mr. Shabbir Hashmi	2/2
Mr. Isar Ahmad ***	1/2
Mr. Abdul Samad Dawood	7/7
Mr. Saad Raja	6/7
Mr. Khawaja Iqbal Hassan *	5/5
Mr. Shahid Hamid Pracha *	5/5

The Board Compensation Committee met 5 times during 2012. The attendance record of the Committee is as follows:

Director's Name	Meetings Attended
Mr. Hussain Dawood	5/5
Mr. Muhammad Aliuddin Ansari	3/3
Mr. Abdul Samad Dawood	3/4
Mr. Shahzada Dawood	3/5
Mr. Shabbir Hashmi	5/5
Mr. Saad Raja	1/2
Mr. Khawaja Iqbal Hassan *	2/2
Mr. Arshad Nasar **	1/1
Mr. Sarfaraz A. Rehman ****	2/2
Mr. Shahid Hamid Pracha *	2/2

* Elected Directors effective April 22, 2012

** Resigned on April 30, 2012

*** Retired on completion of tenure on April 21, 2012

**** Appointed as Directors w.e.f July 13, 2012



future outlook

With little respite in the ongoing energy crisis, the economic growth of the country will continue to be impacted. This poses a challenge for the company because of its presence in multiple energy intensive businesses. However, the company expects improvement in its profitability in 2013 as compared to 2012 due to mitigation measures taken which will result in greater efficiency, cost control and revenue growth.

Fertilizers

For our fertilizer business, the gas curtailment is expected to continue; however, in January 2013, the Economic Coordination Committee (ECC) formally allocated 202mmscfd gas from dedicated fields to a consortium of four fertilizer plants including 79mmscfd to Engro's new plant. The process to formalize the gas allocation has been initiated and the inflow of gas is likely to start around first/second quarter of 2014, post finalization of Gas Supply Agreements (GSA). The Company, therefore, maintains a positive outlook in view of the formal allocation of dedicated gas fields to the fertilizer consortium by the ECC. The Company is confident that consequent to the above allocation, the lenders will formally agree to the re-profiling of its long term loans in due course. In addition, the efficiencies from the operation of the new urea plant on Mari gas are expected to continue. Recently, ECC has approved allocation of gas to Engro from Reti Maru, Sara West and newly discovered reserves of Mari till such time that long-term gas supply is implemented.

On the demand side, the fertilizer market is expected to improve in 2013 due to enhanced paddy price, better wheat support price and stable cotton price. Kharif cash crops area is also likely to increase due to higher water avails and lucrative rice economics. The overall market conditions are likely to benefit in timely materialization of sales.

Foods

The Company maintains a strong positive outlook on the country due to rise of the middle class, increasing urbanization and a youthful population. Engro Foods will continue to live its purpose-inspired growth strategy of elevating consumer delight worldwide and bring to the fore affordable and nutritious products that guarantee wholesome goodness to its consumers. With a constant stream of innovation and customer related improvements fuelled by translating keen consumer insights into meaningful decisions, Engro Foods is committed to overcome challenges by providing consumers with better value products, driven by strong brand equity and a customer-centric approach.

The Company will continue to expand its market share in all categories it represents by exploring untapped markets within the country and beyond. We will also continue to streamline our operations and further enhance our focus on elevating consumer delight worldwide through our people, products and processes.

Given the large paddy procurement this year, our rice business is expected to display improved operational efficiencies and a favorable financial performance.

With little respite in the ongoing energy crisis, the economic growth of the country will continue to be impacted. This poses a challenge for the company because of its presence in multiple energy intensive businesses.

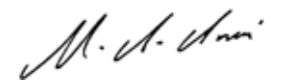
Energy

Our energy business is expected to continue achieving high dispatch rates and receiving unhindered fuel supply since the plant runs on permeate gas which is likely to remain available even in the case of extreme gas shortage in the country. Management will continue to focus on managing PEPCO receivables which remain a cause for concern. Our Thar Coal and LNG projects, to move forward will require a framework which will guarantee the government's performance of its contractual obligations.

The Board would like to take this opportunity to express its appreciation for its dealers, customers, shareholders, joint venture partners, bankers, suppliers, employees and other stakeholders for their dedication, support and cooperation throughout the year.



Hussain Dawood
Chairman



Aliuddin Ansari
President and CEO



horizontal and vertical analyses

balance sheet

Horizontal Analysis (Rs. in million)

	2012 Rs.	12 Vs. 11 %	2011 Rs.	11 Vs. 10 %	2010 Rs.	10 Vs. 09 %	2009 Rs.	09 Vs. 08 %	2008 Rs.	08 Vs. 07 %	2007 Rs.	07 Vs. 06 %
EQUITY AND LIABILITIES												
EQUITY												
Share capital	5,113	30	3,933	20	3,277	10	2,979	40	2,128	10	1,935	15
Share Premium	10,550	0	10,550	0	10,550	0	10,550	47	7,153	80	3,964	271
Unappropriated Profits	18,423	(3)	18,985	49	12,776	52	8,388	35	6,198	77	3,504	88
Reserves	4,433	2	4,330	8	3,995	(5)	4,202	(15)	4,955	(16)	5,875	27
Non-controlling interest	4,728	16	4,092	16	3,516	9	3,225	4	3,114	4	3,000	439
	43,247	3	41,890	23	34,115	16	29,344	25	23,548	29	18,278	87
NON-CURRENT LIABILITIES												
Borrowing	73,257	(11)	82,560	(7)	89,152	6	84,142	107	40,739	123	18,284	679
Derivative Financial Instruments	640	(9)	702	(13)	805	27	633	(35)	978	100	0	0
Deferred taxation	5,191	3	5,046	104	2,471	46	1,687	(33)	2,508	(16)	2,978	113
Others	188	3	183	(62)	484	47	329	(56)	750	273	201	71
	79,276	(10)	88,492	(5)	92,912	7	86,791	93	44,974	110	21,463	456
CURRENT LIABILITIES												
Current portion of – Borrowings	27,437	27	21,566	39	15,544	554	2,376	638	322	(78)	1,433	8
– Others	42	13	37	2	36	(12)	41	3	40	7	37	8
Trade and other payables	30,384	30	23,396	85	12,614	31	9,608	71	5,624	(19)	6,930	139
Accrued interest / mark up	2,614	(16)	3,114	19	2,619	45	1,800	47	1,229	100	0	0
Short-term Borrowings	5,828	36	4,284	(25)	5,716	339	1,303	(72)	4,591	409	902	(55)
Others	759	(41)	1,284	5	1,221	45	842	78	473	146	193	54
	67,063	25	53,682	42	37,751	136	15,970	30	12,280	29	9,495	48
TOTAL EQUITY AND LIABILITIES	189,587	3	184,064	12	164,778	25	132,105	63	80,802	64	49,236	146
ASSETS												
NON-CURRENT ASSETS												
Property, plant and equipment	132,467	(2)	135,092	5	129,068	17	110,504	90	58,293	148	23,478	118
Long term investments	1,268	(26)	1,717	234	515	3	500	2	491	0	494	4
Biological assets	668	35	497	16	428	(2)	439	43	307	2,948	10	100
Intangible assets	771	5	738	(16)	877	50	585	3	571	1	566	1,309
Others	1,797	47	1,225	533	193	26	154	(68)	479	(57)	1,118	1,411
	136,972	(2)	139,268	6	131,082	17	112,182	87	60,141	134	25,665	126
CURRENT ASSETS												
Store, spares and loose tools	6,655	7	6,195	26	4,911	238	1,452	30	1,115	22	915	12
Stock-in-trade	16,591	43	11,604	31	8,844	132	3,820	(46)	7,130	91	3,734	62
Trade debts	10,638	71	6,215	21	5,131	45	3,537	366	758	(60)	1,914	64
Advances, deposits and prepayments	1,024	(49)	2,017	(18)	2,474	80	1,372	19	1,156	7	1,078	203
Other receivables	3,050	35	2,256	75	1,288	13	1,136	(70)	3,783	35	2,801	101
Taxes recoverable	3,968	30	3,050	22	2,494	140	1,041	20	869	45	600	100
Cash and bank balances	4,663	6	4,418	7	4,120	(40)	6,880	213	2,198	3	2,133	(13)
Short-term Investments	5,998	(28)	8,332	88	4,426	764	512	(75)	2,067	(80)	10,323	4,417
Others	26	(96)	708	8,779	8	(95)	174	(89)	1,585	2,085	73	100
	52,615	17	44,796	33	33,696	69	19,924	(4)	20,661	(12)	23,571	171
TOTAL ASSETS	189,587	3	184,064	12	164,778	25	132,105	63	80,802	64	49,236	146

horizontal and vertical analyses

balance sheet

Vertical Analysis (Rs. in million)

	2012		2011		2010		2009		2008		2007	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
EQUITY AND LIABILITIES												
EQUITY												
Share capital	5,113	3	3,933	2	3,277	2	2,979	2	2,128	3	1,935	4
Share Premium	10,550	6	10,550	6	10,550	6	10,550	8	7,153	9	3,964	8
Unappropriated Profits	18,423	10	18,985	10	12,776	8	8,388	6	6,198	8	3,504	7
Reserves	4,433	2	4,330	2	3,995	2	4,202	3	4,955	6	5,875	12
Non-controlling interest	4,728	2	4,092	2	3,516	2	3,225	2	3,114	4	3,000	6
	43,247	23	41,890	23	34,115	21	29,344	22	23,548	29	18,278	37
NON-CURRENT LIABILITIES												
Borrowing	73,257	39	82,560	45	89,152	54	84,142	64	40,739	50	18,284	37
Derivative Financial Instruments	640	0	702	0	805	0	633	0	978	1	0	0
Deferred taxation	5,191	3	5,046	3	2,471	1	1,687	1	2,508	3	2,978	6
Others	188	0	183	0	484	0	329	0	750	1	201	0
	79,276	42	88,492	48	92,912	56	86,791	66	44,974	56	21,463	44
CURRENT LIABILITIES												
Current portion of – Borrowings	27,437	14	21,566	12	15,544	9	2,376	2	322	0	1,433	3
– Others	42	0	37	0	36	0	41	0	40	0	37	0
Trade and other payables	30,384	16	23,396	13	12,614	8	9,608	7	5,624	7	6,930	14
Accrued interest / mark up	2,614	1	3,114	2	2,619	2	1,800	1	1,229	2	0	0
Short-term Borrowings	5,828	3	4,284	2	5,716	3	1,303	1	4,591	6	902	2
Others	759	0	1,284	1	1,221	1	842	1	473	1	193	0
	67,063	35	53,682	29	37,751	23	15,970	12	12,280	15	9,495	19
TOTAL EQUITY AND LIABILITIES	189,587	100	184,064	100	164,778	100	132,105	100	80,802	100	49,236	100
ASSETS												
NON-CURRENT ASSETS												
Property, plant and equipment	132,467	70	135,092	73	129,068	78	110,504	84	58,293	72	23,478	48
Long term investments	1,268	1	1,717	1	515	0	500	0	491	1	494	1
Biological assets	668	0	497	0	428	0	439	0	307	0	10	0
Intangible assets	771	0	738	0	877	1	585	0	571	1	566	1
Others	1,797	1	1,225	1	193	0	154	0	479	1	1,118	2
	136,972	72	139,268	76	131,082	80	112,182	85	60,141	74	25,665	52
CURRENT ASSETS												
Store, spares and loose tools	6,655	4	6,195	3	4,911	3	1,452	1	1,115	1	915	2
Stock-in-trade	16,591	9	11,604	6	8,844	5	3,820	3	7,130	9	3,734	8
Trade debts	10,638	6	6,215	3	5,131	3	3,537	3	758	1	1,914	4
Advances, deposits and prepayments	1,024	1	2,017	1	2,474	2	1,372	1	1,156	1	1,078	2
Other receivables	3,050	2	2,256	1	1,288	1	1,136	1	3,783	5	2,801	6
Taxes recoverable	3,968	2	3,050	2	2,494	2	1,041	1	869	1	600	1
Cash and bank balances	4,663	2	4,418	2	4,120	3	6,880	5	2,198	3	2,133	4
Short-term Investments	5,998	3	8,332	5	4,426	3	512	0	2,067	3	10,323	21
Others	26	0	708	0	8	0	174	0	1,585	2	73	0
	52,615	28	44,796	24	33,696	20	19,924	15	20,661	26	23,571	48
TOTAL ASSETS	189,587	100	184,064	100	164,778	100	132,105	100	80,802	100	49,236	100

horizontal and vertical analyses

profit and loss account

Horizontal Analysis (Rs. in million)

	2012 Rs.	12 Vs. 11 %	2011 Rs.	11 Vs. 10 %	2010 Rs.	10 Vs. 09 %	2009 Rs.	09 Vs. 08 %	2008 Rs.	08 Vs. 07 %	2007 Rs.	07 Vs. 06 %
Sales	125,151	9	114,612	43	79,976	38	58,152	42	40,973	20	34,121	69
Cost of Sales	96,631	17	82,531	38	59,702	34	44,658	48	30,111	15	26,138	73
Gross profit	28,520	(11)	32,081	58	20,274	50	13,494	24	10,862	36	7,982	55
Distribution and marketing expenses	11,683	15	10,177	23	8,290	33	6,215	46	4,254	19	3,583	54
	16,837	(23)	21,905	83	11,984	65	7,279	10	6,608	50	4,400	56
Other expenses	1,887	(2)	1,930	131	837	(1)	844	(13)	970	101	483	62
Other income	2,280	11	2,057	129	897	130	390	(62)	1,038	104	510	21
Operating profit	17,229	(33)	22,032	83	12,044	76	6,825	2	6,677	51	4,427	50
Finance cost	15,516	26	12,315	185	4,322	95	2,222	28	1,738	142	718	64
Share of income from JV	744	(57)	1,742	214	555	21	459	87	245	1	244	(41)
Net profit before taxation	2,457	(79)	11,459	38	8,277	64	5,062	(2)	5,184	31	3,953	36
Provision for taxation	660	(82)	3,648	99	1,836	37	1,343	37	977	(13)	1,119	44
NET PROFIT AFTER TAXATION	1,797	(77)	7,811	21	6,441	73	3,719	(12)	4,207	48	2,834	32
Minority interest	(464)	(287)	249	(29)	349	296	88	(209)	(81)	(287)	43	(236)
Net profit attributable to the Owners of the Holding Company	1,333	(83)	8,060	19	6,790	78	3,807	(8)	4,126	43	2,877	37

Vertical Analysis (Rs. in million)

	2012		2011		2010		2009		2008		2007	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Sales	125,151	100	114,612	100	79,976	100	58,152	100	40,973	100	34,121	100
Cost of Sales	96,631	77	82,531	72	59,702	75	44,658	77	30,111	73	26,138	77
Gross profit	28,520	23	32,081	28	20,274	25	13,494	23	10,862	27	7,982	23
Distribution and marketing expenses	11,683	9	10,177	9	8,290	10	6,215	11	4,254	10	3,583	11
	16,837	13	21,905	19	11,984	15	7,279	13	6,608	16	4,400	13
Other expenses	1,887	2	1,930	2	837	1	844	1	970	2	483	1
Other income	2,280	2	2,057	2	897	1	390	1	1,038	3	510	1
Operating profit/(loss)	17,229	14	22,032	19	12,044	15	6,825	12	6,677	16	4,427	13
Finance cost	15,516	12	12,315	11	4,322	5	2,222	4	1,738	4	718	2
Share of income from JV	744	1	1,742	2	555	1	459	1	245	1	244	1
Net profit before taxation	2,457	2	11,459	10	8,277	10	5,062	9	5,184	13	3,953	12
Provision for taxation	660	1	3,648	3	1,836	2	1,343	2	977	2	1,119	3
NET PROFIT AFTER TAXATION	1,797	1	7,811	7	6,441	8	3,719	6	4,207	10	2,834	8
Minority interest	(464)	(0)	249	0	349	0	88	0	(81)	0	43	0
Net profit attributable to the Owners of the Holding Company	1,333	1	8,060	7	6,790	8	3,807	7	4,126	10	2,877	8

notes on analysis

Comments on six years profit and loss analysis

Sales

Revenue grew from 20 billion in 2006 to 125 billion in 2012 registering a 525% increase. This is primarily attributable to diversification into Foods and Power sector as well as increase in urea prices and in urea & PVC volumes.

Gross Profit

Gross Profit margin has improved from 23% in 2007 to 28% in 2011, owing to efficiencies in production and economies of scale due to growth in business volumes. However, as a direct consequence of issues faced by the fertilizer sector during 2012, it fell to 23% for 2012.

Distribution & Marketing Expenses

In order to support continuous growth trajectory, significant expenditure has been incurred for brand

building especially for the Foods business, which led to manifold increase in marketing costs. With many brands now in an established position, the marketing costs now stand at 9% of revenue in 2012 as compared to 11% in 2007.

Finance Costs

Finance costs increased with higher amount of borrowings, which were obtained for business diversification and expansion projects.

Provision for Tax

Overall increase from the 2007 level due to higher profitability. 2012 plunge primarily relates to taxable losses of fertilizer business.

Comments on six years balance sheet analysis

Equity

Equity grew from Rs 10 billion in 2006 to 43 billion in 2012, primarily due to time-to-time capital injections from the shareholders as well as profits retained in the business.

Long-term Borrowings

In order to maintain the growth momentum, the Company continues to finance a portion of its capital requirement by raising long-term loans. Therefore, the long term loans have significantly increased over the years.

Deferred Taxation

Due to taxable losses in earlier years of fertilizer and petrochemical businesses expansion and diversification in the Foods business, the Company's deferred tax liability has increased significantly.

Trade Payables

Trade payables have quadrupled over the years in line with the rising business volumes.

Accrued Interest / Markup on Finances

Increase in borrowings over the years has led to higher year-end accruals for financing obligations.

Short-term Borrowings

Increase in short-term borrowings owes to working capital requirements as a result of growth and expansion in the Company's business over the years.

Property, Plant and Equipment

Property, plant and equipment have witnessed a significant increase over the years due to continuous investment in production facilities and infrastructure to support growing scale of business. Property, plant and equipment represent over two-thirds of Company's balance sheet size.

Stock in trade

The increase is in line with the continuous increase in the overall business volume.

summary

	2012	2011	2010	2009	2008	2007	
	----- (Rupees in million) -----						
Summary of Balance Sheet							
Share capital	5,113	3,933	3,277	2,979	2,128	1,935	
Reserves	4,433	4,330	3,995	4,202	4,955	5,875	
Shareholders' funds / Equity	43,247	41,890	34,115	29,344	23,548	18,278	
Long term borrowings	73,257	82,560	89,152	84,142	40,739	18,284	
Capital employed	143,941	146,016	138,811	115,862	64,608	37,995	
Deferred liabilities	228	196	140	119	113	91	
Property, plant & equipment	132,467	135,092	129,068	110,504	58,293	23,478	
Long term assets	136,972	139,268	131,082	112,182	60,141	25,665	
Net current assets / Working capital	12,988	12,680	11,489	6,329	8,703	15,509	
Summary of Profit and Loss							
Sales	125,151	114,612	79,976	58,152	40,973	34,121	
Gross profit	28,520	32,081	20,274	13,494	10,862	7,982	
Operating profit	17,229	22,032	12,044	6,825	6,677	4,427	
Profit before tax	2,457	11,459	8,277	5,062	5,184	3,953	
Profit after tax	1,797	7,811	6,441	3,719	4,207	2,834	
EBITDA	26,330	29,813	15,501	9,067	8,085	5,660	
Summary of Cash Flows							
Net cash flow from operating activities	7,799	16,492	(142)	11,807	(550)	2,000	
Net cash flow from investing activities	(4,213)	(10,222)	(19,741)	(53,237)	(35,556)	(10,212)	
Net cash flow from financing activities	(6,855)	(498)	16,624	47,846	24,225	19,110	
Changes in cash & cash equivalents	(3,269)	5,772	(3,259)	6,416	(11,880)	10,898	
Cash & cash equivalents – Year end	5,333	8,603	2,830	6,090	(327)	11,554	
Others							
Market capitalization	47,057	36,457	63,519	54,604	20,528	51,414	
Numbers of shares issued (shares in million)	511.3	393.3	327.7	297.9	212.8	193.5	
Summary of Actual Production							
Urea	Metric Tons	974,425	1,279,378	971,913	952,024	995,020	954,216
NPK	Metric Tons	67,755	113,172	100,270	91,821	97,669	124,821
PVC Resin	Metric Tons	146,000	122,000	115,000	115,620	98,660	94,346
EDC	Metric Tons	110,000	104,000	96,000	35,000	-	-
Caustic soda	Metric Tons	107,000	100,000	93,000	38,739	-	-
VCM	Metric Tons	146,000	98,000	-	-	-	-
Power	Mega Watt	1,767,038	1,665,400	1,200,592	-	-	-
Dairy & juices	Thousand Liters	476,788	388,236	314,650	247,074	177,347	107,338
Drying unit of rice							
processing plant	Metric Tons	139,575	55,192	19,778	-	-	-
Ice cream	Thousand Liters	16,550	17,763	12,672	6,900	-	-

financial ratios

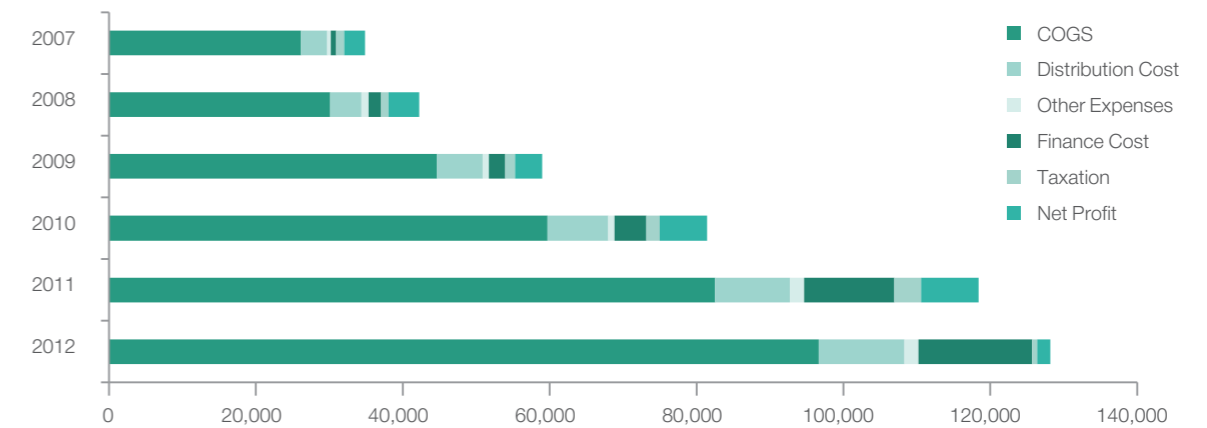
years 2007 - 2012

Ratios

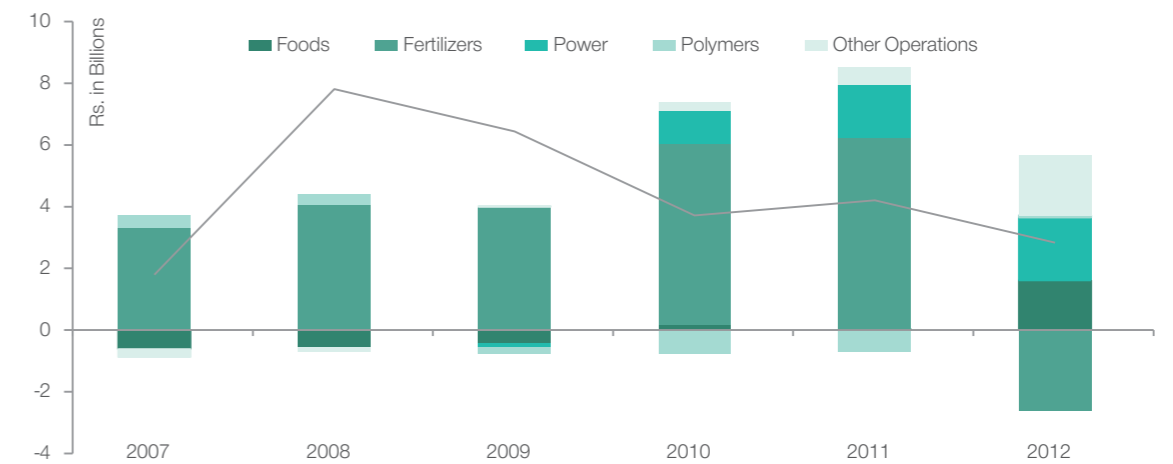
	2012	2011	2010	2009	2008	2007
Profitability Ratios						
Gross Profit ratio	23%	28%	25%	23%	27%	23%
Net Profit to Sales	1%	7%	8%	6%	10%	8%
EBITDA Margin to Sales	21%	26%	19%	16%	20%	17%
Operating leverage ratio	-2.65	2.05	1.94	0.12	2.40	0.57
Return on Equity	3%	24%	24%	21%	23%	46%
Return on Capital	12%	14%	8%	6%	11%	13%
Return on Capital Employed (ICAP Definition)	1.2%	5.3%	4.9%	4%	7.8%	10.4%
Liquidity Ratios						
Current ratio	1.33	1.41	1.52	1.47	1.73	2.92
Quick / Acid test ratio	0.91	1.04	1.12	1.18	1.13	2.46
Cash to Current Liabilities	0.27	0.41	0.38	0.54	0.36	1.55
Cash flow from Operations to Sales	0.06	0.14	0.00	0.20	-0.01	0.06
Activity / Turnover Ratios						
No. of Days Inventory	53.4	45.2	38.7	44.7	65.8	42.2
Inventory turnover	7	8	9	8	6	9
Total Assets turnover ratio	0.66	0.62	0.49	0.44	0.51	0.69
Investment / Market Ratios						
Earnings per Share (Restated)	2.61	15.77	13.28	7.27	8.23	5.63
Price Earnings ratio	35.26	4.57	11.22	14.97	5.90	17.66
Dividend Yield ratio	-	0.03	0.03	0.06	0.02	0.04
Dividend Payout ratio	-	0.30	0.35	0.49	0.37	0.47
Dividend Cover ratio	-	3.38	2.88	2.04	2.73	2.15
Market value per share at the end of the year and high during the year	92.04	92.70	193.81	183.27	96.46	265.75
low during the year	150.26	237.19	212.84	186.84	373.75	296.9
	88.71	91.97	166.09	96.25	96.46	169.5
Breakup value per share without Surplus on Revaluation of Fixed Assets	84.59	106.51	104.09	98.49	110.65	94.47
Breakup value per share including the effect of Surplus on Revaluation of Fixed Assets	84.59	106.51	104.09	98.49	110.65	94.47
Cash Dividend (Rs. in 000)	-	2,359,707	1,966,419	1,787,598	1,276,896	1,303,814
Stock Dividend (Rs. in 000)	-	1,179,853	655,474	297,943	-	-
Capital Structure Ratios						
Financial leverage ratio	2.46	2.59	3.24	2.99	1.94	1.13
Weighted average cost of debt	14%	11%	4%	3%	5%	5%
Debt to Equity ratio	2.33	2.49	3.07	2.95	1.74	1.08
Interest Cover ratio	1.16	1.93	2.92	3.28	3.98	6.51

years 2007 - 2012

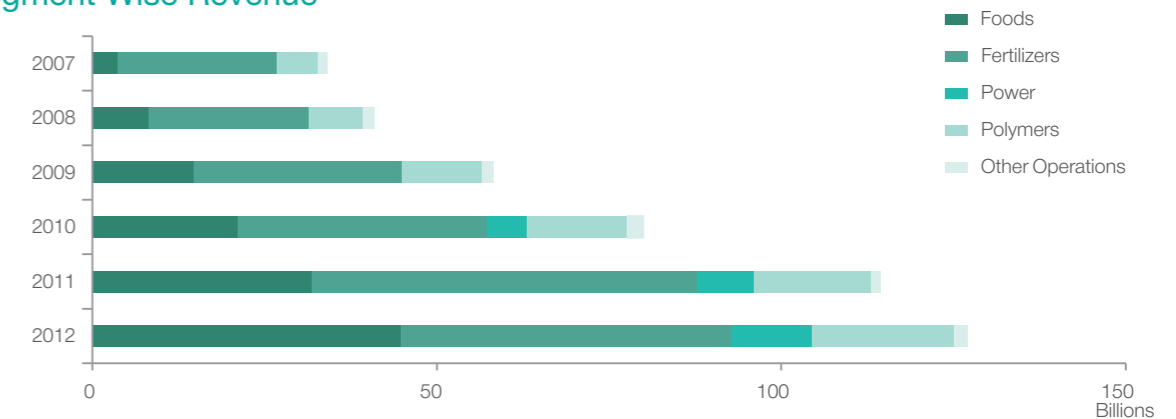
Profit and Loss Analysis



Segment Wise Profit After Tax

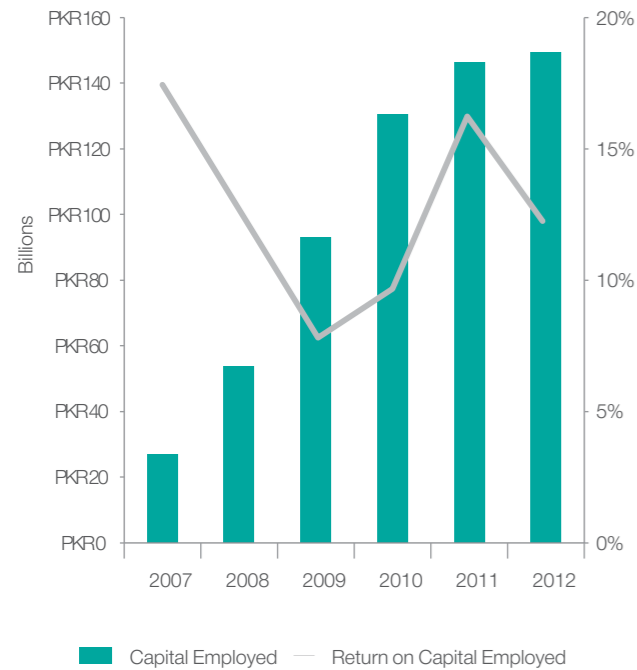


Segment Wise Revenue

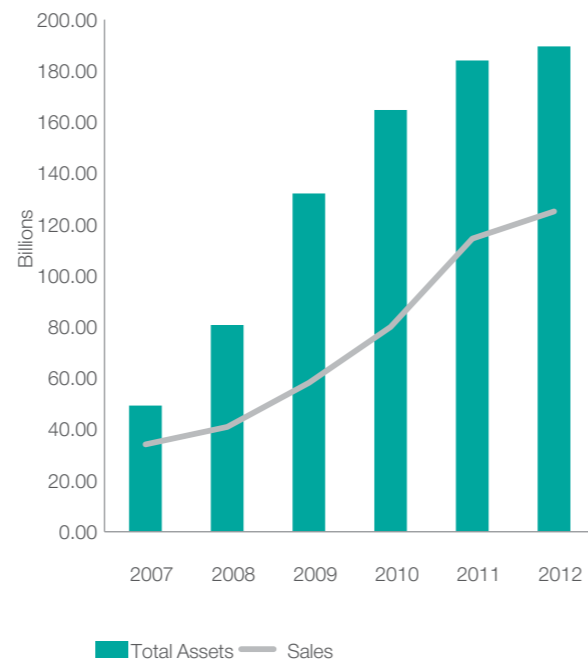


statement of value addition & distribution

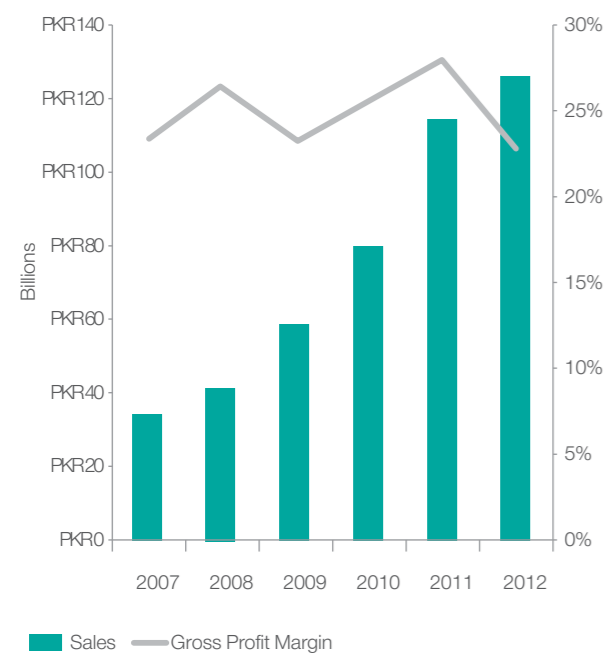
Return on Capital and Capital Employed



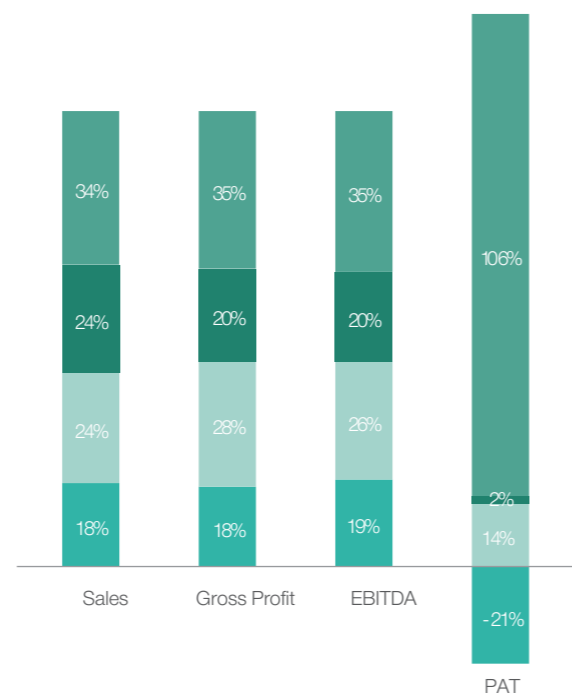
Total Assets to Sales



Gross Profit Margin to Sales



Quarterly Analysis for 2012



(Rs. in million)

Wealth Generated

Total revenue inclusive of sales tax and other income
Bought-in-material and services

Wealth Distributed

To Employees

Salaries, benefits and other costs

To Government

Taxes, duties and development surcharge

To Society

Donation towards education, health, environment and natural disaster

To Providers of Capital

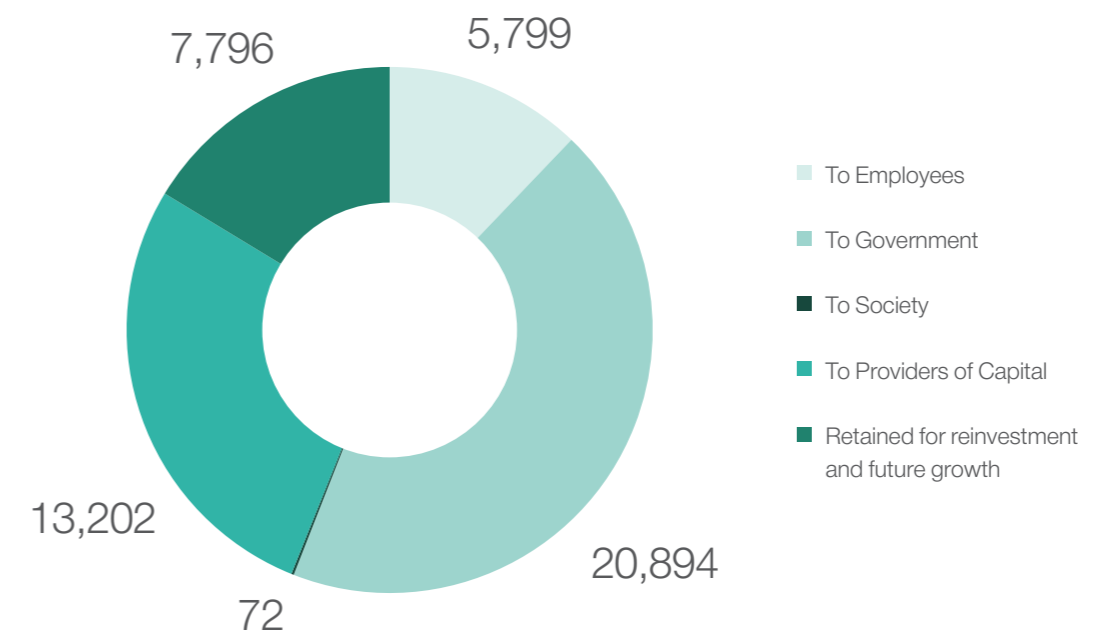
Dividend to shareholders
Mark-up/interest expense on borrowed money

Retained for reinvestment and future growth

Depreciation, amortization and retained profit

	2012		2011	
	Rs.	%	Rs.	%
Wealth Generated				
Total revenue inclusive of sales tax and other income	139,876		128,953	
Bought-in-material and services	(92,113)		(77,495)	
Wealth Distributed				
To Employees				
Salaries, benefits and other costs	5,799	12.14%	5,676	11.03%
To Government				
Taxes, duties and development surcharge	20,894	43.75%	18,200	35.37%
To Society				
Donation towards education, health, environment and natural disaster	72	0.15%	83	0.16%
To Providers of Capital				
Dividend to shareholders	796	1.67%	2,936	5.71%
Mark-up/interest expense on borrowed money	12,406	25.97%	12,315	23.93%
Retained for reinvestment and future growth				
Depreciation, amortization and retained profit	7,796	16.32%	12,248	23.80%
Total	47,763		51,458	

Wealth Generated



key shareholding and shares traded

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

1. Associated Companies, Undertakings and Related Parties

Dawood Hercules Corporation Limited	170,012,555
DH Fertilizers Limited	24,960,000
Dawood Foundation Limited	15,600
Patek (Pvt.) Limited	33,814,686

2. Mutual Funds

Names	No. of Shares Held
ASIAN STOCK FUND LIMITED	100,000
ASIAN STOCKS FUNDS LTD.	10
CDC - TRUSTEE ABL STOCK FUND	154,200
CDC - TRUSTEE AKD AGGRESSIVE INCOME FUND - MT	657,200
CDC - TRUSTEE AKD INDEX TRACKER FUND	61,894
CDC - TRUSTEE AKD OPPORTUNITY FUND	351,200
CDC - TRUSTEE APF-EQUITY SUB FUND	35,000
CDC - TRUSTEE ASKARI ASSET ALLOCATION FUND	92,086
CDC - TRUSTEE ASKARI EQUITY FUND	25,000
CDC - TRUSTEE ATLAS STOCK MARKET FUND	425,000
CDC - TRUSTEE CROSBY DRAGON FUND	37,113
CDC - TRUSTEE FIRST DAWOOD MUTUAL FUND	10,000
CDC - TRUSTEE FIRST HABIB INCOME FUND	133,000
CDC - TRUSTEE FIRST HABIB STOCK FUND	18,400
CDC - TRUSTEE HBL - STOCK FUND	1,090,000
CDC - TRUSTEE HBL MULTI - ASSET FUND	25,000
CDC - TRUSTEE HBL PF EQUITY SUB FUND	17,210
CDC - TRUSTEE KASB ASSET ALLOCATION FUND	119,358
CDC - TRUSTEE KASB ASSET ALLOCATION FUND - MT	169,500
CDC - TRUSTEE LAKSON EQUITY FUND	39,500
CDC - TRUSTEE LAKSON INCOME FUND - MT	300
CDC - TRUSTEE MCB DYNAMIC STOCK FUND	233,500
CDC - TRUSTEE NAFA MULTI ASSET FUND	143,817

Names	No. of Shares Held
CDC - TRUSTEE NAFA STOCK FUND	595,284
CDC - TRUSTEE NIT-EQUITY MARKET OPPORTUNITY FUND	4,416,142
CDC - TRUSTEE PAK STRATEGIC ALLOC. FUND	30,500
CDC - TRUSTEE PAKISTAN STOCK MARKET FUND	287,000
CDC - TRUSTEE PICIC GROWTH FUND	3,640,100
CDC - TRUSTEE PICIC INCOME FUND - MT	227,900
CDC - TRUSTEE PICIC INVESTMENT FUND	1,712,600
CDC - TRUSTEE PICIC STOCK FUND	140,000
CDC - TRUSTEE UNITED STOCK ADVANTAGE FUND.	750,000
CDC-TRUSTEE NAFA ASSET ALLOCATION FUND	65,504
CDC-TRUSTEE NAFA SAVINGS PLUS FUND - MT	701,400
CDC-TRUSTEE PAKISTAN PREMIER FUND	156,800
FIRST CAPITAL MUTUAL FUND LIMITED	85,000
GOLDEN ARROW SELECTED STOCKS FUND LIMITED	506,200
MC FSL - TRUSTEE JS KSE-30 INDEX FUND	11,092
MCBFSL - TRUSTEE NAMCO BALANCED FUND - MT	286,500
MCBFSL - TRUSTEE NAMCO INCOME FUND - MT	76,700
MCBFSL - TRUSTEE PAK OMAN ADVANTAGE ASSET ALLOCATION FUND	50,000
MCBFSL-TRUSTEE AH DOW JONES SAFE PAK TITANS 15 INDEX FUND	9,180
SAFEWAY MUTUAL FUND LIMITED	100,000
TRI. STAR MUTUAL FUND LTD.	913
TRUSTEE - PAKISTAN PENSION FUND - EQUITY SUB FUND	22,500

key shareholding and shares traded

3. Directors, CEO & their spouses & minor children

Hussain Dawood	557,947
Muhammad Aliuddin Ansari	71,006
Mohammad Afnan Ahsan	100
Abdul Samad Dawood	712,810
Shahzada Dawood	842,410
Shabbir Hashmi	145,543
Sarfraz A. Rehman	100
Shahid Hamid Pracha	3,250
Khawaja Iqbal Hassan	130
Ruhail Mohammed	29,445
Saad Raja	106
Khalid S. Subhani	865,714
Mrs. Kulsum Dawood (w/o. Mr. Hussain Dawood)	1,539,938
Mrs. Ayesha Dawood (w/o. Mr. Abdul Samad Dawood)	3,640

4. Executives (approx.)

867,000

5. Public Sector Companies & Corporations

29,740,163

6. Banks, Development Finance Institutions,

Non Banking Finance Companies, Insurance,
Takaful, Modarbas & Pension Funds

19,476,368

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

Names of Holders	No. of Shares	Percentage of Holding
Dawood Hercules Corporation Limited	170,012,555	33.25
Patek (Pvt.) Ltd.	33,814,686	6.61

8. Details of purchase/sale of shares by Directors, Executives and their spouses/minor children during 2012

NAME	PURCHASE	SALE	RATE RS./SHARE	DATE
Naveed Hashmi	-	15,000	133.90	17-02-2012
	-	300	130.00	21-02-2012
	-	10,000	150.35	12-03-2012
	-	10,000	108.14	07-05-2012
Mrs Neelofar Hashmi	-	13,700	133.10	17-02-2012
Eqan Ali Khan	-	10,000	132.3	23-02-2012
	-	10,000	106.00	20-03-2012
	-	5,000	103.00	19-03-2012
	-	5,000	111.00	15-03-2012
	-	5,000	104.00	5-04-2012
	-	7,877	100.00	13-04-2012
	-	29,976	104.2	18-06-2012

NAME	PURCHASE	SALE	RATE RS./SHARE	DATE
Atif Aboobakar	-	1,000	148.5	5-03-2012
	-	4,513	147.5	6-03-2012
	-	1,000	148.25	8-03-2012
	-	1,500	103.14	19-03-2012
	-	500	103.2	20-03-2012
	-	600	112.00	29-05-2012
Tahir Jawaid	9,500	-	103.00	30-03-2012
	-	9,500	116.00	10-05-2012
Claudette Santamaria (shares in the name of spouse)	-	1,500	110.35	11-9-2012
	-	1,000	110.16	11-9-2012
Samira Kamil	3000	-	92	21-12-2012
Isar Ahmad	2918*	-	-	March 30, 2012
Hussain Dawood	128,757*	-	-	March 30, 2012
	26,000**	-	104.98	January 18, 2012
	155,000**	-	96.43	January 04, 2012
	12,500**	-	94.60	January 05, 2012
Shahzada Dawood	194,402*	-	-	March 30, 2012
Shabbir Hashmi	22,048*	-	-	March 30, 2012
	30,000**	-	99.22	March 30, 2012
	10,000**	-	96.90	April 19, 2012
Khalid Mansoor	132,206*	-	-	March 30, 2012
Ruhail Mohammed	6795*	-	-	March 30, 2012
Abdul Samad Dawood	164,494*	-	-	March 30, 2012
Arshad Nasar	75*	-	-	March 30, 2012
Muhammad Aliuddin Ansari	16,386*	-	-	March 30, 2012
Muhammad Afnan Ahsan	100**	-	105.39	July 09, 2012
Asif Qadir	222,104*	-	-	March 30, 2012
Khalid S.Subhani	199,780*	-	-	March 30, 2012
Asad Umar	601,885*	-	-	March 30, 2012
Saad Raja	24*	-	-	March 30, 2012
Shahid Hamid Pracha	750*	-	-	March 30, 2012
Sarfraz Ahmad Rehman	100**	-	106.31	July 09, 2012
Khawaja Iqbal Hassan	100**	-	110.2	March 30, 2012
	30*	-	-	March 30, 2012
Andalib Alavi	7656*	-	-	March 30, 2012
Mrs. Kulsoom Dawood (w/o. Mr. Hussain Dawood)	355,370*	-	-	March 30, 2012
Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	8949*	-	-	March 30, 2012
Mrs. Ayesha Dawood (w/o Mr. Abdul Samad Dawood)	840*	-	-	March 30, 2012

*30% Bonus shares

**Shares purchased from Karachi Stock Exchange

pattern of holding of shares

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

Number of Shareholders	Shareholding		Total Shares Held	Number of Shareholders	Shareholding		Total Shares Held
	From	To			From	To	
2,564	1	100	119,893	2	140,001	145,000	286,817
4,133	101	500	1,261,267	6	145,001	150,000	891,678
2,625	501	1,000	2,141,805	6	150,001	155,000	919,219
5,422	1,001	5,000	13,524,615	7	155,001	160,000	1,096,766
1,605	5,001	10,000	11,764,508	10	160,001	165,000	1,628,813
633	10,001	15,000	7,881,192	4	165,001	170,000	675,395
410	15,001	20,000	7,236,986	10	170,001	175,000	1,715,393
218	20,001	25,000	4,905,670	6	175,001	180,000	1,061,556
188	25,001	30,000	5,169,508	4	180,001	185,000	732,680
114	30,001	35,000	3,714,835	2	185,001	190,000	374,890
109	35,001	40,000	4,109,013	4	190,001	195,000	764,857
58	40,001	45,000	2,479,759	5	195,001	200,000	988,119
85	45,001	50,000	4,127,183	3	200,001	205,000	605,517
42	50,001	55,000	2,199,007	2	205,001	210,000	419,704
35	55,001	60,000	2,020,462	1	210,001	215,000	210,492
38	60,001	65,000	2,387,814	3	215,001	220,000	650,549
40	65,001	70,000	2,717,254	4	220,001	225,000	894,535
30	70,001	75,000	2,179,157	2	225,001	230,000	453,900
19	75,001	80,000	1,478,871	6	230,001	235,000	1,398,584
22	80,001	85,000	1,808,263	2	235,001	240,000	479,044
17	85,001	90,000	1,488,802	1	240,001	245,000	243,531
17	90,001	95,000	1,575,820	2	245,001	250,000	500,000
23	95,001	100,000	2,253,670	1	250,001	255,000	252,030
11	100,001	105,000	1,126,084	2	255,001	260,000	514,242
16	105,001	110,000	1,735,165	3	260,001	265,000	787,949
10	110,001	115,000	1,133,103	5	265,001	270,000	1,334,852
12	115,001	120,000	1,414,311	2	270,001	275,000	544,677
12	120,001	125,000	1,466,342	2	275,001	280,000	550,978
12	125,001	130,000	1,527,672	1	280,001	285,000	282,204
7	130,001	135,000	924,369	5	285,001	290,000	1,436,441
10	135,001	140,000	1,376,642	1	290,001	295,000	291,205

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

Number of Shareholders	Shareholding		Total Shares Held	Number of Shareholders	Shareholding		Total Shares Held
	From	To			From	To	
2	295,001	300,000	600,000	1	550,001	555,000	554,000
2	300,001	305,000	603,413	1	555,001	560,000	557,947
3	305,001	310,000	917,670	1	565,001	570,000	568,190
3	310,001	315,000	934,657	1	570,001	575,000	572,894
1	320,001	325,000	320,133	1	575,001	580,000	575,100
2	325,001	330,000	656,000	1	580,001	585,000	580,382
4	330,001	335,000	1,331,866	3	585,001	590,000	1,760,176
1	335,001	340,000	340,000	2	595,001	600,000	1,195,284
1	340,001	345,000	344,108	1	620,001	625,000	625,000
2	345,001	350,000	700,000	1	630,001	635,000	630,990
2	350,001	355,000	702,700	1	640,001	645,000	644,942
1	365,001	370,000	368,082	2	645,001	650,000	1,299,317
1	370,001	375,000	373,500	2	655,001	660,000	1,315,700
2	375,001	380,000	752,645	1	665,001	670,000	668,400
1	385,001	390,000	387,847	1	685,001	690,000	686,923
1	395,001	400,000	396,533	1	695,001	700,000	700,000
1	400,001	405,000	403,136	1	700,001	705,000	701,400
1	415,001	420,000	415,591	1	705,001	710,000	709,714
2	420,001	425,000	845,210	2	710,001	715,000	1,426,190
1	440,001	445,000	444,432	1	745,001	750,000	750,000
1	455,001	460,000	456,000	1	805,001	810,000	806,828
1	465,001	470,000	468,000	1	840,001	845,000	842,410
1	470,001	475,000	471,941	1	895,001	900,000	896,392
1	485,001	490,000	486,536	1	940,001	945,000	944,090
1	490,001	495,000	494,804	1	945,001	950,000	946,441
1	495,001	500,000	495,508	1	960,001	965,000	962,453
2	505,001	510,000	1,013,468	1	1,030,001	1,035,000	1,033,487
1	515,001	520,000	518,000	1	1,045,001	1,050,000	1,046,831
1	520,001	525,000	522,878	1	1,060,001	1,065,000	1,064,966
1	525,001	530,000	528,528	1	1,080,001	1,085,000	1,080,287
2	535,001	540,000	1,077,039	1	1,085,001	1,090,000	1,090,000

pattern of holding of shares

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

Number of Shareholders	Shareholding		Total Shares Held	Number of Shareholders	Shareholding		Total Shares Held
	From	To			From	To	
1	1,095,001	1,100,000	1,100,000	1	2,055,001	2,060,000	2,055,738
1	1,110,001	1,115,000	1,115,000	1	2,590,001	2,595,000	2,591,160
2	1,135,001	1,140,000	2,275,907	1	2,595,001	2,600,000	2,600,000
1	1,195,001	1,200,000	1,200,000	1	2,645,001	2,650,000	2,647,139
1	1,350,001	1,355,000	1,352,000	1	3,640,001	3,645,000	3,640,100
1	1,440,001	1,445,000	1,444,560	1	3,825,001	3,830,000	3,829,375
1	1,450,001	1,455,000	1,450,985	1	4,415,001	4,420,000	4,416,142
1	1,465,001	1,470,000	1,467,180	1	5,020,001	5,025,000	5,022,300
1	1,495,001	1,500,000	1,500,000	1	7,735,001	7,740,000	7,738,278
1	1,535,001	1,540,000	1,539,938	1	8,580,001	8,585,000	8,584,007
1	1,545,001	1,550,000	1,545,800	1	11,180,001	11,185,000	11,184,959
1	1,615,001	1,620,000	1,616,286	1	17,135,001	17,140,000	17,138,076
1	1,670,001	1,675,000	1,674,834	1	18,380,001	18,385,000	18,384,418
1	1,710,001	1,715,000	1,712,600	1	24,955,001	24,960,000	24,960,000
1	1,880,001	1,885,000	1,885,000	1	33,810,001	33,815,000	33,814,686
1	1,925,001	1,930,000	1,927,795	1	170,010,001	170,015,000	170,012,555
				18,768		TOTAL	511,269,436

category of shareholding

As at December 31, 2012 is as follows:

S.No.	Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
1	Directors, Chief Executive Officer, and their spouse and minor children.	14	4,772,139	0.93
2	Associated Companies, undertaking and related parties.	4	228,802,841	44.75
3	NIT and ICP	2	7,738,374	1.51
4	Banks Development Financial Institutions, Non-Banking Financial Institutions.	30	17,428,563	3.41
5	Insurance Companies	13	12,548,128	2.45
6	Modarabas and Mutual Funds	52	17,971,918	3.52
7	Share holders holding 10%	1	170,012,555	33.25
8	General Public (Individuals):			
	a. Local	18,280	129,864,624	25.40
	b. Foreign	-	-	-
9	Others	375	92,142,849	18.03

shareholder information

Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on April 30, 2013 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of April 23, 2013 are encouraged to participate and vote.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the company at least 48 hours before the meeting time.

CDC Shareholders or their Proxies are requested to bring with them copies of their Computerised National Identity Card or passport alongwith the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

Ownership

On December 31, 2012 there were 18,768 holders on record of the Company's ordinary shares

Quarterly Results

The Company issues quarterly financial statements. The planned dates for release of the quarterly results in 2013 are:

1st quarter : April 29
2nd quarter: August 22
3rd quarter: October 29

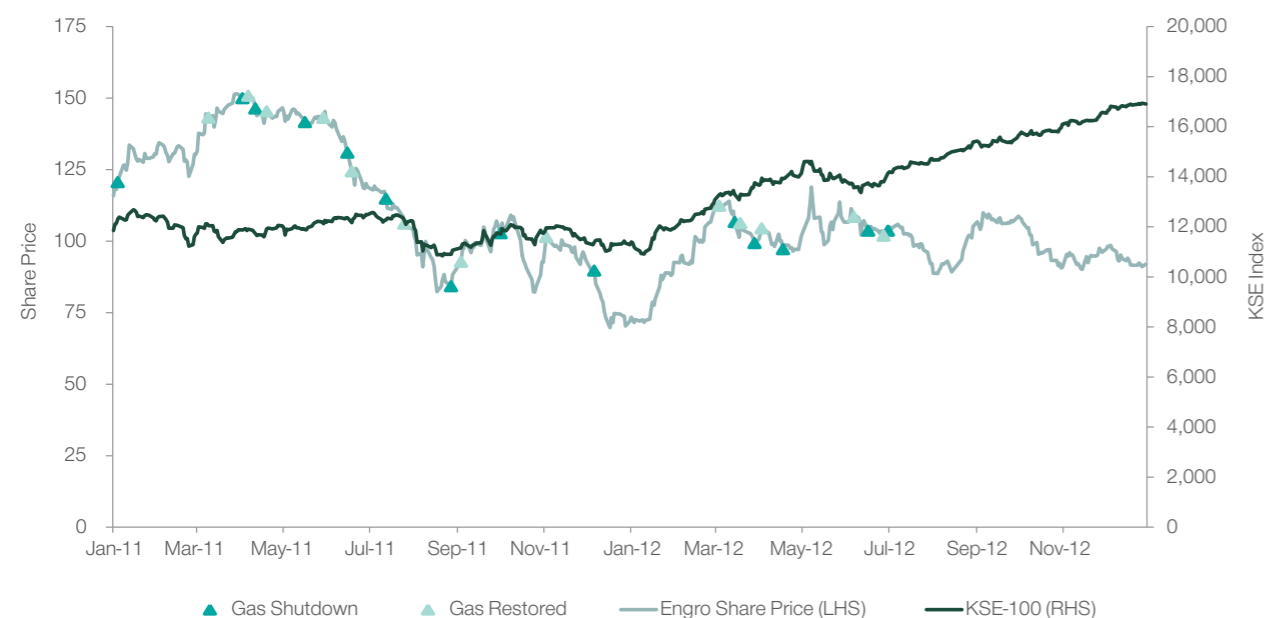
All annual/quarterly reports and presentations from quarterly briefings are regularly posted at the Company's website: www.engro.com

The Company reserves the right to change any of the above dates.

Change of Address

All registered shareholders should send information on changes of address to:
M/s. FAMCO Associates (Private) Limited
1st Floor, State Life Building No. 1-A
I.I. Chundrigar Road, Karachi-74000

Share Price Data



share price sensitivity analysis

As Engro Corporation holds a variety of businesses ranging from fertilizer and foods to PVC production and power generation, a variety of external and internal factors can affect the company's financial performance. Therefore, the company's share price may respond to events and changes in Engro's business environment.

Government Actions

Government decisions on gas allocation have recently become the most important driver of the company's share price. Decisions or considerations favoring restoration of contractual gas to Engro Fertilizers have led to increases in share price, whilst decisions to the contrary have negatively impacted share price.

Gas Supply

The supply of natural gas, a key raw material for our fertilizer business, is directly linked to the company's ability to produce fertilizer. Higher gas supply leads to higher urea production, which in turn improves financial performance.

Urea Price

Changes in urea price has a positive correlation with the company's financial performance. Keeping everything else constant, for every 1 million tons of urea sold in a year an increase of Rs.10 (ex-GST) per bag in price of urea leads to a Rs.200 million increase in the company's profits before tax.

Energy Supply

Nation-wide gas and electricity shortages impacts the company directly through lower production or higher cost of production due to use of alternate fuels and indirectly through lower demand for its products. For example, the sales in ice-cream industry are hurt due to frequent power outages as it becomes difficult for retailers to maintain quality of the product.

Crop Economics & Agriculture

Price of share is affected positively by improvement in crop economics which encourage farmers to increase use of

fertilizers. Such an increase in demand increase sales of company manufactured fertilizers and imported phosphates. Similarly, floods and other natural calamities affecting agricultural production may also affect demand and hence price of share negatively.

Plant Operations

Stable operations lead to higher production and better production efficiencies. Issues at production facilities negatively impact the company's financial performance and therefore may affect share price.

Interest Rates

With recent expansions in urea, rice, and polymer businesses, the company currently holds significant debt on its balance sheet. A decrease in interest rates decreases its financial expenses and improves its profitability, conversely an increase in interest rates, decreases its profitability. Such savings in cash flow may be reflected in share price.

