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EE&T|THE D'HAMIDI PARTNERSHIP:DESIGN

enabling excellence.

Annual Report 2010

engro corp

Engro Corporation Limited & Engro Fertilizers Limited
head offices in Karachi (7th & 8th floor, Harbor Front)
have been certified as Green Offices by WWF Pakistan

engro corp

Every day, Engro enables its brand of excellence to come alive through investments, innovation and inspiration.

About Us

Engro Corporation Limited 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, industrial automation, foods, power generation and commodity trade. At Engro, our ambition is to become the premier Pakistani enterprise with a global reach.

The management team at Engro is responsible for conceptualizing and articulating goals that bring our people together in pursuit of our objectives. It leads the company with a firm commitment to the values and spirit of Engro. In our journey to become a profitable, growth-oriented and sustainable company, our management structure has evolved to create a more transparent and accessible organization.

Our growth is driven by our people. Our culture is dynamic and energetic, with emphasis on our core values and loyalty of our employees. Our work environment promotes leadership, integrity, teamwork, diversity and excellence.

Our History

Today, Engro is one of Pakistan's most progressive, growth oriented organizations, managed under a holding structure that works towards better managing and oversight of subsidiaries and affiliates that are part of Engro's capital investments in Pakistan.

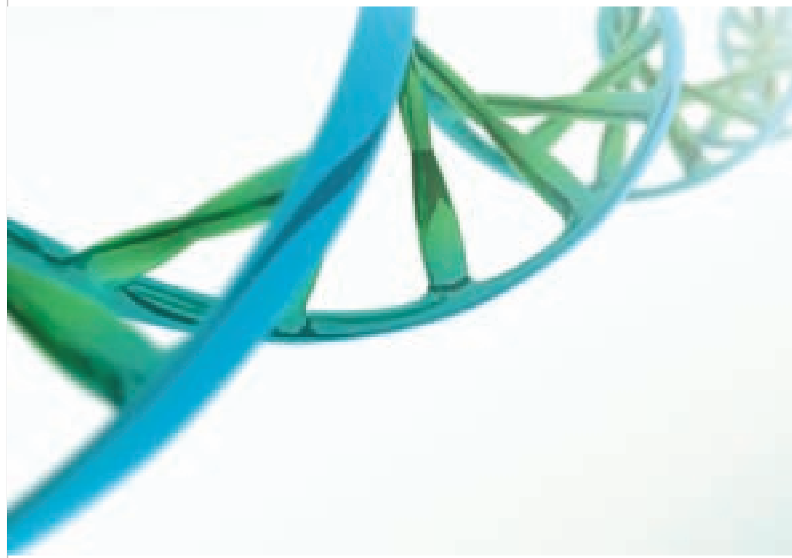
The company is also defined by its history, which reflects a rich legacy of innovation and growth. The seeds for the company were sown following the discovery of the Mari gas field by Esso / Mobil in 1957. Esso proposed the establishment of a urea plant, and the Esso Pakistan Fertilizer Company Limited was established in 1965 and began production in 1968. At US $43 million with an annual production capacity of 173,000 tons, this was the single largest foreign investment by a multinational corporation in Pakistan at the time. As the nation's first fertilizer brand, the company also pioneered the education of farmers in Pakistan, helping to modernize traditional farming practices to boost farm yields, directly impacting the quality of life for farmers and the nation.

In 1978, Esso was renamed Exxon globally, and the company became Exxon Chemical Pakistan Limited. The business continued to prosper as it relentlessly pursued productivity gains and strived to attain professional excellence.

In 1991, following a decision by Exxon to divest its fertilizer business on a global basis, the employees of Exxon Chemical Pakistan Limited decided to buy out Exxon's share. This was, and perhaps still is, the most successful employee buy-out in the corporate history of Pakistan. Renamed Engro Chemical Pakistan Limited, the company continued to go from strength to strength, reflected in its consistent financial performance, growth and diversification.

In 2009 a decision was made to demerge the fertilizer business into an independent operating company to ensure undivided focus on the business's expansion and growth. In the best interests of a multi category business, expansion strategy and growth vision, the management decided that the various businesses would be better served if the company was converted to a holding company; Engro Corporation Limited.

From its inception as Esso Pakistan Fertilizer Company Limited in 1965 to Engro Corporation Limited in 2010, Engro has come a long way and will continue working towards its vision of becoming a premier Pakistani company with a global reach.



Engro Fertilizers Limited

Engro Fertilizers Limited is a premier fertilizer manufacturing and marketing company with products that focus on balanced crop nutrition and increased yield. The fertilizers business is a dynamic company driven by a vision to improve productivity and lifestyle for thousands of farmers across Pakistan.

Having started with single product, Urea, the business today caters to a variety of fertilizers for different farmers. Engro Zorawar is a high Phosphate-content fertilizer having ideal pH characteristics for alkaline soils whereas Engro Zarkhez is a high-end fertilizer product that provides convenient and balanced nutrition for a wide variety of crops. For zinc deficiency Engro Zingro is an imported Zinc fertilizer which primarily targets deficiency prone crops like rice, potato, maize, sugarcane, wheat, cotton, vegetables and fruits. Engro Fertilizers has successfully developed a loyal customer base all across Pakistan, not only by providing farmers with quality fertilizers, but also through extensive market development activities.

With the demand for Urea continuing to grow in Pakistan, Engro's fertilizer manufacturing facility at Daharki underwent a major expansion project, with the completion of the world's largest single-train ammonia- urea plant in 2010. This takes the business's production capacity to 2.3 million tons, and provides the potential for Pakistan to end near-term imports of urea, with benefits to the agri economy and the national exchequer.

Engro Foods Limited

Engro Foods Limited used dairy as a stepping stone to enter into the food business. The business has established state-of-the-art dairy processing units in Sukkur and Sahiwal, along with an ice cream production facility in Sahiwal.

Top quality dairy brands like Olper's, Olwell, Tarang, Omore and Owsum have been successfully launched under the helm of the business's dairy products. To support these brands and their higher standards of quality, Engro Foods has invested heavily in milk processing and milk collection infrastructure. The business has also made steps out of the dairy sector with the launch of its brand of juices, Olfrute, and has completed construction of its rice processing facility in Muridke.

The business is now set to conquer the international markets through a global business unit, which is preparing to enter the halal meat market in America and Canada, following its acquisition of 'Al Safa Halal'.

Engro Polymer & Chemicals Limited

Engro Polymer & Chemicals Limited is Pakistan's only manufacturer and marketer of PVC (polyvinyl chloride) resin, with an annual PVC production of 150,000 tons. The business markets its products under the brand name of SABZ. Following recent expansion, the business now has an integrated facility with the capability to manufacture EDC, VCM, Chlorine and Caustic soda.

The business plays a pivotal role in ensuring the sustainability of the domestic PVC industry and provides support through the provision of quality products and technical services. It also invests in developing new products and markets. As a part of market development it is looking to set up a complete business line for the construction industry by promoting PVC based doors and windows.

Engro Vopak Terminal Limited

Engro Vopak Terminal Limited is a joint venture with Royal Vopak of the Netherlands and has been providing world class services to the growing chemical and petrochemical industry of Pakistan. The business offers storage and handling solutions for liquid and gaseous chemicals, oil products, petrochemicals, bio-fuels, vegetable oils and Liquefied Natural Gas (LNG). The business reached a landmark for the terminal industry of Pakistan with the successful commissioning of Pakistan's first cryogenic import facility for Ethylene.

Engro Powergen Limited

Engro Powergen Limited seeks to develop power projects in Pakistan to help reduce the power shortage in the country and earn a competitive return for shareholders.

The business has set up its first venture into the power sector, with a 220 MW power plant in Qadirpur. This is Engro's first Independent Power Project (IPP) and it utilizes permeate gas, thus reducing carbon emissions.

The Sindh Engro Coal Mining Company Limited is a joint venture between the Government of Sindh and Engro Powergen, to mine coal from Thar Block II. The project has completed its technical, economic and environmental feasibility assessment and aims to utilize the ample reserves of coal in the Thar Desert for power generation.

Engro Powergen also seeks to reduce Pakistan's power shortage by exploring and implementing cleaner, efficient and economic methods of power generation. Wind, hydro and solar power projects are being actively assessed as alternative energy options for Pakistan.

Engro Eximp Private Limited

Engro Eximp Private Limited trades in commodity fertilizers such as DAP, MAP, MOP and SOP, and micro-nutrients like Zinc Sulphate. It supplies these fertilizers as raw materials to Engro Fertilizer's Zarkhez plant for manufacturing blended compound fertilizers. Engro Eximp has been the largest importer of phosphates and potash fertilizers in Pakistan over the last few years and has also recently expanded into the regional trade of fertilizers.

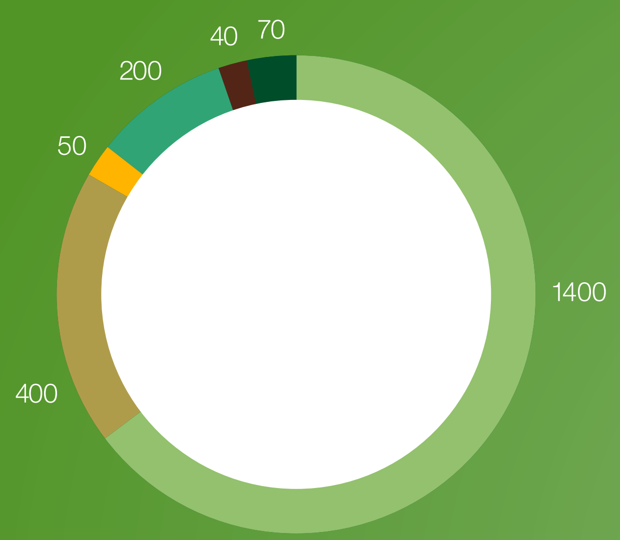
With a vision to expand into new and profitable trading avenues, Engro Eximp has established a fast growing basmati rice trading business. The business will procure high quality basmati paddy from farmers and export finished basmati rice to B2B customers across the world. As part of this initiative, Engro has set up a large, state-of-the-art rice processing mill in Muridke; the heart of the basmati growing area in Pakistan.

Avanceon Limited

Avanceon Limited is a leading global automation business, providing process and control solutions, with subsidiaries operating in UAE and the United States. The business also offers power and energy management integrated solutions, as well as high end software that integrate production and business applications. Avanceon's driving force is its vision to develop intellectual property to optimize the energy footprint of the manufacturing industry.

engro at a glance

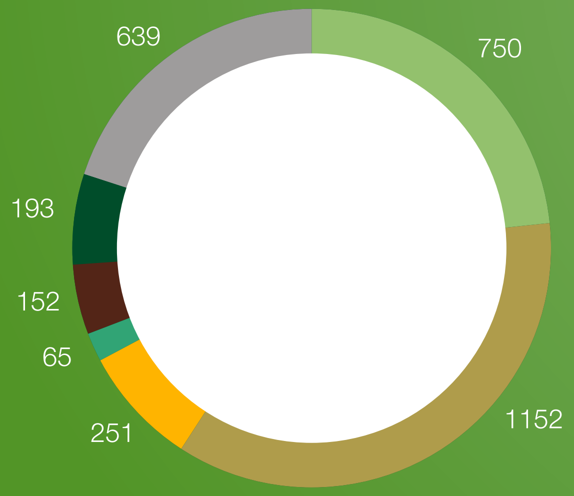
Investment



Total Investment to date in USD Million

2,160

Employees

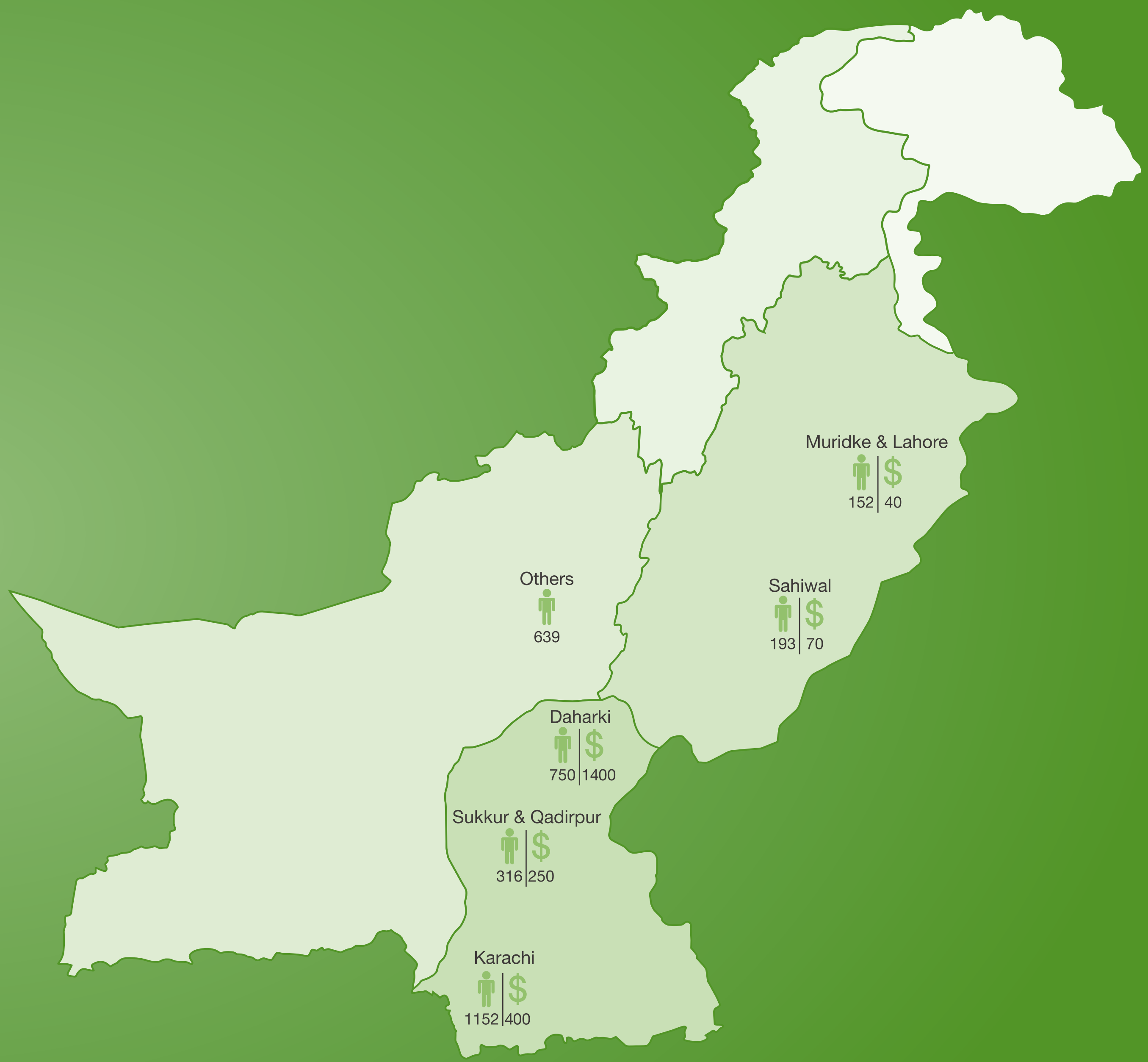


Total Employees

3,202

Daharki Karachi Sukkur Qadirpur Muridke & Lahore Sahiwal Others

Our Employees and Investment across Pakistan



Employees Investment in USD Million

contents

key figures

	2009	2010
Sales Revenue Rs million	58,152	79,975
Weight Average number of ordinary shares (000's)	310,913	327,737
Profit after Tax Rs Million	3,807	6,790
Earning per share Basic & Diluted Rs	12.24	20.72
Dividend Rs/Share	6.00	6.00
EBITDA Rs Million	9,018	15,362
Capital Expenditure Rs Million	53,894	21,153
Market Capitalization (Year End) Rs Million	54,604	63,519
Total Assets Rs Million	132,105	164,778
Market Capitalization (Year End) USD Million	649	742
Total Equity Rs Million	29,344	34,115
Price to Earning Ratio	15	9

company information

Board of Directors

Hussain Dawood, Chairman
Asad Umar, President & Chief Executive
Asif Qadir
Arshad Nasar
Shahzada Dawood
Shabbir Hashmi
Isar Ahmad
Khalid Mansoor
Ruhail Mohammed
Khalid Siraj Subhani
Muhammad Aliuddin Ansari
Abdul Samad Dawood
Saad Raja

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

Auditors

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

Registered Office

7th & 8th Floors, The Harbor Front Building,
HC # 3, Marine Drive, Block 4, Clifton,
Karachi-75600, Pakistan
Tel: +92(21) 35297501 – 35297510
Fax:+92(21) 35810669
e-mail: info@engro.com
Website: www.engro.com

notice of meeting

NOTICE IS HEREBY GIVEN that the Forty Fifth Annual General Meeting of Engro Corporation Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Thursday, March 31, 2011 at 10.00 a.m. to transact the following business:

A. Ordinary Business

(1) To receive and consider the Audited Accounts for the year ended December 3l, 2010 and the Directors' and Auditors' Reports thereon.

(2) To declare a final dividend at the rate of Rs. 2.00 per share for the year ended December 3l, 2010.

(3) To appoint Auditors and fix their remuneration.

B. Special Business

(4) 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 invest upto Rs. 562 million by way of subscription to Rights Shares of a subsidiary company, Engro Polymer & Chemicals Ltd. (E.Polymer)."

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

"RESOLVED that the Authorized Capital of the Company be increased from Rs. 3,500,000,000 to Rs. 4,500,000,000 (Rupees Four Billion Five Hundred Million) and that:

(a) Clause 5 of the Memorandum of Association of the Company be and is hereby amended to read as follows:

"5. The Share Capital of the Company is Rs. 4,500,000,000 (Rupees Four Billion Five Hundred Million) divided into 450,000,000 Ordinary shares of Rs. 10/- (Rupees Ten) each."

(b) Article 5 of the Articles of Association of the Company be and is hereby amended to read as follows:

"5. The share capital of the Company is Rs. 4,500,000,000 (Rupees Four Billion Five Hundred Million) divided into 450,000,000 Ordinary Shares of Rs. 10/- (Rupees Ten) each."

(6) To consider, and if thought fit, to pass the following Resolution as an Ordinary Resolution:

"RESOLVED that

(a) A sum of Rs. 655,473,630 (Rupees Six Hundred Fifty Five Million Four Hundred Seventy Three Thousand Six Hundred and Thirty only) out of the free reserves of the Company be capitalised and applied towards the issue of 65,547,363 ordinary shares of Rs. 10/- each as bonus shares in the ratio of 1:5 i.e. 20% on ordinary shares held by the members whose names appear on the Members Register on March 17, 2011. These bonus shares will rank pari passu in all respects with the existing shares but shall not be eligible for the dividend declared for the year ended December 31, 2010.

(b) Members entitled to fractions of shares as a result of their holding either being less than 5 ordinary shares or in excess of an exact multiple of 5 ordinary shares shall be given the sale proceeds of their fractional entitlements for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.

(c) For the purpose of giving effect to the foregoing, the directors be and are hereby authorised to give such directions as they deem fit to settle any question or any difficulties that may arise in the distribution of the said bonus shares or in the payment of the sale proceeds of the fractions."

By Order of the Board

Karachi,
Dated: February 14, 2011.

ANDALIB ALAVI
Vice President - Legal
& Company Secretary

notice of meeting

N.B.

(1) The Share Transfer Books of the Company will be closed from Thursday, March 17, 2011 to Thursday, March 31, 2011 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Private) Limited, 1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00 p.m) on Wednesday, March 16, 2011 will be treated in time for the purpose of payment of final dividend and issuance of bonus shares to the transferees, and to attend the meeting.

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

Statement under Section 160 of the Companies Ordinance, 1984

This Statement is annexed to the Notice of the Forty Fifth Annual General Meeting of Engro Corporation Limited to be held on March 31, 2011 at which certain Special Business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special Business.

Item (4) of the Agenda

Engro Polymer & Chemicals Limited (E.Polymer) is a Subsidiary of Engro, with other large shareholders being the International Finance Corporation (15%) and Mitsubishi Corporation (10.24%). E.Polymer has executed a major expansion and back integration project by expanding its PVC resin production capacity by 50,000 tons (to a total of 150,000 tons per annum) and back integrating by setting up an EDC / VCM plant with a capacity of 150,000 tons pa and a chlor-alkali unit to produce 106,000 tons pa of caustic soda and 94,000 tons pa of chlorine, alongwith a 65 MW power plant and allied equipment and facilities. The project is now complete and in production. However due delays in completion, E.Polymer had to borrow an extra Rs. 950 million from banks. The terms of the loan are that repayment is to be made in one lump sum and the banks can require E.Polymer to implement a Rights issue, incase a majority of the banks feel that internal cash generation may not be sufficient to repay the loans. As the Company owns 56% of the shares of E.Polymer, it would be obliged to subscribe to its portion of the Rights, and therefore it is thought prudent to obtain shareholder approval for the same at the AGM.

Some of the Directors of Engro are interested in the business to the extent that they are also nominee Directors of E.Polymer and hold one share each as nominees of Engro, while Mr. Asif Qadir holds (including 1 nominee share) 1,607,776 shares of E.Polymer.

The information required under SRO 865(1)/2000 for equity investment is provided below:

(i) Name of investee Company or associated undertaking:
Engro Polymer & Chemicals Limited

(ii) Nature, amount and extent of investment:
Acquisition of shares of E.Polymer for an amount of upto Rs. 562 million. The shares will be acquired directly from E.Polymer through its Rights issue as further equity injection.

(iii) Average market price of the shares intended to be purchased during preceeding 6 months:
Rs. 12.56

(iv) Break-up value of shares:
Rs. 10.42 (as at end December, 2010)

(v) Price at which shares will be purchased:
Rs. 10 per share. However, incase volatility in the stock market does not make it possible or practical to have a Rights issue at par, offer by E.Polymer and subscription by Engro at lower than par may have to be considered.

(vi) Earning / (Loss) per share of investee company in last 3 years:
Rs. 0.68, Rs. (0.35) and Rs. (1.22) in 2008, 2009 and 2010 respectively.

(vii) Sources of funds from where shares will be purchased:
Internal cash generation and possible further debt, if required.

(viii) Period for which investment will be made:
Long term.

(ix) Purpose of investment:
To provide comfort to and to enable repayment of the loans of the lenders to E.Polymer and to provide further equity to E.Polymer.

(x) Benefits likely to accrue to the company and the shareholders from the Proposed investment:
E.Polymer has expanded and back integrated its business, and Engro is confident of the long term success of this project. Consequently, the benefits to Engro and its shareholders will come from the profitability of E.Polymer, resulting in dividend from E.Polymer and increasing value of the shares of E.Polymer, which should result in increased profitability of Engro and increase in value of the shares of Engro.

(xi) Interest of directors and their relatives in the investee company:
Except for Mr. Asif Qadir, the directors of Engro have no personal interest in E.Polymer, except that some Directors of Engro are Directors of E.Polymer and hold one share each in E.Polymer, as nominees of Engro. Mr. Asif Qadir holds 1,607,776 shares of E.Polymer.

Item (5) of the Agenda

In order to provide for increase in authorized capital for issuance of bonus shares and further growth, the Board of Directors proposes that the Authorized Capital be increased from Rs.3,500,000,000 to Rs.4,500,000,000.

Item (6) of the Agenda

The Board of Directors recommend that taking into account the financial position of the Company the issued capital of the Company be increased by capitalization of free reserves amounting to Rs. 655,473,630 and the issue of bonus shares in the ratio of 1:5 i.e. 20%. The Directors of the Company are interested in the business to the extent of their shareholding in the Company.

By Order of the Board

Karachi,
Dated: February 14, 2011.

ANDALIB ALAVI
Vice President - Legal
& Company Secretary

Flap open left side

enabling growth.
enabling excellence.

Engro Foods Limited

The foods business, incorporated in 2005, began operations in 2006. This is Engro's first venture into the FMCG sector. Using dairy as a stepping stone to enter into the food business, the company is now involved in the manufacture, processing and selling of dairy products, ice cream and fruit juices. The business also operates a dairy farm, and has constructed a rice processing facility. In pursuit of maintaining the highest standards of quality, Engro Foods has invested heavily in milk processing and milk collection infrastructure.

Quality brands like Olper's, Olwell, Tarang, Omore, Olfrute and Owsum are some of the company's leading brands over the last 5 years. Engro Foods' vision is "Elevating Consumer Delight Worldwide" and in pursuit of this ambition, the company has also ventured into a halal meat project to cater to the North American market.

- Launched 11 brands since inception.
- Market leader in the tea creaming segment.
- Pakistan's 1st company to cross one billion Tetra packs in one year.
- The market leader in UHT.
- Omoré, Pakistan's No. 2 ice cream brand in less than two years.
- Voted 'Best Place to Work' for consecutive years.

Flap inside

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enabling excellence.

board of directors

From left to right

Seated	Arshad Nasar	Asad Umar (President & Chief Executive)	Hussain Dawood (Chairman)	
Standing	Saad Raja	Abdul Samad Dawood	Shabbir Hashmi	Khalid S. Subhani

From left to right

Seated	Isar Ahmad	Muhammad Aliuddin Ansari		
Standing	Asif Qadir	Ruhail Mohammed	Shahzada Dawood	Khalid Mansoor

directors' profile

Hussain Dawood
Chairman

Hussain Dawood graduated with an MBA from the Kellogg School of Management, Northwestern University, USA, and is a graduate in Metallurgy from Sheffield University, UK. He is Chairman of Engro Corporation Limited, Dawood Hercules Chemicals Limited, Pakistan Poverty Alleviation Fund and The Dawood Foundation. His social responsibilities include Chairmanship of the International Advisory Council of the Cradle to Cradle Institute in San Francisco, Karachi Education Initiative / Karachi School for Business & Leadership. He also serves as a Member of the Government of Pakistan Education Task Force, Director of the Pakistan Business Council, Pakistan Centre for Philanthropy, Beaconhouse National University and is a Global Charter Member of The Indus Entrepreneurs (TiE). He is the Honorary Consul of Italy in Lahore and was conferred the award "Ufficiale Ordine al Merito della Repubblica Italiana" by the Italian Government. He joined the board in 2003.

Asad Umar
President & Chief Executive

Asad Umar graduated with an MBA from the IBA, Karachi in 1984. He started his career with HSBC, Pakistan and in 1985 joined Exxon Chemical Pakistan Limited, which is now Engro Corporation Limited. During his years with Engro, he has worked in all the major divisions of the business, and took over as President & Chief Executive in January 2004, Mr. Umar is the Chairman of all Engro subsidiaries and affiliates, as well as the Pakistan Business Council, Pakistan Chemical & Energy Sector Skill Development Company and Punjab Skill Development Fund. He is a member of the Board of Directors of Karachi Education Initiative, Pakistan Institute of Corporate Governance, State Bank of Pakistan and Board of Trustees of Lahore University Management Sciences. He was awarded the Sitra-i-Imtiaz in 2010.

directors' profile

Asif Qadir
Director

Asif Qadir is a Chemical Engineer by qualification. He is a Senior Vice President of Engro Corporation Limited and Chief Executive of Engro Polymer & Chemicals Ltd. He is Chairman of the Board for Inbox Business Technologies (Pvt) Ltd. and Unicol Limited. He also serves on the Managing Committee of the Overseas Investors Chamber of Commerce & Industry and is a Director of the Karachi Stock Exchange. He has held key assignments with the Company and with Exxon Chemical Canada. He joined the Board in 1997.

Arshad Nasar
Director

Arshad Nasar has a Masters degree in Economics as well as Political Science. He has worked as Chairman and Managing Director of Caltex Oil Pakistan Limited, and has undertaken several key assignments both in-country and overseas. Mr. Nasar was subsequently the Chairman and Chief Executive of OGDCL and served as a Director on the Boards of Pakistan Refinery Limited, Pak Arab Pipeline Company Limited and Mari Gas Company Limited. He is also a former President of the American Business Council of Pakistan. Mr. Nasar is a Director on the Boards of PIDC, Foundation for Advancement of Sciences & Technology (FAST), National University, Funds for Inclusion of People with Disabilities (FIPD) and Engro Fertilizers Limited. He joined the Board in 2002.

Shahzada Dawood
Director

Shahzada Dawood is an M.Sc in Global Textile Marketing from Philadelphia University, USA, and LLB from Buckingham University, UK. He is the Director of Dawood Lawrencepur Limited & Dawood Hercules Chemicals Ltd. He is a member of the Board of Governors of National Management Foundation (LUMS) and also a member of Board of Trustees of Dawood Foundation. He joined the Board in 2003.

Shabbir Hashmi
Director

Shabbir Hashmi is an Engineer from DCET, Pakistan and holds an MBA from JF Kennedy University, USA. He has more than 25 years of project finance and private equity experience. Until recently he led the regional operations of Actis Capital (formerly CDC Group Plc) for Pakistan and Bangladesh. Prior to joining Actis he worked for 8 years with the World Bank and US Aid specializing in the energy sector. A CDC nominee in 2001/02 on the Engro Board, he has been serving as an independent director on the Board since 2006.

Isar Ahmad
Director

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

Khalid Mansoor
Director

Khalid Mansoor holds a Degree in Chemical Engineering with distinction and honors. He is a Senior Vice President of Engro Corporation Limited and Chief Executive of Engro Powergen Qadirpur Limited, Engro Powergen Limited and Sindh Engro Coal Mining Company and is also a Director of Engro Polymer & Chemicals Limited. He has held various key assignments at Engro and with Esso Chemical, Canada including leading development and execution of various major expansion projects. He joined the Board in 2006.

directors' profile

Ruhail Mohammed
Director

Ruhail Mohammed has an MBA in Finance. He is a Senior Vice President and Chief Financial Officer of Engro Corporation Limited. He has served at various senior positions in Pakistan, UAE and Europe, and is on the Boards of Engro Foods Limited, Engro Powergen Qadirpur Limited, Avanceon Limited, Engro Powergen Limited, Engro Fertilizers Limited, Engro Eximp (Pvt.) Limited, and Sigma Leasing Corporation Limited, as well as being Chief Executive of Engro Management Services (Pvt.) Limited. He joined the Board in 2006.

Khalid S. Subhani
Director

Khalid S. Subhani is a Graduate in Chemical Engineering. He is the President & Chief Executive Officer of Engro Fertilizers Limited and Senior Vice President of Engro Corporation Limited. Mr. Subhani is a Director on the Boards of Engro Corporation Limited, Engro Fertilizers Limited, Engro Vopak Terminal Limited, Engro Eximp (Pvt.) Limited and Engro Polymer & Chemicals Limited. He has also served as Chairman of the Board of Avanceon in the past. He joined the Board in 2006.

Muhammad Aliuddin Ansari
Director

Muhammad Aliuddin Ansari is the CEO of Dewan Drilling, Pakistan's first independent Oil & Gas drilling company. Mr. Ansari started his career as an Investment Manager at Worldinvest/Bank of America in London, and has also served as the CEO of AKD Securities and COO, Emerging Europe for Credit Lyonnais Securities. He is also on the Board of National Clearing Company of Pakistan & Al-Meezan Investment Management. He joined the Board in 2009.

Abdul Samad Dawood
Director

Abdul Samad Dawood 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 Chief Executive of Central Insurance Company Limited and Dawood Corporation (Pvt.) Limited. He is the Director on the Board(s) of Dawood Hercules Chemicals Limited, Sui Northern Gas Pipeline Limited, Dawood Lawrencepur Limited, Engro Fertilizers Limited, DH Fertilizers Limited, Tenaga Generasi Limited, WWF Pakistan, Inbox Business Technologies (Pvt.) Limited and Pebbles (Pvt.) Limited. He is a member of Young President Organization, Pakistan Chapter. He joined the Board in 2009.

Saad Raja
Director

Saad Raja is an engineer from UET, Lahore and with an MBA from the London Business School. Joined DFJ ePlant Ventures in 2002, prior to which he had worked at senior management levels in the international asset management & investments 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 December 2009.

core values

Safety, Health & Environment

We will manage and utilize resources and operations in such a way that the safety and health of our people, our neighbors, our customers and our visitors is ensured. We believe our safety, health and environmental responsibilities extend beyond protection and enhancement of our own facilities, and we are concerned about the distribution, use and after use disposal of our products.

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.

Leadership

We have leaders of high integrity, energy and enthusiasm who have the necessary managerial, professional and people skills to inspire a group or an organization to set high goals and achieve them willingly. We believe that leadership skills need to be strengthened at all levels within our organization and that managerial and professional competence is a necessary foundation.

Quality & Continuous Improvement

We believe that quality and a relentless commitment to continuous improvement are essential to our ongoing success. To this end, we define quality as understanding the customer's expectations, agreeing on performance and value, and providing products and services that meet expectations a hundred percent of the time. Our motto is, 'Quality in all we do'.

Enthusiastic Pursuit of Profit

Successfully discharging our responsibilities to our shareholders to enhance the long-term profitability and growth of our company provides the best basis for our career security and meaningful personal growth. We can best accomplish this by consistently meeting the expectations of our customers and providing them with value.

External & Community Involvement

We believe that society must have industrial organizations that it can trust. Trust and confidence are earned by our performance, by open and direct communication, and by active involvement in the communities where we live and conduct our business.

Candid & Open Communications

We value communications that are courteous, candid and open and that enable each of us to do our jobs more effectively by providing information that contributes to the quality of our judgment and decision making. Effective communication should also provide the means for gaining understanding of the company's overall objectives, its plans and the thinking behind them.

Enjoyment & Fun

We believe that excitement, satisfaction and recognition are essential elements of a healthy, creative and high-performing work environment. Having fun in our work should be a normal experience for everyone.

Innovation

Success requires us to continually strive to produce break through ideas that result in improved solutions and services to customers. We encourage challenges to the status quo and seek organizational environments in which ideas are generated, nurtured and developed.

Individual Growth & Development

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 encouraged and empowered to contribute, grow and develop themselves and help to develop each other.

Teamwork & Partnership

We believe that high-performing teams containing appropriate diversity can achieve what individuals alone cannot. Consciously using the diversity of style, approach and skills afforded by teams is a strength, which we must continue building into our organization.

Diversity & International Focus

We value differences in gender, race, nationality, culture, personality and style because diverse solutions, approaches and structures are more likely to meet the needs of customers and achieve our business goals.

corporate governance

Compliance Statement

The Board of Directors has throughout the year 2010 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. There are plans to launch an Enterprise-wide Risk Management (ERM) initiative during 2011 at Engro Corp and its subsidiaries.

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 2009, the Board has comprised of five executives, four independent non-executive Directors and four non executive Directors, who had 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 Asad Umar. Biographical details of the Directors are given on pages 18 and 23.

A Board of Directors' meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board met ten 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.

board committees

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

Board Compensation Committee

The committee meets at least once every quarter 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 executive directors and members of the management committee.

The President and Chief Financial Officer attend Board Compensation Committee meetings by invitation. The committee met 3 times during 2010.

Director's Names

Hussain Dawood (Chairman)
Shabbir Hashmi
Arshad Nasar
Shahzada Dawood

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

The Board Audit Committee

The committee 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 7 times during 2010.

Director's Names

Shabbir Hashmi (Chairman)
Isar Ahmed
Aliuddin Ansari
Abdul Samad Dawood

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, oversee the Company's capital and financial resources and advise on future strategy. The Committee meets on a need basis, but at least three times a year and regularly reports to the Board.

Director's Names

Shabbir Hashmi (Chairman)
Isar Ahmed
Aliuddin Ansari
Abdul Samad Dawood
Saad Raja

The Secretary of the Committee is Hafsa Shamsie, Manager Finance and Admin

functional committees

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

EXCOM is headed by the President & CEO, and includes the corporate functional heads of HR and Finance as well CEOs of all Engro Corp subsidiaries. The committee meets to discuss performance appraisals and annual business plans, and works in an advisory capacity to the President.

COED Committee is responsible for the review of Compensation, Organization, Training and Development matters of all employees.

Committee Members

Asad Umar (Chairman)
Asif Qadir
Khalid Siraj Subhani
Bakhtiar Wain
Khalid Mansoor
Sarfaraz A. Rehman
Shaikh Imran-ul-Haque
Ruhail Mohammed
Tahir Jawaid

The Secretary of the EXCOM is Syed Ali Akbar, Vice President GBU, Engro Foods Limited.

The Secretary of the COED is Shafaq Omar, Manager HR, Engro Corporation Limited.

engro foundation

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

Asad Umar (Chairman)
Khalid Mansoor
Khalid Siraj Subhani
Sarfaraz A Rehman
Tahir Jawaid

The Secretary of the Board is Jiwan Das, Director, Engro Foundation.

Flap open left side

enabling growth.
enabling excellence.

Engro Fertilizers Limited's Urea Expansion Project

The latest expansion at Engro Fertilizers Limited's urea manufacturing facility in Daharki was completed in December 2010. This is the world's largest single train urea-ammonia plant in the world. With a capacity of 1.3 million tons, this expansion takes Engro's total annual capacity to 2.3 million tons, and is the largest private sector industrial investment in Pakistan worth USD 1.1 billion. With the addition of this capacity, Engro has enabled Pakistan to become self sufficient in urea, and the Pakistani farmer will reap the benefits of cheaper urea produced domestically. This expansion also provides Pakistan with the ability to reduce the import bill thereby saving on valuable foreign exchange as well as resulting in benefits for the farmer, consumer and the national economy.

- The largest single train ammonia - urea plant in the world, setup with an investment of USD 1.1 billion.
- The new plant has the capacity to produce 1.3 million tons per year.
- The most energy efficient plant with the lowest gas consumption per ton of urea in Pakistan, and 100% environmentally compliant.
- The project set a new national record of completing 29.8 million safe man-hours.
- Saves USD 500 million per annum of foreign exchange.

enabling growth.
enabling excellence.

directors' report

The Directors of Engro Corporation Limited are pleased to submit the forty fifth annual report and the audited accounts for the year ended December 31, 2010.

Principal Activities

Engro Corporation Limited is concerned with the oversight of subsidiaries and affiliates. Its current portfolio of capital investments consists of businesses including chemical fertilizers, PVC resin, a bulk liquid chemical terminal, industrial automation, foods & commodities and power generation.

Organizational Overview

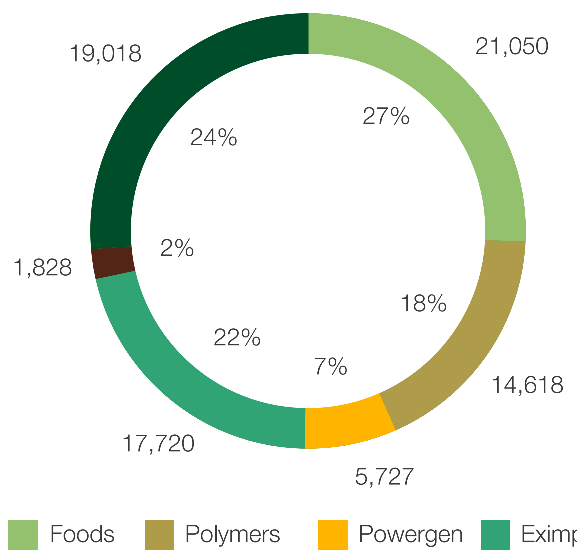
2010 was a year of many achievements including the highest ever profit of Rs. 6.8 billion in the history of Engro. In its first year of operations as Engro Corporation Limited, the company recorded a number of successes by its various subsidiaries and joint ventures.

key operational highlights of 2010

- The fertilizer business completed construction of the world's largest single train state-of-the-art ammonia-urea plant, which takes the company's capacity to 2.3 million tons.
- The foods business achieved overall profitability in 2010, reaching the target earlier than planned, as well as beginning operations at the rice processing plant in Muridke.
- The petrochemical business commenced production from the VCM plant and began full operations from the integrated facility.
- The power generation business began commercial operations at its Qadirpur energy plant, as well as completing the detailed feasibility study confirming the technical, social and environmental viability for the Thar Coal Project.