Commodity Price Volatility

Greater volatility in commodity prices creates greater opportunities for gain in our trading business. Declining commodity prices lead to trading losses and flat prices provide limited opportunities for trading profits.

PVC-Ethylene Prices

Ethylene is a key raw material used in the manufacture of PVC. Higher PVC prices relative to ethylene prices improve the financial performance of our polymer business. Conversely, smaller margins negatively impact the financial performance of this business.

awards & recognition

Engro Corporation was awarded the Investor Relations Award by the prestigious CFA Society of Pakistan.

Engro Corporation was awarded the 'Business Excellence Award' in the CSR Excellence Awards organized by National Forum for Health & Environment.

Engro Foods Annual Report 2011 won the 2nd place in ICAP & ICMAP's Best Corporate Report Awards.

Engro Corp Annual & Sustainability Report 2011 won the fourth place in ICAP & ICMAP's Best Corporate Report Awards.

Karachi Stock Exchange - Top 25 Companies Award ; one of the most frequent winners with 27 awards.

The Milk Procurement and Agri-Services business model of Engro Foods was awarded with one of the most prestigious Group of Twenty (G20) awards managed by International Finance Corporation.

Engro was ranked 5th in Pakistan Centre of Philanthropy's "Corporate Philanthropy Awards" for 2011.

Engro Powergen received the respected OSHA (Occupational Safety & Health Administration) certification.

Engro Fertilizers won a DuPont Safety and Sustainability Award in the category of "Stakeholder Engagement for Sustainability".

Engro Vopak secured 2nd position in the Vopak Global SHE Awards 2011 out of 80 Vopak Terminals in over 30 countries worldwide.

Engro Polymer & Chemicals Head Office received the "Green Office" certification by WWF.



consolidating impact



Engro seeks to ensure a seamless integration between investments in our business, our stakeholders and the planet. We are geared to take advantage of our inherent strengths and comparative advantage to fuel creation of sustainable corporate, social and environmental value for all our stakeholders.



Engro is committed to taking a wider view of what constitutes sustainability and how we choose to define it for ourselves. We are committed to delivering profits to our shareholders, but we will do so while ensuring that we are able to invest in the needs of our broader stakeholder community as well as the planet we live on.

The sustainability strategy at Engro Corporation is centred on our triple bottom line approach, with a focus that goes beyond profit to encompass the people who are directly or indirectly connected to us and the planet we live on.

Our motivation for adopting the triple bottom line approach is simple: in modern times, no company can ignore the fact that its operations have an impact not just on the welfare of its shareholders, but also on the lives of the people in its host communities, as well as the environment of the planet. We strongly believe that the interests of our broader stakeholder community, as well as the environment, are as important as the interests of our shareholders.

In crafting our core sustainability strategy, Engro Corporation seeks to ensure a seamless integration between investments in our business, our stakeholders and the planet. When crafting business strategy, for instance, Engro Corporation sees itself first and foremost as a corporate citizen of Pakistan that can best serve the nation by taking advantage of the country's competitive strengths as well as by addressing its weaknesses.

By ensuring that our business model is geared towards Pakistan's economic needs, Engro creates opportunity for a far wider community than our direct suppliers and customers: we help fulfill the economic promise of the nation as a whole.

Our fertilizer, foods, commodity trading and rice processing business help improve the productivity of Pakistan's agricultural sector while our investments in energy and petrochemicals fulfil core economic needs of the country. Going forward, we plan to diversify even further and enter businesses where we feel the country has the greatest need or provides the greatest opportunity such as our focus on Thar Coal Project.

As a corporate entity, however, we are mindful that our success relies very heavily on our ability to attract, recruit, and retain the highest quality of human capital. This is why, as part of our commitment to People, the first group of stakeholders we have identified are our own employees.

We help them move forward. Simply put, without them, Engro's brand name would not be what it is today.

As Engro grows beyond its historical presence and into a much wider array of businesses, there has never been a greater need for Engro to ensure that its human resource policies are designed to provide our employees the ability to have highly rewarding careers at the firm. The diversity of our businesses ensures that we are able to redeploy talent far more productively than ever before.

The second set of stakeholders we have identified are the communities that host our businesses. We are mindful of the fact that our business and our negligence may be equally damaging to them.

We view it as our responsibility to cater to their needs and be mindful of their interests, and the company has committed itself to creating sustainable, long term partnerships with our host communities. We have stepped in to provide access to healthcare, education and even basic infrastructure to ensure that our stakeholders can live better, healthier and more productive lives. The safety of both our employees and contractors is paramount during any operational process.

Since 2010, Engro Foundation -a non-profit entity designed to manage and sustain our partnerships with stakeholders as well as various governmental and non-governmental organizations- continues to make investments in our host communities.

Engro takes particular care to ensure that we engage our stakeholders in the social investment projects that we

undertake. Our community participation model is designed to ensure that our host communities feel that they have a stake in the investments we make on their behalf.

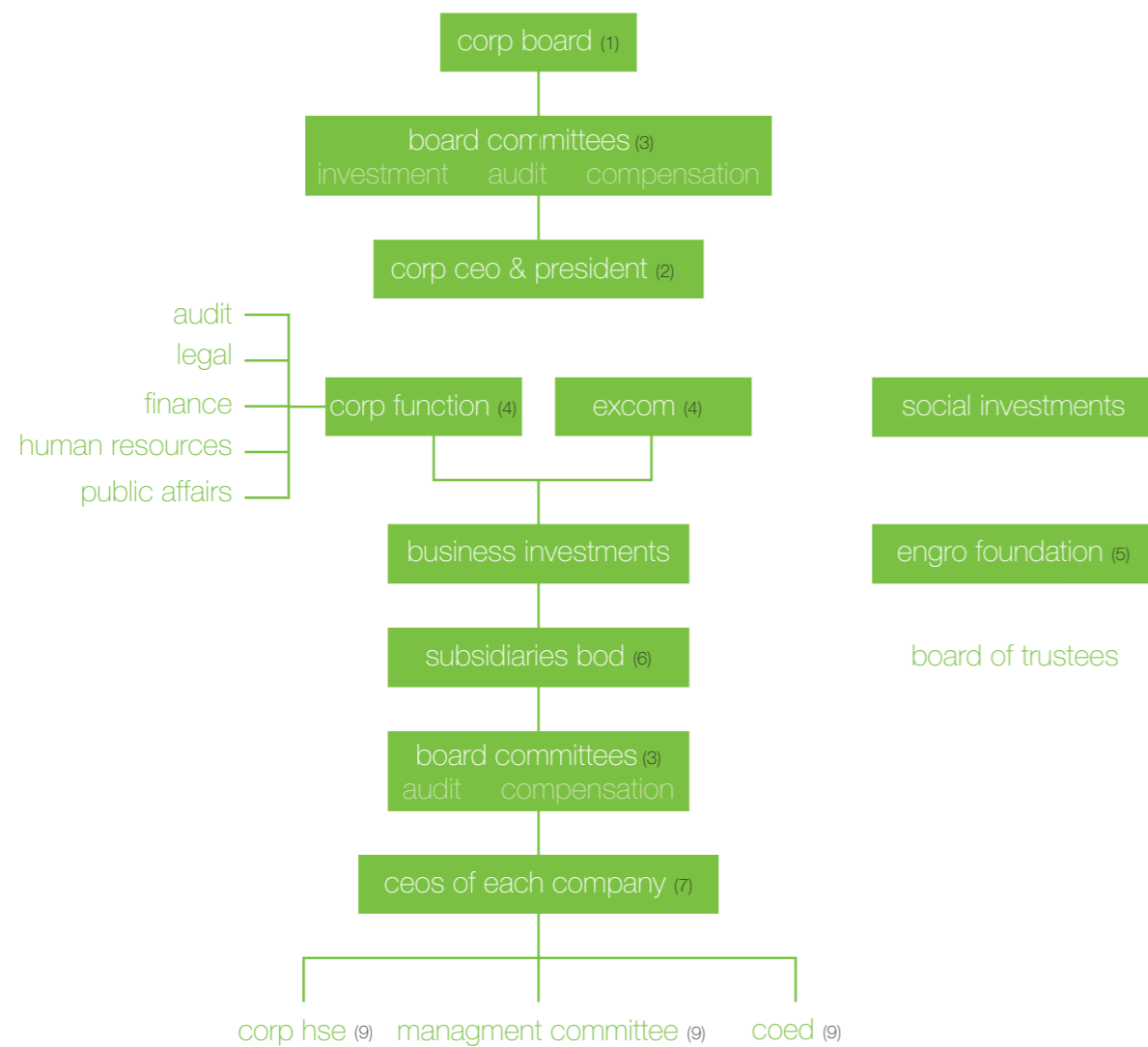
But being mindful of the interests of our stakeholders and financial investors only is not enough. As the world's climate begins to change, oftentimes rapidly and dramatically, no company can afford any longer to ignore the impact it has on the environment. This is especially true of companies like Engro, which have significant industrial manufacturing facilities.

Engro Corporation has committed itself to some of the most stringent of standards when it comes to environmental safety. In addition to taking responsibility for our environmental footprint, we have found that, quite often, our commitment to the planet results in cost savings and improves our ability to track and measure risks to our businesses.

We are also committed to investing in mitigating the effects of both manmade and natural disasters, the latter of which is made more likely by the incidence of global climate change.

To summarise, Engro is committed to taking a wider view of what constitutes sustainability and how we choose to define it for ourselves. We are committed to delivering profits to our shareholders, but we will do so while ensuring that we are able to invest in the needs of our broader stakeholder community as well as the planet we live on.

approach and framework



stakeholders (10)
 employees
 financial community
 shareholders
 media
 government
 customers
 suppliers
 community / society

our internal processes governing sustainability (8)
 health, safety & environment
 social investment
 government relations
 strategy & planning
 sales & marketing
 business performance
 finance audit / compliance legal
 corporate communications
 manufacturing / supply chain

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

The **Corporate Board (1)** has a top down view as the representative of shareholders' interest, and works with the **Corporate CEO & President (2)** in deciding the overall strategic vision and direction of the company.

The Corporate Center provides the Corporate Board and CEO & President with a shared set of functional strengths. The Corporate Centre enables a 'portfolio-oriented' management of independent businesses, as well as integrating the management of businesses, where most skills can be shared across similar business systems. This centralization of skills allows advantages, such as improved management and decision making, assessment of expansions, and investments as well as maintaining operating flexibility for companies.

The Board is assisted by a number of **Board Committees (3)** in making decisions related to Executive Compensation & Remuneration, Investment and Oversight. A number of **Functional Committees (9)** act at the operational level in an advisory capacity to the Corporate CEO & President, providing recommendations related to business and employee matters. Additional details of these committees can be found earlier in the governance section of this report.

The **Engro Foundation (5)**, also detailed in the 'Benefitting Communities' section of this report, serves as a single platform for community engagement activities and social investments of Engro subsidiaries, which pool their financial and managerial resources under the Foundation to create large scale social impact.

Each Engro business is governed by an independent **Subsidiary Board (6)**, led by a **Subsidiary CEO (7)** who is responsible for translating the direction set by the Board into results.

The company has put a number of **Monitoring & Reporting Mechanisms** in place at every level of the organization, including Engro Foundation, to provide a robust process of planning and measuring results. These mechanisms provide a bottom-up and top-down approach to review, and measure, the achievement of objectives and to decide future action.

The operations of each function are governed by an **Internal Process (8)**, which focus on the areas that are integral for business continuity and for delivering performance based growth. A number of **Operational Committees (9)** provide recommendations on business areas such as health & safety, management, business investment, budgetary matters, employee compensation and development.

The senior management of the Company considers feedback to be a significant contributor for the review of objectives and for the development of future plans and strategies. The company has put in place an **External Process (10)** of gathering information through various external functions including the Foundation, Corporate Communications and Finance, which ensure a flow of information both in and out of the company.



stakeholder engagement

Introduction

Stakeholder engagement is integral to any business. Key stakeholders influence and impact the policy development, the nature of the business and outside perspectives of the sustainability initiatives undertaken by the organization. Engro Corp interacts with its stakeholders on a regular basis through effective use of internal and external communication. In addition to regular and routine interactions, Engro Corp considers an independent view of stakeholders' inputs by employing a third party agency which interacts with a specific group of stakeholders on an annual basis.

In 2012, United Registrar of Systems was appointed to conduct the stakeholder engagement sessions that encompassed the Suppliers & Customers of all businesses operating under Engro Corp.

As part of our regular engagement strategy we continue to engage with our stakeholders on a regular basis; however, given the magnitude of the businesses we operate in, to deploy a more rigorous approach we have for the past three years centered our emphasis on a single stakeholder to conduct a more focused stakeholder engagement session. During the year 2009 and 2010 we focused on the host communities whilst in 2011 our focus was on employees. Going forward, therefore, for the year 2012 we decided to lay stress on our customers and suppliers that remain a critical element for driving our operational excellence forward. The findings of stakeholder engagement is reported as part of Engro Corp's CSR Report.

In 2012, United Registrar of Systems was appointed to conduct the stakeholder engagement sessions that encompassed the Suppliers & Customers of all

businesses operating under Engro Corp. URS Pakistan evolved the engagement strategy, developed the feedback framework against which the stakeholders inputs were assimilated and provided recommendations based on the analysis of key findings.

Methodology

URS Pakistan designed a simple and straight forward methodology for engaging with stakeholders group (Customers & Suppliers) identified by the Engro Corp. The engagement was limited to obtaining stakeholders feedback on sustainability initiatives of Engro Corp with particular emphasis on the relationships with the target group. A semi-structured interview process was designed in line with the stake holder engagement model of AA 1000. The interviews were administered in person and through telephone wherever practical.

The questionnaire used for the interviews included sections on the following;

- Overall perception of Engro as a business partner
- Details of Engro's Engagements/Interventions with the target group.
- Stakeholders' inclusivity during design of intervention
- Relevance of the engagement with the target groups
- Materiality of the actions in accordance with the needs
- Key impacts of the engagement
- Accountability and Transparency
- Potential Areas for Future Considerations

For the engagement exercise through mutual consultation it was decided to select one key customer and one key supplier that formulated the core of the business for the subsidiaries. In totality, therefore, the sample comprised of over 15 customers and suppliers that were engaged to seek feedback on Engro's engagement strategy and effectiveness. URS Pakistan independently contacted all the target respondents and collated the findings.

Stakeholder's Feedback

Overall Perception of Engro as a business partner

Regardless of their feedback about Engro's engagements, all the respondents agreed that Engro is one of most forward looking and progressive organizations in Pakistan. Engro is seen as a business partner who has strong and reliable business management systems supported by a culture of commitment and trust. Engro is perceived as an organization that always honors its commitments, develops strategic long term relationships, has positive and practical approach towards business development and management, accommodates and helps in times of need, and is responsible and maintains ethical conduct.

Most of the respondents believed that Engro maintains a mutually beneficial relationship with its suppliers and customers. The only differing comment came from a customer of Engro Fertilizer who believed that the relationship with Engro in based on business needs not as a strategic partner. The subject respondent believed that at times market dynamics are manipulated through miscommunication in order to create an additional sales push.

Details of Engro's Engagements/ Interventions with the target group

The respondents for different groups narrated a variety of engagements that Engro has undertaken with its suppliers and customers. All of the respondents agreed that these initiatives were beneficial for their community and has helped in improving their competitiveness resulting in business growth. Some of the initiatives identified by the respondents include;

- Farmer information sharing sessions by Engro Fertilizer
- Information exchange on Fertilizer market dynamics and tax policy
- Farmer Activation Program that helped in increasing awareness for Engro's products
- Mutual initiatives for improving operational efficiency, input optimization, and waste recycling by Engro Foods
- Improving environmental and operational sustainability of packaging process at Engro Foods
- Knowledge sharing on technical and engineering aspect of the relationships
- Coordination in effective environmental management
- Assistance in harvesting technology development and process modernization by EngroEximp
- Introduction of good quality seeds in local markets by EngroEximp

While the above list is not exhaustive, there are numerous instances that are specific to individual suppliers where Engro has helped them in improving their business in one way or the other. However, it is important to note that some of the respondents believed that all initiatives of Engro with suppliers are based on business relationships and there is a need to put more emphasis on sustainability of supplier/customer businesses.

stakeholder engagement

Stakeholders' Inclusivity during design of intervention

Like other indicators, a number of respondents were positive about inclusivity in the design of intervention while some think Engro's initiatives were unidirectional. Some of the respondents believed that Engro's initiatives are based on mutual discussion and consultation which is an ongoing process with multiple level interactions. This continuous interaction has resulted in partnerships rather than usual supplier – customer relationship where both the parties actively support each others initiatives and respond proactively to the needs of their counterparts.

On the other hand, some respondents believed that Engro's initiatives are either based on unidirectional business interest or are being designed in reaction to any specific demand of the supplier/customer community hence are reactive in nature. Additionally, a couple of respondents believed that their relationship is mutually beneficial in business terms only and no initiatives are being undertaken that are focused on sustainability. All such respondents believed that Engro can improve its sustainability efforts by actively engaging with stakeholders (or their associations) and by closely aligning their support to pertinent issues faced by their business community.

Relevance of the engagement to the target groups

Wherever respondent did identify sustainability related engagements with Engro, all of them believed that the actions taken by Engro Corp were relevant to their pertinent needs and has positively impacted their performance both in terms of business as well as in terms of environmental/social sustainability. A number of examples were quoted where Engro has positively impacted the market development, suppliers' technology, engineering systems and environmental sustainability through effective support, coordination and knowledge sharing. Such respondents believed that Engro has been proactive in terms of realizing the need for improvement and has been proactive in developing partnerships that could effectively address the need through a positive solution that is mutually valuable for both parties.

Materiality of the actions in accordance with the needs

Almost all of the respondents viewed materiality aspect of Engro's sustainability initiatives as an area of improvement. While stakeholders believed that Engro's actions have been relevant, there is a need to develop better understanding on the suppliers/customer issues and to better emphasize on the need to closely align the solutions to the pertinent issues.

The respondents believed that a continuous and coordinated effort towards interparty communication can play a pivotal role in increasing awareness on the issues and realizing the true benefit of the support provided to them. Timely and effective two-way communication will also help the suppliers/customers community in understanding the underlying idea in any initiative undertaken by Engro and its long term benefit vis-à-vis their business sustainability.

Key Impacts of the Sustainability Interventions

The stakeholders could identify numerous direct and indirect positive impacts associated with Engro's interventions including;

- Greater information among the farmers on the farming technology and agri-nutrients
- Support in advocacy for better Tax reforms
- Improvement in operational efficiency and resource optimization
- Transfer of technical knowledge and engineering expertise
- People development through interaction with Engro's team
- Innovations in supply chain management
- Market development resulting in strategic drive for business growth
- Better coordination in environmental and safety management
- Better financial management
- Improvement in farming and harvesting techniques

Some of the respondents, however, were not very convinced with the wholesomeness of the initiatives. They believed that most of the initiatives and their resulting impacts do not focus on improving sustainability especially in terms of environment, HSE and profitability for their business. They recognized Engro as a champion of these concepts and believed that Engro can play a greater role in terms of introducing best practices.

Accountability and Transparency

None of the respondents had any doubts on Engro's conduct in terms of transparency and accountability. They all perceived Engro as an organization that shares responsibility, makes its people accountable for their actions at the individual and team level, is fair and transparent in its relationships. Most of the respondents believed that any interaction with Engro is very open, without any hidden agenda from either sides, and is based on understanding and trust. In all its relationships, Engro maintains their structured way of management which is based on identification of key performance indicators which are mutually agreed and stewarded.

However, one of the respondents believed otherwise who reported some instances of miscommunication to gain sales advantage, lack of concern for the wellbeing of their businesses, and trying to dictate terms. He believed that due to market dynamics, at times the need to develop mutually beneficial relationships are overlooked to gain short term business benefits.

stakeholder engagement

Potential Areas for Future Considerations

The targeted stakeholders identified a number of improvement possibilities in the way Engro manages its relationships with suppliers/customers. Most of these recommendations were specific to the Engro's different subsidiaries and their relevant business areas. An overall summary of the same is presented hereunder;

- Engro can consider training and capacity building of farmers and traders that are part of their business value chain.
- Regular support should be provided in terms of business development and management practices that are strength areas for Engro.
- Building Engro's own team in terms of focusing on developing mutually beneficial relationships especially at the field staff level that regularly interact with the stakeholder communities.
- Provision of support in advocacy for better tax reforms for the supply chain partners.
- Better coordination, support and capacity building of industry associations and representative groups.
- Continue efforts on developing innovative solutions while maintaining cost and technological leadership.
- Better utilization of supplier/customer networks in designing and implementing CSR solutions thus increasing the outreach.
- More focus on small farmer's capacity development in-village interactions.

Conclusions & Recommendations

Engro Corporation and its subsidiaries have been very successful in developing long lasting supplier and customer relationships that based on understanding, openness, trust and mutual benefit. Majority of the stakeholders engaged through current year's interaction are very satisfied with Engro's initiatives that have positively impacted them both individually and as a community. However, there are number of areas for further development that can bring in more focused approach towards sustainability management for Engro Corp's value chain.

In order to improve the effectiveness of the stakeholders' engagement process, URS team would like to suggest conducting the engagement at the individual business level. This is important due to the diversity of the stakeholders for each business and the variety of their needs which can be addressed through a large spectrum of sustainability related solutions. Conducting the stakeholders' engagement at individual business level will bring in more focus and clarity in the output of engagement. The results can then be compiled together to form an overall picture at the level of Engro Corp by identifying similarities in the areas for common concern and need to develop a global solution.

*Limitations of the Engagement Survey:

As the engagement activity was performed by Engro Corp, the target pool of respondent was limited to practically two respondents for each company. While on the one hand this approach ensured coverage of full scope of business for Engro Corp, the sample was too small to conduct a thorough analysis of the findings. Due to the nature of the design, there is high likelihood that the feedback given by each respondent may represent his individual position rather than being representative of the whole supplier and customer community.

As a number of stakeholders were contacted via telephone/skype, some of the respondents were not available for the interaction despite various attempts from the engagement team.

regular engagement

Media

Engro engages with the print and visual media through regular press releases on key achievements and disclosures, through briefings on year-end results and other strategic events, through plant visits, quarterly lunches for a wide selection of media representatives, and through informal conversations throughout the year on Engro news and updates.

Shareholders and Analyst

Engro engages with its wide groups of shareholders through the Annual General Meeting and the dispatch of Annual and Sustainability reports, which include comprehensive updates on financial and environmental footprint of the company. Further to this, Engro engages with professional investors through regular analysts briefings and investor briefings.

Host Communities

Engro takes its responsibility to its host communities very seriously, and regularly interacts with individuals and

stakeholders in its local communities. The Engro Foundation is active around all of our main sites, and has undertaken a complete third-party assessment study of our local host communities to understand their needs and issues better. The Engro Foundation is active in health, education, livelihoods and environmental projects with our host communities, and regularly interacts with them on a formal and informal basis to understand how we can improve the way we work with them and for them.

Government and Regulatory Bodies

Engro continually engages with the Government of Pakistan at local, provincial and federal levels. Engro senior executives have been involved in policy development discussions ranging from food to fertilizer security, gas supply optimization, agri-economics, alternate power generation, and many more. Engro executives also engage daily with government officials on issues ranging from local community development to security and transport issues.



striking impact

We see ourselves, first and foremost, as a corporate citizen of Pakistan that can best serve the nation by taking advantage of the country's competitive strengths as well as by addressing its weaknesses. By ensuring that our business model is geared towards Pakistan's economic needs, Engro creates opportunity for a far wider community than our direct suppliers and customers: we help fulfill the economic promise of the nation as a whole.



our economic investments strategy

We believe that while we aspire to deliver value and achieve excellence in our core businesses, the seeds we sow through our diverse outreach today will pave the way for meaningful success tomorrow.

Engro's advancement as an organization is contingent on its ability to tap into the opportunities that Pakistan has to offer. We believe that while we aspire to deliver value and achieve excellence in our core businesses, the seeds we sow through our diverse outreach today will pave the way for meaningful success tomorrow. Essentially, therefore, we work in collaboration with Pakistan and are of the view that our growth continues to fuel the growth of Pakistan.

As a regional corporation our progress is fuelled by an inherent need to meet new challenges and enable excellence. Our investments in agriculture, foods, energy and petrochemicals take benefit of Pakistan's competitive strengths and core economic needs. For example, through our fertilizer business, we have been serving the country's farmers for over 40 years now, and by expanding this capacity we are reducing Pakistan's need to import, in turn helping the country prosper and save foreign exchange.

We as a company are passionate to work on the strengths of our country – by identifying what the country needs, what it has to offer, and by locating exactly where the opportunities lie. We then work on creating strategies which capitalize on the most viable business opportunities which lie before us.

Over the course of our multifarious investments we have gone beyond the need to establish profitable and cost-conscious businesses; and have focused on deploying a sustainable business model that continues to feed the value chain and fuels inclusive growth. Our commercial success and growth are closely linked to the continued

development of societies in our markets, including economic improvements. Our investments, therefore, are geared at creating increased and a more widely spread wealth through the value chain – thereby guiding the country towards the path of economic success.



our key risks & mitigating actions

As a leading conglomerate we continue to build a system whereby we ensure that our business operations are safeguarded against key risks and threats arising out of the external operating environment. To this end, and as an integral part of our focus on creating sustainable corporate value, our businesses continue to engage in comprehensive analyses that identify risks and their appropriate mitigating actions.

Risk	Mitigating Actions
Gas shortage at production sites due to curtailment, gas reserve depletion or revision in gas allocation policy	Active collaboration with the GoP to identify and implement short-term and long-term solutions to the gas supply problem.
Loss of trained and high potential employees, and employees in critical positions	Rigorous succession planning exercise in place throughout the organization.
Dilution of Company values, standards of governance, risk and control due to induction of new resources and high pressure on the business	Rigorous training program in place for new inductees. Moreover, refresher training program in place to re-emphasize company values, internal controls and company policies. Hotlines to register complaints against Engro employees set-up and widely communicated to dealers, customers, donors, suppliers and employees.
Pressure on contribution margin resulting from surge in raw material/commodity prices	Respective commodity and pricing committees monitor international and local market scenario and prices regularly and where possible hedge the risk or pass it to the customer.
Safety Risk	<p>Safety at Plant Sites Alignment with World class safety standards including DuPont safety standards and OSHA compliance. Business insurance also in place to mitigate any monetary impact.</p> <p>Food Safety Obtained certifications including OHSAS-18001, ISO-22000, ISO-9001, ISO-14001, British Retail Consortium Certification.</p>
Unstable plant operations	Maintenance & inspection strategies in place across all facilities.
Exchange Risk Exposure	This is managed actively by hedging open positions whenever necessary.
Increase in interest rates	Close watch on macro-economic indicators is maintained. A good information network of bankers and financial market analysts is in place to enable timely configuration and implementation of hedging strategies.

strengthening our impact – swot analysis

As one of the leading corporate entities in Pakistan, we continue to engage in general trend spotting and environmental analyses to ensure that we maintain robust and rigorous frameworks and mechanism that help us achieve excellence in everything we do.

Engro has access to diversified sources of financial capital to meet its growth needs where as the company meets its operational needs primarily through internal cash generation, except for Engro Fertilizers where gas curtailment has forced the company to approach its bankers to re-profile its debts taken to invest in its new urea plant. The company has successfully raised funds from IPOs, TFCs, retail TFCs, commercial banks and specialized lending institutions. It has also entered into strategic partnerships to meet its growth ambitions, such as Sindh Engro Coal Mining Company - a collaboration with the Government of Sindh to undertake the Thar Coal Mining project.

Moreover, Engro has made substantial investments in its businesses to ensure its manufacturing facilities have some of the best operational efficiencies in the country. Based on energy consumption parameters provided by the technology vendor, the fuel gas consumption of Engro's new urea plant is less than 50% of industry average. The rice processing plant is a state-of-the-art facility with world-class quality certifications. Engro's power plant in Qadirpur is the only plant in Pakistan operating on permeate gas and has a combined cycle configuration which enables it to achieve better performance efficiencies and cost savings.

As one of the leading corporate entities in Pakistan, we continue to engage in general trend spotting and environmental analyses to ensure that we maintain robust and rigorous frameworks and mechanism that help us achieve excellence in everything we do.



Strengths

The company has established itself as a leading corporate in Pakistan. Its brand name "Engro" is perceived as a symbol of quality, transparency and sustainability. It has world-class systems and processes in place which uphold its core values of commitment to ethics & integrity; health, safety, & environment; innovation & risk taking; creating an enabling environment for its people; and building value for community & society. The company and its subsidiaries are in compliance with various international and local safety and quality certifications such as British Safety Council (BSC), ISO 9001 and 14001, WWF Green Office Certifications amongst others.

Engro has successfully demonstrated its lead in introducing innovations in the consumer and financial markets. The company successfully launched two issues of Engro Rupiya Certificate to raise funds. Engro Foods launched Dairy Omung which is an economical alternative to packaged milk.

Engro's Management is recognized as amongst the best in the country. Through its successful execution of projects - like the world's largest single train urea plant; relocation of an EDC and VCM plant from Baton Rouge, USA to Port Qasim Pakistan; setting up of a 220MW power plant which was completed in a record 29 months, the shortest time to COD taken by IPPs of comparable size in Pakistan and the construction of two food processing plants over the course of our first five years of operation, the Company has developed its in-house capability of project execution and a strong working relationship with leading international technology partners, constructions partners and financial partners.

Weaknesses

Although Engro's businesses are well established in Pakistan, its presence in international markets is limited. It is becoming more and more important for companies around the world to diversify globally as the world opens up and new opportunities are created in emerging economies. Engro is, therefore, investing substantially in building its in-house capability to tap into global opportunities and to address global challenges.

Its investment in Al-Safa was driven by the need to acquire value added food processing know-how and to understand the North American consumer market.

strengthening our impact – swot analysis

Threats

Perhaps the biggest threat facing the company, and Pakistan, is the growing energy shortage which impacts our different businesses through direct gas curtailment, power shortage, circular debt or rising variable costs. The company has taken various steps to mitigate this threat most notable one being securing a short and long term gas supply solution with Government for EnVen.

Opportunities

Favorable demographic changes like growing population, increasing urbanization and rising income levels present good growth opportunities in Pakistan. Engro's diversified business model and its presence in multiple stages of the Agribusiness supply chain including fertilizer, commodities and foods provides it an opportunity to create value throughout the chain and create competitive advantage. Also, there is growing energy demand supply gap in the country. Engro is actively engaged with the Government to develop the Thar coal mining project and to possibly establish a new power plant based on Thar coal. Given the abundance of Thar coal reserves, the company believes that this project could lead the way towards solving Pakistan's energy crisis.

our strategic corporate objectives 2013

In 2013, we plan to further our strategy to grow our businesses in areas where we have identified opportunities and needs.

Though 2012 was a challenging year, it has been a key learning experience for us from various perspectives, we expect 2013 to be a year to consolidate our revenue and profitability as well as to work on growth opportunities in line with our strategy.

Going forward we will continue to work with the subsidiary companies to strengthen their balance sheet and assist our fertilizers business in reaching an agreement with the Government of Pakistan (GoP) to ensure that gas supply is maintained for both plants, whilst also conclude agreements with lenders for debt restructuring.

Engro is already present in different parts of the agri chain. In 2013 we will explore further opportunities within this chain for value addition and creating competitive advantage within the domestic markets. We will also explore international opportunities to leverage our human capital which is experienced in project management, engineering and marketing.

Since the state of the external business environment has a huge impact on day-to-day business operations, we will

also put in place a comprehensive plan to tackle the challenges emanating from the external environment to help increase operational and strategic excellence.

We strongly believe that our talent pool eventually determines how successful we are as a company. In line with this belief, we will further augment our HR strategy which includes devising a three-year strategy to improve our top talent pool all the while focusing on providing our employees with an enabling environment and encouraging a greater proportion of females to take up leadership roles across our businesses.

We will also develop a strategy to improve the existing employee engagement index to further enhance overall employee satisfaction with the company and its policies.

More so, we will continue building an inherent sustainability-consciousness in our operations that would enable us to lower costs and drive synergy & efficiency across all our subsidiaries.



engro's growth – fuelling pakistan's growth

Total investments in Pakistan between 2007 and 2011 through our varied businesses amount to a staggering USD 1.9 billion.

Our fertilizer business helped in saving foreign exchange to the tune of USD 444 million by producing 974 kt of urea in 2012 alone.

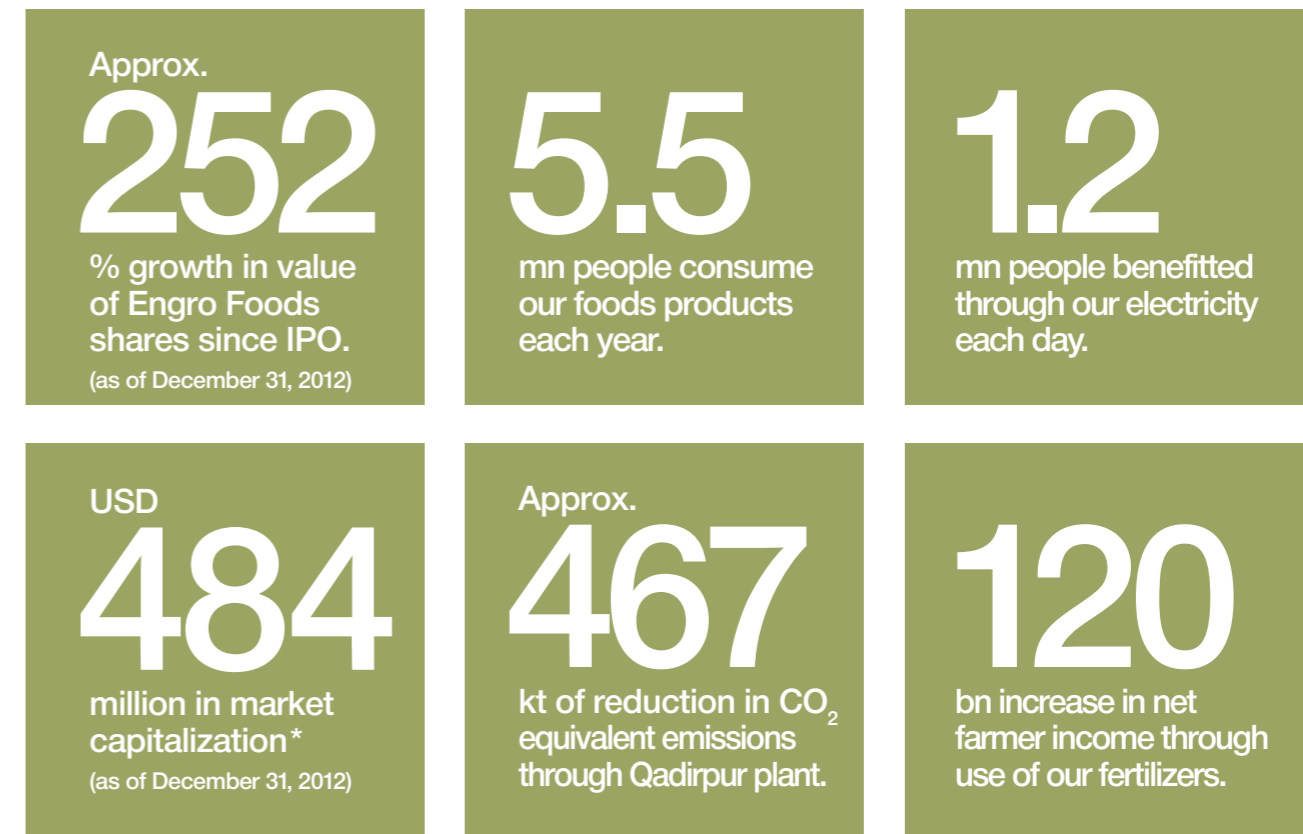
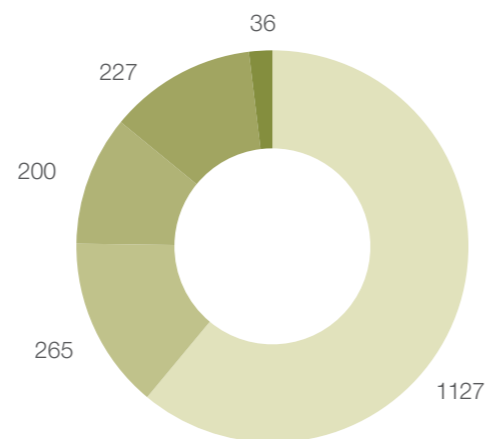
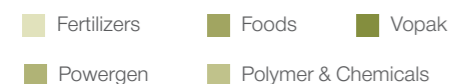
Our foods business has distributed wealth of Rs. 32 billion to the dairy farming community to date since its inception.

Through our dairy interventions our farmers have benefitted from improved milk yields of upto 20% leading to Rs. 8 million additional income every year for 9,000 families.

Our 'green' power plant at Qadirpur continues to light up lives of over 700,000 households nationwide, saving the government close to Rs. 19 billion in generation costs.

Investments in Pakistan (2007-2011)

Total Investments
(2007-2011)
1.9 billion



Our investments in Thar Coal project will produce 5,000 MW of electricity for 50 years with total foreign exchange savings of approx. USD 50 billion.

Our rice processing business registered approximately 40% increase in net income of farmers from USD 4,700 per annum in 2009 to USD 7,700 per annum in 2012.



Since its inception, Engro's business model has been inherently linked with that of Pakistan through its rich investments in the economic and social sphere of the country. Ours has been a history laden with milestones and a passionate pursuit of inclusive growth that has yielded economic and social opportunities for a wide variety of stakeholders including our shareholders, investors, customers, consumers, suppliers, government and, thereof, the country at large.

The genesis of Engro's inclusive business model commenced over four decades ago when an unexpected discovery of gas reserves tucked within the obscure grounds of the Mari district ushered in a new era of growth and productivity for the fertilizer industry of Pakistan; eventually beginning the evolution of a local conglomerate that was to transform itself from a fertilizer manufacturer to a well-diversified industrial conglomerate with interests ranging in an array of sectors including foods, fertilizers, energy, trading, petrochemicals and chemical storage & handling.

Over the course of time, Engro's business model has been shaped to manifest itself in terms of the impact that the company has had on the economic and social landscape of the country. Each of our businesses has geared its operational model on the core philosophy that the business does well when Pakistan does well. This core ethos embodies the value that Engro continues to create for its stakeholders through robust investments that are backed by economic needs and key strengths of the country.

The economic impact of Engro is not simply its revenues and profits earned or jobs created; instead the company's footprint extends across the entire economy in terms of

We believe in gearing the growth of our business to create positive reverberations not just in the lives of our stakeholders, but across the entire economy.

the enormous positive externalities generated by Engro's investments in critical segments of the economy. The company has specifically targeted those sectors for investment that are capital intensive yet critical to spur economic growth through development of ancillary industries that provide wealth-generation opportunities to millions of Pakistanis across the social pyramid.

The surest testament of the company's undying faith in the Pakistani economy is the fact that Engro has invested more than \$1.9 billion across its business sectors over the past five years, a record unparalleled amongst local firms. These investments have triggered real and meaningful benefits for the stakeholders in the form of increased job opportunities, greater income generation, increased economic empowerment and a better living standard.

While the Company is a strong proponent of free trade and a level playing field ultimately leading to fair and transparent competition, we feel that at the current stage of Pakistan's development companies can play a much enhanced role in developing the market rather than just the market share. It is this firm belief that continues to motivate us to create positive reverberations through our operations – not just in the lives of our stakeholders but across the entire economy.



Fertilizers

Our fertilizer business – the oldest of our concerns – has remained an integral part of Pakistan's agricultural landscape for the past 48 years and continues to provide affordable fertilizer solutions to the farming community, thereby increasing yield and sustaining the food requirements of the burgeoning Pakistani populace. Over the course of our presence in the fertilizer industry of the country, Engro has consistently increased its production – by approximately 13 times since commencement – to match the growing demand-supply gap of the country. This increase in the production capacity has not only made the country self-sufficient in its requirements of fertilizer but also yielded significant indirect benefit for a wide group of stakeholders in terms of generating employment and saving foreign exchange for the country through reduction of urea imports.

Engro's decision to expand its fertilizer production capacity significantly has emerged as a classic business case study in the country. In 2010, the investment of USD 1.1 billion to set up the world's largest single-train urea plant contained a large proportion of foreign investment, making it the single largest investment in the country.

The massive investment was backed by a robust strategy to develop the financial and capital markets of the country to raise the required capital. The capital structure was, therefore, carefully designed by maintaining a debt to equity ratio of around 75% in 2012 while the equity portion raised by internal cash generation of base fertilizer plant and rights issues. This effort was also supplemented by a change in dividend policy to pursue high growth projects resulting in value creation for shareholders. Another key attempt to revolutionize the financial capital markets was the launch of the Engro Rupiya Certificate which was an effort to raise capital directly from retail investors.

Despite a challenging economic scenario ever since the launch of the new fertilizer plant, in 2012 alone the company produced 970,425 tons of urea, saving the country over \$444 million in foreign exchange that would otherwise have to be spent to import the requisite amount of urea to meet the country's needs.

Engro Fertilizers receives a benefit of Rs 4.4 billion from the government through lower than market feed gas prices which it passes on to farmers in the form of lower urea price which is substantially greater than the benefit it receives. If the benefit from the subsidy were to be treated as an investment by the nation in cheaper food supplies, then it is an investment in which Engro has offered the nation an astounding 452% return.

In addition to supplying affordable, locally manufactured fertilizer, Engro has also encouraged farmers in the use of fertilizers, including potash-based nutrients. This education programme targeting approximately half a million farmers is an investment in the long-term health and vitality of Pakistan's arable soil, one that continues to pay dividends in the form of the country's ability to sustain its own food supply and resulting in net income increase of the farmers up to the tune of Rs. 120 billion annually.

1.5 + mn farmers
benefitting from
our fertilizer
products.

Foods

In 2005, Engro's announcement that the company would be entering the foods business was met by widespread scepticism by investors, analysts and industry experts alike. In the years that followed, Engro proved that its culture of excellence transcends any silo of technical expertise: the company's stellar brand name allowed it to attract some of the most outstanding talent from food and consumer goods companies throughout the country and set up a world-class foods business that continues to challenge the industry benchmark and added approximately Rs. 4.5 billion through value addition in the economic system in the year 2012.

Since its inception, the foods business has virtually revolutionized the rural landscape of Pakistan and provided opportunity for economic uplift to the nation's dairy & livestock sector, which employs one in every six Pakistanis, and majority of who belong to the base of the pyramid – living on less than US \$ 2.5/day.

Before the inception of Engro Foods, dairy farming in Pakistan followed a pre-dominant mode of backyard farming with over 80 per cent of farmers having less than 5 animals. Milk collection and onward delivery to city markets and household consumers was conducted by contractors in this traditional setup. The absence of milk transportation infrastructure did not only result in wastage but also created a monopoly of contractors who controlled pricing and payment methods, depriving small-hold dairy farmers of the opportunity to reap any benefits from their produce. Following the entry of Engro Foods in the dairy business, the company has focused its efforts in breaking this vicious cycle and empowered the small-hold dairy farmers by deploying its own state-of-the art milk collection infrastructure that has helped in improving payment cycles, productivity of the animals and thereby increasing the net income in the hands of the farmers.

Since its inception in 2006, through its diverse and cutting edge milk collection infrastructure the company has collected a cumulative 940 million litres of milk, paying farmers Rs. 32 billion in direct income whereas investments to date of the business in the transportation sector cumulate to approximately Rs. 2 billion.

To further enhance our efforts and contribute in a meaningful way both in terms of economic and social impact, the business has focused extensively on animal health, nutrition and integration of best farming practices, hence boosting production and efficiency within the sector. Through its team of agri-services experts and regular investments in medical camps, fodder cultivation drives and modern feeding technique seminars, the contribution of Engro Foods towards helping the farmers optimize their production has been critical to deploying an inclusive business model that has helped spur growth for both the business and its stakeholders. These multi-pronged attempts have helped increase the average herd size of small-hold dairy farmers by 15 per cent whilst simultaneously increasing milk yields by 20 per cent. The boost in the milk yield has accorded a higher standard of living to these farmers and decreased the average debt load of each family that supplies us milk by an average of 15%.

To further bring the businesses' vision of achieving sustainable economic growth together with our dairy community; we have forged meaningful partnerships whereby female livestock workers have been empowered to become change agents within the dairy system. Through integrated programs such as Women Empowerment through Livestock Development (WELD), the business has developed female entrepreneurs across the

0.2 mn farmers integrated in dairy value chain.

15 % increase in herd size of dairy farmers.

15 % average reduction in debts of farmers.

country that has provided Rs. 4 million per month directly in the hands of 950 families. The improvement in the lives of farmers has resulted in many of them graduating to the next stage of agricultural development with over 600 farmers reaching a scale where they have become commercial dairy farmers bringing about 20 million litres in terms of yield improvement and injecting another Rs. 943 million into the farming community.

As Engro Foods continues to grow its market, it has inextricably linked its own prosperity to that of Pakistan's agricultural heartland.

Energy

In no place is Engro's economic impact more evident than in the firm's energy business. In 2008, as Pakistan began to face massive, chronic power outages that lasted for several hours a day, crippling the economy, Engro had already begun work on its energy business, designed to take advantage of Pakistan's vast, untapped, and underutilized hydrocarbon reserves.

On March 27, 2010 – three months ahead of schedule – Engro Powergen commissioned a 217-megawatt gas-fired combined cycle power plant in at Qadirpur. What made the plant unique, however, was not the pace at which work on it was completed, but the fact that it utilized a fuel source that had been previously been going to waste: permeate gas that was being extracted produced as waste alongside crude oil pipeline quality gas at the oil gasfields in Qadirpur.

Owing to a lack of infrastructure, the gas was simply being flared at the oilfields instead of being piped into the national gas grid. Engro's new power plant put an end to reduce this waste and began converting that gas into a much needed source of affordable energy. Our pursuit of excellence ensured that the operational efficiency of the plant remains high thereby conforming to the National Environmental Quality Standards and World Bank guidelines while also reducing the country's overall carbon footprint by over 467,000 tonnes of carbon dioxide equivalent (approx.) per year.

The energy produced at the Qadirpur plant continues to provide energy for 700,000 households in a relatively environmentally friendly manner whilst also generating employment opportunities for thousands of Pakistanis across the value chain.

Given the fact that Pakistan's energy crisis is in large part due to the unsustainably high cost of energy production, Engro Powergen's Qadirpur plant offers a sustainable solution to the chronic energy crisis of the country, saving the government about Rs. 19 billion in generation costs since its inception.

Thar Coal

Engro's pursuit of affordable energy options for Pakistani consumers is not restricted to the Qadirpur plant alone. Instead the company is at the forefront of developing the coalfields at Thar, one of the largest reserves of coal in the world, into a steady stream of low-cost electricity that can power Pakistan's economy forward. We have worked in partnership with the Sindh government to develop this vital resource on behalf of the people of Sindh to further cement the province's role as the energy hub of Pakistan.

The Thar coal project is important for several reasons. Pakistan's main domestic hydrocarbon resource until now has been natural gas. But as the country's gas reserves

executing impact

are rapidly depleted and the nation faces a significant drop in production capacity, a viable alternative is urgently needed. That option is the vast reserves of coal at Thar.

A majority of Pakistan's energy needs are currently being met through imported sources, which has caused an enormous drain not just on the nation's foreign exchange reserves, but also on the federal exchequer, which had to spend Rs. 472 billion in the fiscal year 2012 in order to subsidize the skyrocketing cost of energy in Pakistan.

The adverse effects of the governmental spending continues to reverberate in the form of increased fiscal deficit and government borrowing and also drives up inflation that ultimately acts as a regressive tax – hitting the poorest of our fellow citizens. The only way to fix the core issue is to get the cost of electricity generation down to below the average price that can be billed to consumers. With over 40% of the country's electricity relying on imported furnace oil, the option of affordable and low-cost energy has so far proven difficult.

In 2008, Engro won an internationally competitive bid to become the Sindh government's preferred partner to develop the coal reserves in Tharparkar, one of the poorest districts in all of Pakistan. A joint venture was formed, creating the Sindh Engro Coal Mining Company. The initial project was to be worth \$3 billion and was to generate 1,200 megawatts of electricity, using 6.5 million tons of coal per annum. Infrastructure constraints, however, have led to a decoupling of the mining and power generation projects, and the power generation component has been scaled back to 400 megawatts. But, despite these challenges, Engro has persevered with this project with Thar Block II being capable of generating up to 5,000 MW of electricity for the next 50 years. This translates in to a significant impact both in terms of economic and social opportunities for thousands across the country with an estimated provision for creation of over 10,000 direct and indirect jobs and a constant source of income for the government in the form of USD 500 million in royalties over the life of the project. In addition to the significant impact that the project is bound to have on the national economy, its single-most positive externality lies in savings of over USD 50 billion in foreign exchange due to substitution of expensive Furnace Oil by affordable and cheaper power generation through local Thar coal.

Moreover, the affordable electricity generated in the coalfields of Thar will galvanize an industrial sector just waiting for the opportunity to grow, fuelled by rising consumer demand and powered by home-grown energy sources, indirectly creating millions of jobs throughout the nation.

USD
50
bn forex savings via import substitution of RFO over the life of the project.

USD
500
mn royalty over the life of Thar Coal project.

10,000
employment opportunities through direct & indirect job creation.

Rice Processing

Engro's rice processing business, established in 2010 is a modern integrated rice processing complex near Muridke in the province of Punjab in Pakistan. The facility is located in the heart of the Basmati rice growing area with the ability to process more than 150 tons of rice paddy per hour.

The rice processing business in a short span of three years has redefined the industry practices which were mired by exploitation of the intermediaries consequently making the farmers suffer and not reap benefits of his/her produce.

The investments in the rice processing business were spurred by reviewing the agricultural landscape of Pakistan and the Company's ability to improve the existing

agricultural infrastructure. Traditionally, the rice farmers had suffered due to monetary return from crops grown by farmers in Pakistan being well below international average due to lower crop yields, inadequate pricing and lack of marketing structure. The situation was further aggravated by the presence of middlemen who exploit their position as suppliers of inputs and buyers of outputs. This coupled with unfair weight deductions being applied to all rice paddy bought by middlemen and no price premium provided for better quality crop, the farmers were trapped in a vicious circle that continued to impact their livelihoods and deprived them of meaningful socio-economic opportunities.

Moreover, these middlemen who are also a key source of financing for the farmers continued to exploit the situation and provided loans to the farming community at high cost, eventually subtracting substantial margins through unfair deductions, high interest on loans and delayed payments for their produce.

The entry of our rice processing business has brought value addition to an otherwise stagnant agricultural environment. Our inclusive business model concentrates on improving the competitiveness of basmati rice for farmers to ensure that there is long term raw material availability for the company through enhanced yield/acre and reduction in cost of production/ton. The Company has also implemented a quality-based pricing model whereby farmer earning is now directly linked with the quality of produce. As a natural corollary to an engaged and inclusive business model, Engro is also investing in research and development. A dedicated R&D team conducts trials on aspects of Basmati rice including new basmati rice seed development and water conservation. A dedicated team of agri-graduates spread across 11 procurement locations provides farmers with constant support and counseling for rice seeds, water conservation methodology, farm management and optimal use of fertilizers and Pesticide for increased yields.

The key strategy is to increase farm productivity and quality through use of contract and contact farming. Rice paddy bought by Engro is grown on approximately 36,000 hectares. Engro's 2000 farmers grow paddy on 16,000 hectares under formal contract farming agreement or as contacted growers involving upfront commitment to buy paddy of the required quantity and quality at better than market rates, thereby breaking the clout of middlemen. The company buys more than USD 55Mn worth of paddy and pays suppliers within 3 days of delivery.

Through better crop seed and farm management practices the yield of basmati rice paddy has increased from 3.3 tons per hectare before 2010 to an estimated 3.6 tons in 2012. This is an additional USD 2.4 million income for Engro's contracted and contacted farmers on 16,000 hectares.

With the launch of our business and the subsequent removal of middlemen and prompt payments has resulted in an additional income of USD 25/ton for farmers. This is USD 85/hectare income increase for farmers which in turn has also resulted in a benefit for the company of USD 7/ton of paddy by splitting middleman margin.

14,000
+ household benefitted BOP

35
% decrease in water usage of crop

As we forge ahead towards even greater success, we strongly believe that our passion for excellence and pursuit of an inclusive growth model will yield even greater success tomorrow for all our stakeholders. With a firm commitment to Pakistan, we stand poised to continue our legacy of unrivalled growth and are confident that the future will lead us to create sustainable socio-economic opportunities across all our core business areas.

our people

leading impact

Engro's success can be credited to one reason above all others: we have consistently attracted, hired and retained some of the most talented people in Pakistan. Our ability to create high performance teams in a culture of inclusiveness, professionalism and excellence is what drives our success.



our people investments strategy



Engro's success can be credited to one reason above all others: we have consistently attracted, hired and retained some of the most talented people in Pakistan. Our ability to create high performance teams in a culture of inclusiveness, professionalism and excellence is what drives our success. To this end, Engro has worked extensively to deploy a robust framework to become the employer of choice. This strategic approach of ours is as under:

Employee Engagement and Personal Growth Opportunities:

To ensure that Engro remains the most sought after employer among college graduates and experienced professionals, the company continues to implement its holistic strategy for employee and organizational

development. We believe that employee training plays an integral part in retention of great talent and continues to fuel our best in-class organizational culture. It is also a factor which drives our success. Living this philosophy of having a well trained workforce, frequent trainings are conducted internally through in-house specialists, as well as by leading external experts.

We also provide growth opportunities for employees to enhance our firm's culture and expand our staff's horizons.

Compensation & Benefits

We believe that talent deserves to be rewarded through various financial and non-financial incentives so as to remain motivated. In order to achieve this objective, we have established several policies, including a goal to benchmark our salary packages to remain competitive compared to other local and multinational companies in Pakistan. Our compensation package, coupled with the company's growing reputation, has resulted in the firm being ranked as the most desirable employer in the country, over the past few years. In line with our belief, we offer highly competitive compensation packages to all our employees at every level of the organizational hierarchy, we offer several rewards and recognition programs so employees who go beyond their expected duties feel appreciated. Moreover, our rewards and benefits programs are related directly to the level of deliverance of our employees. The announcement of Employee Share Option Scheme in some of key listed businesses is a recent example which inculcates the spirit to achieve more by setting higher targets. Throughout our various businesses we continue to provide the following compensation and benefits:

Compensation Related Benefits	Other Benefits
Leave Fare Assistance	Medical & Dental Benefits
Appliance Allowance	Group Insurances
Home Ownership – Assistance Plan	Pension & Gratuity – (Retirement Benefits)
Car Assistance	Disturbance Allowance
Variable Bonus	Housing Allowance
Compensation Car	Investment Loan Plan
Service Incentive Plan	Death Benefit Gratuity
Fuel Entitlement	Club Memberships
Utilities Allowance	

Equal Opportunity Employment & Diverse Workforce

Engro adheres to the strictest principles of merit in recruiting, compensating and promoting employees to ensure that all our employees, regardless of gender or ethnicity, feel that the organization treats them fairly.

We ensure that we recruit people from varying ethnicities and religious backgrounds -- without bias on any such grounds. In particular, we place emphasis on recruiting and retaining women, especially at higher levels of the organization. We believe that women should never have to choose between work and family, and they should be able to fulfill their personal and professional obligations. To help women, Engro has introduced several initiatives: flexible hours, a day-care centre, and a spouse employment policy amongst others. With regards to the spouse employment policy, spouse of an existing employee may be given an opportunity to work with the company in the following temporary engagements:

- Project Assignment of varied duration depending of the assignment.
- Part time work under the Part time work policy

The division/functional head is the position owner and the decision on the employment of spouse is made in agreement with the VP Human Resources. Whilst temporary employment opportunities are available, spouse can also apply for full time employment as per the Company's recruitment policy although an additional waiver from the President & CEO is required.

We also recognize that diversity comes in many forms. Engro deployed a policy that encouraged affirmative action with regard to recruiting disabled people.

As a parent company, Engro strives to create a "one firm" culture to ensure that we leverage the most in terms of synergies between our businesses. We have developed a combined talent management model to ensure that the firm maximizes its ability to attract, retain and develop highly-skilled employees across the board. In addition, we create a culture where employees feel a sense of loyalty towards the company, so they think of Engro as more than just a place of work. The firm actively seeks to measure the level of employee engagement and creates policies to ensure that we retain their commitment.

our people investments strategy

Non-Discrimination & Harassment Free Culture

Even prior to a national legislation on women's right in the workplace, Engro introduced a sexual harassment policy to ensure that female employees felt safe at Engro.

Furthermore, we have institutionalized our Company-specific Non-Discrimination and Harassment Policy that continues to provide an impartial employment and work ethics framework that inculcates freedom from all forms of discrimination and harassment at the workplace. It aims to encourage employees to treat each other with the same respect and courtesy as we do family and friends. We have put in place a rigorous system to mitigate harassment, discrimination or abuse of authority at the workplace i.e. any action, conduct or behavior which an individual or group of individuals finds unwelcome, humiliating, intimidating or hostile. Employees are, therefore, routinely coached on avoiding actions or behaviors that are, or could be, viewed as either of the above.

The Company has also instituted a "Harassment Inquiry Committee" which is available at all manufacturing sites as well as company head offices. The inquiry committee serves to run a complete formal investigation of any situation that falls under a violation of the Non-Discrimination & Harassment policy, and consequently make recommendations to a senior forum consisting of at least the Head of HR and the CEO of that company.

Our Focus on Safety

We realize that without adequate safety measures, both our employees and our operations would be at risk. For this very reason, we remain committed to provide the safest working environment to our employees, particularly at manufacturing facilities -- monitoring every potential risk to our operations and our employees so that we can provide a risk-free and safe working environment. Our outstanding performance in maintaining the highest health and safety measures, is a result of investing considerably in physical infrastructure, as well as creating an institutional architecture where health and safety are monitored at every level of the organization.

Our Commitment to Human Rights Principles

The UN Guiding Principles on Business and Human Rights was launched in 2011. For the first time, a set of principles seeks to define the boundaries of responsibility for human rights between nation states and companies and provide a comprehensive and widely accepted view of the obligations in this area.

As we forge ahead with an increased focus on our HR systems and people-centric investments we will emphasize on integrating the human rights perspective into our general human resource management systems, including a systematic mapping of how our diverse businesses impact the human rights of communities and other people affected by our operations. In addition, we will also focus on replicating and translating what human rights mean in the context of different business functions to have a much more meaningful impact on how we continue to not only uphold but champion the rights of all individuals that come in direct or indirect contact with our operations, facilities and employees amongst others.

Our Unwavering Focus on Labor Principles

Our commitment to labor principles span our nation-wide operations, covering all business segments and employees. They are based on international conventions and are designed to provide equal minimum standards for our employees across the diverse cultures and regulatory environments that we work in. The principles reflect our commitment to the UN Global Compact and ensure high quality and fair labor conditions for our people and provide the systems and processes for them to raise concerns or issues within the workplace.

These principles help to maintain our reputation as an attractive and trusted employer, which supports our ability to attract talent. Also, by raising awareness of the principles among our employees, we believe we reduce the risk of workplace disputes and that this supports our ability to retain our employees and maintain a stable, engaged workforce.

our people-centric performance



Our commitment to establish a sustainable institutional mechanism to hire and retain people, Engro was successful in achieving its goals with regards to its investments in human resources throughout 2012.

We believe that people make all the difference. We work in collaboration with our employees to ensure that we harness their skills and recognize their talents in order to maintain our competitive edge and continue our tradition of operational excellence.

Building on our commitment to establish a sustainable institutional mechanism to hire and retain people, Engro was successful in achieving its goals with regards to its investments in human resources throughout 2012. Building on its strong human resource policies, our combined strength has increased rapidly matched by our commitment to ensure that we provide the best work environment to our employees. **By the end of 2012, our workforce grew to 3,794 employees versus 3,472 in the year 2011 which were spread across our different subsidiaries.**

our people-centric performance

In 2012, Engro continued to consolidate its move to a 'one-firm' culture and deployed revised core values across all subsidiaries. CEOs and executives in all subsidiaries delivered rollout presentations whereas plaques displaying values were placed in key office locations. In order to implement and reinforce the company's core values, department managers had sessions with employees on values and supporting infrastructure. Moreover, through the year employees were inculcated to live the core values and put them into action. Consequently, success stories of how employees across different subsidiaries lived these values were also shared through internal communication. In December 2012, a survey was also conducted to check if employees recalled these values.

In order to attract the best up and coming talent, our food business was entrusted to lead the Summer Internship Drive 2012 for business students. Over sixty avid interns across all affiliates were part of the summer internship drive, which started in early February, 2012 and ended the same year in late August. The internship drive did not target business students, but also brought engineering students from universities across Pakistan. The engineering and business students had cross functional assignments and were placed between the regional offices, the plants and the head office. They underwent rigorous training across different divisions in the organization. Such a program ensures that we have a diverse pool of business and engineering graduates. The system has been designed to develop a pipeline of emerging leaders to facilitate succession planning and build a pool of strong contenders for future leadership positions. These efforts are intended to lead Engro towards the path of continued success.

In 2012, an initial roll out of the company's long-term incentives proposal was completed as a reward mechanism to effectively compensate the extraordinary efforts of our employees who continued to take on additional responsibilities that surpassed their day-to-day job duties. Going forward we will seek approvals on the

plan from the executive committee for successful implementation during 2013.

We believe that talent deserves to be rewarded through various financial and non-financial incentives so as to remain motivated.

Like past years, in 2012, the company conducted an employee engagement survey, a practice that is conducted periodically, to determine how satisfied the workforce is with the firm and also to gauge the cognitive, emotional and behavioral aspects of employees' relationship with Engro. Such a survey allows the management to determine the impact of their practices and policies on employees, and if need be, introduce corrective measures. The goal is to make consistent and visible efforts to improve the existing Employee Engagement Index (EEI). In 2012, a task force was formed to analyse EEI survey results which were eventually presented to Committee of Organizational and Employee Development (COED) for recommended action. Based on the learnings a detailed PAC (Performance, Assessment & Compensation) module was prepared and deployed across the subsidiaries.

In order to attract, deploy, retain, develop and monitor the best talent and increase our top-talent pool we rolled out a revised talent management system in consultation with the HAY group - the salient highlight of which are as follows:

Leadership Competency Model

Development of standardized leadership competency Model with internationally calibrated levels. Clearly-defined competencies/behaviors that are essential to Engro's business & are expected of Engro's leaders. Last year Tier I and Tier II got trained on the New Leadership Competency Model, in 2012 developed standardized training material and

hired reputed trainers to train the entire Tier III population across all subsidiaries covering all regions.

Talent Development Framework

As part of our long term strategy to increase our bench strength i.e. Tier I: Top Talent ratio to 1:3.5, developed a well-rounded standardized Talent development framework, comprising Top Talent development interventions to guide and equip a leader. As part of this framework, we introduced Talent Profile page for the Top Talent which also facilitates career progression with the introduction of Role Profile Matrix. A rigorous mentorship program has been introduced to help achieve our top-talent personnel/professional developmental needs and the program has been approved by the executive committee which will be implemented in the year 2013.

Calibrated Assessment

- Customization of the HR processes including Performance/Potential Assessment, 360 feedback and recruitment as per the New Talent Management System. Introduction of the new PADP forms for better Performance Management, keeping in view the competency levelling i.e. Basic, Intermediate, Skilful Mastery and Expert
- Introduction of the mid-year objectives review for the formal check in of the objectives during the year
- A training program for a Behavioral Interview Skills was also developed based on the revised competency model and was rolled out across subsidiaries comprising new recruitment forms and behavioral interviewing sessions. A pilot workshop comprising managers from all businesses was also conducted to enhance the understanding of the workshop material which will be used going forward in 2013.

Ratio of women in 2012

1:12 ²⁰¹⁰ **1:14**

We also conducted customization of the 360 feedback tool by CCL based on Engro's Leadership Competency Model and launched it for the Managers and Executives. Moreover, four people were also sent for the certification so that they could facilitate report readers in the interpretation of their 360 degree feedback and help plan appropriate development interventions to bridge the identified gaps.

Standard Guiding HR Policies

Through the year the HR function continued to strengthen and leverage HR Forums by rolling out organization wide policies and initiatives. Furthermore, to increase operational excellence we continued to roll out 'HR Guiding Principles' with regards to the processes and SOPs for Performance Management/Potential Assessment, Talent Induction and Development Framework, Role Profile Matrix, job evaluation, and the Talent Review System - all part of our approach towards implementing a single system throughout our various businesses to manage our people and ensure smooth implementation of the Talent Management System across all subsidiaries.

To identify and eliminate inconsistencies in HR systems three-pronged focus areas were identified which included PADP, Policies and Trainings. Separate task force was made to cover all the three areas. For PADP and policies the task workforce identified all the inconsistencies in both the areas and also proposed alignment strategy and presented it to the HR heads forum for the implementation. For trainings, a standardized training framework was developed which includes must-do, recommended and good-to-have trainings keeping in view various levels i.e. Basic, Intermediate etc. The intent is to follow a standard training framework for all the employees irrespective of the subsidiary they are working for.

Performance Management Audit system

In order to identify common gaps in Performance Management System across subsidiaries, in 2012 we developed and rolled out a standard Audit Framework. Additionally, audit trainings were also conducted for select lead Auditors in 2012. The same year, a PADP audit

our people-centric performance

system was implemented and the results were shared with executive committee. Furthermore, we also ensured compliance by developing standardized reporting formats for COEDs, Excom, BCC and the same was followed for the mid-year reviews audits as well.

Celebrating Diversity

Through the years we have worked to ensure that our hiring and selection processes provide equal opportunities and prevent discrimination, and we have assessed organizational processes and policies in order to remove barriers to attracting and retaining diverse employees. In this regard an organization-wide anti-harassment workshop (you, me & diversity) for all Tier IIIs and II were conducted during the year that highlighted the areas and understanding of diversity and harassment in the workplace context for our employees.

We are also cognizant of the fact that diversity comes in various forms and have, therefore, through the year widened our scope of focus to incorporate a greater number of potential stakeholders that can serve as our employees. In 2012, Engro deployed a policy that encouraged affirmative action with regard to recruiting disabled people. In addition, with the implementation of our Disability Policy Guidelines in 2012, all Engro subsidiaries must make contributions towards the "Disabled Persons Rehabilitation Fund", as per the legal requirement, based on the number of registered disabled personnel it employs.

In 2012, Engro went a step further and continued to encourage the activities of "Weave." This is a network of women working at Engro, who hold quarterly meetings to promote female-friendly policies at the company.

Hours in Volunteer CSR Activities

5000+

Building Our Talent

In order to maintain consistency in policies of various businesses pertinent to employee management, a secondment policy was also rolled out detailing guidelines for employee assignments between companies. the various secondment rotations that the employees are subjected to allows for a rich and widely experienced workforce and ultimately fuels in to our objective of developing the talent pipeline and cultivate increased number of high potential employees. Currently the number of employees who are serving on secondment rotations include:

No. of Secondees on Rotation

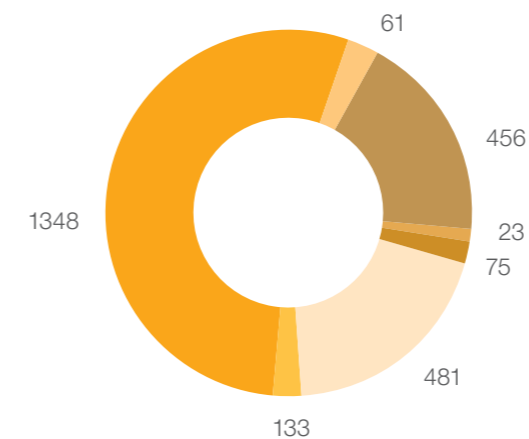
Company	Tier 3 & Above	Parent/Subsidiary of Seconded employee
Eximp	11	Engro Corp & Engro Fertilizers
Foods	16	Engro Corp & Engro Fertilizers
Fertilizers	17	
Powergen	8	Engro Corp & Engro Fertilizers
Vopak	2	Engro Corp & Engro Fertilizers
Polymer	16	
Corp	13	

Volunteerism

Like every other year, Engro encouraged and supported employees in their volunteer efforts through its company-wide program called Envision (Engro Volunteers in Service of the Nation). Envision is managed by a council that selects volunteer opportunities for company employees. This initiative provides employees a chance to display leadership skills, and inculcates a sense of social responsibility throughout the firm. In 2012, the EnVison volunteers clocked in a whopping 5,000+ hours in volunteer activities held in collaboration with our CSR wing – Engro Foundation and partner NGOs.

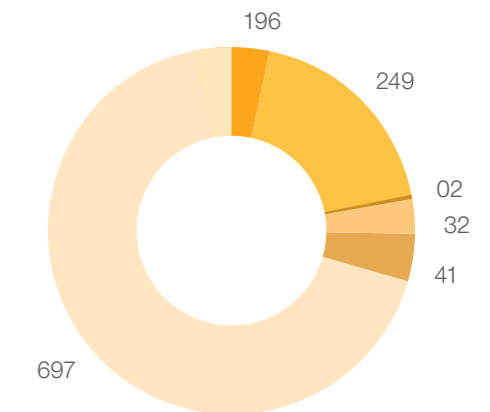
our people-centric highlights

Management Employees (Tier V and above)



Management Employees (Tier V and above)
2,577

Non-management Employees (Tier V and NMPTs)



Non-management Employees (Tier V and NMPTs)
1,217

■ Corp ■ Fertilizer ■ Eximp ■ Foods ■ Powergen ■ Polymer ■ Vopak

People Strength

Name of the company	Tier V and above	Tier V and NMPTs
Engro Eximp	133	249
Engro Foods	1348	196
Engro Fertilizers	481	697
Engro Powergen	75	32
Engro Vopak	23	41
Engro Polymer & Chemicals	456	-
Engro Corporation	61	2
Total	2577	1217

Diversity

	2012	2011	2010	2009	2008
Gender Ratio (Men:Women)	12:01	13:01	14:01	15:01	16:01

Employee Retention

	2012	2011	2010	2009	2008
Attrition	14.29%	15.7%	12.3%	15.0%	16.3%

employee engagement survey

Like past years, in 2012, the company conducted an employee engagement survey, a practice that is conducted periodically, to determine how satisfied the workforce is with the firm and its policies. Such a survey, allows management to determine the impact of their policies, focus on ethics & integrity, infrastructure & support, communication & information exchange, career growth, training & development amongst other things on employees, and if need be, introduce corrective measures. The goal is to make consistent and visible efforts to improve the existing Employee Engagement Index (EEI).

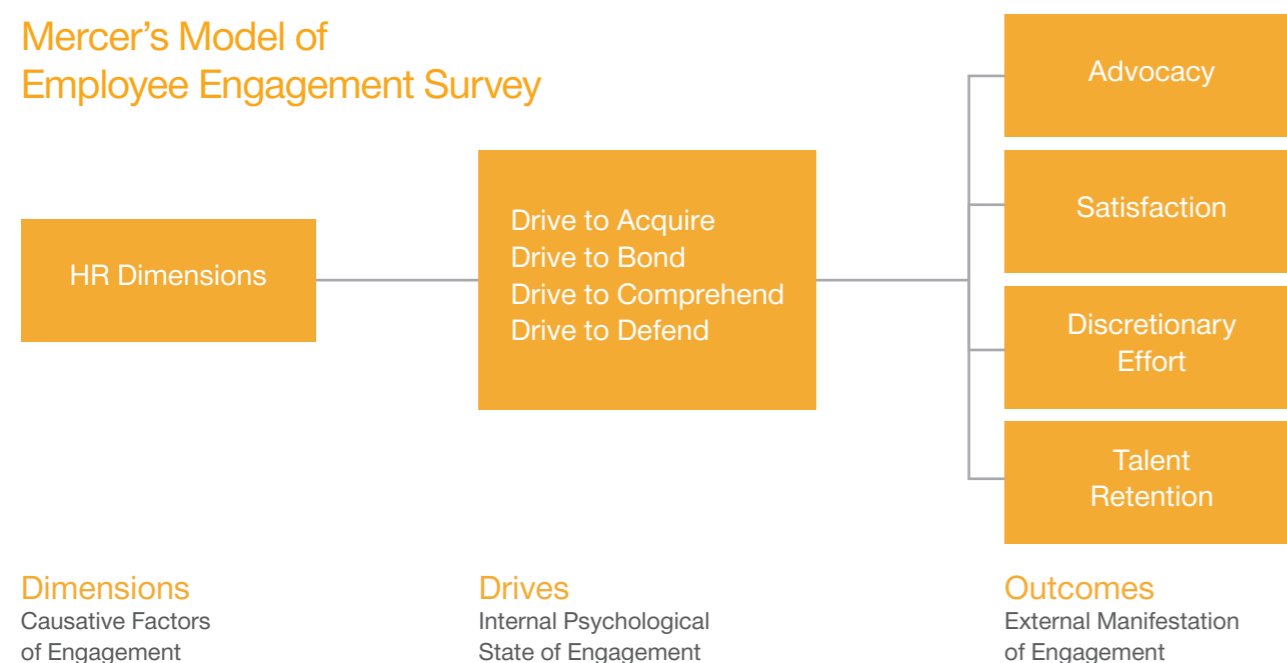
Throughout the company a total of 1,297 employees participated in Mercer's Employee Engagement survey. These survey results are calculated based on four drives - the internal psychological state of engagement, including the drive to acquire, the drive to bond, the drive to comprehend and the drive to defend. The outcome - the external manifestation of engagement - leads to advocacy, satisfaction, discretionary effort and talent retention.

The twelve HR dimensions, the causative factors of employee engagement ranged from quality and customer focus to training and development - the scores of these HR dimensions were calculated based on the percentage of favorable responses in sixty statements.

1,297

employees participated in Mercer's Employee Engagement survey

Mercer's Model of Employee Engagement Survey



Dimensions
Causative Factors of Engagement

Drives
Internal Psychological State of Engagement

Outcomes
External Manifestation of Engagement

Reference: Mercer Research and Theory of Four Drives as proposed in "Driven" by Prof Nitin Nohria and Prof Paul Lawrence, Harvard Business School

The behavior and business outcomes indicated that more than half of our employees displayed advocacy - the willingness to recommend the organization to others. Many also displayed overall satisfaction with the firm and a majority exhibited discretionary effort, the willingness to go above and beyond.

The four focus areas that presented as opportunity areas included career growth, performance management, work-life balance and compensation & benefits. A statement level analysis of the survey indicated that in the area of career growth more than half of our employees saw opportunities to grow within the organization along with a firm understanding of what they needed to do to advance their career in the organizational hierarchy - an insight that reinforces our

strategy to routinely coach and mentor employees on ways to improve their performance and climb up the corporate ladder. Likewise, in the statement level analysis of performance management, the question pertaining to involvement in setting performance targets received the highest score - 74 percent of all employees revealed that they were involved in setting performance targets. A considerable proportion of our employees also believed that the feedback they received helped them identify their areas of strength. Moreover, the statement level analysis of the survey showed that a majority of our employees conceded to the fact that their superiors and managers often provided them with public praise and recognition when due and also reflected trust in their managers when required.

12 HR Dimensions (Causative Factors)
Quality and Customer Focus
Ethics and Integrity
Teamwork and Cooperation
Infrastructure and Support
Leadership and Direction
Immediate Manager
Communication and Information Exchange
Career Growth
Performance Management
Compensation & Benefit
Work - Life Balance
Training and Development

A statement level analysis of the survey indicated that in the area of career growth more than half of our employees saw opportunities to grow within the organization along with a firm understanding of what they needed to do to advance their career in the organizational hierarchy.

employee engagement survey

Given the results of the employee engagement survey the management will continue to work on all areas to further improve the engagement index. Going forward, the senior management particularly aims to increase its interaction with the employees, while managers will also be working on improving relationships with their subordinates.

Additionally, management will further improve employee work-life balance so our employees have more time to pursue hobbies and spend time with their family and friends. Such efforts will contribute to greater levels of employee satisfaction and will ultimately lead Engro towards the path of continued success.



leadership competency model (LCM)

Engro Leadership Competency Framework



Over the years, Engro has expanded from a single-product company to one that has multiple subsidiaries and one joint venture company, producing diverse products and services. In addition, there has been a surge in the number of professionals from diverse backgrounds and experiences who work for Engro.

However, as a result of increasing competition in Pakistan and the Middle East, a shortage of talent in the local market and Engro's strategic orientation to transform into a global organization, there is a continuous need to not only retain talent, but to develop a new group of leaders who will ensure Engro continues to succeed.

We also provide growth opportunities for employees to enhance our firm's culture and expand our staff's horizons.

1,100+

employees participated in Skills Training Programs

leadership competency model (LCM)

Engro employs a robust method of attracting, deploying, developing and monitoring talent so the company is able to reach greater heights. Given Engro's 2015 growth aspirations which include diversifying our product portfolio, and acquiring more international business, means that we must increase revenue growth in new areas.

This puts a strain on the company's talent needs and requires that new talent be brought on board, including the necessity to bring on product and business line managers who are familiar with new products and industries. Regional and country managers are also needed - who are familiar with new geographical markets, resulting in more management accountability as more companies and subsidiaries will be under one group.

In order to ensure that the talent pipeline remains in line with the company's growth objectives, we plan on increasing our tier 1 to executive ratio significantly in the years to come. The corporate centre will need senior collaborative and advisory roles - these are new to Engro's existing set-up and would therefore, require development of new skill sets and competencies. Engro will also look at its demand, establish its leadership model, expand its high potential pool and closely manage development and exposure of existing employee base. In order to meet these needs, we will comprehensively review our overarching talent strategy, our leadership competency model and the talent framework.

The Leadership Competency Model (LCM) is a crucial component of Engro's talent management strategy which translates business needs and critical success factors into leadership competencies which will effectively drive Engro's business operations. The LCM has been created following the employee engagement survey whereby new and more structured competencies have been introduced with adequate leveling whereby the LCM formulates the core of Engro's DNA from PMS, potential assessment system, recruitment, etc. The model aims at designing and instilling key leadership attributes throughout existing and potential Engro leadership -- aligning competencies and behaviour of talent towards a unified Engro 'Leadership DNA.'

In addition, the model demonstrates that competency requirements shift between management levels. For

example, as an individual progresses from an individual contributor to a manager and then to a vice president, his or her complexity in problem solving gradually shifts from analytical thinking to conceptual thinking to strategic thinking. Such a framework provides a consistent and objective way of measuring and monitoring progress and in turn establishes a roadmap for developing future leaders at all levels of the organizational hierarchy.

Engro's LCM is not only applicable to develop new leadership potential, but also to measure potential and performance, and continuously review talent to provide a means of aligning competencies and supporting people-centric human resource functions in the organization. This model is based on input from a variety of sources and validated against proven models from leading organizations.

Engro's LCM highlights the characteristics below as key factors in developing successful leaders.

Core Values

This characteristic stems directly from the core values that the company believes in and, therefore, expects all its employees to incorporate in their day-to-day business dealings and functions. The two fundamental core values that the area enshrines include ethics & integrity and commitment to HSE.

Employees that are to formulate the leadership pipeline need to champion a culture of ethical and upright practices at Engro. The characteristic focuses on exhorting our employees to promote and uphold world-class standards in health, safety and environment and need to work to establish Engro as a global benchmark on ethics. Our future leaders need to act consistently according to the beliefs and basic values of openness, honesty and trustworthiness whilst challenging others to act on espoused values.

Moreover, they must be able to bring about positive change in the operating discipline through implementation of applicable rules, procedures and systems and be actively involved in applying reward and accountability for HSE performance in team management.

Passion to Excel

This characteristic combines individuals' interpersonal skills, enhanced intellectual capacity, and ability to influence stakeholders. Successful leaders need to have the emotional maturity to manage challenging situations and relationships, better manage conflicts, while developing the desire and the ability to form and sustain close relationships with others - which will benefit the business.

Additionally, they must have the skill-set to convince others to buy into their strategies, practice 'out of the box' thinking, as well as understand and identify key decision makers so that business propositions are turned into growth-oriented actions.

Effective Leadership

This characteristic focuses on working with and leading teams, as well as the ability and the willingness to inspire, motivate and communicate with others using a range of leadership styles.

Effective leaders create a work environment that empowers and energizes the team and focuses on coaching and developing the potential of team members. Leaders must work with people from all levels of the organizational hierarchy as well as with external clients such as customers and partners. In addition, they must take action to make the entire team more effective by understanding that each team is an integrated element of the broader Engro Corporation.

Business Focus

This characteristic involves possessing strategic intent - the ability to think like an entrepreneur and exceed standards of excellence. Individuals must have the drive to succeed and continuously improve performance, have an insight into various lines of businesses, be proactive in identifying problems, adapt innovative methods and use technology to identify and act on opportunities which add value to the business in the long run.

Leaders with such traits bring a fresh strategic insight to the business, seize new growth opportunities, take calculated risks, and understand how businesses work locally and globally - all of which impact business growth. It is more critical than ever that leaders possess these traits as Engro is transforming and diversifying into multiple geographical and product lines. Leaders of tomorrow must identify and foresee global industry trends and identify growth opportunities. In order to ensure these traits remain at the forefront of our organization's objectives, the LCM was translated in the Performance Assessment and Compensation (PAC) training program in 2012 which was eventually delivered to Engro's executives, managers and employees across all subsidiaries at all locations. The basic intent was to augment the learnings from the employee engagement survey.

The PAC I is a one-day training program targeted for Tier 3 (individual contributors CL 20-24) and above employees. The program was designed to cover all HR processes of Engro at an individual level, providing an orientation of the performance management and potential assessment systems.

PAC II is a two-day training program designed for Tier 3 (advisors & managers CL 25-27) and above employees. This program is geared for people managers. Besides providing an orientation of HR systems, based on case studies by Hay Group and HBS, it helps managers facilitate the system better, and provides them an opportunity to improve their people skills. In addition, this course provides an in-depth knowledge for calculating and computing rankings, potential salaries, rewards and other areas. In 2012, approximately 1,100+ employees participated in the skills training programs.



championing occupational health & safety



The health and safety of our employees, the safety of our assets and the security of our operations have and will always remain among the very top priorities of Engro and its affiliate businesses.

The health and safety of our employees, the safety of our assets and the security of our operations with a sustainable focus on preserving the environment have and will always remain among the very top priorities of Engro and its affiliate businesses. The industries that we operate in and some of the environments where we work demand excellence in HSE management and procedures. In some of our industries top class HSE performance is closely connected with our license to operate and ability to pursue business opportunities. This is why safety is not only at the core of our sustainability efforts but at the core of our businesses – HSE, therefore, is an all-encompassing focus area for our Company, from the executive board down to all our diverse business segments.

Our Safety Governance Strategy

From a governance point of view, HSE is well defined at all levels of our organization via a common policy that details the protocols and procedures for HSE management for all our businesses. Furthermore, HSE remains at the top of the agenda at the board planning meetings every year and is a principal area of attention for the respective business segments. Our various businesses continue to hold 'Safety Days' and 'SHE (Safety, Health & Environment) Days' where the employees along with senior management, and in certain cases, external experts, come together to discuss and debate safety within the Company. Through a concerted effort we continue to maintain a stringent focus on our safety governance which emphasizes that:

- Human errors cannot be accepted as a root cause of any safety incident. Instead efforts to better understand the reasons behind human errors need to be deployed to handle the background/causative factors and use relevant management systems to curb such incidences
- Systematic and cross-company learnings between businesses need to be strengthened.
- Special attention needs to be paid to injuries that have a high potential to become serious events.

By virtue of our diversified business portfolio, we operate in industries with different challenges and approaches to safety but with the same goal to always improve our safety performance. To ensure that we are working in the same direction we continue to work on the overall rationale of "share and improve". A newly established Health and Safety Committee is also overseeing commitment to safety standards for our head offices and living the philosophy of 'sharing and improving' the best practices to help improve our HSE mechanisms. The committee is made up of the safety leaders from key businesses and has the remit to make decisions on safety itself, but can also refer dilemmas or challenges to the senior management for a final decision.

Our Safety Performance

We are proud of our record of ensuring health and safety of our employees. Our outstanding stellar performance in maintaining the highest health and safety measure record is the result of considerable investments not just in physical infrastructure, as well as but also in terms of creating an institutional architecture where health and safety are monitored at every level of the organizational hierarchy.

Engro has committed itself to going above and beyond the standards that are currently required by the law and has begun adopting much tougher health and safety policies, including those laid out by the Occupational Health and Safety Administration (OHSA) of USA and as well as the Dupont Workplace Safety Standards.

Every employee involved in plant operations at all or any of our manufacturing facilities is provided an overview of the process and operating procedures, with an emphasis on specific HSE hazards, emergency operations and safe work practices. The Occupational Health Program at Engro includes aspects of occupational health, safety, hygiene and medicine. In addition, all employees are also trained and kept up to date on technological changes and safety-related aspects of their jobs. To implement a standardized HSE system in place in 2003 Engro decided to align Health & Safety Management processes with DuPont best practices and each of our affiliates is now stringently following the roadmap to DuPont alignment. Moreover, by 2012 as part of our environmental focus majority of our businesses have adopted the British Safety Council (BSC) 5-star environmental audit program.

Like every other year, in 2012 as well, we have continued to align HSE management systems and processes with international best practices. All HSE systems and processes were regularly accessed and audited internally as well as by third parties. Consequently, we are proud to

championing occupational health & safety

Human errors cannot be accepted as a root cause of any safety incident. Instead efforts to better understand the reasons behind human errors need to be deployed to handle the background / causative factors.

38.5
mn safe manhours consolidated for all our businesses

have kept our 2012 figure for Total Recordable Injury Rate (TRIR) at 0.17 – setting the record for our lowest ever TRIR. At Engro Fertilizer, which is the by far the largest manufacturing facility owned by the company, the business currently retains a Process Safety Management (PSM) rating of 3.1 for base plant; a PSM rating of 3.92 for the EnVen plant and a PSM rating of 3.86 for the Zarkhez plant.

A thorough gap analysis was also completed following which the extensive process of training personnel and improving systems began. Through the year the business also maintained its Process Safety & Risk Management rating of 3.8 for the base plant and a PSRM rating of 3.5 for the EnVen plant at Daharki. Going forward we aim to further cement our position as a regional expert in safety by applying for a Level 4.0 PSRM rating for our fertilizers plants.

In furtherance of the initiatives on the HSE front, the urea manufacturing site in Daharki was awarded with DuPont's 'Stakeholder Engagement for Sustainability' award thus becoming the first ever site in Pakistan entitled to this award. In addition, the Daharki Site obtained Integrated Management System "IMS" (ISO-9001, ISO-14001 & OHSAS 18001) certifications for expanded plant operations whilst our Zarkhez plant operation also achieved IMS certification during the year 2012.

Our foods business has the most challenging safety environment and is working towards full implementation of DuPont practices to ensure a safe, healthy and hygienic work environment.

In the year 2012 our foods business embarked on a plan to achieve Occupational Safety and Health Administration (OSHA) compliance through DuPont Alignment latest by 2013. Within this system, we set in place new procedures as well as customized existing documentation to address DuPont guidelines. A work-place safety program titled 'Zero Makes You Hero' was implemented which targeted to have zero HSE incidents and zero food safety incidents. The initiative was well-received by the employees followed by individual commitments to adhere to the company's HSE and Food Safety policies. In addition, several other workplace specific HSE programs were introduced that actively sought to reduce the potential risk of injuries within the work-place while evaluating the work environment for possible safety lapses by conducting safety gap analysis studies. Since the DuPont Safety Management is essentially a people-focused tool, we also invested heavily in employee engagement by conducting trainings for over 1000 employees in 43 sessions that spanned a total of 4000+ training hours.

Moreover, to foster a culture of safety, food safety objectives were introduced during 2012 that were made mandatory across all levels of the organization. Within this initiative, food safety training sessions covering halal requirements, food hygiene, allergens control, internal auditing and international safety standards were conducted for employees. More than 2000 hours of these sessions focused specifically on food safety to ensure effective quality control for our products. To streamline processes whilst ensuring adherence to our new safety culture, more than 70 surveillance audits were conducted across 50 different functions of our operations

targeting 9 locations in multiple cities with no major deviation from Food Safety practices reported.

In the year 2013, Engro Foods will continue to focus on food safety and operational excellence with plans to apply for the ISO 17025, Global GAP, ISO-9001, ISO-14001, OHSAS-18001, ISO-22000 Certifications.

Living to our safety philosophy our petrochemicals business too performed on all of its key safety objectives. The logistics operations of the petrochemicals business comprises of a fleet of vehicles plying to & from plant to different long distance destinations. In year 2012, the total distance covered by these vehicles was around 7 million kilometers. There is a comprehensive driving safety program & driving safety policy for the vehicles & drivers. A comprehensive training program for all drivers is also in place.

Logistics driving safety is gauged by measuring FAFR (Fleet Accident Frequency Rates) and in the year 2012, the FAFR for the non-manufacturing operations of our petrochemicals business remained at 1.41- an improvement of around 25% achieved versus last year's FAFR. Zero recordable injuries were reported in year 2012 resulting in Zero TRIR in 2012.

This was a tremendous safety performance by the non-manufacturing function which has already been aligned with DuPont best practices in Personnel Safety Management (PSM) and in last audit result got a rating of 3.2 from DuPont.

The business has also embarked on revising its PSRM procedures following the revision in DuPont standards

0.17
total recordable injury rate (TRIR) – 2012

0.25
total recordable injury rate (TRIR) – 2011

championing occupational health & safety

Our energy business – Engro Powergen Qadirpur – also operated at par with regards to the safety excellence standards that we have set for ourselves and achieved a zero TRIR.

whereas ISO 9001:2008 and ISO 14001 external audits were also carried out and no major non-conformity (NC) were reported. Having launched the Occupational Health & Industrial Hygiene (OHIH) program the business conducted trainings for the employees whilst OHIH Level 1 & 2 procedures were developed and implemented for the employees. As part of the business's commitment to environmental stewardship our petrochemicals business also took on the initiative of Green Office implementation at its head office whereby the business focused on reducing its paper waste, electricity usage and water consumption.

Our chemical storage and handling business completed 15 years of safe operations without lost work injury in 2012. The terminal continued to maintain health, safety and quality standards as per OHSAS 18001, ISO 9001 and 14001 and Vopak Standards. The business also made history this year by securing second position amongst 84 Vopak terminals in the "Vopak SHE Global Awards 2011". We also achieved a first time score of 2.61 in the Dupont based safety audit conducted by internal even though our terminal's operational system is not based on Dupont methodology.

Our energy business – Engro Powergen Qadirpur – also operated at par with regards to the safety excellence standards that we have set for ourselves. During the year the Powergen Qadirpur facility underwent a rigorous audit exercise and achieved a Process Safety Management (PSM) rating of 3.67 and a Process Safety & Risk Management (PSRM) rating of 3.5. Moreover, key safety successes of the energy business were securing best DuPont external audit ratings and achieving a Zero TRIR for the year which won it the Annual Corporate Safety Award and set the benchmark for our other businesses.

Business	Man-Hours (in millions)	TRIR	Recordable Injuries	Fatalities	Lost-Work Injuries
Fertilizers	11.6	0.22	13	0	3
Polymer	3.5	0.11	2	0	0
Powergen	0.71	0	0	0	0
Foods	17.6	0.15	13	0	2
Vopak	0.33	0	0	0	0
Eximp	4.79	0.21	5	0	0
Consolidated	38.5	0.17	33	0	5

*Calculated for all employees, contractors and stakeholders those come in contact with our businesses.

our people-focused objectives for 2013

Having had a successful year, engro has set itself a series of ambitious goals for the year 2013 for its human resources, health and safety parameters.

Going forward in 2013, Engro has set itself a series of ambitious goals as we continue to consolidate and build upon our status as the most desired employer in the country.

As we forge ahead creating increased linkages amongst our employees and unleashing their true potential our people-investments strategy would focus on the following key areas:

- Improve bench-strength of our top talent pool.
- Increase employee engagement to create more motivated and passionate work teams.
- Further our diversity and inclusion objectives and create clear metrics to critically measure progress.
- Strive for increased operational excellence in HR functions.

Through the year, the Company aims to develop and implement its talent management system to ensure that our ability to attract, recruit and retain the best talent in the country continues to remain competitive. Moreover, we plan to conduct a GAP analysis to understand the bench-strength of retention of our top talent and how that effectively translates in to decreased attrition for the company and its affiliates. As part of the increased focus on developing future leaders we will kick off a more structured mentorship program amongst the employees to ensure that we continue to fuel the learning curve for a host of our employees.

In 2013, the Company also aims to ensure implementation of various initiatives to further increase its employee engagement in order to create diverse, motivated and passionate work teams and employee groups.

Furthermore, we will also maximize our focus on diversity and inclusion which is a reapplication of our focus to be the best recruiter in the country for an array of stakeholders. Whilst we champion to be an equal opportunity employer, in 2013 we will go a step further in ensuring a more just and equity-based employment institutional framework whereby we would focus

on the following parameters to establish a more diverse and inclusive organizational work culture:

- Hiring of indigenous people from around our plants
- Educational Background
- Disability
- Gender
- Medical Condition/Disability

Keeping in line with our stellar health and safety records the company aims to maintain a Total Recordable Injury Rate (TRIR) of 0.17. We will continue to maintain a stringent focus on implementing the action plan as identified under the Dupont Safety Audit and continue progress towards a Level 3.0 Process Safety Management (PSM) standard at our fertilizers and energy facilities at Daharki and Qadirpur respectively during the first quarter of 2013. In addition, we also wish to attain a level 4.0 Process Safety Risk Management (PSRM) standard at Daharki and a level 3.0 PSRM at Qadirpur and Polymer during the first quarter of 2013 to continue our trailblazing record of valuing health and safety of our employees, systems and inexorably the environment.

Moreover, with a firm focus on ensuring the highest levels of efficiency in health, safety and environmental management we aim to build upon our certifications under the British Safety Council (BSC) and leverage the BSC audit tool to assess the level and performance of Engro systems on resource efficiency, management compliance, environmental compliance, environmental management system and reporting. Having successfully achieved third party 4.0 star rating in 2011 for Daharki and a first-party 3.0 star rating by Zarkhez in 2012, the company will strive to attain a 5-star BSC rating for the fertilizers facilities at Daharki and a 3-star third party BSC rating for its operations at the Zarkhez plant in 2013.

By upholding ourselves to these ideals of lofty health and safety measures, the company aims to bolster its reputation as a leading employer that places fundamental importance to the health and safety of its employees, community and the nation.

inspiring impact



Aware of the fact that our stakeholders include a broad spectrum of people other than our employees and financial investors, we aim to address the growing needs of our host communities and the nation at large; through investment in sustainable social initiatives today, we continue to impact lives and inspire change for a better tomorrow.



our social investments strategy



Our vision to inspire change that can result in socio-economic development, and help those in need, led to the development of Engro Foundation (EF).

Our stakeholders include a much broader range of people than just our employees and financial investors.

We invest in sustainable initiatives which impact the lives and inspire economic change by achieving social and economic growth in the hope of addressing the growing needs of our communities and the nation.

We are accountable for the impact of our business decisions and take ownership of the welfare and development of the communities that we engage with. By doing so, we live up to our vision of serving our stakeholders and exceeding their expectations.

Our vision to inspire change that can result in socio-economic development, and help those in need, led to the development of Engro Foundation (EF). Reorganized in 2010, Engro Foundation is a non-profit entity which strives to improve the lives of people living in low-income communities

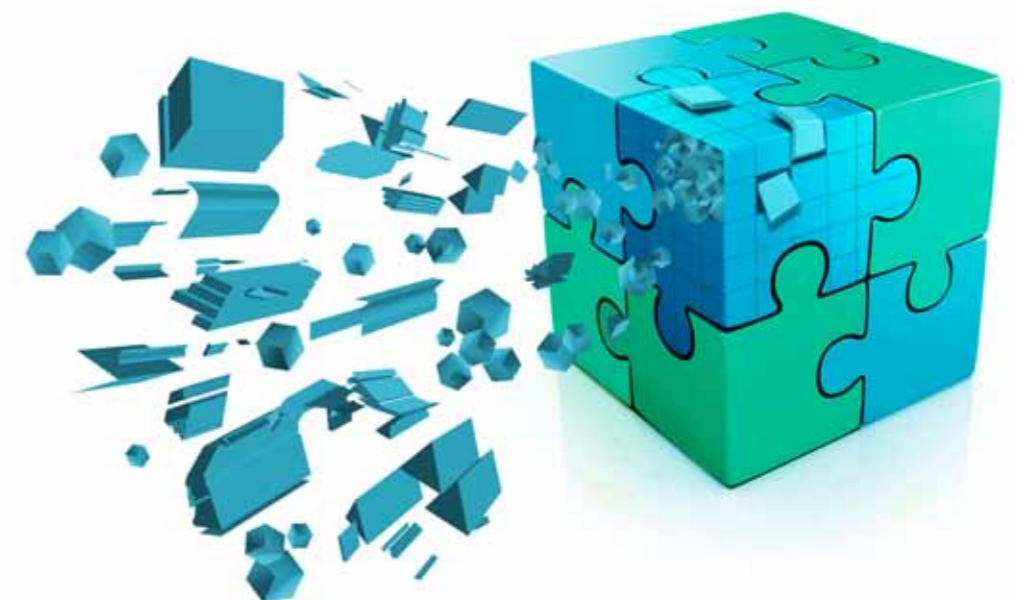
At Engro Foundation, we take a concerted effort to help our communities prosper by investing in initiatives that provide education, technical training, health-care facilities, housing and basic infrastructure to our beneficiaries. This in turn has a significant impact on the lives of thousands of people by improving access to basic facilities.

We aim to derive maximum leverage from the yearly funding we receive from Engro Corp and its subsidiaries, which have pledged 1% of their profit before tax to Engro Foundation's social investment programs.

As we strengthen our core areas, we have created successful alliances with leading NGOs, international development agencies and the government to support us in our initiatives, which help marginalized communities access better opportunities and choices. Pakistan Poverty Alleviation Fund, the United States Agency for International Development, MEDA, CARE Foundation, Hunar Foundation, The Citizens Foundation, and the Government of Sindh are some of the partners which support us in such initiatives.

Engro Foundation's strategy is to extend its social investments to geographies where Engro's business investments have a footprint. This takes us to some of the most underprivileged communities and provides us an opportunity to extend our footprint in to more business inclusive programs.

We believe in investing in tomorrow by inspiring a lasting change today in the communities where our efforts continue to touch and improve lives for now and generations to come.



our social investment performance



During 2012, a number of challenges affected the economic, social, business and environmental landscape of our country. However, Engro Foundation remained focused on its mission by offering economic and development opportunities to those living in low-income communities. In 2012, Engro Foundation focused its efforts on livelihoods and community outreach programs – in particular on the Women Empowerment Through Livestock Development (WELD) program which benefitted over 6,400 women.

In addition, we continue to build strong lasting relationships with stakeholders, the government and partner organizations who have helped us in our sustainable initiatives – initiatives that affected the lives of thousands. In 2012, Engro Foundation spent a total of Rs. 186 million on social investment projects inclusive of donor spend.

Rs. 186 Mn
on social investment project
(incl. of donor spend)

Education

A large proportion of individuals living in remote marginalized communities in Pakistan cannot access or afford quality education. As a result, these individuals are unable to prosper and improve their economic conditions. Their inability to participate in mainstream economy keeps them tied in vicious poverty cycle which they cannot come out of on their own.

At Engro Foundation, we are committed to nurturing minds and improving access to education in disadvantaged communities. We believe that all members of society, particularly women and children should be equipped with the knowledge and skills to succeed and take controls of their lives.

In the last few years, we have worked passionately towards providing quality education in Pakistan's remote communities and invested heavily in educational initiatives that have impacted the lives of children and their families.

Education Programs

Over the years, we have made great leaps in our program outreach. Our programs are aimed at providing greater learning experiences to the enrolled students.

In 2012, Engro worked on reducing the school-dropout rate in its adopted primary schools. This goal was achieved -- the interim dropout rate in adopted school, Daharki, fell to 12.7%, while in Qadirpur the enrolment actually increased.

Engro continued to run 13 schools in CAER villages – communities around our plant sites in Ghotki district, under the School adoption program in 2012. The same year, Engro, converted an adopted schools in Rashid Arain to single-grade teaching, while construction is still in progress at the school in Sabul Arbani.

Engro also supported and mobilized communities to set up community-based schools in Ghotki, which focus on

girls' education. The effort proved fruitful – one school in Jan Mohd Bughio was established and supported.

At Sahara Community School, which is a primary and a middle school, we wanted to ensure that at least 10% of class 8 students make it to TCF school, Engro Campus, for matriculation. However, the number of students exceeded our expectations – 80 percent students went to TCF school for matriculation. A baseline assessment for Sahara school was conducted through a collaborating partner. The outcome of baseline was used in developing a teachers' training plan and school's development program.

We also believe that in order to improve the state of education in the country, it is essential that we also focus our efforts on teacher training as this will have fundamental impact on the quality of education. In line with our philosophy, we collaborated with partner organizations to carry out teacher training and assessment. Such an effort proved effective as it increased teacher competency level from 35 % to 45%.

Engro has been running a rather unique program of primary education in what is known as 'Katcha' area of Ghotki district. 'Katcha' refers to the riverine belt of Indus where there is hardly any infrastructure available. The program consists of 11 primary schools with enrolment of over 900 students. The difficult terrain and uncertain security environment make this intervention among the most difficult yet most rewarding as well. The program is running since 2001 and a number of students have moved on to do their matriculation. Some of them have joined back as teachers and contributing back to the program.

In total, Engro spent Rs. 24 million on its education initiatives in the financial year 2012. Over 4,400 students have benefitted from Engro's efforts in this area, and these learners are now on the way to achieve their dreams and become future contributors to the country's economy.

	2012	2011	2010	2009
Total number of schools	29	28	25	25
Number of students	4,400	3,635	3,213	3,140

our social investment performance

Impacting Livelihoods

Livelihood plays a crucial role in people's lives. A stable source of income keeps families financially secure, ultimately leading to health and happiness. We are helping families attain sustainable incomes through acquiring better skills from our training programs. In this area, we have made numerous investments which directly impact the income-generating capacity of our stakeholders.

Women Empowerment through Livestock Development (WELD)

In rural Pakistan, for all practical purposes, women manage livestock at household level. Their role is pivotal in managing health and productivity of livestock. This role makes them a direct stakeholder in rural economy and in our business's value chain. Engro Foods has extensive network to collect milk from deep rural areas through its Milk Collection Centers (MCC). This milk is transported to two of its milk processing plants and processed. This extensive outreach of milk supply chain offered an opportunity to work directly with women and make them change agents in rural livestock market.

This opportunity was capitalized through a partnership between MEDA, Engro Foods and Engro Foundation. MEDA provided USAID funds for a project managed by this partnership and named it Women Empowerment Through Livestock Development (WELD).

In WELD, we train rural women who are associated with livestock management. There are three types of training envisaged by the program – Training of female livestock owners, Female Livestock Extension Workers (FLEW) and Female Village Milk Collectors (FVMC). Female livestock trainers are trained in better management practices which include day-to-day activities related to livestock feeding and nurturing while FLEWs and FVMCs are trained to

deliver door-step services to these livestock owners. This arrangement creates multiple, inter-dependent impacts. Livestock owners manage their animals better with the help of FLEWs and get surplus milk yields. This surplus milk becomes part of Engro Foods's supply chain through FVMCs, creating value for all stakeholders in the chain. In 2012, over 6000 livestock owners have been trained along with 93 FLEWs and 158 FVMCs. These women have reported various levels of increase in incomes since the inception of the program. This increase in income finds its way in social spending in areas of education and health and thus creating a multiplier effect in local economy.

The overall spend on program in 2012 has been nearly Rs. 44 M.

Vocational Development Programs

In 2012, we experimented with vocational training program and trained 19 students in vocational training at the Skill Development Centre established at the TTC. We took a step further and created market linkages with mechanical work contractors and vendors so all those who received training secured internships, in turn gaining valuable work experience. Our efforts proved worthy and eighteen of these students secured and completed one-month internships at various institutions.

Another one of our objectives was to complete 130 asset transfers in 2012, and implement Enterprise Development Program in Ittehad Model Village. However, this objective was partially met as some model village beneficiaries were selling their asset transfers for cash, and thus we decided to hold remaining transfers.

In collaboration with our energy business – Engro Powergen Qadirpur – we also trained 30 students from the mechanical batch of TTC on solar system installation in EPQL residential colony.

Infrastructure Development

In order to raise the standards of living in communities, we have made significant investments in updating and rebuilding community infrastructure – in turn improving the quality of life for community members.

In our efforts to improve access to clean drinking water and sanitation services, we installed water filtration/RO plants in the Kotlo Mirza and Kalo Buriro villages. The filtration plants have been inaugurated by eminent district administration officers.

In order to encourage alternative sources of energy and encourage sustainable living, Engro supported TTC in installing a solar street light system – the assessment for this project has been carried out and panels had been fabricated and ordering is in progress.

Engro also completed six CPI schemes by the end of 2012. These schemes included cover drain, water course lining, latrines and street lights. Three sewerage schemes were badly affected by the rains and were therefore not completed last year. Seventeen hand pumps have also been installed in three villages of Qadirpur.

Investing in Health Initiatives

At Engro, the health, safety and well-being of our employees and the communities that we engage with, remains the epicenter of everything we do. We ensure that we stay true to our commitment so our health programs not only include basic health-care treatment facilities, they focus on creating awareness about prevention as well.

In 2012, we spent a total of 14 million on healthcare initiatives, which encompassed primary care clinics in the shape of a mobile clinic and Clinics in Jung village and Chhuara mandi in Sukkur.

Sahara Clinics in Daharki - established in partnership with the Sahara Welfare Society, has two aspects. A mobile clinic runs in three villages around Engro Powergen plant in Qadirpur providing basic health care facility. The second aspect is Sahara Clinic in Jung village. Both these clinics have extended services to more than 11,000 patients. Similarly, we have partnered with the Blessing Foundation

and set up a primary healthcare clinic in Sukkur. This clinic treated nearly 12,000 patients in 2012.

In collaboration with Al-Shifa, we set up medical camps to extend health care services, particularly eye related, to people who cannot access such facilities. Three camps organized with Al-Shifa in different parts of the country treated nearly 3000 patients.

We have also participated in many health infrastructure projects with the government of Sindh in the past. Some initiatives included setting up dialysis centers in Mirpur Mathelo and Daharki, an eye care center in Daharki, a mother and child health center in Daharki and automating a Basic Health Unit in Bago Bhutto. We also support many health care campaigns run by government.

Disaster Relief

The 2010 floods wiped out entire villages, leaving thousands dead, homeless and stranded. The catastrophic effects of the floods are still evident, and for this very reason we remain committed in supporting those who were affected by the floods. In 2012, we spent 16% of our social investment budget on relief and rehabilitation projects – with the majority of the funding allocated towards village and livestock restocking benefitting 47 households.

31,000+
beneficiaries of health investments

560+
households benefitting from infrastructural investments

Women Empowerment through Livestock Development

Training of beneficiaries on basic livestock management practices	6,400
Training of FLEWs*	93
Training of FVMCs**	158
Establishment of Entrepreneurs (FLEWs + FVMCs)	251



Education and in particular, technical education, remains an ignored field in the rural areas of Pakistan. This has had a negative impact on the well-being and livelihoods of thousands of individuals living in underprivileged communities in Pakistan.

In an aim to tackle this issue, the Pakistan Chemical and Energy Sector Skills Development Company (PCESSDC) was setup with the directive to provide quality education and training opportunities to individuals in or aspiring to be a part of the chemical and energy sectors of the country.

Our goal is to cultivate future leaders who are proficient in the fields of science, engineering and technology, so they can propel the country towards greater economic prosperity.

The vision was to provide underprivileged students a learning facility where they could learn technical skills and secure employment in these sectors. The partners of this project include Pakistan Industrial Development Corporation, Engro Corporation, Mari Gas Corporation Limited, Descon Engineering, Saipem of Italy and STEVTA.

The first technical training college by PCESSDC has been established in Daharki District Ghotki with a start-up capital of Rs.179 million. Classes began in September 2011, with the first batch having 60 students.

The College offers a three-year diploma in chemical and mechanical engineering, and two batches have been inducted so far having 150 students with an enrolment of 80 students in the year 2012. In its second year of inception, the Technical Training College has given rise to independent, private tuition centers across the surrounding communities with the sole purpose of passing the entrance test of the college.

The College maintains high standards of excellence by accepting candidates on merit only. Candidates are required to hold a matric qualification, and have a minimum of a B grade in science subjects.

In 2012, the College started with pilot vocational courses in welding followed by 3 month internship opportunities at big local companies such as Pak Arab and Jaguar Engineering. Learnings from the pilot are being incorporated in rolling out a full-fledged vocational training program. Moreover, during the year Engro conducted coaching classes for admission in Technical Training College for 45 students in CAER villages. Twenty-two percent successfully qualified for admission in Technical Training College.

The college provides sports and internet facilities to its students. Engro was able to attract funding from its German financial partner DEG to set up a mechanical lab for the college and from USAID's Ambassador Program on the construction of a hostel to accommodate students who live further away. In addition to facilitate students a library is also under construction.

As further plans of expansion are on roll, the college is aiming to increase enrollment through addition of new programs and technologies.

150+

students in total
with 80 student
enrolments in 2012.



the ittehad model village – impact assessment



Ittehad Model Village was conceptualized, planned and developed by Engro Foundation as an eco-friendly model village with the aim to rehabilitate flood affected community of Muzaffargarh.

Overview

After the devastating floods of 2010 that wiped out a number of communities completely destroying their villages and agricultural assets, Engro Corp not only launched the early recovery efforts for the effected countrymen, but it also planned for rehabilitation and restoration of their livelihood. Ittehad Model Village was conceptualized, planned and developed by Engro Foundation as an eco-friendly model village with the aim to rehabilitate flood affected community of Muzaffargarh. The project was planned and implemented with the support of Engro Foundation's Partner organization including Government of Punjab, Provincial Disaster Management Authority (PDMA), Pakistan Poverty Alleviation Fund (PPAF), Ansar Management Company (AMC), Technology Upgradation and Skill Development Company (TUSDEC), Farmer Development Organization (FDO) and Roshni.

The Ittehad Model Village has been designed with a focus on six key areas which are crucial to establishing a thriving community. These include community participation, infrastructure, energy conservation, sustainable livelihood opportunities, education and health. Some of the salient features of the village include solar powered electric devices to generate electricity; underground sewerage and sanitation system; play pumps; a dairy hub including a veterinary dispensary and milk collection centre; livelihoods programs for skills training in welding, construction, mat-making, bee-keeping, etc. along with a unique grey water harvesting system for sewerage treatment.

Scope of Assessment

United Registrar of Systems was appointed to conduct an onsite assessment of the Ittehad Model Village focusing on the socio-economic impacts of various interventions that were undertaken / are being implemented at the Ittehad Model Village.

The assessment was focused on evaluating changes to individuals and communities due to IMV project in terms of alteration in the day-to-day way in which people live, work, play, relate to one another, organize to meet their needs and generally cope as members of society. Thus, the impact assessment provides a realistic appraisal of social-economic benefits that the target communities have enjoyed over various phases of this project.

Methodology

The impact assessment was carried out using a combination of approaches including physical verification of the infrastructure and associated facilities, consultation with project implementation partners and obtaining first hand feedback from various stakeholders including the target community.

The impact assessment was based on four key processes;

Understanding of the baseline conditions

Through the interviews with Engro Foundations Representative and via discussion with implementation partners and community elders, an insight was developed on the prevalent socio-economic conditions in the areas

from where the communities were repatriated.

The discussion on baseline determination was structured around the thematic areas that the IMV project has targeted as described in the next section of this report.

Relevance of the project interventions

Various activities implemented as part of the IMV project were evaluated for their relevance to the needs of the community. This also included Engro Foundation's process of ensuring inclusivity and participation of the community in conception and design of the IMV project which resulted in accurate needs assessment and relevance of the actions in terms of materiality to the target communities.

Physical Verification of the Project Infrastructure

Physical infrastructure and support facilities were examined for the quality of the output of project construction and implementation. The assessor walked through the whole village along with representatives from the community obtaining their feedback on the usefulness of the infrastructure and how it has impacted the quality of life.

Consultation with Stakeholders and Project Beneficiaries

Finally, members from the community, staff of the adjoining health center/school/milk collection unit and project implementation partners were consulted using semi-structured interviewing technique to obtain an in-sight on the project performance, key achievements, socio-economic impact of the project activities and areas for further improvement. The consultation processes included individual and group interviews covering the six key areas of project interventions.

Findings/Key Impacts

The assessment findings in this report are presented as a comparison of the issues that the community was facing prior to inception of this project and how various project activities have addressed those pertinent issues.

the ittehad model village

Community Mobilization

Pre-project Status

The IMV has been a very successful project in terms of recreating a rural life while addressing the needs of the inhabitants of the village. Starting right from the selection of communities to be repatriated into the new village, the project focused on maintaining the prevalent social fabric in the villages while ensuring participation of the target community. The project selected only those communities who were willing to relocate together as a whole cluster of families from the same clan so that their usual village lifestyle which is based on family relationships could be maintained. Similarly, only those communities were selected who were willing to participate in the design and construction of the IMV by sharing the responsibilities and work physically. This agreement, on the one hand has resulted in enhanced sense of ownership in the community, it has also ensured that the project design is closely linked to the needs of the community.

As part of the community mobilization program, six community organizations (COs) were formed with each constituting a group of members and an executive body. The COs were initially responsible to develop consensus on the project design elements and provide human resources during the construction phase. After relocation and settlement, the COs are now managing the administrative and municipal affairs of the village. Similarly, a village level organization has been created with representation from each CO which governs the whole village. Formation and successful implementation of community organizations has created a very progressive community which manages the village through an effective process of consultation and community support.

Through the capacity building of VO/COs in social mobilization and community management skills, the IMV project has effectively democratized the traditional "Punchayat" resulting in consultative decision making. This mind-set change has created harmonized environment built on the premises of trust, openness, mutually beneficial community relationships and faith.

Another remarkable impact of IMV's community organization is the mobilization of the women. Each CO has 50% female members who take part in day-to-day management of the community affairs. The female CO members also act as mobilizers through regular interaction with the women within boundaries of their homes resulting in their active participation in interest in the key issues of the community such as education, livelihood and education. In order to further promote the liberation of women rights and to better reflect their role in the family, the ownership of the houses have been transferred in the name of the women family head (Mother).

01 village organization

06 community organization

50 % female participation in community organizations

Infrastructure Development

Pre-project Status

The rural infrastructure in Pakistan has always been underdeveloped both in terms of private houses and in terms of municipal facilities. The villages in the target areas were no different. Majority of the houses of the target community were made of clay bricks which did not include any provisions for sanitary waste management, availability of water, electricity and other basic amenities. Moreover, the communities were selected on basis of the World Bank's poverty scorecard and only targeted communities who were "ultra poor". At this level of poverty, rural infrastructure is anyway inadequate for socio-economic development and sustainability of the community. Conditions became even worst after the devastating floods that completely wiped out the physical infrastructure and communities were forced to take shelter in temporary relief areas.

Key Impacts

Shelter-168 homes were built in six clusters with an average of 25 homes per cluster. Each cluster houses families from a single community organization which ensures maintenance of the social fabric of their old village life. All the homes have two rooms, a large veranda, separate toilets and bathrooms, hand pumps and food cooking area.

According to the feedback of the community members, they are very happy with the design & quality of construction and feel very homely in their new homes. The community takes pride in the fact they were part of the design and construction process which has resulted in a unique sense of ownership. A true indicator of the community satisfaction is occupancy rate of the IMV which is above 90%, an unprecedented number when compared with any other project of the similar nature. Community Representatives also narrated a number of examples where their inputs on the construction design augmented the overall quality of the output.

Sanitation Facilities-the IMV project includes a very well planned sanitation and refuse collection infrastructure which is being maintained under supervision of community organizations. The effectiveness of the sanitation infrastructure is evident from a very clean and well maintained neighborhood. Garbage collection drums are placed outside homes which are being regularly monitored by the CO members. This unique yet effective sanitation and refuse management system has positively impacted the life style of the inhabitants in terms of overall health and hygiene which has resulted in lower disease prevalence rates in the community. Same was endorsed by the nearby Basic Health Unit staff who confirmed that the IMV community has been progressing well in term of health with very few cases related to hygiene (diarrhea, food-poisoning, dysentery etc.)