The priorities that drove our success in 2010 - HSE, people and operational performance - remain the foundation of our agenda as we work to further enhance our competitive position in the coming year.

Business Revenues (Rs million)



*Excludes revenue from Vopak

Consolidated Revenue (Rs million)

79,976

engro corp holding structure

engro corp
- engro foods 100%
- engro eximp 100%
- engro fertilizers 100%
- engro powergen 100%
  - engro powergen qadirpur limited 95% (85% via engro powergen; 10% via engro corp)
- ENGRO VOPAK TERMINAL LTD. 50%
- engro polymer & chemicals 56%
- AVANCEON 63%

Engro Corporation Limited is a holding company, created following the conversion of Engro Chemical Pakistan Limited on January 1, 2010. Engro Corp provides the long term vision for the company as well as the guiding policies, and overseas performance of the subsidiaries and affiliates.

business review

Fertilizers

The company's fertilizers business had been incorporated as a subsidiary of Exxon Chemicals Private Limited in 1964. Following a number of transitions over the last four decades, the company evolved into Engro Fertilizers Limited as of January 1, 2010 after a demerger, and remains a fully owned subsidiary of Engro Corporation Limited.

The fertilizer business is primarily engaged in the manufacturing, marketing of urea and npk fertilizers. Engro Eximp imports, distributes and markets phosphate based fertilizers.

Pakistan's urea industry declined by 5% in the past year to 6.2 millions in 2010 from 6.5 million tons in 2009, after facing the worst ever floods in the country's history. Pakistan's domestic urea production stood at 5.21 million tons in the past year, only marginally higher as compared to 5.05 million tons in 2009. This was despite new capacity coming online, and was partially a result of continued gas curtailment initiated by the government in the second quarter of 2010. During the year the company produced 972,000 tons of urea, which is 2% higher than the 952,000 tons produced in 2009. The gas curtailment impact was offset by a record production in the first half, as well as no planned turnaround during the year. The company sold 949,000 tons of urea, with 22,000 tons consumed in our Zarkhez operations. The company's full year share of 15% of the fertilizer market was the same as 2009.

The company's urea expansion project at Daharki, achieved a major milestone in 2010, with the mechanical completion of the facility and start of trial urea production by December 29, 2010. It is currently the world's largest single train state-of-the-art ammonia-urea plant with a capacity of 1.3 million tons and is the largest private sector industrial investment of approximately US$ 1.1 billion. The added capacity will not only meet the country's urea needs but also save foreign exchange of approximately US$ 500 million at current pricing. The plant was unable to continue operating as SNGPL commenced a 45-day gas outage on January 7, 2011, as part of a gas load management program. The company expects to receive gas by the end of February, following which start-up activities can begin again at the plant. Commercial production is expected soon after the plant is stabilized.

In 2011, the company faces the challenge of a continuing gas curtailment of the government, which has potentially serious impact on the agricultural economy of Pakistan by increasing the cost of inputs to the farmers and costing the national economy by importing more expensive urea and providing subsidy for the same.

The phosphate fertilizer demand in Pakistan declined to 1.4 million tons from 1.8 million tons in 2009 due to floods and high international and domestic prices. The business sold 327,000 tons of phosphates in 2010, against 357,000 tons in 2009, achieving a market share of 23% in 2010 Vs 21% in 2009. Despite lower sales, the growth in market share was due to lower market demand.

Demand for potash remained healthy throughout 2010, as prices remained significantly lower compared to 2009. Sales of the company's Zarkhez brand of fertilizers increased by 9% to 60,000 tons in 2010 from 55,000 tons in 2009. This increase was a direct result of growth in the potash industry spurred by a government subsidy, as well as imports by other potash players.

The NP industry declined by 17% compared to 2009, in line with a decline in the phosphate market, and accordingly, E-NP sales decreased to 35,000 tons in 2010 from 45,000 tons during 2009, although E-NP market share remained at around 10%. The company's Zarkhez plant produced a total of 100,000 tons of blended fertilizers, which includes 63,000 tons of Zarkhez and 37,000 tons of E-NP, as compared to a total of 92,000 tons produced during 2009.

Foods

Engro Foods Limited is a wholly owned subsidiary engaged in the manufacture, processing and sales of dairy products, ice cream and fruit juices. In addition, the company also operates a dairy farm, and has constructed a rice processing facility, which is owned by Engro Food Supply Chain Limited, and is manufactured for Engro Eximp, which deals in the procurement and marketing of the rice product to premium customers in Europe & Middle East.

In 2010 the local processed milk market grew by 15% to 794 million liters from 690 million liters in 2009. The company continued its aggressive business strategy of growth and diversification into new product ranges and achieved volume growth of 27% during 2010 increasing its volumes to 309 million liters from 243 million liters in 2009. The company achieved a market share of 39% in the processed milk segment.

The processed milk market market growth is being driven by tea creamers where Tarang maintained its leadership with segment share of 62%. Tarang grew its volumes by 47% to 169 million liters in 2010 and was awarded the 'Brand Used Most Often' title in the UHT category. In 2010, the company also entered the dairy powder business with the launch of Tarang Powder which achieved a 4% market share by the end of the year. Olpers grew by 9% to 137 million liters.

The ice cream market grew by 20% to 71 million liters from 59 million liters in 2009. Industry volume growth was driven by increased competitive activities between Walls and Omore increasing consumer awareness. In addition, heavy competition kept prices down, making ice cream more affordable for the consumers. Omore volumes increased by 100% to 12.2 million liters in 2010 from 6.1 million liters in 2009, and Omore market share was estimated at 17% during 2010. However, the brand made an operational loss due to continued investment in the Omore' brand.

The company continued its efforts to become a significant player in the flavored milk segment for children, with the launch of two new flavors for Owsum, expanding the brands portfolio to five variants. In 2010, the company also entered the fruit based segment with the launch of Olfrute Juices and Nectars.

The company's Nara Dairy Farm has commenced its second lactation and is currently producing 21,500 litres per day, with a total herd size of 2,591 animals of which 1,269 are milking. The farm has also successfully provided a demo effect to encourage dairy farming in Pakistan, with a number of new dairy farms in the making across the country.

In the rice trading business, Engro Eximp successfully built relationships with premium buyers in international markets, and exported 5,000 tons of rice during the year.

Petrochemicals

Engro Polymer & Chemicals Limited is a 56% owned subsidiary and is listed on all three stock exchanges of Pakistan. 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 and sells any surplus energy to the Karachi Electric Supply Company (KESC).

The company's VCM plant achieved start up by the first quarter of 2010. Operating capacity at the VCM plant was gradually enhanced throughout the year, and the plant achieved commercial operations by September 2010. With the commercial production of the VCM plant, the integrated facility became fully operational.

During the year, the company produced 114,000 tons of PVC as compared to 116,000 tons in 2009. Production was lower than capacity due to limited availability of VCM and some operational constraints. A total of 60,000 tons of VCM was produced during the year out of which 28,000 tons was produced in the last quarter. Due to the delay in commissioning of the VCM plant, there was limited use of EDC produced for the manufacture VCM, and therefore 37,000 tons of EDC was exported.

The company's PVC domestic sales volume declined to 97,000 tons in 2010 from 119,000 tons in 2009, due to limited availability of stock which was mainly attributable to low production during the first half of 2010. PVC demand slowed down during the second half of the year due to reduced government spending and liquidity crunch, a direct result of the floods. In order to counter relatively lower domestic demand, the company initiated export of PVC through its subsidiary and exported 9,000 tons of PVC during the last quarter.

Caustic Soda plant had come into commercial operation in August 2009. During the year, 93,000 tons of Caustic soda was produced as compared to 39,000 tons in 2009. Caustic soda sales remained strong during the year and company sold 80,000 tons as against 27,000 tons in 2009. The company also produced and sold 20,000 tons of Sodium Hypochlorite.

Power Generation

Engro Qadirpur Powergen Limited, Engro's first initiative in the power sector of Pakistan is a 95% owned subsidiary, 10% directly and 85% through its power holding company, Engro Powergen Limited. IFC has the remaining 5% equity stake. During the first nine months of operations, the plant demonstrated an availability factor of 95%, despite being its first year of operation. The plant dispatched a total net power of 1,201 GWh to the national grid. The company received its true-up tariff in November 2010. To resolve an inconsistency in the true-up determination with the original tariff determination, the company has filed a review petition with NEPRA.

In 2010, the Sindh Engro Coal Mining Company Limited (SECMC) completed the detailed feasibility study (DFS) as per the target deadline, confirming the technical, social and environmental viability of the Thar Coal Mining Project. The economic viability of the project will be confirmed upon obtaining closure on infrastructure development projects by Government of Sindh & Government of Pakistan. SECMC is a joint venture between Engro and the

Government of Sindh for the development, construction and operation of an open coal mine facility in Block 2 of the Thar Coal Field.

Chemical Storage and Terminal

Engro Vopak Terminal Limited is a 50:50 joint venture with Royal Vopak of the Netherlands, and is engaged in the handling and storage of chemicals and LPG. The company completed 13 years of safe operations without lost work injury in November 2010. The terminal continues to maintain the highest levels of health, safety and quality standards, and was rated the highest amongst all Vopak terminals in Asia in a Terminal Health Assessment conducted in 2010.

During the year, efforts continued to position for the LNG import terminal at Port Qasim, and the company has received a No Objection Certificate (NoC) from the Port Qasim Authority for the project site at Khiprianwala to conduct a feasibility study.

The company's actual throughput for the year was 1,104 k tons vs. 1,063 k tons in 2009, including LPG import of 31 k tons vs. 40 k tons in 2009. Engro Vopak also achieved a first in the history of LPG imports in the country by handling the largest ship (5,000 tons) to dock in Pakistan. The increased annual throughput is mainly attributable to higher import of Phos Acid and the first full year of operation of the VCM plant at Engro Polymer & Chemicals Limited.

The company has received a show cause notice from the Competition Commission of Pakistan regarding the exclusivity clause in its Implementation Agreement (IA) with Port Qasim Authority. The company believes the IA is valid in its totality and is defending the matter before the Commission.

Automation and Control

Avanceon Limited is engaged in automation and control engineering services. The company has a wholly owned subsidiary in Jebel Ali Free Zone, UAE, which in turn has a 70% interest in its US subsidiary. The company continued its focus on health, safety and environment initiatives in 2010 and achieved zero Lost Work Injury (LWI) during the year.

Despite tough economic conditions, the company had an increase in new business and revenues over the last year. However, this revenue of Rs 556 million remained below breakeven point due to difficulties in its energy SBU.

Due to the lasting impact of the recession, customers remained cautious with their capital expenditures, with the company's UAE subsidiary facing a decline in order generation and sales, mainly attributable to the macro-economic environment of the UAE. However, the company's US subsidiary demonstrated a robust turn around, increasing its revenues and making a profit for 2010.

health, safety and 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 2010. The company continued its endeavor to align HSE management systems and processes to international best practices including Occupational Safety and Health Administration (OSHA) and Dupont Workplace Safety Standards. All HSE systems and processes are regularly assessed and audited internally as well as by third parties.

The company is committed to reduce its carbon footprint and water usage and as a result, a number of initiatives have been taken at all stages of production and at all levels in the company. All of Engro's facilities are NEQS compliant and follow the highest standards for ensuring health and safety of its employees and all those associated with our business processes. This involved improving air and water quality, exploiting internal energy resources and helping to create new jobs and avenues for environmentally-conscious growth.

Every employee involved in plant operations at any of our manufacturing facilities is given 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 industrial hygiene and occupational medicine. All employees are also trained and kept up to date on technological changes and safety related aspects of their jobs. The company has established environment management programs at its facilities to comply to environmental laws and regulations.

The following table highlights the results of a successful year of best practices at all Engro businesses:

	Million Man-hours	TRIR	Recordable Injuries	Fatalities	LWI's
FERTILIZERS	25.7	0.3	39	0	1
POLYMER	3.7	0.109	2	0	0
POWERGEN	1.31	0	0	0	0
FOODS	16.32	0.38	31	1	10
VOPAK	0.37	0.53	1	0	0
AVANCEON	0.5	0	0	0	0
EXIMP	0.23	0	0	0	0
Total	48.1	0.3	73	1	11

Being a socially responsible company, Engro has a continuing focus on environmental aspects of its operations and risk mitigation plans in place. Environmental awareness is deeply rooted in the company's values and work culture, and Engro continues to invest in upgrading systems and improving standards to international benchmarks.

The fertilizers business continued efforts to reduce its emissions and its manufacturing facility in Daharki, Sindh has had a number of modifications over the years to increase energy efficiency and reduce carbon emissions. The business also recorded HSE success at its expansion project which has set a national record of completing 29.8 million man hours without a Lost Work Injury (LWI) and a Total Recordable Incident Rate (TRIR) of 0.28.

The foods business ensures that safety, health and a hygienic work environment are among the top priorities of the company's management. The company calculates the Total Recordable Injury Rate (TRIR) based on the total man hours and the total reported injuries and has achieved a year to date TRIR of 0.42.

The polymer business has a comprehensive Environmental Management System (EMS), certified and regularly audited under ISO 14001:2004. The business has also established and maintained a procedure for including environmental management in consideration of planning, design, production, marketing and disposal stages where appropriate and implementable.

Engro Powergen Qadirpur Limited built its first facility, a power plant which produced energy using waste gas that was being flared from the Qadirpur gas fields. It is also in the final stages of acquiring carbon emissions reductions (CERs) and is working towards getting 3000-4000 carbon credits a year.

The chemical terminal continued to maintain health, safety and quality standards- per OHSAS 18001, ISO 9001 and 14001 and Vopak Standards. Terminal Health Assessment was conducted in 2010 by a team from Vopak Asia and company achieved highest score of 95% amongst all terminals of Vopak in Asia.

employee relations and organizational development

As a responsible employer, Engro respects its employees' rights and endeavor to provide a safe and healthy workplace, fair policies and procedures, freedom of opinion and expression and open dialogue with all employees. In 2010, the company continued to work towards enhancing employee satisfaction, offering attractive and fair compensation and benefits, increasing gender diversity, enabling personal and professional development and providing opportunities for growth and to nurture future corporate leaders.

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

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

The company also continued its dedication towards creating a rewarding life experience for employees through efforts during the flood relief. The company initiated a special leave policy for employees who sought to volunteer for flood relief work, and the company's volunteer network, Envison, organized opportunities for Engro employees to donate time, money and goods.

social investments

As part of the company's enduring commitment towards improving the life of its stakeholders, and especially host communities, Engro contributed over Rs.136 million under its social investments commitment in 2010, as compared to Rs. 58 million in 2009.

After an evaluation of the social impact of Engro's efforts, the company made a decision to create the Engro Foundation, established with the mandate to enhance the company's key corporate social responsibilities in its geogarphical scope of operations. The 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.
Major investments include education, health, water and sanitation, with the main focus of activities being the communities in the vicinity of the company's manufacturing sites and supply chains. The Foundation also has employee giving volunteering programs to support employees' efforts in their communities.

Engro was also heavily involved in the relief and rehabilitation efforts following the floods during the summer of 2010. Engro organized approximately Rs. 250 million from internal sources and external partners and volunteers to support the residents of the hardest hit areas. The company's efforts were concentrated in district Ghotki and Sukkur in Sindh and districts Muzaffargarh and Layyah in Punjab.

Education holds special significance for the company, and is a major focus area, especially in the communities that host our manufacturing facilities. Over the years, Engro has partnered with institutions like Sahara Welfare Trust and The Citizen's Foundation for the development of educational facilities in these areas. Engro has also established a Training and Resource Center (TARC) to provide a dedicated resource for the training of teachers involved in these schools. In addition, Engro is also supporting 11 schools in the Katcha (riverine belt) area along the Indus. Engro has also initiated a Government School Adoption program with the support of the provincial education department and local communities. At present, Engro supports 13 schools around Daharki and Qadirpur, with an enrollment of 1,600 students. Till date, Engro's investments in education have reached out to 3,309 students, in addition to funding the employment of 55 teachers across 25 schools.

Vocational training is also a significant area of Engro's investment, to enhance employability of local youth. Towards this end, the company is partnering to build a technical training center providing a 3 year diploma with investment in excess of Rs 220 million in collaboration with PIDC, Mari Gas, Saipem and Descon. Engro has also established the Sahara Arts & Crafts Center in 2003 to impart vocational training to females to enhance income generation skills through their newly developed skills.

Engro has also played a pivotal role in the establishment of a world class business school, named the 'Karachi School for Business and Leadership', to produce future business leaders for the country. The first phase of the school's development was completed in 2010, with the initiation of executive development programs. As part of a leadership development curriculum, Engro is proactively developing executive leadership programs at the school. We are partnering with the school's faculty in order to target specific courses for different management levels.

Health is an integral component of Engro's values, and the company strives to ensure a better quality of life for its employees, their families and its host communities. As part of this effort, Engro has continued to invest in health facilities such as subsidized clinics and specialized treatment centers. These include the one of a kind Snakebite Treatment Facility at the Engro Clinic in Daharki as well as clinics in partnership with Dar ul Shifa and Marie Stopes Society. The company also continues to fund and maintain specialized centers for treatments as wide ranging as thalassemia, kidney dialysis, malaria control, polio immunization and eye care. These initiatives have enabled Engro to touch the lives of over 13,000 people over the years.

Engro Foundation has also signed an MoU with the Pakistan Poverty Alleviation Fund (PPAF) for the amount of Rs. 350 million to be invested in the areas of health, education and physical infrastructure.

Over the last year, the fertilizers business continued to work with smallholder farmers to improve sustainable practices, and helped them boost local incomes and productivity. Training of farmers has resulted in improvements in yield and profitability. The polymer business continued its efforts to address agricultural water scarcity issues through the active promotion of drip irrigation, which is used to prevent wastage of water during the farming process.

corporate awards

The company was ranked Pakistan's leading company for Corporate Social Responsibility (CSR), by the first Asian Sustainability Rating (ASR).

The company received the ACCA - WWF 'Best Sustainability' Award during the year.

The company was honored with the Investor Relations Award by the CFA Association of Pakistan for the year 2010.

The fertilizers business received 'Brand of the Year' awards for two of its products.

Awarded best performance in Health by CSR Association of Pakistan

The polymer business was awarded a commendation for commitment to excellence in sustainability reporting by the Asian Sustainability Rating.

The foods business won the 'Best Place to Work' for the second time from the PSHRM.

The company won the seventh consecutive national forum of environment and health (NFEH) annual environment awards.

Won the 5th CSR National Excellence award from CSR Association of Pakistan.

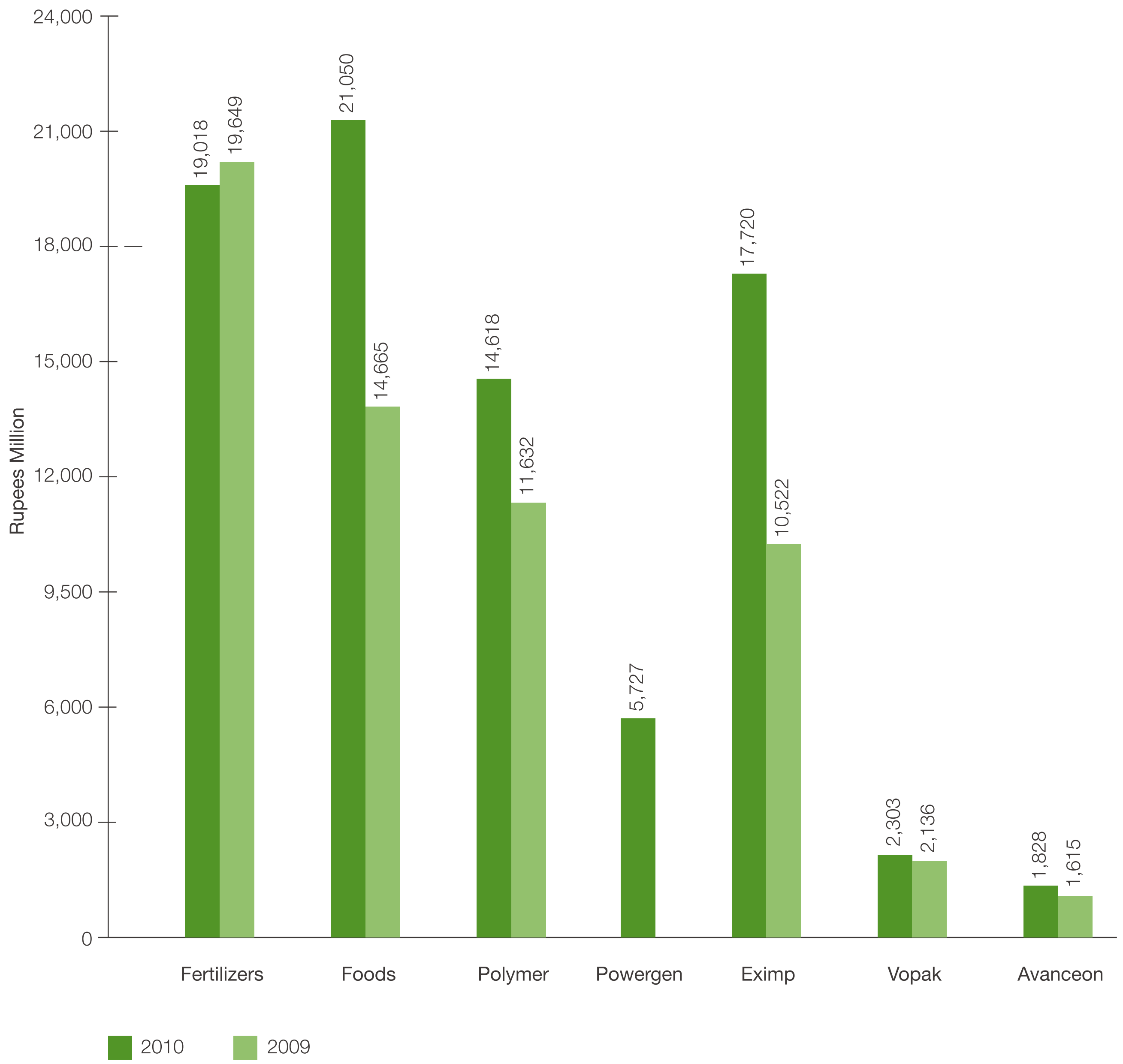
results for the year

Engro Corporation Limited delivered a net profit (attributable to the equity holders of the holding company) of Rs 6.8 billion in 2010 vs. Rs 3.8 billion in 2009. The increase is primarily due to improved Urea production, commencement of Engro Powergen Qadirpur operations and rising commodity prices which favorably impacted our trading business. Additionally, a onetime income of Rs 764 million, due to sale of land and a tax write back, was realized during the year.

Sales for the year amounted to Rs 79.97 billion against Rs 58.15 billion last year. This substantial increase was to compensate for the impact of gas curtailment, improved dairy sales volumes and prices, power generation coming online, increased fertilizer prices and higher PVC prices as compared to 2009.

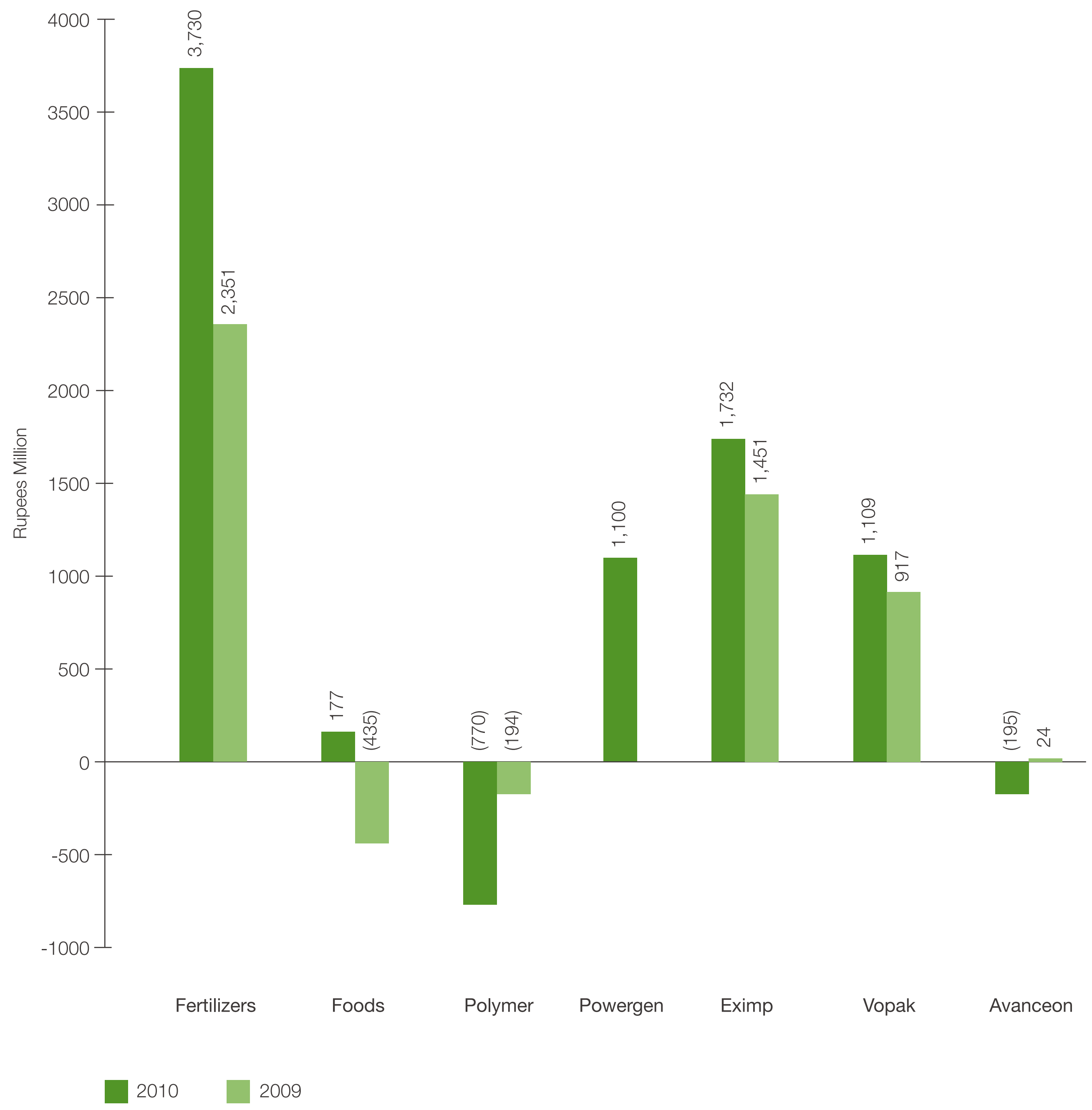
Engro Corporation's profit after tax for the year, on standalone basis stood at Rs. 1.68 billion

Revenue of Businesses



Flap inside

PAT of businesses



performance over the years

Rs Million

	1990	2004	2006	2007	2009	2010
Revenues	1,277	13,068	20,240	34,121	58,152	79,976
PAT	134	1,719	2,107	2,834	3,807	6,790
Total Assets	6,724*	13,538	20,054	49,236	132,105	164,778

* Assets as of Dec 31,1989

dividends

The Board is pleased to propose a final dividend of Rs. 2 per share. The total dividend attributable to the year is Rs. 6 per share versus Rs. 6.00 per share paid last year.

The appropriations approved by the Board of Directors are as follows:

	Million Rupees
Un-appropriated profit from prior years	9,251
Final dividend for the year 2009 on 297,942,563 shares of Rs. 10 each at Rs. 2.00 per share declared on January 22, 2010	(596)
Bonus shares issued in ratio of 1 share for every 10 shares held	(298)
Profit for the year after taxation	1,676
Disposable profit for appropriation	10,033
First interim dividend on 327,736,819 shares of Rs. 10 each at Rs. 2.00 per share declared on July 28, 2010	(655)
Second interim dividend on 327,736,819 shares of Rs. 10 each at Rs. 2.00 per share declared on October 28, 2010	(655)
Un-appropriated profit carried forward	8,723
Subsequent Effect	
Proposed final dividend on 327,736,819 shares of Rs. 10 each at Rs. 2 per share	(655)
Total Dividend for the year Rs 6 per share	1,965

Key operating and financial data for 10 years is summarized on page ---

Earnings Per Share (EPS) / Dividends Per Share (DPS)

The Company's post tax EPS registered constant increase over the last 5 years which demonstrates our business strength, leadership position and successful diversification.

	2006	2007	2008	2009	2010
EPS	8.99	10.98	14.67	12.24	20.72
DPS	9.00	7.00	6.00	6.00	6.00
Bonus	0	0	0	10%	20%

value addition

	2010 Rupees in Million	%	2009 Rupees in Million	%
Wealth Generated				
Total revenue inclusive of sales-tax and other income	84,759		60,932	
Bought-in-material and services	(56,462)		(42,188)	
	28,297		18,744	
Wealth Distributed				
To employees				
Salaries, benefits and other costs	4,836	17.09%	3,134	16.72%
To Government				
Taxes, duties and development surcharge	9,646	34.09%	7,790	41.56%
To Society				
Donation towards education, health, environment and natural disaster	136	0.48%	58	0.31%
To Providers of Capital				
- Dividend to Shareholders	2,203	7.78%	1,617	8.63%
- Mark-up / interest expense on borrowed money	4,201	14.85%	2,222	11.85%
Retained for reinvestment & future growth, depreciation, amortization and retained profit	7,275	25.71%	3,923	20.93%
	28,297		18,744	

Cash Flow and Capital Investment

Lower Cash was generated from operations during the year (Rs 5,876 million versus Rs 15,410 million in 2009) on account of higher working capital of Rs 15,037 million as compared to last year. This increase in working capital is attributed to higher stores and spares for the Urea Expansion project, higher procurement and inventories of rice and WAPDA receivables (2009:NIL). Taxes paid for the year amounted to Rs 2,378 million vs. Rs 1,956 million last year based on withholding tax deducted at import stage on purchased fertilizers and on the regulations governing income tax.

Total long term investments of 2,409 million were made during the year including investment of Rs 1,577 million in the Foods Business, Rs 28 million in Power business and Rs 804 million in Petrochemicals Business.

Additions to property, plant and equipment stood at Rs 21,000 million representing expenditure towards construction of the Urea Fertilizer expansion project of Rs 15,000 million and additions of Rice plant and Foods expansion.

Capital Investment, Capital Structure and Finance

During the year, the company issued 10% bonus shares which increased the paid-up capital of the company to Rs 3,277 million. Shareholders' funds (excluding hedging reserves) at the year end totalled Rs 35,042 million. This increase is due to issuance of bonus shares as well as retained profit.

Net long term borrowings at year end increased to Rs 104,695 million (2009: Rs 86,518 million) primarily for financing the company's Urea Expansion Project for Rs 11,936 million and Foods expansion for Rs 2,300 million and Rs 3,384 million raised through Engro Rupiya Certificate Issue.

The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2010 is 75:25 (2009 - 75:25). However aforementioned ratio does not factor in revaluation of base urea plant at Daharki, post revaluation Debt to Equity drops to 68 : 32. The liquidity position of the Company remains robust with a year-end current ratio of 1.54 (2009 - 1.47).

Engro Rupiya Certificates (TFC)

The Company issued a fixed return Term Finance Certificate (TFC) to target retail investors in the last quarter of 2010. Branded as the Engro Rupiya Certificates, the TFC offered a return of 14.5% per annum, over a period of 3 years with semi-annual profit payments. The product was successfully received by the investor market and managed to raise approximately Rs. 3.5 bn by the end of 2010, and was fully subscribed to the worth of Rs 4 billion before its official close in January 2011. In addition to raising funds for subsidiaries the TFCs will also help to develop the corporate debt market of Pakistan where participation from retail investors has been almost negligible in the past. With individuals subscribing to almost 80% of the Issue, Engro Rupiya Certificate has provided a successful alternative for the company to raise funds from a previously untapped investor base. Through partnerships with leading financial institutions, Engro has positioned the product as a convenient investment option with returns that are superior to Bank Deposits and National Saving Schemes. The instrument is secured on certain assets of the Company and has been rated AA by PACRA.

Pakistan's first ever OTC

Engro Fertilizers Limited provided Pakistan with its first Over-the-Counter (OTC) listing at the Karachi Stock Exchange on January 17, 2011. The company listed their private commercial paper worth Rs. 1 billion through the OTC market which makes it the first OTC listing in the country as well as the first commercial paper to be listed. The purpose of the OTC market is to provide investors with an efficient and transparent source of investment, as well as encourage the corporate sector to fund their expansions and new industries through this means in a cost effective manner.

Major Judgement 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 38)

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

Pakistan Credit Rating Agency in its annual review of the Company's credit worthiness has maintained Engro Corp's long term and short term ratings as "AA"(Double A) and "A1+"(A One Plus) 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 2010, Engro Corp's consolidated borrowings were Rs. 104 billion. A significant portion of this amount is of foreign currency, which is linked to LIBOR (note 22 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 10 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 termed 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. However, the ability of the company to manage these risks has been curtailed by State Bank of Pakistan's decision to disallow forward exchange contracts on letters of credit. Some of the businesses have natural hedges for their foreign currency exposures - for 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$ 85 million out of our total foreign currency borrowings of US$ 285 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 is explained in note 9 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, 2010 and the financial statements of these have been audited up to December 31, 2009. The latest audited accounts for the provident fund cover year ended June 30, 2010. 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 2010	December 31 2009	December 31 2009
Net Assets as per last audited financial statements	863	748	355
DSCs/PIBs/RICs	537	458	177
Mutual Funds	0	12	1
TFCs	64	89	8
Shares	143	90	128
Bank Deposits/T-Bills	59	128	44
Receivables	68	12	1
Payables	(8)	(41)	(4)
Total	863	748	355

Auditors

Messrs AF Ferguson & Co. 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 Chemicals Limited (DH), Engro group company employees, annuitants and their relatives. Other Shareholders are 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 Secretary and their spouses including minor children during 2010 is shown on page 45 of this report.

The company's stock is amongst the actively 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:

1. 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.

2. Proper books of accounts of the company have been maintained.

3. 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.

4. 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.

5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There are no significant doubts upon the company's ability to continue as a going concern.

7. There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Board Meetings and Attendance

In 2010, the Board of Directors held 10 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	09/10
Mr. Asad Umar	09/10
Mr. Isar Ahmad	09/10
Mr. Muhammad Aliuddin Ansari	10/10
Mr. Abdul Samad Dawood	09/10
Mr. Shahzada Dawood	10/10
Mr. Shabbir Hashmi	10/10
Mr. Khalid Mansoor	09/10
Mr. Ruhail Mohammed	10/10
Mr. Arshad Nasar	09/10
Mr. Asif Qadir	10/10
Mr. Saad Raja	07/10
Mr. Khalid S. Subhani	09/10

Outlook

Fertilizer

With our new urea expansion coming online, installed urea production capacity allows the country to become self-sufficient in urea, thereby saving significant foreign exchange for the exchequer. However the government has implemented a gas curtailment regime which has significantly reduced the production of all fertilizer plants, including our new plant, which has an iron clad 20 year contract behind it. To counteract this reduction in capacity the company has increased urea price by PKR190 per bag (23%). With the reduced supply there is again a shortage of urea in the country and hence the company does not foresee any issues with selling its entire production.

Foods

The foods business continues to increase its market share in the processed milk and ice cream segments. The company further intends to increase geographical reach for ice cream and strengthen its position in this segment. 2011 will also see the beginning of sales from its own rice processing plant, as well as entering the halal food business in America and Canada through its planned acquisition of 'Al Safa Halal' (subject to regulatory approvals). This will be Engro foods first international venture.

Petrochemicals

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

Powergen

Based on current demand supply situation the Qadirpur power plant is expected to achieve very high dispatch rates. Work will continue on the Thar Coal Mining and Power Project.

With all its major expansion projects complete, Engro plans to list some of its subsidiaries in 2011 including Foods, Fertilizers & Powergen Qadirpur Limited.

Challenges

The gas curtailment regime of the government has seriously impacted the agricultural economy of Pakistan by: (a) increasing the cost of inputs to the farmers(approximately Rs.20 billion /annum on domestic urea production) and (b) costing the national economy by importing more expensive urea and providing subsidy for the same (approximately Rs. 17 billion for 2011).

The food business is expected to face challenges by the proposed value added tax expected in the 2H of 2011. The VAT/GST is likely to impact both volumes and margins in the processed milk segment of the business.

The main challenge facing the polymer business will remain the smooth operation of the VCM plant thereby providing stable margins for the business.

The macro economic situation of the country and more specifically the fiscal deficit will remain a major challenge. Higher interest rates and higher devaluation rates arising due to the fiscal situation will directly affect the profitability of the company.

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

Hussain Dawood
Chairman

Asad Umar
President & CEO

key shareholding and shares traded

Information of shareholding required under reporting framework is as follows:

1. Associated Companies, undertakings & related parties

Dawood Hercules Chemicals Ltd.	124,982,408
Central Insurance Co. Ltd.	11,608,251
Patek (Pvt.) Ltd.	21,676,081

2. NIT and ICP

National Investment Trust	5,418,265
Investment Corporation of Pakistan	15,447

3. Directors, CEO & their spouses & minor children

Hussain Dawood	196,409
Asad Umar	1,478,343
Isar Ahmad	8,108
Muhammad Aliuddin Ansari	3,850
Abdul Samad Dawood	111,930
Shahzada Dawood	540,007
Shabbir Hashmi	27,913
Khalid Mansoor	367,240
Ruhail Mohammed	6,375
Arshad Nasar	210
Asif Qadir	616,958
Saad Raja	110
Khalid S. Subhani	454,945
Mrs. Kulsum Dawood (w/o. Mr. Hussain Dawood)	987,140
Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	24,860

4. Executives	3,487,064
5. Public Sector Companies & Corporations	15,501,846
6. Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	28,830,334

7. Shareholder holding ten percent or more voting interest in the Company

Dawood Hercules Chemicals Ltd.	124,982,408

8. Details of purchase/sale of shares by Directors/Company Secretary/Chief Financial Officer and their spouses/minor children during 2010

Name	Dated	Purchase	Sale	Rate Rs./Share
Isar Ahmad	March 02,2010	737*	-	-
Hussain Dawood	March 02, 2010	17,855*	-	-
Shahzada Dawood	March 2, 2010	63553*		-
	September 14, 2010	-	100,000**	174.72
	September 15, 2010	-	35,000**	176.58
	December 6, 2010	-	9,837***	182.00
	December 6, 2010	-	14,252****	182.00
Shabbir Hashmi	March 2, 2010	2537*	-	-
Khalid Mansoor	March 2, 2010	35,203*	-	-
	March 18, 2010	-	20,000**	184.88
Ruhail Mohammed	February 8, 2010	-	50,000**	206.98
	March 02, 2010	3761*	-	-
	March 11, 2010	-	35000**	184.48
Abdul Samad Dawood	March 02, 2010	4819*	-	-
	December 6, 2010	14252*****	-	182.00
	December 6, 2010	44669******	-	182.00
Arshad Nasar	March 02, 2010	18*	-	-
Muhammad Aliuddin Ansari	March 02, 2010	350*	-	-
Asif Qadir	March 02, 2010	56087*	-	-
Khalid S.Subhani	March 02, 2010	41,358*	-	-
Asad Umar	March 02, 2010	134,394*	-	-
Saad Raja	March 02,2010	10*	-	-
Andalib Alavi	February 17, 2010	-	180,000**	187.07
	March 02, 2010	18,297*	-	-
Mrs. Kulsum Dawood	March 02, 2010	96,200*	-	-
(w/o. Mr. Hussain Dawood)	December 6, 2010	9837*****	-	182.00
	December 23,2010	-	80,899*******	-
Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	March 02, 2010	2260*	-	-

* 10% Bonus shares
** Shares sold on Karachi Stock Exchange
*** Shares sold to Ms.Kulsum Dawood
**** Shares sold to Mr.Abdul Samad Dawood
***** Shares purchased from Mr. Shahzada Dawood
****** Shares purchased from Ms.Sabrina Dawood
******* Shares gifted to Mst. Azmeh Dawood (daughter)

pattern of holding of shares

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

Number of	Shareholding		Total Shares Held	Number of	Shareholding		Total Shares Held
Shareholders	From	To		Shareholders	From	To	
2,501	1	100	105,364	7	100001	105000	713,343
3,256	101	500	879,560	12	105001	110000	1,292,844
1,903	501	1000	1,429,160	15	110001	115000	1,678,466
3,623	1001	5000	8,642,950	4	115001	120000	472,768
1,057	5001	10000	7,607,766	6	120001	125000	738,982
476	10001	15000	5,833,159	6	125001	130000	773,568
249	15001	20000	4,305,906	4	130001	135000	535,917
171	20001	25000	3,865,099	8	135001	140000	1,105,847
95	25001	30000	2,616,800	3	140001	145000	426,573
75	30001	35000	2,415,499	8	145001	150000	1,187,223
62	35001	40000	2,335,476	3	150001	155000	455,100
37	40001	45000	1,580,771	3	155001	160000	473,528
40	45001	50000	1,911,679	1	160001	165000	161,700
28	50001	55000	1,478,815	4	165001	170000	677,588
28	55001	60000	1,614,046	1	170001	175000	175,000
20	60001	65000	1,249,668	4	175001	180000	712,008
22	65001	70000	1,490,218	2	180001	185000	361,608
19	70001	75000	1,375,668	3	185001	190000	560,746
21	75001	80000	1,628,217	2	190001	195000	386,738
12	80001	85000	996,476	3	195001	200000	596,409
11	85001	90000	967,896	2	200001	205000	401,169
3	90001	95000	274,690	1	205001	210000	209,702
14	95001	100000	1,382,335	3	210001	215000	636,894

pattern of holding of shares

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

Number of	Shareholding		Total Shares Held	Number of	Shareholding		Total Shares Held
Shareholders	From	To		Shareholders	From	To	
1	215001	220000	215,600	1	400001	405000	400,428
7	220001	225000	1,555,473	2	405001	410000	813,628
1	225001	230000	225,440	1	410001	415000	412,053
2	230001	235000	466,598	1	450001	455000	454,945
2	235001	240000	475,020	3	455001	460000	1,370,053
2	240001	245000	484,031	1	460001	465000	462,620
2	245001	250000	494,686	1	465001	470000	465,193
3	250001	255000	759,475	1	495001	500000	496,618
1	255001	260000	258,421	1	510001	515000	510,280
3	265001	270000	801,725	2	540001	545000	1,084,674
3	270001	275000	822,732	1	545001	550000	545,227
2	280001	285000	569,718	1	570001	575000	572,701
1	285001	290000	285,109	1	585001	590000	588,851
3	295001	300000	899,213	1	605001	610000	607,779
1	305001	310000	308,000	1	615001	620000	616,958
3	310001	315000	940,699	1	620001	625000	620,300
2	315001	320000	637,746	1	660001	665000	664,277
2	320001	325000	645,300	1	680001	685000	684,921
3	335001	340000	1,012,779	1	720001	725000	723,422
1	340001	345000	344,410	1	775001	780000	776,100
1	355001	360000	357,807	1	805001	810000	808,000
2	365001	370000	733,432	1	815001	820000	818,328
2	395001	400000	796,050	1	830001	835000	830,247

pattern of holding of shares

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

Number of	Shareholding		Total Shares Held
Shareholders	From	To	
1	855001	860000	859,827
1	880001	885000	883,437
1	900001	905000	900,300
1	925001	930000	926,000
1	940001	945000	940,500
1	960001	965000	963,862
1	975001	980000	978,464
1	985001	990000	987,140
1	1035001	1040000	1,036,081
1	1045001	1050000	1,047,524
1	1170001	1175000	1,173,505
1	1235001	1240000	1,235,328
1	1270001	1275000	1,271,400
1	1290001	1295000	1,291,117
1	1355001	1360000	1,359,726
1	1375001	1380000	1,376,233
1	1475001	1480000	1,478,343
1	1660001	1665000	1,661,000
1	1685001	1690000	1,687,478
1	1800001	1805000	1,804,446
1	1820001	1825000	1,823,913
1	1940001	1945000	1,940,640
1	2050001	2055000	2,053,963
1	2075001	2080000	2,077,132
1	2715001	2720000	2,717,662
1	2880001	2885000	2,884,054
1	3545001	3550000	3,547,662
1	3590001	3595000	3,594,372
1	6810001	6815000	6,810,872
1	8690001	8695000	8,690,974
1	9325001	9330000	9,329,169
1	11605001	11610000	11,608,200
1	21675001	21680000	21,676,081
1	124980001	124985000	124,982,408
13,939			327,736,819

category of shareholding

as at december 31, 2010

S.No.	Categories of Shareholders	Number of shareholders	Shares held	Percentage
1	Individuals	13,467	77,433,363	23.63
2	Investment Companies	25	6,260,194	1.91
3	Insurance Companies	15	21,247,883	6.48
4	Joint Stock Companies	160	151,019,764	46.07
5	Financial Institutions	74	40,114,698	12.23
6	Modaraba Companies	54	17,625,884	5.32
7	Cooperative Societies	1	30,243	0.09
8	Securities & Exchange Commission of Pakistan	1	1	-
9	Others	142	14,004,789	4.27
	Total	13,939	327,736,819	100

On behalf of the Board of Directors

Hussain Dawood
Chairman

Asad Umar
President & CEO

shareholder information

Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on Thursday, March 31, 2011 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of March 17, 2011 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 Computerized National Identity Card or passport along with the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

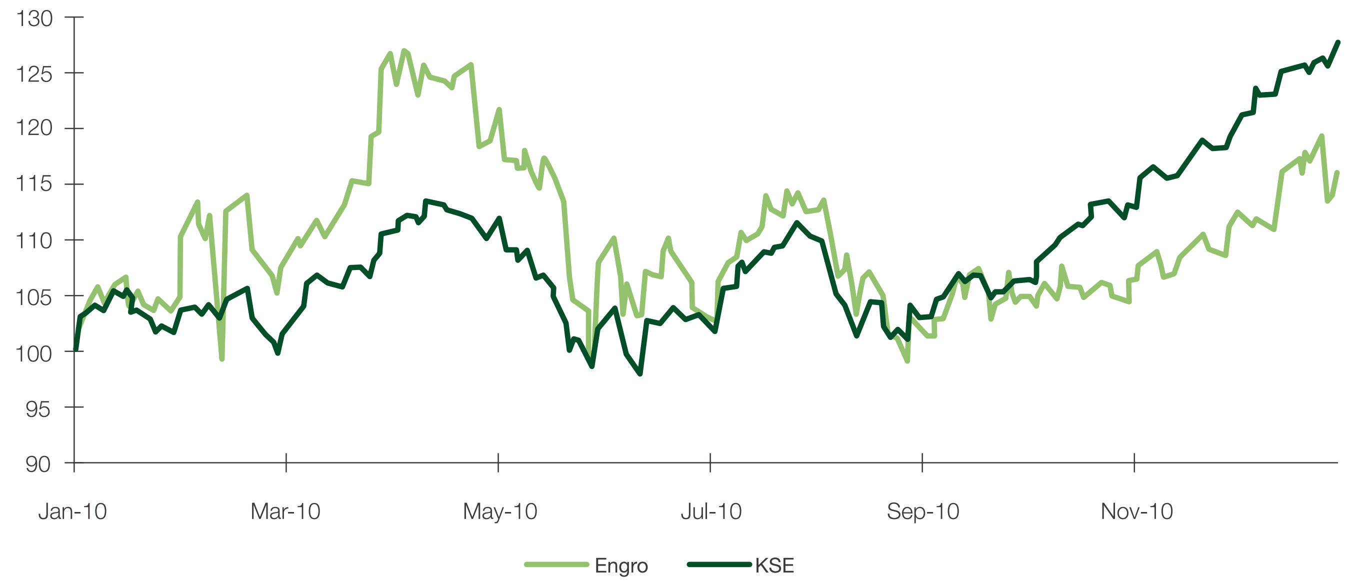
Ownership

On December 31, 2010 there were 13,939 holders on record of the Company's ordinary shares.

Dividend Payment

The proposal of the board of directors for dividend payment, and issue of bonus shares, will be considered at the annual general meeting. Provided the proposal is approved, the dividend warrants will be sent soon thereafter to persons listed in the register of members on March 17, 2011. Income Tax will be deducted in accordance with the current regulations. Shareholders who wish to have the dividends deposited directly in their bank accounts should contact our Registrar's, M/s. FAMCO Associates (Private) Ltd.

ECL Vs KSE 100 (2010)



Quarterly Results

The company issues quarterly financial statements. The planned dates for release of the quarterly results in 2011 are:

1st quarter :	April 28
2nd quarter:	August 12
3rd quarter:	October 28

The company holds quarterly briefings with Security Analysts to discuss the results and the business environment. These sessions are planned to be held on:

1st quarter :	May 2
2nd quarter:	August 15
3rd quarter:	October 31

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

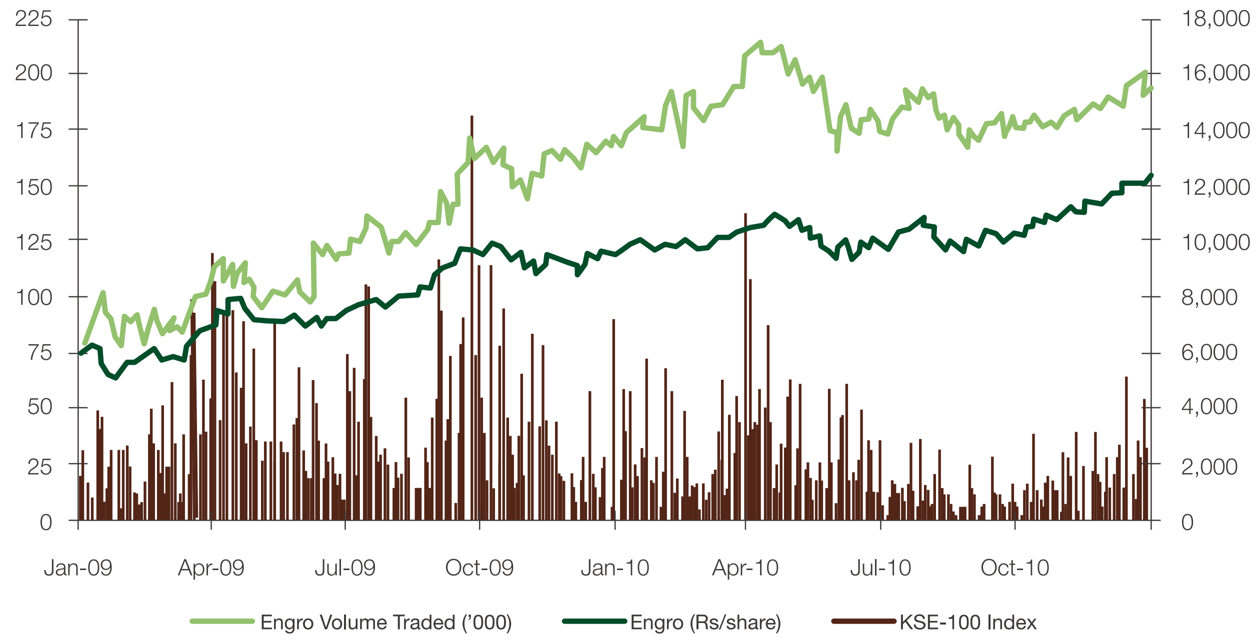
The company reserves the right to change any of the above dates.

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 Prices and Volumes (2010)



Flap open left side

enabling growth.
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Engro Excellence Awards

Engro Corp hosted its first Engro Excellence Awards in January 2011. The Engro Excellence Awards aim at giving Pakistan a platform to present itself as a talented and knowledgeable nation to the world.

The First Engro Excellence Awards recognized contributions of three worthy recipients, from the fields of Social & Humanitarian Services, Literature and Physical & Applied Sciences. Nominees were selected by a jury of five of Pakistan's most esteemed and respected personalities, considered as symbols of excellence and beacons of hope in their relevant fields. Dr. Ishrat Hussain was the Chairman of the jury, assisted by Dr. Iqbal Chowdhry, Dr. Nafis Sadik, Prof. Anita Ghulam Ali and Mr. Iftikhar Arif.

Winners were awarded on the basis of nominations from educated civilians across Pakistan. The winners were Abdul Sattar Edhi for Social & Humanitarian Services, Mushtaq Ahmed Yusufi for Literature and Dr. Atta ur Rehman for Physical & Applied Sciences. Each winner received PKR 5 million in recognition of their contributions towards their respective fields. The Engro Excellence Awards will be an annual event, awarding a host of prestigious civilians across Pakistan.

Flap inside

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enabling excellence.

standalone accounts

statement of compliance with the code of corporate governance

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

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four independent non-executive directors, four non-executive directors and of the remaining five, who are all Executives of the Company, three have been appointed as chief executives of Engro subsidiaries and do not therefore devote their full time to the business of the Company. Due to the diversified nature of the shareholding structure of the Company there is no single majority shareholder as such.

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

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

4. No casual vacancy occured in the Board of Directors during the year

5. A 'Statement of Ethics and Business Practices', has been circulated to all the directors and employees of the Company, which is in the process of being signed.

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

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

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

9. The members of the Board are well aware of their duties and responsibilities as outlined by corporate laws and listing regulations.

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

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

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

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

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

15. The Board has formed an audit committee. It comprises of 4 members all of whom are non-executive directors including the Chairman.

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

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

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

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

20. The Related Party transactions have been placed before the Audit Committee and approved by the Board of Directors alongwith pricing methods for such transactions.

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

Hussain Dawood
Chairman

Asad Umar
President & CEO

Karachi
Dated: February 14, 2011

review report to the members on statement of compliance

with best practices of code of corporate governance

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

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

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

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

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

Chartered Accountants
Karachi
Dated: February 14, 2011

Engagement Partner: Imtiaz A.H. Laliwala

auditors' report to the members on compliance

with employees share option scheme

We have audited the Engro Corporation Limited's compliance as of December 31, 2010 with:

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

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

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

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

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

Chartered Accountants
Karachi
Dated: February 14, 2011.

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, 2010 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) as more fully explained in note 35 to the financial statements, due to a 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 profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(d) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2010 and of the profit, 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
Dated: February 14, 2011

Engagement Partner: Imtiaz A. H. Laliwala

balance sheet

as at december 31, 2010

(Amounts in thousand)

	Note	2010 (notes 1.2 & 1.3)	2009
		-----------(Rupees)-----------	
Assets			
Non-current assets			
Property, plant and equipment	4	136,178	69,517,512
Intangible assets	1.3	-	122,704
Long term investments	5	26,136,701	12,988,657
Deferred employee compensation expense	6	-	2,787
Long term loans and advances	7	1,623,514	328,907
		27,896,393	82,960,567
Current assets			
Stores, spares and loose tools	1.3	-	961,117
Stock-in-trade	1.3	-	422,607
Trade debts	1.3	-	2,514,425
Deferred employee compensation expense	6	-	87,278
Loans, advances, deposits and prepayments	8	139,910	1,469,155
Other receivables	9	197,453	275,714
Derivative financial instruments	1.3	-	76,209
Taxes recoverable	1.3	-	536,167
Short term investments	10	1,970,603	450,857
Cash and bank balances	11	806,584	3,955,342
		3,114,550	10,748,871
Total Assets		31,010,943	93,709,438

(Amounts in thousand)

	Note	2010 (notes 1.2 & 1.3)	2009
		-----------(Rupees)-----------	
Equity & Liabilities			
Equity			
Share capital	12	3,277,369	2,979,426
Share premium		10,550,061	10,550,061
Employee share option compensation reserve	6	74,813	288,258
Hedging reserve	1.4	-	(609,719)
General reserve		4,429,240	4,429,240
Unappropriated profit		8,722,156	9,250,972
		23,776,270	23,908,812
Total equity		27,053,639	26,888,238
Liabilities			
Non-current liabilities			
Borrowings	13	-	58,565,354
Derivative financial instruments	1.3	-	612,842
Deferred liabilities	14	1,297	988,169
Employee housing subsidy	1.3	-	211,785
Retirement and other service benefits obligations	15	1,550	47,581
		2,847	60,425,731
Current liabilities			
Trade and other payables	16	267,044	3,160,852
Accrued interest / mark-up / profit	17	65,000	1,366,022
Current portion of:			
- borrowings	13	3,384,536	810,100
- other service benefits obligations	15	-	20,600
Short term borrowings	1.3	-	195,753
Derivative financial instruments	1.3	-	740,043
Taxation		57,247	-
Unclaimed dividends		180,630	102,099
		3,954,457	6,395,469
Total liabilities		3,957,304	66,821,200
Contingencies and Commitments	18		
Total Equity & Liabilities		31,010,943	93,709,438

The annexed notes from 1 to 38 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

profit and loss account

for the year ended december 31, 2010

(Amounts in thousand except for earnings per share)

	Note	2010 (notes 1.2 & 1.3)	2009
		-----------(Rupees)-----------	
Net Sales		-	30,171,520
Cost of sales		-	(23,240,176)
Gross profit		-	6,931,344
Selling and distribution expenses		-	(1,945,176)
		-	4,986,168
Dividend income	19	1,640,000	1,885,000
Royalty income	20	257,584	-
		1,897,584	1,885,000
Administrative expenses	21	(388,652)	-
		1,508,932	6,871,168
Other operating income	22	433,947	88,467
Other operating expenses	23	(38,773)	(424,110)
		1,904,106	6,535,525
Finance cost	24	(92,131)	(1,320,579)
Profit before taxation		1,811,975	5,214,946
Taxation	25	(136,016)	(1,257,696)
Profit for the year		1,675,959	3,957,250
			Restated
Earnings per share - basic and diluted	26	Rs. 5.11	Rs. 12.73

The annexed notes from 1 to 38 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

statement of comprehensive income

for the year ended december 31, 2010

(Amounts in thousand)

	Note	2010 (notes 1.2 & 1.3)	2009
		-----------(Rupees)-----------	
Profit for the year		1,675,959	3,957,250
Other comprehensive income			
Hedging reserve - cash flow hedges			
Losses arising during the year		-	(226,520)
Adjustment for amounts transferred to initial carrying amount of hedged items (capital work in progress)		-	(907,366)
		-	(1,133,886)
Income tax (Deferred) relating to hedging reserve		-	396,860
Other comprehensive income for the year, net of tax		-	(737,026)
Total comprehensive income for the year		1,675,959	3,220,224

The annexed notes from 1 to 38 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

statement of changes in equity

for the year ended december 31, 2010

(Amounts in thousand)

	Share capital	Share premium	Employees shareoption compensation reserve	Hedging reserve	General reserve	Unappropriated profit	Total
	-----	-----	-----	(Rupees)	-----	-----	-----
Balance as at January 1, 2009	2,128,161	7,152,722	305,052	127,307	4,429,240	6,911,124	21,053,606
Total comprehensive income for the year ended December 31, 2009							
Profit for the year	-	-	-	-	-	3,957,250	3,957,250
Other comprehensive income cash flow hedges, net of tax	-	-	-	(737,026)	-	-	(737,026)
	-	-	-	(737,026)	-	3,957,250	3,220,224
Transactions with owners							
Final dividend for the year ended December 31, 2008 @ Rs. 2 per share	-	-	-	-	-	(425,632)	(425,632)
Interim dividends							
- 1st @ Rs. 2 per share	-	-	-	-	-	(595,885)	(595,885)
- 2nd @ Rs. 2 per share	-	-	-	-	-	(595,885)	(595,885)
Shares issued during the year in the ratio of 4 shares for every 10 shares held @ Rs. 50 per share (including share premium net of share issue cost)	851,265	3,397,339	-	-	-	-	4,248,604
Effect of changes in number of share options	-	-	(16,794)	-	-	-	(16,794)
	851,265	3,397,339	(16,794)	-	-	(1,617,402)	2,614,408
Balance as at December 31, 2009	2,979,426	10,550,061	288,258	(609,719)	4,429,240	9,250,972	26,888,238
Total comprehensive income for the year ended December 31, 2010	-	-	-	-	-	1,675,959	1,675,959
Transactions with owners							
Transfer of Fertilizer Undertaking							
Transfer of hedging reserve to Engro Fertilizers Limited (note 1.4)	-	-	-	609,719	-	-	609,719
Other transactions with owners							
Final dividend for the year ended December 31, 2009 @ Rs. 2 per share	-	-	-	-	-	(595,886)	(595,886)
Interim dividends							
- 1st @ Rs. 2 per share	-	-	-	-	-	(655,473)	(655,473)
- 2nd @ Rs. 2 per share	-	-	-	-	-	(655,473)	(655,473)
Bonus shares issued during the year in the ratio of 1 share for every 10 shares held	297,943	-	-	-	-	(297,943)	-
Effect of changes in number of share options	-	-	(213,445)	-	-	-	(213,445)
	297,943	-	(213,445)	-	-	(2,204,775)	(2,120,277)
	297,943	-	(213,445)	609,719	-	(2,204,775)	(1,510,558)
Balance as at December 31, 2010	3,277,369	10,550,061	74,813	-	4,429,240	8,722,156	27,053,639

The annexed notes from 1 to 38 form an integral part of these financial statements.

statement of cash flows

for the year ended december 31, 2010

(Amounts in thousand)

	Note	2010 (notes 1.2 & 1.3)	2009
		-----------(Rupees)	-----------
Cash Flows From Operating Activities			
Cash generated from operations	29	24,128	8,775,252
Retirement and other service benefits paid		(18,954)	(140,636)
Financial charges		-	(758,947)
Taxes paid		(78,371)	(1,226,858)
Payment to Engro Foods Limited for acquisition of tax losses		-	(450,000)
Long term loans and advances - net		(2,502)	(110,087)
Net cash (utilized in) / generated from operating activities		(75,699)	6,088,724
Cash Flows From Investing Activities			
Purchases of property, plant and equipment (PPE)		(104,063)	(36,352,361)
Sale proceeds on disposal of PPE		4,477	58,366
Deferred income received		-	96,305
Long term investments		(2,408,900)	(1,896,800)
Income on deposits / other financial assets including income earned on subordinated loan to subsidiaries		168,551	14,370
Dividends received		1,662,500	1,862,500
Net cash utilized in investing activities		(677,435)	(36,217,620)
Cash Flows From Financing Activities			
Loan to Engro Fertilizer Limited		(1,500,000)	-
Repayment of long term finances		-	(76,600)
Proceeds from issue of share capital (net)		-	4,248,604
Proceeds from loan from subsidiary		300,000	-
Repayment of loan to subsidiary		(300,000)	-
Payment of financial charges		(17,131)	-
Proceeds from long term finances (net)		3,374,536	31,957,387
Dividends paid		(1,828,300)	(1,833,623)
Net cash (utilized in) / generated from financing activities		29,105	34,295,768
Net (decrease) / increase in cash and cash equivalents		(724,029)	4,166,872
Cash and cash equivalents at beginning of the year, net of transfer amounting to Rs. 709,230 (2009: Nil)		3,501,216	43,574
Cash and cash equivalents at end of the year	30	2,777,187	4,210,446

The annexed notes from 1 to 38 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

notes to the financial statements

for the year ended december 31, 2010

(Amounts in thousand)

1. Legal Status and Operations

1.1 Engro Corporation Limited - the Company (formerly, Engro Chemical Pakistan Limited), 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, consequent to demerger (note 1.2), is to manage investments in subsidiary companies and joint venture, engaged in fertilizers, PVC resin manufacturing and marketing, control and automation, food, energy, exploration and chemical terminal and storage businesses. The Company's registered office is situated at 7th & 8th Floors, The Harbour Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi.

1.2 The Board of Directors in their meeting on April 28, 2009 decided to divide the Company into two companies by separating its fertilizer undertaking from the rest of the undertaking that was to be retained in the Company (Retained Undertaking). In this regard, a wholly owned subsidiary namely Engro Fertilizers Limited was incorporated on June 29, 2009. The division was effected on January 1, 2010 (the Effective Date) through a Scheme of Arrangement (the Scheme) whereby:

a) the Fertilizer Undertaking has been transferred and vested in Engro Fertilizers Limited against the issuance of ordinary shares of Engro Fertilizers Limited to the Company, as summarized in note 1.4; and

b) the retention of the Retained Undertaking in the Company along with the change of name of the Company to Engro Corporation Limited. Engro Corporation Limited henceforth will function as a Holding Company to oversee the business of the new fertilizer subsidiary as well as business of its other existing subsidiaries/associates.

1.3 Bifurcated Balance Sheet as at January 1, 2010

In order to determine the net assets of the Retained Undertaking and the Fertilizer Undertaking for the aforementioned transfer / demerger of the Company, the assets and liabilities of the Company as at January 1, 2010 were bifurcated, as per the Scheme, between the Fertilizer Undertaking and Retained Undertaking. The bifurcated balance sheet as at January 1, 2010, duly audited by the external auditors, is summarised below:

(Amounts in thousand)

	Note	Retained Undertaking	Fertilizer Undertaking	Total
		---------------------(Rupees)		--------------------
Assets				
Property, plant and equipment				
- Operating assets, at net book value	4.1	54,639	6,102,330	6,156,969
- Capital work-in-progress	4.4	-	63,233,217	63,233,217
- Capital spares	4	-	127,326	127,326
		54,639	69,462,873	69,517,512
Intangible assets	2.3	-	122,704	122,704
Long term investments	5	12,988,657	-	12,988,657
Deferred employee compensation expense including current portion:	6.1	90,065	-	90,065
Loans, advances, deposits and prepayments including current portion:				
- Long term loans and advances				
- Executives	7.1	1,838	280,408	282,246
- Other employees	7	-	218,439	218,439
- Subordinated loans to:				
- Avanceon Limited	7	241,318	-	241,318
- Engro Eximp (Private) Limited	8	-	770,000	770,000
- Advances and deposits	8	1,720	176,437	178,157
- Prepayments	8	718	113,000	113,718
Less: Provision for impairment	8	-	(5,816)	(5,816)
		245,594	1,552,468	1,798,062
Stores, spares and loose tools	2.11	-	961,117	961,117
Stock-in-trade	2.12	-	422,607	422,607
Trade debts	2.13	-	2,514,425	2,514,425
Other receivables:	9			
- Receivable from Government of Pakistan		-	76,412	76,412
- Accrued income on deposits / investments		-	5,300	5,300
- Receivable from pension fund		-	31,887	31,887
- Due from subsidiary companies and joint venture		134,103	-	134,103
- Claims on foreign suppliers, net			18,533	18,533
- Others, net		-	9,479	9,479
		134,103	141,611	275,714
Derivative financial instruments		-	76,209	76,209
Taxes recoverable		-	536,167	536,167
Short term investments	10.2	-	450,857	450,857
Cash and bank balances	11.2	3,501,216	454,126	3,955,342
Total Assets		17,014,274	76,695,164	93,709,438

(Amounts in thousand)

	Note	Retained Undertaking	Fertilizer Undertaking	Total
		---------------------(Rupees)-------------------		
Equity				
Share capital	12	2,979,426	-	2,979,426
Share premium		10,550,061	-	10,550,061
Employees' share option compensation reserve	6.2	288,258	-	288,258
Hedging reserve	1.4	-	(609,719)	(609,719)
General reserve		4,429,240	-	4,429,240
Unappropriated profit		9,250,972	-	9,250,972
		24,518,531	(609,719)	23,908,812
Total Equity		27,497,957	(609,719)	26,888,238
Liabilities				
Borrowings including current portion	13	-	59,375,454	59,375,454
Derivative financial instruments including current portion of Rs, 740,043		-	1,352,885	1,352,885
Deferred liabilities:				
- Deferred taxation		899	890,965	891,864
- Deferred income		-	96,305	96,305
		899	987,270	988,169
Employee housing subsidy	2.20	-	211,785	211,785
Retirement and other service benefits obligations including current portion	15	936	67,245	68,181
Trade and other payables	16.2	151,527	3,009,325	3,160,852
Accrued interest / mark-up	17	-	1,366,022	1,366,022
Short term borrowings		-	195,753	195,753
Unclaimed dividends		102,099	-	102,099
		255,461	66,565,739	66,821,200
Adjustment pertaining to transfer of Fertilizer Undertaking (note 1.4)		(10,739,144)	10,739,144	-
Total Equity and Liabilities		17,014,274	76,695,164	93,709,438

(Amounts in thousand)

1.4 Net assets of the Fertilizer Undertaking transferred to Engro Fertilizers Limited

The net assets of the Fertilizer Undertaking transferred to Engro Fertilizers Limited as at January 1, 2010 amounted to Rs. 10,739,144, as summarized below:

	(Rupees)
Total assets (note 1.3)	76,695,164
Less: Total liabilities (note 1.3)	66,565,739
Net assets transferred to Engro Fertilizers Limited	10,129,425
Add: Hedging reserve (negative) - refer note below	609,719
Adjustment pertaining to transfer of Fertilizer Undertaking	10,739,144

Engro Fertilizers Limited in return issued 9,999,993, in addition to existing 7, fully paid ordinary shares of Rs. 10 each plus share premium to the Company against the above net adjustment as follows:

	(Rupees)
Share's par value	100,000
Share premium	10,639,144
	10,739,144

Hedging Reserve

As per the Scheme of Arrangement, the hedging reserve and revaluation surplus/reserves as at January 1, 2010 is to be transferred to Engro Fertilizers Limited, whereas only the revaluation surplus/reserves (hedging reserve omitted) is to be deducted by Engro Fertilizers Limited from the net assets so transferred to determine the share premium amount over and above the Rs. 100,000 share capital. Such omission of hedging reserve created a difference of an equivalent amount in the balance sheet. Therefore, this being an inadvertent omission in the Scheme of Arrangement, the management has also included the hedging reserve (negative) in the determination of share premium to eliminate the aforementioned difference. Further, in the opinion of the Company's management, supported by the legal advisor, the need for amendment to the Scheme of Arrangement in respect of such inclusion of hedging reserve does not arise as it does not in any way adversely affect the interest of the shareholders or creditors.

2. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Further, certain policies may not be applicable to the current year financial statements consequent to demerger of the Fertilizer Undertaking (note 1.2) but have been presented for the purposes of comparative information.

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention, except for remeasurement of certain financial assets and financial liabilities at fair 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 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 of the said directives have been followed.

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher 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 2010 and are relevant to the Company

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

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. Currently, as Company does not have any non-current asset (or disposal group) classified as held for sale or discontinued operations, therefore this amendment has no impact on the Company's financial statements.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. Such amendment has no effect on the Company's financial statements as there is no such liability on Company's balance sheet, which requires settlement by issue of its own equity.

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

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

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

The following new standards, amendments to published standards and interpretations are not mandatory for accounting periods beginning on or after January 1, 2010 and have not been early adopted by the Company.

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

(Amounts in thousand)

- IAS 24 (revised), 'Related party disclosures'. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

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

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

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

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

- IAS 1 (Amendment) 'Presentation of financial statements' (effective for periods beginning on or after January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment will only affect the disclosures in the Company's financial statements.

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

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

2.2 Property, plant and equipment

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 (note 2.25). 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 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Disposal of asset is 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 profit and loss account.

Depreciation is charged to the 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 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.

2.2.2 Leased assets

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

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

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

(Amounts in thousand)

2.3 Intangible assets

a) Computer Software and Licenses

Costs associated with maintaining computer software programmes are recognised 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 recognised 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 recognised as a capital improvement and added to the original cost of the software.

Computer software and license cost treated as intangible assets are amortised from the date the software is put to use on a straight-line basis over a period of 3 to 5 years.

b) 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 Qadirpur gas field at a predetermined price for a period of ten years commencing from the date of commercial production. The rights will be amortised from the date of commercial production on a straight-line basis over the remaining allocation period.

The aforementioned intangible assets have been transferred to the Fertilizer Undertaking, as referred to in note 1.3.

2.4 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.

2.5 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.

2.6 Investments

Investment in subsidiary 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 profit and loss account.

2.7 Financial assets

2.7.1 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 categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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

c) Held to maturity financial assets
Held to maturity financial assets are non derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity.

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

2.7.2 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 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 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 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 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 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 Company's right to receive payments is established.

(Amounts in thousand)

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 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. Impairment testing of trade debts and other receivables is described in note 2.13.

2.8 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 amortised cost using effective interest rate method.

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

2.9 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 realise the asset and settle the liability simultaneously.

2.10 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:

a) Cash flow hedges
Changes in fair value of derivative hedging instruments 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 non-financial asset, the amount recognised in equity is transferred to 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.

b) 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 or loss.

Effective January 1, 2010, derivative financial instruments balance has been transferred to the Fertilizer Undertaking in accordance with the scheme of arrangement (notes 1.3 & 1.4).

2.11 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 Company's requirements, adequate provision is made for any excess book value over estimated realizable value. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

Effective January 1, 2010, stores and spares balance has been transferred to the Fertilizer Undertaking in accordance with the scheme of arrangement (notes 1.3 & 1.4).

2.12 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 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.

Effective January 1, 2010, stock-in-trade balance has been transferred to the Fertilizer Undertaking in accordance with the scheme of arrangement (notes 1.3 & 1.4).

2.13 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 Company 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.

2.14 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 / short term borrowings. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 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.

2.16 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 setlled share based payments is recognised as an employee compensation expense on a stright line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortised 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 profit or loss is reversed with a corresponding reduction to employee share option compensation reserve in the balance sheet.

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

2.17 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 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 libilites if payment is due with in one year or less (or in the normal operating cycle of the business if longer). If not, thay are presented as non-current libilites.

2.19 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.

2.19.1 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.

2.19.2 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 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.

2.20 Employees' housing subsidy scheme

Employee compensation expense under Housing Subsidy Scheme is recognised 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 company before the vesting period and after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortised 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.

Effective January 1, 2010, employees' housing subsidy scheme balance has been transferred to the Fertilizer Undertaking in accordance with the scheme of arrangement (notes 1.3 & 1.4).

2.21 Employee benefits

2.21.1 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 profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.

- 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.

2.21.2 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 28 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

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

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

The Company also operated defined benefit funded gratuity scheme for non-management employees, unfunded scheme for resignation gratuity of certain management employees and defined benefit funded pension schemes for its management employees. Provision is made annually to cover the liability under the schemes. The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme. Actuarial gains on curtailment of defined benefit pension scheme (curtailed) is recognised immediately once the certainty of recovery is established.

Effective January 1, 2010, the Company has only retained defined benefit funded gratuity schemes for its management employees, in accordance with the scheme of arrangement, as referred to in note 1.2.

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

2.21.3 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.

2.22 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.

2.23 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 profit and loss account, 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 capitalised as part of the cost of that asset.

2.24 Revenue recognition

Revenue is recognised to the extent that 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 reduced for marketing allowances. Revenue is recognised on the following basis:

- Sales revenue is recognised when product is dispatched to customers.

- Income on deposits and other financial assets is recognised on accrual basis.

- Royalty income from associated/group companies is recognized on an accrual basis in accordance with the agreement entered therewith.

- Dividend income from investments is recognised when the Company’s right to receive payment has been established.

2.25 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 capitalised 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.

2.26 Research and development costs

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

2.27 Government grant

Government grant that compensates the Company 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 from related expense.

2.28 Earnings per share

The company 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 Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(Amounts in thousand)

2.29 Transactions with related parties

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

2.30 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, joint ventures and associates, the management considers future dividend stream and an estimate of the terminal value of these investments.

3.3 Investments stated at fair value through profit and loss

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

3.4 Income Taxes

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

3.5 Fair value of employee share options

The management has determined the fair value of options issued under the Employee Share Option Scheme at the grant date using Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 6.

3.6 Provision for retirement and other service benefits obligations

The present value of these obligations depend on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligations and the underlying assumptions are disclosed in notes 28.2.3 and 28.2.6 respectively.

4 Property, Plant and Equipment

	2010	2009
	-----------(Rupees)-----------	
Operating assets (note 4.1)	117,083	6,156,969
Capital work in progress (note 4.4)	19,095	63,233,217
Capital spares (note 1.3)	-	127,326
	19,095	63,360,543
	136,178	69,517,512

(Amounts in thousand)

4.1 Operating assets

	Land Freehold	Land Leasehold	Building Freehold	Building Leasehold	Plant and machinery	Catalyst	Furniture fixture and equipments	Vehicles	Total
	--(Rupees)--								
As at January 1, 2009									
Cost	82,149	152,280	603,475	333,002	10,043,804	326,408	471,604	418,579	12,431,301
Accumulated depreciation	-	(42,403)	(289,523)	(56,873)	(5,581,445)	(265,429)	(321,531)	(184,821)	(6,742,025)
Net book value	82,149	109,877	313,952	276,129	4,462,359	60,979	150,073	233,758	5,689,276
Year ended December 31, 2009									
Opening net book value	82,149	109,877	313,952	276,129	4,462,359	60,979	150,073	233,758	5,689,276
Additions including transfers (note 4.4)	48,519	-	443,891	5,218	388,437	103,307	81,422	118,117	1,188,911
Disposals / transfers									
Cost	-	-	(32)	(2,121)	(54,042)	-	(77,403)	(86,606)	(220,204)
			(5,405)	3,348	(986)		3,371	(328)	-
Accumulated depreciation	-	-	32	2,121	44,516	-	76,341	62,432	185,442
			3,982	(2,818)	39		240	(1,443)	-
	-	-	(1,423)	530	(10,473)	-	2,549	(25,945)	(34,762)
Depreciation charge (note 4.2)	-	(3,080)	(39,619)	(8,426)	(476,333)	(36,632)	(56,285)	(66,081)	(686,456)
Net book value	130,668	106,797	716,801	273,451	4,363,990	127,654	177,759	259,849	6,156,969
As at December 31, 2009									
Cost	130,668	152,280	1,041,929	339,447	10,377,213	429,715	478,994	449,762	13,400,008
Accumulated depreciation	-	(45,483)	(325,128)	(65,996)	(6,013,223)	(302,061)	(301,235)	(189,913)	(7,243,039)
Net book value	130,668	106,797	716,801	273,451	4,363,990	127,654	177,759	259,849	6,156,969
As at January 1, 2010									
Retained Undertaking after transfer (note 1.3)									
Cost							2,120	75,705	77,825
Accumulated depreciation							(792)	(22,394)	(23,186)
Net book value							1,328	53,311	54,639
Year ended December 31, 2010									
Opening net book value							1,328	53,311	54,639
Additions including transfers (note 4.4)							57,888	27,080	84,968
Disposals									
Cost							-	(11,437)	(11,437)
Accumulated depreciation							-	7,246	7,246
							-	(4,191)	(4,191)
Depreciation charge (note 4.2)							(2,427)	(15,906)	(18,333)
Net book value							56,789	60,294	117,083
As at December 31, 2010									
Cost							60,008	91,348	151,356
Accumulated depreciation							(3,219)	(31,054)	(34,273)
Net book value							56,789	60,294	117,083
Annual rate of depreciation (%)	-	2 to 5	2.5 to 10	2.5	5 to 10	20 to 33.33	10 to 45	12 to 25	

(Amounts in thousand)

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

	2010	2009
	-----------(Rupees)-----------	
Cost of sales	-	620,792
Selling and distribution expenses	-	38,383
Administrative expenses (note 21)	18,333	-
Capital work in progress (note 4.4)	-	27,281
	18,333	686,456

4.3 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 / separating executives	Inamullah Naveed Khan	1,328	994	334	332
	Shamsuddin Sheikh	2,750	1,848	902	875
	Naveed A. Hashmi	1,859	407	1,452	1,520
	Khalid Mansoor	2,750	1,977	773	875
	Asif Qadir	2,750	2,020	730	875
		11,437	7,246	4,191	4,477

4.4 Capital work-in-progress

	Plant and machinery	Building & civil works	Other ancilliary costs	Furniture, fixture and equipment	Advances to suppliers	Total
	---------------------------------------(Rupees)---------------------------------------					
Year ended December 31, 2009						
Balance as at January 1, 2009	21,199,705	3,390,474	2,359,191	113,677	643,439	27,706,486
Additions during the year	26,552,353	4,545,384	5,616,498	89,841	(225,606)	36,578,470
Transferred to:						
- operating assets (note 4.1)	(388,437)	(449,109)	-	(81,422)	(118,117)	(1,037,085)
- intangible assets	-	-	-	(14,654)	-	(14,654)
Balance as at December 31, 2009	47,363,621	7,486,749	7,975,689	107,442	299,716	63,233,217
Year ended December 31, 2010						
Balance as at January 1, 2010						
Retained Undertaking after transfer (note 4.4.1)				-	-	-
Expenditures incurred during the year				67,631	36,432	104,063
Transferred to operating assets (note 4.1)				(57,888)	(27,080)	(84,968)
Balance as at December 31, 2010				9,743	9,352	19,095

4.4.1 All of capital work-in-progress as at December 31, 2009 related to the Fertilizer Undertaking and as such has been transferred (note 1.3), which substantially pertains to Urea expansion project.