Grey Water Harvesting Units-The non-refuse water from hand pumps and wash basins is collected through a constructed wetland which purifies the water through

166 purpose-built homes.

07 marlas of space with and in built hand pump

01 dairy hub

Centralized Grey Water Harvesting Unit

Innovative play-pump technology

the ittehad model village

natural filtration process. This is a unique facility that has potential for use of water in harvesting and fish farming.

Communal Services Areas – Each of the six residential blocks include a playground which can also be used for communal gatherings and festivities. For each cluster of houses, a livestock shed is available where residents keep their household animals/cattle.

In addition to the above, common facility areas are available for the village which includes shops, mosque, office for COs/VOs and Meeting / Consultation area.

Energy Conservation

Pre-project Status

Like most of the rural areas of Pakistan, the villages in the target areas faced acute shortage of electricity. Even in the areas where electricity was available, concept of conservation of energy and availability of sustained energy supply was beyond consideration.

Key Impacts

In order for a sustainable, renewable, reliable and economically viable provision of electricity for the Ittehad Model Village, Engro's Subsidiary Organization, EngroPowergen Limited had designed and implemented a solar-powered off-grid electrification system. Through the use of this system, each house in IMV is provided with free of cost solar electric systems for basic electrical requirements (lights, fans etc.). The system also provides electricity for the common facilities including mosques, shops, community center and dairy hub. This off grid electrification is even more important for the community who otherwise face acute shortage of power from national grid and prolonged load shedding.

As a result of solar based electrification of the village, IMV remains illuminated throughout the year and residents have a way better quality of life than their neighbors with no tension of the electricity bills or power outages. As per feedback of the residents, availability of power has improved their family life in terms of quality of time during nights that they spend inside the home, availability of fans in hot mid-summer days, and availability of water due to electric motors. House illumination is also helping in girl's education as they can study inside their houses after sunset.

170+
solar panels installed

upto **10** % increase in time available for economic activity

Sustainable Livelihoods

Pre-project Status

Majority of the residents of IMV are farmers who has been earning their livelihood through farming, animal rearing/farming for dairy and working as farm support laborers. However, after the floods, their income was badly affected as most of the farm land submerged under water and crops were destroyed. The farmers had also lost a considerable number of dairy and farm support animals which badly effected their sources of income. Based on the evaluations using poverty scorecard, all the communities were from ultra-poor category.

Key Impacts

Dairy Hub–70% of the repatriated families were previously involved in animal rearing for dairy purposes. Any efforts on improving the dairy farming practices will have much greater impact on the livelihood as compared to any other intervention. Against this backdrop, a dairy hub was constructed within the IMV which not only serves the purpose of milk collection and chilling, but it also provides a host of services related to livestock management to the residents of IMV and of 20-30 more villages in the surrounding area. This has resulted in better feed management, improved animal health, increased milk production per animal with reduction in associated costs. The dairy hub is also providing on-farm veterinary support through a team of experienced and highly skilled team.

Small Enterprises /Shops–Based on the interest shown by the community members in a number of small businesses, IMV project helped the residents in initiating small businesses. The support was provided in terms of small enterprise development training in businesses like tailoring, tea stalls, livestock rearing and retail shops. The program also provides support in obtaining necessary tools and incubates the startups. Some of the community members were also allotted the shops in the IMV who pay a fixed rent to the VO which is used in community servicing.

Skill Development– In order to develop a secondary source of income for the family, IMV project included a number of projects that were focused on skill development related to different trades. The representatives of the community confirmed that they have attended skill development programs on construction works (masonry/scaffolding/steel fixing) and welding. All the representatives confirmed that the skilled learnt during the programs were useful and they feel confident that will be able to earn for their family using the skills learnt.

06 individuals given advanced 6G welding training

05 programs designed to enhance livelihoods

upto **50** % increase in income generation in household incomes

the ittehad model village

Education

Pre-project Status

Keeping in mind the socio economic class of target communities, status of education for the host community can be termed as total neglect. Majority of kids would not attend the school or will drop out of the school before reaching primary classes. Even if some of the kids would attend the school, they would miss their classes either during harvesting seasons to work with the family in the fields or would help the elders in animal rearing.

Key Impacts

To make IMV a truly model village, the project has designed various interventions geared towards educating its residents thus improving their overall quality of life. The project aims to enroll all children, regardless of their gender, into the school in addition to initiatives for non-formal education for adolescents and Adult Literacy Programs.

Changing mindsets – One of the biggest impacts that IMV project has achieved is the change in the mindset of the community and their attitude towards education.

Through the use of community meeting and mobilization, the project implementers have developed cognizance of education among the community and family elders who are now willing to send their kids to school. This positive change in the mindset was not only appreciated during the community interviews, but parents' commitment was also evident when the assessment team observed a number of parents who accompanied their children to the school. Over 50% of the students enrolled in the nearby Govt. Primary School come from the IMV.

Another remarkable achievement is community's positive attitude toward girls' education. Through the use of effective community mobilization, the COs/VO have convinced parents to send their daughters to schools while maintaining the social norms. During the interviews, a number of parents talked about importance of female education which was very encouraging.

Non Formal Education–A non-formal school is being operated for Girls with the help of project partners. A batch of 30 girls is currently enrolled in the schools that are being taught according to a specially designed curriculum with a target of achieving matriculation in a span of two years. The success of the program is overwhelming apparent from the quality of the output. Girls who were completely illiterate before joining the school could read/write in Urdu/English, could solve math problems including algebra and that even within a span of eleven months. The assessor confirmed the same by interviewing a couple of girls and observing their classwork and homework copies.

Montessori- For the starters, a Montessori school is being run by the project implementation partners. This school ensures that kids start learning right from the beginners age under guidance of trained Montessori directresses thus increasing their chances of enrollment in formal schools.

01 school renovated in the vicinity of IMV

30 girls enrolled in non-formal educational programs

School Support–Construction, renovation and provision of missing facilities is an important aspect of ensuring enrolment in the school. EF has renovated two schools in the vicinity of the IMV with overall building upkeep, provision of additional class rooms, drinking water and toilets. One school which has higher number of enrolments from the IMV is also provided with a computer room. The Principal of the school appreciated the contribution of EF in upgrading the infrastructure, arrangement of additional teachers and computer room. He also appreciated the increase in the children's enrolment and role of IMV residents in ensuring continuous attendance of their children at the school.

Adult Literacy Programs – for the adolescent and adults, Adult Literacy Classes (ALCs) are being organized where elders learn basic writing, reading and simple computation.

Health

Pre-project Status

Right from the reception of the community at the IMV site, EF started health screening of the repatriated families. The screening results showed numerous health related issues including malnutrition, insufficient birth spacing, anemia and chronic infections. Like any other rural community, the root causes of these issues were associated with poverty, illiteracy and lack of awareness on basic hygiene.

Key Impacts

Through a number of health screening camps, all of the residents of IMV have formal health cards that provide complete health history including records of investigation and immunization. Community awareness sessions have been arranged separately for men and women covering topics related to health and hygiene specially the importance of female health.

Support has been provided to the nearby Basic Health Unit (BHU) operated by provincial department of health. The center has been upgraded which included improvement/renovation of infrastructure, hiring of additional staff, provision of basic diagnostic equipment and staff training. For the sustainability of the center, a health management committee was formed which oversees the operations of the BHU.

The BHU staff also visit the IMV for mobilization, awareness raising and to run child immunization campaigns.



Conclusion & Recommendations

The Ittehad Model Village is an excellent example of coordinated and well thought of strategy for community rehabilitation, restoration and development. The project intervention has brought in a complete shift in the lives of its inhabitants, not only in terms of the homes they live in with a host of facilities, but also in terms of positive change in their lifestyles and quality of life. Most of the residents of IMV are

forward looking who believe in progress and desire to act as nucleus for the change in the adjoining communities.

Having said the above, following are a few possibilities for improvement which were identified during the impact assessment; these will further increase the effectiveness of this exemplary initiative.

- a) While observing the school records, it was noted that the number of students in higher classes were way below the number of students in the junior classes. According to the Principal of the school, there is a high ratio of dropout from the school especially for male children who stop attending to school for helping their elders in the farms or in animal grazing. The IMV CO/VO can interact with the community in terms of advocating the need and importance of continuing education. Similar trends were observed in the Girl's NFE School where 6 out of 30 students dropped out for family reasons. The community elders who visited the school with assessor agreed that they will meet the relevant parents and will convince them to send their kids back to school.
- b) A number of community members showed their concern on the aspect of livelihood and economic wellbeing of their family. A number of them requested the assessor to urge EF and its partners to help in possibilities for employment nearby the IMV.

The Ittehad Model Village is a successful culmination of a process rebuilding lives and restoring hopes for thousands of individuals affected by the floods in 2010.

Over **95%** occupancy rate of IMV residents as compared to neighboring model villages

sustaining impact



By focusing on eco-efficiency, we are able to maintain our focus on business growth while also reducing our environmental impacts. Through forensic planning, we continue to reduce our carbon footprint, energy consumption and use of natural resources, on a relative basis every year.

our environmental stewardship

We continue to critically analyze the impact of our decisions on the environment, ensuring that our policies, procedures and initiatives are environmentally friendly.

As a leading conglomerate, we are aware of our commitment to include a broader stakeholder community so we can establish a truly sustainable framework of doing business.

We as a company are passionate about ensuring that our policies and procedures are environmentally friendly. Over the years, Engro has become more environmentally conscious and aware of its surroundings. We ensure that our environmental footprint continues to demonstrate our focus on the environment and our efforts to align our corporate interests with the nation.

Our environmental strategy requires all our businesses to pursue greater eco-efficiency – essentially doing more with less by using natural resources more efficiently and with less impact on the environment.

By focusing on eco-efficiency, we are able to maintain our focus on business growth while also reducing our environmental impacts. Through forensic planning, we continue to reduce our carbon footprint, energy consumption and use of natural resources, on a relative basis every year. Moreover, we aim to use innovation and technological advances to drive continuous improvements across our portfolio of businesses to help them improve their individual environmental impact profiles.

In 2012, we remained true to our commitment to be an environmentally conscious organization by preserving our planet, and meeting our environmental goals. Despite a

challenging 2012, our environmental initiatives were successful and our continued efforts in this area have helped us become a more environmentally sustainable organization.

The success of these initiatives is in line with our environmental policy which states that while a successful organization must take into account the interests of its shareholders and stakeholders, it cannot do so without realizing its responsibilities with respect to maintaining a green and healthy planet.

Therefore, first and foremost, we critically analyze the impact of our decisions on the environment, ensuring that our policies, procedures and initiatives are environmentally friendly. We ensure that we comply to legal guidelines, and in many cases exceed these guidelines to safeguard the interests of the planet and the people which live in it. We fully comply with the National Environmental Quality Standards laid out by the local authorities. Having said that we aim to go beyond these local certifications and incorporate international best practices in our operations as part of our environmental stewardship efforts.

According to the Intergovernmental Panel on Climate Change, Pakistan will become one of the most affected countries by the global shifts in climate in the years to come. Protecting the environment is, therefore, not only a premise to be more socially responsible, but it makes business sense to address risks which can impact our commercial operations.

our approach to eco-efficiency

Environmental risks and impacts arise at the business level and are best managed at that level by individual business units.

Owing to our multifaceted operations our environmental footprint is very complex – to say the least; and, therefore, requires a decentralized approach to environmental management. Environmental risks and impacts arise at the business level and are best managed at that level by individual business units. As a result, we do not have a conglomerate-wide environmental management system; rather our businesses develop their own systems to suit their varied operations.

However, to align our focus on driving a more eco-friendly approach towards doing business we continue to focus our efforts on a four-pronged strategy to manage our investments in the environment. These focus areas are listed as under:

- The company monitors its greenhouse gas emissions and other substances in the atmosphere. We have also introduced several measures to reduce our carbon footprint.

- Secondly, we ensure that we maximize the efficiency of our resources from water to energy and raw materials, so we minimize wastage from our manufacturing resources, making our facilities greener and more planet-friendly.
- Thirdly, we adhere to the highest and strictest global standards by pursuing internationally recognized certifications. Our facilities are frequently audited by third parties who ensure that we maintain the highest standards. We also ensure that our employees develop a sense of responsibility towards the environment by launching campaigns which conserve energy, save paper and economize on travel – the Green Office Initiative in this regard is one such example. This initiative seeks to reduce the environmental footprint of the company and inculcate a more climate-conscious culture within the firm.
- Lastly, we manufacture products to ensure they have a minimal impact on the planet, helping make our customers' lives more environmentally sustainable.



our environmental performance

Climate Change Commitments

2012 was a vital year for Engro in terms of its ability to meet its commitments to reduce its environmental footprint with regards to climate change.

A number of initiatives were implemented to reduce the company's carbon footprint and greenhouse gas emissions. Greenhouse gas emissions remain a key challenge when faced with investment choices in environmental sustainability, and we continue to play our part in reducing the impact of our operations on the environment.

Since we have increased our manufacturing and business activities specifically in the domain of rice processing our green-house gas emissions have increased to account for our corporate growth.

Carbon Footprint Data

	Greenhouse gas emissions (in tonnes of CO2)
2008	865,937
2009	955,223
2010	1,644,577
2011	2,394,335
2012	2,277,213

To reduce the impact of green-house gas emissions on the environment, we continue to invest in the latest technologies, ensuring that our newer facilities are more efficient, in turn reducing emissions per ton of urea and per megawatt of power consumption. During the year whilst we shifted production from the base plant to the more environmentally friendly EnVen plant, we were able to significantly reduce our emissions.

Through the year our fertilizers plant at Daharki achieved the WWF Green Office Certification for three of its site buildings whilst going forward we aim to increase certifications of plant building under the program. Furthermore, Engro Powergen's plant at Qadirpur is one of the best examples of how Engro combines business strategy with environmental sustainability. The power plant – dubbed as the country's first green power plant – uses as its fuel permeate waste gas to generate 220 megawatts of electricity at the lowest cost in the entire country. With this

project, Engro is accomplishing three objectives concurrently: reducing the Pakistan's greenhouse gas emissions, reducing the country's chronic energy shortage, and adding revenues for the government.

In an on-going effort to preserve our natural habitat and reduce our gaseous emissions, our foods business has invested in installation of solar geysers at our area offices to substitute for the smoke that was generated through burning of wood in the conventional Cleaning in Place (CIP) Geysers that were deployed at the area offices. As part of commitment to protect the environment in which we operate these solar geysers were installed at 5 key area offices that have drastically reduced our environmental footprint since no wood is burnt. The application of this innovative and renewable technology has helped us cut down on burning of approximately 50kg of wood on a daily basis at our area offices.

In addition to the area offices, a detailed study was carried out of the vast milk collection infrastructure of our foods division where warm water was a key requirement to ensure compliance to cleaning guidelines. To further reduce use of wood as a source to warm water, solar geysers have also been installed in over 260 milk collection centres thereby reducing our footprint and ensuring that we preserve the natural habitat of communities that continue to host us.

As part of our vision to reduce greenhouse gas (GHG) emissions, the foods business continues to actively promote the use of Non-CFC products/equipment at all our manufacturing units. To further strengthen this practice we are now working in close coordination so that importers can build their stocks as per our growing demand in the years to come. In order to further this mitigation of our GHG emissions the foods segment has taken on the initiative of planting over 100,000 trees at both its production facilities at Sukkur and Sahiwal. For our chemical storage & handling business, the annual toxic gases emission monitoring program continued in full swing and all emissions generated inside the terminal were recorded and monitored regularly.

As our facilities invest in increasing their manufacturing output, we continue to implement stringent control mechanisms to increase environmental efficiency that help us further our stewardship for the environment in which we operate in.

Efficient Resource Utilization

Our commitment to the environment goes beyond lowering our greenhouse gas emissions. It includes using every type of resource that goes into the process of manufacturing our products.

Our goal to efficiently utilize resources is perhaps where our holistic approach to strategy and our triple-bottom line approach best shines through. Being more efficient, not only makes our industrial units more planet-friendly thus reducing the impact of global warming, but doing so, also reduces costs, in turn improving our profit.

During the year 2012, for our fertilizers business in Daharki whilst we shifted production from the base plant to the more environmentally friendly EnVen plant, we were able to significantly reduce our gaseous emissions and also increase the efficiency through optimal resource utilization. With the successful shift of production to the new plant, production benefit of around 400 tons/day was obtained whereas the energy index of the EnVen plant was approximately 24 vs 28-29 mmBTU/Ton of Urea at the Base plant – which essentially meant that we were producing more urea per mmbtu of gas that was being pumped in to the plants.

Plant Efficiency

Engro Fertilizer's Enven plant is the most efficient plant in Pakistan with the lowest energy and gas feedstock usage per tonne of urea produced. At a time when Pakistan faces a dire shortage of natural gas, Engro is not only playing its part in reducing the shortage of gas, but it is doing so while increasing the per mmbtu production of urea - a product that the country desperately requires.

In 2012, Engro Fertilizers also won the coveted Dupont award for "Stakeholder Engagement for Sustainability" based on plant performance and commitment to increase community

awareness of process hazards at a plant site, and consequently improve their response during unforeseen emergencies. In this regard the fertilizers plant has instituted program in collaboration with external partners such as CAER, NDMA and SAHARA that have immensely contributed to uplift the understanding of the surrounding communities in the process hazards present at the plant and how to protect themselves in case of loss of containment. The understanding of these environmental hazards and environmental mitigations techniques has helped the plant site attain a higher level of preparedness and will eventually benefit in the form of increased efficiencies in reducing response rates for combating any untoward incidents.

Our foods business has also taken a positive initiative on increasing efficiency by installing VFD on various applications. We expect to save 200 KWH of energy through these technological innovations, which will in turn result in enhanced plant efficiency. VFDs can be applied to homogenizers, WWTP aerators, cooling towers, ammonia compressors and air compressors to increase the efficacy of plant equipment.

Our rice processing segment – Engro Eximp Agriproducts – also plans to embark on an ambitious roadmap to increase the efficiency of its plant technology which will help improve product quality whilst maximizing recovery of rice. To this end, in 2012 the business approached international experts to conduct trainings in this area and help local personnel prepare for the technology adoption and transfer.

Waste Generation Data

	Solid waste generation (in tonnes)	Product packaging waste (in tonnes)
2008	254	58
2009	382	102
2010	20,646	1,213
2011	4,024	191
2012	11,060	251

our environmental performance

Water Consumption

In a country where portable water is a scarce commodity, Engro is working hard to ensure its water usage remains as efficient as possible. We are committed to improve water efficiency across our manufacturing and non-manufacturing sites alike. Our manufacturing facilities at Daharki are equipped with a reverse osmosis plant that reduces the flow of unsafe effluents from our planet by up to 150 gallons per minute. This water is then recycled, complying with national regulatory standards on waste water treatment.

Engro Foods has installed wastewater treatment facilities at sites in Sukkur and Sahiwal to ensure that any water that is discharged from the facility is safe and does not pollute the region's water table. Furthermore, during the year 2012, our foods business also initiated the i-Water Project which is essentially an intelligent system to control water flow through use of variable frequency drives (VFD). The project commenced in the second half of the year at a total project cost of Rs. 60 million and resulted in energy savings from water conservation up to the tune of 140KWH against a planned target of 104KWH.

Over the course of 2012, our petrochemicals business continued to implement its demand-based water irrigation system in Abbottabad that aimed to implement a system based on the wide usage of PVC pipes that guarantee no wastage of water for agricultural uses and also eliminates the threats for water salinity and/or scarcity by controlling ground water discharge.

Engro Vopak has successfully become a no-effluent site. Such a site means that all the facility's wastewater was successfully treated to ensure that it does not damage the environment. The facility has also planted mangroves and trees to protect the shoreline against erosion.

Engro Vopak has also started inspecting fresh water tanks using crawlers which perform Ultra-Sonic Thickness (UT) gauging, as opposed to man-made UT gauging devices which required scaffolding and posed a safety risk. This sustainable option is not only environmentally friendly, but is also more cost effective and has helped reduce our environmental footprint.

Going forward we remain adamant to reduce our water consumption on a relative basis, consequently, reducing the number of times we exceed our wastewater excursion limits.

Water Consumption and Waste Treatment Data

	Water use (m3 per hour)	Effluent water discharge (in m3 per hour)	Waste water excursions (# of times exceeded)
2008	2,932	718	2
2009	3,432	769	3
2010	3,776	1,269	10
2011	9,882	2,295	04
2012	2,067	795	11

Over the course of 2012 our water consumption increased primarily due to the operations of our rice processing plant which by the very nature of the task is water intensive.

Energy Consumption

As we continue to experience a national energy crisis, Engro has been involved in several initiatives to reduce its energy consumption levels – despite the fact that it continued to supply energy to the national grid.

Our innovations in energy have not only helped save money and reduce greenhouse gas emissions, but such innovations have also helped our stakeholders. The installation of variable-frequency drive (VFD) as a type of adjustable-speed drive used in electrical systems throughout our various businesses has helped significantly reduce our energy consumption.

During the year our foods and fertilizers businesses underwent the Green Office registration and the select buildings of the plant are now certified as Green Offices. Through the implementation of the program various initiatives have been deployed that continue to reduce the electrical consumption, paper usage and carbon footprint of these facilities.

In addition, our petrochemicals business – Engro Polymer & Chemicals – generates its own power through a combined cycle power plants which are fuelled by natural gas. In order to increase energy efficiency the hydrogen gain as a by-product of the chlor-alkali plant is used as a substitute for energy.

Our chemical storage and handling business – Engro Vopak – has deployed use of ambient heat energy (heat from the atmosphere) for its ethylene vaporizers which has resulted in potential savings of \$1.4 million in energy costs and 4.3 tonnes of CO2 emissions per year. Engro Vopak had also identified ten projects in 2012, of which four are energy and utilities saving projects; they will be considered for investment by management. In order to save fuels, the subsidiary is also involved in carpooling terminal vehicles.

In order to conserve energy, Engro Eximp is also operating a husk boiler and a co-generation steam turbine, which will be functional by 2013.

We realize that solar energy is fast gaining popularity across the globe with an estimated installed capacity of over 4,000MW internationally. Cognizant of our footprint and role in leading technological innovations to fuel optimal use of energy, our energy business – Engro PowerGen Qadirpur – pursued the solar power pilot

project termed the 'enNova 360 Solar Project' for its residential colony in Daharki. The project which is connected to the grid on a net metering basis has a rated capacity of generating 360KW of electricity via 1,200 solar panels. The enNova 360 Solar project is the largest solar project completed to date in Pakistan.

As our commitment to a greener environment the head offices of our fertilizers, foods, trading, petrochemicals, and energy businesses along with the head office for the parent company – Engro Corporation – were certified under WWF Green Office Project.

Energy Consumption Data

	Energy consumption feed or fuel (000s cubic feet)	Electricity Consumption (kilowatt hours)
2008	37,212,140	17,727,227
2009	38,991,604	34,097,192
2010	42,413,196	44,522,894
2011	54,832,032	77,803,090
2012	62,820,221	90,309,166

360_{kw}
electricity produced by
enNova 360 Solar Project in 2012

1200
solar panels installed
at Engro Powergen
Qadirpur Colony Daharki

400_{tons}
expected CO₂ savings from
enNova Project per annum

international standards and certifications

As part of our commitment to adhere to the highest global standards, the company not only complies to national laws, but it has gone a step further by attaining and maintaining some of the most stringent international certifications pertaining to the environment.

Engro complies with Pakistan's National Environmental Quality Standards (NEQS) and ensures it follows all regulations laid out by the provincial environmental protection agencies in the area that it operates in.

Our petrochemicals business is in compliance with ISO 14001:2004 standards and has implemented a comprehensive environmental management system, which is regularly audited by third parties. Moreover, the business has also acquired membership of three major institutions: Centre for Chemical Process Safety, British Safety Council, and National Safety Council as step to further enhance its international reputation and adhere to the strictest of local and international standards. Additionally, during the year a British Safety Council (BSC) 5-star environmental audit program was launched at the petrochemicals business, which will help elevate the overall environmental standards of the plant site.

Our energy business – the Engro Powergen Qadirpur plant – complies with IFC's environmental, health and safety standards as part of an agreement with the World Bank subsidiary for its investment in the plant. Such standards also include requirements for reducing noise pollution, a condition which Engro has been successful in meeting through the years and no deviations have been recorded to date.

Through the year our chemical storage & handling business - Engro Vopak – has acquired an Integrated Management System (IMS) for a combined and coordinated certification on ISO 9001, ISO14001 and OHSAS-18001. It has also acquired an International Ship & Port Security (ISPS) certification as well as the Terminal Health Assessment (THA) certification as an initiative to enhance its operational excellence and remain a world-class terminal solutions provider.

Our rice processing business managed by Engro Eximp Agriproducts, on the other hand, achieved a Quality Management System (QMS), Safety and Environment certifications, along with six food safety management system certifications that have helped increase efficiencies and reduce risks for the business operations.

In 2012, our foods business continued to achieve a number of ISO, HACCP and OHSAS certifications. To further improve food safety for consumers and to build confidence among national and international retailers, Engro Foods decided to go a step further by conforming to a more rigorous standard for food safety, termed the British Retail Consortium (BRC). This standard was implemented at the dairy processing plants at Sukkur and Sahiwal. The BRC certification allows discovery of new and better ways of living our vision of increasing consumer satisfaction worldwide now and for generations to come. Going forward the business aims to enhance safety and operational excellence with plans to apply for the ISO 17025, Global GAP, ISO-9001, ISO-14001, OHSAS-18001, & ISO-22000 Certifications.

Pollutant	Fertilizers	Foods	Polymer	Powergen	Vopak	NEQS
NOX	12	-	-	-	30	400
SO	371	-	170	-	184.3	600
COD	31	54	79.76	-	21.33	150
BOD	7.69	19	30.2	-	5.4	80
pH	8	8.0	7.28	8.1	6.6	6-9
OIL	0.44	1	0.9	0	1	10
ZN	0.4	-	0.19	-	0.03	5
CL	164	-	567.2	-	-	1,000
TDS	1269	1,613	1,244	-	580	3,500
TSS	21	6	11	18	6	200

product stewardship

Engro Foods has ensured that it used recycled packaging material by stripping an inner layer from our dairy products' boxes. This helps ensure that our packaging material is more environmentally friendly.

Engro ensures that it reduces its environmental footprint as well as that of its customers. In order to achieve this objective, Engro has spent time and research in producing innovative solutions which ensure that our products minimize any adverse impact on the environment. We remain committed in our mission, even after our products leave our facilities and are in the hands of consumers. In order to gain an insight about how we can make our products more environmentally sustainable, we analyze their footprint throughout their life cycle -- from creating raw materials to manufacturing and consumer use to disposal. This helps us identify and focus our efforts so we can make a positive impact on the environment.

For instance, Engro Fertilizers had developed a new packaging for its products which used less material while holding the same amount of fertilizer with the requisite tensile strength. Reducing our bags by one inch resulted in less use of the raw material polypropylene, which in turn reduced costs as well as lowered Engro's environmental

footprint -- creating a win-win situation for customers, retailers, as well as our planet. Moreover, to protect our consumers and customers from counterfeit products, this year the fertilizers team also introduced the 'Engro Bharosa' seal – a sign of genuine Engro DAP Products with color-changing logo and a computer generated code that gives each pack a unique, non-replicable identity.

Additionally, while working with Tetra Pak, Engro Foods has ensured that it used recycled packaging material by stripping an inner layer from our dairy products' boxes. This helps ensure that our packaging material is more environmentally friendly and does minimal damage to forests and the eco-system in the northern areas of the country. Moreover, our foods business will continue to champion product stewardship through the launch of an eco-lean packaging format for its dairy product in 2013. This will not only challenge the status quo in the industry but also make us pioneers in introducing a cleaner, more environment-friendly yet secure packaging option for our consumers.



green office initiative

Our goal to overcome environmental sustainability challenges is apparent by our commitment to the Green Office Initiative. In collaboration with World Wildlife Fund (WWF), Engro is working hard to implement green office policies in the office.

Our goal to overcome environmental sustainability challenges is apparent by our commitment to the Green Office Initiative. In collaboration with World Wildlife Fund for Nature (WWF), Engro is working as a role model to implement green office policies across its head office and Daharki plant site.

WWF is one of the leading organizations in the world, which is dedicated to the environmental sustainability. Green Office Initiative was originated by WWF Finland in the year 2002, with the objective of creating a practical program to enable offices to reduce their carbon footprint and negative environmental impacts.

Our focus on this project takes Engro far beyond the legally mandated minimum environmental standards and become a leader in the corporate community of Pakistan, setting a track record for a company which works in the best interests of the people and the planet. The implementation of this program will allow us to reap benefits from a newly motivated and environmentally aware personnel and an improved corporate image besides reduction in overall carbon emissions.

Since its inception the Green Office Initiative has advocated a culture of environmental responsibility so our employees adhere to the strictest standards and ethics with regards to environmental protection, in turn reducing the effects of global warming and increased carbon footprint.

The commencement of the initiative revolves around the company, implementing green office policies at its head-quarters in Karachi, as well as the Engro Fertilizers facility in Daharki. These two locations form the biggest component of our environmental impact – and, thus, our aim is to keep their environmental impact as low as possible. However, during the year our foods, powergen and petrochemicals business also achieved the green office certification, thereby, increasing our mitigation efforts to help adopt a more environmental-friendly approach to doing business.

Since its inception in 2011, the initiative has had a huge impact on the company's overall environmental footprint and has reduced energy, paper and waste. The key focus areas of the Green Office project include:

- Behavior modification of employees
- Office illumination & lighting
- Office supplies and equipment
- Reduction in paper consumption
- Waste management
- Reduction in water use



WWF acts as a guide and an external check on Engro's internal commitments. The organization performs audits at our facilities that are part of the initiative and consults the company with respect to various policies that are part of the project. Some of our salient efforts to live the philosophy of Green Office are as under:

Electrical Consumption

- Undertook a six sigma initiative to reduce power consumption
- Employee awareness through sessions, email, standees, banners, bunting and stickers displaying a variety of messages with GO Logo
- Modification of behavior of employees
- Turning off the lights around window panes where sunlight is available
- Turning off lights and electrical appliances during lunch breaks
- Color coding of switches for easy identification to shut unnecessary lights when not required
- Change of hardware from energy saver to LED lights
- Discontinuation of halogen lights
- Use of sun switches and motion detectors to save waste
- Circuits modification, electrical audit and Lux metering
- Rewarding employees

Rs. 5.7
million savings p.a.
through electricity
conservation*

Paper Reduction

- Transformation from duplex to secure, track able & controlled centralized printing
- Employee awareness
- Making separate groups within Company
- Assigning paper saving targets to each department
- Centralized procurement of paper and monitoring by each departments
- Placing recycle paper trays where employees drop paper used on one side. Others pick this and use the other side
- Monitoring of print jobs sent by each employee
- Promoting use of computers for presentations and proposals than taking prints. In meetings each employee takes his own PC with pre shared presentation and no prints taken
- Use of multimedia and video conferencing
- Development of software to transmit data electronically rather than using old paper based approvals (Like travel booking or low value purchases)
- Moving to SAP and doing away with paper files
- Rewarding employees

32%
reduction in
paper use*

* All metrics are reported against baseline benchmark.

green office initiative

Waste Reduction

52%
reduction in waste

- Use of washable and reusable material - Eliminating paper cups, plates and plastic cutlery
- Less paper usage
- Use of recycled materials (Like envelopes, tea coasters and carry bags)
- Recycling waste through RLCC initiative
- Use of glass bottles instead of PET
- Elimination of secondary packaging at the purchasing stage

As a result of our efforts we able to reduce our electricity consumption and registered a 27% conservation of electricity against the baseline resulting in saving of Rs. 5.7 million in electricity bills. Similarly, a 32% decrease in paper usage and 52% reduction in waste against baseline benchmarks were also witnessed. The reduction in waste resulted in a 31% reduction in our carbon footprint.

* All metrics are reported against baseline benchmark.

“During the Green Office Training organized by WWF Pakistan in September 2012 I had an opportunity to visit the HQ of Engro Corporation and Engro Fertilizers Limited in Karachi.

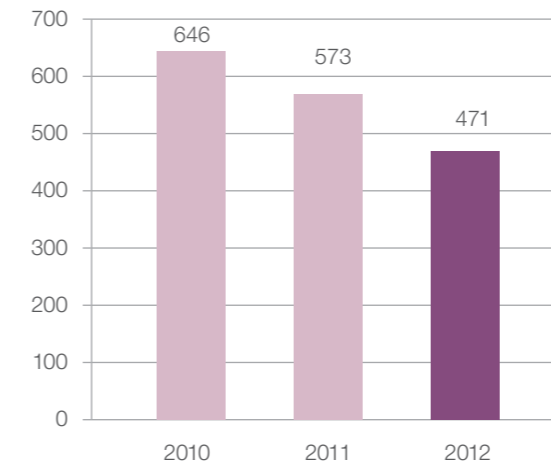
One of the hardest things in a working place is to make a change at a concrete level which affects the everyday routines we all have. In Engro Corporation they managed to do that by implementing Green Office EMS very successfully. I did not only see instruction posters, LED lights and recycled papers in the office, but also a very committed and interested staff. You can easily see that people at all levels of the organization want to be part of the environmental effort made by the company.

(At Engro) The Green Office program is well-organized and well-structured; actions have obviously been focused at the right points. The results of the consumption reductions are impressive. In order to develop a world where our natural resources are used only in a sustainable way, we also need to have offices where sustainability is one of the key principles.

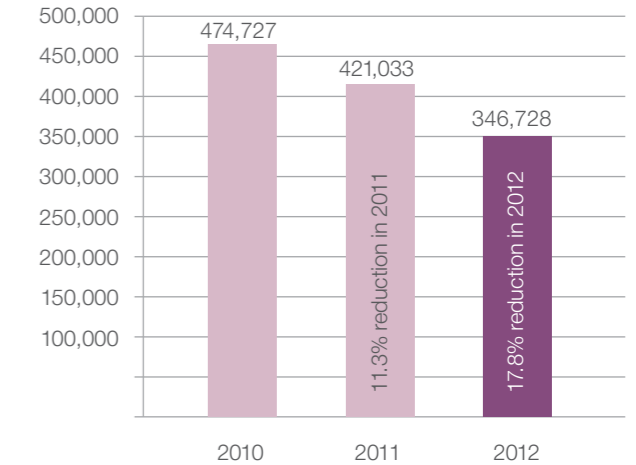
– Ms. Helka Julkunen,
Head of Green Office Programme, WWF Finland

Electrical Consumption 2010-2012

Carbon emissions in metric tons



Electrical Consumption in kW/hr



Paper Consumption 2010-2012

Carbon emissions in metric tons



Paper Consumption (no. of paper reams)

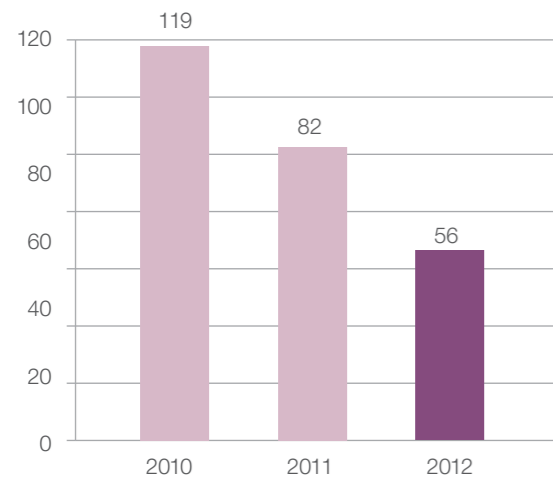


~ **240** metric tons of carbon emissions reduced from 2010-12

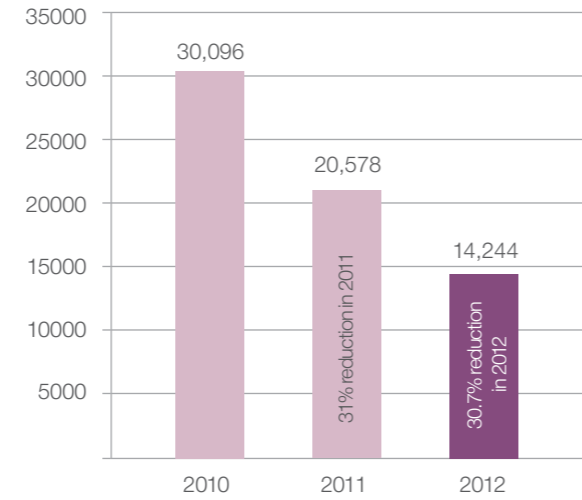
green office initiative

Waste Consumption 2010-2012

Carbon emissions in metric tons

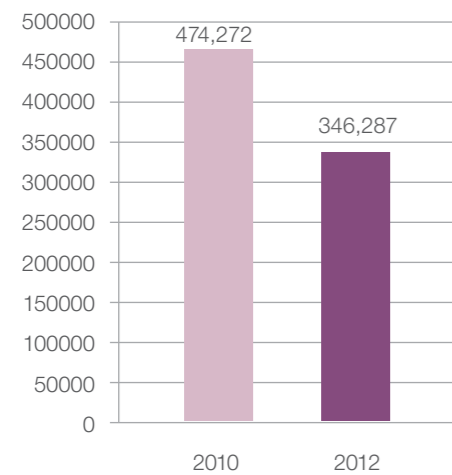


Waste Consumption in kgs

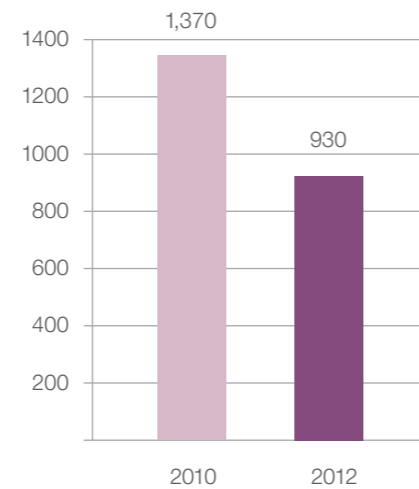


Comparison of 2010-2012 in terms of Consumption of Resources

Electrical Consumption in kW/hr



Paper Consumption (no. of paper reams)



27%
reduction in
electricity usage

32%
reduction in
paper use

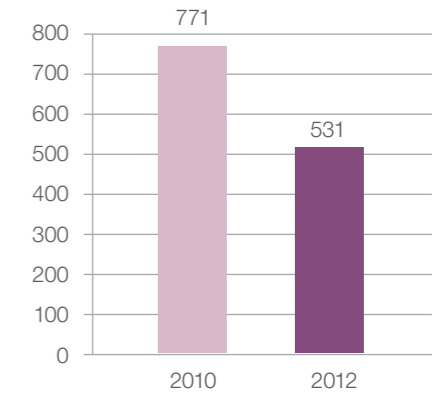
Comparison of 2010-2012 in terms of Consumption of Resources

Waste Consumption in kgs



Total Carbon reduction in 2012 vs. 2010

Carbon emissions in metric tons



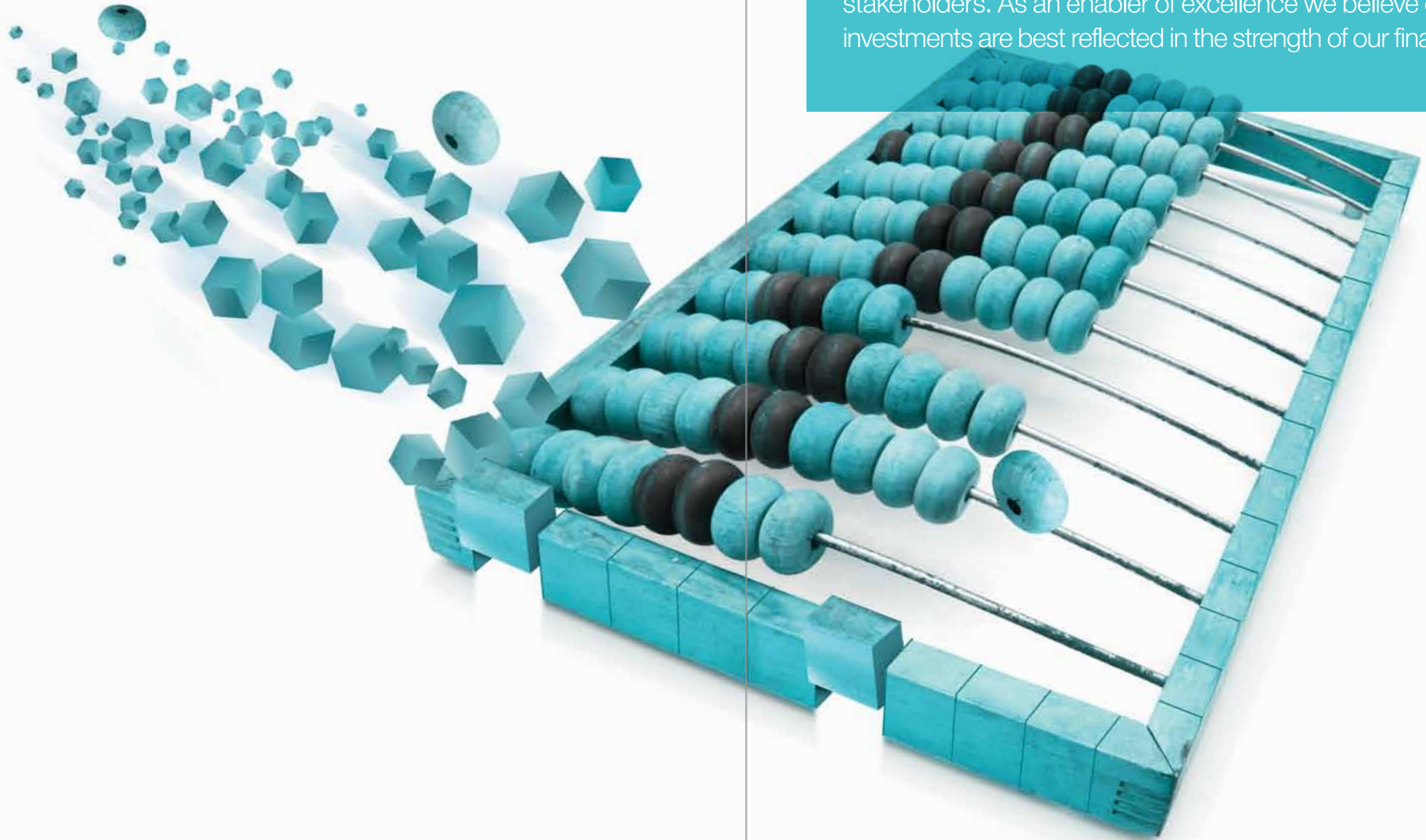
52.6%
reduction in
waste creation

31%
reduction in
carbon emissions

As a socially responsible company we will continue our focus on the environment that we operate in. Going forward as our footprint grows, our emphasis on deploying a multifaceted strategy to ensure sustainability will continue to increase as well.

calculating impact

As we forge ahead we continue to create value by taking calculated risks that yield maximum returns for our stakeholders. As an enabler of excellence we believe our investments are best reflected in the strength of our financials.



contents

192	Standalone Accounts	
	Statement of Compliance with the code of corporate governance	192
	Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance	194
	Management Statement of Compliance with Employees Share Option Scheme	195
	Independent Assurance Report to the Members on the Statement of Compliance with Employees Share Option Scheme	196
	Auditors' Report to the Members	197
245	Consolidated Accounts	
	Auditors' Report to the Members	246
	Consolidated Financials	247

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
- Auditors' Report to the Members
- Standalone Financials

statement of compliance with the code of corporate governance

This statement is being presented to comply with the Code of Corporate Governance (the CCG) contained in Regulation 35 of the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

Category	Name
Independent Directors	Shabbir Hashmi
	Khawaja Iqbal Hassan
	Saad Raja
Executive Director	Muhammad Aliuddin Ansari
Non-Executive Directors	Hussain Dawood
	Abdul Samad Dawood
	Shahzada Dawood
	Shahid Hamid Pracha
	Sarfraz A. Rehman
	Afnan Ahsan
Ruhail Mohammed	
Khalid S. Subhani	

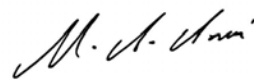
Of the non-executive directors, the last three named are executives in other Engro Companies.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident Directors of the Companies are registered as Tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF, or being a member of a stock exchange has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the Board on April 30, 2012 and were filled up within 74 days each.
5. The company has prepared a "Code of Conduct" comprising of Ethics and Business Practices policies and has ensured that appropriate steps have been taken to disseminate it through the Company along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies 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 the meeting fees payable to the non-executive directors, have been taken by the Board.
8. All 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 and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. One of the directors attended the directors' training course conducted by the Pakistan Institute of Corporate Governance (PICG) this year. Two others have already completed this course earlier.
10. The Board has approved appointment of the CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee comprising 4 members, of whom 2 are independent directors, and 2 are non-executive directors.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee, called the Board Compensation Committee. It comprises of 5 members, of whom 4 are non-executive directors and one is an independent director and the Chairman of the Committee is a non-executive director.
18. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel that are involved in the internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through the stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.



Hussain Dawood
Chairman
Karachi
Dated: February 15, 2013



Muhammad Aliuddin Ansari
President and Chief Executive

review report to the members on statement of compliance with best practices of code of corporate governance


We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Engro Corporation Limited (the Company) for the year ended December 31, 2012 to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

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

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

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval 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, 2012.

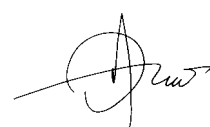


Chartered Accountants
Karachi
Date: March 15, 2013

Engagement Partner: Imtiaz A. H. Laliwala

management statement of compliance with employees share option scheme

The Engro Corporation Limited as of December 31, 2012 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

Karachi
Date: February 15, 2013



Muhammad Aliuddin Ansari
President and Chief Executive

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, 2012. 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

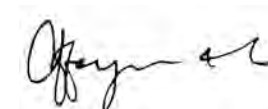
Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standard on Assurance Engagements 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' (ISAE 3000). This 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-compliance 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.
- Verifying 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, 2012.



Chartered Accountants
Karachi
Date: March 15, 2013

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, 2012 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 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, 2012 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 of that Ordinance.



Chartered Accountants
Karachi
Date: March 15, 2013

Engagement Partner: Imtiaz A. H. Laliwala

balance sheet
as at december 31, 2012

(Amounts in thousand)

	Note	2012	2011
------(Rupees)-----			
ASSETS			
Non-current assets			
Property, plant and equipment	4	81,494	127,869
Long term investments	5	26,959,244	27,555,904
Long term loans and advances	6	4,159,590	3,008,341
		<u>31,200,328</u>	<u>30,692,114</u>
Current assets			
Loans, advances and prepayments	7	823,901	18,856
Other receivables	8	196,956	213,955
Taxes recoverable		90,960	104,028
Short term investments	9	484,393	1,908,581
Cash and bank balances	10	697,179	488,689
		<u>2,293,389</u>	<u>2,734,109</u>
Investment classified as held for sale	5	863,018	-
TOTAL ASSETS		<u><u>34,356,735</u></u>	<u><u>33,426,223</u></u>

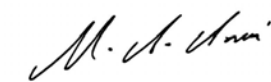
(Amounts in thousand)

	Note	2012	2011
------(Rupees)-----			
EQUITY & LIABILITIES			
Equity			
Share capital	11	5,112,694	3,932,843
Share premium		10,550,061	10,550,061
Employee share option compensation reserve	12	-	74,813
General reserve		4,429,240	4,429,240
Unappropriated profit		6,542,817	7,261,800
		<u>21,522,118</u>	<u>22,315,914</u>
Total equity		<u>26,634,812</u>	<u>26,248,757</u>
Liabilities			
Non-current liabilities			
Deferred taxation	13	28,321	30,270
Retirement and other service benefit obligations		11,159	6,262
		<u>39,480</u>	<u>36,532</u>
Current liabilities			
Trade and other payables	14	179,898	371,083
Advance received against investment classified as held for sale	5	863,018	-
Accrued interest / mark-up		337,927	319,500
Borrowings	15	6,204,664	6,371,268
Unclaimed dividends		96,936	79,083
		<u>7,682,443</u>	<u>7,140,934</u>
Total liabilities		<u>7,721,923</u>	<u>7,177,466</u>
Contingencies and commitments	16		
TOTAL EQUITY & LIABILITIES		<u><u>34,356,735</u></u>	<u><u>33,426,223</u></u>

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



Hussain Dawood
Chairman



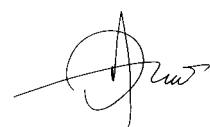
Muhammad Aliuddin Ansari
President and Chief Executive

statement of comprehensive income for the year ended december 31, 2012

(Amounts in thousand except for earnings per share)

	Note	2012	2011
------(Rupees)-----			
Dividend income	17	1,555,006	1,928,019
Royalty income	18	433,057	469,416
		<u>1,988,063</u>	<u>2,397,435</u>
Administrative expenses	19	(209,794)	(569,463)
		<u>1,778,269</u>	<u>1,827,972</u>
Other operating income	20	832,911	1,147,010
Other operating expenses	21	(141,433)	(739,724)
Operating Profit		<u>2,469,747</u>	<u>2,235,258</u>
Finance cost	22	(1,032,062)	(784,397)
Profit before taxation		<u>1,437,685</u>	<u>1,450,861</u>
Taxation	23	(190,248)	(27,131)
Profit for the year		<u>1,247,437</u>	<u>1,423,730</u>
Other comprehensive income			
Total comprehensive income for the year		<u>1,247,437</u>	<u>1,423,730</u>
------(Rupees)-----			
(Restated)			
Earnings per share - basic and diluted	24	<u>2.44</u>	<u>2.78</u>

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



Hussain Dawood
Chairman



Muhammad Aliuddin Ansari
President and Chief Executive

statement of changes in equity for the year ended december 31, 2012

(Amounts in thousand)

	Share capital	Capital reserves	Revenue reserves	Total
	Share premium	Employees shareoption compensation reserve	General reserve Unappropriated profit	
Balance as at January 1, 2011	3,277,369	10,550,061	74,813 4,429,240	8,722,156 27,053,639
Total comprehensive income for the year ended December 31, 2011	-	-	-	1,423,730 1,423,730
Transactions with owners				
Final dividend for the year ended December 31, 2010 @ Rs. 2 per share	-	-	-	(655,474) (655,474)
Interim dividends	-	-	-	(786,569) (786,569)
- 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)
Balance as at December 31, 2011	<u>3,932,843</u>	<u>10,550,061</u>	<u>74,813 4,429,240</u>	<u>7,261,800 26,248,757</u>
Total comprehensive income for the year ended December 31, 2012	-	-	-	1,247,437 1,247,437
Transactions with owners				
Final dividend for the year ended December 31, 2011 @ Rs. 2 per share	-	-	-	(786,569) (786,569)
Bonus shares issued during the year in the ratio of 3 shares for every 10 shares held	1,179,851	-	-	(1,179,851) -
Vested share options lapsed during the year (note 12.1)	-	-	(74,813)	(74,813)
	1,179,851	-	(74,813)	(1,966,420) (861,382)
Balance as at December 31, 2012	<u>5,112,694</u>	<u>10,550,061</u>	<u>- 4,429,240</u>	<u>6,542,817 26,634,812</u>

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



Hussain Dawood
Chairman



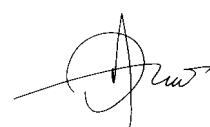
Muhammad Aliuddin Ansari
President and Chief Executive

statement of cash flows
for the year ended december 31, 2012

(Amounts in thousand)

	Note	2012	2011
		------(Rupees)-----	
Cash Flows From Operating Activities			
Cash utilized in operations	27	(26,359)	(26,424)
Taxes paid		(179,129)	(159,433)
Retirement and other service benefits paid		(26,205)	(37,040)
Long term loans and advances - net		(1,249)	(5,486)
Net cash utilized in operating activities		(232,942)	(228,383)
Cash Flows From Investing Activities			
Advance received against investment classified as 'held for sale'		863,018	-
Income on deposits / other financial assets including income earned on subordinated loan to subsidiaries		787,933	667,407
Dividends received		1,555,006	2,018,204
Long term investments		(268,858)	(2,071,160)
Proceeds from realization of net assets on winding up of Subsidiary Company		2,884	641,883
Purchases of property, plant and equipment (PPE)		(24,808)	(36,419)
Sale proceeds on disposal of PPE		19,317	1,875
Net cash generated from investing activities		2,934,492	1,221,790
Cash Flows From Financing Activities			
Loan disbursed to Subsidiary Companies		(7,200,000)	(3,600,000)
Loan disbursed to Avanceon Limited - net of recovery		(18,293)	-
Repayment of loan by Subsidiary Companies		5,250,000	2,100,000
Payment of financial charges		(931,462)	(475,341)
(Redemptions) / Proceeds from borrowings		(248,777)	2,932,176
Dividends paid		(768,716)	(2,330,159)
Net cash utilized in financing activities		(3,917,248)	(1,373,324)
Net decrease in cash and cash equivalents		(1,215,698)	(379,917)
Cash and cash equivalents at beginning of the year		2,397,270	2,777,187
Cash and cash equivalents at end of the year	28	1,181,572	2,397,270

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



Hussain Dawood
Chairman



Muhammad Aliuddin Ansari
President and Chief Executive

notes to the financial statements
for the year ended december 31, 2012

(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, food, energy, exploration, LNG 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 the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention as modified by remeasurement of certain financial assets and financial liabilities 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 (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

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

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 2012 and relevant to the Company

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

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

(Amounts in thousand)

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

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

c) **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 and amendments to published standards are not effective (although available for early adoption) for the financial year beginning on or after January 1, 2012 and have not been early adopted by the Company:

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015), not yet notified by SECP. IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. The Company is yet to assess the full impact of IFRS 9, however, the initial indications are that it may not affect the Company's financial statements significantly.
- 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.
- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2013), not yet notified by SECP. 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 the Company's financial statements.
- IAS 1 (Amendment) 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). The main change resulting from these amendment is a requirement for entities to group items presented in 'Other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment will only affect the disclosures in the Company's financial statements.

(Amounts in thousand)

- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on or after January 1, 2013). The amendment eliminates the corridor approach and recognizes all actuarial gains and losses in 'Other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gains and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognized in the financial statements, and result in changes in benefit classification and presentation. The Company is in a process to assess the impacts of this amendment.
- 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. It is unlikely that this standard will have any significant impact on the Company's financial statements.
- IAS 28 (Revised) 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. It is unlikely that this standard will have any significant impact on the Company's financial statements.

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

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

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

2.2 Property, plant and equipment

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except capital work-in-progress which is 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.

(Amounts in thousand)

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.

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.

(Amounts in thousand)

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 of it within 12 months of the end of the reporting date.

26.2 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.

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.

(Amounts in thousand)

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. 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.

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.

(Amounts in thousand)

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.

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.

(Amounts in thousand)

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 include 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.

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. Provisions 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.

(Amounts in thousand)

2.19 Revenue recognition

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

- Dividend income from investments is recognised when the Company's right to receive payment has been established.
- 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.

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 shareholders 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.

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.

(Amounts in thousand)

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 Employees' 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 value of these obligations and the underlying assumptions are disclosed in notes 26.1.3 and 26.1.6 respectively.

4 PROPERTY, PLANT AND EQUIPMENT

	2012	2011
	------(Rupees)-----	
Operating assets (note 4.1)	78,001	122,145
Capital work-in-progress (note 4.3)	3,493	5,724
	<u>81,494</u>	<u>127,869</u>

(Amounts in thousand)

4.1 Operating assets

As at January 1, 2011

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>

Year ended December 31, 2011

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>

As at December 31, 2011 / January 1, 2012

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>

Year ended December 31, 2012

Opening net book value	62,520	59,625	122,145
Additions (note 4.3)	11,322	15,717	27,039
Disposals (note 4.2)			
Cost	(1,188)	(44,830)	(46,018)
Accumulated depreciation	743	27,957	28,700
	(445)	(16,873)	(17,318)
Depreciation charge (note 19)	(36,107)	(17,758)	(53,865)
Net book value	<u>37,290</u>	<u>40,711</u>	<u>78,001</u>

As at December 31, 2012

Cost	99,833	74,284	174,117
Accumulated depreciation	(62,543)	(33,573)	(96,116)
Net book value	<u>37,290</u>	<u>40,711</u>	<u>78,001</u>

Annual rate of depreciation (%)

	Furniture fixture and equipment	Vehicles	Total
	------(Rupees)-----		
As at January 1, 2011	60,008	91,348	151,356
As at January 1, 2011	(3,219)	(31,054)	(34,273)
As at January 1, 2011	<u>56,789</u>	<u>60,294</u>	<u>117,083</u>
Year ended December 31, 2011	56,789	60,294	117,083
Year ended December 31, 2011	29,691	20,099	49,790
Year ended December 31, 2011	-	(8,050)	(8,050)
Year ended December 31, 2011	-	6,175	6,175
Year ended December 31, 2011	-	(1,875)	(1,875)
Year ended December 31, 2011	(23,960)	(18,893)	(42,853)
Year ended December 31, 2011	<u>62,520</u>	<u>59,625</u>	<u>122,145</u>
As at December 31, 2011 / January 1, 2012	89,699	103,397	193,096
As at December 31, 2011 / January 1, 2012	(27,179)	(43,772)	(70,951)
As at December 31, 2011 / January 1, 2012	<u>62,520</u>	<u>59,625</u>	<u>122,145</u>
Year ended December 31, 2012	62,520	59,625	122,145
Year ended December 31, 2012	11,322	15,717	27,039
Year ended December 31, 2012	(1,188)	(44,830)	(46,018)
Year ended December 31, 2012	743	27,957	28,700
Year ended December 31, 2012	(445)	(16,873)	(17,318)
Year ended December 31, 2012	(36,107)	(17,758)	(53,865)
Year ended December 31, 2012	<u>37,290</u>	<u>40,711</u>	<u>78,001</u>
As at December 31, 2012	99,833	74,284	174,117
As at December 31, 2012	(62,543)	(33,573)	(96,116)
As at December 31, 2012	<u>37,290</u>	<u>40,711</u>	<u>78,001</u>
Annual rate of depreciation (%)	<u>15 to 45</u>	<u>18.75 to 22.5</u>	

(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)-----					
Vehicles					
By Company policy to existing / resigned / retired executives	A. Samad Khan	3,600	2,700	900	900
	Arshaduddin Ahmed	3,599	2,699	900	900
	Asad Umar	11,740	8,145	3,595	4,600
	Asad Umar	5,966	1,517	4,449	4,449
	Imran Anwer	3,616	2,716	900	900
	Jamshed Afzal Khan	1,401	547	854	854
	Jiwan Das	1,332	396	936	936
	Khalid Mir	2,750	2,125	625	625
	Khalid S. Subhani	4,425	3,319	1,106	2,100
	Mazhar Kabir	1,401	547	854	854
	Shaikh Imran Ul Haq	3,599	2,699	900	900
	Umair Ismail	1,401	547	854	854
			44,830	27,957	16,873
Furniture, fixture and equipment					
By Company policy to existing / resigned / retired executives	Asad Umar	889	590	299	299
Items having net book value upto Rs. 50 each					
		299	153	146	146
		46,018	28,700	17,318	19,317
2011		8,050	6,175	1,875	1,875

4.3 Capital work-in-progress

	Furniture, fixture and equipment	Advances to suppliers	Total
------(Rupees)-----			
Year ended December 31, 2011			
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	4,320	1,404	5,724
Year ended December 31, 2012			
Balance as at January 1, 2012	4,320	1,404	5,724
Additions during the year	8,532	16,276	24,808
Transferred to operating assets (note 4.1)	(11,322)	(15,717)	(27,039)
Balance as at December 31, 2012	1,530	1,963	3,493

(Amounts in thousand)

5 LONG TERM INVESTMENTS

	2012	2011
------(Rupees)-----		
Subsidiary companies - at cost (note 5.1)	27,367,262	27,100,904
Less: Investment in Engro Foods Netherlands B.V, classified as held for sale (note 5.2)	863,018	-
	26,504,244	27,100,904
Joint venture company - at cost		
Engro Vopak Terminal Limited		
45,000,000 Ordinary shares of Rs. 10 each, equity held 50% (2011: 50%)	450,000	450,000
Others - at cost		
Arabian Sea Country Club Limited		
500,000 Ordinary shares of Rs. 10 each, equity held 6% (2011: 6%)	5,000	5,000
	26,959,244	27,555,904

5.1 Subsidiary companies

	2012		2011	
	Equity % held	Investment at cost (Rupees)	Equity % held	Investment at cost (Rupees)
Quoted				
Engro Polymer & Chemicals Limited				
372,810,000 (2011: 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 (2011: 673,000,000)				
Ordinary shares of Rs. 10 each	88.37	6,730,000	89.97	6,730,000
Unquoted				
Engro Fertilizers Limited				
1,072,800,000 (2011: 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 (2011: 113,925,000)				
Ordinary shares of Rs. 10 each	100	1,895,100	100	1,895,100
Engro PowerGen Limited				
36,476,000 (2011: 36,476,000)				
Ordinary shares of Rs. 10 each	100	3,106,700	100	3,106,700

(Amounts in thousand)

	2012		2011	
	Equity % held	Investment at cost (Rupees)	Equity % held	Investment at cost (Rupees)
Engro Foods Netherlands B.V. 20,000 (2011: 20,000) Ordinary shares of Euro 1 each (note 5.2)	100	863,018	100	656,160
Elengy Terminal Pakistan Limited 6,200,000 (2011: Nil) Ordinary shares of Rs. 10 each (note 5.3)	100	62,000	-	-
Engro Powergen Qadirpur Limited 32,000,000 (2011: 32,000,000) Ordinary shares of Rs. 10 each	10	320,000	10	320,000
Engro Management Services (Private) Limited Nil (2011: 250,000) Ordinary shares of Rs. 10 each (note 5.4)	-	-	100	2,500
Avanceon Limited Nil (2011: 25,066,667) Ordinary shares of Rs. 10 each (note 5.5) Less: Write-off / Provision for impairment (note 5.1.1)	-	381,957 (381,957)	62.67	381,957 (381,957)
		<u>27,367,262</u>		<u>27,100,904</u>

2012 2011
------(Rupees)-----

5.1.1 Provision against impairment of investment

Balance as at January 1	381,957	-
Add: Provision against impairment of investment in Avanceon Limited	-	381,957
	<u>381,957</u>	<u>381,957</u>
Less: Investment written off (note 5.5)	(381,957)	-
Balance as at December 31	<u>-</u>	<u>381,957</u>

5.2 Engro Foods Netherlands B.V.

During the year, the Company has made additional equity investment of Rs. 206,858 in its wholly owned subsidiary, Engro Foods Netherlands B.V.

The Company entered into an agreement (Master Agreement) with its subsidiary, Engro Foods Limited (Efoods) on May 2, 2011 to invest up to Rs. 800,000 till December 31, 2011 in the Global Business Unit (GBU) being set up in the Canada and USA via investment in Engro Foods Netherlands B.V., 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.

(Amounts in thousand)

Under the Master Agreement, Efoods shall endeavor to purchase the entire shareholding of Engro Foods Netherlands B.V. from the Company by June 30, 2012 at the actual rupee amount invested in the said business till that day by the Company or as mutually agreed by both parties.

On October 3, 2012, the Company and Efoods entered into a supplemental agreement as the investment requirements for the GBU had exceeded Rs. 800,000 as contemplated in the Master Agreement. Under the supplemental agreement, Efoods shall purchase the shares in Engro Foods Netherlands B.V. by making payment of the actual investment amount of Rs. 863,018 to the Company in advance of actual share transfer taking place. Following payment of the purchase price and receipt of all necessary regulatory approvals, the Company shall promptly transfer the shares in Engro Foods Netherlands B.V. to Efoods.

Subsequent to the aforementioned supplemental agreement, Efoods has paid the advance of Rs. 863,018 to the Company. Therefore, pending completion of all necessary regulatory approvals, the Company has classified the investment in Engro Foods Netherlands B.V. as 'Held for Sale'.

5.3 Elengy Terminal Pakistan Limited

On January 4, 2012, the Company incorporated a new wholly owned subsidiary, Elengy Terminal Pakistan Limited, to establish and operate a terminal for the handling, re-gasification, storage, treatment and processing of Liquefied Natural Gas (LNG), Re-gasification Liquefied Natural Gas (RLNG), Liquid Petroleum Gas (LPG), Natural Gas Liquid (NGL) and all other related liquids, gases and chemical and petroleum products. During the year, the Company has made an equity investment of Rs. 62,000 through subscription of 6,200,000 shares of Rs. 10 each.

Further, the Company has recovered during the year the project feasibility costs and associated expenses incurred on behalf of Elengy Terminal Pakistan Limited (prior to its incorporation) in prior year aggregating Rs. 41,604 (note 20), which were previously charged off.

5.4 Engro Management Services (Private) Limited

Engro Management Services (Private) Limited (a dormant wholly owned subsidiary) was voluntarily wound-up as approved by its Board of Directors in their meeting held on February 7, 2012. Accordingly, the Company has received Rs. 2,884 from the realization of net assets of Engro Management Services (Private) Limited.

5.5 Avanceon Limited

Subsequent to the signing of the Memorandum of Understanding on December 31, 2011, the Company signed a Global Restructuring Agreement (GRA) on March 28, 2012 with Mr. Bakhtiar Wain (Wain), a minority shareholder of Avanceon Limited - to fully take over Avanceon's Pakistan and UAE operations/companies excluding the USA operations/companies. The approval regarding the disposal was accorded by the shareholders of the Company at the 46th Annual General Meeting held on March 30, 2012. As per the GRA, the Company during the year transferred all of its 62.67% shareholding in Avanceon Limited to Messrs Wains. The Company has also paid and has written off Rs. 118,000 (less Rs. 25,000 provided last year) to the banks / financial institutions to discharge bank liabilities enabling them to release the Corporate Guarantees issued by the Company. Further, the Company extended a loan of Rs. 41,000 to Avanceon Limited which was disbursed directly to the banks / financial institutions and was repayable during 2012. However, the Company could only make recovery of Rs. 22,707 thereagainst and has made provision, on prudence, for the balance amount of Rs. 18,293 (note 7).

Further, the Company on disposal of its investment in Avanceon Limited and its subsidiary companies, has written off an amount of Rs.381,957 in respect of the carrying amount of investment in Avanceon Limited (note 5.1.1), Rs. 241,318 in respect of subordinated loan (note 7) and Rs. 35,411 in respect of accrued interest thereon (note 8) which was recognized as provision in the financial statements for the year ended December 31, 2011.

(Amounts in thousand)

In accordance with the terms of aforementioned GRA, the Company's equity interest of 43.87% in Avanceon LP, USA and Avanceon GP LLC, USA were to be transferred by Avanceon Limited to the Company during 2012. The costs of these investments were nil, consequent to the recognition of impairment provision during the year ended December 31, 2011. During the year, Avanceon Limited entered into a Redemption Agreement (RA) with Mr. Robert Alan Zeigenfuse, a minority interest holder in Avanceon LP, on August 29, 2012, whereby the Company has effectively sold its equity interest to him. Under the RA, the aggregate consideration comprise of a fixed payment amount of USD 518 (in four equal annual installments) plus 43.89 % of the adjusted profits of Avanceon LP for the calendar years 2012, 2013 and 2014. Both the payments are contingent and are subject to certain annual service revenue thresholds and other conditions to be achieved by Avanceon LP. Accordingly, pending realization thereof is virtually certain, the Company has not recognized any income / asset against the aforementioned disposal in the financial statements.

5.6 Value of the above investments, based on the net assets of the investee companies as at December 31, 2012 are as follows:

	2012	2011
	------(Rupees)-----	
Engro Polymer & Chemicals Limited	3,555,705	3,506,734
Engro Fertilizers Limited	15,798,027	18,617,058
Engro Eximp (Private) Limited	2,196,160	2,617,038
Elengy Terminal Pakistan Limited	22,896	-
Engro Foods Limited	8,884,961	6,511,077
Engro Foods Netherlands B.V.	545,412	554,749
Engro Powergen Qadirpur Limited	675,826	510,951
Engro Vopak Terminal Limited	1,280,370	1,729,089
Engro PowerGen Limited	6,097,760	4,716,979
Engro Management Services (Private) Limited	-	2,921
Avanceon Limited	-	(73,267)
Arabian Sea Country Club Limited (June 30, 2010)	5,569	5,569

(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)

Long term loan to Engro Eximp (Private) Limited (note 6.2)

Subordinated loan to subsidiaries - unsecured:

- Engro Eximp (Private) Limited (note 6.3)

- Engro Fertilizers Limited (note 6.4)

Subordinated loan to Avanceon FZE - unsecured

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

Disbursements

Repayments/amortization

Balance as at December 31

6.2 On June 28, 2012, the Company entered into a long term finance agreement with Engro Eximp (Private) Limited, a subsidiary company, for Rs. 800,000 at a mark-up rate of 3 months KIBOR plus 2.25% payable quarterly. On September 28, 2012, an addendum was signed whereby, the mark-up rate has been changed to 6 months KIBOR on the day of funds transfer plus 3.5% payable quarterly. On December 28, 2012, a further addendum was signed to increase the finance facility under the agreement to Rs. 1,150,000. The principal is due in one lump sum installment falling due on June 28, 2017.

6.3 On December 31, 2012, the Company entered into a subordination agreement with Engro Eximp (Private) Limited and various banks whereby, out of the total outstanding principal amount of long term loan amounting to Rs. 1,150,000, as referred to in note 6.2, an amount of Rs. 430,000 has been subordinated to the subsidiary company's existing finance facilities extended by the banks, which are parties to the subordination agreement.

	2012	2011
	------(Rupees)-----	
Long term loans and advances to:		
- Executives (note 6.1)	14,433	14,312
- Other employees	16	49
	14,449	14,361
Less: Current portion shown under current assets (note 7)	4,859	6,020
	9,590	8,341
Long term loan to Engro Eximp (Private) Limited (note 6.2)	720,000	-
Subordinated loan to subsidiaries - unsecured:		
- Engro Eximp (Private) Limited (note 6.3)	430,000	-
- Engro Fertilizers Limited (note 6.4)	3,000,000	3,000,000
	3,430,000	3,000,000
Subordinated loan to Avanceon FZE - unsecured	-	241,318
Less: Current portion shown under current assets (note 7)	-	(241,318)
	-	-
	4,159,590	3,008,341
6.1 Reconciliation of the carrying amount of loans and advances to executive		
Balance as at January 1	14,312	4,340
Disbursements	15,427	13,260
Repayments/amortization	(15,306)	(3,288)
Balance as at December 31	14,433	14,312

(Amounts in thousand)

6.4 Represents subordinated loan extended to Engro Fertilizers Limited for a period of five years. The entire loan is repayable on or before the end of the term, that is, September 14, 2015. The loan carries mark-up at the rate of 17.1% (2011: 17.1%), based on a margin of 1% over and above mark-up payable by the subsidiary company for rupee finances of like maturities, such mark-up being payable on a semi annual basis.

7 LOANS, ADVANCES AND PREPAYMENTS

	2012	2011
	------(Rupees)-----	
Loans and advances		
Considered good		
Current portion of long term loans and advances to executives and other employees (note 6)	4,859	6,020
Loan to Engro Polymer & Chemicals Limited (note 7.1)	800,000	-
Considered doubtful		
Subordinated loan to Avanceon FZE	241,318	241,318
Less: Write-off / Provision against subordinated loan (note 7.2)	(241,318)	(241,318)
Loan to Avanceon Limited	18,293	-
Less: Provision against loan - net (note 5.5)	(18,293)	-
	-	-
Prepayments	19,042	12,836
	<u>823,901</u>	<u>18,856</u>

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

7.2 Provision against subordinated loan

	2012	2011
	------(Rupees)-----	
Balance as at January 1	241,318	-
Add: Provision against subordinated loan to Avanceon FZE	-	241,318
	<u>241,318</u>	<u>241,318</u>
Less: Balance written off (note 5.5)	(241,318)	-
Balance as at December 31	<u>-</u>	<u>241,318</u>

7.2.1 During the year, Avanceon Limited transferred the subordinated loan and accrued interest thereon due to the Company, to Avanceon FZE, UAE (its wholly owned subsidiary) as part of its internal restructuring, with the consent of the Company.

(Amounts in thousand)

8 OTHER RECEIVABLES

Considered good

Accrued income on deposits / investments (note 8.1)

Due from:

- Subsidiary companies
- Elengy Terminal Pakistan Limited
- Engro Eximp Agriproducts (Private) Limited (formerly Engro Foods Supply Chain Limited)
- Engro Eximp (Private) Limited
- Engro Fertilizers Limited
- Engro Foods Limited
- Engro Foods Netherlands B.V.
- Engro Polymer & Chemicals Limited
- Engro PowerGen Limited
- Engro Powergen Qadirpur Limited
- Sindh Engro Coal Mining Company Limited

- Joint Venture

- Engro Vopak Terminal Limited

Others

Considered doubtful

Accrued markup due from Avanceon FZE (note 7.2.1)

Less: Write-off / Provision against accrued markup (note 8.2)

8.1 This includes interest on subordinated loans amounting Rs. 129,304 (2011: Rs. 154,861).

8.2 Provision against accrued markup

Balance as at January 1

Add: Provision against accrued markup

Less: Balance written off (note 5.5)

Balance as at December 31

	2012	2011
	------(Rupees)-----	
Accrued income on deposits / investments (note 8.1)	138,312	9,366
Due from:		
- Subsidiary companies		
- Elengy Terminal Pakistan Limited	2,094	-
- Engro Eximp Agriproducts (Private) Limited (formerly Engro Foods Supply Chain Limited)	413	272
- Engro Eximp (Private) Limited	1,386	2,000
- Engro Fertilizers Limited	17,012	150,758
- Engro Foods Limited	18,561	6,508
- Engro Foods Netherlands B.V.	7,215	1,103
- Engro Polymer & Chemicals Limited	5,637	7,442
- Engro PowerGen Limited	1,742	616
- Engro Powergen Qadirpur Limited	381	26,076
- Sindh Engro Coal Mining Company Limited	676	512
- Joint Venture		
- Engro Vopak Terminal Limited	871	343
Others	55,988	195,630
	2,656	8,959
Considered doubtful		
Accrued markup due from Avanceon FZE (note 7.2.1)	35,411	35,411
Less: Write-off / Provision against accrued markup (note 8.2)	(35,411)	(35,411)
	-	-
	<u>196,956</u>	<u>213,955</u>

(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:

	2012	2011
	------(Rupees)-----	
Subsidiary companies		
- Elengy Terminal Pakistan Limited	34,995	-
- Engro Eximp Agriproducts (Private) Limited (formerly Engro Foods Supply Chain Limited)	6,048	930
- Engro Eximp (Private) Limited	16,060	5,215
- Engro Fertilizers Limited	113,291	150,758
- Engro Foods Limited	38,847	41,070
- Engro Foods Netherlands B.V.	7,215	1,103
- Engro Polymer & Chemicals Limited	52,518	7,409
- Engro PowerGen Limited	8,268	1,452
- Engro Powergen Qadirpur Limited	21,608	26,076
- Sindh Engro Coal Mining Company Limited	6,104	6,263
- Avanceon Limited	-	44,972
- Engro Management Services (Private) Limited	-	10
Joint venture		
- Engro Vopak Terminal Limited	1,454	180,891

8.4 As at December 31, 2012, receivables aggregating to Rs. 58,644 (2011: Rs. 49,727) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2012	2011
	------(Rupees)-----	
Upto 3 months	42,709	11,164
3 to 6 months	2,877	9,936
More than 6 months	13,058	28,627
	58,644	49,727

9. SHORT TERM INVESTMENTS

Financial assets at fair value through profit or loss:

- Term Deposits	-	1,200,000
- Treasury Bills (note 9.1)	484,393	708,102
- Mutual fund securities	-	479
	484,393	1,908,581

9.1 These represent Treasury Bills having face value of Rs. 289,000 and 203,000 (2011: Rs. 718,000) discounted using effective rates of 9.25% and 9.35% per annum respectively (2011: 11.91% per annum).

(Amounts in thousand)

10. CASH AND BANK BALANCES

	2012	2011
	------(Rupees)-----	
Subsidiary companies		
Cash at banks on:		
- deposit accounts (note 10.1)	697,009	488,535
- current accounts	20	4
	697,029	488,539
Cash in hand	150	150
	697,179	488,689

10.1 These carry return ranging from 6% to 10.50% (2011: 10% to 11.25%).

11. SHARE CAPITAL

11.1 Authorised Capital

	2012	2011
	------(No. of Shares)-----	
	550,000,000	450,000,000
Ordinary Shares of Rs. 10 each (note 11.3)	5,500,000	4,500,000

Issued, subscribed and paid-up capital

	2012	2011
	------(No. of Shares)-----	
Ordinary shares of Rs. 10 each fully paid in cash	185,354,484	185,354,484
Ordinary shares of Rs. 10 each issued as fully paid bonus shares	325,914,951	207,929,697
	511,269,435	393,284,181

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

	2012	2011
	------(No. of Shares)-----	
As at January 1	393,284,181	327,736,819
Ordinary shares of Rs. 10 each issued during the year as fully paid bonus shares (note 11.3)	117,985,254	65,547,362
	511,269,435	393,284,181

11.3 During the year, the Company:

- increased its authorized share capital from Rs. 4,500,000 to Rs. 5,500,000; and
- issued bonus shares in the ratio of 3 shares for every 10 shares held.

11.4 As at December 31, 2012 associated companies held 228,787,241 (2011: 186,500,772) ordinary shares in the Company.

(Amounts in thousand)

12 EMPLOYEE SHARE OPTION SCHEME

Under the Employee Share Option Scheme (the Scheme), senior employees who were 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 were subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee was calculated in accordance with the criticality of employee to the business and their ability and was subject to approval by the Compensation Committee. No amounts were paid or payable by the recipient on receipt of the option. The options carried neither right to dividends nor voting rights. Vesting period 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 were to be exercised within a period of two years ended on December 31, 2012. For options granted after June 30, 2008, the vesting period was to end such number of days after December 31, 2010 as was 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 could only be exercised upto December 31, 2012. The exercise period under the scheme expired on December 31, 2012, due to which all outstanding share options have lapsed.

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. Further, consequent to the bonus issue in the current year, the entitlements were increased to 3,001,799 shares from 2,309,076 shares (adjusted with the effect of forfeiture) respectively and the exercise price was adjusted to Rs. 119.80 from Rs. 155.70 respectively. These changes were duly approved by the Securities and Exchange Commission of Pakistan. The aforementioned reduction in exercise price had no effect on the fair value of share options recognized in the financial statements. However, due to the expiry of the scheme, all outstanding share options have lapsed as at year end.

12.1 Employees share option compensation reserve

	2012	2011
	------(Rupees)-----	
Balance at beginning of the year	74,813	74,813
Options lapsed during the year (note 19)	(74,813)	-
Balance at end of the year	-	74,813

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

	2012	2011
	------(Numbers)-----	
Balance at beginning of the year	1,135,909	1,135,909
Options lapsed during the year	(1,135,909)	-
Balance at end of the year	-	1,135,909

(Amounts in thousand)

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

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%

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

Name of employee	No. of share options
Asad Umar (retired)	1,201,200
Ruhail Muhammed	720,720
Andalib Alavi	480,480
Tahir Jawaid	480,480
Naveed Hashmi	118,919

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

13. DEFERRED TAXATION

	2012	2011
	------(Rupees)-----	
Debit / (credit) balances arising on account of:		
- accelerated depreciation allowance	(2,553)	1,786
- recoupable minimum turnover tax, net	(1,535)	(4,795)
- provision for retirement benefits	(1,714)	(1,649)
- provision for impairment against subordinated loan and interest thereon	(6,402)	(96,855)
- amortization of transaction costs incurred on borrowings	40,525	131,783
	28,321	30,270

14 TRADE AND OTHER PAYABLES

Creditors	12,538	9,554
Accrued liabilities (note 14.1)	37,258	267,612
Contractors' deposits and retentions	-	714
Workers' welfare fund (note 14.2)	95,929	66,590
Sales tax payable	12,052	4,333
Others	22,121	22,280
	179,898	371,083

(Amounts in thousand)

14.1 Accrued liabilities

	2012	2011
	------(Rupees)-----	
Salaries, wages and other employee benefits	971	102,483
Vacation accruals	10,451	11,039
Advertisement	-	1,000
Consultancy services	14,762	24,170
Contingent consideration payable to minority shareholder in Avanceon Limited	-	19,230
Others	11,074	109,690
	<u>37,258</u>	<u>267,612</u>

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

	2012	2011
	------(Rupees)-----	
Engro Rupiya Certificate I (note 15.1)	3,720,970	3,768,502
Engro Rupiya Certificate II (note 15.2)	2,483,694	2,602,766
Short-term bank borrowings (note 15.4)	-	-
	<u>6,204,664</u>	<u>6,371,268</u>

15.1 Represents amount raised from general public against the issuance of Engro Rupiya Certificates I (net of unamortized transaction cost of Rs. 63,901). 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 Represents amount raised from general public against issuance of Engro Rupiya Certificate II (net of unamortized transaction cost of Rs. 51,886). 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.

(Amounts in thousand)

15.3 The proceeds from the Engro Rupiya Certificates (notes 15.1 and 15.2) 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.

15.4 During the year, the Company has arranged short-term finance facilities of Rs. 1,500,000 (2011: Nil) from banks to meet its working capital requirements. The facilities are primarily secured against ranking floating charge over all present and future loans, advances, receivables and other current assets (excluding investments) of the Company. Additionally the facilities are also secured through a pledge over shares of Engro Foods Limited (a subsidiary company). The Company utilized Rs. 1,495,000 out of the total facilities, which has been repaid during the year.

16. CONTINGENCIES AND COMMITMENTS

	2012	2011
	------(Rupees)-----	
Contingencies		

16.1 Corporate Guarantees issued in favour of Subsidiary Companies:

- Engro Fertilizers Limited (note 16.2)	63,934,832	67,141,010
- Engro Powergen Qadirpur Limited (16.3)	971,000	900,604
- Engro PowerGen Limited (note 16.4)	116,520	-
- Engro Foods Canada Limited (note 16.5)	235,544	-
- Avanceon Limited (note 16.6)	-	242,000

16.2 The above amount also includes a Corporate Guarantee issued by the Company to International Finance Corporation (IFC) for USD 80,000 under the Amended Agreement entered into by the Subsidiary Company with IFC. Till 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. 119.80 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.

(Amounts in thousand)

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 extended a Corporate Guarantee amounting to USD 1,200 (plus markup) in favor of Bank Alfalah Limited on account of Engr o PowerGen Limited (a subsidiary company) against a Letter of Guarantee facility offered to the subsidiary company.

16.5 Includes (a) Standby Letter of Credit in favour of HSBC Bank Canada amounting to CAD 1,170 issued on October 01, 2012 by Soneri Bank Limited against banking facilities granted to Engro Foods Canada Limited (a wholly owned subsidiary of Engro Foods Netherlands B.V.) and expiring on October 01, 2013 and (b) Corporate Guarantee of USD 1,250 issued in favour of National Bank of Pakistan Limited, Americas Region, USA against working capital facility granted to Engro Foods Canada Limited.

16.6 The Company had 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 Global Restructuring Agreement entered into by the Company, referred to in note 5.5, banks/financial institutions have released all such Corporate Guarantees.

Commitments

16.7 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.

16.8 On October 01, 2012, the Company, also extended a Sponsor Support Undertaking in favour of MCB Bank Limited and Faysal Bank Limited against a syndicate finance facility of Rs. 500,000 to Engro Polymer and Chemicals Limited, a subsidiary company. As per the undertaking, in case the subsidiary company is unable to fulfill its financial obligations to the syndicate, the Company shall provide subordinated loan to the subsidiary to fulfill the same.

17. DIVIDEND INCOME

	2012	2011
	------(Rupees)-----	
Subsidiary Companies		
- Engro Eximp (Private) Limited	-	705,000
- Engro PowerGen Limited	317,706	591,499
- Engro Powergen Qadirpur Limited	44,800	91,520
	<u>362,506</u>	<u>1,388,019</u>
Joint Venture		
- Engro Vopak Terminal Limited	1,192,500	540,000
	<u>1,555,006</u>	<u>1,928,019</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.

(Amounts in thousand)

19 ADMINISTRATIVE EXPENSES

	2012	2011
	------(Rupees)-----	
Salaries, wages and staff welfare (note 19.1)	34,450	225,859
Less: Employee share option compensation reserve written back (note 12.1)	74,813	-
Staff recruitment, training, safety and other expenses	9,495	13,944
Repairs and maintenance	1,768	2,428
Advertising, promotion and corporate branding	50,882	50,869
Rent, rates and taxes	49,697	47,012
Communication, stationery and other office expenses	18,848	9,970
Travel	17,378	14,172
Depreciation (note 4.1)	53,865	42,853
Legal and professional charges	9,065	39,179
Donations (note 32)	21,000	34,000
Other expenses (note 19.2)	18,159	89,177
	<u>209,794</u>	<u>569,463</u>

19.1 Salaries, wages and other staff welfare is netted off from the amount recovered from subsidiaries amounting to Rs. 235,949 (2011: Rs. 107,448) in accordance with the shared service agreement. The above amount also includes Rs. 39,970 (2011: Rs. 27,573) in respect of staff retirement benefits.

19.2 Includes Rs. 12,800 (2011: Rs.12,400) in respect of directors' fees and Nil (2011: Rs. 41,604) related to LNG project (note 5.3).

20. OTHER OPERATING INCOME

	2012	2011
	------(Rupees)-----	
Financial assets:		
Income on deposits / other financial assets (note 20.1)	762,018	765,180
Non financial assets:		
Service charges (note 20.2)	16,032	6,394
Capital gain on partial disposal of investment in Engro Foods Limited	-	371,781
LNG Project cost transferred to Elengy Terminal Pakistan Limited (note 5.3)	41,604	-
Gain on disposal of property plant and equipment	1,999	-
Others	11,258	3,655
	<u>832,911</u>	<u>1,147,010</u>

20.1 Includes Rs. 693,625 (2011: Rs. 490,494) in respect of profit earned on subordinated loan to subsidiary companies.

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

(Amounts in thousand)

21. OTHER OPERATING EXPENSES

	2012	2011
	------(Rupees)-----	
Provision / write-off against impairment (note 21.1)	18,293	658,686
Charge against corporate guarantee (note 5.5)	93,000	-
Charge for contingent consideration	-	50,730
Workers' welfare fund	29,339	29,611
Auditors' remuneration (note 21.2)	702	604
Professional tax	99	93
	<u>141,433</u>	<u>739,724</u>

21.1 Provision against impairment

Balance as at January 1	658,686	-
Add: Provision against impairment of :		
- investment	-	381,957
- subordinated loan	-	241,318
- accrued interest	-	35,411
- loan under GRA (note 5.5)	18,293	-
	<u>676,979</u>	<u>658,686</u>
Less: Write-off (note 5.5)		
- investment	(381,957)	-
- subordinated loan	(241,318)	-
- accrued interest	(35,411)	-
Balance as at December 31	<u>18,293</u>	<u>658,686</u>

21.2 Auditors' remuneration

Fee for the		
- audit of annual financial statements	230	165
- review of half yearly financial statements	95	95
Certifications, audit of retirement funds and other advisory services	167	167
Reimbursement of expenses	210	177
	<u>702</u>	<u>604</u>

22 FINANCE COST

Interest/mark-up on borrowings	949,889	729,841
Amortization of transaction costs	82,173	54,556
	<u>1,032,062</u>	<u>784,397</u>

(Amounts in thousand)

23 TAXATION

	2012	2011
	------(Rupees)-----	
Current		
- for the year (note 23.1)	125,580	60,332
- for prior years (note 23.2)	66,617	(62,174)
	<u>192,197</u>	<u>(1,842)</u>
Deferred	(1,949)	28,973
	<u>190,248</u>	<u>27,131</u>

23.1 Includes minimum turnover tax amounting to Rs. 6,330 (2011: Rs. 4,795).

23.2 During the year, the Company has on prudence made additional tax provision for prior years of Rs. 66,617 consequent to apportionment of salaries, wages and other benefits to various heads of income. The prior year reversal of tax provision of Rs. 62,174 pertains to transaction cost incurred on Engro Rupiya Certificate I and II claimed by the Company in its income tax return.

23.3 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:

	2012	2011
	------(Rupees)-----	
Profit before tax	<u>1,437,685</u>	<u>1,450,861</u>
Tax calculated at the rate of 35%	503,190	507,801
Effect of exemption from tax on certain income	(126,877)	(610,890)
Effect of applicability of lower tax rate and other tax credits / debits	(186,065)	130,220
Tax charge for the year	<u>190,248</u>	<u>27,131</u>

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 IFC referred to in note 16.2.

	2012	2011
	------(Rupees)-----	
Profit after taxation	<u>1,247,437</u>	<u>1,423,730</u> (Restated)
Weighted average number of ordinary shares (in thousand)	<u>511,269</u>	<u>511,269</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:

	2012			2011		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	------(Rupees)-----					
Managerial remuneration	77,667	43,425	166,050	62,741	30,287	132,149
Retirement benefits funds	4,850	3,479	21,302	5,783	2,931	16,603
Other benefits	8	9	3,317	33	37	4,118
Fees	-	12,800	-	-	11,600	-
Total	<u>82,525</u>	<u>59,713</u>	<u>190,669</u>	<u>68,557</u>	<u>44,855</u>	<u>152,870</u>
Number of persons including those who worked part of the year	<u>2</u>	<u>14</u>	<u>53</u>	<u>12</u>	<u>12</u>	<u>59</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. 1,239 (2011: Rs. 1,082).

25.3 The above remuneration of chief executive, directors and executives also includes the amount recovered from subsidiaries in accordance with the shared service agreement.

(Amounts in thousand)

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, 2012, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

26.1.1 Balance Sheet Reconciliation

	Defined Benefit Gratuity Plans Funded	
	2012	2011
	------(Rupees)-----	
Present value of funded obligation	132,150	104,576
Fair value of plan assets	(170,004)	(113,689)
Surplus	(37,854)	(9,113)
Unrecognized actuarial gain	39,980	11,222
Payable to associated companies	664	108
Unrecognized past service cost	839	915
Net liability at end of the year	<u>3,629</u>	<u>3,132</u>

26.1.2 Movement in net liability recognised

Net liability at beginning of the year	3,132	-
Expense recognised	3,629	3,132
Amounts paid to the Fund	(3,132)	-
Net liability at end of the year	<u>3,629</u>	<u>3,132</u>

26.1.3 Movement in defined benefit obligation

As at beginning of the year	104,576	115,956
Current service cost	4,785	6,093
Interest cost	12,849	18,773
Benefits paid during the year	(53,658)	(20,000)
Actuarial gain on obligation	(31)	(4,774)
Liability transferred from / (to) DC Gratuity Funds	63,629	(3,051)
Liability transferred in respect of inter-company transfer	-	(8,421)
As at end of the year	<u>132,150</u>	<u>104,576</u>

26.1.4 Movement in fair value of plan assets

As at beginning of the year	113,689	125,199
Expected return on plan assets	13,929	20,608
Contribution by the Company	3,132	-
Benefits paid during the year	(53,658)	(20,000)
Actuarial gain/ (loss) on plan assets	28,727	(9,175)
Assets transferred by / (to) DC Gratuity Fund	64,185	(2,943)
As at end of the year	<u>170,004</u>	<u>113,689</u>

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded	
	2012	2011
	------(%)-----	
26.1.5 Charge for the year		
Current service cost		
Interest cost	12,849	18,773
Expected return on plan assets	(13,929)	(20,608)
Recognition of curtailment gain	-	(1,050)
Amortization of unrecognized past service cost	(76)	(76)
	<u>(1,156)</u>	<u>(2,961)</u>

26.1.6 Principal actuarial assumptions used in the actuarial valuation

	Defined Benefit Gratuity Plans Funded	
	2012	2011
	------(%)-----	
Discount rate	12	12.5
Expected per annum rate of return on plan assets	12	12.5
Expected per annum rate of increase in future salaries	12	12.5
	------(Rupees)-----	
	<u>42,656</u>	<u>11,433</u>

26.1.7 Actual return on plan assets

	2012		2011	
	Rupees	(%)	Rupees	(%)
	------(Rupees)-----			
Fixed income instruments	137,376	81%	84,736	75%
Cash	2,117	1%	1,109	1%
Others	30,511	18%	27,844	24%
	<u>170,004</u>		<u>113,689</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

	2012	2011	2010	2009	2008
	------(Rupees)-----				
Present value of defined benefit obligation	(132,150)	(104,576)	(115,956)	(339,182)	(296,469)
Fair value of plan assets	170,004	113,689	125,199	409,228	359,222
Surplus	<u>37,854</u>	<u>9,113</u>	<u>9,243</u>	<u>70,046</u>	<u>62,753</u>

(Amounts in thousand)

26.1.11 Expected future cost for the year ending December 31, 2013 is Rs. 296.

26.2 Defined contribution plans

An amount of Rs. 10,920 (2011: Rs. 11,455) has been charged during the year in respect of defined contribution plans maintained by the Company.

27 CASH UTILIZED IN OPERATIONS

	2012	2011
	------(Rupees)-----	
Profit before taxation	1,437,685	1,450,861
Adjustment for non-cash charges and other items:		
Depreciation	53,865	42,853
Gain on disposal of property, plant and equipment	(1,999)	-
Gain on realization of assets on winding up of Subsidiary Company	(384)	-
Provision for retirement and other service benefits	32,388	32,285
Employee share compensation expense - net	(74,813)	-
Income on deposits / other financial assets	(762,018)	(765,180)
Dividend income	(1,555,006)	(1,928,019)
Financial charges	1,032,062	784,397
Capital gain on partial disposal of Engro Foods Limited	-	(371,781)
Provision against loan	18,293	381,957
Provision for other receivables	-	35,411
Provision for loans, advances, and prepayments	-	241,318
Working capital changes (note 27.1)	<u>(206,432)</u>	<u>69,474</u>
	<u>(26,359)</u>	<u>(26,424)</u>

27.1 Working capital changes

(Increase) / decrease in current assets		
- Loans, advances, deposits and prepayments	(5,045)	395
- Other receivables (net)	(8,916)	(34,960)
	<u>(13,961)</u>	<u>(34,565)</u>
(Increase) / decrease in current liabilities		
- Trade and other payables	(192,471)	104,039
	<u>(206,432)</u>	<u>69,474</u>

28 CASH AND CASH EQUIVALENTS

Short term investments (note 9)	484,393	1,908,581
Cash and bank balances (note 10)	697,179	488,689
	<u>1,181,572</u>	<u>2,397,270</u>

(Amounts in thousand)

29 FINANCIAL INSTRUMENTS BY CATEGORY

	2012	2011
	------(Rupees)-----	
Financial assets as per balance sheet		
- Loans and receivables		
Long term loans	4,157,991	3,006,127
Loans and deposits	803,253	4,010
Other receivables	196,956	213,955
Cash and bank balances	697,179	488,689
	<u>5,855,379</u>	<u>3,712,781</u>
- Fair value through profit and loss		
Short term investments	484,393	1,908,581
Financial liabilities as per balance sheet		
- Financial liabilities measured at amortized cost		
Trade and other payables	71,917	300,160
Borrowings	6,204,664	6,371,268
Accrued interest / mark-up	337,927	319,500
Unclaimed dividends	96,936	79,083
	<u>6,711,444</u>	<u>7,070,011</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 245,018 (2011: USD 269,045) & CAD 1,170 (2011: NIL). 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 loans given to subsidiary companies exposes the Company to interest rate risk.

(Amounts in thousand)

As at December 31, 2012, if interest rate on loans given to subsidiary companies had been 1 % higher / lower with other variables held constant, post tax profit for the year would have been higher / lower by Rs. 4,509.

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; however as at December 31, 2012, the Company did not have any investment in mutual funds.

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:

	2012	2011
	------(Rupees)-----	
Long term loans	4,157,991	3,006,127
Loans and deposits	803,253	4,010
Other receivables	138,312	164,228
Short term investments	484,393	1,908,581
Bank balances	697,029	488,539
	<u>6,280,978</u>	<u>5,571,485</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 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
Allied Bank Limited	PACRA	A1+	AA+
Askari Bank Limited	PACRA	A1+	AA
Bank Al Falah Limited	PACRA	A1+	AA
Bank Al Habib Limited	PACRA	A1+	AA+
Bank Islami Pakistan Limited	PACRA	A1	A
Burj Bank Limited	JCR-VIS	A-1	A
Citibank N.A	Moody's	P-1	A1
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A-1+	AA+
JS Bank Limited	PACRA	A1	A+
MCB Bank Limited	PACRA	A1+	AA+
National Bank of Pakistan	JCR-VIS	A-1+	AAA
NIB Bank Limited	PACRA	A1+	AA-
Samba Bank Limited	JCR-VIS	A-1	AA-
Soneri Bank Limited	PACRA	A1+	AA-
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
United Bank Limited	JCR-VIS	A-1+	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.

(Amounts in thousand)

	2012			2011		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
------(Rupees)-----						
Financial liabilities						
Trade and other payables	71,917	-	71,917	300,160	-	300,160
Accrued interest / mark-up	337,927	-	337,927	319,500	-	319,500
Borrowings	6,204,664	-	6,204,664	6,371,268	-	6,371,268
Unclaimed dividends	96,936	-	96,936	79,083	-	79,083
	<u>6,711,444</u>	<u>-</u>	<u>6,711,444</u>	<u>7,070,011</u>	<u>-</u>	<u>7,070,011</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:

	2012	2011
	------(Rupees)-----	
Total Borrowings	6,204,664	6,371,268
Total Equity	26,634,812	26,248,757
	<u>32,839,476</u>	<u>32,620,025</u>
Total borrowings to equity ratio	<u>19%</u>	<u>20%</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. Fair value of treasury bills is determined using effective rates prevailing in the market at the end of each year for identical assets (level 1).

(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:

	2012	2011
	------(Rupees)-----	
	(Restated)	
Subsidiary companies		
Purchases and services	16,486	11,982
Services rendered	259,410	191,801
Mark-up from subsidiaries	693,625	490,494
Disbursement of loan	7,200,000	3,600,000
Repayment of loan by Subsidiary Companies	5,250,000	2,100,000
Dividend received	362,506	1,388,019
Royalty Income, net of sales tax	433,057	469,416
Associated companies		
Purchases and services	2,113	6,667
Retirement benefits	27,236	27,573
Dividend paid	335,161	855,569
Bonus shares issued	558,602	187,331
Donations	21,000	34,000
Investment in Mutual Funds / T-bills	-	910,000
Redemption of investment in Mutual Funds / T-bills	692,098	1,200,542
Joint ventures		
Services rendered	1,667	2,124
Dividend received	1,192,500	540,000
Others		
Dividend paid	10,205	6,795
Bonus shares issued	14,794	7,732
Director's fees	12,800	12,400
Remuneration of key management personnel	128,924	108,156

32 DONATIONS

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

Name of Donor	Interest in Donee	Name of Donee	2012	2011
			------(Rupees)-----	
Aliuddin Ansari, Asad Umar (retired), Khalid Mansoor (retired), Afnan Ahsan and Khalid S. Subhani	Chairman and Trustees	Engro Foundation	<u>21,000</u>	<u>34,000</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 of Engro Vopak Terminal Limited, a joint venture company, in its meeting held on January 30, 2013 has proposed a final cash dividend of Rs.4 per share for the year ended December 31, 2012, amounting to Rs.360,000, of which the proportionate share of the Company amounts to Rs.180,000.

34.2 The Board of Directors of Engro PowerGen Limited, a wholly owned subsidiary company, in its meeting held on February 01, 2013 has proposed a final cash dividend of Rs.15 per share for the year ended December 31, 2012, amounting to Rs.547,140.

34.3 The Board of Directors of Engro Powergen Qadirpur Limited, a subsidiary company, in its meeting held on February 01, 2013 has proposed a final cash dividend of Rs.2.15 per share for the year ended December 31, 2012, amounting to Rs. 688,000, of which the proportionate share of the Company amounts to Rs. 68,800.

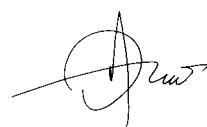
These financial statements for the year ended December 31, 2012 do not include the effect of the aforementioned dividend income, which will be accounted for in the financial statements for the year ending December 31, 2013 once the proposed dividend is approved in the Annual General Meeting of the above mentioned companies.

35 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on February 15, 2013. 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



Muhammad Aliuddin Ansari
President and Chief Executive

- Auditors' Report to the Members
- Consolidated Financials

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, 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of the Holding Company and its subsidiary companies. 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.

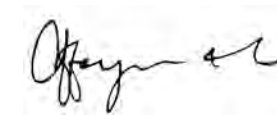
Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such test of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements presents fairly the financial position of Engro Corporation Limited (the Holding Company) and its subsidiary companies as at December 31, 2012 and the results of their operations, changes in equity and cash flows for the year then ended.

We draw attention to the following matters:

- note 1.3.1 (a) to the consolidated financial statements which indicates that the subsidiary company, Engro Fertilizers Limited, incurred a loss before taxation of Rs. 3,951,794 thousand during the year ended December 31, 2012 and, as of that date, the subsidiary company's current liabilities exceed its current assets by Rs. 11,865,763 thousand. These conditions, along with other matters as set forth in note 1.3.1 (a) indicate the existence of a material uncertainty which may raise significant concerns about the subsidiary company's future operations; and
- note 53 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.

Our opinion is not qualified in respect of the above mentioned matters.



Chartered Accountants
Karachi
Date: March 15, 2013

Engagement Partner: Imtiaz A. H. Laliwala

consolidated balance sheet
as at december 31, 2012

(Amounts in thousand)

	Note	2012	2011
		------(Rupees)-----	
Assets			
Non-current assets			
Property, plant and equipment	4	131,927,709	134,658,318
Exploration and evaluation assets	5	539,753	433,227
Biological assets	6	668,455	496,809
Intangible assets	7	771,080	737,803
Deferred taxation	25	1,542,743	1,059,912
Long term investments	8	1,267,973	1,716,692
Long term loans and advances	9	254,348	165,253
		<u>136,972,061</u>	<u>139,268,014</u>
Current assets			
Stores, spares and loose tools	10	6,654,586	6,195,366
Stock-in-trade	11	16,591,475	11,603,851
Trade debts	12	10,637,999	6,214,643
Deferred employee compensation expense	13	-	986
Derivative financial instruments	14	26,332	239,184
Loans, advances, deposits and prepayments	15	1,024,323	2,017,421
Other receivables	16	3,050,485	2,256,199
Taxes recoverable		3,968,139	3,050,258
Short term investments	17	5,998,027	8,332,154
Cash and bank balances	18	4,663,275	4,417,885
		<u>52,614,641</u>	<u>44,327,947</u>
Assets attributable to discontinued operations	19	-	468,125
Total Assets		<u>189,586,702</u>	<u>184,064,086</u>

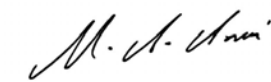
(Amounts in thousand)

	Note	2012	2011
		------(Rupees)-----	
Equity & Liabilities			
Equity			
Share capital	20	5,112,694	3,932,843
Share premium		10,550,061	10,550,061
Employee share option compensation reserve	13	-	146,280
Hedging reserve	21	(362,925)	(573,437)
Revaluation reserve on business combination		84,294	94,496
Maintenance reserve	22	213,335	197,577
Exchange revaluation reserve		69,122	35,725
General reserves		4,429,240	4,429,240
Unappropriated profit		18,423,048	18,985,446
		<u>33,406,175</u>	<u>33,865,388</u>
		<u>38,518,869</u>	<u>37,798,231</u>
Non Controlling Interest		<u>4,728,417</u>	<u>4,091,558</u>
Total Equity		<u>43,247,286</u>	<u>41,889,789</u>
Liabilities			
Non-Current Liabilities			
Borrowings	23	73,257,370	82,560,415
Derivative financial instruments	14	639,525	702,214
Obligations under finance lease	24	-	2,589
Deferred taxation	25	5,191,496	5,046,489
Employee housing subsidy	26	-	19,144
Deferred liabilities	27	187,931	161,219
		<u>79,276,322</u>	<u>88,492,070</u>
Current Liabilities			
Trade and other payables	28	30,383,949	23,211,439
Accrued interest / mark-up	29	2,613,633	3,114,122
Current portion of			
- borrowings	23	27,436,692	21,565,668
- obligations under finance lease	24	2,589	2,590
- deferred liabilities	27	39,624	34,636
Short term borrowings	30	5,828,090	4,284,404
Derivative financial instruments	14	573,363	452,625
Unclaimed dividends		96,936	79,083
Provisions	31	88,218	184,877
		<u>67,063,094</u>	<u>52,929,444</u>
		<u>146,339,416</u>	<u>141,421,514</u>
Total Liabilities		<u>146,339,416</u>	<u>141,421,514</u>
Liabilities associated with discontinued operations	19	-	752,783
Contingencies and Commitments	32		
Total Equity & Liabilities		<u>189,586,702</u>	<u>184,064,086</u>

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



Hussain Dawood
Chairman



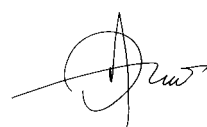
Muhammad Aliuddin Ansari
President and Chief Executive

consolidated profit and loss account for the year ended december 31, 2012

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

	Note	2012	2011
		------(Rupees)-----	
Net sales	33	125,151,272	114,611,837
Cost of sales	34	(96,631,324)	(82,530,581)
Gross Profit		28,519,948	32,081,256
Selling and distribution expenses	35	(8,816,828)	(7,144,965)
Administrative expenses	36	(2,866,306)	(3,031,569)
		16,836,814	21,904,722
Other operating income	37	2,027,879	2,056,545
Other operating expenses	38	(1,887,318)	(1,929,709)
Finance cost	39	(15,516,238)	(12,314,593)
Share of income from joint venture	40	743,781	1,742,187
Gain on reversal of net liability on disposal of discontinued operations	19	251,872	-
Profit before taxation		2,456,790	11,459,152
Taxation	41	(659,563)	(3,647,761)
Profit for the year		1,797,227	7,811,391
Profit / (loss) attributable to:			
- Discontinued operations	19	-	(144,344)
- Continuing operations		1,797,227	7,955,735
		1,797,227	7,811,391
Profit / (loss) attributable to:			
- Owners of the Holding Company		1,333,273	8,060,448
- Non Controlling Interest		463,954	(249,057)
		1,797,227	7,811,391
		------(Rupees)-----	
		Restated	
Basic earnings / (loss) per share from:	42		
- Discontinued operations		-	(0.14)
- Continuing operations		2.61	15.91
		2.61	15.77
Diluted earnings / (loss) per share from:	42		
- Discontinued operations		-	(0.14)
- Continuing operations		2.61	15.81
		2.61	15.67

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



Hussain Dawood
Chairman



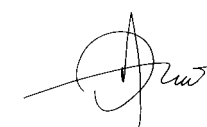
Muhammad Aliuddin Ansari
President and Chief Executive

consolidated statement of comprehensive income for the year ended december 31, 2012

(Amounts in thousand)

	2012	2011
	------(Rupees)-----	
Profit for the year	1,797,227	7,811,391
Other comprehensive income		
Hedging reserve - cash flow hedges		
Losses arising during the year	(580,588)	(598,983)
Less:		
- Reclassification adjustments for losses included in profit and loss account	898,968	221,397
- Adjustments for amounts transferred to initial carrying amount of hedged items (capital work in progress)	18,582	900,441
	336,962	522,855
Revaluation reserve on business combination	(21,974)	(21,974)
Exchange differences on translation of foreign operations	62,775	6,703
	377,763	507,584
Income tax relating to:		
Hedging reserve - cash flow hedges	(117,937)	(183,115)
Revaluation reserve on business combination	7,691	7,691
	(110,246)	(175,424)
Other comprehensive income for the year, net of tax	267,517	332,160
Total comprehensive income for the year	2,064,744	8,143,551
Total comprehensive income attributable to:		
- Owners of the Holding Company	1,596,358	8,411,089
- Non Controlling Interest	468,386	(267,538)
	2,064,744	8,143,551
Total comprehensive income attributable to equity shareholders arises from:		
- Discontinued operations	-	(144,539)
- Continuing operations	2,064,744	8,288,090
	2,064,744	8,143,551

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



Hussain Dawood
Chairman



Muhammad Aliuddin Ansari
President and Chief Executive

consolidated statement of changes in equity for the year ended december 31, 2012

(Amounts in thousand)

	Attributable to owners of the Holding Company											Total
	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Revaluation reserve on business combination	Maintenance reserve (note 22)	Exchange revaluation reserve	General reserve	Unappropriated Profit	Sub total	Non controlling Interest	
Profit for the year												
Balance as at 1 January, 2011	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	-	-	-	354,001	(10,202)	-	-	-	8,060,448	8,060,448	(249,057)	7,811,391
Other comprehensive income	-	-	-	354,001	(10,202)	-	6,842	-	8,060,448	8,411,089	(267,538)	8,143,551
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 Subsidiary Company (Engro Foods Limited)	-	-	-	-	-	-	-	-	-	-	270,000	270,000
Investment in Subsidiary Company (Engro Foods Limited)	-	-	-	-	-	-	-	-	371,781	371,781	-	371,781
Bonus shares issued during the period in the ratio of 1 share for every 10 shares held	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 by subsidiary allocable to Non-Controlling interest	-	-	-	-	-	-	-	-	-	-	(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	146,280	(573,437)	94,496	197,577	35,725	4,429,240	18,985,446	37,798,231	4,091,558	41,889,789
Total comprehensive income for the year ended December 31, 2012												
Profit for the year	-	-	-	210,512	(10,202)	-	62,775	-	1,333,273	1,333,273	463,954	1,797,227
Other comprehensive income	-	-	-	210,512	(10,202)	-	62,775	-	1,333,273	1,596,358	468,386	2,064,744
Transactions with owners												
Effect of derecognition of discontinued operations	-	-	(10,688)	-	-	-	(29,378)	-	-	(40,066)	72,854	32,788
Issue of right shares by subsidiary	-	-	-	-	-	15,758	-	-	(15,758)	-	18,900	18,900
Maintenance reserve for the year	-	-	-	-	-	-	-	-	-	-	-	-
Bonus shares issued during the period in the ratio of 3 shares for every 10 shares held	1,179,851	-	-	-	-	-	-	-	(1,179,851)	-	-	-
Vested options lapsed during the year	-	-	(135,333)	-	-	-	-	-	(135,333)	-	-	(135,333)
Shares issued during the year by subsidiaries under Employees Share Option Scheme	-	-	(259)	-	-	-	-	-	86,507	86,248	104,369	190,617
Dividend by subsidiary allocable to Non-Controlling interest	-	-	-	-	-	-	-	-	-	-	(27,650)	(27,650)
Final dividend for the year ended December 31, 2011 @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(786,569)	(786,569)	-	(786,569)
Balance as at December 31, 2012	5,112,694	10,550,061	(146,280)	(362,925)	84,294	213,335	69,122	4,429,240	18,423,048	38,518,869	4,728,417	43,247,286

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

Hussain Dawood
Chairman

Muhammad Aliuddin Ansari
President and Chief Executive

consolidated statement of cash flows for the year ended december 31, 2012

(Amounts in thousand)

Note	2012	2011
	----- (Rupees) -----	
Cash flows from operating activities		
Cash generated from operations	22,486,748	31,830,734
Retirement and other service benefits paid	(194,607)	(333,837)
Financial charges paid	(12,406,139)	(11,819,924)
Taxes paid	(2,015,382)	(3,213,554)
Unamortised deferred income	17,390	-
Long term loans and advances - net	(89,095)	28,205
Net cash generated from operating activities	7,798,915	16,491,624
Cash flows from investing activities		
Exploration and evaluation expenditure incurred	(102,951)	(76,199)
Purchases of property, plant & equipment, intangible assets and biological assets	(5,922,421)	(12,179,888)
Sale proceeds on disposal of property, plant & equipment and biological assets	202,952	112,577
Income on deposits / other financial assets	416,658	1,291,784
Dividends received	1,192,500	630,000
Net cash used in investing activities	(4,213,262)	(10,221,726)
Cash flows from financing activities		
Repayments of borrowings - net	(6,265,515)	(533,843)
Repayment of short term finance	(500,000)	-
Proceeds from short term finance	500,000	500,000
Obligations under finance lease - net	(2,590)	(4,154)
Proceeds from issuance / disposal of shares of subsidiary companies	209,517	1,923,040
Dividends paid	(796,366)	(2,382,872)
Net cash used in financing activities	(6,854,954)	(497,829)
Net (decrease) / increase in cash and cash equivalents	(3,269,301)	5,772,069
Cash and cash equivalents at beginning of the year	8,602,513	2,830,444
Cash and cash equivalents at end of the year	5,333,212	8,602,513

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

Hussain Dawood
Chairman

Muhammad Aliuddin Ansari
President and Chief Executive

notes to the consolidated financial statements

for the year ended december 31, 2012

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 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, 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	
	2012	2011
• Engro Fertilizers Limited (note 1.3.1)	100	100
• Engro Eximp (Private) Limited (note 1.3.2)	100	100
• Engro PowerGen Limited (note 1.3.3)	100	100
• Engro Foods Netherlands B.V. (note 1.3.4)	100	100
• Elengy Terminal Pakistan Limited (note 1.3.5)	100	-
• Engro Foods Limited (note 1.3.6)	88.37	89.97
• Engro Polymer and Chemicals Limited (note 1.3.7)	56.19	56.19
• Engro Management Services (Private) Limited (note 1.3.8)	-	100
• Avanceon Limited (note 1.3.9)	-	62.67
Joint Venture Company:		
• Engro Vopak Terminal Limited (note 1.4)	50	50

1.3 Subsidiary companies

1.3.1 Engro Fertilizers Limited

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

(a) Going concern assumption

During the year, Efert continued to experience gas curtailment on its new Enven plant receiving less than 45 days of gas at 76% of the contracted volume. This approximately translates to only 9% of annual operational capacity. The limited operations of the Enven plant has severely put burden on the Efert's cash flows.

(Amounts in thousand)

As at December 31, 2012, the current liabilities have exceeded the current assets by Rs. 11,865,763 primarily due to current maturities of long term loans which are being re-profiled as explained below. Further, the loss before taxation for the year amounted to Rs. 3,951,794 as against a profit of Rs. 6,876,853 in the last year. Further, the loan installments due in the third and fourth quarters of the current year were deferred which has been approved by the lenders.

The worsening gas supply to Enven plant had placed the Efert under severe financial pressure, raising concerns about its future. However, management cognizant of deteriorating cash flow and financial situation took numbers of steps to augment the situation as summarized below, which have already borne results:

- Enven plant was successfully converted to run on Mari gas resulting in incremental 10% to 15% production, enhancement of margins and significant increase in the operational cash flows. The conversion helped the Efert coming into profits in fourth quarter of 2012. Such conversion has been approved by Ministry of Petroleum and Natural Resources (MPNR) on January 2, 2013 for a further period of eight weeks. Based on discussion with MPNR, Efert is confident that this approval would be extended till the gas from the alternative / new gas reserves, as stated below, comes on stream.
- Subsequent to the year end, the MPNR has issued a formal notification that the Economic Coordination Committee (ECC) of the Cabinet has allocated 202 mmcf/d gas from new discoveries to a consortium of four fertilizer plants. This includes allocation of 79 mmcf/d gas to Enven plant. The process to formalize the gas allocation and finalization of Gas Supply Agreements has been initiated and the inflow of gas is expected to start around first / second quarter of 2014.
- In second quarter of 2012, considering the liquidity situation, the Efert approached majority of the lenders for re-profiling of various finance facilities by allowing 2 to 2.5 years of grace period in the existing repayment schedule. Lenders agreed to re-profile finance facilities after formal gas allocation by ECC and in the interim deferred one instalment (as aforementioned). Since the ECC has allocated gas, therefore, Efert has initiated discussion on re-profiling with lenders subsequent to the year end. The management expects to finalize it by first half of 2013.