(Amounts in thousand)

5 Long Term Investments

	2010	2009
	-----------(Rupees)-----------	
Subsidiary companies - at cost (note 5.1)	25,681,701	12,533,657
Joint venture company - at cost		
Engro Vopak Terminal Limited		
45,000,000 Ordinary shares of		
Rs. 10 each, equity held 50% (2009: 50%)	450,000	450,000
Others - at cost		
Arabian Sea Country Club Limited		
500,000 Ordinary shares of Rs. 10 each	5,000	5,000
Agrimall (Private) Limited (Note 5.2)	-	-
	26,136,701	12,988,657

(Amounts in thousand)

5.1 Subsidiary companies

	2010		2009	
	Equity % held	Investment at cost (Rupees)	Equity % held	Investment at cost (Rupees)
Quoted				
Engro Polymer & Chemicals Limited				
372,810,000 (2009: 292,400,000)				
Ordinary shares of Rs. 10 each (note 5.1.1)	56.19	3,651,300	56.19	2,847,200
Unquoted				
Engro Fertilizers Limited				
1,072,800,000 (2009: 7)				
Ordinary shares of Rs. 10 each (note 5.1.2)	100	10,739,144	100	-
Engro Eximp (Private) Limited				
48,010,000 (2009: 10,000)				
Ordinary shares of Rs. 10 each	100	480,100	100	100
Advance against issue of share capital		-		480,000
		480,100		480,100
Engro PowerGen Limited				
36,476,000 (2009: 6,010,000)				
Ordinary shares of Rs. 10 each (note 5.1.1)	100	3,106,700	100	60,100
Advance against issue of share capital		-		298,800
		3,106,700		358,900
Engro Foods Limited				
700,000,000 (2009: 542,300,000)				
Ordinary shares of Rs. 10 each (note 5.1.1)	100	7,000,000	100	5,423,000
Engro Management Services (Private) Limited				
250,000 (2009: 250,000)				
Ordinary share of Rs.10 each	100	2,500	100	2,500
Avanceon Limited				
25,066,667 (2009: 25,066,667)				
Ordinary shares of Rs. 10 each	62.67	381,957	62.67	381,957
Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited)				
32,000,000 (2009: 304,000,000)				
Ordinary shares of Rs. 10 each (note 5.1.3)	10	320,000	95	3,040,000
		25,681,701		12,533,657

(Amounts in thousand)

5.1.1 During the year, the Company has subscribed to:
- 80,410,000 right shares of Rs. 10 each at par, issued by Engro Polymer and Chemicals Limited;
- 30,466,000 right shares of Rs. 10 each at a premium of Rs. 90 per share, issued by Engro PowerGen Limited; and
- 157,700,000 right shares of Rs. 10 each at par, issued by Engro Foods Limited.

5.1.2 Engro Fertilizers Limited, in addition to issuance of shares on transfer of Fertilizer Undertaking, as referred to in note 1.4, has issued bonus shares to the Company (i) in the ratio of 2,880 shares for every 100 shares held and (ii) in the ratio of 260 shares for every 100 shares held in the second and fourth quarter respectively.

5.1.3 The Company transferred 272,000,000 ordinary shares of Rs. 10 each (85% holding of share capital) in Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited) to Engro PowerGen Limited a wholly owned subsidiary of the Company, against cash consideration, on account of the Company's overall restructuring of its business to enable all direct subsidiaries to operate as holding companies for their respective lines of business. With regard to the remaining 10% holding, the Company may divest it but no firm decision has been taken as at December 31, 2010.

5.2 This represents the Company's share in the paid-up share capital of the investee transfered free of cost to the Company under a joint venture agrement.

5.3 Value of the above investments, based on the net assets of the investee companies as at December 31 was as follows:

	2010	2009
	--------------(Rupees)--------------	
Engro Polymer & Chemicals Limited	3,925,355	3,593,712
Engro Fertilizers Limited	13,639,592	-
Engro Eximp (Private) Limited [including advance against issue of share capital amounting to Nil (2009: Rs. 480,000)	1,131,703	499,386
Engro Management Services (Private) Limited	2,639	2,663
Engro Foods Limited [including advance against issue of share capital amounting to Nil (2009: Rs. 50,000)]	5,124,360	3,370,148
Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited)	419,309	2,928,318
Engro Vopak Terminal Limited	526,902	512,178
Engro PowerGen (Private) Limited - [including advance against issue of share capital Nil (2009: Rs. 298,800)]	3,866,018	290,857
Avanceon Limited	28,520	58,392
Arabian Sea Country Club Limited (June 30, 2010)	5,569	3,197
Agrimall (Private) Limited (June 30, 2008)	(4,096)	(4,096)

6 Employee Share Option Scheme

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

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

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

Consequent to the demerger, as referred to in note 1.2, the employees transferred to Engro Fertilizers Limited have surrendered their existing share options against which new share options have been granted under a new scheme of Engro Fertilizers Limited.

6.1 Deferred employee compensation expense

	2010	2009
	-----------(Rupees)-----------	
Balance at January 1	90,065	189,291
Options lapsed due to employee resignation	-	(16,794)
Options surrendered by employees transferred to Engro Fertilizers Limited	(67,811)	-
Amortisation for the year	(22,254)	(82,432)
Balance at December 31	-	90,065
Current portion shown under current assets	-	(87,278)
Long term portion of deferred employee compensation expense	-	2,787

6.2 Employee share option compensation reserve

	2010	2009
Balance at January 1	288,258	305,052
Options lapsed due to employee resignation	-	(16,794)
Options surrendered by employees transferred to Engro Fertilizers Limited	(213,445)	-
Balance at December 31	74,813	288,258

(Amounts in thousand)

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

	2010	2009
	-----------(Rupees)-----------	
Balance at January 1	4,376,818	4,631,818
Options lapsed due to employee resignation	-	(255,000)
Options surrendered by employees transferred to Engro Fertilizers Limited	(3,240,909)	-
Balance at December 31 (note 6.3.1)	1,135,909	4,376,818

6.3.1 The above mentioned share options do not include the effect of bonus and right shares which make the total number of share options outstanding at end of the year to 1,924,230.

6.4 Further, consequent to the bonus issue in the current year, the entitlements were increased to 1,924,230 shares from 1,749,300 shares (adjusted with the effect of forfeiture) respectively and the exercise price was adjusted to Rs. 186.84 from Rs. 205.52 respectively. These changes have been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the financial statements.

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

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

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

Name of employee	No. of share options
Asad Umar	770,000
Ruhail Muhammed	462,000
Andalib Alavi	308,000
Tahir Jawaid	308,000

6.6.1 Above mentioned shares include the impact of bonus and right shares.

(Amounts in thousand)

7 Long Term Loans and Advances - Considered good

	2010	2009
	-----------(Rupees)-----------	
Long term loans and advances to:		
- Excecutives (note 7.1)	4,340	282,246
- Other employees (note 1.3)	-	218,439
	4,340	500,685
Less: Current portion shown under current assets (note 8)	1,485	413,096
	2,855	87,589
Sub-ordinated loan to subsidiaries - unsecured:		
- Engro Fertilizers Limited (note 7.2)	1,500,000	-
- Avanceon Limited (note 7.3)	241,318	241,318
- Current portion shown under current assets (note 8)	(120,659)	-
	120,659	241,318
	1,623,514	328,907

7.1 Reconciliation of the carrying amount

of loans and advances to executive		
Balance as at January 1	282,246	137,836
Transferred to the Fertilizer Undertaking (note 1.3)	(280,408)	-
	1,838	137,836
Disbursements	4,728	206,282
Repayments/amortization	(2,226)	(61,872)
Balance as at December 31	4,340	282,246

7.2 The loan carries mark-up based on a margin of 1% over and above mark-up payable by the Company for rupee finances of like maturities, such mark-up being payable on a semi-annual basis. The loan is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable in one lump sum payment due on September 15, 2015.

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

(Amounts in thousand)

8 Loans, Advances, Deposits and Prepayments

	2010	2009
	-----------(Rupees)-----------	
Current portion of long term loans and advances to executives and other employees - considered good (note 7)	1,485	413,096
Current portion of sub-ordinated loan to Avanceon Limited, a subsidiary company (note 7)	120,659	-
Sub-ordinated loan to Engro Eximp (Private) Limited, a wholly owned subsidiary (note 1.3)	-	770,000
Advances and deposits (note 1.3)	-	178,157
Prepayments (note 1.3)	17,766	113,718
	139,910	1,474,971
Less: Provision for impairment	-	(5,816)
	139,910	1,469,155

9 Other Receivables

	2010	2009
	-----------(Rupees)-----------	
Receivable from Government of Pakistan against sales tax and others (note 1.3)	-	76,412
Accrued income on deposits / investments	4,555	5,300
Receivable from pension fund (note 1.3)	-	31,887
Due from:		
Subsidiary companies		
- Engro Eximp (Private) Limited	86	4,466
- Engro Foods Limited	1,390	1,062
- Engro Polymer & Chemicals Limited	902	3,220
- Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited)	485	270
- Avanceon Limited	44,615	10,392
- Engro Fertilizers Limited	54,062	519
- Engro PowerGen Limited	196	2,072
- Engro Foods Supply Chain Limited	227	-
Joint Venture		
- Engro Vopak Terminal Limited, net (note 9.1)	90,185	112,102
	192,148	134,103
Claims on foreign suppliers, net of provision for impairment of Rs. 295 (note 1.3)	-	18,533
Others, net of provision for impairment of Rs. 144 (note 1.3)	750	9,479
	197,453	275,714

(Amounts in thousand)

9.1 This mainly includes dividend receivable amounting Rs. 90,000 (2009: Rs. 112,102).

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

	2010	2009
	-----------(Rupees)-----------	
Subsidiary companies		
- Engro Eximp (Private) Limited	3,268	66,012
- Engro Foods Limited	18,950	22,045
- Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited)	4,034	6,809
- Engro Polymer & Chemicals Limited	13,183	11,621
- Avanceon Limited	44,615	13,899
- Engro PowerGen Limited	1,432	2,073
- Engro Management Services (Private) Limited	2,138	3
- Engro Fertilizers Limited	64,863	519
Joint venture		
- Engro Vopak Terminal Limited	180,551	135,509

9.3 As at December 31, 2010, receivables aggregating to Rs. 31,415 (2009: Rs. 59,061) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2010	2009
	-----------(Rupees)-----------	
Upto 3 months	9,974	9,953
3 to 6 months	9,915	-
More than 6 months	11,526	49,108
	31,415	59,061

10 Short Term Investments

	2010	2009
	-----------(Rupees)-----------	
Financial assets at fair value through profit or loss:		
- Fixed income placements	-	75,795
- Mutual fund securities (note 10.1)	1,970,603	375,062
	1,970,603	450,857

10.1 These represents investments in various money market funds which are valued at their respective net assets value at balance sheet date.

10.2 The corresponding amount of short term investments aggregating to Rs. 450,857 were transferred to the Fertilizer Undertaking (note 1.3)

(Amounts in thousand)

11 Cash and Bank Balances

	2010	2009
	-----------(Rupees)-----------	
Cash at banks on:		
- deposit accounts (note 11.1)	739,982	3,491,666
- current accounts	66,552	458,826
	806,534	3,950,492
Cash in hand	50	4,850
	806,584	3,955,342

11.1 These carry return ranging from 10% to 12.5% (2009: 10% to 11%).

11.2 The corresponding amount of cash and bank balances include Rs. 454,126 transferred to the Fertilizer Undertaking (note 1.3).

12 Share Capital

12.1 Authorised Capital

2010	2009		2010	2009
---------(No. of Shares)---------			---------(Rupees)---------	
350,000,000	350,000,000	Ordinary Shares of Rs. 10 each	3,500,000	3,500,000

Issued, subscribed and paid-up capital

2010	2009		2010	2009
---------(No. of Shares)---------			---------(Rupees)---------	
185,354,484	185,354,484	Ordinary shares of Rs. 10 each fully paid in cash	1,853,545	1,853,545
142,382,335	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	1,423,824	1,125,881
327,736,819	297,942,563		3,277,369	2,979,426

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

2010	2009		2010	2009
-------(No. of Shares)-----			---------(Rupees)---------	
297,942,563	212,816,117	As at January 1	2,979,426	2,128,161
-	85,126,446	Ordinary shares of Rs. 10 each issued during the year as fully paid right shares	-	851,265
29,794,256	-	Ordinary shares of Rs. 10 each issued during the period as fully paid bonus shares (note 12.3)	297,943	-
327,736,819	297,942,563		3,277,369	2,979,426

12.3 During the year, the Company issued bonus shares in the ratio of 1 share for every 10 shares held.

12.4 Associated companies held 158,516,740 (2009: 144,390,600) ordinary shares in the Company at year end.

(Amounts in thousand)

13. Borrowings

	2010	2009
	-----------(Rupees)-----------	
Long term finance utilised under mark-up arrangements	-	44,504,057
Term Finance Certificates	-	14,871,397
Transferred to the Fertilizer Undertaking (note 1.3)	-	59,375,454
Term Finance Certificates (note 13.1)	3,384,536	-
Less: Current portion shown under current liabilities	3,384,536	810,100
	-	58,565,354

13.1 Represents subscription money received (net of transaction cost of Rs. 178,319) from the general public against the issuance of Engro Rupiya Certificates (the Certificates). The Certificates are available by January 14, 2011 on first come first serve basis or earlier if the issue amount of Rs. 4,000,000 is reached. 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 structured to redeem 0.1% of principal in five equal semi-annual installments in the first thirty months and the remaining 99.9% principal in thirty sixth 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.

These Certificate are secured by way of first ranking floating charge over all the present and future movable properties of the Company except for present and future trade mark, copy rights and certain investment in subsidiary companies.

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

14. Deferred Liabilities

	2010	2009
	-----------(Rupees)-----------	
Deferred taxation (note 1.3 & 14.1)	1,297	891,864
Deferred income (note 1.3)	-	96,305
	1,297	988,169

14.1 Deferred taxation

	2010	2009
Credit / (debit) balances arising on account of:		
- accelerated depreciation allowance	1,822	1,257,152
- fair values of hedging instruments	-	(328,310)
- provision for:		
- retirement benefits	(525)	(23,863)
- inventories, slow moving stores and spares and doubtful receivables	-	(20,526)
- others	-	7,411
	1,297	891,864

(Amounts in thousand)

15 Retirement and Other Service Benefits Obligations

	2010	2009
	-----------(Rupees)-----------	
Defined benefits gratuity plan (note 15.1)	1,550	68,181
Less: Current portion shown under current liabilities	-	(20,600)
	1,550	47,581

15.1 The corresponding amount include Rs. 67,245, transferred to the Fertilizer Undertaking (note 1.3).

16 Trade and Other Payables

	2010	2009
Creditors	5,678	593,372
Accrued liabilities (note 16.1)	205,306	1,116,378
Advances from customers	-	1,099,390
Advances from subsidiary companies	12,892	-
Deposits from dealers refundable on termination of dealership	-	11,073
Contractors' deposits and retentions	3,574	60,022
Workers' profits participation fund	-	2,386
Workers' welfare fund (note 23)	36,979	106,428
Sales tax payable	-	2,135
Others	2,615	169,668
	267,044	3,160,852

16.1 Accrued liabilities

	2010	2009
Salaries, wages and other employee benefits	77,411	262,276
Vacation accruals	8,366	93,427
Freight accruals	-	54,302
Advertisement	45,996	-
Commission	50,000	-
Consultancy services	2,228	-
Others	21,305	706,373
	205,306	1,116,378

16.2 The corresponding amount of trade and other payables include Rs. 3,009,325 transferred to the Fertilizer Undertaking (note 1.3).

17 Accrued Interest/Mark-Up / Profit

	2010	2009
Accrued interest/mark-up on:		
- long term borrowings	-	1,355,503
- short term borrowings	-	10,519
Transferred to the Fertilizer Undertaking (note 1.3)	-	1,366,022
Accrued profit (note 17.1)	65,000	-
	65,000	1,366,022

17.1 Represents profit accrued in respect of subscription money received against Engro Rupiya Certificate (note 13.1)

(Amounts in thousand)

18. Contingencies and Commitments

	2010	2009
	-----------(Rupees)-----------	
18.1 Corporate Guarantees issued in favour of Subsidiary Companies:		
- Engro Fertilizers Limited (note 18.2)	65,642,000	-
- Engro Powergen Qadirpur Limited (note 18.3)	857,000	-
- Avanceon Limited	242,000	221,000
- Engro PowerGen Limited	-	53,000

18.2 The Company in addition to above has also issued a Corporate Guarantee to International Finance Corporation (IFC) for USD 80,000 under the Amended Agreement entered into by the Subsidiary Company with IFC. As at December 31, 2010, USD 50,000 has been availed while USD 30,000 is still undisbursed. 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 (Rs.186.84 as at December 31, 2010) 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 entered during the year 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.

18.3 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.

18.4 The Company has extended project completion support to the lenders of the Engro Powergen Qadirpur Limited for USD 15,400 (2009: USD 15,400) and a further support to the lenders of Engro Polymer and Chemicals Limited for Nil (2009: USD 12,200). These project supports are contingent upon occurrence or non-occurrence of specified future events.

19. Dividend Income

Subsidiary Company		
- Engro Eximp (Private) Limited	1,100,000	1,435,000
Joint Venture		
- Engro Vopak Terminal Limited	540,000	450,000
	1,640,000	1,885,000

(Amounts in thousand)

20 Royalty Income

The Company has granted Engro Fertilizers Limited, a Subsidiary Company (note 1.2), the right to use trade marks and copy rights for marketing of fertilizer products under a licensing agreement effective January 1, 2010.

21 Administration Expenses

	2010
	(Rupees)
Salaries, wages and staff welfare (note 21.1)	167,934
Staff recruitment, training, safety and other expenses	8,092
Repairs and maintenance	7,836
Advertising, sales promotion and corporate branding	70,405
Rent, rates and taxes	19,149
Communication, stationery and other office expenses	8,496
Travel	13,954
Depreciation (note 4.2)	18,333
Legal and professional charges	3,495
Donations	39,175
Other expenses (note 21.2)	31,783
	388,652

21.1 Salaries, wages and staff welfare includes Rs. 19,213 in respect of staff retirement benefits.

21.2 Includes Rs.14,450 in respect of directors' fees.

22 Other Operating Income

	2010	2009
	-----------(Rupees)-----------	
Financial assets:		
Income on deposits/other financial assets (note 22.1)	308,612	19,670
Non financial assets:		
Service charges	6,397	25,255
Employees share option compensation expense written back	101,224	-
Gain on disposal of property, plant and equipment	286	5,700
Defined benefit pension plan expense written back	-	23,604
Others	17,428	14,238
	433,947	88,467

22.1 Include Rs. 94,612 in respect of profit earned on subordinated loan to subsidiary companies.

(Amounts in thousand)

23. Other Operating Expenses

	2010	2009
	-----------(Rupees)-----------	
Workers' profits participation fund	-	280,072
Workers' welfare fund (note 16)	36,979	106,428
Research and development (including salaries and wages)	-	16,081
Net foreign exchange loss on bank accounts	-	13,282
Auditors' remuneration (note 23.1)	1,587	7,545
Professional tax	207	213
Others	-	489
	38,773	424,110

23.1 Auditors' remuneration

Fee for the		
- audit of annual financial statements	150	1,350
- review of half yearly financial statements	75	300
Certifications, audit of retirement funds and other advisory services	1,279	4,435
Tax services	-	1,200
Reimbursement of expenses	83	260
	1,587	7,545

24 Finance Cost

Interest/mark-up on		
- long term borrowings	75,000	870,103
- short term borrowings	7,118	450,476
Other financial charges	10,013	-
	92,131	1,320,579

25 Taxation

Current		
- for the year	135,618	1,135,050
- for prior years	-	170,242
	135,618	1,305,292
Deferred		
- for the year	398	132,187
- for prior years	-	(179,783)
	398	(47,596)
	136,016	1,257,696

(Amounts in thousand)

25.1 Relationship between tax expense and accounting profit

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

	2010	2009
	-----------(Rupees)-----------	
Profit before tax	1,811,975	5,214,946
Tax calculated at the rate of 35%	634,191	1,825,231
Depreciation on exempt assets not deductible for tax purposes	-	34,495
Effect of exemption from tax on certain income	(320,527)	(509,135)
Effect of applicability of lower tax rate and other tax credits / debits	(177,648)	(92,895)
Tax charge for the year	136,016	1,257,696

26 Earnings Per Share

There is no dilutive effect on the basic earnings per share of the Company, after taking into the effect of options granted on Company's shares to (i) employees under the Employee Share Option Scheme (based on average annual market share price of 2010) and (ii) IFC referred to in note 18.2.

	-----------(Rupees)-----------	
Profit after taxation	1,675,959	3,957,250
	-----------(Numbers)-----------	
		(Restated)
Weighted average number of ordinary shares (in thousand)	327,737	309,231

27 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:

	2010			2009		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	----------(Rupees)----------					
Managerial remuneration	42,194	18,615	83,306	39,640	37,066	847,737
Retirement benefits funds	4,788	2,236	11,596	3,929	4,154	116,932
Other benefits	11,630	6,764	13,276	10,147	15,413	182,314
Fees	-	14,450	-	-	7,708	-
Total	58,612	42,065	108,178	53,716	64,341	1,146,983
Number of persons including those who worked part of the year	1	12	44	1	13	415

(Amounts in thousand)

27.1 The Company also makes contributions based on actuarial calculations to pension and 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.

27.2 Premium charged in the financial statements in respect of directors indemnity insurance policy, purchased by the Company during the year, amounted to Rs.791.

28 Retirement Benefits

28.1 As per the Scheme and upon transfer of Fertilizer Undertaking, as referred to in note 1.3, except for MPT Employees Gratuity Fund, all other funds (the funds maintained under defined benefit pension plan and defined benefit gratuity plan) have been transferred to the Fertilizer Undertaking. Accordingly, the balances receivable from/payable to the aforementioned funds, to the extent of employees of the Fertilizer Undertaking, have also been transferred.

28.2 Defined benefit plans

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2010, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

28.2.1 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2010	2009	2010	2009
	(Rupees)			
Present value of funded obligation	115,956	310,479	-	28,703
Fair value of plan assets	(125,199)	(346,583)	-	(62,645)
Surplus	(9,243)	(36,104)	-	(33,942)
Unrecognised actuarial gain	15,986	28,873	-	2,055
Payable to associated companies	(8,421)	-	-	-
Unrecognised past service cost	1,678	7,231	-	-
Net (asset)/liability at end of the year	-	-	-	(31,887)

28.2.2 Movement in net (asset)/liability recognised

Net (asset)/liability at beginning of the year	-	-	-	(31,187)
(Reversal)/expense recognised	1,762	11,334	-	(5,700)
Amounts received from/(paid to) the Fund	(1,762)	(11,334)	-	5,000
Net (asset)/liability at end of the year	-	-	-	(31,887)

28.2.3 Movement in defined benefit obligation

As at beginning of the year	68,020	267,158	-	29,311
Current service cost	3,449	17,345	-	-
Interest cost	8,309	39,540	-	4,172
Benefits paid during the year	-	(4,755)	-	(2,501)
Actuarial (gain)/loss on obligation	27,757	540	-	(2,279)
Unrecognised past service cost	-	(10,198)	-	-
Liability transferred in respect of inter-company transfer	8,421	849	-	-
As at end of the year	115,956	310,479	-	28,703

(Amounts in thousand)

28.2.4 Movement in fair value of plan assets

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2010	2009	2010	2009
	(Rupees)			
As at beginning of the year	81,520	291,946	-	67,276
Expected return on plan assets	9,579	41,882	-	9,866
(Repayment to) / Contribution by the Company	1,762	11,334	-	(5,000)
Benefits paid during the year	-	(4,755)	-	(2,501)
Actuarial gain/ (loss) on plan assets	32,338	5,327	-	(6,996)
Liability transferred in respect of inter-company transfer	-	849	-	-
As at end of the year	125,199	346,583	-	62,645

28.2.5 Charge for the year

Current service cost	3,449	17,345	-	-
Interest cost	8,309	39,540	-	4,172
Expected return on plan assets	(9,579)	(41,882)	-	(9,866)
Recognition of curtailment gain	-	-	-	-
Amortisation of unrecognized past service cost	(129)	(64)	-	-
Amortisation of transitional obligation	-	(439)	-	-
Recognition of past service cost	-	(2,464)	-	-
Net actuarial (gain)/loss recognised during the year	(288)	(702)	-	(6)
	1,762	11,334	-	(5,700)

28.2.6 Principal actuarial assumptions used in the actuarial valuation

	2010	2009	2010	2009
	%			
Discount rate	14.5	12	-	12
Expected per annum rate of return on plan assets	14.5	12	-	12
Expected per annum rate of increase in pension	-	-	-	4.5
Expected per annum rate of increase in future salaries	14.5	12	-	-

28.2.7 Actual return on plan assets

	(Rupees)			
	41,917	47,209	-	2,870

(Amounts in thousand)

	2010		2009	
	Rupees	%	Rupees	%
28.2.8 Plan assets comprise of the following				
Fixed income instruments	98,462	79%	269,802	66%
Cash	5,890	5%	23,493	6%
Others	20,847	17%	115,933	28%
	125,199		409,228	

28.2.9 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.

28.2.10 Comparison of five years

	2010	2009	2008	2007	2006
	-----	-----	(Rupees)	-----	-----
Present value of defined benefit obligation	(115,956)	(339,182)	(296,469)	(587,655)	(536,209)
Fair value of plan assets	125,199	409,228	359,222	683,808	722,867
Surplus / (Deficit)	9,243	70,046	62,753	96,153	186,658

28.2.11 Expected future cost for the year ending December 31, 2011 in respect of the retained MPT Gratuity fund on demerger amounts to Rs.6,000.

28.3 Defined contribution plans

An amount of Rs. 7,956 (2009: Rs. 121,044) has been charged during the year in respect of defined contribution plans maintained by the Company.

29 Cash Generated From Operations

	2010	2009
	-----(Rupees)	-----
Profit before taxation	1,811,975	5,214,946
Adjustment for non-cash charges and other items:		
Depreciation / amortization	18,333	672,522
Gain on disposal of property, plant and equipment	(286)	(23,604)
Provision for retirement and other service benefits	20,455	146,218
Income on deposits / other financial assets	(308,612)	(19,670)
Dividend income	(1,640,000)	(1,885,000)
Financial charges	92,131	1,320,579
Employee share compensation expense - net	(78,970)	65,174
Employee housing subsidy expense	-	106,985
Provision for surplus and slow moving stores and spares	-	14,605
Provision for doubtful trades	-	814
Provision for other receivables	-	(1,374)
Provision for loans, advances, and prepayments	-	1,295
Working capital changes (note 29.1)	109,102	3,161,762
	24,128	8,775,252

(Amounts in thousand)

	2010	2009
	-----(Rupees)	-----
29.1 Working capital changes		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	-	(175,631)
- Stock-in-trade	-	4,258,289
- Trade debts	-	(2,253,731)
- Loans, advances, deposits and prepayments	(15,563)	428,674
- Other receivables (net)	8,435	208,583
	(7,128)	2,466,184
Increase / (decrease) in current liabilities		
- Trade and other payables including other service benefits (net)	116,230	695,578
	109,102	3,161,762

30 Cash and Cash Equivalents

	2010	2009
Cash and bank balances	806,584	3,955,342
Short term investments	1,970,603	450,857
Short term borrowings	-	(195,753)
	2,777,187	4,210,446

31 Financial Instruments by Category

	2010	2009
Financial assets as per balance sheet		
- Loans and receivables		
Long term loans	1,620,659	305,139
Trade debts	-	2,514,425
Loans and deposits	120,659	1,339,035
Other receivables	197,453	167,415
Cash and bank balances	806,584	3,955,342
	2,745,355	8,281,356
- Fair value through profit and loss		
Short term investments	1,970,603	450,857
- Derivatives used for hedging		
Derivatives	-	76,209
Financial liabilities as per balance sheet		
- Financial liabilities measured at amortised cost		
Borrowings	-	59,571,207
Trade and other payable	217,173	1,680,932
Accrued interest / mark-up	65,000	1,366,022
Unclaimed dividends	180,630	102,099
	462,803	62,720,260
- Fair value through profit and loss		
Conversion option on IFC loan	-	338,647
- Derivatives used for hedging		
Derivatives	-	1,014,238

(Amounts in thousand)

32 Financial Risk Management

32.1 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 105,400 (2009: USD 27,600). The devaluation/revaluation of currency will only impact contingent liabilities and the impact on post tax profit for the year is negligible.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to cash flow interest rate risk on its subordinated loan to Avanceon Limited (the loan). At December 31, 2010, if interest rate had been 1% higher / lower with all other variable held constant post tax profit for the year would have been higher / lower by Rs. 1,448 (2009: Rs. 1,033) mainly as a result of higher / lower interest exposure on the loan.

iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Company is not exposed to equity securities price risk as all of its investments are in subsidiary companies which are stated at cost. Further, the Company's investments in money market mutual funds are exposed to price risk due to changes in NAV of mutual funds.

As December 31, 2010, if fair value (NAV) had been 1% higher/lower with all other variables held constant post tax profit for the year would have been higher / lower by Rs. 17,735 (2009: Rs.3,376).

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:

	2010	2009
	-----------(Rupees)-----------	
Long term loans	1,620,659	305,139
Trade debts	-	2,381,684
Loans and deposits	120,659	1,339,035
Other receivables	197,453	108,354
Short term investments	1,970,603	450,857
Bank balances	806,534	3,950,492
	4,715,908	8,535,561

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

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

c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

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

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

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

(Amounts in thousand)

	2010			2009		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	---(Rupees)---					
Financial liabilities						
Derivatives	-	-	-	740,043	612,842	1,352,885
Trade and other payables	217,173	-	217,173	1,680,932	-	1,680,932
Accrued interest / mark-up	65,000	-	65,000	1,366,022	-	1,366,022
Borrowings	3,384,536	-	3,384,536	1,005,853	58,565,354	59,571,207
Unclaimed dividends	180,630	-	180,630	102,099	-	102,099
	3,847,339	-	3,847,339	4,894,949	59,178,196	64,073,145

32.2 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:

	2010	2009
	-----------(Rupees)-----------	
Total Borrowings	3,384,536	59,375,454
Total Equity	27,053,639	26,888,238
	30,438,175	86,263,692
Total borrowings to equity ratio	11%	69%

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 minimise risk.

32.3 Fair value of financial assets and liabilities

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

(Amounts in thousand)

33 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:

	2010	2009
	-----------(Rupees)-----------	
Subsidiary companies		
Purchases and services	-	10,614,781
Sales	-	734
Services rendered	149,053	186,267
Mark up from subsidiaries	94,612	-
Disbursement of loan	1,500,000	-
Mark up paid to subsidiaries	7,116	-
Rent	-	17,646
Repayment of loan	300,000	-
Royalty Income	257,584	-
Associated companies		
Purchases and services	4,271	1,236,921
Dividend paid	574,111	751,280
Payment of interest on TFCs and repayment of principal amount	-	7,051
Right shares issued (including share premium)	-	1,777,152
Donations	38,750	-
Investment in Mutual Funds	1,332,000	699,250
Redemption of investment in Mutual Funds	945,490	611,025
Joint ventures		
Services rendered	1,504	2,215
Others		
Dividend paid	19,446	50,195
Remuneration of key management personnel	102,726	153,441
Right shares issued (including share premium)	-	314,732

(Amounts in thousand)

34 Donations

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

	Interest in Donee	Name and address of Donee	2010	2009
			-----------(Rupees)-----------	
Mr. Asad Umar, Mr. Khalid Mansoor and Mr. Khalid S. Subhani	Chairman Trustees	Engro Foundation	38,600	-
Mr. Hussain Dawood	Director	Pakistan Centre for Philanthropy	-	850
Mr. Hussain Dawood and Mr. Asad Umar	Chairman Director	Karachi Education Initiative	150	13,000
Mr. Asad Umar and Mr. Shahzada Dawood	Members	Lahore University of Management Sciences, Lahore	-	300
			38,750	14,150

35 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.

36 Non-adjusting Event After Balance Sheet Date

The Board of Directors in its meeting held on February 14, 2011 has proposed the following for approval of the members at the Annual General Meeting to be held on March 31, 2011:

- an increase the authorised share capital of the company from Rs. 3,500,000 to Rs. 4,500,000:
- a final cash dividend of Rs. 2.00 per share (2009: Rs. 2.00 per share final cash dividend)
- a bonus issue in the ratio of 1 share for every 5 shares held i.e. 20% bonus (2009: 1 share for every 10 shares held i.e. 10% bonus): and
- an investment for Rs. 562,000 in Engro Polymer & Chemicals Limited by way of subscription of right shares.

The financial statements do not include the effect in respect of the above, which will be accounted for in the finanical statements for the year ending December 31, 2011.

37 Date of Authorisation for Issue

These financial statements were authorised for issue on February 14, 2011 by the Board of Directors of the Company.

38 Corresponding Figures

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

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Engro Flood Relief & Rehab Efforts

Following the floods of 2010, Engro and its team of volunteers worked round the clock to support displaced residents of the hardest hit areas, providing rations, shelter and medical aid. Over the course of the flood relief effort, Engro distributed over 2.5 million meals, 418,556 liters of milk, 16,300 liters of water, as well as providing medical treatment to nearly 5,000 people and over 100,000 animals.

This in addition to providing other necessities such as hand pumps, hygiene kits, shelter tents and latrines, as well as the essential shoulder of comfort through an army of volunteers galvanized by our employees. Engro also provided support to the district administration of Ghotki to coordinate relief efforts. These efforts also included partnering with UNICEF to help nutrition centres at the Civil Hospitals in Thatta and Dadu.

Once the flood waters subsided, Engro embarked on a rehabilitation drive for the revival of lives and livelihoods, by rebuilding communities through a model village program, and simultaneously rehabilitating the local economy by providing medical and nutritional care for livestock.

• Engro relief efforts

Meals
2,547,361

Livestock Healthcare
101,847

Liquid Milk (Litres Equivalent)
448,556

Hand Pumps & Community Latrines
100

Patients Treated
4,829

Shelter Tent
3,850

Water (Litres)
16,300

Fodder Support
10,000

Hygiene Kits
3,600

• Engro rehab efforts

Khushaal Livestock Program

FMD Vaccination
9,133 (households)

Oat Seed and Fertilizer
2,500 (households)

FMD Vaccination
52,171 (animals)

Mineral Mixture packages
4,084 (households)

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consolidated accounts

- Auditors' Report to the Members
- Financial Statements

auditors' report to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Corporation Limited (formerly, Engro Chemicals Pakistan Limited, the Holding Company) and its subsidiary companies (the Group) as at December 31, 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company and its subsidiary companies except for Avanceon FZE (UAE), Avanceon LP (USA) and Engro Innovative Inc (USA), subsidiary companies of Avanceon Limited, were audited by other firms of auditors whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the reports of such auditors. These financial statements are responsibility of 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 such test of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements present fairly the financial position of Engro Corporation Limited (formerly, Engro Chemicals Pakistan Limited, the Holding Company) and its subsidiary companies as at December 31, 2010 and the results of their operations, changes in equity and cash flows for the year then ended.

Without qualifying our opinion we draw attention to note 50 to the consolidated financial statements and 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 years ended December 31, 2007, 2006 and 2005 were destroyed. To date, the Holding Company has been able to reconstruct books of account pertaining to the year ended December 31, 2007.