Based on the above, the financial statements of Efert have been prepared on a going concern assumption.

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, and was incorporated in Pakistan on January 16, 2003 under the Companies Ordinance 1984. EEL is principally engaged in the following trading businesses:

- Fertilizer Trading: EEL imports and sells different types of fertilizers and other related products which are being sold to the dealers through Engro Fertilizers Limited (Efert), which has been appointed as a selling agent under an Agreement effective January 1, 2010.
- Rice Trading: EEL is also engaged in rice business whereby bulk quantities of unprocessed rice and paddy were procured from local suppliers, processed and packed for selling locally as well as for export to foreign buyers. However, pursuant to the restructuring plan of the Board of Directors of EEL in the meeting held on September 30, 2011 the rice business has been transferred to Engro Eximp Agriproducts (Private) Limited (EEAP) [formerly Engro Foods Supply Chain (Private) Limited], a wholly owned subsidiary of EEL, whereby EEAP now operates the entire rice business from the crop season 2011.

(Amounts in thousand)

c) Agri commodities Procurement / Trading: EEL has been engaged in the procurement of agri commodities, including sugar and hydrogenated palm oil (HPO), whereby EEL takes trading positions in the local and international markets for itself and its associated undertakings on the basis of fundamental and technical analysis.

Following are the subsidiaries of EEL:

%age of direct holding
2012 2011

• Engro Eximp Agriproducts (Private) Limited, (note 1.3.2.1) [formerly Engro Foods Supply Chain (Private) Limited]	100	100
• Engro EXIMP FZE (note 1.3.2.2)	100	100

1.3.2.1 Engro Eximp Agriproducts (Private) Limited (EEAP) [formerly Engro Foods Supply Chain (Private) Limited], is a private limited Company, incorporated in Pakistan on November 3, 2009, under the Companies Ordinance 1984. The principal activity of the EEAP is to produce, manufacture and trade all kinds of raw, processed and prepared food products including agriculture, dairy and farming products. EEAP has set up a rice processing plant in District Shaikhupura, which commenced commercial production in 2011.

1.3.2.2 Engro Eximp FZE (EFZE), incorporated in the Jebel Ali Free Zone, Emirate of Dubai on August 4, 2011, is engaged in the business of trading seeds, agricultural tools, chemical fertilizers, organic fertilizers, plant seeds, ghee, vegetable oil, grains, cereals legumes, sugar, flour, agricultural equipment and accessories. EEL has subscribed one share of AED 1,000, Pak rupee equivalent Rs. 23,520 (2011: Rs. 23,520) and 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. As at December 31, 2012, EEL has advanced Rs. 97,575 (2011: Rs. 97,575) to EFZE against issuance of share capital.

1.3.3 Engro PowerGen Limited

Engro PowerGen Limited (EPL) 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 feasibilities of new ventures.

Following are the subsidiaries of EPL:

%age of direct holding
2012 2011

• Engro Powergen Qadirpur Limited (EPQL) (note 1.3.3.1)	84	84
• Sindh Engro Coal Mining Company Limited (SECMC) (note 1.3.3.2)	60	60

1.3.3.1 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 commenced commercial operations of its 217.3 MW combined cycle power plant on March 27, 2010. The electricity generated is transmitted to the National Transmission and Despatch Company (NTDC) under the Power Purchase Agreement (PPA) dated October 26, 2007, valid for a period of 25 years.

(Amounts in thousand)

1.3.3.2 SECMC has been formed under a Joint Venture Agreement (JVA), dated September 8, 2009, between the Government of Sindh (GoS 40%) and EPL (60%). The aforementioned JVA is consequent to the selection of the EPL as GoS's joint venture partner, through an International Competitive Bidding process, for the development, construction and operations 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. In this regard, as per JVA, SECMC initiated a Detailed Feasibility Study (DFS) in November 2009 by 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 DFS which was approved by the Technical Committee of GoS.

GoS has granted 30 years mining lease to the SECMC for exploration and mining activities in Thar Block-II. Based on the detailed feasibility study conducted by the SECMC, Thar Block-II has estimated coal reserves of approximately 2 billion tons, independently verified by a Competent Person Statement (CPS) during the year, 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. SECMC and EPL, during 2011, had also received a firm proposal for Engineering, Procurement & Construction (EPC) for 6.5 million tons per annum mining capacity and 1,200 MW power plant from an international contractor. However, during the year decoupling of the mining and power project is being considered to reduce capital investment by optimizing the project size and cost. SECMC is also looking for potential investors and has received positive responses in this regard.

Further, SECMC is actively pursuing implementation of the following decisions taken at a special meeting of Thar Coal and Energy Board held at the Prime Minister Secretariat, Islamabad, on October 3, 2012 chaired by the Prime Minister, and attended by various ministries:

- all conversion of existing oil-based power plants should be based on Thar coal specification and new coal based power project should also be designed on Thar coal specification;
- coal off-take agreement between GENCO and SECMC for supply of coal for existing Jamshoro power plant as well as new 600 MW power plant at Jamshoro be finalised; and
- sovereign guarantee for financing debt portion of Thar Block II mining project amounting to USD 600-700 million shall be provided by the Government of Pakistan.

1.3.4 Engro Foods Netherlands B.V.

Engro Foods Netherlands B.V. (EFN), a wholly owned subsidiary, was incorporated in Netherlands during 2011. The principal activity of EFN is marketing and selling of Halal food products. For this purpose, 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, through Engro Foods 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.

(Amounts in thousand)

As more fully explained in note 1.3.6, during the year, the Holding Company entered into a supplemental agreement with Engro Foods Limited (EFL), a subsidiary company, for the sale of its entire shareholding in EFN to EFL, subject to certain regulatory approvals.

1.3.5 Elengy Terminal Pakistan Limited

On January 4, 2012, the Holding Company incorporated a new wholly owned subsidiary, Elengy Terminal Pakistan Limited (ETPL), to establish and operate a terminal for the handling, re-gasification, storage, treatment and processing of Liquefied Natural Gas (LNG), Re-gasification Liquefied Natural Gas (RLNG), Liquid Petroleum Gas (LPG), Natural Gas Liquid (NGL) and all other related liquids, gases and chemical and petroleum products.

Subsequent to the year end, ETPL, in pursuance to the notice of Sui Southern Gas Company Limited (SSGC) for supply of LNG, has submitted its sealed bid which is due to be opened in March 2013. The broad scope of services under the tender, if accepted, shall comprise supply of re-gasified LNG to SSGC at the specified tie-in point, including LNG procurement, transportation, developing terminal facilities, storage and re-gasification of LNG and operating the terminal with a target to commence imports as early as possible contemplated under a firm offtake Gas Sales Agreement (GSA) of 15 years duly backed by a sovereign guarantee of Government of Pakistan with additional back up through multilateral development bank. ETPL has hired experts to conduct feasibility studies and research on the prospective sites where the terminal will be built.

1.3.6 Engro Foods Limited

Engro Foods Limited (EFL), a 88.37% owned subsidiary of the Holding Company, was incorporated in Pakistan on April 26, 2005, under the Companies Ordinance, 1984, as a private limited company and 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 2011, the Holding Company partially disposed of its shareholding in EFL to the general public through Initial Public Offer (IPO) by offering 27,000,000 ordinary shares at an offer price of Rs. 25 per share. Further, during 2011, 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 quoted on the Karachi and Lahore Stock Exchanges.

Further, the Holding Company entered into an agreement (Master Agreement) with its subsidiary, EFL to invest up to Rs. 800,000 till December 31, 2011 in the Global Business Unit (GBU) being set up in the Canada and USA via investment in Engro Foods Netherlands B.V (EFN), through which it has acquired the existing brand of halal meat business known as 'Al-Safa', engaged in supplying a variety of packaged halal foods across North America. Under the Master Agreement, EFL shall endeavour to purchase the entire shareholding of EFN from the Holding Company by June 30, 2012 at the actual rupee amount invested in the said business till that day by the Holding Company or as mutually agreed by both parties. On October 3, 2012, the Holding Company and EFL entered into a supplemental agreement as the investment requirements for the GBU had exceeded Rs. 800,000 as contemplated in the Master Agreement. Under the supplemental agreement, EFL shall purchase the shares in EFN by making payment of the actual investment amount of Rs. 863,018 to the Holding Company in advance of actual share transfer taking place. Following payment of the purchase price and receipt of all necessary regulatory approvals, the Holding Company shall promptly transfer the shares in EFN to EFL.

(Amounts in thousand)

Subsequent to the aforementioned supplemental agreement, EFL has paid the advance of Rs. 863,018 to the Holding Company. Therefore, upon receipt of all necessary regulatory approvals, the Holding Company will transfer the shares of EFN to EFL.

1.3.7 Engro Polymer and Chemicals Limited

Engro Polymer and Chemicals Limited (EPCL) is a 56.19% owned subsidiary of the Holding Company. EPCL, incorporated in Pakistan in 1997 under the Companies Ordinance, 1984, is listed on Karachi, Lahore and Islamabad Stock Exchanges. 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 Efert (NPK Plant).

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

1.3.8 Engro Management Services (Private) Limited

Engro Management Services (Private) Limited (EMS), a wholly owned subsidiary of the Holding Company was incorporated in Pakistan on January 23, 2003 under the Companies Ordinance 1984. EMS had been registered as a modaraba management company but subsequently was deregistered on account of not launching the modaraba. It was voluntarily wound-up during the year as approved by its Board of Directors in their meeting held on February 7, 2012.

1.3.9 Avanceon Limited

Avanceon Limited (Avanceon) was a 62.67% owned subsidiary of the Holding Company. It 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 was to trade in products of automation and control equipments and provide related technical services.

During the year, the Holding Company sold its entire shareholding in Avanceon and its UAE and USA subsidiaries to the minority shareholders, as stated in detail in note 19.

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.

(Amounts in thousand)

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 2012 and are relevant to the Group

The following standard, amendment to published standards and interpretations are mandatory for the financial year beginning January 1, 2012:

- IFRS 7 (Amendment) 'Financial instruments: Disclosures on transfer of assets'. These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. Currently, the amendment does not have any effect on disclosure in these consolidated financial statements.

b) Standards, amendments to published standards and interpretations that are effective in 2012 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, 2012 are considered not to be relevant or to have any significant effect on the Group's financial reporting and operations.

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

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

- IFRS 7 (Amendment) 'Financial instruments: Disclosures on offsetting financial assets and financial liabilities' (effective for periods beginning on or after January 1, 2013). The amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. The amendment clarifies the offsetting requirements for amounts presented in the financial statements

(Amounts in thousand)

to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare in accordance with US GAAP. The amendments will only affect the disclosures in the consolidated financial statements which are unlikely to have any significant impact.

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015), not yet notified by SECP. IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. The Group is yet to assess the full impact of IFRS 9.

- 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 Group is yet to assess the full impact of the amendments.

- 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. The Group is yet to assess the full impact of the amendments.

- 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. The Group is yet to assess the full impact of the amendments.

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2013), not yet notified by SECP. 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. The Group is yet to assess the full impact of the standard.

- IAS 1 (Amendment) 'Presentation of financial statements' (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 reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment will only affect the disclosures in the Group's consolidated financial statements.

(Amounts in thousand)

- IAS 1 (Amendment) 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). The main change resulting from these amendment is a requirement for entities to group items presented in 'Other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment will only affect the disclosures in the Group's consolidated financial statements.
- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on or after January 1, 2013). The amendment eliminates the corridor approach and recognizes all actuarial gains and losses in 'Other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gains and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognized in the consolidated financial statements, and result in changes in benefit classification and presentation. The Group is yet to assess the full impact of the amendments.
- 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. It is unlikely that this standard will have any significant impact on the Group's consolidated financial statements.
- IAS 28 (Revised) 'Associates and joint ventures' (effective for periods beginning on or after January 1, 2013). The revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. It is unlikely that this standard will have any significant impact on the Group's consolidated financial statements.
- IAS 32 (Amendment) 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS 32 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. It is unlikely that this standard will have any significant impact on the Group's consolidated financial statements.

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

- IAS 16 (Amendment) 'Property, plant and equipment' (effective for periods beginning on or after January 1, 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The Group's current policies and disclosures are in line with this amendment.
- IAS 32 (Amendment) 'Financial instruments: Presentation' (effective for periods beginning on January 1, 2013). The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12. Accordingly, income tax related

(Amounts in thousand)

- to distributions is to be recognised in the profit and loss account, and income tax related to the costs of equity transactions is to be recognised in equity. The Group's current accounting treatment is already in line with this amendment.
- IAS 34 (Amendment) 'Interim financial reporting' (effective for periods beginning on January 1, 2013). The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments' whereby a measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The amendment will only affect the disclosures in the Group's consolidated condensed interim financial information.
- 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. The Group is yet to assess the full impact of this interpretation.

2.1.5 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Group 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 identifiable net assets.

(Amounts in thousand)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit and loss account.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. 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 in profit and loss account.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses (unrealised) 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 that do not result in loss of control as transactions with equity owners of the Group. The difference between fair value of 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.

iii) Disposal of subsidiaries

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 and loss account. 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 and loss account.

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

(Amounts in thousand)

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 up to 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 Group will obtain ownership by the end of the lease term.

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 assets

Exploration and evaluation assets in respect of area of interest includes license fee, detailed feasibility study and all other related studies to ensure bankability of the Project including ancillary (operating and administrative) cost related thereto.

(Amounts in thousand)

The aforementioned expenditure supporting the technical feasibility and economic / commercial viability, are capitalized as exploration and evaluation assets, where:

- such costs are expected to be recouped through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence, or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

Capitalized exploration and evaluation expenditure is recorded at cost less impairment charges. As asset is not available for use, it is not depreciated; however, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

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

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.

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 Sui Northern Gas Pipelines Limited

(Amounts in thousand)

(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 sale 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.

(Amounts in thousand)

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. 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.

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 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 accounted for as described below.

(Amounts in thousand)

Fair value hedge

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

Cash flow 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 and loss account.

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 nonfinancial 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 and loss account 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.

Embedded derivatives

Fair value of derivatives embedded in financial instruments or non-derivative host contracts are separated from the host contract if the risks and economic characteristics of the embedded derivative are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

If the fair value of an embedded derivative that is required to be separated cannot be reliably measured, the entire combined contract is measured at fair value through profit or loss.

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.

2.12 Inventory of fuel oil

This is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(Amounts in thousand)

2.13 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 realizable value. The Group reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

2.14 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 includes 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.

2.15 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 rate 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.

2.16 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows includes cash in hand and in transit, balances with banks on current, deposit and saving account, other short term highly liquid investments with original maturities of three months or less and short term borrowings other than term finance.

2.17 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.

2.18 Employees' share option scheme

The grant date fair value of equity settled share based payment 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.

(Amounts in thousand)

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 accounts, employee compensation expense in profit and loss account 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 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.

2.19 Employees' housing subsidy scheme

Employees' compensation expense under Housing Subsidy Scheme is recognised 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.

2.20 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 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 rate method.

(Amounts in thousand)

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

2.23 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.

2.24 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.

2.24.1 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.

2.24.2 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.

2.25 Employee benefits

2.25.1 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

(Amounts in thousand)

- 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 (including its subsidiaries) contribute in the aforementioned defined contribution plans, operated by the Holding Company.

Engro Foods Limited, Engro Polymer and Chemicals Limited and Engro Powergen Qadirpur Limited (EPQL) operate defined contribution provident funds for their permanent employees. EPQL also operates a defined contribution provident fund for the employees of its holding company, Engro PowerGen Limited and its associated company, Sindh Engro Coal Mining Company Limited. Monthly contributions are made both by the respective companies and their employees to the funds at the rate of 10% of basic salary.

2.25.2 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 given in note 44 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 (including its subsidiaries) contribute 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 01, 2005, no new members are inducted in this scheme.

(Amounts in thousand)

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.
- 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 Qadirpur Limited, a subsidiary of Engro PowerGen Limited, operates:

- defined benefit funded gratuity schemes for its management and non-management employees and for employees of its holding company, Engro PowerGen Limited and its associated company, Sindh Engro Coal Mining Company Limited.

2.25.3 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.

2.26 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.

(Amounts in thousand)

2.27 Foreign currency transactions and translation

2.27.1 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.

2.27.2 The results and financial position of all the group entities (none of which has the currency of a hyperinflationary 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.

2.28 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.
- Income on deposits and other financial assets is recognised on accrual basis.
- Interest income on delayed payment income on overdue trade receivables 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.

(Amounts in thousand)

2.29 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.

2.30 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.

2.31 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.

2.32 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.

2.33 Transactions with related parties

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

2.34 Dividend and appropriation to reserves

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

2.35 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.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, intangible assets and biological assets other than goodwill.

(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 assets

Exploration and evaluation assets 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 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.

3.5 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.

(Amounts in thousand)

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 44.

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.

4. PROPERTY, PLANT & EQUIPMENT

	2012	2011
	------(Rupees)-----	
Operating assets, at net book value (note 4.1)	128,654,876	129,611,671
Capital work-in-progress		
- Expansion and other projects (note 4.4)	1,861,126	3,663,429
- Capital spares (note 4.5)	1,411,707	1,383,218
	<u>131,927,709</u>	<u>134,658,318</u>

(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	
As at January 1, 2011													
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)	(13,198,910)
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
Year ended December 31, 2011													
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
Amortisation of revaluation surplus	-	(2,572)	-	(1,140)	3,355	357	-	-	-	-	-	-	-
Additions including transfers	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)	-	-
Disposals (note 4.3)													
Cost	-	-	(950)	-	-	(1,405)	-	-	(13,786)	-	(152,521)	-	(168,662)
Accumulated depreciation	-	-	439	-	-	852	-	-	12,845	-	96,381	-	110,517
Write offs (note 4.3)													
Cost	-	-	(511)	-	-	(553)	-	-	(941)	-	(56,140)	-	(58,145)
Accumulated depreciation	-	-	-	-	-	254	-	-	-	-	-	-	254
Transferred to discontinued operations													
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
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	284,198	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
As at December 31, 2011													
Cost	469,480	356,536	7,120,417	1,369,251	2,185,570	132,962,410	12,946	1,516,590	1,124,836	21,723	1,337,581	41,260	148,518,600
Accumulated depreciation	-	(72,338)	(954,652)	(199,434)	(232,475)	(15,702,942)	(11,683)	(515,145)	(633,118)	(21,002)	(522,880)	(41,260)	(18,906,929)
Net book value	469,480	284,198	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
Year ended December 31, 2012													
Opening net book value	469,480	284,198	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
Amortisation of revaluation surplus	-	(2,572)	-	(1,140)	3,355	(33,646)	-	-	-	-	-	-	(34,003)
Additions including transfers (note 4.1.3 and 4.4)	-	11,512	525,044	537,670	797	5,709,465	-	266,587	364,838	-	613,149	-	8,029,062
Adjustments (note 4.1.2)													
Disposals (note 4.3)													
Cost	-	-	-	-	-	(1,530)	(205)	-	(15,284)	-	(303,820)	(1,450)	(322,289)
Accumulated depreciation	-	-	-	-	-	828	136	-	12,130	-	167,379	1,450	181,923
Write offs (note 4.3)													
Cost	-	-	-	-	-	(174,518)	-	-	(503)	-	-	-	(175,021)
Accumulated depreciation	-	-	-	-	-	15,704	-	-	415	-	-	-	16,119
Depreciation charge (note 4.2)	-	(10,362)	(317,633)	(109,236)	(92,287)	(6,875,500)	-	(359,064)	(226,416)	-	(276,872)	-	(8,267,370)
Net book value	469,480	282,776	6,298,473	1,597,111	1,864,960	115,589,758	1,194	908,968	626,898	721	1,014,537	-	128,654,876
As at December 31, 2012													
Cost	469,480	368,048	7,570,758	1,906,921	2,186,367	138,185,314	12,741	1,783,177	1,473,887	21,723	1,646,910	39,810	155,665,136
Accumulated depreciation	-	(85,272)	(1,272,285)	(309,810)	(321,407)	(22,595,556)	(11,547)	(874,209)	(846,989)	(21,002)	(632,373)	(39,810)	(27,010,260)
Net book value	469,480	282,776	6,298,473	1,597,111	1,864,960	115,589,758	1,194	908,968	626,898	721	1,014,537	-	128,654,876
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 33	20	12 to 25	20	-

(Amounts in thousand)

4.1.1 Operating assets includes :

- equipment costing Rs.145,011 (2011: Rs. 135,495) having net book value of Rs. 74,560 (2011: Rs. 79,604) mounted on transport contractors' vehicles; and
- freezers and trikes held by third parties costing Rs. 900,937 (2011: Rs. 825,002) having a net book value of Rs. 565,412 (2011: Rs. 621,164).

4.1.2 Includes reversal of expenditure amounting to Rs 244,627 accrued in respect of Enven plant of Engro Fertilizers Limited (Efert).

4.1.3 Includes exchange loss capitalized amounting to Rs. 925,772 (2011: Rs. 520,573) pertaining to Engro Powergen Qadirpur Limited (EPQL).

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

	2012	2011
	------(Rupees)-----	
Cost of sales (note 34)	7,878,375	5,279,946
Selling and distribution expenses (note 35)	219,178	185,916
Administrative expenses (note 36)	166,251	173,457
Exploration and evaluation assets (note 5)	3,566	3,265
Capital work in progress (note 4.4)	-	316,946
	<u>8,267,370</u>	<u>5,959,530</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
Plant and machinery					
KS Coil	Written off	163,636	11,843	151,793	-
Others	Written off	10,882	3,861	7,021	-
		174,518	15,704	158,814	-
Insurance claims	EFU General Insurance	1,735	964	771	942
Furniture, fixture and equipments					
By Company policy to existing / separating executives	Asad Umar	889	590	299	299
	Khalid Mansoor	1,561	248	1,313	1,314
		2,450	838	1,612	1,613
Insurance claims	EFU General Insurance	2,024	696	1,328	1,305
Items having net book value upto Rs.50 each		11,313	11,011	302	1,561
Vehicles					
By Company policy to existing/separating executives	A. Samad Khan	3,600	2,700	900	900
	Aamir Aslam	1,060	795	265	265
	Aamir Mustafa	408	327	81	82
	Aamir Saeed	801	452	349	414
	Abbas Shahani	1,329	727	602	602
	Abdul Samad	504	315	189	278
	Abdul Wahid Khan	1,775	1,331	444	444
	Abdul Wahid Qazi	835	424	411	474
	Balance carried forward	10,312	7,071	3,241	3,459

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
	Balance brought forward	10,312	7,071	3,241	3,459
	Abdullah Aslam	935	701	234	234
	Abu Bakar Sheikh	835	377	458	515
	Adeel Ahmed Khan	537	225	312	376
	Adeela Khan	1,239	716	523	775
	Ahmad Shakoor	1,960	490	1,470	1,580
	Ahsan Afzal	1,844	954	890	1,009
	Ahsan Zafar Syed	1,800	816	984	1,013
	Ahtisham Baig	519	211	308	311
	Aisha Athar	1,331	718	613	624
	Akhtar Tahir	814	509	305	306
	Ali Ashar Jaffri	1,359	586	773	773
	Ali Hafeez	835	352	483	499
	Ameerzada Mumtaz	612	490	122	122
	Amer Ghafoor	1,359	531	828	836
	Amir Qasim	1,329	830	499	499
	Arif Ahmed Khan	1,859	1,177	682	682
	Arshaduddin Ahmed	3,599	2,699	900	900
	Asad Ali	1,289	636	653	943
	Asad Umar	11,740	8,145	3,595	4,600
	Asad Umar	5,966	1,517	4,449	4,449
	Asad Waheed	1,401	482	919	936
	Asghar Ali Khan	1,775	1,331	444	444
	Asghar Naveed	1,965	492	1,473	1,473
	Asif Farooq	1,359	658	701	701
	Asim Butt	1,775	1,420	355	471
	Asim Rasheed Qureshi	888	666	222	222
	Ather M. Jameeli	549	127	422	422
	Ather Shakeel	1,036	712	324	329
	Atif Aboobakar	1,859	1,375	484	484
	Atif Kaludi	1,060	795	265	265
	Atif Zubair	870	696	174	181
	Ayaz Ahmed	408	327	81	82
	Bakhshal Shah	627	502	125	125
	Bilal Ali Shah	898	674	224	224
	Bilal Niazi	809	528	281	387
	Bilal Qasim	1,060	795	265	265
	Dawood Memon	915	818	97	183
	Dr. Rafiq	612	490	122	122
	Eiraj Saleh	1,692	1,244	448	476
	Fahim	900	675	225	225
	Fahim	1,555	219	1,336	1,360
	Fahim Aamir	835	350	485	497
	Faisal Aslam	835	433	402	488
	Faisal Ishrat	835	350	485	498
	Faisal Waseem	519	187	332	401
	Fakhra Ashraf	884	689	195	236
	Faraz	600	540	60	120
	Farooq	409	328	81	81
	Farrukh Rasheed	1,359	680	679	680
	Farrukh Sheikh	829	739	90	263
	Faryan Mama	924	693	231	321
	Hassan Ahmed	1,859	1,162	697	719
	Hassan Jawaid	1,485	368	1,117	1,117
	Hassan Mahmood Khan	1,490	140	1,350	1,490
	Balance carried forward	88,949	51,436	37,513	40,793

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------(Rupees)-----			
Balance brought forward		88,949	51,436	37,513	40,793
Hazoor Askari		1,980	743	1,237	1,267
Iftikhar Dar		1,060	795	265	265
Imran Ali		835	402	433	495
Imran Anwer		3,616	2,716	900	900
Imran Daudi		1,859	1,394	465	465
Imran Dawood		499	321	178	212
Inam-Ur-Rahim		1,775	1,331	444	444
Irfan ul Haq Siddiqui		1,289	478	811	886
Jahangir Paracha		1,800	900	900	956
Jahangir Waheed		1,500	1,125	375	375
Jamal Mehmood		1,248	741	507	516
Jamshed Afzal Khan		1,401	547	854	854
Jawad Noor Malik		814	509	305	318
Jawed Hussain		915	690	225	225
Jiwan Das		1,332	396	936	936
Kamran Chishti		846	375	471	472
Kashif Ahmed Soomro		870	609	261	327
Khalid Mir		2,750	2,125	625	625
Khalid S. Subhani		4,425	3,319	1,106	2,100
Khalid Shamsher		1,515	402	1,113	1,133
M. Junaid Tariq		1,060	795	265	265
M. Tariq Hafeez Gill		1,050	840	210	210
M. Yousuf Noon		537	233	304	358
Maha Usman		925	729	196	231
Mansoor Majid		795	487	308	425
Masood Tariq		814	509	305	312
Matloob Hussain		1,269	825	444	444
Mazhar Kabir		1,401	547	854	854
Mian Waqas Qayyum		504	326	178	210
Miraj Sheikh		603	542	61	121
Mirza Arsalan Baig		907	682	225	225
Mirza Jawaz Baig		1,359	531	828	1,359
Mohammad Nauman		1,359	721	638	638
Mohammad Saqib		1,725	1,294	431	431
Mr. Aneeq Ahmed		1,269	833	436	317
Mr. Asif Qadir		9,200	3,019	6,181	7,000
Mr. Asif Qadir		6,536	2,043	4,493	4,494
Mr. Faisal Iqbal Siddique		1,439	1,079	360	360
Mr. Imran Baloch		1,199	824	375	300
Mr. Khalid Mansoor		6,910	2,539	4,371	4,371
Mr. Mazhar Rashid		900	675	225	225
Mr. Muhammad Naveed Rizvi		1,500	984	516	398
Mr. Rahim Anwar		1,269	773	496	317
Mr. Raja Ashfaq		1,487	1,115	372	372
Mr. Sadiq Akber		1,269	714	555	496
Mr. Samiullah Chaudhry		1,500	364	1,136	1,136
Mr. Shakir Razaq		1,511	195	1,316	1,316
Mr. Syed Ali Akbar		1,775	1,276	499	443
Mr. Syed Ashar Hussain		1,895	711	1,184	1,125
Mr. Tahir Rashid		1,269	496	773	714
Mudassir Shafique Chaudary		1,414	530	884	1,375
Mudassir Y. Rathore		1,965	214	1,751	1,751
Muhammad Armaghan		846	349	497	502
Muhammad Khurram Karim		1,359	658	701	701
Balance carried forward		182,098	99,806	82,292	88,360

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------(Rupees)-----			
Balance brought forward		182,098	99,806	82,292	88,360
Muhammad Muddassir		1,337	423	914	1,059
Muhammad Muddassir		1,329	810	519	519
Muhammad Ramzan		835	377	458	460
Muhammad Raza		499	323	176	176
Mujtab Rizvi		906	748	158	290
Mumtaz Akhtar		900	675	225	225
Nabeel Ahmed		868	358	510	514
Nabeel Gilani		811	520	291	298
Nabeel Kamran		419	205	214	289
Najam Saeed		1,401	460	941	986
Nasir Hameed		814	509	305	314
Nasir Iqbal		426	341	85	85
Naveed Zafar		1,239	581	658	663
Nida Mohsin		449	359	90	145
Omair Zahid Nagi		924	740	184	231
Rais Azhar		1,445	158	1,287	1,324
Rameez Ahmed Faraz		1,687	1,312	375	375
Ramzan Buriro		1,006	805	201	201
Rashif Saeed		835	424	411	474
Riaz Nazim Shah		1,359	721	638	638
Rizwan Hussain Bukhari		1,108	997	111	222
Saadutullah		468	288	180	180
Safdar Hussain		672	538	134	153
Saleem Ullah Memon		1,487	1,115	372	372
Salman Goheer		1,800	1,139	661	815
Samiullah Khan Mahar		896	282	614	838
Saqib Siddiqui		563	219	344	361
Sarfraz A. Rehman		4,375	3,281	1,094	1,800
Sarfraz A. Rehman		5,866	2,016	3,850	3,922
Sarwat Aftab		514	331	183	199
Saud A. Pasha		2,015	591	1,424	1,477
Shafaq Omar		1,859	1,328	531	756
Shaharyar Jehangir		671	537	134	154
Shahbaz A. Khan		1,063	797	266	266
Shahbaz Nawaz		1,269	647	622	629
Shaikh Imran Ul Haq		3,599	2,699	900	900
Shakil Akram		1,300	511	789	813
Shamsuddin A. Shaikh		6,750	3,620	3,130	3,270
Shehzad Bhatti		834	459	375	400
Shujaiddin Ahmad		1,461	434	1,027	1,027
Siraj Ur Rehman		806	546	260	329
Sohail Ahmed		1,300	573	727	730
Syed Abdul Hameed		1,439	1,033	406	406
Syed Hassan imam		900	718	182	182
Syed Intikhab		801	452	349	414
Syed Kashif Nisar		814	509	305	326
Syed Mohammad Ali		1,930	332	1,598	1,650
Syed Riaz H. Shah		1,401	591	810	810
Talha Habib		814	509	305	320
Tariq Mehmood		449	359	90	165
Tashfeen Peerzada		830	578	252	339
Umair Ismail		1,401	547	854	854
Usman Ali		671	537	134	154
Usman Asif Khan		1,331	948	383	535
Balance carried forward		255,044	140,716	114,328	123,394

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------(Rupees)-----			
Balance brought forward		255,044	140,716	114,328	123,394
Usman Banuri		1,402	1,070	332	332
Usman Khalid Khan		612	551	61	122
Usman Sheerwani		801	437	364	410
Vajid Hussain Kamran		671	537	134	134
Wasim Khalid		1,480	430	1,050	1,050
Zeeshan Abbasi		519	240	279	284
Zeeshan Ahmed		1,029	755	274	332
Zeeshan Ahmed Qazi		835	433	402	484
Zeeshan Anjum		814	509	305	305
Zeeshan ur Rab		900	675	225	225
		264,107	146,353	117,754	127,072
Insurance claim of vehicle	Chartis Insurance Co. EFU General Insurance	1,359 20,940	680 6,659	679 14,281	1,100 19,505
Sale through bid	Hasan Ali Ansari Khair Agencies Mr. Imran Sheikh Mr. M Abid Mr. M Islam Mr. Sultan Jan Niazi Mr. Sultan Jan Niazi Mr. Sultan Jan Niazi Mr. Wasim Mirza Muhammad Iltifat Muhammad Kamran Sultan Jan Niazi Sultan Jan Niazi Tahir Maded Waqas Waseem Mirza Zakir Ali	879 943 555 2,975 890 999 555 555 893 555 992 904 605 835 189 530 555 14,409 4,455	791 17 444 2,733 668 799 444 444 670 500 736 809 545 405 105 477 500 11,087 4,050	88 926 111 242 222 200 111 111 223 55 256 95 60 430 84 53 55 3,322 405	894 928 468 1,292 849 636 517 516 838 449 658 720 422 739 98 501 476 11,001 1,792
Items having net book value upto Rs.50 each					
Year ended December 31, 2012		497,310	198,042	299,268	165,891
Year ended December 31, 2011		174,236	110,771	63,465	90,263

(Amounts in thousand)

4.4 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 4.4.2)	Total
	------(Rupees)-----					
Year ended December 31, 2011						
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
Reclassification	24,489,176	(7,356,096)	(122,563)	(179,217)	(16,831,300)	-
Transferred to:						
- operating assets (note 4.1 and note 4.4.1)	(74,213,791)	(2,325,649)	(261,685)	(296,987)	-	(77,098,112)
- intangible assets (note 7)	-	-	(33,561)	(5,813)	-	(39,374)
Balance as at December 31, 2011	1,157,419	762,650	173,955	94,805	1,474,600	3,663,429
Year ended December 31, 2012						
Balance as at January 1, 2012	1,157,419	762,650	173,955	94,805	1,474,600	3,663,429
Additions during the year	4,042,472	446,388	246,323	202,883	428,008	5,366,074
Reclassification	130,480	52,731	26,274	342	(209,827)	-
Transferred to:						
- operating assets (note 4.1)	(5,049,360)	(1,075,023)	(361,126)	(214,248)	(396,860)	(7,096,617)
- intangible assets (note 7)	(11,666)	-	-	(1,014)	(59,080)	(71,760)
Balance as at December 31, 2012	269,345	186,746	85,426	82,768	1,236,841	1,861,126

4.4.1 Last year, Engro Fertilizers Limited (Efert), 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, Efert has transferred costs related thereto aggregating to Rs. 71,335,320 to operating assets during the year ended on December 31, 2011.

4.4.2 Other ancillary costs relating to Efert transferred to operating assets during the year ended on December 31, 2011 includes borrowing costs amounting to Rs. 13,942,555. Further, it includes depreciation and amortisation (note 4.2 and 7.1), salaries, wages and benefits, legal and professional charges etc.

(Amounts in thousand)

4.5 Capital spares

	2012	2011
	------(Rupees)-----	
4.5.1 Capital spares comprise of the following:		
- Engro Fertilizers Limited	433,322	393,652
- Engro Powergen Qadirpur Limited (note 4.5.2)	926,939	927,470
- Engro Eximp (Private) Limited (note 4.5.3)	51,446	62,096
	<u>1,411,707</u>	<u>1,383,218</u>

4.5.1 Capital spares comprise of the following:

- Engro Fertilizers Limited
- Engro Powergen Qadirpur Limited (note 4.5.2)
- Engro Eximp (Private) Limited (note 4.5.3)

4.5.2 Includes capital spares issued for refurbishment / returned for replacement to third parties amounting to Rs.128,538 (2011: Rs. 82,470).

4.5.3 Includes Rs. 41,327 (2011: Rs. 54,531) in respect of reusable packing material.

5. EXPLORATION AND EVALUATION EXPENDITURE

	2012	2011
	------(Rupees)-----	
Consultancy charges	269,339	263,324
Salaries, wages and staff welfare	144,182	86,299
Travelling expense	26,859	19,151
Purchased services	32,045	17,344
Rent, security and accommodation expenses	35,425	24,249
Subscription for intellectual data	7,778	5,881
Fees charged by GoS/SCA under MoU	1,452	1,452
Exploration license fees and other related charges	4,614	4,584
Accumulated depreciation / amortisation	8,093	4,518
Other expenses	9,966	6,425
	<u>539,753</u>	<u>433,227</u>

6. BIOLOGICAL ASSETS

Dairy livestock (note 6.1)		
- mature	313,470	250,339
- immature	348,444	243,960
	661,914	494,299
Crops - feed stock	6,541	2,510
	<u>668,455</u>	<u>496,809</u>

(Amounts in thousand)

6.1 Reconciliation of carrying amounts of livestock

	2012	2011
	------(Rupees)-----	
Carrying amount at the beginning of the year	494,299	421,603
Add:		
Changes in fair value due to biological transformation		
- Gain due to new births [inclusive of cost of feeding immature herd of Rs. 87,344 (2011: Rs. 63,211)]	145,264	78,632
- Loss due to increase in age of livestock	(30,341)	(25,810)
	114,923	52,822
Changes in fair value due to price changes		
- Gain due to currency devaluation	40,111	17,744
- Gain due to increase in international market prices	45,332	20,264
	85,443	38,008
Total gain (note 37)	200,366	90,830
Less: Decrease due to deaths / disposals	(32,751)	(18,134)
Carrying amount at the end of the year, which approximates the fair value	<u>661,914</u>	<u>494,299</u>

6.2 As at December 31, 2012, Engro Foods Limited (EFL), a subsidiary company, held:

- 1,829 (2011: 1,593) mature assets able to produce milk and 1,697 (2011: 1,325) immature assets that are being raised to produce milk in the future. During the year, EFL produced approximately 9,224,185 liters (2011: 5,679,360 liters) gross liters of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 477,417 (2011: Rs. 270,042), determined at the time of milking.
- Nil (2011: 3) mature bulls and 375 (2011: 120) immature male calves.

6.3 The valuation of dairy livestock as at December 31, 2012 has been carried out by an independent valuer. In this regard, the valuer examined the physical condition of the livestock, assessed the key assumptions and estimates and relied on the representations made by EFL as at December 31, 2012. Further, in the absence of an active market of the EFL's dairy livestock in Pakistan, market and replacement values of similar live stock 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)-----					
As at January 1, 2011						
Cost	410,435	102,312	6,000	-	539,683	1,058,430
Accumulated amortisation	(173,885)	-	(6,000)	-	(1,222)	(181,107)
Net book value	<u>236,550</u>	<u>102,312</u>	<u>-</u>	<u>-</u>	<u>538,461</u>	<u>877,323</u>
Year ended December 31, 2011						
Opening net book value	236,550	102,312	-	-	538,461	877,323
Adjustment of exchange revaluation	-	-	-	-	16,181	16,181
Additions including transfers at cost (note 4.4 and note 7.2)	71,946	-	-	376,919	43,757	492,622
Impairment charge (note 38)	-	-	-	-	(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)
Amortisation charge (note 7.1)	(76,738)	(2,656)	-	-	-	(79,394)
Closing net book value	<u>217,471</u>	<u>99,656</u>	<u>-</u>	<u>376,919</u>	<u>43,757</u>	<u>737,803</u>
As at January 1, 2012						
Cost	458,512	102,312	-	376,919	44,979	982,722
Accumulated amortisation	(241,041)	(2,656)	-	-	(1,222)	(244,919)
Net book value	<u>217,471</u>	<u>99,656</u>	<u>-</u>	<u>376,919</u>	<u>43,757</u>	<u>737,803</u>
Year ended December 31, 2012						
Opening net book value	217,471	99,656	-	376,919	43,757	737,803
Additions including transfers at cost (note 4.4)	82,361	-	-	-	-	82,361
Adjustment of exchange revaluation	-	-	-	38,894	4,786	43,680
Amortisation charge (note 7.1)	(85,962)	(6,802)	-	-	-	(92,764)
Closing net book value	<u>213,870</u>	<u>92,854</u>	<u>-</u>	<u>415,813</u>	<u>48,543</u>	<u>771,080</u>
As at December 31, 2012						
Cost	540,873	102,312	-	415,813	49,765	1,108,763
Accumulated amortisation	(327,003)	(9,458)	-	-	(1,222)	(337,683)
Net book value	<u>213,870</u>	<u>92,854</u>	<u>-</u>	<u>415,813</u>	<u>48,543</u>	<u>771,080</u>

(Amounts in thousand)

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

	2012	2011
	------(Rupees)-----	
Cost of sales (note 34)	29,028	7,332
Selling and distribution expenses (note 35)	48	54,213
Administrative expenses (note 36)	63,679	13,813
Capital work in progress (note 4.4)	-	4,036
Exploration and evaluation assets (note 5)	9	-
	<u>92,764</u>	<u>79,394</u>

7.2 Last year, on May 6, 2011, Engro Foods Canada Limited (EFCL), a subsidiary of Engro Foods Netherlands B.V. (EFN 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

	2012	2011
	------(Rupees)-----	
Unquoted		
Joint venture company		
Engro Vopak Terminal Limited (EVTL) - (note 8.1 to 8.3)	1,262,973	1,711,692
Others, at cost		
Arabian Sea Country Club Limited		
500,000 Ordinary shares of Rs. 10 each	5,000	5,000
	<u>1,267,973</u>	<u>1,716,692</u>

8.1 Details of investment in EVTL is as follows:

At beginning of the year	1,711,692	509,505
Add: Share of income after tax for the year	743,781	1,742,187
Less: Dividend received during the year	1,192,500	540,000
	<u>1,262,973</u>	<u>1,711,692</u>

8.2 As at December 31, 2012, the Holding Company held 45,000,000 ordinary shares (2011: 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:

	2012	2011
	------(Rupees)-----	
- Total assets	4,043,970	5,407,149
- Total liabilities	1,483,231	1,948,971
- Total equity	2,560,739	3,458,178
- Total revenue	2,375,771	2,286,303
- Profit for the year	1,487,561	3,484,374

9 LONG TERM LOANS AND ADVANCES

- Considered good

Long term loans

Executives (note 9.1 to 9.3)

Other employees (note 9.2 and 9.3)

	2012	2011
Executives (note 9.1 to 9.3)	319,655	253,956
Other employees (note 9.2 and 9.3)	16,942	53,330
	336,597	307,286
Less: Current portion shown under current assets (note15)	139,382	154,602
	197,215	152,684
Others	57,133	12,569
	254,348	165,253

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

Balance as at January 1

Disbursements

Repayments / amortisation

Balance as at December 31

	2012	2011
Balance as at January 1	253,956	387,977
Disbursements	265,512	166,200
Repayments / amortisation	(199,813)	(300,221)
Balance as at December 31	319,655	253,956

9.2 Long term loans include:

- interest free services incentive loans to executives of Rs. 149,848 (2011: Rs. 120,618) repayable in equal monthly instalments 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 Nil (2011: Rs. 9,803).
- interest free loans given to workers of Rs. 2,503 (2011: Rs. 25,063) pursuant to Collective Labour Agreement and unvested disbursement to workers under housing subsidy scheme amounting to Nil (2011: Rs.10,923).
- advances of Rs. 169,807 (2011: Rs. 123,535), to employees for car earn out assistance, long term incentive and house rent advance;
- interest free loans and advances to executives of Engro Polymer and Chemicals Limited, a subsidiary company, for house rent, vehicles, home appliances and investments given in accordance with the terms of employment. Loans for house rent and investments are repayable in 18 to 36 equal monthly instalments. Loans for home appliances are repayable in 5 equal annual instalments. Advances for vehicles are charged to profit and loss account over a period of 3 years.

(Amounts in thousand)

9.3 The maximum amount outstanding at the end of any month from the executives of the Group aggregated Rs. 375,153 (2011: Rs. 293,635).

9.4 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 STORES, SPARES AND LOOSE TOOLS

	2012	2011
	------(Rupees)-----	
Consumable stores	667,931	603,784
Spares & loose tools, including in transit (note 10.1)	√ 6,079,088	5,698,068
	6,747,019	6,301,852
Less: Provision for surplus and slow moving items	92,433	106,486
	6,654,586	6,195,366

10.1 These include spares issued for refurbishment / returned for replacement amounting to Rs.18,931 (2011: Rs. 21,246) of Engro Powergen Qadirpur Limited.

11 STOCK-IN-TRADE

	2012	2011
	------(Rupees)-----	
Raw materials and packing materials (note 11.1)	5,901,235	4,426,214
Unprocessed rice (note 11.2 and 11.5)	5,239,347	2,508,999
Fuel stock (note 11.3)	375,073	424,240
Work-in-process	276,851	152,947
Finished goods:		
- own manufactured product	2,605,890	2,413,470
- purchased product (note 11.1 and 11.4)	2,193,079	1,677,981
	4,798,969	4,091,451
	16,591,475	11,603,851

11.1 This includes:

- inventories-in-transit amounting to Rs. 2,413,140 (2011: Rs. 143,877)
- carrying value of PVC resin in respect of finished goods of Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, net of realisable value reduction of Rs. 20,822 (2011: Rs. 14,931) and write off of Nil (2011: 87 m tons of PVC resin amounting to Rs. 4,965);

(Amounts in thousand)

- finished goods of Engro Foods Limited (EFL), a subsidiary company carried at net realizable value amounting to Rs. 42,500 (2011: Rs. 32,611);
- inventories held at storage facilities of third parties amounting to Rs. 560,356 (2011: Rs.508,735); and
- inventories held at storage facilities of following related parties:

	2012	2011
	------(Rupees)-----	
Engro Vopak Terminal Limited	918,703	717,858
Dawood Hercules Chemicals Limited	2,773	6,387
	<u>921,476</u>	<u>724,245</u>

11.2 Represents inventory in possession of third party contractors amounting to Nil (2011: Rs. 1,074,401) for processing on behalf of Engro Eximp (Private) Limited, a subsidiary company.

11.3 Represents High Speed Diesel (HSD) required to be maintained for operating the power plant in case supply of gas is unavailable to Engro Powergen Qadirpur Limited (EPQL), a subsidiary company of Engro PowerGen Limited (EPL). As per clause (b) of section 5.14 of the Power Purchase Agreement (PPA), EPQL is required to maintain HSD at a level sufficient for operating the power plant at full load for seven days. However, due to existing circular debt situation as explained in note 12.1, EPQL is maintaining HSD inventory at a level sufficient for operating the power plant at full load for around 5 days.

11.4 These are net of provision against expired/obsolete stock amounting Rs. 19,908 (2011: Rs. 23,283).

11.5 Unprocessed rice written-off during the year amounted to Rs. 7,053 (2011: Nil).

12 TRADE DEBTS

	2012	2011
	------(Rupees)-----	
Considered good		
- secured (note 12.1)	10,411,385	5,938,797
- unsecured	226,614	275,846
	10,637,999	6,214,643
Considered doubtful	16,303	12,717
	10,654,302	6,227,360
Provision for impairment (note 12.2)	16,303	12,717
	<u>10,637,999</u>	<u>6,214,643</u>

12.1 Trade debts are normally secured by way of bank guarantees and letters of credit from customers. Trade debts of Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited (EPL), amounting to Rs. 7,300,126 (2011: Rs. 4,442,256), are secured by a guarantee from the Government of Pakistan under the Implementation Agreement and as such are considered good despite the overdue balance which has mainly resulted from the existing circular debt situation in the country. EPQL accordingly has delayed payments to Sui Northern Gas Pipeline Limited (SNGPL) in respect of gas charges (note 28.2). An amount of Rs. 34,199 (2011: Rs. 47,246) with respect to EPQL, will be invoiced after the revised tariff and quarterly indexation have been notified in the official Gazette of Government of Pakistan.

(Amounts in thousand)

12.2 As at December 31, 2012, trade debts aggregating to Rs.16,303 (2011: Rs. 12,717) were impaired and provided for, which are past due.

The movement in provision during the year is as follows:

	2012	2011
	------(Rupees)-----	
Balance as at January 1	12,717	139,125
Add: Provision made during the year	3,586	-
Less: Balances written off	-	(653)
Transferred to discontinued operations	-	(125,755)
Balance as at December 31	<u>16,303</u>	<u>12,717</u>

12.3 As at December 31, 2012, trade debts aggregating to Rs. 5,284,356 (2011: Rs. 3,301,958) were past due but not impaired. These relate to various customers for which there is no recent history of default. The aging analysis of these trade debts is as follows:

	2012	2011
	------(Rupees)-----	
Upto 3 months	3,428,254	2,889,102
3 to 6 months	1,638,410	382,795
More than 6 months	217,692	30,061
	<u>5,284,356</u>	<u>3,301,958</u>

13 EMPLOYEES' SHARE OPTION SCHEME

13.1 Engro Corporation Limited (ECL), the Holding Company

Under the Employee Share Option Scheme (the Scheme) of Engro Corporation Limited (ECL), senior employees who were 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 were subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee was calculated in accordance with the criticality of employee to the business and their ability and was subject to approval by the Compensation Committee. No amounts were paid or payable by the recipient on receipt of the option. The options carried neither right to dividends nor voting rights. Vesting period 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 were to be exercised within a period of two years ended on December 31, 2012. For options granted after June 30, 2008, the vesting period was to end such number of days after December 31, 2010 as was 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 could only be exercised upto December 31, 2012. The exercise period under the scheme expired on December 31, 2012, due to which all outstanding share options have lapsed.

(Amounts in thousand)

13.2 Engro Fertilizers Limited

Consequent to demerger of the fertilizer business of ECL, the employees transferred to Engro Fertilizers Limited (Efert) and holding share options of ECL were, on surrender thereof, granted share options under a new Employee Share Option Scheme (the Scheme) of Efert. Under the Scheme, employees were granted options to purchase 4,937,100 ordinary shares of Efert at an exercise price of Rs. 98 per ordinary share, which were subsequently adjusted to 17,773,560 having an exercise price of 27.22 due to issue of bonus shares. Vesting period depended on years of service and ended on December 31, 2012. No options were exercised during the year, and on the expiry of the exercise period, all options stand lapsed as at December 31, 2012.

13.3 Engro PowerGen Limited

Under the Employee Share Option Scheme (the Scheme), Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited (EPL), has granted options to senior employees who were critical to the business operations, to purchase 9.3 million newly issued ordinary shares at an exercise price of Rs.15 and Rs.17 per ordinary share if exercised in 2011 and 2012 respectively. The number of options granted had been calculated in accordance with the ability and criticality of an employee to the business, subject to the approval of the Compensation Committee. The options do not carry right to dividend and vote. Vesting period commenced from the grant date and ended on December 31, 2010, whereafter the options can be exercised within a period of two years. Future employees who joined by June 30, 2009 and those who were promoted by the same date, were also granted options with a similar vesting period.

During 2011, EPQL also allocated additional options to certain eligible employees at exercise price of Rs. 17 per share and last date for exercise of option was December 31, 2012. Vesting period for these additional options was one year from the date of grant of options.

As at December 31, 2012, all options have been either exercised or lapsed.

13.4 Engro Foods Limited

The shareholders of Engro Foods Limited (EFL) approved an Employees' Share Option Scheme (the Scheme), for granting of options to its certain eligible critical employees upto 21 million new ordinary shares. The Scheme was approved by the Securities and Exchange Commission of Pakistan (SECP) on July 10, 2008 (the date of grant).

Under the Scheme, the vesting period, which commenced from the date of grant has 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 commenced when they attained the right to these options and comprises of the same number of days as the vesting period of all other eligible employees. The maximum number of options to be issued to a single eligible employee is for 2,500,000 ordinary shares. These options are exercisable within 4 years from the end of vesting period at the exercise prices (per share) of Rs. 17, Rs. 19, Rs. 21, and Rs. 23 in the years 2011, 2012, 2013 and 2014 respectively.

During the year 9,788,720 ordinary shares at Rs. 19 per share were issued to employees who exercised their share options under the Scheme.

(Amounts in thousand)

13.5 Deferred employee compensation expense

	2012	2011
	------(Rupees)-----	
Balance as at January 1	986	4,829
Options issued during the year	-	1,800
Options lapsed due to employee resignation	-	(276)
Amortisation for the year	(986)	(5,367)
Balance as at December 31	-	986
Less: Current portion shown under current assets	-	(986)
Long term portion of deferred employee compensation expense	-	-

13.6 Employee share option compensation reserve

Balance as at January 1	146,280	162,455
Add: Options issued during the year	-	1,800
Less: Options lapsed during the year	(146,021)	(17,975)
Less: Options exercised during the year	(259)	-
Balance as at December 31	-	146,280

13.7 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 Foods Limited	Engro Powergen Qadirpur Limited
Fair value of the share options at grant date	Rs. 65.86	Rs. 11.94	Nil	Rs. 1.29
Share price at grant date	Rs. 220	Rs. 87.61	Rs. 5.61	Rs. 9.90
Exercise price	Rs. 277	Rs. 98	Rs. 17	Rs. 15
Annual volatility	34.54%	41.64%	10%	30.19%
Risk free rate used	10.77%	12.21%	14%	14.20%

(Amounts in thousand)

14 DERIVATIVE FINANCIAL INSTRUMENTS

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Conversion option on IFC loan	-	243,964	-	63,082
Cash flow hedges:				
Foreign exchange forward contacts (note 14.1)	26,332	240,707	239,184	48,250
Interest rate swaps (note 14.2)	-	728,217	-	1,043,507
	26,332	1,212,888	239,184	1,154,839
Less: Current portion shown under current assets / liabilities				
Cash flow hedges:				
Foreign exchange forward contacts	26,332	240,707	239,184	48,250
Interest rate swaps	-	332,656	-	404,375
	26,332	573,363	239,184	452,625
	-	639,525	-	702,214

14.1 Foreign exchange forward contracts

14.1.1 Engro Fertilizers Limited (Efert), a subsidiary company, entered into various forward exchange contracts to hedge its foreign currency exposure. As at December 31, 2012, Efert had forward contracts to purchase USD 185,571 (2011: USD 222,214) at various maturity dates to hedge its foreign currency exposure, primarily loan obligations. The net fair value of these contracts as at December 31, 2012 is negative and amounted to Rs. 233,223 (2011: Rs. 163,429 positive).

14.1.2 Engro Foods Limited (EFL), a subsidiary company, has entered into various foreign currency forward contracts with banks to manage 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 and stock-in-trade. The fair value of the outstanding forward contracts as at December 31, 2012 is positive and amounts to Rs. 25,787 (2011: Rs. 27,966 negative).

14.1.3 Engro Eximp (Private) Limited (EEL), a subsidiary company, entered into various USD:PKR forward contracts to hedge its foreign currency exposure. As at December 31, 2012, EEL had forward exchange contracts to purchase USD 62,864 (2011: USD 81,286) at various maturity dates. The fair value of these contracts, as at December 31, 2012 is negative and amounts to Rs 6,939 (2011: Rs. 55,471 positive) matching the anticipated payment dates for liabilities with respect to import of fertilizers.

14.2 Interest rate swaps

14.2.1 Efert, 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 72,000 (2011: USD 109,500) amortising up to September 2014. Under the swap agreement, Efert 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, 2012 is negative and amounted to Rs. 252,479 (2011: Rs. 449,789 negative).

(Amounts in thousand)

14.2.2 Efert 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 54,091 (2011: USD 69,545) amortising upto April 2016. Under the swap agreement, Efert 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, 2012 is negative and amounted to Rs. 334,082 (2011: Rs. 436,455 negative).

14.2.3 Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, has outstanding interest rate swap agreements with banks for notional amounts aggregating USD 24,000 to 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, 2012 is negative and amounted to Rs. 140,112 (2011: Rs. 151,319 negative).

14.2.4 EPCL has outstanding cross-currency interest rate swap agreements with banks for notional amounts aggregating USD 7,167, to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, EPCL would receive six month KIBOR plus margin, where applicable, on the relevant PKR notional amount and will pay six month USD-LIBOR plus margin on the relevant USD notional amount, which will be settled semi-annually. As at December 31, 2012, the fair value of interest rate swap agreement is negative Rs. 1,544 (2011: Rs. 5,944 negative).

15 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2012	2011
	------(Rupees)-----	
Current portion of long term loans and advances to executives and other employees - considered good (note 9)	139,382	154,602
Advances to executives and other employees (note 15.1 and 15.2)	39,683	39,753
Loan to Descon Engineering Limited		
- considered good, unsecured (note 15.3)	-	650,000
Advance and deposits	398,978	630,216
Prepayments:		
- insurance	179,407	197,383
- gas charges (note 15.4)	-	109,986
- others	268,385	236,993
	1,025,835	2,018,933
Less: Provision for impairment (note 15.5)	1,512	1,512
	1,024,323	2,017,421
Loan to Avanceon Limited	18,293	-
Less: Provision against loan - net (note 19)	(18,293)	-
	-	-
	1,024,323	2,017,421

(Amounts in thousand)

- 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. 10,152 (2011: Rs. 8,121).
- 15.3 Represents interest free loan, repayable on demand, to Descon Engineering Limited (Descon), a contractor to the Enven Plant (note 4.4). The loan was given against a Corporate Bond / Guarantee and Promissory Note. During the year, Rs 201,000 has been received and the remaining amount has been adjusted against Descon's outstanding invoices.
- 15.4 Represent payments made to Sui Northern Gas Pipeline Limited under Take or Pay arrangement in respect of the Enven Plant (note 4.4). Such prepayments have been adjusted against the gas consumption during the year.
- 15.5 As at December 31, 2012, loans and advances aggregating to Rs. 1,512 (2011: Rs. 1,512) were impaired and provided for.