Chartered Accountants
Karachi
Date: February 14, 2011

Engagement Partner: Imtiaz A. H. Laliwala

consolidated balance sheet

as at december 31, 2010

(Amounts in thousand)

	Note	2010	2009
		-----------(Rupees)-----------	
Assets			
Non-current assets			
Property, plant and equipment	4	128,712,148	110,487,943
Exploration and evaluation expenditure	5	356,286	15,767
Biological assets	6	428,293	438,873
Intangible assets	7	877,323	585,358
Long term investments	8	514,505	499,780
Deferred employee compensation expense	9	-	2,969
Long term loans and advances	11	193,458	150,960
		131,082,013	112,181,650
Current assets			
Stores, spares and loose tools	12	4,910,941	1,451,532
Stock-in-trade	13	8,843,677	3,819,971
Trade debts	14	5,131,408	3,536,533
Deferred employee compensation expense	9	4,829	97,492
Derivative financial instruments	10	3,148	76,209
Loans, advances, deposits and prepayments	15	2,474,076	1,372,425
Other receivables	16	1,287,827	1,136,265
Taxes recoverable		2,494,314	1,040,636
Short term investments	17	4,426,188	512,255
Cash and bank balances	18	4,120,031	6,880,408
		33,696,439	19,923,726
Total Assets		164,778,452	132,105,376

(Amounts in thousand)

	Note	2010	2009
		-----------(Rupees)-----------	
Equity & Liabilities			
Equity			
Share Capital	19	3,277,369	2,979,426
Share premium		10,550,061	10,550,061
Employee share option compensation reserve	9	162,455	318,242
Hedging Reserve	20	(927,438)	(617,000)
Revaluation reserve on business combination		104,698	114,900
Maintenance reserve	21	197,577	-
Exchange revaluation reserve		28,883	(43,185)
General reserves		4,429,240	4,429,240
Unappropriated profit		12,776,146	8,387,520
		27,321,622	23,139,778
		30,598,991	26,119,204
Non Controlling Interest		3,516,024	3,225,191
Total Equity		34,115,015	29,344,395
Liabilities			
Non-current liabilities			
Borrowings	22	89,151,849	84,142,153
Derivative financial instruments	10	805,154	632,777
Obligations under finance lease	23	18,998	20,587
Deferred taxation	24	2,471,226	1,687,298
Employee housing subsidy	25	347,886	211,785
Deferred liabilities	26	117,279	96,163
		92,912,392	86,790,763
Current liabilities			
Trade and other payables	27	12,614,214	9,608,000
Accrued interest / mark-up	28	2,619,453	1,800,428
Current portion of:			
- borrowings	22	15,543,787	2,375,675
- obligations under finance lease	23	13,310	18,246
- deferred liabilities	26	23,047	22,961
Short term borrowings	29	5,715,775	1,302,766
Derivative financial instruments	10	1,040,829	740,043
Unclaimed dividends		180,630	102,099
		37,751,045	15,970,218
Total Liabilities		130,663,437	102,760,981
Contingencies and Commitments	30		
Total Equity & Liabilities		164,778,452	132,105,376

The annexed notes from 1 to 54 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

consolidated profit and loss account

for the year ended december 31, 2010

(Amounts in thousand except for earnings per share)

	Note	2010	2009
		-----------(Rupees)-----------	
Net sales	31	79,975,765	58,152,368
Cost of sales	32	(59,702,130)	(44,658,196)
Gross Profit		20,273,635	13,494,172
Selling and distribution expenses	33	(8,289,680)	(6,215,316)
		11,983,955	7,278,856
Other operating income	34	897,321	390,157
Other operating expenses	35	(957,982)	(843,561)
Finance cost	36	(4,200,886)	(2,221,739)
		(5,158,868)	(3,065,300)
Share of income from joint venture	37	554,725	458,570
Profit before taxation		8,277,133	5,062,283
Taxation	38	(1,836,131)	(1,343,481)
Profit for the year		6,441,002	3,718,802
Profit attributable to:			
- Owners of the Holding Company		6,790,049	3,806,918
- Non Controlling Interest		(349,047)	(88,116)
		6,441,002	3,718,802
			Restated
Earnings per share - basic and diluted	39	20.72	12.24

The annexed notes from 1 to 54 form an integral part of these consolidated financial statements

Hussain Dawood
Chairman

Asad Umar
President & CEO

consolidated statement of comprehensive income

for the year ended december 31, 2010

(Amounts in thousand)

	Note	2010	2009
		-----------(Rupees)-----------	
Profit for the year		6,441,002	3,718,802
Other comprehensive income			
Hedging reserve - cash flow hedges	20		
Losses arising during the year		(1,828,460)	(226,998)
Less:			
- Reclassification adjustments for losses/ (gains) included in profit and loss		65,267	22,557
- Adjustments for amounts transferred to initial carrying amount of hedged items (capital work in progress)		1,245,762	(889,226)
		(517,431)	(1,093,667)
Revaluation reserve on business combination		(21,974)	(21,974)
Exchange differences on translation of foreign operations		114,996	(18,595)
		(424,409)	(1,134,236)
Income tax relating to:			
Hedging reserve - cash flow hedges		181,100	382,783
Revaluation reserve on business combination		7,691	7,691
		188,791	390,474
Other comprehensive income for the year, net of tax		(235,618)	(743,762)
Total comprehensive income for the year		6,205,384	2,975,040
Total comprehensive income attributable to:			
- Owners of the Holding Company		6,541,477	3,062,726
- Non Controlling Interest		(336,093)	(87,686)
		6,205,384	2,975,040

The annexed notes from 1 to 54 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

consolidated statement of statement of changes in equity

for the year ended december 31, 2010

(Amounts in thousand)

	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Revaluation reserve on business combination	Maintenance reserve	Exchange revaluation reserve	General reserve	Unappro-priated Profit	Sub total	Non controlling Interest	Total
	-----Attributable to owners of the Holding Company-----											
	-----(Rupees)-----											
Balance as at 1 January, 2009	2,128,161	7,152,722	327,020	105,337	125,102	-	(31,532)	4,429,240	6,198,004	20,434,054	3,113,677	23,547,731
Total comprehensive income for the year ended December 31, 2009												
Profit for the year	-	-	-	-	-	-	-	-	3,806,918	3,806,918	(88,116)	3,718,802
Other comprehensive income	-	-	-	(722,337)	(10,202)	-	(11,653)	-	-	(744,192)	430	(743,762)
	-	-	-	(722,337)	(10,202)	-	(11,653)	-	3,806,918	3,062,726	(87,686)	2,975,040
Transactions with owners												
Shares issued during the period in the ratio of 4 for every 10 shares @ Rs.50 per share (including share premium net of share issue cost)	851,265	3,397,339	-	-	-	-	-	-	-	4,248,604	-	4,248,604
Effect of changes in number of share options issued	-	-	(8,778)	-	-	-	-	-	-	(8,778)	-	(8,778)
Final dividend for the year ended December 31, 2008 @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(425,632)	(425,632)	-	(425,632)
Advance against issue of shares of Sindh Engro Coal Mining Company Limiited, subsidiary of Engro PowerGen Limited	-	-	-	-	-	-	-	-	-	-	199,200	199,200
Interim dividend:												
- 1st @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(595,885)	(595,885)	-	(595,885)
- 2nd @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(595,885)	(595,885)	-	(595,885)
	851,265	3,397,339	(8,778)	-	-	-	-	-	(1,617,402)	2,622,424	199,200	2,821,624
Balance as at December 31, 2009	2,979,426	10,550,061	318,242	(617,000)	114,900	-	(43,185)	4,429,240	8,387,520	26,119,204	3,225,191	29,344,395
Total comprehensive income for the year ended December 31, 2010												
Profit for the year	-	-	-	-	-	-	-	-	6,790,049	6,790,049	(349,047)	6,441,002
Other comprehensive income	-	-	-	(310,438)	(10,202)	-	72,068	-	-	(248,572)	12,954	(235,618)
	-	-	-	(310,438)	(10,202)	-	72,068	-	6,790,049	6,541,477	(336,093)	6,205,384
Transactions with owners												
Bonus shares issued during the year in the ratio of 1 for every 10 shares	297,943	-	-	-	-	-	-	-	(297,943)	-	-	-
Issue of shares by Engro Polymer and Chemicals Limited	-	-	-	-	-	-	-	-	-	-	626,926	626,926
Maintenance reserve created by Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited (formerly Engro Energy Limited)	-	-	-	-	-	197,577	-	-	(197,577)	-	-	-
Vested options lapsed during the year	-	-	(929)	-	-	-	-	-	929	-	-	-
Effect of changes in number of share options issued	-	-	(154,858)	-	-	-	-	-	-	(154,858)	-	(154,858)
Final dividend for the year ended December 31, 2009 @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(595,886)	(595,886)	-	(595,886)
Interim dividend												
- 1st @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(655,473)	(655,473)	-	(655,473)
- 2nd @ Rs. 2.00 per share	-	-	-	-	-	-	-	-	(655,473)	(655,473)	-	(655,473)
	297,943	-	(155,787)	-	-	197,577	-	-	(2,401,423)	(2,061,690)	626,926	(1,434,764)
Balance as at December 31, 2010	3,277,369	10,550,061	162,455	(927,438)	104,698	197,577	28,883	4,429,240	12,776,146	30,598,991	3,516,024	34,115,015

The annexed notes from 1 to 54 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

consolidated statement of cash flows

for the year ended december 31, 2010

(Amounts in thousand)

	Note	2010	2009
		-----------(Rupees)-----------	
Cash flows from operating activities			
Cash generated from operations	42	5,875,276	15,410,170
Retirement and other service benefits paid		(215,227)	(183,579)
Financial charges paid		(3,381,861)	(1,650,200)
Taxes paid		(2,378,136)	(1,955,654)
Long term loans and advances - net		(42,498)	186,438
Net cash (used in) / generated from operating activities		(142,446)	11,807,175
Cash flows from investing activities			
Exploration and evaluation expenditure incurred		(339,268)	(15,768)
Purchases of property, plant & equipment and biological assets		(20,813,639)	(53,877,767)
Sale proceeds on disposal of property, plant & equipmentand biological assets		476,825	100,952
Income on deposits / other financial assets		372,526	128,459
Dividends received		562,500	427,500
Net cash used in investing activities		(19,741,056)	(53,236,624)
Cash flows from financing activities			
Proceeds from issue of shares (net)		-	4,248,604
Proceeds from borrowings		19,830,786	46,061,410
Repayments of borrowings		(1,998,834)	(265,674)
Obligations under finance lease - net		(6,525)	(10,590)
Retention money against project payments		-	(553,445)
Advance against issue of shares - Non Controlling Interest			199,200
Proceeds from issuance of shares by subsidiary company		626,926	-
Dividends paid		(1,828,304)	(1,833,623)
Net cash generated from financing activities		16,624,049	47,845,882
Net increase/ (decrease) in cash and cash equivalents		(3,259,453)	6,416,433
Cash and cash equivalents at beginning of the year		6,089,897	(326,536)
Cash and cash equivalents at end of the year	43	2,830,444	6,089,897

The annexed notes from 1 to 54 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & CEO

notes to the consolidated financial statements

for the year ended december 31, 2010

(Amounts in thousand)

1. Legal Status and Operations

Engro Corporation Limited - the Holding Company (formerly, Engro Chemical Pakistan Limited), 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, consequent to demerger (note 1.1), is to manage investments in subsidiary companies and joint venture, engaged in fertilizers, PVC resin manufacturing and marketing, control and automation, food, energy, exploration and chemical terminal and storage businesses. The Holding Company's registered office is situated at 7th & 8th Floors, The Harbour Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi.

1.1 The Board of Directors in their meeting on April 28, 2009 decided to divide the Holding Company into two companies by separating its Fertilizer Undertaking from the rest of the undertaking that was to be retained in the Holding Company (Retained Undertaking). In this regard, a wholly owned subsidiary namely Engro Fertilizers Limited was incorporated on June 29, 2009. The division was effected on January 1, 2010 (the Effective Date) through a Scheme of Arrangement (the Scheme) whereby:

a) the Fertilizer Undertaking has been transferred and vested in Engro Fertilizers Limited against the issuance of ordinary shares of Engro Fertilizers Limited to the Holding Company; and

b) the retention of the Retained Undertaking in the Holding Company along with the change of the name of the Holding Company to Engro Corporation Limited. Engro Corporation Limited henceforth will function as a Holding Company to oversee the business of the new fertilizer subsidiary as well as business of its other existing subsidiaries/associates.

1.2 The "Group" consists of:

Holding Company- Engro Corporation Limited (formerly, Engro Chemical Pakistan 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	
	2010	2009
- Engro Fertilizers Limited	100	100
- Engro Foods Limited	100	100
- Engro Eximp (Private) Limited	100	100
- Engro Management Services (Private) Limited	100	100
- Engro PowerGen Limited	100	100
- Avanceon Limited	62.67	62.67
- Engro Polymer and Chemicals Limited	56.19	56.19

	%age of direct holding	
	2010	2009
Joint Venture Company:		
- Engro Vopak Terminal Limited	50	50

Associated Company:
- Agrimall (Private) Limited
- Arabian Sea Country Club Limited

(Amounts in thousand)

1.3 Subsidiary companies

Engro Fertlizers Limited

Engro Fertilizers Limited, a wholly owned subsidiary of the Holding Company, is a public unlisted company incorporated on June 29, 2009 in Pakistan under the Companies Ordinance, 1984, for the purposes of transfer and vesting of fertilizer business (manufacturing, purchasing and marketing of fertilizers), consequent to demerger, as referred to note 1.1. Term Finance Certificates issued are however listed at the Karachi Stock Exchange.

Engro Fertilzers Limted has been involved in the construction and setup of the Urea expansion project (Enven Plant) adjacent to existing Dharki Plant. The capacity of Enven Plant will be 1.3 million tons of Urea per annum, but could not continue for a reasonable period, as required for commissioning of commercial production, due to curtailment of gas by Sui Northern Gas Pipeline Limited (SNGPL) for forty five days from January 7, 2011. The production is now expected to commence by end of Febuary 2011 and commercial production will be declared once fully tested.

Engro Foods Limited

Engro Foods Limited, a wholly 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 Engro Foods Limited is to manufacture, process and sell dairy, ice cream and other food products. Engro Foods Limited also owns and operates a dairy farm. During the year, Engro Foods Limited has commenced commercial production of juices, hence further widening the portfolio of its products.

Further, Engro Foods Supply Chain (Private) Limited, a 70% owned subsidiary of Engro Foods Limited, was incorporated in Pakistan on November 3, 2009, under the Companies Ordinance, 1984. The principal activity of this sub-subsidiary is to produce, manufacture and trade all kinds of raw, processed and prepared food products including agriculture, dairy and farming products. A rice processing plant in district Sheikhupura is currently under construction. During the year, the drying unit of the plant was commissioned and commercial production commenced from November 7, 2010 whereas the milling unit is expected to be commissioned in the first half of 2011.

Engro Eximp (Private) Limited

Engro Eximp (Private) Limited, 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. Engro Eximp (Private) Limited is principally engaged in the following trading businesses:

a) Fertilizer Trading: Engro Eximp (Private) Limited imports and sells different types of fertilizers and other related products and are being sold to the dealers through Engro Fertilizers Limited which has been appointed as a selling agent under an Agreement effective January 1, 2010.

b) Rice Trading: Engro Eximp (Private) Limited is also engaged in rice business whereby bulk quantities of unprocessed rice and paddy are procured from local suppliers, processed and packed for selling locally as well as for export to foreign buyers. Processing of rice is being outsourced.

Engro Eximp (Private) Limited also owns 30% ordinary shares of Engro Foods Supply Chain (Private) Limited.

Engro Management Services (Private) Limited

Engro Management Services (Private) Limited, a wholly owned subsidiary of the Holding Company was incorporated in Pakistan on January 23, 2003 under the Companies Ordinance 1984. Engro Management Services (Private) Limited had been registered as a modaraba management company but subsequently was deregistered on account of not launching the modaraba. At present, other viable business activities are being considered / evaluated. There are no assets and liabilities which require material adjustments.

(Amounts in thousand)

Avanceon Limited

Avanceon Limited is 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 Limited is to trade in products of automation and control equipments and provide related technical services. Avanceon Limited consists of following subsidiaries:

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

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

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

- Innovative Automation (Pvt.) Limited was incorporated in Pakistan as a private company limited by shares under the Companies Ordinance, 1984 on December 04, 2008. It is a wholly owned subsidiary of Avanceon Limited.

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

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

Engro Polymer and Chemicals Limited

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

In 2006, Engro Polymer and Chemicals Limited commenced work on its expansion and backward integration project comprising of setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). Commercial operation of the PVC, EDC, chlor-alkali and Power Plant (Gas Turbines) commenced in 2009 whereas the VCM Plant declared commercial operations during the year on September 30, 2010, upon which the integrated chemical complex stands completed.

(Amounts in thousand)

Engro PowerGen Limited

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

	% age of holding of Engro PowerGen Limited
Engro Powergen Qadirpur Limited (formerly Engro Energy Limited)	85%
Sindh Engro Coal Mining Company Limited	60%

- Engro Powergen Qadirpur Limited 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. Effective November 2, 2010, the name has been changed to 'Engro Powergen Qadirpur Limited' from Engro Energy Limited.

  The Holding Company, had last year initiated the process of transferring its entire (95%) holding of 304 million shares of Rs. 10 each in Engro Powergen Qadirpur Limited (formerly Engro Energy Limited) to the Engro PowerGen Limited. Such transfer being on account of Holding Company's overall restructuring of its business to enable all direct subsidiaries to operate as holding companies of their respective lines of business. However, after approval from the shareholders for transferring a lower number, the Holding Company has transferred during the year 272 million shares (85% of share capital) in Engro Powergen Qadirpur Limited to Engro PowerGen Limited at par value of Rs. 10 each against cash consideration, while retaining 10% holding. By virtue of such transfer, Engro Powergen Qadirpur Limited has now become a subsidiary of Engro PowerGen Limited. However, the ultimate holding of the Holding Company remains at 95%.

  During the year, Engro Powergen Qadirpur Limited completed construction and testing of its 217.3 MW combined cycle power plant and has commenced commercial operations on March 27, 2010. The electricity generated is transmitted to the National Transmission and Despatch Company (NTDC) under the Power Purchase Agreement (PPA) dated October 26, 2007, valid for a period of 25 years.

- Sindh Engro Coal Mining Company Limited is a public unlisted company, incorporated in Pakistan on October 15, 2009 under the Companies Ordinance, 1984. It has been formed under a Joint Venture Agreement (JVA), dated September 8, 2009, between the Government of Sindh, Coal and Energy Development Department (GoS), the Engro PowerGen Limited and the Holding Company. The aforementioned JVA is consequent to the selection of the Engro PowerGen Limited as GoS's joint venture partner, through an International Competitive Bidding process, for the development, construction and operation of an open cast mine facility in Block II of Thar Coal Field, Sindh, with an annual mining capacity of 6.5 million tons of coal which will be subsequently increased to 22 million tons in later years of mining. In this regard, as per JVA, the Sindh Engro Coal Mining Company Limited 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.

  During the year, Sindh Coal Authority, Coal and Energy Development Department, Government of Sindh (GoS/SCA), allocated an area of 79.6 sq. km in Thar Coal Field, District Thar, pursuant to Memorandum of Understanding (MoU), dated March 31, 2010, signed between the Sindh Engro Coal Mining Company Limited and GoS/SCA, to carry out a feasibility study. As agreed in the MoU, GoS/SCA requested the Director General Mines and Mineral Development Department, Government of Sindh to issue an exploration license for the aforementioned area to the Sindh Engro Coal Mining Company Limited, which was granted on August 8, 2010. Further on successful completion of technical feasibility Sindh Engro Coal Mining Company Limited, as directed by GoS vide its letter dated November 12, 2010, has applied to Director General Mines and Minerals Development Department on November 30, 2010 for the mining lease for a period of 30 years, extendable to mine's life. However, efforts are being made for closure on timely availability of all the required infrastructure and tariff to confirm economic viability of the Project.

Further, the Project's approval, through Sindh Engro Coal Mining Company Limited, is linked to and dependent on the feasibility of mine mouth power plant (approximately 600-1200 MW) to be owned and constructed by Engro PowerGen Limited. A separate feasibility in this regard shall be conducted by Engro PowerGen Limited.

- Engro PowerGen Limited has been granted a Letter of Intent (LOI) on October 12, 2010 by the Alternate Energy Development Board (AEDB) for establishing an approximately 50 MW Wind Power Generation Project in Gharo Wind Corridor. Under the LOI, feasibility study including other various mildstone to be completed / achieved within a period of eighteen months thereof.

1.4 Joint Venture Company

Engro Vopak Terminal Limited

Engro Vopak Terminal Limited, a 50% share joint venture of Engro Corporation Limited is an unlisted public limited company incorporated in Pakistan under the Companies Ordinance, 1984. Engro Vopak Terminal Limited 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 years presented, unless otherwise stated.

2.1 Basis of preparation

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

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

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

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

a) Standards, amendments to published standards and interpretations that are effective in 2010 and are relevant to the Group

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

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

(Amounts in thousand)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. As no business combination transaction (where IFRS 3 is applicable) has been incurred on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, therefore this amendment has no impact on the Group's financial statements.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. As on overall Group level, there is no change in control, therefore there is no impact of this amendment on the Group's financial statements.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. Currently, as Group does not have any non-current asset (or disposal group) classified as held for sale or discontinued operations, therefore this amendment has no impact on the Group's financial statements.

- IFRS 8 (Amendment), 'Disclosure of information about segment assets'. This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Group's current policy and disclosures are in line with this amendment.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- IAS 17 (Amendment) 'Classification of leases of land and buildings' (effective from January 1, 2010). The amendment deletes the specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17. The Group's current accounting policy is in line with the requirements of IAS 17 and the Ordinance, and therefore, there is no impact of this amendment on the Group's financial statements.

- IAS 39 (amendment); 'Cash flow hedge accounting'. This amendment provides clarification when to recognize gains or losses on hedging instruments as a reclassification adjustments in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. The Group's current accounting policy is in compliance with this amendment and therefore there is no impact on the Group's financial statements.

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement' effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on the circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, that hybrid instrument must remain classified as at fair value through profit or loss in its entirety. Reassessment, as required by IFRIC 9, resulted in no impact on Group's financial statements.

b) Standards, amendments to published standards and interpretations that are effective in 2010 but not relevent to the Group.
The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 are considered not to be relevant or to have any significant effect on the Group's financial reporting and operations.

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

The following new standards, amendments to published standards and interpretation are not effective (although available for early adoption) for the accounting period beginning on or after January 1, 2010 and have not been early adopted by the Company.

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

- IAS 24 (Revised), 'Related party disclosures'. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities.

- IAS 32 (amendment) 'Classification of rights issues'. The amendment applies to annual periods beginning on or after February 1, 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

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

(Amounts in thousand)

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

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

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

- IAS 1 (Amendment) 'Presentation of financial statements' (effective for periods beginning on or after January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment will only affect the disclosures in the Group's financial statements.

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

2.1.5 Applicability of IFRIC 4, 'Determining whether an agreement contains a lease'
The Independent Power Producers (IPPs), whose letter of intent have been signed on or before June 30, 2010, have been exempted from the application of IFRIC 4 by the Securities and Exchange Commission of Pakistan (SECP). This interpretation provides the guidance on determining whether arrangements that do not take the legal form of lease should, nonetheless, be accounted for as a lease in accordance with International Accounting Standards (IAS) 17, "Leases".

Consequently, the Holding Company is not required to account for a portion of Engro Powergen Qadirpur Limited's Power Purchase Agreement (PPA) with NTDC as a lease under IAS - 17. If the Holding Company were to follow IFRIC - 4 / IAS - 17, the arrangement under the PPA would have been recorded as a finance lease. Had the lease been recognized as 'finance lease', the profit for the year would have been higher by approximately Rs. 316,000.

2.1.6 Basis of consolidation

i) Subsidiaries
Subsidiaries are all entities over which the holding company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-recognized from the date the control ceases. The consolidated financial statements include Engro Corporation Limited (formerly, Engro Chemical Pakistan Limited) 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 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 and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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

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

ii) Transactions and non-controlling interests

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

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

2.2 Property, plant and equipment

2.2.1 Owned assets

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

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

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

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

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

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

2.2.2 Leased assets

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

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

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

2.3 Biological assets

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

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

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

2.4 Exploration and evaluation expenditure

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

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

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

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

2.5 Intangible assets

a) Goodwill

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

b) 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 amortised from the date the software is put to use on a straight-line basis over a period of 3 to 10 years.

c) 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 Qadirpur gas field at a predetermined price for a period of ten years commencing from the date of commercial production. The rights will be amortised from the date of commercial production of the Enven fertilizer plant on a straight-line basis over the remaining allocation period.

d) Other intangible assets

Other intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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.

(Amounts in thousand)

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 and associated companies have 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 abaility 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.

2.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

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

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available for sale equity instruments are recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

2.10 Impairment of financial assets

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

2.11 Financial liabilities

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

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

2.12 Offsetting financial instruments

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

2.13 Derivative financial instruments and hedging activities

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

Cash flow hedges

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

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

Other non-trading derivatives

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

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Further, the Holding Company has also issued a conversion option on IFC loan to Engro Fertilizers Limited. The fair values of various derivative insturments, the conversion option and other derivatives used for hedging purposes, are disclosed in note 10.

2.14 Stores, spares and loose tools

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. For items which are slow moving and / or identified as surplus to the Group's requirements, adequate provision is made for any excess book value over estimated realizable value. The Group reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

2.15 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material and certain purchased products in transit which are stated at cost (invoice value) plus other charges incurred thereon till the balance sheet date. Cost in relation to finished goods 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.

2.16 Trade debts and other receivables

These are recognised initially at fair value plus directly attributable transaction costs, if any and subsequently measured at amortised cost using effective interest 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.

2.17 Cash and cash equivalents

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

2.18 Share capital

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

2.19 Employees' share option scheme

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

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

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit and loss 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 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.

2.20 Borrowings

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

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

2.21 Trade and other payables

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

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

2.22 Current and deferred income tax

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

2.22.1 Current

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

2.22.2 Deferred

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

A deferred tax asset is recognised to the extent that 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.

(Amounts in thousand)

2.23 Employees' housing subsidy scheme

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

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

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

2.24 Employee benefits

2.24.1 Defined contribution plans

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

The Holding Company operates:

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

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

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

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

2.24.2 Defined benefit plans

A defined benefit plan is the post-employment benefit plan other than the defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method, related details of which are given in note 41 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

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

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

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

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

Engro Fertilizers Limited also operates:
- defined benefit funded pension scheme for its management employees.
- defined benefit funded gratuity schemes for its non-management employees.

The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 01, 2005, no new members are inducted in this scheme.

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

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

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

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

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

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

- defined benefit funded gratuity scheme for its management employees. The scheme provides gratuity based on employees' last drawn salary. Gratuity is payable on retirement, seperation 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 childern.

Engro Energy Limited operates:
- defined benefit funded gratuity schemes for its management and non-management employees.

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

(Amounts in thousand)

2.24.3 Employees' compensated absences

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

2.25 Provisions

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

2.26 Foreign currency transactions and translation

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

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

2.26.3 The Holding Company's share of exchange revaluation reserve on translation of foreign operations of a Subsidiary Company, Avanceon Limited, has now been reflected as a separate component of equity. Previously it was reflected under unappropriated profits.

2.27 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and is reduced for marketing allowances. 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.
- Dividend income from investments is recognised when the Group's right to receive payment has been established.
- Revenue from sale of electricity is recognised as follows:
  - Capacity revenue based on the capacity made available; and
  - Energy revenue based on the Net Electrical Output (NEO) delivered.

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

2.28 Borrowing costs

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

2.29 Research and development costs

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

2.30 Government grant

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

2.31 Earnings per share

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

2.32 Transactions with related parties

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

2.33 Dividend and appropriation to reserves

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

2.34 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.

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.

(Amounts in thousand)

3.2 Exploration and evaluation expenditure

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

3.3 Biological assets

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

3.4 Investments stated at fair value through profit and loss

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

3.5 Derivatives

The Group reviews the changes in fair values of the derivative hedging financial instruments at each reporting date based on the valuations received from the contracting banks. These valuations represent estimated fluctuations in the relevant currencies/interest rates over the reporting period and other relevant variables signifying currency and interest rate risks. The Group has calculated the fair value of conversion option on IFC loan using the option pricing model.

3.6 Stock-in-trade and stores & spares

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

3.7 Income Taxes

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

3.8 Fair value of employee share options

The management has determined the fair value of options issued under the Employee Share Option Scheme at the grant date using Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 9.

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 41.

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 and Equipment

	2010	2009
	-----------(Rupees)-----------	
Operating assets, at net book value (note 4.1)	58,106,575	26,179,073
Capital work in progress		
- Expansion and other projects (note 4.6)	69,528,996	84,181,544
- Capital spares (note 4.7)	1,076,577	127,326
	128,712,148	110,487,943

(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 (note 4.3)	Leased		Owned	Leased	Owned	Leased	
	----------(Rupees)----------												
As at January 1, 2009													
Cost	247,035	321,640	1,650,248	602,237	110,670	15,599,841	12,946	326,408	720,790	26,906	640,462	52,401	20,311,584
Accumulated depreciation	-	(55,761)	(356,675)	(109,385)	(67,005)	(7,211,024)	(1,575)	(265,429)	(442,438)	(9,419)	(264,667)	(33,093)	(8,816,471)
Net book value	247,035	265,879	1,293,573	492,852	43,665	8,388,817	11,371	60,979	278,352	17,487	375,795	19,308	11,495,113
Year ended December 31, 2009													
Opening net book value	247,035	265,879	1,293,573	492,852	43,665	8,388,817	11,371	60,979	278,352	17,487	375,795	19,308	11,495,113
Amortization of revaluation surplus	-	(2,572)	-	(1,140)	3,355	(33,649)	-	-	-	-	-	-	(34,006)
Additions	225,488	-	886,007	173,439	357,309	14,310,975	-	103,307	175,364	-	295,602	15,556	16,543,047
Disposals													
Cost	-	-	(32)	(2,121)		(80,756)	-	-	(78,485)	-	(117,336)	(11,043)	(289,773)
Accumulated depreciation	-	-	32	2,121		48,126	-	-	76,575	-	81,545	10,740	219,139
	-	-	-	-	-	(32,630)	-	-	(1,910)	-	(35,791)	(303)	(70,634)
Reclassifications													
Cost	-	-	(5,405)	3,348	-	(986)	-	-	8,371	(5,000)	8,358	(8,686)	-
Accumulated depreciation	-	-	3,982	(2,818)	-	39	-	-	1,515	(1,275)	5,099	(6,542)	-
	-	-	(1,423)	530	-	(947)	-	-	9,886	(6,275)	13,457	(15,228)	-
Adjustments													
Cost	-	-	(2,788)	-	-	-	-	-	(1,375)	792	-	323	(3,048)
Accumulated depreciation	-	-	3,284	-	-	-	-	-	1,420	(102)	-	(279)	4,323
	-	-	496	-	-	-	-	-	45	690	-	44	1,275
Depreciation charge	-	(4,526)	(124,350)	(18,459)	(14,798)	(1,304,679)	(2,896)	(36,632)	(108,057)	(5,133)	(124,418)	(11,774)	(1,755,722)
Net book value	472,523	258,781	2,054,303	647,222	389,531	21,327,887	8,475	127,654	353,680	6,769	524,645	7,603	26,179,073
As at January 1, 2010													
Cost	472,523	319,068	2,528,030	775,763	471,334	29,795,425	12,946	429,715	824,665	22,698	827,086	48,551	36,527,804
Accumulated depreciation	-	(60,287)	(473,727)	(128,541)	(81,803)	(8,467,538)	(4,471)	(302,061)	(470,985)	(15,929)	(302,441)	(40,948)	(10,348,731)
Net book value	472,523	258,781	2,054,303	647,222	389,531	21,327,887	8,475	127,654	353,680	6,769	524,645	7,603	26,179,073
Year ended December 31, 2010													
Opening net book value	472,523	258,781	2,054,303	647,222	389,531	21,327,887	8,475	127,654	353,680	6,769	524,645	7,603	26,179,073
Amortization of revaluation surplus	-	(2,572)	-	(1,140)	3,355	(33,649)	-	-	-	-	-	-	(34,006)
Additions (note 4.4)	17,591	86,791	3,213,225	38,495	1,272,706	29,650,431	-	56,123	210,094	3,581	474,324	7,786	35,031,147
Disposals													
Cost	-	(49,560)	(18,547)	-	-	(126)	-	-	(20,558)	-	(115,592)	(15,077)	(219,460)
Accumulated depreciation	-	9,994	18,547	-	-	71	-	-	19,943	-	65,736	13,124	127,415
	-	(39,566)	-	-		(55)	-	-	(615)	-	(49,856)	(1,953)	(92,045)
Depreciation charge	-	(9,373)	(205,543)	(19,012)	(54,158)	(2,340,253)	(2,630)	(31,740)	(129,802)	(5,223)	(172,408)	(7,452)	(2,977,594)
Net book value	490,114	294,061	5,061,985	665,565	1,611,434	48,604,361	5,845	152,037	433,357	5,127	776,705	5,984	58,106,575
As at December 31, 2010													
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
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)

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

	2010	2009
	-----------(Rupees)-----------	
Cost of sales (note 32)	2,634,394	1,589,923
Selling and distribution expenses (note 33)	214,488	118,112
Capital work in progress (note 4.6.3)	128,712	47,687
	2,977,594	1,755,722

4.3 Includes equipment costing Rs. 135,469 (2009: Rs. 129,872) having net book value of Rs. 93,337 (2009: Rs. 101,720) mounted on transport contractors' vehicles. Also includes freezers and trikes held by third parties costing Rs. 482,023 (2009: Rs. 244,634), having net book value of Rs. 392,258 (2009: Rs. 218,634).

4.4 Includes exchange loss capitalised amounting to Rs 294,000 pertaining to Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited, as more fully explained in note 31.4.

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

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		--------------------------(Rupees)--------------------------			
Building - Freehold					
Immovable sheds, boundary walls etc	Written off	18,547	18,547	-	-
Land - Leasehold					
Land at Port Qasim	Coca-Cola Beverages Company Limited	49,560	9,994	39,566	339,250
Plant and machinery					
Assets written off		126	71	55	-
Vehicles					
By Company policy to existing/separating executives	Inamullah Naveed Khan	1,328	994	334	332
	Shamsuddin Sheikh	2,750	1,848	902	875
	Naveed A . Hashmi	1,859	407	1,452	1,520
	Khalid Mansoor	2,750	1,977	773	875
	Mr. Asif Qadir	2,750	2,020	730	875
	Syed Murtaza Azhar Rizvi	1,265	433	832	925
	Sarfaraz A. Rehman	1,327	996	331	332
	Khawaja Rizwan	395	348	47	120
	Babur Sultan	2,500	1,680	820	625
	Ali Akbar	2,483	1,591	892	621
	Riaz Hussain Shah	839	563	276	210
	Imran Ahmed	875	623	252	300
	Adeel Ahmed Khan	504	406	98	102
	Babur Mughal	504	406	98	102
	Usman Saif	600	439	161	237
	Zainab Hameed	899	323	576	565
	Saud Farooq	632	356	276	310
	Azam Shighri	600	349	251	179
	Naveed Shigri	654	282	372	315
	Syed Imran	631	521	110	131
	Mazhar Hasnani	1,269	80	1,189	1,170
	Sarfaraz Ahmed Soomro	595	595	-	119
	Zeeshan Mehmood	530	530	-	119
	Choudary Faisal Aslam	550	550	-	119
	Khurram Ali Khan	540	540	-	119
	Fahim Amir	540	540	-	119
	Imran Quershi	540	540	-	119
	Ramzan Dogar	560	560	-	119
	Sheikh Abu Bakar	520	520	-	119
	Faisal Ishrat	540	540	-	119

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		---------------------------	(Rupees)	---------------------------	
	Kaiser Imran	550	550	-	119
	Zahid Tufail	900	464	436	408
	Muhammad Iftikhar Ahmed	900	603	297	323
	Rasim M. Qureshi	879	577	302	275
	Imran Shamim Ahmed	890	459	431	431
	Anoop Lal	900	627	273	281
	Shakil ur Rehman	900	660	240	225
	Syed Ashar Hussain	1,309	947	362	327
	Irfan Ahmad	900	668	232	225
	Tauseef Ali	900	651	249	225
	Jawwad Hassan	1,269	278	991	932
	Syed Muhammad Raza	1,239	174	1,065	1,026
	Zubair Ash Choudry	900	660	240	225
	Sohail Ahmed	900	660	240	225
	Syed Muzammil Ali	1,269	178	1,091	1,051
	Muzaffar Islam	900	668	232	225
	Kaleem Asghar	900	651	249	225
	Zaki A. Sharif	900	422	478	422
	Tariq Raza Ahmed	1,844	605	1,239	1,066
	Irfan Ahmad	1,300	81	1,219	1,198
	Adil Aziz Khan	1,354	776	578	1,439
	Ahmad Muneeb	900	647	253	225
	Ahsan Afzaal Ahmad	879	659	220	220
	Amir Mahmud	896	644	252	225
	Arif Jalil	899	646	253	225
	Muhammad Asad Waheed	886	651	235	219
	Asghar Naveed	899	660	239	225
	Awais Mushtaq Piracha	1,438	315	1,123	1,013
	Bakhtiar A. Uqaili	900	661	239	225
	Dr. Muzaffar A. Khan	885	664	221	222
	Dr.Shahid Rashid	895	629	266	225
	Eqan Ali Khan	900	436	464	464
	Faisal Iftikhar	900	464	436	900
	Farooq A. Qazi	886	651	235	222
	Favad Soomro	886	664	222	222
	Haider Ali Isani	879	659	220	249
	Hammad Masood	1,329	249	1,080	1,329
	Khalid Mehmood	879	632	247	225
	Khusrau Nadir Gilani	900	422	478	498
	M. Ali	900	408	492	486
	M. Khurram Farooq	900	675	225	225
	Mohammad Arshad	896	658	238	225
	Muddassir Shafique Chaudhry	900	380	520	495
	Muhammad Siddique	879	659	220	220
	Najam Saeed	886	651	235	222
	Noordin Burero	879	632	247	220
	Rehman Hanif	896	630	266	225
	Syed Reza Jawad	1,359	42	1,317	1,359
	Syed Shahzad Nabi	886	623	263	231
	Ummat Rasool	1,809	141	1,668	1,584
	Vijay Kumar	1,060	315	745	728
	Waqas Habib	896	672	224	225
	Yousuf Mohiuddin	900	406	494	541
	Zaid Bin Zeeshan	900	675	225	225
	Balance carried forward	86,114	50,836	35,278	37,009

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		---------------------------	(Rupees)	---------------------------	
	Balance carried forward	86,114	50,836	35,278	37,009
	Zamir Hussain	900	661	239	225
	Zeeshan Bukhari	900	492	408	900
Sale through bid	Khurram Imtiaz	1,474	1,474	-	1,244
	Hamid Nawaz	404	404	-	290
	M.Farhan	1,474	1,420	54	1,244
	Adnan Rafi	6,600	6,600	-	2,450
	Anis Ahmed Khan	555	500	55	380
	Arsalan Nabi Siddiqui	849	764	85	780
	Farooq Raza	599	599		571
	Mohammad Qasim	1,052	946	106	528
	Mohsin Ahmed Khan	555	500	55	418
	Muhammad Ali Qureshi	705	695	10	623
	Muhammad Shahid	555	555	-	397
	Saeed Ahmed	433	433	-	599
	Sultan Jan Nabi	643	643	-	1,029
	Syed Imran Ali	436	436	-	163
	Syed Riaz Ahmed	886	709	177	838
Insurance claims	EFU General Insurance Ltd.	25,535	10,193	15,342	20,822
		130,669	78,860	51,809	70,510
Furniture, fixtures & equipment					
Insurance claims	EFU General Insurance Ltd.	386	132	254	303
Assets written off		1,921	1,921	-	-
Items having net book value upto Rs.50 each		18,251	17,890	361	3,817
		20,558	19,943	615	4,120
	2010	219,460	127,415	92,045	413,880
	2009	289,773	219,139	70,634	100,952

(Amounts in thousand)

4.6 Capital work in progress - Expansion and other projects

	Plant and machinery	Building & civil works including pipelines	Furniture, fixture and equipment	Advances to suppliers	Other ancilliary costs (note 4.6.3)	Total
	----------------	----------------	----------------	(Rupees)	----------------	----------------
Year ended December 31, 2009						
Balance as at January 1, 2009	37,119,405	4,131,908	171,829	647,090	4,570,408	46,640,640
Additions during the year	39,566,429	4,984,978	174,428	(18,967)	9,074,883	53,781,751
Transferred to						
- operating assets (note 4.1)	(12,843,185)	(1,382,161)	(154,062)	(292,729)	(1,526,559)	(16,198,696)
- intangible assets (note 7)	-	-	-	(42,151)	-	(42,151)
Balance as at December 31, 2009	63,842,649	7,734,725	192,195	293,243	12,118,732	84,181,544
Year ended December 31, 2010						
Balance as at January 1, 2010	63,842,649	7,734,725	192,195	293,243	12,118,732	84,181,544
Additions during the year	8,642,098	3,624,262	386,819	478,431	8,453,087	21,584,697
Transferred to						
- operating assets (note 4.1)	(26,573,208)	(4,294,161)	(213,540)	(472,863)	(3,309,084)	(34,862,856)
- intangible assets (note 7)	(30,890)	-	(50,605)	(138,578)	-	(220,073)
- stores and spares	(1,154,316)	-	-	-	-	(1,154,316)
- Reclassification	(467,615)	2,063,379	(14,355)	58,578	(1,639,987)	-
Balance as at December 31, 2010	44,258,718	9,128,205	300,514	218,811	15,622,748	69,528,996

4.6.1 Capital work in progress includes Rs. 44,256,976 (2009: Rs. 47,081,203) and Rs. 8,365,879 (2009: Rs. 7,459,458) with respect to Enven Plant for plant & machinery and building & civil works respectively. Engro Fertilizers Limited commenced trial production on December 29, 2010 but could not continue for a reasonable period, as required for commissioning of commercial production, due to curtailment of gas by Sui Northern Gas Pipeline Limited (SNGPL) for forty five days from January 7, 2011. Engro Fertilizers Limited, therefore, now expects to commence production by end of February 2011 and will declare commercial production once fully tested. However, certain components related to the Enven Plant, amounting to Rs. 10,599,106 have been transferred to operating assets being complete in all respects for its intended use.

4.6.2 During the year:

- Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited on commencement of commercial operations, has transferred the cost of the Power Plant from capital work-in-progress to operating assets.

- Engro Polymer and Chemicals Limited has declared commercial operations of the VCM plant and transferred the related costs of the plant to operating assets.

- On commencement of commercial production of juices by Engro Foods Limited, the related plant, machinery and equipment has been transferred to operating assets on February 28, 2010. Further, drying unit of its subsidiary's rice processing plant commenced commercial production and has been transferred to operating assets on November 7, 2010 while the construction of the milling plant is still in progress. Engro Foods Limited is also in the phase of expansion in respect of ice cream plant.

(Amounts in thousand)

4.6.3 The ancillary costs includes net borrowing cost of Rs. 11,330,245 (2009: Rs. 6,645,866) capitalized at borrowing rates ranging from 11.52% to 17.22% (2009: 11.52% to 17.22%). Other ancillary cost also includes interest on investment in Subsidiary Company amounting to Rs. 77,508 (2009: Rs. 803,083). The ancillary costs, other than net borrowing costs and storage & handling cost, capitalised include depreciation, amortization, salaries, wages and benefits, legal and professional charges, etc. Upon aforementioned commencement of commercial production and transfer of cost from capital work-in-progress to operating assets, the related ancillary cost has also been allocated to plant and machinery, pipelines and building & civil work in their respective cost ratio.