16 OTHER RECEIVABLES

	2012	2011
	------(Rupees)-----	
Receivable from Government of Pakistan for:		
- Sales tax (note 16.1)	1,283,335	1,222,702
Less: Provision for impairment	786	140
	1,282,549	1,222,562
- Special excise duty refundable (note 31.1)	36,687	36,687
Less: Provision for impairment	36,687	36,687
	-	-
- Customs duty claims refundable (note 16.2)	18,043	18,043
Less: Provision for impairment	18,043	18,043
	-	-
Others	291	1,192
	1,282,840	1,223,754
Delayed payment charges (note 16.3)	894,659	271,892
Reimbursable cost from NTDC in respect of:		
- Workers' profits participation fund	250,186	144,915
- Workers' welfare fund	100,074	57,966
Receivable from:		
- Tetra Pak Pakistan Limited (note 16.4)	286,307	311,785
- Engro Vopak Terminal Limited (note 16.5)	2,314	4,942
Accrued income on deposits / investments	19,824	22,196
Claims on suppliers and insurance companies (note 16.6)	128,959	66,503
Others	85,787	152,711
Less: Provision for impairment	465	465
	85,322	152,246
	3,050,485	2,256,199

(Amounts in thousand)

- 16.1 Includes sales tax refundable of Engro Foods Limited (EFL), a subsidiary company, amounting to Rs. 1,128,313 (2011: Rs. 827,268). 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.
- 16.2 The Customs Appellate Tribunal, Karachi Bench, through its order dated October 31, 2011, disposed off appeal of Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, 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 per cent duty reduction was also passed on to the customers. However, as the price of the 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. During the year, EPCL has filed an appeal with the High Court of Sindh against the aforesaid order of the Tribunal. However, based on prudence, EPCL is maintaining full provision against the aforementioned custom duty refundable till such time that all available legal courses are exhausted.
- 16.3 Represents mark-up receivable on overdue trade debts of Engro Powergen Qadirpur Limited (EPQL), a subsidiary of Engro PowerGen Limited (EPL) (note 12.1), as delayed payment charges from National Transmission and Dispatch Company (NTDC) in accordance with the terms of the Power Purchase Agreement. These include mark-up over due amounting to Rs. 599,682 (2011: Rs. 146,813).
- 16.4 Represents reimbursements receivable under cost sharing agreement for marketing related expenses and quantity discount, net of payable on account of packaging material purchased by Engro Foods Limited (EFL), a subsidiary company.
- 16.5 The maximum amounts due from joint venture, Engro Vopak Terminal Limited, at the end of any month during the year aggregated to Rs. 1,454 (2011: Rs. 180,891).
- 16.6 Includes discount receivable from OCP Morocco, supplier of Engro Eximp (Private) Limited, amounting to Rs. 60,863 (2011:Nil).
- 16.7 As at December 31, 2012 other receivables aggregating to Rs. 700,373 (2011: Rs. 221,935) were past due but not impaired. The aging analysis of these receivables is as follows:

	2012	2011
	------(Rupees)-----	
Upto 3 months	305,939	87,712
3 to 6 months	127,714	102,065
More than 6 months	266,720	32,158
	700,373	221,935

- 16.8 As at December 31, 2012, receivables aggregating to Rs. 55,981 (2011: Rs. 55,335) were deemed to be impaired being outstanding for more than six months and provided for.

(Amounts in thousand)

The movement in provision during the year is as follows:

Balance as at January 1
Provision / (reversal) made during the year
Balance as at December 31

	2012	2011
	------(Rupees)-----	
	55,335	58,682
	646	(3,347)
	<u>55,981</u>	<u>55,335</u>

17 SHORT TERM INVESTMENTS

Financial assets at fair value through profit or loss

Fixed income placements (note 17.1)
Treasury Bills (note 17.2)
Money market funds (note 17.3)

	52,148	2,777,500
	484,393	708,126
	3,278,295	4,372,596

Loans and receivables

Reverse repurchase of treasury bills (note 17.4)

	1,088,681	473,932
--	-----------	---------

Held to maturity

Treasury Bills (note 17.5)
Term deposit receipts (note 17.6)

	494,510	-
	600,000	-
	<u>5,998,027</u>	<u>8,332,154</u>

17.1 These represents foreign and local currency deposits with various banks, at the interest rates ranging upto 10% per annum (2011: 13.10% per annum).

17.2 These represent treasury bills discounted using effective rates upto 9.35% per annum (2011: 11.91% per annum).

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

17.4 These represents reverse repurchase of treasury bills at the interest rate ranging upto 9.25% per annum (2011: 11.70%).

17.5 These represent treasury bills at the interest rate ranging upto 9.21% per annum (2011: Nil).

17.6 These represent term deposit receipts at the interest rate of 9.70% per annum (2011: Nil).

18 CASH AND BANK BALANCES

Balances with banks in:

- deposit accounts (note 18.1 to 18.3)
- current accounts

Balances in hand:

- cheques / demand drafts / cash in transit (note 18.4)
- cash

	2012	2011
	------(Rupees)-----	
	3,559,620	3,424,581
	900,884	984,704
	194,522	-
	8,249	8,600
	<u>4,663,275</u>	<u>4,417,885</u>

(Amounts in thousand)

18.1 Includes Rs. 52,673 (2011: Rs. 216,957 including interest) deposited in a schedule bank in respect of maintenance reserve (note 22).

18.2 Local currency deposits carry return up to the rate of 11% per annum (2011: 12% per annum).

18.3 This includes Rs. 81,436 (2011: Rs. 20,475) held in foreign currency bank accounts and carry return at the rate of 0.25% per annum (2011: 0.25% per annum).

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

19 DISCONTINUED OPERATIONS

The Board of Directors of the Holding Company, in its meeting of December 16, 2011 decided to sell Avanceon Pakistan & UAE businesses to Bakhtiar Wain (BW) (minority interest holder of Avanceon) and signed a Memorandum of Understanding on December 31, 2011.

During the year, the Holding Company signed a Global Restructuring Agreement (GRA) on March 28, 2012 with Mr. Bakhtiar Wain (Wain), a minority shareholder of Avanceon Limited - to fully take over Avanceon's Pakistan and UAE operations/companies excluding the USA operations/companies. The approval regarding the disposal was accorded by the shareholders of the Holding Company at the 46th Annual General Meeting held on March 30, 2012. As per the GRA, the Holding Company during the year transferred all of its 62.67% shareholding in Avanceon Limited to Messrs Wains. The Holding Company has also paid and written off Rs. 118,000 (less Rs. 25,000 provided last year), i.e., net charge of Rs. 93,000 (note 38) to the banks / financial institutions to discharge bank liabilities enabling them to release the Corporate Guarantees issued by the Holding Company. Further, the Holding Company extended a loan of Rs. 41,000 to Avanceon Limited which was disbursed directly to the banks / financial institutions and was repayable during 2012. However, the Holding Company could only make recovery of Rs. 22,707 thereagainst and has made provision, on prudence, for the balance amount of Rs. 18,293 (note 38).

Furthermore, the Holding Company, in its books, on disposal of its investment in Avanceon Limited and its subsidiary companies, has written off an amount of Rs.381,957 in respect of the carrying amount of investment in Avanceon Limited, Rs. 241,318 in respect of subordinated loan and Rs. 35,411 in respect of accrued interest thereon which was recognized as provision in the standalone financial statements for the year ended December 31, 2011.

Further, in accordance with the terms of aforementioned GRA, the Holding Company's equity interest of 43.87% in Avanceon LP, USA and Avanceon GP LLC, USA were to be transferred by Avanceon Limited to the Holding Company during 2012. The costs of these investments were nil, consequent to the recognition of impairment provision during the year ended December 31, 2011. During the year, Avanceon Limited entered into a Redemption Agreement (RA) with Mr. Robert Alan Zeigenfuse, a minority interest holder in Avanceon LP, on August 29, 2012, whereby the Holding Company has effectively sold its equity interest to him. Under the RA, the aggregate consideration comprise of a fixed payment amount of USD 518 (in four equal annual instalments) plus 43.89 % of the adjusted profits of Avanceon LP for the calendar years 2012, 2013 and 2014. Both the payments are contingent and are subject to certain annual service revenue thresholds and other conditions to be achieved by Avanceon LP. Accordingly, pending realization thereof is virtually certain, the Holding Company has not recognized any income / asset against the aforementioned disposal in its standalone and consolidated financial statements.

(Amounts in thousand)

Consequent to the exit from Avanceon operations, the assets and liabilities amounting to Rs. 468,125 and Rs. 752,783 respectively and equity of Rs. 32,786 attributable to the discontinued operations (Avanceon Limited) were derecognized. Accordingly, during the year, the net liabilities amounting to Rs. 251,872 have been written back and recognized as gain on reversal of net liability on disposal of Avanceon Limited in the consolidated profit and loss account.

The proportionate share of the Holding Company in the results for the period from January 01 to March 28, 2012 of Avanceon Limited, being immaterial, have not been included in these consolidated financial statements.

20 SHARE CAPITAL

20.1 Authorised Capital

2012	2011	
------(No. of Shares)-----		
550,000,000	450,000,000	Ordinary shares of Rs. 10 each (note 20.3)

Issued, subscribed and paid-up capital

2012	2011	
------(No. of Shares)-----		
511,269,437	393,284,183	Ordinary shares of Rs. 10 each

2012	2011	
------(Rupees)-----		
5,500,000	4,500,000	

2012	2011	
------(Rupees)-----		
5,112,694	3,932,843	

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

2012	2011	
------(No. of Shares)-----		
393,284,183	327,736,819	As at January 1
		Ordinary shares of Rs. 10 each
		issued during the year as fully
		paid bonus shares (note 20.3)
117,985,254	65,547,364	
511,269,437	393,284,183	

2012	2011	
------(Rupees)-----		
3,932,843	3,277,369	
1,179,851	655,474	
5,112,694	3,932,843	

20.3 During the year the Holding Company:

- increased its authorized share capital from Rs. 4,500,000 to Rs. 5,500,000; and
- issued bonus shares in the ratio of 3 shares for every 10 shares held.

20.4 As at December 31, 2012, associated companies held 228,787,241 (2011: 186,500,772) ordinary shares in the Holding Company.

(Amounts in thousand)

21 HEDGING RESERVE

Fair values of :

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

Less: Deferred tax

Less: Non controlling interest

	2012	2011
	------(Rupees)-----	
	25,787	(28,871)
	(639,933)	(922,237)
	(614,146)	(951,108)
	214,951	332,888
	36,270	44,783
	251,221	377,671
	(362,925)	(573,437)

21.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges, net off associated gains / losses recognised 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 Qadirpur 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 shortfall 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 the EPQL and National Transmission and despatch Company (NTDC) mutually agree.

During the year, EPQL due to insufficient cashflow resulting from delayed payments by NTDC has, as per PPA, reduced the amount deposited in a scheduled bank. Till such time the amount is deposited again to the required level, EPQL has unutilised short term financing amounting to Rs. 587,524 available to meet any unexpected maintenance requirement that may arise in the foreseeable future.

(Amounts in thousand)

23 BORROWINGS

Secured (Non-participatory)

	Note	Mark-up rate p.a.	Instalments Number	Instalments Commencing from	2012 -----Rupees-----	2011 -----Rupees-----
Engro Corporation Limited Listed & Secured Engro Rupiya Certificate 1	23.1 23.1.1	14.5%	6 half yearly	January 15, 2011	3,720,970	3,768,502
Listed & Secured Engro Rupiya Certificate 2	23.1.2	14.5%	Bullet	September 15, 2014	2,483,694	2,602,766
Engro Fertilizers Limited Long term finance utilised under mark-up arrangements:	23.2					
Habib Bank Limited	6 months KIBOR + 1.1%		8 half yearly	September 30, 2010	700,000	775,000
Allied Bank Limited	6 months KIBOR + 1.1%		8 half yearly	December 25, 2010	1,400,000	1,550,000
Askari Bank Limited	6 months KIBOR + 1.1%		8 half yearly	December 29, 2010	175,000	193,750
Citibank N.A.	6 months KIBOR + 1.1%		8 half yearly	December 29, 2010	70,000	77,500
HSBC Middle East Limited Standard Chartered Bank (Pakistan) Limited	6 months KIBOR + 1.1%		8 half yearly	December 29, 2010	137,500	193,750
National Bank of Pakistan Syndicated finance	23.2.1	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	16,567,178	18,198,436
Islamic offshore finance	23.2.2	6 months LIBOR + 2.57%	8 half yearly	March 28, 2011	8,786,240	9,784,189
DFI Consortium finance	23.2.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	6,002,460	6,250,169
International Finance Corporation	23.2.4	6 months LIBOR + 6%	3 half yearly	September 15, 2015	4,554,822	4,144,709
International Finance Corporation	23.2.4	6 months LIBOR + 6%	3 half yearly	September 15, 2016	2,831,600	2,604,858
Bank Islami Pakistan Limited		6 months KIBOR + 2.4%	14 half yearly	May 25, 2010	363,418	454,273
Pak Kuwait Investment Company (Private) Limited		6 months KIBOR + 2.35%	10 half yearly	April 30, 2012	397,605	496,449
Faysal Bank Limited		6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	1,498,896	1,498,382
Dubai Islamic Bank Limited		6 Months KIBOR + 2.11%	10 half yearly	December 31, 2012	494,856	492,738
Silk Bank Limited		6 Months KIBOR + 2.35%	10 half yearly	January 21, 2013	299,648	299,517
Standard Chartered Bank		6 Months KIBOR + 2.40%	10 half yearly	September 17, 2012	993,967	991,380
Samba Bank Limited		6 Months KIBOR + 2.40%	10 half yearly	September 30, 2012	497,740	496,787
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	995,628	993,100

(Amounts in thousand)

	Note	Mark-up rate p.a.	Instalments Number	Instalments Commencing from	2012 -----Rupees-----	2011 -----Rupees-----
Certificates						
Term Finance Certificates - 2nd Issue	23.2.5	6 months KIBOR + 1.55%			3,976,108	3,973,084
Term Finance Certificates - 3rd Issue	23.2.6	6 months KIBOR + 2.4%			1,822,096	1,976,494
Sukuk Certificates Privately Placed Sub-Ordinated Term Finance Certificates		6 months KIBOR + 1.5%	2 half yearly	March 6, 2015	2,991,775	2,989,029
	23.2.7				5,996,536	5,976,758
					63,378,038	66,385,317
Engro Polymer and Chemicals Limited	23.3					
Syndicated term finance I	23.3.3	6 months KIBOR + 2.25%	13 half yearly	November 2010	4,254,218	4,898,377
Syndicated term finance II	23.3.3	6 months KIBOR + 3%	13 half yearly	June 2010	1,068,045	1,241,089
Syndicated term finance III		6 months KIBOR + 2%	Single	June 2012	-	747,333
Syndicated term finance IV	23.3.1	6 months KIBOR + 2.55%	6 half yearly	May 2013	490,764	-
Master Istisna I		6 months KIBOR + 1.5%	6 half yearly	May 2013	100,000	100,000
Master Istisna II		6 months KIBOR + 2%	3 half yearly	June 2012	-	199,000
Master Istisna III	23.3.2	6 months KIBOR + 2%	6 half yearly	June 2015	200,000	-
International Finance Corporation	23.3.3	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	3,471,820	3,926,224
					9,584,847	11,112,023
Engro Foods Limited	23.4					
Faysal Bank Limited		6 month KIBOR + 1.4%	6 half yearly	August 21, 2009	-	58,333
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	960,000	1,200,000
Habib Bank Limited	23.4	6 month KIBOR + 2.25%	6 half yearly	September 3, 2011	250,000	416,667
Syndicated Finance III			6 half yearly	February 16, 2013	1,000,000	1,000,000
Citibank, N.A.			Bullet	February 1, 2013	700,000	700,000
Habib Bank Limited - LTFF Facility	23.4.1 & 23.4.3		8 half yearly	February 27, 2014	220,548	-
Habib Bank Limited - Conventional term loan	23.4.1		6 half yearly	November 2, 2014	397,213	-
NIB Bank Limited			6 half yearly	June 5, 2015	1,481,132	-
Pak Kuwait Investment Company (Private) Limited			6 half yearly	June 30, 2014	250,000	250,000
Certificate						
Sukuk Certificates		6 month KIBOR + 0.69%	4 half yearly	July 13, 2015	950,000	950,000
					7,708,893	6,075,000
Engro Eximp (Private) Limited	23.5					
Syndicated Finance I		6 month KIBOR + 2%	6 half yearly	January 22, 2013	500,000	500,000
Syndicated Long Term Finance I		As per notification of State Bank of Pakistan	8 half yearly	March 3, 2012	749,991	999,999
Bilateral Term Finance		6 month KIBOR + 2%	6 half yearly	November 28, 2013	250,000	250,000
Syndicated Term Finance II	23.5.1 & 23.5.2	6 month KIBOR + 2.25%	6 half yearly	February 11, 2014	880,667	861,558
Syndicated Long Term Finance II		As per notification of State Bank of Pakistan	8 half yearly	February 22, 2013	108,699	89,423
					2,489,357	2,700,980
Engro PowerGen Limited	23.6					
DFI Consortium finance	23.6.1	6 months LIBOR + 3%	20 half yearly	December 15, 2010	11,328,263	11,481,495
					100,694,062	104,126,083
Less: Current portion shown under current liabilities					27,436,692	21,565,668
					73,257,370	82,560,415

(Amounts in thousand)

23.1 Engro Corporation Limited

23.1.1 Represents amount raised from general public against the issuance of Engro Rupiya Certificates I (net of unamortized transaction cost of Rs. 63,901). 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 instalments 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 for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

23.1.2 Represents amount raised from general public against issuance of Engro Rupiya Certificate II (net of unamortized transaction cost of Rs. 51,886). 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 for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

23.1.3 The Certificates are secured by way of first ranking pari passu floating charge over all the present and future movable properties of the Holding 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.

23.2 Engro Fertilizers Limited

23.2.1 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.

23.2.2 This represents the balance amount of 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.

23.2.3 This represents the balance amount of a facility agreement amounting to USD 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID.

23.2.4 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 Engro Fertilizers Limited (Efert), a subsidiary 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. 119.46 and Rs. 155.30 as at December 31, 2012 and December 31, 2011 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 Efert that in the event IFC exercises the aforementioned conversion option (Tranche A), the loan amount then outstanding against Efert would stand reduced by the conversion option amount and Efert would pay the rupee equivalent of the corresponding conversion amount to the Holding Company which would simultaneously be given to Efert 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, Efert 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 was 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 Efert 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 instalments and carries interest at six months LIBOR plus a spread of 6% or 10% depending on the listing status of Efert at December 31, 2012. During the year, IFC in principle waived the interest rate step up of 4% till June 30, 2013, the exact terms and conditions of which are under discussion with Efert and that the formal amendment document in respect of the waiver is in the process of being finalized. 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. 180,584 as at December 31, 2012 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. The residual amount, representing the loan liability component is shown as long term borrowings and is being amortised using effective interest method. The fair value of these options as at December 31, 2012 amounted to Rs. 243,964 (2011: Rs. 63,082).

23.2.5 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 instalments. First Dawood Islamic Bank is the trustee for these TFCs.

23.2.6 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	12.00%
7	60.00%

IGI Investment Bank Limited is the trustee for these TFCs.

23.2.7 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%. In 2011, the aforementioned TFCs have been listed on the Over-The-Counter (OTC) market of the Karachi Stock Exchange.

23.2.8 The above finances, excluding those covered in notes 23.2.4 and 23.2.7 are secured by an equitable mortgage upon the immovable property of Efert and equitable charge over current and future fixed assets excluding immovable property of Efert. Loans from IFC are secured by a sub-ordinated mortgage upon the immovable property of Efert and sub-ordinated charge over all present and future fixed assets excluding immovable property of Efert. PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

(Amounts in thousand)

Further, the Holding Company has issued corporate guarantees in respect of above finances excluding PPTFC whereas it has issued sub-ordinated corporate guarantee in respect of PPTC.

23.2.9 Under the terms of the agreements for long term borrowings, Efert is required to comply with certain financial debt covenants. As at December 31, 2012 all financial debt covenants have been complied with except for current ratio and debt service coverage ratio due to financial burden resulting from gas curtailment, as stated in note 1.3.1(a). Till the formal allocation of the gas fields and consequent revision in cashflows and repayment profile, the lenders agreed to defer one instalment of Rs. 5,292,834 out of the principal outstanding of Rs. 38,929,888. The formal deferral approval is in place for Rs. 5,061,168 while the approval for remaining amount will be part of re-profiling.

23.3 Engro Polymer and Chemical Limited

23.3.1 During the year, Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 500,000. The facility, in addition to the mark-up, also carries a one time arrangement fee of 1.25%. This facility is secured by:

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

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

Master Istisna I facility is secured by a joint pari passu equitable mortgage over land and buildings and a pari passu hypothecation charge over plant and machinery and stocks of EPCL.

23.3.3 Finances, other than those referred to in note 23.3.1 and 23.3.2, are secured by:

- i) a first charge ranking pari passu with each other over leasehold land together with the buildings, plant, machinery and other equipment thereon; and
- ii) a first charge by way of hypothecation over:
 - all Project Assets; and
 - all present and future moveable fixed assets other than Project Assets.

23.3.4 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, 2012, all debt covenants have been complied with except for current ratio and debt service coverage ratio. Waiver for current ratio deviation has been obtained from IFC, whereas waiver has been applied with local syndicate for current ratio and debt service coverage ratio.

(Amounts in thousand)

23.4 Engro Foods Limited

23.4.1 During the year, Engro Foods Limited (EFL), a subsidiary company, has entered into agreements for following finance facilities:

	Rupees
- Habib Bank Limited	1,000,000
- NIB Bank Limited	1,500,000
- Bank of Punjab	500,000

23.4.2 The proceeds from these loans are carried net of unamortized portion of transaction costs amounting to Rs. 23,203.

23.4.3 The above finances are secured by registered floating charges / mortgages over the present and future fixed assets of EFL upto a maximum of Rs. 11,375,000.

23.4.4 LTFF facility from HBL is based on State Bank LTFF rate which ranged from 11.10% to 12.60% per annum during the year. Rest of the finances are KIBOR based and ranged from 11.23% to 15.63% (2011: 14.02% to 16.4%) per annum.

23.5 Engro Eximp (Private) Limited

23.5.1 Engro Eximp Agriproducts (Private) Limited (EEAP) [formerly Engro Foods Supply Chain (Private) Limited], a subsidiary of Engro Eximp (Private) Limited (EEL), entered into a 5 year Syndicated Term Finance Facility (STFF - II) with a syndicate of banks to the extent of Rs. 1,000,000. Out of this the aggregate sale price upto 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 EEAP's other LTFF facility. The LTFF currently carries mark-up at a rate of 12.6% per annum (2011: 12.6% per annum).

23.5.2 Transaction costs amounting to Nil (2011: Rs. 14,799) have been netted off against the draw down amount of Rs. 891,150 (2011: Rs 875,000), and are being amortized over the period of the loan. The unamortized balance as at year end amounts to Rs. 10,481 (2011: Rs. 13,441).

23.5.3 These finances are secured by a registered floating charge / mortgage over the present and future operating assets of EEAP upto a maximum of Rs. 3,437,511.

23.6 Engro PowerGen Limited

23.6.1 Engro Powergen Qadirpur Limited (EPQL), a subsidiary company of Engro PowerGen Limited (EPL), entered into a financing agreement with consortium comprising of International Finance Corporation, DEG, FMO, Pr oparco, Swed Fund and OFID amounting to USD 144,000. The finances carry mark-up 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/instalments commenced from December 15, 2010. As at December 31, 2012, the outstanding balance of the borrowing was USD 117,321 (2011: USD 128,655).

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 NTDC in respect of Energy Purchase Price.

23.7 In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these consolidated financial statements.

(Amounts in thousand)

	2012	2011
	------(Rupees)-----	
24. OBLIGATIONS UNDER FINANCE LEASE		
Present value of minimum lease payments (note 24.1)	2,589	5,179
Less: Current portion shown under current liabilities	(2,589)	(2,590)
	<u>-</u>	<u>2,589</u>

24.1 Represents 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 is to be borne by PDDC, whereas, EFL's is restricted to the extent of principal amount, payable in 20 equal instalments by April 15, 2013. The principal outstanding under this arrangement amounts to Rs. 2,589 (2011: Rs. 5,179).

25 DEFERRED TAXATION

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	------(Rupees)-----			
Engro Corporation Limited	-	28,321	-	30,270
Engro Fertilizers Limited	-	3,295,995	-	4,432,706
Engro Foods Limited	-	1,652,520	-	308,090
Engro PowerGen Limited	-	5,628	-	7,993
Engro Foods Netherlands B.V	167,841	-	48,249	-
Engro Eximp (Private) Limited	489,785	-	109,525	-
Engro Polymer and Chemicals Limited	885,117	-	902,138	-
Net effect of consolidation adjustments	-	209,032	-	267,430
	<u>1,542,743</u>	<u>5,191,496</u>	<u>1,059,912</u>	<u>5,046,489</u>

25.1 Credit / (debit) balances arising on account of:

	2012	2011
	------(Rupees)-----	
- Accelerated depreciation allowance	24,010,000	22,774,576
- Net borrowing costs capitalised	40,525	131,783
- Fair value of hedging instruments	(214,950)	(332,888)
- Recoupable carried forward tax losses (note 25.2)	(18,588,892)	(16,592,494)
- Tax on subsidiary reserves	83,037	127,909
- Tax on fair value adjustment	139,598	139,598
- Recoupable minimum turnover tax	(774,460)	(1,522,252)
- Unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	(1,279,776)	(504,073)
- Share issuance cost	(70,816)	(70,816)
- Others	304,487	(164,766)
	<u>3,648,753</u>	<u>3,986,577</u>

(Amounts in thousand)

25.2 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, 2012 amount to:

	2012	2011
	------(Rupees)-----	
- Engro Fertilizers Limited	35,721,583	31,738,886
- Engro Polymer and Chemicals Limited	12,608,154	12,915,477
- Engro Foods Limited	-	234,657
- Engro Foods Netherlands B.V	167,841	137,854
- Engro Eximp (Private) Limited	3,808,123	1,969,471
- Engro PowerGen Limited	522,663	410,780

25.3 During the year, minimum turnover tax amounting to Rs. 409,945 has been recouped against the tax liability for the year of Engro Foods Limited (EFL), a subsidiary company.

26 EMPLOYEE HOUSING SUBSIDY

This represents unvested balance of Employee Housing Subsidy Scheme (the Scheme) transferred to Engro Fertilizers Limited (Efert), 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 / amortised over a period of 2.5 years of employee service. The amortised amount charged in the profit and loss account amounted to Rs. 1,581 and refunds received during the year amounted to Rs. 1,687. During the year, the employee housing subsidy was completely vested / amortized.

27 DEFERRED LIABILITIES

	2012	2011
	------(Rupees)-----	
Deferred income on sale and leaseback arrangement for vehicles (note 27.1)	-	-
Deferred income under Ijarah arrangement	17,390	-
Retirement and other service benefits obligations (note 27.2)	170,541	161,219
	<u>187,931</u>	<u>161,219</u>
27.1 Deferred income on sale and leaseback arrangements		
Balance as at January 1	-	30
Less: Amortization during the year	-	(30)
Balance as at December 31	<u>-</u>	<u>-</u>
Retirement and other service benefits obligations		
Other retirement and service benefit plans	210,165	195,855
Less: Current portion shown under current liabilities	39,624	34,636
	<u>170,541</u>	<u>161,219</u>

(Amounts in thousand)

28 TRADE AND OTHER PAYABLES

	2012	2011
	------(Rupees)-----	
Creditors (note 28.1 and note 28.2)	19,239,225	14,213,571
Accrued liabilities (note 28.3)	3,959,514	3,946,576
Advances from customers	4,870,621	3,582,904
Deposits from dealers/ distributors refundable on termination of dealership	24,172	26,885
Retention money	48,333	109,301
Contractors'/ suppliers' deposits	33,326	103,344
Workers' profits participation fund (note 28.4)	124,602	217,932
Workers' welfare fund	648,077	513,356
Sales tax payable	1,143,238	49,628
Others	292,841	447,942
	<u>30,383,949</u>	<u>23,211,439</u>

28.1 Includes liability 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 overdue amount payable to Sui Northern Gas Pipelines Limited (SNGPL) by Engro Powergen Qadirpur Limited (EPQL), a subsidiary company of Engro PowerGen Limited (EPL), amounting to Rs. 2,663,858 (2011: Nil) including delayed payment charges amounting to Rs. 223,097 (2011: Nil) which has resulted due to non receipt of payments from National Transmission and Despatch Company (note 12.1).

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

	2012	2011
	------(Rupees)-----	
28.4 Workers' profits participation fund		
Payable at beginning of the year	217,932	24,478
Interest charge for the year (note 39)	1,345	225
Allocation for the year (note 38)	220,086	457,718
Less: Amount paid to Trustees	(314,761)	(264,489)
Payable at end of the year	<u>124,602</u>	<u>217,932</u>

29 ACCRUED INTEREST/MARK-UP

Accrued interest/mark-up on secured:		
- long term borrowings	2,099,456	3,055,502
- short term borrowings	514,177	58,620
	<u>2,613,633</u>	<u>3,114,122</u>

(Amounts in thousand)

30. SHORT TERM BORROWINGS

	2012	2011
	------(Rupees)-----	
Running finance utilized under mark-up arrangements	4,538,090	3,784,404
Short term finance	1,290,000	500,000
	<u>5,828,090</u>	<u>4,284,404</u>

30.1 Engro Corporation Limited

During the year, Engro Corporation Limited (ECL), the Holding Company, has arranged short-term finance facilities of Rs. 1,500,000 (2011: Nil) from banks to meet its working capital requirements. The facilities are primarily secured against ranking floating charge over all present and future loans, advances, receivables and other current assets (excluding investments) of ECL. Additionally the facilities are also secured through a pledge over shares of Engro Foods Limited, a subsidiary company. ECL utilized Rs. 1,495,000 out of the total facilities, which has been repaid during the year.

30.2 Engro Fertilizers Limited

The funded facilities for short term finances available to Engro Fertilizers Limited (Efert), a subsidiary company, from various banks and institutional investors amounts to Rs. 5,250,000 (2011: Rs. 4,150,000) along with non-funded facilities of Rs.1,275,000 (2011: Rs. 1,450,000) for Bank Guarantees. The rates of mark-up on funded bank overdraft facilities ranges from 10.26% to 11.51% and all the facilities are secured by floating charge upon all present and future stocks including raw and packaging materials, finished goods, stores and spares and other merchandise and on all present and future book debts of Efert.

During the year, Efert acquired funds through money market loans and under an Istisna Agreement from various banks amounting to Rs. 3,310,000 out of which Rs 2,520,000 was repaid before December 31, 2012. Outstanding loans carry mark-up rates ranging from 10.08% to 10.99% per annum.

Efert issued Sukuk of Rs. 2,000,000, with a tenor of 6 months, carrying profit rate of six month KIBOR plus 1.60%. The Sukuk was secured by first pari passu charge on all stocks, raw materials, packaging material, finished goods, stock in trade and book debts of Efert. As at December 31, 2012, all the outstanding amount of loan has been repaid.

30.3 Engro Polymer and Chemicals Limited

The aggregate facilities for running finance available to Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, from various banks, representing the sales price of all mark-up arrangements amount to Rs. 1,700,000 (2011: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1.0% to 2.5% (2011: relevant period KIBOR plus 1.0% to 1.5%) per annum. During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.38% to 13.64% (2011: 12.92% to 15.29%) per annum. The facilities are secured by a floating charge over stocks and book debts of EPCL.

The facility for opening letters of credit as at December 31, 2012 aggregate to Rs. 6,683,000 (2011: Rs. 7,537,000). The amount utilized at December 31, 2012 was Rs. 5,098,000 (2011: Rs. 4,612,000).

(Amounts in thousand)

30.4 Engro Foods Limited

The facilities for short term running finance available to Engro Foods Limited (EFL), a subsidiary company, from various banks, which represent the aggregate sale price of all mark-up arrangements, amounts to Rs. 3,600,000 (2011: Rs. 2,800,000). The unutilized balance against these facilities as at year end was Rs. 3,514,611 (2011: Rs. 2,547,750). The rates of mark-up on these finances are KIBOR based and range from 10.38% to 13.60% (2011: 12.90% to 13.58%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of EFL.

The facilities for opening letters of credit and guarantees as at December 31, 2012 amounts to Rs. 5,315,000 (2011: Rs. 3,500,000), of which the amount remaining unutilized as at year end was Rs. 2,881,378 (2011: Rs. 1,830,159).

30.5 Engro Eximp (Private) Limited

Facilities for short term finance available to Engro Eximp (Private) Limited (EEL), a subsidiary company, from various banks, representing the aggregate sale price of mark-up arrangements, amounts to Rs. 5,900,000 (2011: Rs. 6,700,000). The rate of mark-up on these finances ranged from 10.38% to 11.99% per annum (2011: 12.86% to 15.29% per annum). Further, EEL has obtained non-funded facilities for bank guarantees from a bank, amounting to Rs. 350,000 (2011: Rs. 350,000). The facilities are secured by floating charge upon all present and future stocks including raw and packaging materials, finished goods, stores and spares and other merchandise and on all present and future book debts of EEL.

EEL also obtains funds under the Export Refinance Scheme (ERF) of the State Bank of Pakistan (SBP). As at December 31, 2012, funds outstanding under the ERF-II facility amount to Rs. Nil (2011: Rs. 204,482).

During the year, EEL also obtained funds under four FE-25 facilities as allowed by SBP vide its circular F.E. 25 dated June 20, 1998. Facilities carried mark-up at rates ranging from 1.65% to 2.74% per annum.

The facilities for short term running finances obtained from various banks by Engro Eximp Agriproducts (Private) Limited (EEAP), a subsidiary of EEL, which represents the aggregate sale price of the mark-up arrangements amounting to Rs. 1,600,000 (2011: Rs. 200,000). These facilities are secured by way of floating charge upon all present and future current assets of EEAP.

The facilities for opening letters of credit by EEAP as at December 31, 2012 amounts to Rs. 100,000 (2011: Rs. 200,000). The facilities for opening guarantees by EEAP as at December 31, 2012 amounts to Rs. 75,000 (2011: Rs. 75,000) of which the unutilised balance as at December 31, 2012 amounts to Rs. 73,000 (2011: Rs. 73,000).

30.6 Engro PowerGen Limited

The facilities available to Engro Powergen Qadirpur Limited (EPQL), a subsidiary company of Engro PowerGen Limited (EPL), aggregate to Rs. 2,950,000 (2011: Rs. 3,000,000) and are being utilized under mark-up arrangements. The facilities carry mark-up at the rate of 3 months KIBOR plus 2% (2011: 3 months KIBOR plus 2%). The facilities are 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 EPQL 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.

These facilities also include Rs. 500,000 Term Loan for a period of one year with Pak Kuwait Investment Company.

(Amounts in thousand)

31 PROVISIONS

	2012	2011
	------(Rupees)-----	
Provision for Special Excise Duty on import of plant and machinery (note 31.1)	-	91,498
Provision for duty on import of raw materials (note 31.2)	88,218	75,180
Provision for contractual commitment (note 31.3)	-	18,199
	<u>88,218</u>	<u>184,877</u>

31.1 Provision for Special Excise Duty on import of plant and machinery

Balance at beginning of the year	91,498	83,795
Recognized during the year - (note 31.1.1)	6,328	7,703
Reversal during the year - (note 31.1.1 and 31.1.2)	(97,826)	-
Balance at end of the year	<u>-</u>	<u>91,498</u>

31.1.1 Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, had paid Rs. 94,611 (2011: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of Rs. 94,611, EPCL had adjusted Rs. 57,924 (2011: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by EPCL. EPCL had 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 clarification, EPCL based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in other receivables (note 16). However, in 2009, EPCL received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that EPCL, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from EPCL under the Federal Excise Act, 2005 alongwith default surcharge and penalty. Accordingly, a further provision for surcharge and penalty thereon amounting to Rs. 39,902 (2011: Rs. 33,574) was also recognized.

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

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

(Amounts in thousand)

31.2 Provision for duty on import of raw materials

	2012	2011
	------(Rupees)-----	
Balance at beginning of the year	75,180	47,227
Recognized during the year - 31.2.1	13,038	27,953
Balance at end of the year	<u>88,218</u>	<u>75,180</u>

31.2.1 EPCL in 2009 received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis for customs duty. The letter alleged that 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. However, 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, provision amounting to Rs. 88,218 (2011: Rs. 75,180) in respect of customs duty on such raw materials has been recognized.

31.3 In 2011, Engro Eximp Agriproducts (Private) Limited (EEAP) [formerly Engro Foods Supply Chain (Private) Limited], a subsidiary company of Engro Eximp (Private) Limited, entered into agreements with various rice mills for processing of rice paddy, to be supplied by EEAP, for the quantities specified in the agreements. If EEAP is unable to supply the committed quantities for processing till the expiry of the agreements, it is liable to pay 50% of the agreed rate of processing for the quantities not utilized. During the current year, EEAP has paid the amount recognised as provision in 2011 for not supplying the agreed quantities of rice paddy to the mills for processing.

32. CONTINGENCIES AND COMMITMENTS

Contingencies

	2012	2011
	------(Rupees)-----	
32.1 Corporate Guarantees issued in favour of Subsidiary Companies by the Holding Company:		
- Engro Fertilizers Limited (note 32.2)	63,934,832	67,141,010
- Engro Powergen Qadirpur Limited (32.3)	971,000	900,604
- Engro PowerGen Limited (note 32.4)	116,520	-
- Engro Foods Canada Limited (note 32.5)	235,544	-
- Avanceon Limited (note 32.6)	-	242,000

32.2 The above amount also includes a Corporate Guarantee issued by the Holding Company to International Finance Corporation (IFC) for USD 80,000 under the Amended Agreement entered into by Engro Fertilizers Limited (Efert) with IFC (note 23.2.4).

32.3 Represents Corporate Guarantee amounting to USD 10,000 issued to Allied Bank Limited to open DSRA letter of credit in favour of the Engro Powergen Qadirpur Limited's, a subsidiary of Engro PowerGen Limited (EPL), senior long term lenders.

(Amounts in thousand)

32.4 The Holding Company extended a Corporate Guarantee amounting to USD 1,200 (plus mark-up) in favor of Bank Alfalah Limited on account of Engro PowerGen Limited (EPL), a subsidiary company, against a Letter of Guarantee facility offered to EPL.

32.5 Includes (a) Standby Letter of Credit in favour of HSBC Bank Canada amounting to CAD 1,170 issued on October 01, 2012 by Soneri Bank Limited against banking facilities granted to Engro Foods Canada Limited (a wholly owned subsidiary of Engro Foods Netherlands B.V.) and expiring on October 01, 2013 and (b) Corporate Guarantee of USD 1,250 issued in favour of National Bank of Pakistan Limited, Americas Region, USA against working capital facility granted to Engro Foods Canada Limited.

32.6 The Holding Company had extended corporate guarantees to banks and financial institutions aggregating Rs. 242,000 (plus accrued mark-up) against finance facilities extended to Avanceon Limited by the banks/financial institutions. Pursuant to the Global Restructuring Agreement entered into by the Holding Company referred to in note 19, banks/financial institutions have released all such corporate guarantees.

32.7 Bank guarantees of Rs.1,052,364 (2011: Rs. 1,015,730) have been issued in favor of third parties by Efert.

32.8 Claims, including pending lawsuits, against Efert not acknowledged as debts amounted to Rs. 58,530 (2011: Rs. 34,938).

32.9 Efert 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.

32.10 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.

32.11 Efert had 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 Efert'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, Pak Arab Fertilizers and Kohinoor Mills Limited along with 21 other companies (mainly engaged in textile business). The aforementioned petitions are pending for further hearing. Efert's management as confirmed by the legal advisor considers the chances of petitions being allowed to be remote.

Further, Efert 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 & 204 of the Constitution of Pakistan. Efert, in the aforementioned application has submitted that SNGPL and MPNR has failed to restore supply of gas to Efert's plant despite the judgment of High Court in Efert's 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)

32.12 All Pakistan Textile Processing Mills Association (APTPMA), 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 Efert's 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 ab initio because the output of Qadirpur has in fact decreased. Agritech has additionally alleged discrimination in that it is receiving less gas than the other fertilizer companies on the SNGPL system. Efert 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 Efert 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 Efert and gas field (Qadirpur), that is to initially supply gas to Efert, 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. No orders have been passed in this regard and the petitions have been adjourned sine die. However, Efert's management, as confirmed by the legal advisor, considers the chances of the petitions being allowed to be remote.

32.13 Efert, along with other fertilizer companies, received a show cause notice from the Competition Commission of Pakistan (CCP) for initiating action under the Competition Act 2010 in relation to unreasonable increase in the price of fertilizer. Efert has responded in detail that factors resulting in such increase were mainly the imposition of infrastructure cess and sales tax and partially the gas curtailment. The hearing has concluded and order is awaited. Efert management is confident that there will be no adverse action taken against Efert.

32.14 Engro Foods Limited (EFL), a subsidiary company, has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (2011: Rs. 39,037) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (2011: Rs. 34,350) under the contract for supply of gas;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (2011: Rs. 258,712) under Sales Tax Rules 2006, against refund claim of input sales tax. Against these guarantees, sales tax refunds amounting to Rs. 172,000 (2011: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 4,680 (2011: Rs. 5,351), as collateral against supplies.

32.15 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.

32.16 In 2010, a lawsuit was filed in the Civil Court, Sheikhupura against Engro Eximp Agriproducts (Private) Limited (EEAP) [Formerly, Engro Foods Supply Chain (Private) Limited], a subsidiary of Engro Eximp (Private) Limited (EEL), by certain previous co-owners claiming pre-emptive right over a portion of the land, acquired by EEAP for construction of its rice processing plant. EEAP has filed its written statement thereagainst and the case is currently being heard. However, EEAP, based on the opinion of its 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.

(Amounts in thousand)

Commitments

32.17 Details of commitments as at December 31, 2012 entered by the Holding Company and its subsidiaries are as follows:

32.18.1 Capital expenditure contracted but not incurred by:

	2012	2011
	------(Rupees)-----	
- Engro Foods Limited	3,106,449	661,295
- Engro Eximp (Private) Limited	16,898	523,862
- Engro Fertilizers Limited	70,134	596,378
	<u>3,193,481</u>	<u>1,781,535</u>

32.18.2 Letters of credit/contracts by:

- Engro Foods Limited for purchase of commodities	181,420	1,575,350
- Engro Eximp (Private) Limited for import of fertilizers	113,719	26,225
- Avanceon Limited for capital expenditure	-	135,011
- Engro Powergen Qadirpur Limited for senior lenders	778,897	685,140
	<u>1,074,036</u>	<u>2,421,726</u>

32.18.3 Bank guarantees by:

- Engro Eximp (Private) Limited for infrastructure cess	350,000	284,769
- Avanceon Limited for various contracts	-	134,197
	<u>350,000</u>	<u>418,966</u>

32.18.4 Post dated cheques provided by:

- Engro Eximp (Private) Limited	-	10,992
- Engro Foods Limited	15,106	153,342
- Avanceon Limited	-	12,469
	<u>15,106</u>	<u>176,803</u>

32.18.5 The Holding Company has committed to invest an amount of Rs. 562,000 in Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, by way of subscription to right shares.

32.18.6 On October 01, 2012, the Holding Company, also extended a Sponsor Support Undertaking in favour of MCB Bank Limited and Faysal Bank Limited against a syndicate finance facility of Rs. 500,000 to EPCL. As per the undertaking, in case the subsidiary company is unable to fulfil its financial obligations to the syndicate, the Holding Company shall provide subordinated loan to the subsidiary to fulfil the same.

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

(Amounts in thousand)

	2012	2011
	------(Rupees)-----	
Not later than 1 year	114,517	73,717
Later than 1 year and no later than 5 years	290,444	116,954
Later than 5 years	19,200	89,851
	<u>424,161</u>	<u>280,522</u>

33. NET SALES

Own manufactured product (note 33.1 to 33.2)	116,448,301	98,228,824
Less: Sales tax	9,891,658	8,780,376
	<u>106,556,643</u>	<u>89,448,448</u>
Purchased product/ services rendered	21,399,223	28,666,921
Less: Sales tax	2,804,594	3,503,532
	<u>18,594,629</u>	<u>25,163,389</u>
	<u>125,151,272</u>	<u>114,611,837</u>

33.1 Includes export sales by Engro Foods Limited, Engro Polymer and Chemicals Limited, and Engro Eximp (Private) Limited amounting to Rs. 667,833 (2011: Rs. 614,560), Rs. 2,064,828 (2011: Rs.1,563,055), and Rs. 1,775,886 (2011: Rs. 1,463,320) respectively.

33.2 Includes sale of electricity by Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited amounting to Rs. 12,906,428 (2011: Rs. 9,243,643).

33.3 Sales are net of marketing allowances of Rs. 324,094 (2011: Rs. 61,302), special excise duty Nil (2011: Rs. 93,600) and discounts of Rs. 480,114 (2011: Rs. 351,215).

(Amounts in thousand)

34. COST OF SALES

	2012	2011
	------(Rupees)-----	
Raw and packing materials consumed including unprocessed rice	47,351,406	37,752,061
Salaries, wages and staff welfare (note 34.1)	3,454,878	3,048,318
Fuel and power	15,775,531	11,283,844
Repairs and maintenance	1,666,285	1,361,671
Depreciation (note 4.2)	7,878,375	5,279,946
Amortization (note 7.1)	29,028	7,332
Consumable stores	546,627	544,140
Staff recruitment, training, safety and other expenses	78,961	61,505
Purchased services	846,528	817,203
Storage and handling	1,533,377	1,343,628
Travel	190,213	203,848
Communication, stationery and other office expenses	255,775	219,950
Insurance	528,501	418,798
Rent, rates and taxes	237,008	163,489
Stock - finished goods written off	16,972	200
Provision against:		
- obsolete stock	-	18,118
- slow moving spares	5,049	3,950
Other expenses	29,198	82,468
Manufacturing cost	<u>80,423,712</u>	<u>62,610,469</u>
Add: Opening stock of work-in-progress (note 11)	152,947	53,313
Less: Closing stock of work-in-progress (note 11)	276,851	152,947
	<u>(123,904)</u>	<u>(99,634)</u>
Cost of goods manufactured	<u>80,299,808</u>	<u>62,510,835</u>
Add: Opening stock of finished goods manufactured (note 11)	2,413,470	1,724,312
Less: Closing stock of finished goods manufactured (note 11)	2,605,890	2,413,470
	<u>(192,420)</u>	<u>(689,158)</u>
Cost of goods sold		
- own manufactured product	80,107,388	61,821,677
- purchased product (note 34.2)	16,523,936	20,697,769
- others	-	11,135
	<u>96,631,324</u>	<u>82,530,581</u>

(Amounts in thousand)

34.1 Salaries, wages and staff welfare includes Rs. 266,765 (2011: Rs. 164,913) in respect of staff retirement benefits.

34.2 Cost of sales - purchased product

	2012	2011
	------(Rupees)-----	
Opening stock	1,677,981	1,482,939
Add: Purchases	17,039,034	20,892,811
Less: Closing stock (note 11)	2,193,079	1,677,981
	<u>16,523,936</u>	<u>20,697,769</u>

35. SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and staff welfare (note 35.1)	1,025,267	933,484
Staff recruitment, training, safety and other expenses	35,970	40,452
Product transportation and handling	4,123,922	3,400,836
Repairs and maintenance	52,912	32,732
Advertising and sales promotion	2,718,334	2,014,433
Rent, rates and taxes	249,530	173,270
Communication, stationery and other office expenses	119,993	122,547
Travel	158,837	131,558
Depreciation (note 4.2)	219,178	185,916
Amortization (note 7.1)	48	54,213
Purchased services	27,519	11,400
Others	85,318	44,124
	<u>8,816,828</u>	<u>7,144,965</u>

35.1 Salaries, wages and staff welfare include Rs. 109,345 (2011: Rs. 75,218) in respect of staff retirement benefits.

36. ADMINISTRATIVE EXPENSES

	2012	2011
	------(Rupees)-----	
Salaries, wages and staff welfare (note 36.1)t	1,249,338	1,485,473
Staff recruitment, training, safety and other expenses	29,858	108,827
Repairs and maintenance	41,285	23,354
Advertising and sales promotion	55,178	65,053
Rent, rates and taxes	238,345	272,664
Communication, stationery and other office expenses	217,062	205,308
Travel	222,172	116,489
Depreciation (note 4.2)	166,251	173,457
Amortization (note 7.1)	63,679	13,813
Purchased services	411,088	248,785
Donations	72,116	82,654
Others	99,934	235,692
	<u>2,866,306</u>	<u>3,031,569</u>

(Amounts in thousand)

36.1 Salaries, wages and staff welfare include Rs. 140,316 (2011: Rs. 112,539) in respect of staff retirement benefits.
Less: Closing stock of finished goods

37. OTHER OPERATING INCOME

	2012	2011
	------(Rupees)-----	
Financial assets:		
Income on deposits / other financial assets	414,286	1,291,784
Exchange gain	18,888	21,084
Gain on fair value adjustments of embedded derivatives	-	367,360
Delayed payment charges - overdue receivables	709,984	66,480
Non financial assets:		
Service charges	-	6,394
Insurance Claim (note 37.1)	423,281	-
Gain on disposal of property, plant and equipment (note 4.3)	-	26,798
Gain on disposal of spares / scrap	102,235	-
Gain on disposal of biological assets	4,310	2,095
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets (note 6.1)	200,366	90,830
Others	154,529	183,720
	<u>2,027,879</u>	<u>2,056,545</u>

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

38. OTHER OPERATING EXPENSES

	2012	2011
	------(Rupees)-----	
Workers' profits participation fund (note 28.4)	220,086	457,718
Workers' welfare fund	139,971	242,113
Legal and professional charges	183,372	254,688
Research and development (including salaries and wages)	75,439	33,820
Provision for impairment (note 19 and 7)	18,293	554,642
Charge against corporate guarantee (note 19)	93,000	-
Loss on disposal of property, plant and equipment (note 4.3)	133,377	-
Foreign exchange loss	798,949	280,098
Loss on fair value adjustments of embedded derivative	180,882	-
Auditors' remuneration (note 38.1)	19,934	16,357
Professional tax	205	93
Others	23,810	90,180
	<u>1,887,318</u>	<u>1,929,709</u>

(Amounts in thousand)

38.1 Auditors' remuneration:

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

	2012	2011
	------(Rupees)-----	
Fee for the		
- audit of annual financial statements	9,539	8,189
- review of half yearly financial statements	936	1,943
Special audit, certifications, audit of retirement benefit funds, review of compliance with Code of Corporate Governance and other advisory services	3,229	2,463
Tax services	4,453	1,428
Reimbursement of expenses	√ 1,777	2,334
	<u>19,934</u>	<u>16,357</u>

39. FINANCE COST

Interest/mark-up on		
- Long term borrowings	9,972,113	8,846,137
- Short term borrowings	2,388,650	1,616,458
Delayed payment charges	248,758	98,001
Interest on Workers' profits participation fund (note 28.4)	1,345	225
Foreign exchange loss on borrowings	2,468,993	1,495,193
Financial charges on usance letters of credit	122,022	112,805
Others	314,357	145,774
	<u>15,516,238</u>	<u>12,314,593</u>

40. SHARE OF INCOME FROM JOINT VENTURE

Engro Vopak Terminal Limited		
Share of income before taxation	1,144,278	2,680,288
Less: Share of provision for taxation	(400,497)	(938,101)
	<u>743,781</u>	<u>1,742,187</u>

41. TAXATION

Current		
- for the year	1,390,506	2,220,775
- for prior years	111,105	110,243
	1,501,611	2,331,018
Deferred		
- for the year	(1,147,151)	1,330,209
- for prior years	305,103	(13,466)
	(842,048)	1,316,743
	<u>659,563</u>	<u>3,647,761</u>

(Amounts in thousand)

41.1 Engro Fertilizers Limited

As a result of demerger, all pending tax issues of the Holding Company had been transferred to the Engro Fertilizers Limited (Efert), a subsidiary company. Major issues pending before the tax authorities are described below:

41.1.1 During the year, the income tax department raised a demand of Rs. 1,481,709, subsequently rectified to Rs. 1,074,938, for the financial year 2010. The disallowances were mainly on account of initial allowance on capitalization which was later confirmed by the Commissioner Inland Revenue-Appeals (CIRA). The demand has been subsequently reduced to Rs. 616,536 after application of rectifications from prior years amounting to Rs. 308,402 and payment of Rs. 150,000. Efert has further applied to account for a pending appeal affect in its favor amounting to Rs. 251,000. The balance demand of Rs. 365,536 is expected to be offset against the likely refunds from the financial year 2008 appeal pending before Appellate Tribunal Inland Revenue (ATIR) as discussed in the following paragraph. Accordingly, ATIR has granted a stay against the above-said demand.

In second quarter of 2012, the CIRA confirmed the disallowance of Group Relief amounting to Rs 450,000 and Inter Corporate Dividend amounting to Rs 220,000 for the financial year 2008. Subsequently, the Efert appealed against the decision on the grounds that both the above disallowances had been decided by ATIR, being a higher forum, in previous years. The hearing has been concluded and the order is awaited.

41.1.2 In previous years the department has filed reference applications in High Court against the ATIR's decisions in Efert's favour. No hearing has been conducted to date. The reference application includes the following matters:

- Group Relief (Financial year 2007 and 2008): Rs 1,050,847
- Inter-Corporate Dividend (Financial year 2007): Rs 116,500
- G.P. Apportionment (Financial years 1995 to 2002): Rs 653,000

The Efert is confident that all pending issues will eventually be decided in its favour.

41.1.3 A prior year incremental current tax charge of Rs. 35,450 has also been recognized consequent to the partial disallowance of accelerated depreciation claimed in the financial year 2010. Further, the prior year deferred tax charge represents reversal of deferred tax asset on minimum tax amounting to Rs. 340,553 for the financial year 2011 being unrecoupable, net of adjustment resulting from the aforementioned disallowance of accelerated depreciation.

41.2 Engro Foods Limited

Following is the position of the Engro Foods Limited's (EFL), a subsidiary company, open tax assessments:

41.2.1 EFL in accordance with section 59 B (Group Relief) of the Income Tax Ordinance, 2001 has surrendered to the Holding Company, its tax losses amounting to Rs. 4,288,134 out of the total tax losses of Rs. 4,485,498 for the years ended December 31, 2006, 2007 and 2008 (Tax years 2007, 2008 and 2009) for cash consideration aggregating Rs. 1,500,847 being equivalent to tax benefit/effect thereof.

EFL has been designated as part of the Group of Engro Corporation Limited 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.

(Amounts in thousand)

Further, the Appellate Tribunal, in respect of surrender of aforementioned tax losses by the EFL to the Holding Company for the years ended December 31, 2006 and 2007, decided the appeals in 2010 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, have been heard and is pending for next 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 the EFL.

41.2.2 The 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.

41.2.3 In 2010, 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. The 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 the EFL whereby withdrawing the demand amounting to Rs. 222,357. The EFL has filed an appeal at the Tribunal level for the remainder matters remanded back or decided against the EFL. The 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.

41.3 Engro Polymer & Chemicals Limited

Following is the position of the Engro Polymer & Chemicals Limited (EPCL), a subsidiary company, open tax assessments:

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

EPCL filed an appeal against the aforesaid order before the CIRA, but discharged the entire demand through adjustment against assessed refunds of Rs. 180,768 and paying the balance of Rs. 32,404 'under protest'.

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

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

(Amounts in thousand)

41.3.2 The DCIR through his order dated November 30, 2010 raised a tax demand of Rs. 163,206 for tax year 2009. The demand arose as a result of disallowing finance cost of Rs. 457,282; additions to income of trading liabilities of Rs. 21,859 under section 34(5) of the Ordinance; disallowing provision for retirement benefits of Rs. 14,239; disallowing provision against Special Excise Duty refundable of Rs. 36,689; adding imputed interest on loans to employees and executives of Rs. 20,599 and not considering net loss as per the revised return as a consequence of the matters explained in the note 41.3.3.

The entire demand of Rs. 163,206 was adjusted against assessed tax refunds and an appeal was filed by EPCL before the CIRA.

In 2011, through an appellate order, the CIRA 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 CIRA deleting the addition on account of provision for the retirement benefits.

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

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

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

41.4 Engro PowerGen Limited

Following is the position of the Engro PowerGen Limited (EPL), a subsidiary company, open tax assessments:

Sindh Engro Coal Mining Company Limited (SECMC), a subsidiary company of the Engro PowerGen Limited (EPL) 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 loss carried forward as at December 31, 2012 aggregating to Rs. 522,662 has been recognized to offset the deferred tax liability recorded on exploration and evaluation expenditure.

(Amounts in thousand)

41.5 Engro Eximp (Private) Limited

Following is the position of the Engro Eximp (Private) Limited (EEL), a subsidiary company, open tax assessments:

Uptill 2011, Engro Eximp (Private) Limited's (EEL), a subsidiary company, major operating activities were taxable under the Final Tax Regime except for profit on bank accounts, capital gains on investments, gain on local commodity trading and income on local rice sales were taxable under the Normal Tax Regime. However, through Finance Act, 2012, certain amendments have been introduced, whereby EEL now has the option to be taxed under NTR in respect of activities previously taxable under FTR, with condition that minimum tax liability with respect to such income as specified therein. EEL intends to opt for NTR and accordingly has made current tax provision for the year on that basis which amounts to Rs. 544,686. Therefore, the tax deducted under FTR in excess of the aforementioned provision amounting to Rs. 360,473 has been shown as refundable in these consolidated financial statements.

In 2010, the tax department raised demands of Rs 239,902 and Rs 1,708,621 for tax years 2007 and 2009 respectively, mainly on the disallowance of subsidy received by the EEL on imported phosphatic fertilizer from the Government of Pakistan as allowable expense. The Commissioner Inland Revenue, on EELs appeal thereagainst, had set aside the aforementioned amended order with the directions to the Additional Commissioner Inland Revenue for denovo proceedings. The Additional Commissioner Inland Revenue initiated the proceedings as directed and issued amended assessment order for tax year 2009 on April 5, 2012, in which the contention of EEL has been accepted and the matter has been decided in the favour of EEL on the basis of this amended assessment order. EEL is also confident that the matter with respect to tax year 2007 will also be decided in the Holding Company's favour without any additional tax liability and as such has not made provision for the aforementioned demand in this financial statements.

41.6 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:

	2012	2011
	------(Rupees)-----	
Profit before tax	2,456,790	11,459,152
Tax calculated at the rate of 35%	859,877	4,010,703
Depreciation on exempt assets not deductible for tax purposes	37,425	38,575
Effect of exemption from tax on certain income	(838,547)	(339,658)
Effect of applicability of lower tax rate and other tax credits / debits	(36,048)	30,655
Prior year tax charge	416,207	96,777
Un-recoupable minimum turnover tax	58,156	(183,623)
Net effect of consolidation adjustments	162,493	(5,668)
Tax charge for the year	659,563	3,647,761

(Amounts in thousand)

42 EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Group since the average annual market price of the Holding Company's share for the current year is less than the exercise price of the options granted on the Holding Company's shares to IFC.