4.7 Capital spares

These mainly include Rs. 148,712 (2009: Nil) and Rs. 758,466 (2009: Nil) in respect of Engro Fertilizers Limited (Enven Plant) and Engro Powergen Qadipur Limited (Power Plant) respectively (note 12.1 and 12.2).

5 Exploration and Evaluation Expenditure

Represents expenditure incurred by Sindh Engro Coal Mining Company Limited, a subsidiary of Engro PowerGen Limited, in respect of Detailed Feasibility Study and other costs for the development, construction and operation of open cast mine facility in Block II of Thar Coal Field, Sindh, as referred to in note 1.3.

6 Biological Assets

	2010	2009
	-----------(Rupees)	-----------
Dairy livestock (note 6.1)		
- mature	257,537	415,147
- immature	164,066	19,759
	421,603	434,906
Crops - feed stock	6,690	3,967
	428,293	438,873

6.1 Reconciliation of carrying amounts of livestock

	2010	2009
Carrying amount at the beginning of the year	434,906	297,699
Add:		
- Purchases during the year	40,830	16,299
- Gain / (Loss) arising from changes in fair value less estimated point-of-sale costs attributable to physical / price changes	14,309	136,677
Less: Decreases due to deaths / disposals	(68,442)	(15,769)
Carrying amount at the end of the year, which approximates the fair value	421,603	434,906

6.2 As at December 31, 2010, Engro Foods Limited, held:

- 1,476 (2009: 1,455) mature assets able to produce milk and 1,035 (2009: 808) immature assets that are being raised to produce milk in the future. During the year, Engro Foods Limited produced approximately 5,273,854 liters (2009: 1,844,142 liters) of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 236,827 (2009: Rs. 66,939), determined at the time of milking.

- 3 (2009: 15) mature Bulls and 77 (2009: 23) immature male calves. Mature Bulls are used for insemination and subsequent disposal at the end of their inseminating life.

(Amounts in thousand)

6.3 The deaths during the year mainly occurred among the immature dairy livestock on account of an infection, which has now been fully controlled. The Company has recovered Rs. 63,085 from the insurance company against such deaths.

6.4 The valuation of dairy livestock as at December 31, 2010 has been carried out by an independent valuer in accordance with International Valuation Standards issued by International Valuation Standards Committee. In this regard, the valuer has examined the physical condition of the livestock as at December 31, 2010, assessed the key assumptions and estimates and also relied on representations made by the Engro Foods Limited. Further, in the absence of an active market of Engro Foods Limited's dairy livestock in Pakistan, market and replacement values of these animals from most relevant active market being Australia, have been used as basis of valuation model by the independent valuer. Mature bulls and immature 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	Other intangible	Total
	-----------------------------------(Rupees)-----------------------------------				
As at January 1, 2009					
Cost	162,122	102,312	6,000	419,912	690,346
Accumulated amortization	(112,291)	-	(6,000)	(1,222)	(119,513)
Net book value	49,831	102,312	-	418,690	570,833
Year ended December 31, 2009					
Opening net book value	49,831	102,312	-	418,690	570,833
Additions at cost	42,151	-	-	-	42,151
Write-off					
Cost	(11,577)	-	-	-	(11,577)
Accumulated amortisation	11,577	-	-	-	11,577
	-	-	-	-	-
Amortization charge	(27,626)	-	-	-	(27,626)
Closing net book value	64,356	102,312	-	418,690	585,358
As at January 1, 2010					
Cost	192,696	102,312	6,000	419,912	720,920
Accumulated amortization	(128,340)	-	(6,000)	(1,222)	(135,562)
Net book value	64,356	102,312	-	418,690	585,358
Year ended December 31, 2010					
Opening net book value	64,356	102,312	-	418,690	585,358
Additions at cost	218,022	-	-	2,051	220,073
Adjustment of exchange revaluation	5	-	-	117,875	117,880
Write-off					
Cost	(287)	-	-	-	(287)
Accumulated amortisation	271	-	-	-	271
	(16)	-	-	-	(16)
Adjustment of exchange revaluation	(1)	-	-	(1)	(2)
Amortization charge	(45,816)	-	-	(154)	(45,970)
Closing net book value	236,550	102,312	-	538,461	877,323
As at December 31, 2010					
Cost	410,435	102,312	6,000	539,838	1,058,585
Accumulated amortization	(173,885)	-	(6,000)	(1,377)	(181,262)
Net book value	236,550	102,312	-	538,461	877,323

(Amounts in thousand)

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

	2010	2009
	-----------(Rupees)-----------	
Cost of sales (note 32)	4,166	9,532
Selling and distribution expenses (note 33)	33,532	16,240
Capital work in progress (note 4.6.3)	8,272	1,854
	45,970	27,626

8 Long Term Investments

Unquoted

Joint venture company - (note 8.1)	509,505	494,780
Associated companies		
- Agrimall (Private) Limited (note 8.4)	-	-
- Arabian Sea Country Club Limited 500,000 Ordinary shares of Rs. 10 each	5,000	5,000
	514,505	499,780

8.1 Details of Investment in Joint Venture companies

Engro Vopak Terminal Limited		
At beginning of the year	494,780	486,210
Add: Share of income after tax for the year	554,725	458,570
Less:		
- Dividend received during the year	450,000	337,500
- Dividend receivable	90,000	112,500
	509,505	494,780

8.2 Interest in Joint Venture company

Name of Company	No. of Ordinary shares of Rs. 10 each	Equity % held
Engro Vopak Terminal Limited	45,000,000	50

8.3 The summary of financial information as of December 31, of the joint venture is as follows:

	2010	2009
	-----------(Rupees)-----------	
- Total assets	5,400,154	5,512,256
- Total liabilities	4,346,350	4,487,901
- Total equity	1,053,804	1,024,355
- Total revenue	2,302,747	2,135,658
- Profit for the year	1,109,449	917,141

8.4 This represents the Group's share in the paid-up share capital of the investee transferred free of cost to the Group under a joint venture agreement.

(Amounts in thousand)

9 Employees' Share Option Scheme

9.1 Engro Corporation Limited, the Holding Company

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

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

In 2008, the grant date was changed to August 23, 2007, from the date approved in the original scheme. Further, consequent to the issue of right shares in 2008 and in the current year, the entitlements were increased to 5.5 million ordinary shares and 7.7 million ordinary shares respectively and the exercise price was adjusted to Rs. 267.73 per share and Rs. 205.52 per share respectively. These changes have been duly approved by the Securities and Exchange Commission of Pakistan (SECP). The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the consolidated financial statements.

Subsequent to the demerger, as referred to in note 1.1, the employees transferred to Engro Fertilizers Limited have surrendered their existing share options against which new share options have been granted under a new scheme of Engro Fertilizers Limited (note 9.2).

Further, consequent to the bonus issue in the current year, the entitlements were increased to 1,924,230 shares from 1,749,300 shares respectively and the exercise price was adjusted to Rs. 186.84 from Rs. 205.52 respectively. These changes have been duly approved by the SECP. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the consolidated financial statements.

9.2 Engro Fertilizers Limited

Consequent to the demerger, as referred to in note 1.1, the employees transferred to the Engro Fertilizers Limited and holding share options of the Holding Company have been, on surrender thereof, granted share options under a new Employee Share Option Scheme (the Scheme) of Engro Fertilizers Limited. Under the Scheme, employees have been granted options to purchase 4,937,100 ordinary shares of the Engro Fertilizers Limited at an exercise price of Rs. 98 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee are the same as the number of options of the Holding Company surrendered by them. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period for employees who were initially granted options on or before June 30, 2008 in the Holding Company, has started from January 1, 2010 and ended on December 31, 2010, whereafter these options can be exercised within a period of two years ending December 31, 2012.

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

The above Scheme was conceptually approved by the Securities and Exchange Commission of Pakistan (SECP) before the transfer of Fertilizer Undertaking to Engro Fertilizers Limited, referred to in note 1.1, whereas the formal approval was granted subsequently on June 10, 2010. As the vesting period has started from January 1, 2010 and the Scheme being considered a continuation of the old Scheme announced by the Holding Company, a charge based on fair value of share options i.e. Rs. 11.94 per share, calculated as on January 1, 2010, has been recognised in these consolidated financial statements.

Further, post demerger and consequent to issue of bonus shares, the exercise price was also adjusted to Rs. 27.22 per share, however, such adjustment has no effect on the fair value of share options recognised in the financial statements. The approval from SECP in this regard has been requested vide letter dated December 29, 2010.

9.3 Engro Polymer and Chemicals Limited

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

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

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

9.4 Engro Powergen Qadirpur Limited

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

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

9.5 Engro Foods Limited

The shareholders of the Engro Foods Limited, in their meeting held on October 8, 2007, have 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 SECP on July 10, 2008 (the grant date).

(Amounts in thousand)

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

9.6 Avanceon Limited

The Employees' Share Option Scheme (the Scheme) of Avanceon Limited was originally approved by its shareholders in their Annual General Meeting (AGM) held on March 31, 2008. According to the Scheme, senior employees who are critical to the business operations, shall be granted options to purchase 2.105 million newly issued ordinary shares. The number of options granted is calculated in accordance with the ability and criticality of employee to the business, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period shall start from the date of grant and ended on December 31, 2010, where after the options can be exercised within a period of two years, whereas, the vesting period for options granted in 2010 shall start from the date of grant and shall end on December 31, 2011, whereafter the option can be exercised within a period of two years.

9.7 Deferred employee compensation expense

	2010	2009
	-----------(Rupees)-----------	
Balance as at January 1	100,461	205,169
Options issued during the year / transfers (note 9.1 and 9.2)	59,878	9,336
Options lapsed due to employee resignation	(69,103)	(18,114)
Amortisation for the year	(86,407)	(95,930)
Balance as at December 31	4,829	100,461
Less: Current portion shown under current assets	(4,829)	(97,492)
Long term portion of deferred employee compensation expense	-	2,969

9.8 Employee share option compensation reserve

	2010	2009
Balance as at January 1	318,242	327,020
Add: Options issued during the year	59,878	9,336
Less: Options lapsed due to employee resignation / transfers (note 9.1 and 9.2)	(215,665)	(18,114)
Balance as at December 31	162,455	318,242

(Amounts in thousand)

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

	Holding Company	Subsidiary Companies				
	Engro Corporation Limited	Engro Fertilizers Limited	Engro Polymer and Chemicals Limited	Engro Foods Limited	Engro Powergen Qadirpur Limited	Avanceon Limited
Fair value of the share options at grant date	Rs. 65.86	Rs. 11.94	Rs. 1.86	Nil	Rs. 1.29	Rs. 1.61
Share price at grant date	Rs. 220	Rs. 87.61	Rs. 18	Rs. 5.61	Rs. 9.90	Rs. 28.76
Exercise price	Rs. 277	Rs. 98	Rs. 22	Rs. 17	Rs. 15	Rs. 42.58
Annual volatility	34.54%	41.64%	15.13%	10%	30.19%	36%
Risk free rate used	10.77%	12.21%	10.12%	14%	14.20%	13.39%

10 Derivative Financial Instruments

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Conversion option on IFC loan (note 22.5)	-	367,442	-	338,647
Cash flow hedges:				
Foreign exchange forward contacts (note 10.1)	2,638	234,055	22,637	157,329
Foreign exchange option contacts (note 10.2)	510	12,464	53,572	4,468
Interest rate swaps (note 10.3)	-	1,232,022	-	872,376
	3,148	1,845,983	76,209	1,372,820
Less: Current portion shown under current assets/ liabilities				
Conversion option on IFC loan	-	367,442	-	338,647
Cash flow hedges:				
Foreign exchange forward contacts	2,638	234,055	22,637	157,329
Foreign exchange option contacts	510	12,464	53,572	4,468
Interest rate swaps	-	426,868	-	239,599
	3,148	673,387	76,209	401,396
	3,148	1,040,829	76,209	740,043
	-	805,154	-	632,777

(Amounts in thousand)

10.1 Foreign exchange forward contracts

10.1.1 Engro Fertilizers Limited entered into various forward exchange contracts to hedge its foreign currency exposure. As at December 31, 2010, Engro Fertilizers Limited had foreign exchange forward contracts to purchase Euros 2,698 (January 1, 2010: (note 1.1) Euros 9,543) at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts as at December 31, 2010 is positive and amounted to Rs. 2,638 (January 1, 2010: (note 1.1) Rs. 22,637 positive).

10.1.2 Engro Fertilizers Limited entered into various US$: PKR forward contracts to hedge its foreign currency exposure. As at December 31, 2010, Engro Fertilizers Limited had forward contracts to purchase US$ 85,000 (January 1, 2010: (note 1.1) US$ 85,000) at various maturity dates to hedge its foreign currency loan obligations. The fair value of these contracts is negative amounting to Rs. 234,055 (January 1, 2010: (note 1.1) Rs. 157,329 negative).

10.2 Foreign exchange option contracts

10.2.1 Engro Fertilizers Limited entered into various foreign exchange option contracts to hedge its currency exposure against US dollar relating to the expansion project. As at December 31, 2010 Engro Fertilizers Limited has foreign exchange options amounting to Euro 6,371 (January 1, 2010: (note 1.1) Euro 12,628). The net fair value of these contracts is negative and amounted to Rs. 12,464 (January 1, 2010: (note 1.1) Rs. 49,104 positive).

10.2.2 Engro Foods Limited entered into various foreign exchange option contracts to hedge its currency exposure having maturity dates approximately matching with the anticipated payment dates for commitments with respect to import of plant and machinery. The gain on settlement of these options amounted to Rs. 9,694 and the fair value of outstanding contracts amounted to Rs. 510 positive (2009: Nil).

10.3 Interest rates swaps

10.3.1 Engro Fertilizers Limited 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 US$ 150,000 amortising upto September 2014. Under the swap agreement, Engro Fertilizers Limited 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 swap as at December 31, 2010 is negative and amounted to Rs. 654,163 (January 1, 2010: (note 1.1) Rs. 542,385 negative).

Engro Fertilizers Limited 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 US$ 85,000 (January 1, 2010: (note 1.1) US$ 85,000) amortising upto April 2016. Under the swap agreement, the Company 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, 2010 is negative and amounted to Rs. 466,995 (January 1, 2010: (note 1.1) Rs. 310,056 negative).

10.3.2 During the year Engro Polymer and Chemicals Limited has entered into a cross currency interest rate swap agreement for the notional amount of US $ 4,000 with a bank to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR on the relevant Pak Rupees notional amount and will pay six month's USD-LIBOR plus 0.95%,on the relevant US$ notional amount which will be settled semi annually. As at December 31, 2010, Engro Polymer and Chemicals Limited has an outstanding cross currency interest rate swap agreement with a local bank for a notional amount of US $ 3,594. As at December 31, 2010, the fair value of interest rate swap agreement is positive Rs. 816.

As at December 31, 2010, the Engro Polymer and Chemicals Limited has outstanding interest rate swap agreements with banks for the notional amounts aggregating to US$ 34,666 to hedge its interest rate exposure on the floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Engro Polymer and Chemicals Limited would received six months USD-LIBOR on respective notional amounts and will pay fix rates, which will be setted semi annually. The fair value as at the balance sheet date of the aforementioned interest rate swap agreements aggregated to Rs. 111,680 negative.

(Amounts in thousand)

11 Long Term Loans and Advances - Considered good

	2010	2009
	-----------(Rupees)-----------	
Long term loans		
Executives (note 11.1 to 11.3)	387,977	386,824
Other employees (note 11.3 and 11.4)	264,452	241,158
	652,429	627,982
Less: Current portion shown under current assets (note 15)	472,366	484,243
	180,063	143,739
Others	13,395	7,221
	193,458	150,960

11.1 Reconciliation of the carrying amount of loans and advances to Executives:

	2010	2009
Balance as at January 1	386,824	264,752
Disbursements	135,859	250,073
Repayments/amortization	(134,706)	(128,001)
Balance as at December 31	387,977	386,824

11.2 This includes interest free services incentive loans to executives amounting to Rs. 71,782 (2009: Rs. 61,730) repayable in equal monthly instalments over a three years period or in one lump sum at the end of such period and disbursements to executives under housing subsidy scheme amounting to Rs.182,910 (2009: Rs. 184,002). It also includes advances of Rs. 45,802 (2009: Rs. 34,762) and Rs. 8,231 (2009: Rs. 36,102) to employees for car earn out assistance and house rent advance respectively.

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

11.4 Includes interest free loans given to workers of Rs. 49,446 (2009: Rs. 6,988) pursuant to Collective Labour Agreement and disbursement to workers under housing subsidy scheme amounting to Rs. 186,124 (2009: Rs. 211,450).

11.5 The maximum amount outstanding at the end of any month from the executives of the Group aggregated Rs. 398,654 (2009: Rs. 406,504).

12 Stores, Spares and Loose Tools

	2010	2009
	-----------(Rupees)-----------	
Consumable stores	441,432	179,039
Spares & loose tools, including in transit (note 12.1 and 12.2)	4,537,027	1,320,378
	4,978,459	1,499,417
Less: Provision for surplus and slow moving items	67,518	47,885
	4,910,941	1,451,532

(Amounts in thousand)

12.1 Engro Fertilizers Limited has purchased stores and spares for its new Enven Plant aggregating Rs. 2,446,407, of which Rs. 148,712 are of capital nature (note 4.7) based on initial assessment.

12.2 Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited, purchased stores and spares with plant and machinery under the Supply (Engineering and Procurement) Contract amounted to Rs. 1,154,316 of which, spares of capital nature amounting to Rs. 758,466 have been reflected under property, plant and equipment (note 4.7).

13 Stock-in-Trade

	2010	2009
	-----------(Rupees)-----------	
Raw materials and packing materials (note 13.1 & 13.2)	3,065,106	2,473,461
Unprocessed rice (note 13.3)	1,701,354	-
Fuel stock (note 13.4)	471,270	22,323
Work-in-process	53,313	62,663
Finished goods		
- own manufactured product	2,105,269	863,140
- purchased product (note 13.1)	1,482,939	401,607
Less: Provision for slow moving inventory	(35,574)	(3,223)
	3,552,634	1,261,524
	8,843,677	3,819,971

13.1 This includes stocks-in-transit amounting to Rs. 1,540,653 (2009: Rs. 248,065) and stocks held at the storage facilities of Engro Vopak Terminal Limited, amounting to Rs. 601,050 (2009: Rs. 595,104) and Dawood Hercules Chemical Limited, a related party, amounting to Rs. 4,425 (2009: Rs. 1,635).

13.2 This includes carrying value of PVC resin in respect of finished goods of the Engro Polymer and Chemicals Limited, net of realisable value reduction of Rs. 17,162 (2009: Rs. 21,084). This also includes Rs. 30,731 (2009: Rs. 23,940) in respect of finished goods of Engro Foods Limited carried at net realisable value and Rs. 35,102 (2009: Rs. 19,387) in respect of stock held by third parties.

13.3 Includes unprocessed rice in possession of third party contractors amounting to Rs. 1,484,674 (2009: Nil) for processing on behalf of Engro Eximp (Private) Limited.

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

14 Trade Debts

	2010	2009
	-----------(Rupees)-----------	
Considered good		
- secured (note 14.1)	4,755,732	2,794,542
- unsecured (note 14.2)	383,017	741,991
	5,138,749	3,536,533
Considered doubtful	131,784	40,507
	5,270,533	3,577,040
Less: Provision for impairment (note 14.3)	139,125	40,507
	5,131,408	3,536,533

(Amounts in thousand)

14.1 The balance of trade debts are secured by way of bank guarantees and letters of credit from customers. Trade debts of Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited, amounting to Rs. 2,965,430 (2009: Nil), are secured by a guarantee from the Government of Pakistan under the Implementation Agreement. An amount of Rs. 527,999 (2009: Nil) with respect to Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited, will be invoiced after the revised tariff and quarterly indexation have been notified in the official Gazzette of Government of Pakistan inclusive of the effect of the Review Petition amounting to Rs. 61,300, as more fully explained in note 31.2.1.

14.2 This includes due from Mitsubishi Corporation, Cadbury Pakistan Limited and Dawood Hercules Chemicals Limited, related parties, amounting to Nil (2009: Rs. 164,228), Nil (2009: Rs. 123) and Rs. 712 (2009: Rs. 16,318) respectively.

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

	2010	2009
	-----------(Rupees)-----------	
Balance as at January 1	40,507	33,541
Add: Provision made during the year and recognised in selling and distribution expenses (note 33)	130,972	25,241
Less: Balances written off	(32,354)	(18,275)
Balance as at December 31	139,125	40,507

14.4 As at December 31, 2010, trade debts aggregating to Rs. 139,125 (2009: Rs. 40,507) were impaired and provided for, which are past due for more than six months.

14.5 As at December 31, 2010, trade debts aggregating to Rs. 1,795,870 (2009: Rs. 132,741) were past due but not impaired. These relate to various customers for which there is no recent history of default. The ageing analysis of these trade debts is as follows:

	2010	2009
	-----------(Rupees)-----------	
Upto 3 months	1,640,533	118,959
3 to 6 months	57,701	13,782
More than 6 months	97,636	-
	1,795,870	132,741

15 Loans, Advances, Deposits and Prepayments

	2010	2009
Current portion of long term loans and advances to executives and other employees - considered good (note 11)	472,366	484,243
Advances to executives and other employees (note 15.1 and 15.2)	35,159	27,551
Loan to Descon Engineering Limited considered good (note 15.3)	650,000	-
Advance and deposits	420,115	617,357
Prepayments:		
- insurance	75,948	85,823
- gas charges (note 15.4)	573,843	95,843
- others	248,157	67,424
	2,475,588	1,378,241
Less: Provision for impairment (note 15.5)	1,512	5,816
	2,474,076	1,372,425

(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. 7,279 (2009: Rs. 4,805).

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

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

15.5 As at December 31, 2010, loans and advances aggregating to Rs. 1,512 (2009: Rs. 5,816) were impaired and provided for, which are past due for more than six months. The movement in provision during the year is as follows:

	2010	2009
	-----------(Rupees)-----------	
Balance as at January 1	5,816	4,521
Add: Provision made during the year	(4,304)	1,295
Balance as at December 31	1,512	5,816

16 Other Receivables

	2010	2009
Receivable from Government of Pakistan for:		
- sales tax (note 16.1 and 16.2)	783,775	686,507
Less: Provision for impairment	140	121,539
	783,635	564,968
- Special excise duty refundable	36,687	36,687
Less: Provision for impairment	36,687	36,687
	-	-
- Customs duty claims refundable (note 16.3)	18,043	18,043
Less: Provision for impairment	18,043	18,043
	-	-
- Others	991	30,651
	784,626	595,619
Accrued income on deposits / investments	21,739	5,392
Receivable from pension fund	4,073	31,887
- Joint venture		
- Engro Vopak Terminal Limited (note 16.4)	90,185	112,102
Claims on suppliers and insurance companies	10,028	21,388
Less: Provision for impairment	-	295
	10,028	21,093
Receivable from Tetra Pak Pakistan Limited (note 16.5)	165,876	226,322
Reimbursable cost of fuel oil consumed (note 13.4)	-	84,830
Others	215,112	62,989
Less: Provision for impairment	3,812	3,969
	211,300	59,020
	1,287,827	1,136,265

16.1 Include Rs. 57,135 of Engro Fertilizers Limited in respect of sales tax receivable from the Government of Pakistan, levied in 2008 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609(1)/2004. Engro Fertilizers Limited had paid the demand made under protest and filed an appeal before the Collector, Sales Tax and Federal Excise. Further, the Ministry of Food, Agriculture and Livestock had also recommended through its letter dated June 27, 2008 that the said grade of MAP should be assessed at deemed value of import with retrospective effect. An appeal has been filed before the Collector, Sales Tax and Federal Excise and the management is confident that it will be decided in the Engro Fertilizers Limited's favour and the aforementioned amount paid under protest would be fully recovered.

16.2 Includes sales tax refundable of Engro Foods Limited, amounting to Rs. 518,439 (2009: Rs. 409,328). Sales tax has been zero rated on Engro Foods Limited's supplies (output), raw materials, components and assemblies imported or purchased locally by the Company for manufacturing in respect of its dairy operations. Further, partial sales tax refunds claim on purchase of Hydrogenated Palm Oil (HPO), amounting to Rs. 192,293 for the year 2007 to 2009 were refunded by the sales tax authorities during the year and accordingly entire provision of Rs. 121,539 (December 31, 2009: Rs. 121,539) has been reversed.

16.3 The Collector of Customs through his order dated April 11, 2008, disposed off the refund applications filed by Engro Polymer and Chemicals Limited for the refund of custom duty paid amounting to Rs. 18,043 (2009: 18,043), at import stage on import of Vinyl Chloride Monomer. Engro Polymer and Chemicals Limited based on the advice of its tax consultant, has filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order on which no progress has been made. However, based on prudence, full provision is carried against the aforementioned custom duty refundable.

16.4 The maximum amounts due from joint venture at the end of any month during the year aggregated as follows:

	2010	2009
	-----------(Rupees)-----------	
Joint venture		
- Engro Vopak Terminal Limited [includes dividend of Rs. 90,000 (2009: Rs. 112,500)]	180,551	135,509

16.5 Includes marketing support subsidy receivable, under an agreement dated July 5, 2010, for quantity size discount and investment support allowance, net off amount due on account of packaging material purchased by Engro Foods Limited. The receivable is less than one month old and has been cleared subsequently.

16.6 As at December 31, 2010 receivables aggregating to Rs. 22,796 (2009: Rs. 59,061) were past due but not impaired. The ageing analysis of these loans and advances is as follows:

	2010	2009
	-----------(Rupees)-----------	
Upto 3 months	6,988	9,953
3 to 6 months	6,162	-
More than 6 months	9,646	49,108
	22,796	59,061

16.7 As at December 31, 2010, receivables aggregating to Rs. 58,662 (2009: Rs. 180,533) were deemed to be impaired being outstanding for more than six months and provided for.

(Amounts in thousand)

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

	2010	2009
	-----------(Rupees)-----------	
Balance as at January 1	180,533	95,940
(Reversal) / provision made during the year	(121,851)	84,593
Balance as at December 31	58,682	180,533

17 Short Term Investments

Financial assets at fair value through profit or loss		
Fixed income placements (note 17.1)	61,303	75,795
Money market funds (note 17.2)	4,364,885	436,460
	4,426,188	512,255

17.1 These represents foreign and local currency deposits with various banks.

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

18 Cash and Bank Balances

With banks		
- deposit accounts (note 18.1)	3,483,357	5,627,521
- current accounts (note 18.2)	568,763	1,121,650
In hand		
- cheques / demand drafts / cash in transit (note 18.3)	59,135	123,450
- cash	8,776	7,787
	4,120,031	6,880,408

18.1 Includes Rs. 20,742 (2009: Rs. 24,193) kept in a separate bank account in respect of security deposits.

18.2 This includes Rs. 16,757 (2009: Rs. 735,898) held in foreign currency bank accounts for letter of credit payments relating to expansion projects of the Group.

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

(Amounts in thousand)

19 Share Capital

19.1 Authorised Capital

2010	2009		2010	2009
-----(No. of Shares)-----			---------(Rupees)---------	
350,000,000	350,000,000	Ordinary shares of Rs. 10 each	3,500,000	3,500,000

Issued, subscribed and paid-up capital

2010	2009		2010	2009
-----(No. of Shares)-----			---------(Rupees)---------	
185,354,484	185,354,484	Ordinary shares of Rs. 10 each fully paid in cash	1,853,545	1,853,545
142,382,335	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	1,423,824	1,125,881
327,736,819	297,942,563	Ordinary shares of Rs. 10 each	3,277,369	2,979,426

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

2010	2009		2010	2009
-----(No. of Shares)-----			---------(Rupees)---------	
297,942,563	212,816,117	As at January 1	2,979,426	2,128,161
-	85,126,446	Ordinary shares of Rs. 10 each issued during the year as fully paid right shares	-	851,265
29,794,256	-	Ordinary shares of Rs. 10 each issued during the year as fully paid bonus shares (note 19.3)	297,943	-
327,736,819	297,942,563		3,277,369	2,979,426

19.3 During the year, the Holding Company issued bonus shares in the ratio of 1 share for every 10 shares.

19.4 Associated companies held 158,516,740 (2009: 144,390,600) ordinary shares in the Holding Company at year end.

20 Hedging Reserve

	2010	2009
	-----------(Rupees)-----------	
Fair values of:		
- Forward foreign exchange contracts (note 10.1)	(231,417)	(134,692)
- Foreign currency option contracts (note 10.2)	(11,954)	49,104
- Interest rate swaps (note 10.3)	(1,232,022)	(872,376)
	(1,475,393)	(957,964)
Less: Deferred tax	516,385	335,287
Less: Minority interest	31,570	5,677
	547,955	340,964
	(927,438)	(617,000)

20.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

21 Maintenance Reserve

In accordance with the Power Purchase Agreement (PPA), Engro Powergen Qadirpur Limited, a 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 shall remain in the Fund.

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

22 Borrowings

Secured (Non-participatory)

	Note	Mark - up rate p.a.	Instalments Number	Instalments Commencing from	Unavailed credit as at year end	2010	2009 (note 22.15)
					--------------(Rupees)--------------		
Engro Corporation Limited							
Listed & Secured Engro Rupiya Certificate	22.1	14.5%	6 half yearly	January 15, 2011	-	3,384,536	-
Engro Feritlizers Limited							
Long term finance utilised under mark-up arrangements:							
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	-	225,000	525,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	200,000	400,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	-	925,000	1,000,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	1,850,000	2,000,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	-	231,250	250,000
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	-	92,500	100,000
HSBC Middle East Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	-	231,250	250,000
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	-	462,500	500,000
National Bank of Pakistan		6 months KIBOR + 1.1%	8 half yearly	September 4, 2011	-	1,500,000	1,500,000
Syndicated finance	22.2	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	-	18,165,889	12,012,004
Islamic offshore finance	22.3	6 months LIBOR + 2.57%	8 half yearly	March 28, 2011	-	12,755,717	12,509,214
DFI Consortium finance	22.4	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	-	7,284,352	7,170,987
International Finance Corporation	22.5	6 months LIBOR + 6%	3 half yearly	September 15, 2015	-	3,889,941	3,794,812
Bank Islami Pakistan Limited	22.6	6 months KIBOR + 2.4%	14 half yearly	May 25, 2010	-	499,800	500,000
Pak Kuwait Investment Company (Private) Limited	22.6	6 months KIBOR + 2.35%	10 half yearly	April 30, 2012	-	495,323	494,357
Faysal Bank Limited	22.6	6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	-	1,497,929	1,497,683
Dubai Islamic Bank Limited	22.6	6 Months Kibor + 2.11%	10 half yearly	December 31, 2012	-	490,400	-
Silk Bank Limited	22.6	6 Months Kibor + 2.35%	10 half yearly	January 21, 2013	-	299,405	-
Standard Chartered Bank	22.6	6 Months Kibor + 2.40%	10 half yearly	September 17, 2012	-	989,094	-

(Amounts in thousand)

	Note	Mark - up rate p.a.	Instalments Number	Instalments Commencing from	Unavailed credit as at year end	2010	2009 (note 22.15)
					----------(Rupees)-----------		
Samba Bank Limited	22.6	6 Months KIBOR + 2.40%	10 half yearly	September 30, 2012	-	495,934	-
National Bank of Pakistan	22.7	6 Months KIBOR + 2.40%	6 half yearly	March 28, 2013	-	990,949	-
Habib Bank Limited	22.12	6 Months KIBOR + 1.5%	Bullet	October 28, 2011	-	1,000,000	-
Allied Bank Limited	22.12	6 Months KIBOR + 1%	Bullet	November 29, 2011	-	149,942	-
Habib Metropolitan Bank Limited	22.6	6 Months KIBOR + 2.40%	10 half yearly	June 21, 2013	-	199,965	-
Standard Chartered Bank Limited	22.13	6 Months KIBOR + 1.5%	3 instalments	April 18, 2011	-	1,500,000	-
Certificates							
Term Finance Certificates - 2nd Issue	22.8	6 months KIBOR + 1.55%			-	3,970,694	3,968,819
Term Finance Certificates - 3rd Issue	22.9	6 months KIBOR + 2.4%			-	1,972,993	1,974,360
Sukuk Certificates	22.10	6 months KIBOR + 1.5%			-	2,986,590	2,984,459
Privately Placed Sub-Ordinated Term Finance Certificates	22.11				-	5,959,269	5,943,759
						71,311,686	59,375,454
Engro Polymer and Chemicals Limited							
Syndicated term finance I		6 months KIBOR + 2.25%	13 half yearly	November 2010	-	5,428,997	5,655,127
Syndicated term finance II		6 months KIBOR + 3%	13 half yearly	June 2010	-	1,377,948	1,485,599
Syndicated term finance III	22.16	6 months KIBOR + 2%	Single	June 2012	-	742,000	-
Master Istisna finance I	22.17	6 months KIBOR + 1.5%	6 half yearly	November 2010	-	100,000	-
Master Istisna finance II	22.17	6 months KIBOR + 2%	3 half yearly	June 2011	-	200,000	-
International Finance Corporation (IFC)		6 months LIBOR+2.6 to 3%	15 half yearly	June 2010	-	4,415,708	5,010,830
						12,264,653	12,151,556
Engro Foods Limited							
Royal Bank of Scotland		6 month KIBOR + 1.4%	6 half yearly	August 21, 2009	-	175,000	291,667
Syndicated Finance I		6 month KIBOR + 0.69%	4 half yearly	February 20, 2015	-	1,500,000	1,500,000
Syndicated Finance II	22.19	6 month KIBOR + 2.6%	5 half yearly	July 10, 2012	-	1,200,000	200,000
Habib Bank Limited		6 month KIBOR + 2.25%	6 half yearly	September 3, 2011	-	500,000	500,000
Syndicated Finance III	22.19		6 half yearly	February 16, 2013		500,000	-
Syndicated Finance IV	22.20	10.40%	6 half yearly	January 22, 2013		250,000	-
Syndicated Long Term Finance	22.20	10.40%	6 half yearly	March 3, 2012		665,051	-
Certificate							
Sukuk Certificates		6 month KIBOR + 0.69%	4 half yearly	July 13, 2015	-	950,000	950,000
						5,740,051	3,441,667

(Amounts in thousand)

	Note	Mark - up rate p.a.	Instalments Number	Instalments Commencing from	Unavailed credit as at year end	2010	2009 (note 22.15)
					----------(Rupees)-----------		
Avanceon Limited							
MCB Bank Limited	22.22	6 months KIBOR + 2.25%	16 quarterly	September 30, 2009	1,250	18,750	20,000
Faysal Bank Limited	22.23	6 months KIBOR + 2%	20 quarterly	September 30, 2008	22,500	27,500	37,500
Habib Bank Limited	22.24	3 months LIBOR + 3% with a floor of 8%	20 quarterly	December 31, 2007	99,020	82,610	114,841
						128,860	172,341
Engro PowerGen Limited							
DFI Consortium finance	22.25	6 months LIBOR + 3%	20 half yearly	December 15, 2010	659,214	11,865,850	11,376,810
						104,695,636	86,517,828
Less: Current portion shown under current liabilities						15,543,787	2,375,675
						89,151,849	84,142,153

Engro Corporation Limited

22.1 Represents subscription money received (net of transaction cost of Rs. 178,319) from the general public against the issuance of Term Finance Certificates Engro Rupiya Certificates (the Certificates). The Certificates are available by January 14, 2011 on first come first serve basis or earlier if the issue amount of Rs. 4,000,000 is reached. 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 structured to redeem 0.1% of principal in five equal semi-annual installments in the first thirty months and the remaining 99.9% principal in thirty sixth month from the date of issue. The Certificate holder, however, may ask Engro Corporation Limited for early redemption at any time from the date of investment subject to service charge of 2% of the outstanding issue price.

These Certificate are secured by way of first ranking floating charge over all the present and future movable properties of Engro Corporation Limited except for present and future trade mark, copy rights and certain investment in subsidiary companies.

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

Engro Fertilizers Limited

22.2 This represents the 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 as at December 31, 2010 (January 1, 2010: (note 1.1) Rs. 12,175,000). Some of the banks have sold down their share to other banks.

22.3 This represents an offshore Islamic Finance Facility Agreement of US$ 150,000 with Citi Bank, Dubai Islamic Bank, Habib Bank Limited, National Bank of Pakistan, SAMBA Financial Group and Standard Chartered Bank.

22.4 This represents an agreement amounting to US$ 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID.

(Amounts in thousand)

22.5 The Holding Company entered into a C Loan Agreement (Original Agreement) dated September 29, 2009 with International Finance Corporation (IFC) for US$ 50,000, divided into Tranche A (US$ 15,000) and Tranche B (US$ 35,000). Both Tranche A and B were fully disbursed as at December 31, 2009 and transferred to Engro Fertilizers Limited under the scheme of demerger effective January 1, 2010. However, the option given to convert the Tranche A loan amount of US$ 15,000 shall remain upon the Holding Company's ordinary shares at Rs. 205 per ordinary share (Rs. 186 as at December 31, 2010) 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 during the year into an agreement with the Engro Fertilizers Limited that in the event IFC exercises the aforementioned conversion option (Tranche A), the loan amount then outstanding against the Engro Fertilizers Limited would stand reduced by the conversion option amount and Engro Fertilizers Limited would pay the rupee equivalent of the corresponding conversion amount to the Holding Company which would simultaneously be given to Engro Fertilizers Limited 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. The fair value of the conversion option, included in note 10, on the date of disbursement and as at December 31, 2010 amounted to Rs. 338,647 and Rs. 367,442 respectively. The conversion option alongwith the residual amount of Tranche A, representing the loan liability component, is shown under current liabilities. The liability component classified as long term last year has accordingly been reclassified.

On December 22, 2010, the Engro Fertilizers Limited and IFC have entered into an Amended Agreement for further disbursement of US$ 30,000 over and above the aforementioned disbursed amount of US$ 50,000. Such amendment is pending for approval of the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, hence the amount has not been disbursed as at December 31, 2010. The salient features of the Original Loan remain essentially the same. The additional loan of US$ 30,000 is divided into (i) 30% convertible loan on the shares of the Engro Fertilizers Limited at Rs. 41.67 per share and (ii) 70% non-convertible loan. The additional loan is repayable by September 15, 2017 in three equal installments and carries interest at six months LIBOR plus a spread of 6% or 10% depending on the listing status of the Engro Fertilizers Limited at various intervals. However, the management of Engro Fertilizers Limited is confident that it will comply with the requirements of listing and avail the spread of 6% for the entire loan tenure.

The entire loan is subordinated to other parallel senior debt of the Engro Fertilizers Limited and guaranteed by the Holding Company to IFC through a Corporate Guarantee.

22.6 Engro Fertilizers Limited has arranged these finance facilities for the Urea expansion project.

22.7 Engro Fertilizers Limited has arranged this facility for a project related to the existing Urea facility.

22.8 This represents 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. Engro Fertilizers Limited has appointed First Dawood Islamic Bank as trustees in respect of these TFCs.

(Amounts in thousand)

22.9 This represents listed and secured Term Finance Certificates (TFCs) of Rs. 2,000,000 issued by the Engro Fertilizers Limited which comprises of Private Placement of Rs. 1,500,000 and Initial Public Offer of Rs. 500,000. The TFCs are structured to redeem as follows:

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

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

22.10 Engro Fertilizers Limited has issued privately placed Sukuk Certificates based on diminishing Musharika amounting to Rs. 3,000,000. The principal amount is payable after seven years in two semi-annual equal instalments.

22.11 Engro Fertilizers Limited has issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively. The PPTFCs are perpetual in nature with a five year call and a ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% whereas the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. IGI Investment Bank Limited has been appointed as trustees in respect of these TFCs.