	2012	2011
	------(Rupees)-----	
Profit / (loss) after taxation (attributable to the owners of the Holding Company) from:		
- Discounted operations	-	(71,347)
- Continuing operations	1,333,273	8,131,795
	<u>1,333,273</u>	<u>8,060,448</u>

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

Profit for the year from continuing operations	1,333,273	8,131,795
Add: Interest on IFC loan of USD 15,000 (net of tax)	-	86,619
	<u>1,333,273</u>	<u>8,218,414</u>

	(Restated)	
Weighted average number of ordinary shares	511,269	511,269
Add: Weighted average adjustment for (note 42.1):		
Assumed conversion of employees' share options	-	153
Assumed conversion of USD 15,000 IFC loan	-	8,381
	-	8,534
Weighted average number of ordinary shares for determination of diluted EPS	<u>511,269</u>	<u>519,803</u>

There is no dilutive effect on the basic earnings per share of the Holding Company, after taking into the effect of options granted on Holding Company's shares to IFC referred to in note 23.2.4.

(Amounts in thousand)

43 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:

	2012			2011		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	------(Rupees)-----					
Managerial remuneration	197,039	43,425	2,813,477	189,083	30,287	2,089,937
Retirement benefits funds	27,039	3,479	344,049	19,784	2,931	247,558
Other benefits	22,582	9	433,402	21,754	37	352,793
Fees	-	26,300	-	71	25,070	-
Total	246,660	73,213	3,590,928	230,692	58,325	2,690,288
Number of persons including those who worked part of the year	9	54	1,531	10	43	897

43.1 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, directors and some employees.

43.2 Premium charged in these consolidated financial statements in respect of directors indemnity insurance policy, purchased by the Group amounted to Rs. 5,610 (2011: Rs. 5,552).

(Amounts in thousand)

44 RETIREMENT BENEFITS

44.1 Defined benefit Gratuity plan

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

44.1.1 Engro Corporation Limited

Defined Benefit Gratuity Plans Funded

2012 2011
------(Rupees)-----

44.1.1.1 Balance sheet reconciliation

Present value of funded obligation	132,150	104,576
Fair value of plan assets	(170,004)	(113,689)
Surplus	(37,854)	(9,113)
Unrecognised actuarial gain	39,980	11,222
Payable to associated companies	664	108
Unrecognised past service cost	839	915
Net liability at end of the year	3,629	3,132

44.1.1.2 Movement in net liability recognised

Net liability at beginning of the year	3,132	-
Expense recognised	3,629	3,132
Amount paid to the Fund	(3,132)	-
Net liability at end of the year	3,629	3,132

44.1.1.3 Movement in defined benefit obligation

As at beginning of the year	104,576	115,956
Current service cost	4,785	6,093
Interest cost	12,849	18,773
Benefits paid during the year	(53,658)	(20,000)
Actuarial gain on obligation	(31)	(4,774)
Liability transferred from / (to) DC Gratuity Funds	63,629	(3,051)
Liability reversed in respect of inter-company transfer	-	(8,421)
As at end of the year	132,150	104,576

44.1.1.4 Movement in fair value of plan assets

As at beginning of the year	113,689	125,199
Expected return on plan assets	13,929	20,608
Contributions	3,132	-
Benefits paid during the year	(53,658)	(20,000)
Actuarial gain/ (loss) on plan assets	28,727	(9,175)
Assets transferred by / (to) DC Gratuity Fund	64,185	(2,943)
As at end of the year	170,004	113,689

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded	
	2012	2011
	----- (Rupees) -----	
44.1.1.5 Charge for the year		
Current service cost	4,785	6,093
Interest cost	12,849	18,773
Expected return on plan assets	(13,929)	(20,608)
Recognition of curtailment gain	-	(1,050)
Amortisation of unrecognised past service cost	(76)	(76)
	<u>3,629</u>	<u>3,132</u>
44.1.1.6 Principal actuarial assumptions used in the actuarial valuation		
	----- (%) -----	
Discount rate	12	12.5
Expected per annum rate of return on plan assets	12	12.5
Expected per annum rate of increase in future salaries	12	12.5
44.1.1.7 Actual return on plan assets	<u>42,656</u>	<u>11,433</u>

44.1.1.8 Plan assets comprise of the following

	2012		2011	
	Rupees	(%)	Rupees	(%)
Fixed income instruments	137,376	81%	84,736	75%
Cash	2,117	1%	1,109	1%
Others	30,511	18%	27,844	24%
	<u>170,004</u>		<u>113,689</u>	

44.1.1.9 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.

44.1.1.10 Historical information of staff retirement benefits

	2012	2011	2010	2009	2008
	----- Rupees -----				
Present value of defined benefit obligation	(132,150)	(104,576)	(115,956)	(339,182)	(296,469)
Fair value of plan assets	170,004	113,689	125,199	409,228	359,222
Surplus	<u>37,854</u>	<u>9,113</u>	<u>9,243</u>	<u>70,046</u>	<u>62,753</u>

(Amounts in thousand)

44.1.1.11 Expected future cost for the year ending December 31, 2013 is Rs. 296.

44.1.1.12 Defined contribution plans

An amount of Rs. 10,920 (2011: Rs. 11,455) has been charged during the year in respect of defined contribution plans.

44.12 Engro Fertilizers Limited

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012	2011	2012	2011
	----- Rupees -----			
44.1.2.1 Balance sheet reconciliation				
Present value of funded obligation	239,377	277,645	31,289	32,023
Fair value of plan assets	(237,281)	(256,976)	(38,313)	(37,023)
Deficit / (Surplus)	2,096	20,669	(7,024)	(5,000)
Payable to associated companies	12	-	-	-
Unrecognised actuarial (loss) / gain	(5,000)	(22,636)	1,800	401
Payable to Defined Contribution Gratuity Fund	15,272	2,454	-	-
Unrecognised past service cost	3,914	4,253	-	-
Unrecognized asset	-	-	3,424	-
Net liability / (asset) at end of the year	<u>16,294</u>	<u>4,740</u>	<u>(1,800)</u>	<u>(4,599)</u>
44.1.2.2 Movement in net liability / (asset) recognised				
Net liability / (asset) at beginning of the year	4,740	-	(4,599)	(4,073)
Expense / (reversal) recognised	17,288	4,740	(625)	(526)
Amount paid to the Fund	(5,734)	-	-	-
Unrecognized asset	-	-	3,424	-
Net liability / (asset) at end of the year	<u>16,294</u>	<u>4,740</u>	<u>(1,800)</u>	<u>(4,599)</u>
44.1.2.3 Movement in defined benefit obligation				
As at beginning of the year	277,645	269,523	32,023	31,230
Current service cost	13,657	14,582	-	-
Interest cost	33,866	32,901	3,777	4,286
Benefits paid during the year	(21,055)	(10,939)	(3,608)	(3,377)
Actuarial (gain) / loss on obligation	(1,080)	49,473	(903)	(116)
Settlement gain	-	(8,126)	-	-
Liability transferred in respect of inter-company transfer	(3)	(445)	-	-
Liability transferred to DC Gratuity Fund	(63,653)	(69,324)	-	-
As at end of the year	<u>239,377</u>	<u>277,645</u>	<u>31,289</u>	<u>32,023</u>

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012	2011	2012	2011
441.2.4 Movement in fair value of plan assets				
At beginning of the year	256,976	289,580	37,023	34,855
Expected return on plan assets	31,618	33,726	4,402	4,812
Contributions	5,734	-	-	-
Benefits paid during the year	(21,055)	(10,939)	(3,608)	(3,377)
Actuarial gain / (loss) on plan assets	14,834	14,676	496	733
Assets transferred in respect of transfers	9	(3,197)	-	-
Assets transferred to DC Gratuity Fund	(50,835)	(66,870)	-	-
As at end of the year	<u>237,281</u>	<u>256,976</u>	<u>38,313</u>	<u>37,023</u>
441.2.5 Charge / (Reversal) for the year				
Current service cost	13,657	14,582	-	-
Interest cost	33,866	32,901	3,777	4,286
Expected return on plan assets	(31,618)	(33,726)	(4,402)	(4,812)
Settlement gain	-	(8,678)	-	-
Amortisation of unrecognized past service cost	(339)	(339)	-	-
Amortisation of actuarial gain	1,722	-	-	-
	<u>17,288</u>	<u>4,740</u>	<u>(625)</u>	<u>(526)</u>
441.2.6 Actual return on plan assets	<u>46,452</u>	<u>48,402</u>	<u>4,898</u>	<u>5,545</u>
441.2.7 Principal actuarial assumptions used in the actuarial valuation				
Discount rate	12.0%	12.5%	12.0%	12.5%
Expected per annum rate of return on plan assets	12.0%	12.5%	12.0%	12.5%
Expected per annum rate of increase in pension	-	-	4.0%	4.5%
Expected per annum rate of increase in future salaries	11.0%	11.5%	11.0%	12.5%
	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012		2012	
	Rupees	(%)	Rupees	(%)
Fixed income instruments	193,258	81%	36,846	96%
Cash	5,860	3%	1,408	4%
Others	38,163	16%	59	0%
	<u>237,281</u>		<u>38,313</u>	

(Amounts in thousand)

441.2.9 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.

441.3 Historical information of staff retirement benefits

	2012	2011	2010
Present value of defined benefit obligation	(31,289)	(32,023)	(31,230)
Fair value of plan assets	38,313	37,023	34,855
Surplus	<u>7,024</u>	<u>5,000</u>	<u>3,625</u>
441.2.10 Expected future cost / (reversal) for the year ending December 31, 2013 is as follows:			
			Rupees
- MPT Pension Fund			(843)
- MPT Gratuity Fund			(753)
- Non-MPT Gratuity Fund			10,895

441.2.11 Defined contribution plans

An amount of Rs. 55,019 has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

441.3 Engro Eximp (Private) Limited

441.3.1 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded	
	2012	2011
	------(Rupees)-----	
Present value of funded obligation	196	63
Fair value of plan assets	(252)	(68)
Surplus	(56)	(5)
Unrecognised actuarial loss	(728)	(236)
Payable to Defined Contribution Gratuity Fund	719	117
Unrecognised past service cost	24	27
Net liability at end of the year	<u>(41)</u>	<u>(97)</u>
441.3.2 Movement in net liability recognised		
Net liability at beginning of the year	(97)	215
Expense recognised	56	(97)
Amount paid by the Fund	-	(215)
Net liability at end of the year	<u>(41)</u>	<u>(97)</u>

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded	
	2012	2011
	------(Rupees)-----	
44.1.3.3 Movement in defined benefit obligation		
As at beginning of the year	63	2,670
Current service cost	69	313
Interest cost	12	199
Actuarial loss on obligation	28	185
Liability transferred to Defined Contribution Gratuity Fund	24	(3,304)
As at end of the year	<u>196</u>	<u>63</u>
44.1.3.4 Movement in fair value of plan assets		
As at beginning of the year	68	2,842
Expected return on plan assets	23	214
Contributions	-	215
Actuarial gain on plan assets	(465)	(14)
Assets transferred to Defined Contribution Gratuity Fund	602	(3,189)
Inter Fund assets transferred	24	-
As at end of the year	<u>252</u>	<u>68</u>
44.1.3.5 Charge / (reversal) for the year		
Current service cost	69	313
Interest cost	12	199
Expected return on plan assets	(23)	(214)
Recognition of past service cost	(3)	(2)
Net actuarial loss / (gain) recognized during the year	1	(393)
	<u>56</u>	<u>(97)</u>
	2012	2011
	------%-----	
44.1.3.6 Principal actuarial assumptions used in the actuarial valuation		
Discount rate	12.0%	12.5%
Expected per annum rate of return on plan assets	12.0%	12.5%
Expected per annum rate of increase in future salaries	12.0%	12.5%
	------(Rupees)-----	
44.1.3.7 Actual (loss) / return on plan assets	<u>(442)</u>	<u>200</u>

(Amounts in thousand)

	2012		2011	
	Rupees	(%)	Rupees	(%)
44.1.3.8 Plan assets comprise of the following				
Debt Instrument	207	82%	52	76%
Equity Instrument	45	18%	16	24%
	<u>252</u>	<u>100%</u>	<u>68</u>	<u>100%</u>
44.1.3.9 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.				
44.1.3.10 Historical information of staff retirement benefits				
	2012	2011	2010	
	-----Rupees-----			
Present value of defined benefit obligation	196	63	2,670	
Fair value of plan assets	(252)	(68)	(2,842)	
Deficit	<u>(56)</u>	<u>(5)</u>	<u>(172)</u>	
44.1.3.11 Engro Eximp Agriproducts [formerly Engro Foods Supply Chain (Private) Limited] (Defined benefit scheme)				
	2012	2011		
	------(Rupees)-----			
Staff retirement and other service benefits - Gratuity scheme (note 44.1.3.12)			<u>5,819</u>	<u>1,841</u>
The latest actuarial valuation of the scheme was carried out as at December 31, 2012, using the 'Projected Unit Credit Method'. Details of the scheme are as follows:				
44.1.3.12 Balance sheet reconciliation				
	2012	2011		
	------(Rupees)-----			
Present value of defined benefit obligation	14,145	1,228		
Receivable from associated companies	(2,331)	(2,530)		
Unrecognized actuarial gain / (loss)	(5,995)	3,143		
Net liability at end of the year	<u>5,819</u>	<u>1,841</u>		
44.1.3.13 Movement in net liability recognised				
Net liability at beginning of the year	1,841	176		
Expense recognised	3,978	1,665		
Net liability at end of the year	<u>5,819</u>	<u>1,841</u>		

(Amounts in thousand)

	2012	2011
	------(Rupees)-----	
441.314 Movement in defined benefit obligation		
As at beginning of the year	1,228	3,168
Current service cost	3,611	1,419
Interest cost	1,256	547
Transfers from Engro Corporation Limited, a related party	10,723	6,822
Benefits paid during the year	(663)	(10,159)
Actuarial (gain) / loss	(2,010)	(569)
Present value of defined benefit obligations at end of the year	<u>14,145</u>	<u>1,228</u>

441.315 Charge for the year

Current service cost	3,611	1,419
Interest cost	1,256	547
Expected return on plan assets	(912)	(342)
Amortisation of actuarial loss	23	41
	<u>3,978</u>	<u>1,665</u>

441.316 Principal actuarial assumptions used in the actuarial valuation

	2012	2011
	------%-----	
Discount rate and expected return on plan assets	11.5%	12.5%
Expected per annum rate of increase in future salaries	12%	11.5%
Special salary increase for the first year	14%	-

441.317 Expected future cost for the year ending December 31, 2013 is Rs. 5,262.

441.318 Historical information of staff retirement benefits

	2012	2011	2010
Present value of defined benefit obligation	(14,145)	(1,228)	(3,168)
Receivable from associated companies	2,331	2,530	2,530
(Deficit) / Surplus	<u>(11,814)</u>	<u>1,302</u>	<u>(638)</u>

441.319 Defined contribution plans

An amount of Rs. 9,485 (2011: Rs. 9,576) has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

(Amounts in thousand)

44.1.4 Engro PowerGen Limited

44.1.4.1 Balance sheet reconciliation

	2012	2011
	------(Rupees)-----	
Present value of defined benefit obligation	14,906	10,685
Fair value of plan assets	(12,408)	(6,107)
Deficit	2,498	4,578
Unrecognised actuarial gain	(1,654)	(2,182)
Payable to group companies	(441)	118
Unrecognised past service cost	(403)	(437)
Net liability at end of the year	<u>-</u>	<u>2,077</u>

44.1.4.2 Movement in net liability recognised

Net liability at beginning of the year	2,077	2,411
Expense recognized	3,201	2,077
Amount paid to the Fund	(5,278)	(2,411)
Net liability at end of the year	<u>-</u>	<u>2,077</u>

44.1.4.3 Movement in defined benefit obligation

As at beginning of the year	10,685	7,913
Current service cost	2,542	1,713
Interest cost	1,489	1,266
Actuarial (gain)/loss on obligation	(750)	1,160
Liability transferred in respect of inter-company transfer	940	(1,367)
As at December 31	<u>14,906</u>	<u>10,685</u>

44.1.4.4 Movement in fair value of plan assets

As at January 1	6,107	5,099
Expected return on plan assets	958	935
Contributions	5,278	2,411
Actuarial loss	(317)	(1,089)
Asset transferred in respect of inter-company transfer	382	(1,249)
As at December 31	<u>12,408</u>	<u>6,107</u>

44.1.4.5 Charge for the year

Current service cost	2,542	1,713
Interest cost	1,489	1,266
Expected return on plan assets	(958)	(935)
Amortisation of past service cost	34	-
Net actuarial (gain) / loss recognized for the year	<u>94</u>	<u>33</u>
	<u>3,201</u>	<u>2,077</u>

(Amounts in thousand)

44.1.4.6 Principal actuarial assumptions used in the actuarial valuation

	2012	2011
	-----%-----	
Discount rate and expected return on plan assets	12%	12.5%
Expected per annum rate of increase in future salaries	12%	12.5%
Special salary increase for the first year	12%	12.5%

44.1.4.7 Actual return / (loss) on plan assets

	398	(154)
--	-----	-------

44.1.4.8 Plan assets comprise of the following

	2012		2011	
	Rupees	(%)	Rupees	(%)
Cash and cash equivalent	12,099	98	5,769	94
Others	309	2	338	6
	<u>12,408</u>	<u>100</u>	<u>6,107</u>	<u>100</u>

44.1.4.9 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.

44.1.4.10 Historical information of staff retirement benefits

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	14,906	10,685	7,913	3,742	2,186
Fair value of plan assets	(12,408)	(6,107)	(5,098)	(2,009)	(1,681)
Deficit	<u>2,498</u>	<u>4,578</u>	<u>2,815</u>	<u>1,733</u>	<u>505</u>

44.1.4.11 Expected future cost for the year ending December 31, 2013 is Rs. 3,258.

44.1.4.12 Defined contribution plans

An amount of Rs. 16,353 (2011: Rs. 16,806) has been charged during the year in respect of defined contribution plan.

(Amounts in thousand)

44.1.5 Engro Foods Limited

	Funded Gratuity Fund		Unfunded Pension Scheme	
	2012	2011	2012	2011
44.1.5.1 Balance sheet reconciliation				
Present value of defined benefit obligation	(241,468)	(171,407)	-	-
Fair value of plan assets	200,821	129,997	-	-
Deficit	<u>(40,647)</u>	<u>(41,410)</u>	-	-
Receivable from group companies	332	396	-	-
Unrecognized actuarial (gain)/ loss	35,315	27,277	-	-
Net liability at end of the year	<u>(5,000)</u>	<u>(13,737)</u>	-	-
44.1.5.2 Movement in net liability recognised				
Net liability at beginning of the year	(13,737)	(15,777)	-	(3,432)
Transfers to defined contribution pension scheme	-	-	-	3,432
Charge for the year	(62,063)	(64,937)	-	-
Contributions	70,800	66,977	-	-
Net liability at end of the year	<u>(5,000)</u>	<u>(13,737)</u>	-	-
44.1.5.3 Movement in fair value of plan assets				
	-----Rupees-----			
Fair value of plan assets at beginning of the year	129,997	82,509	-	-
Expected return on plan assets	18,228	14,857	-	-
Contributions for the year	70,800	66,977	-	-
Transfers	(10,723)	(3,383)	-	-
Benefits paid during the year	(27,647)	(18,000)	-	-
Actuarial gain / (loss) on assets	20,166	(12,963)	-	-
Fair value of plan assets at end of the year	<u>200,821</u>	<u>129,997</u>	-	-
44.1.5.4 Movement in defined benefit obligation				
Present value of defined benefit obligations at beginning of the year	171,407	137,469	-	-
Current service cost	54,727	52,266	-	-
Interest cost	25,098	25,770	-	-
Transfers	(10,787)	(9,999)	-	-
Benefits paid during the year	(27,647)	(18,000)	-	-
Liability reversed	-	8,421	-	-
Actuarial (gain) / loss	28,670	(24,520)	-	-
Present value of defined benefit obligation/unfunded obligation at end of the year	<u>241,468</u>	<u>171,407</u>	-	-

(Amounts in thousand)

	Funded Gratuity Fund		Unfunded Pension Scheme	
	2012	2011	2012	2011
44.155 Charge for the year				
Current service cost	54,727	52,266	-	-
Interest cost	25,098	25,770	-	-
Expected return on plan assets	(18,228)	(14,857)	-	-
Recognition of actuarial (gain) / loss	466	1,758	-	-
	<u>62,063</u>	<u>64,937</u>	<u>-</u>	<u>-</u>

44.156 In addition, salaries, wages and benefits also include Rs. 162,759 (2011: Rs. 114,033) in respect of defined contribution provident fund.

44.157 Principal actuarial assumptions used in the actuarial valuation

	Gratuity Fund	
	2012	2011
Discount rate	12.0%	12.5%
Expected per annum rate of return on plan assets	12.0%	12.5%
Expected per annum rate of increase in future salaries	11.0%	11.5%
	<u>22,500</u>	<u>5,232</u>

44.158 Actual return on plan assets

44.159 Plan assets comprise of the following

	Gratuity Fund			
	2012		2011	
	Rupees	(%)	Rupees	(%)
Held to maturity investments				
- Pakistan Investment Bonds (PIBs)	94,426	47%	46,278	36%
- Term Finance Certificates (TFCs)	51,165	25%	50,802	39%
- Regular Income Certificates (RICs)	33,610	17%	18,633	14%
	<u>179,201</u>	<u>89%</u>	<u>115,713</u>	<u>89%</u>
Mutual fund securities (Equity Fund) - Units	2,907	2%	2,112	2%
Listed securities	4,267	2%	7,855	6%
Balances with banks	7,820	4%	1,352	1%
Others	6,626	3%	2,965	2%
	<u>200,821</u>	<u>100%</u>	<u>129,997</u>	<u>100%</u>

44.1510 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.

(Amounts in thousand)

44.1511 Expected contributions to post employment benefit plans for the year ending December 31, 2013 are Rs. 63,206.

44.1512 Historical information of staff retirement benefits

	Rupees				
	2012	2011	2010	2009	2008
Present value of obligations	(241,468)	(171,407)	(137,469)	(77,010)	(39,033)
Fair value of plan assets	200,821	129,997	82,509	58,688	29,417
Deficit	<u>(40,647)</u>	<u>(41,410)</u>	<u>(54,960)</u>	<u>(18,322)</u>	<u>(9,616)</u>

44.16 Engro Polymer and Chemicals Limited

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2012	2011	2012	2011	2012	2011
	-----Rupees-----					

44.16.1 Balance sheet reconciliation

Present value of defined benefit obligations	150,494	132,499	51,561	42,778	-	-
Fair value of plan assets	(149,406)	(117,134)	(47,578)	(36,729)	-	-
Deficit	<u>1,088</u>	<u>15,365</u>	<u>3,983</u>	<u>6,049</u>	<u>-</u>	<u>-</u>
Present value of unfunded obligations	-	-	-	-	-	6,147
Unrecognized net actuarial (losses) / gains	(1,088)	(15,365)	(4,025)	(6,049)	-	883
Payable in respect of transfers	-	-	42	-	-	-
Net liability at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,030</u>

44.16.2 Movement in the defined benefit obligation

As at beginning of the year	132,499	110,835	42,778	35,488	6,147	4,977
Current service cost	13,441	10,617	5,263	4,950	173	861
Interest cost	17,659	16,404	5,791	5,409	892	732
Actuarial gains	(10,559)	(4,084)	(1,069)	(2,410)	(1,413)	(423)
Benefits paid	(2,546)	(1,273)	(1,160)	(767)	-	-
Liability recognized in respect of transfers	-	-	(42)	108	-	-
Effects of curtailment and settlement	-	-	-	-	(5,799)	-
As at end of the year	<u>150,494</u>	<u>132,499</u>	<u>51,561</u>	<u>42,778</u>	<u>-</u>	<u>6,147</u>

(Amounts in thousand)

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2012	2011	2012	2011	2012	2011
44.16.3 Movement in fair value of plan assets						
As at beginning of the year	117,134	97,803	36,729	30,903	-	-
Expected return on plan assets	14,333	14,642	4,439	4,793	-	-
Actuarial gains / (losses)	3,483	(8,365)	758	(4,387)	-	-
Employer contributions	17,002	14,327	6,812	6,079	-	-
Benefits paid	(2,546)	(1,273)	(1,160)	(767)	-	-
Transferred to other group companies	-	-	-	108	-	-
As at end of the year	<u>149,406</u>	<u>117,134</u>	<u>47,578</u>	<u>36,729</u>	<u>-</u>	<u>-</u>
44.16.4 Charge for the year						
Current service cost	13,441	10,617	5,263	4,950	173	861
Interest cost	17,659	16,404	5,791	5,409	892	732
Expected return on plan assets	(14,333)	(14,642)	(4,439)	(4,793)	-	-
Recognition of actuarial (gains) / losses	235	-	197	65	(2,296)	-
Effects of curtailment and settlement	-	-	-	-	(5,799)	-
	<u>17,002</u>	<u>12,379</u>	<u>6,812</u>	<u>5,631</u>	<u>(7,030)</u>	<u>1,593</u>
44.16.5 Actual return on plan assets	<u>19,580</u>	<u>9,338</u>	<u>5,144</u>	<u>3,660</u>	<u>-</u>	<u>-</u>

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

	Rupees
- Pension Fund	15,483
- Gratuity Fund	6,674
- Additional Death Gratuity Scheme	-
	<u>22,157</u>

44.16.7 Principal actuarial assumptions used in the actuarial valuation

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

44.16.8 Plan assets comprise of the following

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

(Amounts in thousand)

44.16.9 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.

44.16.10 Historical information of staff retirement benefits

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

44.16.11 Defined contribution plans

During the year, Rs. 38,535 (2011: Rs. 21,894) has been recognised in respect of defined contribution provident fund.

45. CASH GENERATED FROM OPERATIONS

	2012	2011
	Rupees	
Profit before taxation	2,456,790	11,459,152
Adjustment for non-cash charges and other items:		
Depreciation	8,263,795	5,959,530
Amortisation	92,764	79,394
Loss / (Profit) on disposal of property, plant and equipment - net	133,377	(26,798)
Gain on disposal of biological assets	(4,310)	(2,095)
(Loss) / gain on fair value adjustments of embedded derivatives	180,882	(367,360)
Provision for retirement and other service benefits	208,917	71,864
Income on deposits / other financial assets	(414,286)	(1,291,784)
Share of income from joint venture companies (note 40)	(743,781)	(1,742,187)
Gain arising from changes in fair value less estimated point of sale costs of biological assets	(200,366)	(90,830)
Financial charges (note 39)	15,516,238	12,314,593
Gain on reversal of net liability on disposal of discontinued operations	(251,872)	-
Employee share compensation expense - net	986	5,367
Employee Housing Subsidy expense	(106)	5,095
Provision for impairment	18,293	554,642
Provision for surplus and slow moving stores and spares	(14,053)	38,968
Provision for doubtful trade debts	3,586	-
Provision for other receivables	646	3,347
Share options surrendered	(135,333)	-
Working capital changes (note 45.1)	(2,625,419)	4,859,836
	<u>22,486,748</u>	<u>31,830,734</u>

(Amounts in thousand)

	2012	2011
	------(Rupees)-----	
45.1 Working capital changes		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(445,167)	(1,472,022)
- Stock-in-trade	(4,987,624)	(2,821,756)
- Trade debts	(4,426,942)	(1,256,829)
- Loans, advances, deposits and prepayments	955,767	112,967
- Other receivables - net	(797,304)	(790,569)
	<u>(9,701,270)</u>	<u>(6,228,209)</u>
Increase / (decrease) in current liabilities		
- Trade and other payables and provisions	7,075,851	11,088,045
	<u>(2,625,419)</u>	<u>4,859,836</u>
46. CASH AND CASH EQUIVALENTS		
Cash and bank balances (note 18)	4,663,275	4,417,885
Short term investments (note 17)	5,998,027	8,332,154
Short-term borrowings (note 30)	(5,328,090)	(3,784,404)
	<u>5,333,212</u>	<u>8,965,635</u>

46.1 Cash and cash equivalents do not include:

- the short term borrowings (net) at beginning of the year amounting to Rs. 363,122 pertaining to Advancecon Limited, subsidiary company, which was disposed off during the year.
- the effect of term loan amounting to Rs. 500,000 at beginning and end of the year.

47. FINANCIAL INSTRUMENTS BY CATEGORY

	2012	2011
	------(Rupees)-----	
√ Financial assets as per balance sheet		
- Loans and receivables		
Loans and advances	662,584	1,516,290
Trade debts	10,637,999	6,214,643
Other receivables	1,767,645	1,032,445
Cash and bank balances	4,663,275	4,417,885
	<u>17,731,503</u>	<u>13,181,263</u>
- Fair value through profit and loss		
Short term investments	5,998,027	8,332,154
	<u>5,998,027</u>	<u>8,332,154</u>
- Derivatives used for hedging	26,332	239,184
	<u>26,332</u>	<u>239,184</u>

(Amounts in thousand)

Financial liabilities as per balance sheet

	2012	2011
	------(Rupees)-----	
- Financial liabilities measured at amortised cost		
Borrowings	106,522,152	108,410,487
Liabilities against assets subject to finance lease	2,589	5,179
Trade and other payable	23,597,411	18,865,817
Accrued interest / mark-up	2,613,633	3,114,122
Unclaimed dividends	96,936	79,083
	<u>132,832,721</u>	<u>130,474,688</u>
- Fair value through profit and loss		
Conversion option on IFC loan	243,964	63,082
	<u>243,964</u>	<u>63,082</u>
- Derivatives used for hedging	968,924	1,091,757
	<u>968,924</u>	<u>1,091,757</u>

48. FINANCIAL RISK MANAGEMENT

48.1 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 (Efert), a subsidiary company, is exposed to currency risk on foreign currency borrowing of USD 232,568 as on December 31, 2012, Efert has Rupee/USD hedge of USD 177,000.

(Amounts in thousand)

Engro Foods Limited (EFL), a subsidiary company, 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 Qadirpur Limited's (EPQL), a subsidiary of Engro PowerGen Limited, 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 Power Purchase Agreement.

Engro Polymer and Chemicals Limited (EPCL), a subsidiary company, is exposed to currency risk arising primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognised assets and liabilities in foreign currency and future commercial transactions. EPCL manages the currency risk relating to US Dollars through forward exchange contracts. At December 31, 2012, the financial assets and liabilities exposed to foreign exchange risk amounts to Rs. 172,337 and Rs. 6,559,557 respectively.

Engro Eximp (Private) Limited (EEL), a subsidiary company, is exposed to currency risk against outstanding import payments. A foreign exchange risk management policy has been developed and approved by the management. The policy allows EEL to take currency exposure for limited periods within predefined limits while open exposures are rigorously monitored. EEL ensures to the extent possible that it has options available to manage exposure through forward contracts subject to the prevailing foreign exchange regulations.

At December 31, 2012, if the Pakistani Rupee had weakened/strengthened by 1% against the US Dollars with all other variables held constant, consolidated post tax profit for the year would have been lower/higher by Rs. 105,415 (2011: Rs. 386,252), mainly as a result of foreign exchange losses/gains on translation of US Dollar denominated liabilities.

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 Efert arising on foreign currency loans are hedged through interest rate swaps. Efert has entered into Interest Rate Swaps for USD 126,091 out of its non-current foreign currency borrowings of USD 232,568 as on December 31, 2012. Rates on short term loans vary as per market movement.

EPQL'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 Power Purchase Agreement

(Amounts in thousand)

EFL's 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, EPCL has entered into floating to fixed rate interest swaps on its foreign currency borrowings and floating to floating rate cross currency interest swap on its local borrowings. Under the interest rate swap agreements, 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.

EEL analyses its interest rate exposure on a regular basis by monitoring base interest rate trends in relation to the balance of utilized funds / borrowing.

As at December 31, 2012, 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. 511,017 (2011: Rs. 352,259), 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.

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.

Efert and EEL are 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.

EPCL 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.

(Amounts in thousand)

EFL 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. 3,417,065 (2011: Rs. 1,956,513). The credit risk on liquid funds is limited because the counter parties are banks and investment funds with reasonably high credit rating.

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:

	2012	2011
	------(Rupees)-----	
Loans and advances	661,072	1,514,778
Trade debts	5,353,643	2,912,685
Other receivables	1,067,272	810,510
Short term investments	5,998,027	8,332,154
Bank balances	4,663,275	4,417,885
	<u>17,743,289</u>	<u>17,988,012</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 Asset Management Company Limited	JCR-VIS	-	AM2-
ABL Cash Fund	JCR-VIS	-	AA+(f)
ABL Government Securities Fund - B	JCR-VIS	-	A+(f)
Al Meezan Investment Management Limited	JCR-VIS	-	AM2-
Al-Baraka Bank Pakistan Limited	PACRA	A1	A
Allied Bank Limited	PACRA	A1+	AA+
Askari Commercial Bank Limited	PACRA	A1+	AA
Askari Investment Management	PACRA	-	AM3+
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	A+
Burj Bank Limited	JCR-VIS	A1	A
Citibank N.A.	Moody's	P-1	A1
Deutsche Bank AG	Moody's	P-1	Aa3
Islamic Bank	JCR-VIS	A1	A
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AAA
Habib Metropolitan Bank	PACRA	A1+	AA+
HLB Asset Management Limited	JCR-VIS	-	AM3+
HLB Money Marketing Fund	JCR-VIS	-	AA(f)
HSBC Bank Middle East Ltd.	Moody's	P-1	A1
JS Bank Limited	PACRA	A1	A
KASB Bank Limited	PACRA	A3	BBB
Lakson Money Market Fund	PACRA	-	AA(f)
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	A3	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 Fund Managers	JCR-VIS	-	AM2
UBL Government Securities	JCR-VIS	-	A+(f)
UBL Liquidity Fund	JCR-VIS	-	AA+(f)
United Bank Limited	JCR-VIS	A1+	AA+
Zarai Taraqati Bank Limited	JCR-VIS	B	B+

(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 maintain 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.

	2012			2011		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
----- (Rupees) -----						
Financial liabilities						
Derivatives	573,363	639,525	1,212,888	452,625	702,214	1,154,839
Trade and other payables	23,597,411	-	23,597,411	18,865,817	-	18,865,817
Accrued interest / mark-up	2,613,633	-	2,613,633	3,114,122	-	3,114,122
Liabilities against assets subject to finance lease	2,589	-	2,589	3,884	1,295	5,179
Borrowings	33,264,782	73,257,370	106,522,152	25,850,072	82,560,415	108,410,487
Unclaimed dividends	96,936	-	96,936	79,083	-	79,083
	<u>60,148,714</u>	<u>73,896,895</u>	<u>134,045,609</u>	<u>48,365,603</u>	<u>83,263,924</u>	<u>131,629,527</u>

48.2 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.

(Amounts in thousand)

The Group's strategy is to ensure compliance with the Prudential Regulations issued by the State Bank of Pakistan and is in accordance with 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, 2012 and 2011 are as follows:

	2012	2011
----- (Rupees) -----		
Borrowings	100,694,062	104,126,083
Equity	43,193,474	41,889,789
	<u>143,887,536</u>	<u>146,015,872</u>
Total borrowings to equity ratio	70%	71%

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.

48.3 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, 2012:

	Level 1	Level 2	Level 3	Total
----- (Rupees) -----				
Assets				
Financial assets at fair value through profit and loss				
- Short term investments	3,814,836	-	-	3,814,836
Derivatives used for hedging				
- Derivatives	-	26,332	-	26,332
	<u>3,814,836</u>	<u>26,332</u>	<u>-</u>	<u>3,841,168</u>
Liabilities				
Derivatives				
- Derivatives used for hedging	-	968,924	-	968,924
- Conversion options on IFC loan	-	243,964	-	243,964
	<u>-</u>	<u>1,212,888</u>	<u>-</u>	<u>1,212,888</u>

48.4 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.

(Amounts in thousand)

49 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 soda and related chemicals.	Manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic
Food	Manufacture, process and sell dairy and other food products.
Power	Includes Independent Power Projects (IPP)
Other operations	Includes engineering business.

	Fertilizer		Polymer		Food		Power		Other operations		Elimination - net		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2012	2011	2012	2011	2012
Revenue from external customers (note 33)	48,040,803	55,823,127	20,605,601	17,049,988	44,738,443	31,939,599	11,665,605	8,338,210	1,988,063	1,268,006	(1,887,243)	192,897	125,151,272	114,611,837
Segment gross profit / (loss)	11,890,644	20,642,054	3,555,140	2,157,795	10,312,291	6,481,534	2,632,750	2,288,349	1,988,063	348,368	(1,858,940)	163,156	28,519,948	32,081,256
Segment expenses - net of other income	(4,372,934)	(3,553,275)	(1,707,008)	(1,522,316)	(6,342,322)	(4,722,792)	(200,723)	(504,691)	(319,438)	(1,343,956)	1,226,271	305,548	(11,716,154)	(11,341,482)
Income on deposits / other financial assets (note 37)	190,431	589,200	22,830	26,620	99,798	22,164	678	379,028	762,018	765,265	(650,302)	(490,493)	425,453	1,291,784
Financial charges (note 39)	(10,758,469)	(7,922,839)	(1,659,061)	(1,739,214)	(1,632,201)	(1,442,088)	(930,795)	(429,250)	(1,032,062)	(914,321)	(43,650)	133,119	(15,516,238)	(12,314,593)
Share of income from joint venture (note 40)	-	-	-	-	-	-	-	-	743,781	1,742,187	-	-	743,781	1,742,187
Income tax (charges) / credit (note 41)	452,868	(3,540,951)	(134,892)	370,649	(825,545)	(312,889)	(6,617)	(15,511)	(190,248)	(28,840)	44,871	(120,219)	(659,563)	(9,647,761)
Segment profit after tax / (loss)	(2,597,460)	6,214,189	77,009	(706,466)	1,612,021	25,929	2,035,293	1,717,925	1,952,114	568,703	(1,281,750)	(8,889)	1,797,227	7,811,391
Segment assets	108,185,285	106,848,430	24,206,247	23,805,891	27,915,038	25,334,544	25,058,164	21,282,393	34,435,646	34,366,519	(31,476,651)	(30,350,295)	186,323,729	181,287,482
Investment in joint venture / associate (note 8)	-	-	-	-	-	-	-	-	-	-	1,262,973	1,716,692	1,262,973	1,716,692
Total segment assets	108,185,285	106,848,430	24,206,247	23,805,891	27,915,038	25,334,544	25,058,164	21,282,393	34,435,646	34,366,519	(30,213,678)	(28,633,603)	189,586,702	183,004,174
Total segment liabilities	91,372,666	90,211,120	17,878,243	17,565,039	16,133,786	12,937,879	17,661,142	15,550,684	7,724,127	8,262,414	(4,430,548)	(3,412,751)	146,339,416	141,114,385
Capital expenditure including biological assets	2,089,052	2,275,040	364,229	533,038	3,033,089	6,112,361	186,864	(111,428)	47,655	(36,419)	304,483	-	6,025,372	8,772,592
Depreciation (note 4.2)	(4,962,266)	(3,132,016)	(1,168,970)	(1,154,128)	(1,455,697)	(1,036,528)	(595,259)	(552,308)	(53,865)	(84,550)	(31,313)	-	(8,267,370)	(5,959,530)
Amortization of intangibles (note 7.1)	31,867	17,626	10,467	8,542	40,695	42,396	11,878	10,830	-	-	(2,143)	-	92,764	79,394

(Amounts in thousand)

50 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:

	2012	2011
	------(Rupees)-----	
Associated Companies		
Purchases and services	11,508,811	11,737,975
Services rendered	1,203,467	56,382
Dividends paid	335,161	855,569
Payment of interest on TFCs and repayment of principal amount	215,611	200,388
Investment in mutual funds	400,000	2,665,967
Redemption of mutual funds	1,684,495	2,634,900
Joint Ventures		
Purchase of services	849,790	800,615
Services rendered	2,133	2,124
Others		
Dividends paid	10,205	6,795
Remuneration of key management personnel	882,508	552,969

51 DONATIONS

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

Director	Interest in donee	Name of donee	2012	2011
			------(Rupees)-----	
Aliuddin Ansari, Asad Umar (retired), Khalid Mansoor (retired), Afnan Ahsan and Khalid S. Subhani	Chairman and Trustees	Engro Foundation	63,543	78,879

(Amounts in thousand)

52 PRODUCTION CAPACITY

		Designed Annual Capacity		Actual Production	
		2012	2011	2012	2011
Urea (note 52.1)	Metric Tons	2,275,000	2,275,000	974,425	1,279,378
NPK	Metric Tons	100,000	100,000	67,755	113,172
PVC Resin	Metric Tons	150,000	150,000	146,000	122,000
EDC	Metric Tons	127,000	127,000	110,000	104,000
Caustic soda	Metric Tons	106,000	106,000	107,000	100,000
VCM	Metric Tons	220,000	220,000	146,000	98,000
Power (note 52.2)	Mega watt	1,881,296	1,889,200	1,767,038	1,665,400
Dairy and juices	Thousand Litres	601,481	446,258	476,788	388,236
Drying unit of rice processing plant	Metric Tons	234,000	234,000	139,575	55,192
Ice cream	Thousand Litres	35,527	35,527	16,550	17,763

52.1 During the year, Engro Fertilizers Limited continued to experience gas curtailment receiving less than 45 days of gas for Enven, and that too at 76% which approximately translates to only 9% of annual operational capacity.

52.2 Actual energy delivered by the plant is dependent on the load demanded by WAPDA and plant availability.

53 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 Holding 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.

54 LISTING OF SUBSIDIARY COMPANIES, ASSOCIATED 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 Foods Netherlands B.V.	December 31st
Engro Polymer and Chemicals Limited	December 31st
Elengy Terminal Pakistan Limited	December 31st
Engro PowerGen Limited	December 31st
Name of Joint Venture	Financial year end
Engro Vopak Terminal Limited	December 31st

(Amounts in thousand)

55 CORRESPONDING FIGURES

During the year, for better presentation, the following reclassifications were made in these consolidated financial statements:

Description	Rupees	Head of account in consolidated financial statements for the year ended December 31, 2011	Head of account in consolidated financial statements for the year ended December 31, 2012
Delayed Payment Charges	271,892	Loans, advances, deposits and prepayments	Other receivables
Capital spares	148,629	Stores, spares and loose tools	Property, plant and equipment
Provision for Special Excise Duty on import of plant and machinery	91,498	Trade and other payables	Provisions
Provision for duty on import of raw materials	75,181	Trade and other payables	Provisions
Provision for contractual commitment	18,199	Trade and other payables	Provisions

The effect of other reclassifications is not material

56. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on February 15, 2013, by the Board of Directors of the Holding Company.



Hussain Dawood
Chairman



Muhammad Aliuddin Ansari
President and Chief Executive

Strategy and Analysis

Profile Disclosure	Description	Cross-reference/Direct answer
1.1	Statement from the most senior decision-maker of the organization.	Fully. Statements from Chairman/President
1.2	Description of key impacts, risks, and opportunities.	Fully. Directors Report/Key Risk & Mitigation Strategies

Organizational Profile

Profile Disclosure	Description	Cross-reference/Direct answer
2.1	Name of the organization.	Fully. Cover Page
2.2	Primary brands, products, and/or services.	Fully. Business Review
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully. Business Review/ Our Business at a Glance
2.4	Location of organization's headquarters.	Fully. Company Information
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully. Business Review/ Our Business at a Glance
2.6	Nature of ownership and legal form.	Fully. Business Review/ Our Business at a Glance
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully. Business Review/ Our Business at a Glance
2.8	Scale of the reporting organization.	Fully. About this Report
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully. About this Report
2.10	Awards received in the reporting period.	Fully. Awards & Recognition

Report Parameters

Profile Disclosure	Description	Cross-reference/Direct answer
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully. About this Report
3.2	Date of most recent/previous report (if any).	Fully. Prior to this report the last progress report on Sustainability was published in February 2012
3.3	Reporting cycle (annual, biennial, etc.)	Fully. About this Report
3.4	Contact point for questions regarding the report or its contents.	Fully. About this Report
3.5	Process for defining report content.	Fully. About this Report
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully. About this Report
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully. The report contains forward-looking statements about Engro corporation's and future plans, objectives, beliefs and performance that are not historical facts. These are based on current expectations, estimates, forecasts and projections about the industries in which we operate and beliefs and assumptions of the management. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. We would, therefore, caution our readers not to place undue reliance on forward-looking statements.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Partially. About this Report
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Partially. About this Report
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Fully. No restatements. The Company does not take the responsibility to update or restate any forward-looking statement as a result of new information, future events or other developments.
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully. There have been no material changes in the reporting period, scope, boundary of the measurement methods applied in the report. It has been consistent with our regular annual reporting.
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully. This Table
3.13	Policy and current practice with regard to seeking external assurance for the report.	Fully. About this Report

Governance, Commitments, and Engagement

Profile Disclosure	Description	Cross-reference/Direct answer
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	Fully. Governance & Management
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully. Governance & Management
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Fully. Governance & Management
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully. Our Governance Approach and also Regular Stakeholder Engagement where we engage with shareholders at the Annual General Meeting where the shareholders can provide an overall feedback to the management.
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	Fully. The corporate objectives and performance are stewarded by individual companies at the CEO and divisional heads level. The performance of the company and subsidiaries against these objectives & achievement of the objectives is directly linked with the compensation and bonuses of senior managers, CEOs and board.
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully. Our Governance Performance
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	Fully. The Company conforms to the legal requirement of having 1 independent Director on the Board. In fact the Engro Corp Board constitutes of 3 independent Directors Gender Diversity is not an active consideration.
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Partially. Core Values
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully. Governance & Management

Profile Disclosure	Description	Cross-reference/Direct answer
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Fully. Our Governance Performance
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	Fully. Our Materiality Concerns
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	The Company subscribes to various corporate affiliations that further the public advocacy objectives of the Company. These include Marketing Association of Pakistan, OICCI, KCCI, Pakistan Business Council, Petroleum Institute of Pakistan, Pakistan Institute of Corporate Governance, CSR Association of Pakistan amongst others.
4.14	List of stakeholder groups engaged by the organization.	Fully. Stakeholder Engagement
4.15	Basis for identification and selection of stakeholders with whom to engage.	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully. Stakeholder Engagement
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	Fully. Stakeholder Engagement

Profile Disclosure	Description	Cross-reference/Direct answer
DMA EC	Disclosure on Management Approach EC	Fully. Economic Investment Strategy
DMA EN	Disclosure on Management Approach EN	Partially. Our Environmental Stewardship
Aspects	Materials	Fully
	Energy	Fully
	Water	Fully
	Emissions, effluents and waste	Fully
	Compliance	Fully
	Overall	Fully
DMA LA	Disclosure on Management Approach LA	Fully. Our People Investment Strategy
DMA HR	Disclosure on Management Approach HR	Partially. Our People Investment Strategy
	Non-discrimination	Fully
DMA SO	Freedom of association and collective bargaining	Fully
	Disclosure on Management Approach SO	Partially. Our Social Investments Strategy
Aspects	Local communities	Fully
	Anti-competitive behavior	Partially. Our Governance Approach.
	Compliance	Partially. Our Governance Approach.
DMA PR	Disclosure on Management Approach PR	Partially. Our Approach to Eco-Efficiency
	Product and service labelling	Partially. Product Stewardship

Economic

Performance indicator	Description	Cross-reference/Direct answer
Economic performance		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully. Economic Performance, Business Review, Financial Data
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Not Material. Currently this does not formulate an active consideration for the Company to consider as a financial implication.
EC3	Coverage of the organization's defined benefit plan obligations.	Fully. Our Approach to People Investments
EC4	Significant financial assistance received from government.	Fully. The Company does not receive any financial assistance in the form of grants or aid packages from the government
Market presence		
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully. Our recruitment process is not subjective to the locality of the applicant. Company is an equal opportunity employer and does not discourage applicants from local community for any job post within the Company provided that the competency level and criteria is met.
Indirect economic impacts		
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully. Our Societal Investment Performance

Environmental

Performance Indicator	Description	Cross-reference/Direct answer
Energy		
EN3	Direct energy consumption by primary energy source.	Partially. Energy Consumption. There are 2 major sources of energy, feed and fuel energy. Due to diverse nature of businesses the energy consumption monitoring at Corp level is done on an aggregate basis.
EN5	Energy saved due to conservation and efficiency improvements.	Fully. Reported for Green Office Initiative and for various businesses in 'Energy Consumption' and 'Plant Efficiency'
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully. Reported for Green Office Initiative and for various businesses in 'Energy Consumption' and 'Plant Efficiency'
Water		
EN8	Total water withdrawal by source.	Fully. Due to the diverse nature of the business the water consumption is aggregated at total consumption rather than by description of source.

Performance Indicator	Description	Cross-reference/Direct answer
Emissions, effluents and waste		
EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully. Climate Change Commitments
EN21	Total water discharge by quality and destination.	Fully. Due to the diverse nature of the business the water discharge is aggregated at total discharge. Individual businesses monitor the discharges by quality and disposal methods.
EN22	Total weight of waste by type and disposal method.	Fully. At the Corporate level, the waste generation is aggregated for the whole of subsidiaries. Individual reporting is performed at the business level
EN23	Total number and volume of significant spills.	Fully. No spills during 2012
Products and services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Partially. Product Stewardship
Compliance		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully. None

Social: Labor Practices and Decent Work

Performance Indicator	Description	Cross-reference/Direct answer
Employment		
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	Fully. Reported in People Performance section. All MPTs are on organization's payroll and NMPTs are hired on contractual basis. Division by region and gender is not reported at Corp level.
Occupational health and safety		
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	Fully. Our Safety Performance
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Partially. In Occupational Health and Safety business wise initiatives. Issues that were material to the organization have been reported.
Training and education		
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully. Leadership Competency Model
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.	Fully. This is done on an annual basis for all employees at appropriate levels.
Equal remuneration for women and men		
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Fully. No difference based on gender

Social: Human Rights

Performance Indicator	Description	Cross-reference/Direct answer
Non-discrimination		
HR4	Total number of incidents of discrimination and corrective actions taken.	Fully. This is covered through Speakup Policy. No incident reported during 2012

Social: Society

Performance Indicator	Description	Cross-reference/Direct answer
Local communities		
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	Partially. Our Social Investments Performance/ Impact Assessment of Ittehad Model Village

Social: Product Responsibility

Performance Indicator	Description	Cross-reference/Direct answer
Compliance		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully

commitment to the united nations global compact

In 2012, Engro Corporation Limited continued its commitment to the ten principles of the Global Compact - a program which promotes sustainability with respect to people, planet and profits - in an effort to harmonize our role in business and society, within our sphere of influence and beyond. Our adherence to the Global Compact stems from the belief that businesses, which have the support and respect of their stakeholders are likely to perform better. This Sustainability Report also expresses our intent to advance the UNGC principles, with an annual commitment to reporting in accordance to the requirements of the Global Compact.

Human Rights

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.	Our People Investments Strategy
Principle 2	Businesses should make sure that they are not complicit in human rights abuses.	Our People Investments Approach & our People-centric Performance

Labour

Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Our People Investments Strategy
Principle 4	Businesses should work towards the elimination of all forms of forced and compulsory labour	Our People Investments Strategy
Principle 5	Businesses should ensure the effective abolition of child labour.	Our People Investments Strategy
Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	Our People Investments Strategy

Environment

Principle 7	Businesses should support a precautionary approach to environmental challenges.	Approach to Eco-efficiency & Our Environmental Stewardship
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.	Approach to Eco-efficiency & Our Environmental Stewardship
Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	Approach to Eco-efficiency & Our Environmental Stewardship

Anti Corruption

Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.	Our Governance Framework & Our Approach to Governance
--------------	--	---

assurance statement

Engro Corp has commissioned United Registrar of Systems to provide external assurance and a commentary on its 2012 Sustainability Report.

The scope of our assurance

The assurance provides the reader with an independent external assessment of Engro's Sustainability Report and Reporting processes. It is intended for the general reader and for more specialist audiences who have a professional interest in Engro Corp's sustainable development performance. Our assurance is a Type 2 assurance, in that it evaluates the nature and extent of adherence to the principles of inclusivity, materiality and responsiveness and assures the performance of the organization as reported here. Our assurance used disclosed information as its starting point and then investigated the underlying systems, processes and sustainability performance information to arrive at its conclusions.

We have also assured the performance information in the report. The criteria used are the GRI G3 Principles for Defining Report Quality.

Engro Corp is entirely and solely responsible for the contents of the report while United Registrar of Systems for its assurance. As noted, our assurance is confined to elements of reporting cited above.

Limitations

The opinions expressed in this external assurance statement and commentary are intended to extend understanding of Engro Corp's non-financial performance and should not be used or relied upon to form any judgments, or take any decisions, of a financial nature.

Opinion and conclusions

In our opinion the Engro Corporation's Sustainability Report 2012 reflects the principles of; Inclusivity, Materiality and Responsiveness.

Specific comments in relation to the above principles are as follows:

Inclusivity: Does the organization accept a responsibility to those on whom it has an impact? Does it involve stakeholders in developing a strategic approach to corporate responsibility and sustainability?

Engro Corp has a history of involving stakeholders in its approach to sustainable development. It accepts its responsibility to those on whom it has an impact. This is evident throughout this year's report. It has also been noted that Engro employs both internal and independent experts to engage stakeholders for their feedback. We believe that this approach and the activities Engro undertakes clearly indicate that the organization adheres to the principle of inclusivity.

Materiality: What are the issues that really matter to the organization's sustainability performance ("material issues")? How does the organization identify these issues?

Engro Corp has made progress on material issues during the year. This is evidenced in the reporting.

We note distinct progress with regards to the group-level materiality assessment which provides guidance for all Engro Corp business units to complete individual assessments of their prioritized issues.

The developments build upon Engro Corp's own direct operational experience, recognition of developments in public debate about the issues and the work Engro Corp has done with its stakeholders.

During the reporting period Engro Corp issued reports on the socio-economic impact of Women Empowerment Through Livestock Development (WELD) program which benefitted over 6,400 women; The Ittehad Model Village; School adoption Program; and the overall contribution made by Engro Corp to the Pakistan economy. Some of this reporting was the result of engagement with other stakeholders and/or based on independent research. Taken together they provide substantive evidence of Engro Corp working with others to establish a deeper understanding of its material impacts.

assurance statement

We believe that its approach and the activities it undertakes show that Engro Corp reflects the principle of materiality.

Responsiveness: Does the organization respond to stakeholder issues that affect performance through its actions and communications?

Last year, we had suggested that future company-wide reporting could be strengthened by the inclusion of more of the voices and experiences of key groups and organizations, to demonstrate how Engro Corp responds to their needs and expectations when working with them.

In 2012, Engro Corp has considered the voice of the stakeholder in their reporting commentary. The stakeholders quoted comments not solely upon Engro Corp's work with them in identifying material issues but also in delivering solutions. We note that this year's reporting on education, skills development and natural resource constraints have been evolved via the involvement of various stakeholders.

We believe that this demonstrates that Engro Corp reflects the principle of responsiveness in its sustainable development programmes.

Reliability of performance information

As noted last year, Engro Corp's system for collecting and reporting sustainability data is 'self-certified' by local operations. Engro Corp is strengthening the system through more detailed common definitions, by ensuring the involvement of internal audit, engaging third parties for more reviews and through continuing training.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the data and information mentioned in the subject matter and disclosed in the Corporate Sustainable Development Report 2012 of Engro Corp does not give a fair picture of Engro Corp's related sustainable development performance. Furthermore, nothing has come to our attention causing us to believe that Engro Corp does not adhere to the principles of Inclusivity, Materiality and Responsiveness.

On behalf of United Registrar of Systems,



ALI KHAN

CEO, United Registrar of Systems Ltd.
Karachi, Pakistan
March 2013

glossary

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization.

IFC: International Finance Corporation

VCM: Vinyl Chloride Monomer

PVC: Poly Vinyl Chloride

LNG: Liquefied Natural Gas

RLNG: Regasified Liquefied Natural Gas

LPG: Liquid Petroleum Gas

NGL: Natural Gas Liquid

UNGC: United Nations Global Compact

CoP: Communication on Progress

SVP: Senior Vice President

VP: Vice President

GM: General Manager

HR: Human Resources

PA: Public Affairs

CC: Corporate Communications

CSR: Corporate Social Responsibility

F&A: Finance & Accounting

BCP: Business Continuity Planning

SOP: Standard Operating Procedures

EU: European Union

GIDC: Gas Infrastructure Development Cess

SNGPL: Sui Northern Gas Pipeline

MMSCFD: Million Standard Cubic Feet Per Day

TCEB: Thar Coal Energy Board

SECMC: Sindh Engro Coal Mining Company

EVTL: Engro Vopak Terminal Limited

CCP: Competition Commission of Pakistan

PADP: Performance Appraisal Development Plan

EET: Employee Engagement Index

LCM: Leadership Competency Model

PAC: Performance Assessment & Compensation

HSE: Health, Safety & Environment

OHSA: Occupational Health and Safety Administration

BSC: British Safety Council

TRIR: Total Recordable Injury Rate

IMS: Integrated Management System

PSM: Personnel Safety Management

PSRM: Process Risk & Safety Management

CAER: Community Awareness and Emergency Response

MCC: Milk Collection Centres

WELD: Women Empowerment Through Livestock Development

FLEW: Female Livestock Extension Worker

FVMC: Female Village Milk Collector

TTC: Technical Training College

CPI: Community & Physical Infrastructure

CO: Community Organization

VO: Village Organization

GHG: Greenhouse Gas Emissions

VFD: Variable Frequency Drives

proxy form

I/We _____
of _____ being a member of ENGRO CORPORATION LIMITED
and holder of _____
(Number of Shares)

Ordinary shares as per share Register Folio No. _____ and/or CDC
Participant I.D. No. _____ and Sub Account No. _____, hereby appoint
_____ of _____ or failing him
_____ of _____

as my proxy to vote for me and on my behalf at the annual general meeting of the Company to be held on the 30th day of April, 2013 and
at any adjournment thereof.

Signed this _____ day of _____ 2013.

WITNESSES:

1) Signature : _____
Name : _____
Address : _____

CNIC or : _____
Passport No.: _____

2) Signature : _____
Name : _____
Address : _____

CNIC or : _____
Passport No.: _____

Signature
Signature should agree with the specimen
registered with the Company

Note:

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

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