22.12 These loans are secured against a ranking charge over the assets of Engro Fertilizers Limited.

22.13 This loan is secured against a ranking charge over the assets of the Engro Fertilizers Limited and Corporate Guarantee by the Holding Company.

22.14 The above finances, excluding those covered in notes 22.5, 22.11, 22.12 and 22.13, are secured by an equitable mortgage upon the immovable property of the Engro Fertilizers Limited and hypothecation charge over current and future fixed assets of Engro Fertilizers Limited. Perpetual subordinated TFCs and IFC loan are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings of Engro Fertilizers Limited.

22.15 Prior period balance of Engro Fertilizers Limited represents amount transferred to Engro Fertilizers Limited by the Holding Company, consequent to demerger (note 1.1).

Engro Polymer & Chemicals Limited

22.16 During the year, Engro Polymer and Chemicals Limited entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 750,000. The facility, in addition to the mark-up, also carries an arrangement fee at 1%. As at December 31, 2010, the whole amount of the facility has been drawn down. This facility is secured by mortgage by deposit of title deeds over leasehold land measuring 68 acres together with the building, plant and machinery and other equipment thereon. This charge ranks second to the charges listed in note 22.18 below and hypothecation by way of second charge over all present and future fixed assets of Engro Polymer and Chemicals Limited.

22.17 During the year, the Engro Polymer and Chemicals Limited has entered into two Master Istisna Agreements (the Agreements) for facilities of Rs. 100,000 and Rs. 200,000, respectively. The entire amount of the facilities has been drawn down by the Engro Polymer and Chemicals Limited. All amounts due under the Agreements are payable in tranches by way of a series of Istisna transactions, each Istisna transaction being treated as a separate agreement. Since the management's intention is to roll over each Istisna transaction on repayment date to the expiry date of the facilities, the above mentioned financing has been included in long term borrowings. The Istisna facilities are secured as follows:

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

(Amounts in thousand)

ii) Master Istisna II facility is secured by a mortgage over land and buildings subordinated to the mortgage listed in note 22.18 and hypothecation by way of subordinated charge over all present and future fixed assets of the Engro Polymer and Chemicals Limited amounting to Rs. 267,000.

22.18 The finances, other than those referred to in note 22.16 and 22.17 are secured by:

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

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

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

Engro Foods Limited

22.19 During the year, Engro Foods Limited has further utilized the Syndicated Term Finance Facility II obtained from a syndicate of banks led by MCB Bank Limited to the extent of Rs. 1,000,000 and also obtained a new Syndicated Term Finance Facility III amounting to Rs. 500,000 from a syndicate of banks led by NIB Bank Limited.

22.20 On June 9, 2010, Engro Foods Supply Chain (Private) Limited, a subsidiary of Engro Foods Limited, entered into a 5 year Syndicated Term Finance Facility (STFF) with a syndicate of banks to the extent of Rs. 1,500,000. Subsequently, on August 30, 2010, a supplemental syndicated term finance facility was entered into by the Engro Foods Limited with the syndicate, according to which the STFF was reduced to Rs. 500,000 and the balance of Rs. 1,000,000 was converted into a Syndicated Long Term Finance Facility (LTFF) in accordance with the plant and machinery scheme, set out by SBP (MFD Circular no. 7, dated December 31, 2007). LTFF currently carries mark-up at the rate of 10.40% per annum. Mark-up is subject to change by SBP from time to time through its notifications.

22.21 The above finances are secured by a registered sub-ordinate floating charge / mortgage over the present and future operating assets of the Engro Foods Limited upto maximum of Rs. 8,732,500.

Avanceon Limited

22.22 This facility is secured against 1st registered pari passu equitable mortgage / hypothecation charge of Rs. 255 million over current and fixed assets of the Avanceon Limited. In addition to this the facility is collaterally secured by the corporate guarantee of the Holding Company covering 62.67% of the total funded exposure and the personal guarantees of the sponsoring Directors.

22.23 This facility is secured against 1st registered pari passu hypothecation charge on all present and future current and fixed assets of Avaceon Limited for Rs. 167 million. In addition to this, the facility is collaterally secured by the corporate guarantee of the Holding Company covering 62.67 % of the total funded exposure and the personal guarantees of the sponsoring directors.

22.24 This facility is secured against letter of comfort from Avanceon Limited, corporate guarantees from Engro Innovative Inc., personal guarantees of three directors of Avanceon Limited and an undertaking from the Holding Company to maintain (at minimum) its current shareholding in Avanceon Limited.

Engro PowerGen Limited

22.25 Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited entered into a financing agreement with consortium comprising of International Finance Corporation, DEG, FMO, Proparco, Swed Fund and OFID amounting to USD 153,800. The finances carry markup at the rate of six months LIBOR plus 3% payable semi-annually over a period of twelve years, whereas the principal is repayable from December 15, 2010 in twenty semi-annually installments. Commitment fee at the rate of 0.5% per anum is also payable on that part of finance that has not been drawn. As at December 31, 2010, Engro Powergen Qadirpur Limited has draw down USD 144,000 (2009: USD 136,000) against the aforementioned amount.

The above finances are secured by an equitable mortgage upon the immovable property of Engro Powergen Qadirpur Limited and the hypothecation charge against current and future assets of Engro Powergen Qadirpur Limited, except receivables from NTDC in respect of Energy Purchase Price.

22.26 In view of the substance of the transactions, the sale and repurchase of assets under long term finances have not been recorded as such in these consolidated financial statements.

23 Obligations Under Finance Lease

	2010	2009
	-----------(Rupees)-----------	
Present value of minimum lease payments	32,308	38,833
Less: Current portion shown under current liabilities	(13,310)	(18,246)
	18,998	20,587

23.1 It includes mark-up free leases of milk cooling chillers, obtained by Engro Foods Limited, under a tripartite arrangement with the Bank of Punjab and Pakistan Dairy Development Corporation (PDDC). Under this arrangement, mark-up will be borne by PDDC whereas Engro Foods Limited's obligation is restricted to the extent of principal amount, payable in 20 equal installments by April 15, 2013. The principal outstanding under this arrangement amounts to Rs. 7,368 (2009: Rs. 9,710).

23.2 Engro Foods Limited has entered into lease arrangements of vehicles with various financial institutions. Out of the gross present value of minimum lease payments, Rs.1,021 (2009: Rs. 3,571) pertains to obligations arising from sale and lease back of assets. The liabilities under the lease agreements are payable by the year 2011 and are subject to finance charge at the rate of 12.31% to 14.10% (2009: 14.19% to 17.42%) per annum which has been used as the discount factor. Engro Foods Limited intends to exercise its option to purchase the leased vehicles for Re. 1 each upon the completion of the respective lease periods under the agreements. The gain arising on sale and lease back arrangements, calculated as the difference between the sale proceeds (fair value) paid by the financial institutions and carrying amount of the vehicles is deferred and amortized over the lease term.

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

	2010			2009
	Minimum lease payments	Finance costs	Present value of minimum lease payments	Present value of minimum lease payments
	------------------------------------ Rupees ------------------------------------			
Not later than one year	15,904	2,594	13,310	18,246
Later than one year but not later than 5 years	20,784	1,786	18,998	20,587
	36,688	4,380	32,308	38,833

(Amounts in thousand)

24 Deferred Taxation

	2010	2009
	-----------(Rupees)-----------	
Credit / (debit) balances arising on account of:		
- Accelerated depreciation allowance	8,442,891	5,340,447
- Net borrowing costs capitalised	-	207,133
- Fair value of hedging instruments	(516,385)	(335,287)
- Recoupable carried forward tax losses (note 24.1)	(4,878,393)	(3,352,092)
- Tax on subsidiary reserves	7,690	18,589
- Tax on fair value adjustment	139,598	153,200
- Recoupable minimum turnover tax	(513,965)	(201,438)
- Unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	(63,004)	(70,444)
- Share issuance cost	(57,709)	-
- Others	(89,497)	(72,810)
	2,471,226	1,687,298

24.1 Deferred income tax asset is recognised for tax losses available for carry forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry forward on which the deferred income tax asset has been recognized as at December 31, 2010 amount to:

	2010	2009
	-----------(Rupees)-----------	
- Engro Fertilizers Limited	928,030	-
- Engro Polymer and Chemicals Limited	11,706,630	7,786,483
- Engro Foods Limited	1,235,746	1,790,955
- Engro Eximp (Private) Limited	29,661	-
- Avanceon Limited	38,200	-

25 Employee Housing Subsidy

In 2008, the Holding Company announced a medium term employee housing subsidy scheme for it's employee who were not entitled for Employee Share Options. Under this Scheme, the Holding Company planned to disburse housing subsidy upto closing date i.e. December 31, 2009. Effective January 1, 2010, on transfer of fertilizer undertaking to Engro Fertilizers, the unamortised balanced amounting to Rs. 211,785 was transfered to Engro Fertilizers Limited from the Holding Company under the Scheme of Arrangement (note 1.1). The amortisation charged, during the year, in the profit and loss account amounted to Rs. 105,661 (2009: Rs. 106,985)

The expected future charge will be Rs. 20,845 and Rs. 303 for 2011 and 2010 respectively.

(Amounts in thousand)

26 Deferred Liabilities

	2010	2009
	-----------(Rupees)-----------	
Deferred income on sale and leaseback arrangement for vehicles (note 26.1)	30	111
Retirement and other service benefits obligations (note 26.2)	117,249	96,052
	117,279	96,163
26.1 Deferred income on sale and leaseback arrangements		
Balance as at January 1	111	700
Less: Amortization during the year	(81)	(589)
Balance as at December 31	30	111
26.2 Retirement and other service benefits obligations		
Payable to Seperation Gratuity Plan - unfunded (note 41)	-	6,725
Other retirement and service benefit plans	140,296	112,288
Less: Current portion shown under current liabilities	23,047	22,961
	117,249	89,327
	117,249	96,052

27 Trade and Other Payables

	2010	2009
Creditors (note 27.1)	4,843,729	2,243,921
Accrued liabilities	3,942,056	3,247,024
Advances from customers	2,663,585	1,735,730
Deposits from dealers/ distributors refundable on termination of dealership	30,186	11,073
Retention money	286,773	1,803,495
Contractors'/ suppliers deposits	97,775	111,121
Workers' profits participation fund (note 27.2)	24,478	31,045
Workers' welfare fund	199,069	143,583
Sales tax payable	53,530	8,441
Provision for duty on import of raw material (note 27.3)	47,227	-
Provision for special excise duty (note 27.4)	83,795	70,494
Others	342,011	202,073
	12,614,214	9,608,000

27.1 Include amounts due to related parties, Nil (2009: Rs. 730) due to Inbox Business Technologies (Private) Limited, Rs. 1,690,399 (2009: Rs. 1,152,402) due to Mitsubishi Corporation and Rs. 86,679 (2009: Rs. 77,045) due to Engro Vopak Terminal Limited.

27.2 Workers' profits participation fund

	2010	2009
	-----------(Rupees)-----------	
Payable at the beginning of the year	31,045	18,887
Interest charge for the year	1,676	4,034
Allocation for the year (note 35)	294,156	280,072
Less: Amount paid to the Trustees of the Fund	(302,399)	(271,948)
Payable to the fund	24,478	31,045

(Amounts in thousand)

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

Although, no formal order creating a demand has yet been received by Engro Polymer and Chemicals Limited, however, based on prudence, a provision amounting to Rs. 47,227 (2009: Nil) in respect of custom duty on such raw materials has been made.

27.4 As at December 31, 2010, Engro Polymer and Chemicals Limited had paid Rs. 94,611 (2009: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of this amount Engro Polymer and Chemicals Limited has adjusted Rs. 57,924 (2009: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by Engro Polymer and Chemicals Limited. Engro Polymer and Chemicals Limited had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by Engro Polymer and Chemicals Limited in monthly sales tax returns.

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

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

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

28 Accrued Interest/Mark-Up

	2010	2009
	-----------(Rupees)-----------	
Accrued interest/mark-up on secured:		
- long term borrowings	2,545,406	1,777,872
- short term borrowings	74,047	22,556
	2,619,453	1,800,428

29. Short Term Borrowings

Secured

29.1 The facility for short term running finance available to the Group from various banks amounts to Rs. 16,474,230 (2009: Rs. 12,382,200) including Rs. 1,450,000 (2009: Rs. 200,000) for Bank Guarantees interchangeable with short term finance. The rates of mark up range from 12.83% to 15.19% (2009: 12% to 18.5%) and the facilities are secured by floating charge upon all current and future moveable properties of the Group.

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

29.3 During the year, Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited, entered into the Working Capital Facility Agreement (the Agreement) with Allied Bank Limited, NIB Bank Limited, KASB Bank Limited, The Bank of Punjab, Habib Metropolitan Bank Limited and Soneri Bank Limited. The available working capital facility under the Agreement amounts to Rs. 2,000,000 (2009: Nil). The facility carries mark-up at the rate of 3 months KIBOR plus 2%. The facility is secured by (i) present and future energy payment receivables from the Power Purchaser and (ii) first charge over all current assets, except receivable from NTDC in respect of Capacity Purchase Price, and subordinated charge over present and future plant, machinery equipments and other movable assets of Engro Powergen Qadirpur Limited. The use of facility is restricted for payments of operations and maintenance cost of the Power Plant (upto 10% of the facility amount) and payments to fuel suppliers against purchase of fuel.

29.4 The facilities of Avanceon Limited are secured by a corporate guarantee of the Holding Company of 62.67% of the total funded exposure alongwith personal guarantees of sponsoring directors.

29.5 During the year, Engro Eximp (Private) Limited obtained funds under the Export Refinance Scheme (ERF) of the State Bank of Pakistan. The funds outstanding under the ERF-II facility amount to Rs 96,072 as at December 31, 2010 carrying mark-up at the current rate of 10% per annum.

29.6 The facilities for opening letters of credit and guarantees of subsidiary companies as at December 31, 2010 amounts to Rs. 9,417,757 (2009: Rs. 6,299,000).

Unsecured

29.7 During the year, Engro Fertilizers Limited issued a Commercial Paper in September, 2010 having a face value of Rs. 1,000,000 at discount, for a period of 6 months carrying mark-up of 14.14% per annum. These were listed on Karachi Stock Exchange Over-The-Counter market subsequent to the year end.

(Amounts in thousand)

30. Contingencies and Commitments

Contingencies

	2010	2009
	-----------(Rupees)-----------	
30.1 Corporate Guarantees issued in favour of Subsidiary Companies:		
- Engro Fertilizers Limited (note 30.2)	65,642,000	-
- Engro Powergen Qadirpur Limited (note 30.3)	857,000	-
- Avanceon Limited	242,000	221,000
- Engro PowerGen Limited	-	53,000

30.2 The Holding Company in addition to above has also issued a Corporate Guarantee to International Finance Corporation (IFC) for USD 80,000 under the Amended Agreement entered into by Engro Fertilizers Limited with IFC (note 22.5).

30.3 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 senior long term lenders.

30.4 The Holding Company and Engro Fertilizers Limited, by virtue of the scheme of demerger have extended project completion support to the lenders of the Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited for USD 15,400 (2009: USD 15,400). These projects supports are contingent upon occurrence or non-occurrence of specified future events. The project is complete and lender NOCs are awaited.

30.5 Claims, including pending lawsuits, against the Engro Fertilizers Limited not acknowledged as debts amounted to Rs. 36,018 (2009: Rs. 47,658).

30.6 Bank guarantees of Rs. 3,830,939 (2009: Rs. 2,480,283) have been issued in favour of third parties. This includes bank guarantee which has been given by Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited to Sui Northern Gas Pipelines Limited (SNGPL) amounting to Rs. 1,596,126 (2009: Rs.1,353,701) in accordance with the terms of Gas Supply Agreement between the Engro Powergen Qadirpur Limited and the SNGPL. As per the aforesaid agreement, the Engro Powergen Qadirpur Limited is required to provide bank guarantee in favor of SNGPL for an amount equivalent to three months contractual quantities of gas.

30.7 Post dated cheques issued to customs & excise department for clearance of Rockwell Automation and Honeywell shipments and to IGI Insurance company limited as security against insurance guarantees issued by them in favor of AES Lalpir and Nestle Ltd for performance of contracts amounting to Rs. 10,003 (2009: 10,271).

30.8 Engro Fertilizers Limited is contesting the 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.

30.9 Engro Fertilizers Limited 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 Group 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.

(Amounts in thousand)

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

Commitments

	2010	2009
	-----------(Rupees)-----------	
30.11 Property, plant & equipment	2,446,137	5,504,260
30.12 Letter of credits other than for capital expenditure	143,732	2,863,584

30.13 Avanceon LP (USA), a subsidiary of Avanceon Limited is obligated under non-cancellable operating leases for computer & office equipment which expire at various dates through 2011.

The future lease commitments related to non-cancellable operating leases as of December 31, are as follows:

	2010	2009
	-----------(Rupees)-----------	
Not later than one year	1,212	1,723
Later than one year and not later than five years	-	799
Later than five years	-	399
	1,212	2,921

30.14 Avanceon Limited leases its facilities from Cornerstone Investments (a related party) under an operating lease at a monthly rental of Rs. 2,349 (2009: Rs. 2,324). The lease shall expire on April 30, 2011 and future commitments in respect thereof amount to Rs. 9,396 all of which are due not later than one year.

30.15 Engro Polymer and Chemicals Limited has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Herculies Limited - a related party, for storage and handling of Ethylene Di Chloride (EDC) and Caustic soda, respectively. The total lease rentals due under these lease arrangements are payable in monthly installments till July 31, 2019. The future aggregate lease payments under these arrangements are as follows:

	2010	2009
	-----------(Rupees)-----------	
Not later than 1 year	59,840	43,398
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	50,400	64,800
	167,840	165,798

31 Net Sales

	2010	2009
Own manufactured product (note 31.1 to 31.3)	63,194,878	44,554,782
Less: Sales tax	2,986,339	2,167,280
	60,208,539	42,387,502
Purchased product/ services rendered	19,857,003	15,839,885
Less: Sales tax	89,777	75,019
	19,767,226	15,764,866
	79,975,765	58,152,368

(Amounts in thousand)

31.1 Includes export sales by Engro Foods Limited, Engro Polymer and Chemicals Limited, Avanceon Limited and Engro Eximp (Private) Limited amounting to Rs. 20,998 (2009: 15,994), Rs. 2,094,043 (2009: Rs.1,463,441), Rs. 185,028 (2009: Rs. 259,224) and Rs. 362,370 (2009: Rs. 114,303) respectively.

31.2 Includes sale of electricity by Engro Polymer and Chemcials Limited and Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited amounting to Rs. 114,541 (2009: Rs. 214,924) and Rs. 5,727,336 (2009: Nil) respectively.

31.2.1 Under the Power Purchase Agreement between Engro Powergen Qadirpur Limited, subsidary of Engro PowerGen Limited and National Transmission Company, the reference tariff approved by NEPRA is to be adjusted on the date of start of Commercial Operations (COD). Accordingly, Engro Powergen Qadirpur Limited upon achieving COD on March 27, 2010, filed an application with NEPRA on April 19, 2010 for tariff adjustment/re-determination. The NEPRA approved the revised tariff on November 2, 2010, with certain modifications, in particular revising the debt to USD 134.309 million, the related notification in the official gazette of Government of Pakistan is expected shortly. Such NEPRA revised tariff resulted in an additional revenue, capacity and energy, amounting to Rs. 526,199, including the allowed quarterly indexations thereon. Engro Powergen Qadirpur Limited, however, has not accepted such revised tariff and has filed a Review Petition thereagainst with NEPRA, in particular the arbitrary reduction of debt to USD 134.309 million from USD 142.63 million. Engro Powergen Qadirpur Limited being confident that its Review Petition would be upheld has recognized revenue amounting to Rs. 527,999 net of adjustment effect, in respect of LIBOR rate used by NEPRA. The aforementioned amount, however, will be invoiced after the tarrif have been duly notified in the official gazette.

31.3 Sales are net of marketing allowances of Rs. 123,542 (2009: Rs. 177,970), special excise duty Rs. 120,773 (2009: Rs. 103,998) and discounts 94,438 of Rs. (2009: Rs. 174,579).

31.4 Embedded derivatives and exchange differences

Tariff of Engro Powergen Qadirpur Limited, like other power companies, comprises of various price components with indexations falling within the ambit of embedded derivatives. Such embedded derivative as per International Accounting Standard (IAS) 39, 'Financial Instrument: Recognition and Measurement' needs to be separated from the host contract and accounted for as derivative if economic characteristics and risks are not closely related to the host contract, an accounting policy adopted by Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited. The economic characteristics and risks of most of Engro Powergen Qadirpur Limited's tariff indexations are closely related to the economic characteristics and risks of the Power Purchase Agreement (the Host Contract). Hence have not been separated and accounted for under IAS 39 as a derivative. Engro Powergen Qadirpur Limited, however, has sought clarification from the Institute of Chartered Accountants of Pakistan (ICAP) in respect of the indexations pertaining to (i) USD/PKR exchange rate (applicable to Engro Powergen Qadirpur Limited's price components of debt, return on equity, return on equity during construction); and (ii) US CPI & USD/PKR exchange rate (applicable to Engro Powergen Qadirpur Limited's price components of fixed and variable operations and maintenance – foreign). In addition, Engro Powergen Qadirpur Limited has also requested ICAP to prescribe a definite basis or guidelines for the valuation of such embedded derivatives considering the subjectivity involved therein. Further, as indexation of USD/PKR exchange rate related to debt component being not recognized separately as embedded derivative, the Engro Powergen Qadirpur Limited taking cognizance of the 'matching principle' requested the Securities and Exchange Commission of Pakistan (SECP) to allow deferment of recognizing exchange loss on translation of borrowings under IAS 21 - Foreign Currency Transactions in the statement of comprehensive income till the clarification sought on the recognition of the foreign currency indexations from ICAP has been received.

Subsequent to year end, SECP vide S.R.O 87(1)/2011 dated February 3, 2011 has granted waiver from the requirements of IAS 21 and IAS 39 to all the Independent Power Projects (IPPs), not covered under Circular 11 of 2008, for a period of one year. Whereby, capitalization of exchange differences, as allowed to IPPs under the 1994 power policy, is also allowed to all IPPs having foreign currency loans. Further, such IPPs shall not be permitted to recognise embedded derivatives as required under IAS 39.

In view of the above S.R.O, exchange loss amounting to Rs. 294,000 has been capitalised to Property, plant and equipment (note 4.4) and has not recognised the aforementioned embedded derivatives.

(Amounts in thousand)

32 Cost of Sales

		2010	2009
		-----------(Rupees)-----------	
Raw and packing materials consumed including unprocessed rice		32,634,540	21,775,169
Salaries, wages and staff welfare (note 32.1)		2,118,689	1,618,171
Fuel and power		4,833,217	4,184,779
Repairs and maintenance		850,164	789,094
Depreciation (note 4.2)		2,634,394	1,589,923
Amortization (note 7.1)		4,166	9,532
Consumable stores		518,701	244,636
Staff recruitment, training, safety and other expenses		48,129	60,757
Purchased services		630,855	277,735
Storage and handling		882,897	339,425
Travel		114,654	103,028
Communication, stationery and other office expenses		138,934	105,063
Insurance		319,680	234,744
Rent, rates and taxes		114,663	114,619
Stock - finished goods written off		27,912	14,139
Provision against sales tax refundable		(121,539)	85,178
Other expenses		69,719	37,952
Manufact uring cost		45,819,775	31,583,944
Add: Opening stock of work-in-progress		62,663	63,381
Less: Closing stock of work-in-progress		53,313	62,663
		9,350	718
Cost of goods manufactured		45,829,125	31,584,662
Add: Opening stock of finished goods manufactured		863,140	1,445,233
Less: Closing stock of finished goods manufactured		2,105,269	863,140
		(1,242,129)	582,093
Cost of goods sold	- own manufactured product	44,586,996	32,166,755
	- purchased product (note 32.2)	13,830,863	11,414,714
	- others	1,284,271	1,076,727
		59,702,130	44,658,196

32.1 Salaries, wages and staff welfare includes Rs. 135,677 (2009: Rs. 106,944) in respect of staff retirement benefits.

32.2 Cost of sales - purchased product

	2010	2009
	-----------(Rupees)-----------	
Opening stock	401,607	3,185,107
Add: Purchases	14,912,195	8,631,214
Less: Closing stock	1,482,939	401,607
	13,830,863	11,414,714

(Amounts in thousand)

33 Selling and Distribution Expenses

	2010	2009
	-----------(Rupees)-----------	
Salaries, wages and staff welfare (note 33.1)	2,017,794	1,361,411
Staff recruitment, training, safety and other expenses	76,120	93,541
Product transportation and handling	2,682,792	2,090,356
Repairs and maintenance	52,806	22,666
Advertising and sales promotion	1,667,280	1,631,022
Rent, rates and taxes	415,119	255,718
Communication, stationery and other office expenses	228,777	215,263
Travel	277,978	174,595
Depreciation (note 4.2)	214,488	118,112
Amortization (note 7.1)	33,532	16,240
Purchased services	198,669	64,724
Donations (note 48)	135,945	57,988
Provision for impairment of trade debts (note 14.3)	130,972	25,241
Trade debts written off	-	154
Others	157,408	88,285
	8,289,680	6,215,316

33.1 Salaries, wages and staff welfare include Rs. 114,692 (2009: Rs. 95,432) in respect of staff retirement benefits.

34 Other Operating Income

	2010	2009
	-----------(Rupees)-----------	
Financial assets:		
Income on deposits / other financial assets	399,862	133,821
Exchange gain	11,355	23,157
Non financial assets:		
Service charges	92	1,782
Gain on curtailed defined benefit pension plan	4,073	5,700
Gain on disposal of property, plant and equipment	321,835	30,318
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	14,309	136,667
Share option compensation scheme expense written back	101,224	-
Others	44,571	58,712
	897,321	390,157

(Amounts in thousand)

35 Other Operating Expenses

	2010	2009
	-----------(Rupees)-----------	
Workers' profits participation fund (note 27.2)	294,156	280,072
Workers' welfare fund	199,069	143,737
Legal and professional charges	150,705	80,911
Research and development (including salaries and wages)	43,040	26,800
Loss on death / sales of biological assets	5,357	2,503
Foreign exchange loss	185,255	290,280
loss on fair value adjustments of embedded derivative	28,795	-
Auditors' remuneration (note 35.1)	22,530	15,752
Professional tax	625	213
Others	28,450	3,293
	957,982	843,561

35.1 Auditors' remuneration:

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

Fee for the		
- audit of annual financial statements	8,110	6,869
- review of half yearly financial statements	1,015	1,000
Certifications, audit of retirement benefit funds other advisory services and review of compliance with Code of Corporate Governance	11,972	4,891
Tax services	90	1,840
Reimbursement of expenses	1,343	1,152
	22,530	15,752

36 Finance Cost

Interest/mark-up on		
- Long term borrowings	3,324,269	1,571,528
- Short term borrowings	776,021	598,367
Accrued interest on Workers' profits participation fund (note 27.2)	1,676	4,034
Others	98,920	47,810
	4,200,886	2,221,739

37 Share of Income From Joint Venture

Engro Vopak Terminal Limited		
Share of income before taxation	853,423	691,485
Less: Share of provision for taxation	(298,698)	(232,915)
	554,725	458,570

(Amounts in thousand)

38 Taxation

	2010	2009
	-----------(Rupees)-----------	
Current		
- for the year	1,333,929	1,613,568
- for prior years	(409,471)	170,505
	924,458	1,784,073
Deferred		
- for the year	1,039,056	(197,303)
- for prior years	(127,383)	(243,289)
	911,673	(440,592)
	1,836,131	1,343,481

38.1 As a result of demerger, as referred to in note 1.1, all pending tax issues of the Fertilizer Undertaking of the Holding Company have been transferred to Engro Fertilizers Limited. Major issues pending before the tax authorities are described below:

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

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

The main contention for disallowance of Group Relief, among others, being the non-designation of the Holding Company and the Engro Foods Limited as 'companies' entitled to Group Relief by the Securities & Exchange Commission of Pakistan (SECP), a requirement of section 59B of the Ordinance. The Holding Company had applied for such a designation but remained pending with SECP for want of related regulations not framed then. These regulations were framed by SECP subsequently in December 2008 and on resubmission of application the Holding Company alongwith other subsidiaries have been registered as a Group. Designation has also been granted for Group Relief and Group Taxation during the year.

During the year, orders were received for cases pending at ITAT relating to financial years 2006 and 2007. The major issues of Group Taxation and Group Relief have been decided in the Engro Fertilizers Limited favour in both the years. Further, all the assessments of the Holding Company, for income years 1995 to 2002 which were in appeal at the ITAT level have been decided during the year. The major one being apportionment of gross profit and expenses between normal income and Final Tax Regime (FTR) income has been remanded back to the tax department by ITAT with specific directions for apportionment of gross profit on the basis of turnover as claimed by the Holding Company. Engro Fertilizers Limited, therefore has written back provision amounting to Rs. 463,784, in respect of the aforementioned years. The tax department however, may file reference application against the ITAT decisions before the Sindh High Court.

(Amounts in thousand)

38.2 During the year, in respect of Engro Foods Limited, the Commissioner Inland Revenue has raised a demand of Rs. 337,386 for tax year 2008 by raising an order to disallow provision for gratuity, advances and stock written-off, repair and maintenance, provision for bonus, sales promotion and advertisement expenses. In addition, the aforementioned order has treated the consideration receivable from the Holding Company, on surrender of tax loss as income. Engro Foods Limited has filed an appeal before the Commissioner Appeals against such order, which is yet to be heard. Engro Foods Limited has also filed a petition thereagainst before the Sindh High Court, whereby the jurisdiction of the Commissioner Inland Revenue has been challenged for passing such an order. The Sindh High Court considering the legal issues involved has instructed the tax department not to take any coercive action till the hearing of the appeal.

38.3 Further during the year, in respect of Engro Eximp (Private) Limited, the tax department raised demands of Rs 239,902 and Rs 1,708,621 for financial years 2006 and 2008 respectively, mainly on the disallowance of subsidy received by Engro Eximp (Private) Limited on imported phosphatic fertilizer from the Government of Pakistan as allowable expense. The Commissioner Inland Revenue, on the Engro Eximp (Private) Limited's appeal thereagainst, had set aside the aforementioned amended orders with the directions to the Additional Commissioner Inland Revenue for denovo proceedings.

The Additional Commissioner Inland Revenue has initiated the proceedings as directed, which are in progress. Engro Eximp (Private) Limited is however confident that the above issue will be decided in the their favour without any additional tax liability and as such the Group has not made provision for the aforementioned demand in the consolidaed financial statements.

38.4 Following are the taxation matters pertaining to Engro Polymer and Chemicals Limited:

38.4.1 During the year, Engro Polymer and Chemicals Limited received a notice of demand of Rs. 213,172 in respect of Tax year 2008. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 207,370 and has not considered the brought forward losses amounting to Rs. 974,770 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 38.4.3.

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

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

38.4.2 During the month of December 2010, Engro Polymer and Chemicals Limited has also received a notice of demand of Rs. 163,206 in respect of Tax year 2009. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 546,050 and has not considered the brought forward losses amounting to Rs. 499,376 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 38.4.3.

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

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

38.4.3 While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed the claim of First Year Allowance (FYA) by Engro Polymer and Chemicals Limited on the grounds that Engro Polymer and Chemicals Limited had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. Engro Polymer and Chemicals Limited had filed an appeal against this disallowance which was decided by the Commissioner of Income Tax (Appeals) in favor of the Company. The department, therefore, filed second appeal before the Income Tax Appellate Tribunal (ITAT). A similar disallowance had also been made for the assessment year 2001-2002 by the Taxation Officer in 2003. However, upon appeal, this matter was ultimately decided in Engro Polymer and Chemicals Limited's favor in 2005 by the Income Tax Appellate Tribunal (ITAT).

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

This disallowance resulted in tax deductible timing differences, the effects of which have been recognized in the consolidated financial statements after taking into account the consequential effects of the ITAT Order in the tax years subsequent to 2000-2001. Consequently, Engro Polymer and Chemicals Limited has revised its income tax returns for the tax years 2003 to 2007 and 2009 resulting in a tax liability of Rs. 86,769 for Tax year 2008, which has been settled by adjustment out of recoupable minimum tax brought forward of prior years and refunds available in other tax years as mentioned in note 38.4.1 above.

38.5 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:

	2010	2009
	(Rupees)	
Profit before tax	8,277,133	5,062,283
Tax calculated at the rate of 35%	2,896,997	1,771,799
Depreciation on exempt assets not deductible for tax purposes	34,495	34,495
Effect of exemption from tax on certain income	(392,005)	(509,135)
Effect of applicability of lower tax rate and other tax credits / debits	(450,035)	44,231
Prior year tax charge	(406,127)	-
Un-recoupable minimum turnover tax	164,199	23,869
Net effect of consolidation adjustments	(11,393)	(21,778)
Tax charge for the year	1,836,131	1,343,481

(Amounts in thousand)

39 Earnings Per Share - Basic and Diluted

	2010	2009
	(Rupees)	
The basic earning per share of the Group is based on:		
Profit after taxation (attributable to the owners of the Holding Company)	6,790,049	3,806,918
	(Numbers)	
		(Restated)
Weighted average number of ordinary shares (in thousand)	327,737	310,913

There is no dilutive effect on the basic earnings per share of the Group since the average annual market share price of the Holding Company's share is still marginally less than the exercise price of the options granted on the Holding Company's shares to employees (note 9) and IFC (note 22.5). However, based on the year end market share price as at December 31, 2010 the diluted earnings per share of the Group calculates to Rs. 20.61 per share.

40 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:

	2010			2009		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	(Rupees)					
Managerial remuneration	176,657	18,615	1,858,348	112,273	37,066	1,580,120
Retirement benefits funds	16,795	2,236	233,696	11,660	4,154	174,333
Other benefits	43,429	6,859	371,791	35,589	15,413	303,512
Fees	-	25,205	-	-	8,433	-
Total	236,881	52,915	2,463,835	159,522	65,066	2,057,965
Number of persons including those who worked part of the year	8	54	1,098	8	30	922

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

40.2 Premium charged in the consolidated financial statements in respect of directors indemnity insurance policy, purchased by the Group during the year, amounted to Rs. 3,558.

(Amounts in thousand)

41 Retirement Benefits

41.1 Defined benefit plans

The latest acturial valuation of the defined benefit plans was carried out as at December 31, 2010, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

41.1.1 Engro Corporation Limited, Holding Company

41.1.1.1 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2010	2009	2010	2009
	(Rupees)			
Present value of funded obligation	115,956	310,479	-	28,703
Fair value of plan assets	(125,199)	(346,583)	-	(62,645)
Surplus	(9,243)	(36,104)	-	(33,942)
Unrecognised actuarial gain	15,986	28,873	-	2,055
Payable to associated companies	(8,421)	-	-	-
Unrecognised past service cost	1,678	7,231	-	-
Net (asset) / liability at end of the year	-	-	-	(31,887)

41.1.1.2 Movement in net (asset)/liability recognised

Net (asset)/liability at beginning of the year	-	-	-	(31,187)
(Reversal)/expense recognised	1,762	11,334	-	(5,700)
Amounts received from/(paid to) the Fund	(1,762)	(11,334)	-	5,000
Net (asset)/liability at end of the year	-	-	-	(31,887)

41.1.1.3 Movement in defined benefit obligation

As at beginning of the year	68,020	267,158	-	29,311
Current service cost	3,449	17,345	-	-
Interest cost	8,309	39,540	-	4,172
Benefits paid during the year	-	(4,755)	-	(2,501)
Actuarial (gain)/loss on obligation	27,757	540	-	(2,279)
Unrecognised past service cost	-	(10,198)	-	-
Liability transferred in respect of inter-company transfer	8,421	849	-	-
As at end of the year	115,956	310,479	-	28,703

41.1.1.4 Movement in fair value of plan assets

As at beginning of the year	81,520	291,946	-	67,276
Expected return on plan assets	9,579	41,882	-	9,866
(Repayment to) / Contribution by the Company	1,762	11,334	-	(5,000)
Benefits paid during the year	-	(4,755)	-	(2,501)
Actuarial gain/ (loss) on plan assets	32,338	5,327	-	(6,996)
Liability transferred in respect of inter-company transfer	-	849	-	-
As at end of the year	125,199	346,583	-	62,645

(Amounts in thousand)

41.1.1.5 Charge for the year

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2010	2009	2010	2009
	(Rupees)			
Current service cost	3,449	17,345	-	-
Interest cost	8,309	39,540	-	4,172
Expected return on plan assets	(9,579)	(41,882)	-	(9,866)
Amortisation of unrecognized past service cost	(129)	(64)	-	-
Amortisation of transitional obligation	-	(439)	-	-
Recognition of past service cost	-	(2,464)	-	-
Net actuarial (gain)/loss recognised during the year	(288)	(702)	-	(6)
	1,762	11,334	-	(5,700)

41.1.1.6 Principal actuarial assumptions used in the actuarial valuation

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2010	2009	2010	2009
	%			
Discount rate	14.5	12	-	12
Expected per annum rate of return on plan assets	14.5	12	-	12
Expected per annum rate of increase in pension	-	-	-	4.5
Expected per annum rate of increase in future salaries	14.5	12	-	-
	(Rupees)			
41.1.1.7 Actual return on plan assets	41,917	47,209	-	2,870

41.1.1.8 Plan assets comprise of the following

	2010		2009	
	Rupees	%	Rupees	%
Fixed income instruments	98,462	79%	269,802	66%
Cash	5,890	5%	23,493	6%
Others	20,847	17%	115,933	28%
	125,199		409,228	

41.1.1.9 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.

(Amounts in thousand)

41.1.1.10 Comparison of five years

	2010	2009	2008	2007	2006
	(Rupees)				
Present value of defined benefit obligation	(115,956)	(339,182)	(296,469)	(587,655)	(536,209)
Fair value of plan assets	125,199	409,228	359,222	683,808	722,867
Surplus / (Deficit)	9,243	70,046	62,753	96,153	186,658

41.1.1.11 Expected future cost for the year ending December 31, 2011 in respect of the retained MPT Gratuity fund on demerger amounts to Rs.6,000.

41.1.1.12 Defined contribution plans

An amount of Rs. 7,956 (2009: Rs. 121,044) has been charged during the year in respect of defined contribution plans maintained by the Company.

41.1.2 Engro Fertilizers Limited, Subsidiary Company

41.1.2.1 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded 2010	Defined Benefit Pension Plan Funded (Curtailed) 2009
	(Rupees)	
Present value of funded obligation	269,523	31,230
Fair value of plan assets	(289,580)	(34,855)
Surplus	(20,057)	(3,625)
Payable to associated companies	2,875	-
Unrecognised actuarial gain	12,161	(448)
Unrecognised past service cost	5,021	-
Net (asset) / liability at end of the year	-	(4,073)

41.1.2.2 Movement in net (asset) / liability recognised

Net (asset)/liability at beginning of the year after transfer of Fertilizer Undertaking	-	(31,887)
(Reversal)/expense recognised	15,470	(4,073)
Amounts received from/(paid to) the Fund	(15,470)	31,887
Net (asset)/liability at end of the year	-	(4,073)

41.1.2.3 Movement in defined benefit obligation

As at beginning of the year after transfer of Fertilizer Undertaking	241,276	28,703
Current service cost	17,735	-
Interest cost	29,510	3,264
Benefits paid during the year	(6,785)	(3,197)
Actuarial (gain)/loss on obligation	(8,235)	2,460
Unrecognised past service cost	-	-
Liability transferred in respect of inter-company transfer	(3,978)	-
As at end of the year	269,523	31,230

(Amounts in thousand)

	Defined Benefit Gratuity Plans Funded 2010	Defined Benefit Pension Plan Funded (Curtailed) 2009
	(Rupees)	
41.1.2.4 Movement in fair value of plan assets		
As at beginning of the year	263,645	62,645
Expected return on plan assets	30,947	7,337
(Repayment to) / Contribution by the Company	15,470	(31,887)
Benefits paid during the year	(6,785)	(3,197)
Settlement in respect of the pensioners	-	-
Actuarial gain/ (loss) on plan assets	(12,594)	(43)
Liability transferred in respect of inter-company transfer	(1,103)	-
As at end of the year	289,580	34,855
41.1.2.5 Charge for the year		
Current service cost	17,735	-
Interest cost	29,510	3,264
Expected return on plan assets	(30,947)	(7,337)
Amortisation of unrecognized past service cost	(372)	-
Amortisation of actuarial (gain) / loss	(456)	-
	15,470	(4,073)
41.1.2.6 Principal actuarial assumptions used in the actuarial valuation		
	%	
Discount rate	14.5%	14.5%
Expected per annum rate of return on plan assets	14.5%	14.5%
Expected per annum rate of increase in pension	-	6.5%
Expected per annum rate of increase in future salaries	13.5%	14.5%
	(Rupees)	
41.1.2.7 Actual return on plan assets	18,353	7,294

(Amounts in thousand)

41.1.2.8 Plan assets comprise of the following

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2010		2009	
	Rupees	%	Rupees	%
Fixed income instruments	206,428	71%	31,695	91%
Cash	32,149	11%	1,526	4%
Others	51,003	18%	1,634	5%
	289,580		34,855	

41.1.2.9 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.

41.1.2.10 During the year, the Subsidiary Company recognised a gain of Rs. 4,073 on curtailed defined benefit plan. In 2005, the Holding Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited) MPT Employees Pension Fund (the Fund) for the benefit of management employees, including those transfered to the Company after demerger. Employees joining the Holding Company from July 1, 2005 onwards to become members of the new Fund. Members of then existing pension fund (a defined benefit plan) were given a one-time option exerciseable upto June 15, 2005 to join the new Fund effective July 1, 2005.

41.1.2.11 Expected future cost for the year ending December 31, 2011 is as follows:

	Rupees
- MPT Pension Fund	(526)
- MPT Gratuity Fund	12,752
- Non-MPT Gratuity Fund	5,971

41.1.2.12 Defined contribution plans

An amount of Rs. 135,646 has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

(Amounts in thousand)

41.1.3 Engro Polymer and Chemicals Limited, Subsidiary Company

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2010	2009	2010	2009	2010	2009
	-----Rupees-----					
41.1.3.1 Balance sheet reconciliation						
Present value of defined benefit obligations	110,835	78,994	35,488	26,048	-	-
Fair value of plan assets	(97,803)	(88,607)	(30,903)	(27,618)	-	-
Deficit / (Surplus)	13,032	(9,613)	4,585	(1,570)	-	-
Present value of unfunded obligations	-	-	-	-	4,977	4,523
Unrecognized net actuarial (losses) / gains	(11,084)	9,613	(4,137)	1,570	460	(383)
Net liability at the end of the year	1,948	-	448	-	5,437	4,140
41.1.3.2 Movement in the defined benefit obligations						
Obligations as at January 1	78,994	68,644	26,048	22,888	4,523	3,359
Current service cost	8,551	6,841	3,844	3,270	759	680
Interest cost	12,081	9,704	3,988	3,300	537	481
Actuarial losses / (gains)	12,660	-	5,683	-	(842)	3
Benefits paid	(1,851)	(6,195)	(4,130)	(3,410)	-	-
Liability recognized in respect of transfers	400	-	55	-	-	-
Obligations as at December 31	110,835	78,994	35,488	26,048	4,977	4,523
41.1.3.3 Movement in the fair value of plan assets						
Fair value as at January 1	88,607	73,582	27,618	21,821	-	-
Expected return on plan assets	12,334	10,350	3,940	3,160	-	-
Actuarial losses	(7,953)	-	(24)	-	-	-
Employer contributions	6,266	6,195	3,444	3,410	-	-
Benefits paid	(1,851)	(1,520)	(4,130)	(773)	-	-
Liability recognized in respect of transfers	400	-	55	-	-	-
Fair value as at December 31	97,803	88,607	30,903	27,618	-	-
41.1.3.4 The amounts recognized in the profit and loss account are as follows:						
Current service cost	8,551	6,841	3,844	3,270	759	680
Interest cost	12,081	9,704	3,988	3,300	537	481
Expected return on plan assets	(12,334)	(10,350)	(3,940)	(3,160)	-	-
Recognition of actuarial(gains) / losses	(84)	-	-	-	1	3
Expense	8,214	6,195	3,892	3,410	1,297	1,164
41.1.3.5 Actual return on plan assets	13,995	(3,867)	4,485	(222)	-	-

(Amounts in thousand)

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

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

41.1.3.7 Principal assumptions used in the actuarial valuation:

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

41.1.3.8 Plan assets comprise of following:

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

41.1.3.9 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.

41.1.3.10 Historical information of staff retirement benefits:

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

(Amounts in thousand)

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

41.1.4 Engro Powergen Limited, Subsidiary Company

Defined benefit plan

The latest actuarial valuation of the defined benefit plans in respect of funded defined benefit gratuity scheme was carried out as at December 31, 2010, using the Projected Unit Credit Method. Details of the defined benefit plan are as follows:

41.1.4.1 Balance sheet reconciliation

	2010	2009
	-------(Rupees)-------	
Present value of defined benefit obligation	7,913	3,742
Fair value of plan assets	(5,099)	(2,009)
Deficit	2,814	1,733
Unrecognised actuarial loss / (gain)	68	(432)
Unrecognised past service cost	(471)	(504)
Net liability at end of the year	2,411	797

41.1.4.2 Movement in net liability recognized

	2010	2009
Net liability at beginning of the year	797	187
Expense recognised	1,614	610
Amount paid to the fund	-	-
Net liability at end of the year	2,411	797

41.1.4.3 Movement in defined benefit obligation

	2010	2009
As at January 1	3,742	2,186
Current service cost	1,383	531
Interest cost	529	365
Actuarial loss on obligation	(87)	156
Unrecognized past service cost	-	504
Liability transferred in respect of inter-company transfer	2,346	-
As at December 31	7,913	3,742

41.1.4.4 Movement in fair value of plan assets

	2010	2009
As at January 1	2,009	1,682
Expected return on plan assets	335	295
Actuarial gain on assets	409	32
Liability transferred in respect of inter-company transfer	2,346	-
As at December 31	5,099	2,009

(Amounts in thousand)

41.1.4.5 Cost charged for the year

	2010	2009
	-----------(Rupees)-----------	
Current service cost	1,383	531
Interest cost	529	365
Expected return on plan assets	(335)	(295)
Amortisation of prior service cost	33	-
Net actuarial loss recognized in current year	4	9
	1,614	610

41.1.4.6 Principal actuarial assumptions used are as follows:

	---------------%---------------	
Discount rate	14.5	12
Expected per annum rate of increase in future salaries	14.5	12
Expected per annum rate of return on plan assets	14.5	12

41.1.4.7 Actual return on plan assets

	-----------(Rupees)-----------	
	743	327

41.1.4.8 Plan assets comprise of the following:

	2010		2009	
	Rupees	%	Rupees	%
Cash and cash equivalents	5,051	99	1,981	99
Others	48	1	28	1
	5,099	100	2,009	100

41.1.4.9 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.

41.1.4.10 Comparison from the first year of incorporation:

	2010	2009	2008	2007
	----------Rupees----------			
Present value of defined benefit obligation	7,913	3,742	2,186	49
Fair value of plan assets	(5,098)	(2,009)	(1,681)	-
Deficit	2,815	1,733	505	49

41.1.4.11 Expected future cost for the year ending December 2011 is Rs. 2,078.

41.1.4.12 Defined contribution plan

An amount of Rs. 13,392 (2009: Rs. 2,079) has been charged during the year in respect of defined contribution plan.

(Amounts in thousand)

41.1.5 Engro Foods Limited, Subsidiary Company

41.1.5.1 The latest actuarial valuation of the schemes was carried out as at December 31, 2010 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

	Gratuity Fund		Unfunded Gratuity Scheme		Unfunded Pension Scheme		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	----------Rupees----------							
41.1.5.2 Reconciliation of obligations as at year end								
Present value of defined benefit obligation	(137,469)	(77,010)	-	-	-	-	(137,469)	(77,010)
Fair value of plan assets	82,509	58,688	-	-	-	-	82,509	58,688
Deficit	(54,960)	(18,322)	-	-	-	-	(54,960)	(18,322)
Present value of unfunded obligations	-	-	(3,168)	-	(1,307)	(2,372)	(4,475)	(2,372)
Receivable from / (Payable to) group companies	(1,410)	-	2,530	-	-	-	1,120	-
Unrecognized actuarial (gain)/loss	40,593	18,322	462	-	(2,125)	(213)	38,930	18,109
Net liability at end of the year	(15,777)	-	(176)	-	(3,432)	(2,585)	(19,385)	(2,585)
41.1.5.3 Movement in liability								
Net liability at beginning of the year	-	-	-	-	(2,585)	(1,892)	(2,585)	(1,892)
Charge for the year	(31,554)	(21,250)	(176)	-	(847)	(693)	(32,577)	(21,943)
Contributions	15,777	21,250	-	-	-	-	15,777	21,250
Net liability at end of the year	(15,777)	-	(176)	-	(3,432)	(2,585)	(19,385)	(2,585)
41.1.5.4 Movement in fair value of plan assets								
Fair value of plan assets at beginning of the year	58,688	29,417	-	-	-	-	58,688	29,417
Expected return on plan assets	8,752	5,508	-	-	-	-	8,752	5,508
Contributions for the year	15,777	21,250	-	-	-	-	15,777	21,250
Transfers from ECL	4,054	2,845	-	-	-	-	4,054	2,845
Benefits paid during the year	(2,096)	(2,096)	-	-	-	-	(2,096)	(2,096)
Actuarial gain / (loss) on assets	(2,666)	1,764	-	-	-	-	(2,666)	1,764
Fair value of plan assets at end of the year	82,509	58,688	-	-	-	-	82,509	58,688

(Amounts in thousand)

	Gratuity Fund		Unfunded Gratuity Scheme		Unfunded Pension Scheme		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	Rupees							
41.1.5.5 Movement in present value of defined benefit obligations/ unfunded obligations								
Present value of defined benefit obligations at beginning of the year	77,010	39,033	-	-	2,372	1,570	79,382	40,603
Service cost	28,764	19,610	176	-	530	453	29,470	20,063
Interest cost	10,783	6,739	-	-	317	252	11,100	6,991
Transfers from ECL	2,645	2,845	2,530	-	-	-	5,175	2,845
Benefits paid during the year	(2,096)	(2,096)	-	-	-	-	(2,096)	(2,096)
Acturial (gain) / loss	20,363	10,879	462	-	(1,912)	97	18,913	10,976
Present value of defined benefit obligation / unfunded obligation of the year	137,469	77,010	3,168	-	1,307	2,372	141,944	79,382
41.1.5.6 Cost charged to profit and loss account								
Current service cost	28,764	19,610	176	-	530	453	29,470	20,063
Interest cost	10,783	6,739	-	-	317	252	11,100	6,991
Expected return on plan assets	(8,752)	(5,508)	-	-	-	-	(8,752)	(5,508)
Recognition of actuarial (gain) / loss	759	409	-	-	-	(12)	759	397
Cost for the year	31,554	21,250	176	-	847	693	32,577	21,943

41.1.5.7 In addition, salaries, wages and benefits also include Rs. 73,700 (2009: Rs. 53,301) in respect of defined contribution provident fund.

41.1.5.8 Principal actuarial assumptions used are as follows:

	Gratuity Fund		Unfunded Gratuity Scheme		Unfunded Pension Scheme	
	2010	2009	2010	2009	2010	2009
Discount rate	14.5%	12%	14.5%	-	14.5%	14%
Expected per annum rate of return on plan assets	14.5%	12%	-	-	14.5%	12%
Expected per annum rate of increase in future salaries	14.5%	12%	14.5%	-	14.5%	12%
Expected per annum rate of increase in pension	-	-	-	-	6.5%	4%
	Rupees					
41.1.5.9 Actual return on plan assets	6,086	5,967	-	-	-	-

(Amounts in thousand)

41.1.5.10 Plan assets are comprised as follows:

	Gratuity Fund 2010		Gratuity Fund 2009	
	Rupees	%	Rupees	%
Held to maturity investments				
- Pakistan Investment Bonds (PIBs)	3,239	4%	3,313	6%
- Term Finance Certificates (TFCs)	17,351	21%	9,467	16%
- Term Deposit Receipts (TDRs)	-	-	6,000	10%
- Regular Income Certificates (RICs)	19,000	23%	19,000	32%
- Treasury Bills	19,479	24%	1,000	2%
	59,069	72%	38,780	66%
Mutual funds (Income Fund) - Units	8,962	11%	19,005	32%
Listed securities	1,826	2%	-	-
Balances with banks	11,537	14%	-	-
Others	1,115	1%	903	2%
	82,509	100%	58,688	100%

41.1.5.11 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

41.1.5.12 Expected contributions to post employment benefit plans for the year ending December 31, 2011 are Rs. 51,573.

41.1.5.13 Historical information of staff retirement benefits:

	2010	2009	2008	2007	2006
	(Rupees)				
Present value of obligations	(141,944)	(79,382)	(39,033)	(18,947)	(8,088)
Fair value of plan assets	82,509	58,688	29,417	15,464	-
Deficit	(59,435)	(20,694)	(9,616)	(3,483)	(8,088)

41.1.6 Engro Eximp (Private) Limited, Subsidiary Company

41.1.6.1 Defined benefit plans

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2010, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

41.1.6.2 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded 2010	2009
	(Rupees)	
Present value of funded obligation	2,670	-
Fair value of plan assets	(2,842)	-
Surplus	(172)	-
Unrecognised actuarial gain	358	-
Unrecognized prior service cost	29	-
Net liability at end of the year	215	-

(Amounts in thousand)

41.1.6.3 Movement in net liability recognised

	Defined Benefit Gratuity Plans Funded 2010	2009
	-----------(Rupees)-----------	
Net liability at beginning of the year	-	-
Expense recognised	215	-
Net liability at end of the year	215	-

41.1.6.4 Movement in present value of defined benefit obligation

	2010	2009
As at beginning of the year	-	-
Defined benefit obligations in respect of employees transferred from group companies	1,183	-
Current service cost	244	-
Interest cost	145	-
Actuarial loss on obligation	1,098	-
As at end of the year	2,670	-

41.1.6.5 Movement in fair value of plan assets

	2010	2009
As at beginning of the year	-	-
Fair value of planned assets in respect of employees transferred from group companies	1,418	-
Expected return on plan assets	167	-
Actuarial gain on plan assets	1,257	-
As at end of the year	2,842	-

41.1.6.6 Charge for the year

	2010	2009
Current service cost	244	-
Interest cost	145	-
Expected return on plan assets	(167)	-
Recognition of past service cost	(2)	-
Net actuarial (gain) recognised during the year	(5)	-
	215	-

41.1.6.7 Principal actuarial assumptions used in the actuarial valuation

	2010	2009
	---------------%---------------	
Discount rate	14.5	-
Expected per annum rate of return on plan assets	14.5	-
Expected per annum rate of increase in future salaries	14.5	-

	2010	2009
	-----------(Rupees)-----------	
41.1.6.8 Actual return on plan assets	1,424	-

(Amounts in thousand)

41.1.6.9 Plan assets comprise of the following:

	2010		2009	
	Rupees	%	Rupees	%
Debt Instrument	2,266	80	-	-
Equity Instrument	482	17	-	-
Cash, interest accrued and others	94	3	-	-
	2,842	-	-	-

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

41.1.6.11 Expected future cost for the year ending December 31, 2011 is Rs 557.

41.1.6.12 Defined contribution plans

An amount of Rs 8,153 (2009: Rs 3,663) has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

42. Cash Generated From Operations

	2010	2009
	------------(Rupees)------------	
Profit before taxation	8,277,133	5,062,283
Adjustment for non-cash charges and other items:		
Depreciation	2,848,882	1,708,035
Amortisation	37,698	25,772
Profit on disposal of property, plant and equipment - net	(321,835)	(30,318)
Loss on sale/ death of biological assets	5,357	2,503
Provision for retirement and other service benefits	215,227	189,823
Negative goodwill arising on further issuance of shares of a subsidiary	-	-
Income on deposits / other financial assets	(388,873)	(133,821)
Share of income from joint venture companies (note 37)	(554,725)	(458,570)
Financial charges (note 36)	4,200,886	2,221,739
Employee share compensation expense - net	(30,316)	78,672
Employee Housing Subsidy expense	105,661	106,985
Provision for surplus and slow moving stores and spares	19,633	18,972
Provision for doubtful trade debts	98,618	6,966
Provision for loans and advances	(4,304)	1,295
Provision for other receivables	(157)	84,593
Working capital changes (note 42.1)	(8,633,745)	6,525,241
	5,875,140	15,410,170

(Amounts in thousand)

42.1 Working capital changes

	2010	2009
	-----------(Rupees)-----------	
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(3,479,042)	(355,535)
- Stock-in-trade	(5,023,706)	3,309,936
- Trade debts	(1,693,493)	(2,785,008)
- Loans, advances, deposits and prepayments	(1,097,347)	(218,013)
- Other receivables (net)	(170,869)	2,590,227
	(11,464,457)	2,541,607
Increase / (decrease) in current liabilities		
- Trade and other payables	2,830,712	3,983,634
	(8,633,745)	6,525,241

43. Cash and Cash Equivalents

Cash and bank balances (note 18)	4,120,031	6,880,408
Short term investments (note 17)	4,426,188	512,255
Short-term borrowings	(5,715,775)	(1,302,766)
	2,830,444	6,089,897

44. Financial Instruments by Category

Financial assets as per balance sheet		
- Loans and receivables		
Loans and advances	1,723,784	1,226,222
Trade debts	5,131,408	3,536,533
Other receivables	500,119	540,640
Cash and bank balances	4,120,031	6,880,408
	11,475,342	12,183,803
- Fair value through profit and loss		
Short term investments	4,426,188	512,255
- Derivatives used for hedging		
Derivatives	3,148	76,209
Financial liabilities as per balance sheet		
- Financial liabilities measured at amortised cost		
Borrowings	110,411,411	87,820,594
Liabilities against assets subject to finance lease	32,308	38,833
Trade and other payable	9,092,435	7,014,005
Accrued interest / mark-up	2,619,453	1,800,428
Unclaimed dividends	180,630	102,099
	122,336,237	96,775,959
- Fair value through profit and loss		
Conversion option on IFC loan	367,442	338,647
- Derivatives used for hedging		
Derivatives	1,478,541	1,034,173

(Amounts in thousand)

45 Financial Risk Management

45.1 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.

The Subsidiary Company Engro Fertilizers Limited is exposed to currency risk on commitments to purchase plant and machinery in connection with Urea expansion project denominated primarily in Euros. However, as at December 31, 2010 this exposure is minimal since major procurements have been completed.

The Subsidiary Company Engro Fertilizers Limited has entered into Euro-Dollar forward exchange contracts / options to hedge its currency risk, most of which have a maturity of less than one year from the reporting date. The Group's ability to mitigate foreign exchange risk has however been curtailed by the State Bank of Pakistan which has disallowed issuance of new forward covers against letters of credit.

On foreign currency borrowing of US$ 285,000, the Subsidiary Company Engro Fertilizers Limited has Rupee/US $ hedge of US$ 85,000.

The impact of other devaluation/revaluation on post tax profit for the year of the Subsidiary Company Engro Fertilizers Limited is negligible since all foreign currency borrowings/funds relates to the project, hence gain/loss arising is capitalized.

The Subsidiary Company Engro Foods Limited 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. The subsidiary company Engro Foods Limited imports plant and machinery and certain raw material which exposes to currency risk, primarily with respect to liabilities denominated in US Dollars. The subsidiary company Engro Foods Limited used to manage the currency risk relating to US Dollars through forward exchange contracts, however since 2008, is unable to hedge its foreign exchange risk exposure due to restriction on forward covers imposed by The State Bank of Pakistan. Currently, the subsidiary company Engro Foods Limited manages its currency risk through prepayments and close monitoring of currency markets. However during the year the subsidiary company Engro Foods Limited also entered into Euro-Dollar option contracts to manage its currency risk relating to payment against import of plant and machinery in Euros, which have a maturity of less than one year from the reporting date.

The Subsidiary Company Engro Powergen Limited's exposure resulting from outstanding import payments, foreign currency loan liabilities and related interest payments is limited as all the fluctuation in foreign exchange rates will be recovered through adjustment in tariff as per Power Purchase Agreement.

The Subsidiary Company Avanceon Limited is exposed to currency risk arising primarily with respect to the United States Dollar (USD). Currently, the Group's foreign exchange risk exposure is restricted to foreign currency interest bearing loans and borrowings, creditors and debtors. The Group's exposure to foreign currency changes for all other currencies is not material.

The Subsidiary Company Engro Polymers and Chemical Limited 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. The subsidiary company Engro Polymers and Chemical Limited used to manage the currency risk relating to US Dollars through forward exchange contracts, however since 2008, is unable to hedge its foreign exchange risk exposure due to restriction on forward covers imposed by The State Bank of Pakistan. Currently, the subsidiary company Engro Polymers and Chemical Limited manages its currency risk through close monitoring of currency market. At december 31, 2010 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 265,289 (2009: Rs.248,323) and Rs. 6,055,444 (2009: Rs. 7,009,120) respectively.

The Subsidiary Company Engro Eximp (Private) Limited is not materially exposed to currency risk as there are no material foreign currency denominated balances as at year end.

At December 31, 2010, if the Pakistan Rupee had weakened/strengthened by 5% against the US Dollars with all other variables held constant, consolidated post tax profit for the year would have been lower/ higher by Rs. 332,992 (2009: Rs. 221,641), 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 Subsidiary Company Engro Fertilizers Limited arising on foreign currency loans are hedged through interest rate swaps. Rates on short term loans vary as per market movement.

Interest rate risk of the subsidiary company Avanceon Limited arises from long-term finances and running finance facilities. Long term and short term running finances obtained are benchmarked to variable rates which expose the subsidiary company to cash flow interest rate risk. The Subsidiary Company Avanceon Limited Rupee based loans have a prepayment option, which can be exercised upon any adverse movement. Rates of short term loans vary as per market movement of 6-month KIBOR. The Subsidiary Company further manages its exposure to interest rate risk by managing and maintaining a mix of fixed and floating rate borrowings.

Interest rate risk arising on foreign currency loans of Engro Fertilizers Limited and Engro Polymer & Chemicals Limited are hedged through interest rate swaps. Such interest rate swaps have the economic effect of converting floating rates to fixed rates. Under the interest rate swap agreement, the Group has agreed with the banks to exchange, at half yearly intervals, the difference between fixed contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts. Rates on short term loans vary as per market movement.

Engro Powergen Limited's exposure to interest rate risk is limited as the unfavorable fluctuations in the interest rates will be recovered through adjustment in tariff as per Power Purchase Agreement

(Amounts in thousand)

The Subsidiary Company Engro Foods Limited has no significant interest bearing financial assets, the Subsidiary Company's income and opearting cashflows are substantially independent of changes in market interest rates. Further, there are no borrowings at fixed rates, the Subsidiary Company is not exposed to fair value interest rate risk. The Subsidiary Company's interest rate risk arises primarily from long and short term borrowing. The Subsidiary Company is also subject to interest rate risk from obligation under finance lease. Borrowings at variable rates exposed the Subsidiary Company to cashflow interest rate risk. As there are no borrowings at fixed rates, the Subsidiary Company is not exposed to fair value interest rate risk. The Subsidiary Company analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rate risk and taking into account various other financing options available. For borrowing at variable rates, the rates are determined in advance for stipulation periods with reference to KIBOR.

To manage its cash flow interest rate risk, the Subsidiary Company Engro Polymers and Chemical Limited has entered into floating to fixed rate interest swaps on its foreign currency borrowings and floating to floating rate cross currency interest swap on its local borrowings. Under the interest rate swap agreements, the Subsidiary Company has agreed with the banks to exchange, at half yearly intervals, the difference between contracted rates and the floating rate interest amounts calculated by reference to the agreed notional amounts.

The Subsidiary Company Engro Eximp (Private) Limited 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, 2010, 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. 168,628 (2009: Rs. 124,105), 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.

Engro Fertilzers Limited and Engro Eximp (Private) Limited is exposed to a concentration of credit risk on its trade debts by virtue of all its customers being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees inland letter of credits and by the fact that the exposure is spread over a wide customer base.

Engro Polymer & Chemicals Limited is not materially exposed to credit risk as unsecured credit is provided to selected parties with no history of default. Moreover, major part of trade debts is secured by bank guarantees and letters of credit from customers.

(Amounts in thousand)

The credit risk arising on account of acceptance of bank guarantees is managed by ensuring that the bank guarantees are issued by banks of reasonably high credit ratings as approved by the management.

The Subsidiary Company Avanceon Limited is exposed to a concentration of credit risk on its trade debts, which is mitigated by a credit control policy and applying individual credit limits. The Subsidiary Company is also exposed to the credit risk of commercial banks on account of acceptance of bank guarantees as security against trade debts. The Subsidiary Company accepts bank guarantees of banks of reasonably high credit ratings as approved by the management.

The Subsidiary Company Engro Foods Limited attempts to control credit risk arising on receivable from Tetra Pak Pakistan Limited through legally binding contracts that are signed between the two parties. The Subsidiary Company is not materially exposed to credit risk on trade debts as the Subsidiary Company has the policy of receiving the sales value prior to or at the time of supply of the products and credit is only granted to few reputed customers with good credit standings, with whom the Subsidiary Company has written terms of arrangement.

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:

	2010	2009
	-----------(Rupees)-----------	
Loans and advances	1,723,784	1,226,222
Trade debts	3,335,538	3,403,792
Other receivables	477,323	481,571
Short term investments	4,426,188	512,255
Bank balances	4,120,031	6,880,408
	14,082,864	12,504,248

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 can be assessed with reference to external credit ratings as follows:

(Amounts in thousand)

Bank	Rating agency	Rating	
		Short term	Long term
Atlas Bank Limited	PACRA	A2	A-
Askari Bank Limited	PACRA	A1+	AA
Allied Bank Limited	PACRA	A1+	AA
Bank Al Habib Limited	PACRA	A1+	AA+
Bank Al Falah Limited	PACRA	A1+	AA
Bank of Khyber	PACRA	A2	A-
Bank of Pubjab	PACRA	A1+	AA-
Barclay's Bank Plc	S&P	A1+	AA-
Bank Islami Pakistan	PACRA	A1	A
Citibank N.A.	S&P	A1	A+
Deutsche Bank AG	S&P	A1	A+
Dubai Islamic Bank	JCR-VIS	A1	A
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AA+
Habib Metropolitan Bank	PACRA	A1+	AA+
HSBC Bank Middle East Ltd	Moody's	A1+	AA2
JS Bank	PACRA	P1	A
KASB Bank	PACRA	A1	A-
MCB Bank Limited	PACRA	A2	AA+
Meezan Bank Limited	JCR-VIS	A1+	AA-
NIB Bank	PACRA	A1	AA-
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
SAMBA Bank Limited	JCR-VIS	A1+	A
Silk Bank Limited	JCR-VIS	A2	A
Soneri Bank Limited	PACRA	A1	AA-
Summit Bank	JCR-VIS	A2	A
United Bank Limited	JCR-VIS	A1+	AA+

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 maintaing 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.

(Amounts in thousand)

	2010			2009		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	---(Rupees)---					
Financial liabilities						
Derivatives	1,040,829	805,154	1,845,983	740,043	632,777	1,372,820
Trade and other payables	9,092,435	-	9,092,435	7,014,005	-	7,014,005
Accrued interest / mark-up	2,619,453	-	2,619,453	1,800,428	-	1,800,428
Liabilities against assets subject to finance lease	13,310	18,998	32,308	18,246	20,587	38,833
Borrowings	21,259,562	89,151,849	110,411,411	3,678,441	84,142,153	87,820,594
Unclaimed dividends	180,630	-	180,630	102,099	-	102,099
	34,206,219	89,976,001	124,182,220	13,353,262	84,795,517	98,148,779

45.2 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 regulatory regime in which the Group operates, renders the value of the equity to a bond given the guaranteed ROE of 15% with an indexation allowed under the Power Purchase Agreement for changes in US $ / PKR exchange rate.

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

The Group's strategy is to ensure compliance with the Prudential Regulations issued by the State Bank of Pakistan and 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 31,2010 and 2009 are as follows:

	2010	2009
	-----------(Rupees)-----------	
Total Long Term Borrowings	104,695,636	86,517,828
Total Equity	34,115,012	29,344,395
	138,810,648	115,862,223
Total borrowings to equity ratio	75%	75%

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

(Amounts in thousand)

45.3 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 or indirectly (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, 2010:

	Level 1	Level 2	Level 3	Total
	-------------------------------- (Rupees) --------------------------------			
Assets				
Financial assets at fair value through profit and loss				
- Short term investments - Mutual Fund Securities	4,364,885	-	-	4,364,885
Derivatives used for hedging				
- Derivatives	-	3,148	-	3,148
	4,364,885	3,148	-	4,368,033
Liabilities				
Derivatives				
- Derivatives used for hedging	-	1,478,541	-	1,478,541
- Conversion option on IFC loans	-	338,647	-	338,647
	-	1,817,188	-	1,817,188

45.4 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.

46. Segment reporting

A Business segment is a group of assets and operations engaged in providing products that are subject to risk and returns that are different from those of other business segments.

Type of segments	Nature of business
Fertilizer	Manufacture, purchase and market fertilizers.
Polymer	Manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and related chemicals.
Food	Manufacture, process and sell dairy and other food products.
Power	Includes Independent Power Projects (IPP)
Other operations	Includes engineering and automation businesses.

	Fertilizer 2010	Fertilizer 2009	Polymer 2010	Polymer 2009	Food 2010	Food 2009	Power 2010	Power 2009	Other operations 2010	Other operations 2009	Elimination - net 2010	Elimination - net 2009	Consolidated 2010	Consolidated 2009
	-----Rupees-----													
Revenue from external cutomers (note 31)	36,280,206	30,285,823	14,618,594	11,632,775	21,050,039	14,665,341	5,727,336	-	2,284,891	1,615,499	14,699	(47,070)	79,975,765	58,152,368
Segment gross profit / (loss)	12,339,633	8,935,525	1,303,990	1,214,183	4,428,157	2,716,271	1,606,942	-	834,958	625,353	(240,045)	2,840	20,273,635	13,494,172
- Segment expenses - - net of other income	(2,917,985)	(1,960,161)	(1,106,845)	(908,171)	(3,500,544)	(2,861,762)	(110,772)	(142,173)	(1,074,661)	(474,388)	(28,407)	(455,886)	(8,739,214)	(6,802,541)
Income on deposits / other financial assets (note 34)	143,133	23,136	17,222	103,026	10,070	3,461	11,337	645	308,841	3,553	(101,730)	-	388,873	133,821
Financial charges (note 36)	(1,658,067)	(1,424,970)	(1,438,988)	(606,175)	(664,710)	(515,308)	(400,336)	(67)	(218,023)	(118,451)	179,238	443,232	(4,200,886)	(2,221,739)
Share of income from joint venture (note 37)	-	-	-	-	-	-	-	-	554,725	458,570	-	-	554,725	458,570
Income tax (charge)/ credit (note 38)	(2,064,641)	(1,579,966)	454,340	3,441	(96,113)	222,739	(7,588)	-	(133,028)	(11,473)	10,899	21,778	(1,836,131)	(1,343,481)
Segment profit after tax / (loss)	5,842,073	3,993,564	(770,281)	(193,696)	176,860	(434,599)	1,099,583	(141,595)	272,812	24,594	(180,045)	470,534	6,441,002	3,718,802
Segment assets	103,137,514	94,179,878	24,157,962	22,799,495	14,030,946	9,004,026	19,075,705	16,164,759	32,113,990	1,181,901	(28,247,170)	(11,724,463)	164,268,947	131,605,596
Investment in joint venture / associate (note 8)	-	-	-	-	-	-	-	-	-	-	509,505	499,780	509,505	499,780
Total segment assets	103,137,514	94,179,878	24,157,962	22,799,495	14,030,946	9,004,026	19,075,705	16,164,759	32,113,990	1,181,901	(27,737,651)	(11,224,683)	164,778,452	132,105,376
Total segment liabilities	88,366,216	67,272,354	17,172,102	16,403,852	8,486,607	5,633,878	14,378,817	12,593,457	5,011,202	1,052,812	(2,751,504)	(195,372)	130,663,440	102,760,981
Capital expenditure including biological assets	15,035,998	36,352,358	880,042	3,745,935	4,360,135	2,012,884	763,065	10,034,224	113,667	25,416	-	1,722,718	21,152,907	53,893,535
Depreciation (note 4.2)	791,117	686,456	1,016,117	519,802	713,640	511,955	384,688	10,377	47,596	29,972	24,436	(2,840)	2,977,594	1,755,722
Amortization of intangibles (note 7.1)	19,111	14,808	4,764	3,701	14,160	7,793	6,361	831	1,574	815	-	(322)	45,970	27,626

(Amounts in thousand)

47. 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:

	2010	2009
	-----------(Rupees)-----------	
Associated Companies		
Purchases and services	9,994,924	9,247,750
Services rendered	126,132	1,321,901
Dividends paid	574,111	751,280
Payment of interest on TFCs and repayment of principal amount	120,454	7,051
Right shares issued (including share premium)	-	1,777,152
Investment in mutual funds	1,632,000	799,250
Redemption of mutual funds	1,137,794	611,025
Joint Ventures		
Purchase of services	1,030,972	1,564,559
Services rendered	1,504	3,829
Others		
Dividends paid	19,446	50,195
Right shares issued (including share premium)	-	314,732
Remuneration of key management personnel	419,763	396,412

48. Donations

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

	Interest in Donee	Name and address of Donee	2010	2009
			-----------(Rupees)-----------	
Mr. Zafar A. Siddiqui	President	Rotary Club of Karachi Metropolitan	-	230
Mr. Hussain Dawood	Director	Pakistan Centre for Philanthropy	-	850
Mr. Hussain Dawood and Mr. Asad Umar	Chairman Director	Karachi Education Initiative	150	13,000
Mr. Asad Umar and Mr. Shahzada Dawood	Member	Lahore University of Management Sciences, Lahore	-	300
Mr. Asad Umar and Mr. Khalid Siraj Subhani		Engro Foundation	71,040	-
			71,190	14,380

(Amounts in thousand)

49. Production Capacity

		Designed Annual Capacity		Actual Production	
		2010	2009	2010	2009
* Urea (note 49.1)	Metric Tons	975,000	975,000	971,913	952,024
* NPK	Metric Tons	160,000	160,000	100,270	91,821
PVC Resin (note 49.2)	Metric Tons	150,000	150,000	115,000	115,620
EDC	Metric Tons	127,000	127,000	96,000	35,000
Caustic soda	Metric Tons	106,000	106,000	93,000	38,739
Power (note 49.3)	Mega watts	281.3	64	254	18
Dairy and juices	Thousand Litres	446,503	375,945	314,650	247,074
Drying unit of rice processing plant (note 49.3)	Tons	60,000	-	19,778	-
Ice cream	Thousand Litres	19,032	10,290	12,672	6,900

* Actual production was below the designed annual capacity due to planned shutdowns as per market demand for NPK products.

49.1 Urea plant also produced 611 metric tons (2009: 561) of Liquid Ammonia for outside sale.

49.2 The new VCM plant with a capacity of 220,000 Metric tons commenced commercial production from September 30, 2010.

49.3 Engro PowerGen Limited commenced commercial production from March 27, 2010

49.4 Commenced production from November 7, 2010.

50. Loss of Certain Accounting Records

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

The fire destroyed a substantial portion of its hard copy records related to the financial years 2005, 2006 and the period January 01, 2007 to August 19, 2007 although, electronic data remained intact due to the Company's Disaster Recovery Plan. The Holding Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the financial year 2007. Hard copy records related to the already reported financial years 2005 and 2006 have not been recreated.

51. Non-Adjusting Event After Balance Sheet Date

The Board of Directors of the Holding Company in its meeting held on February 14, 2011 has proposed the following for approval of the members at the Annual General Meeting to be held on March 31, 2011.

- an increase in the authorised share capital of the Holding Company from Rs. 3,500,000 to Rs. 4,500,000;
- a final cash divided of Rs. 2.00 per share (2009: Rs. 2.00 per share final cash divided);
- a bonus issue in the ratio of 1 share for every 5 shares held i.e. 20% bonus (2009: 1 share for every 10 shares held i.e. 10% bonus); and
- an investment of Rs. 562,000 in Engro Polymer & Chemicals Limited by way of subsicription of right shares.

The consolidated financial statements for the year ended December 31, 2010 do not include the effect of the proposed cash dividends, which will be accounted for in the consolidated financial statements for the year ending December 31, 2011.

(Amounts in thousand)

52. 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 Management Services (Private) Limited	December 31st
Engro Polymer and Chemicals Limited	December 31st
Avanceon Limited	December 31st
Engro PowerGen Limited	December 31st
Name of Joint Venture	
Engro Vopak Terminal Limited	December 31st
Name of Associated Companies	
Agrimall (Private Limited)	June 30th
Arabian Sea Country Club Limited	June 30th

53. Corresponding Figures

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

54. Date of Authorisation for Issue

These consolidated financial statements were authorised for issue on Feb 14, 2011 by the Board of Directors of the Holding Company.

Hussain Dawood
Chairman

Asad Umar
President & CEO

financials at a glance

(Million Rupees)	2010	2009	2008	2007	2006	2005	2004	2003	2002
Net sales Revenue	79,976	58,152	40,973	34,120	20,240	18,756	13,067	12,010	10,893
Operatin Profit	11,983	7,278	6,608	4,399	2,821	3,308	2,642	2,885	2,327
Profit Before tax	8,277	5,062	5,184	3,952	2,917	3,260	2,811	2,709	1,989
Profit after tax*	6,790	3,807	4,126	2,877	2,107	2,279	1,719	1,595	1,156
Employee costs	4,836	3,134	2,456	1,922	1,284	860	828	756	668
Taxes duties & development surcharge ▲	9,646	7,790	5,032	5,420	4,633	4,168	3,911	3,457	3,062
Worker's Funds	493	423	458	360	253	215	156	167	112
Property, Plant and Equipment	130,373	111,526	59,169	24,052	10,794	7,608	7,159	7,234	7,194
Capital Expenditure	21,152	53,893	36,213	11,081	1,149	1,088	523	402	823
Total Assets	164,778	132,105	80,801	48,973	20,054	14,397	13,538	13,024	14,288
Long Term Borrowings	89,152	84,142	40,738	18,284	2,382	2,900	2,592	3,236	3,322
Net Current Assets	(4,055)	3,953	8,382	15,077	4,946	2,354	1,722	1,903	804
Dividends And Share									
Total Equity	34,115	29,344	23,547	18,006	9,796	7,540	6,791	6,298	5,334
Share Outstanding at year end (in Million)	327	298	213	193	168	153	153	153	139
Dividend Per Share (Rs)	6.0	6.0	6.0	7.0	9.0	11.0	8.5	8.0	7.5
Dividend Payout Rate	29%	47%	31%	45%	72%	74%	76%	77%	90%
Bonus Share	20%	10%	-	-	-	-	-	-	10%

* Profit attributable to owners of the Holding Company.

▲ Figures for years 2002 - 2008 represent Engro Corporation Limited (formerly Engro Chemicals Pakistan Limited).

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 31st day of March, 2011 and at any adjournment thereof.

Signed this ____________ day of ________ 2011.

WITNESSES:

1) Signature : ____________
Name : ____________
Address : ____________
____
CNIC or : ____________
Passport No.: ____________
____

____
Signature
Signature should agree with the specimen registered with the Company

2) Signature : ____________
Name : ____________
Address : ____________
____
CNIC or : ____________
Passport No.: ____________
____

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.