



Accepting
Challenges
Fulfilling **Promises**

Engro Corporation Limited
Formerly Engro Chemical Pakistan Limited

Annual Report 2009





engro corp

Accepting Challenges Fulfilling Promises

The Year 2009 brought to a close one chapter in Engro's history, whilst setting the stage for another that promises to continue our journey of accepting challenges and fulfilling them.

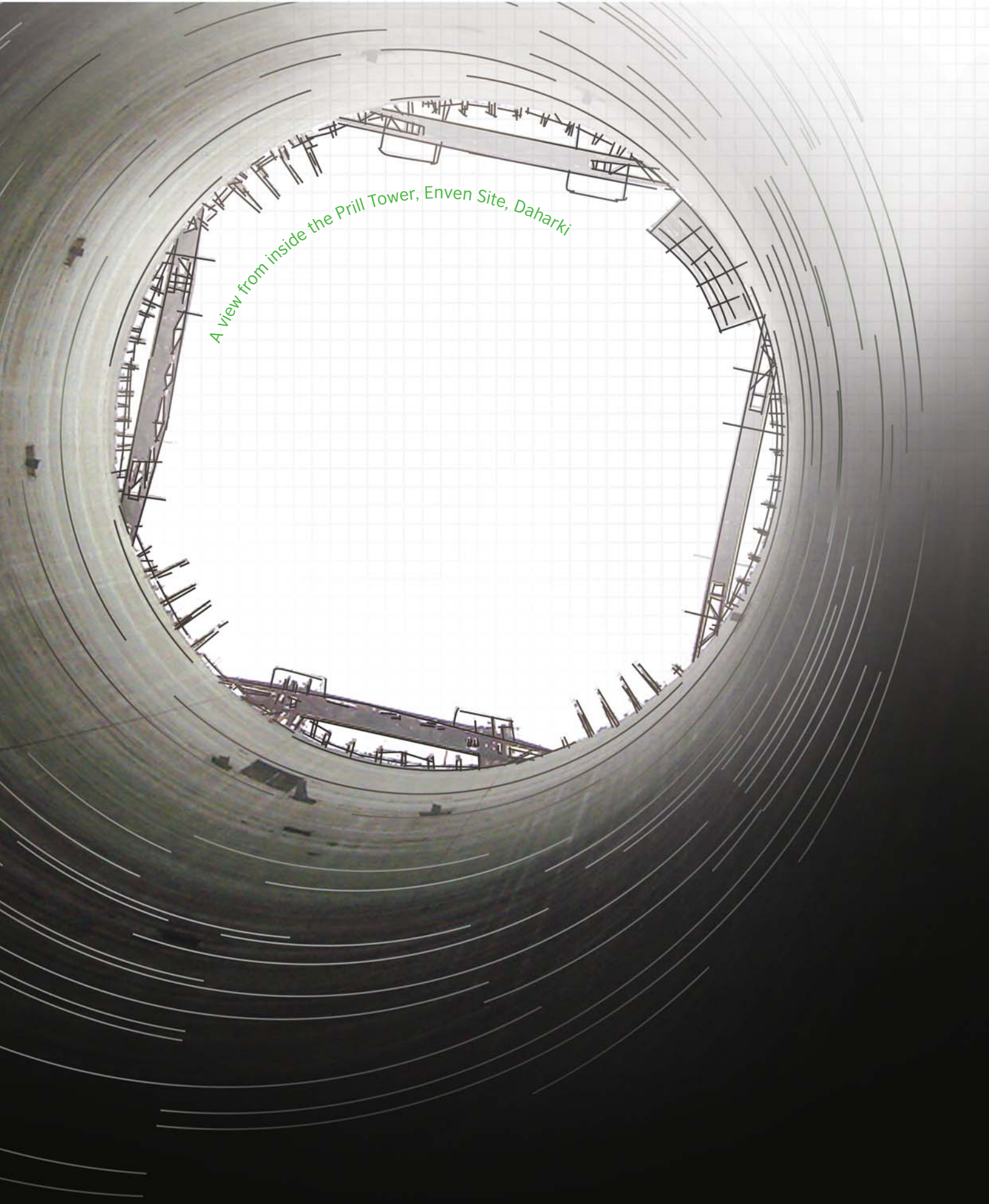
At the end of 2009, Engro Chemical Pakistan Limited (ECPL) demerged and transferred its core fertilizer business into a new subsidiary, **Engro Fertilizers Limited**. This demerger is part of Engro Chemical Pakistan Limited's conversion into a Holding Company structure, namely **Engro Corporation Limited**.

Engro Corp has been formed in the interest of better managing and overseeing businesses that are currently part of Engro's capital investments. It will be one of Pakistan's largest conglomerates, with a diversified portfolio, including **fertilizers, foods, energy & power, PVC resin, chemical handling & storage, industrial automation and trading**.

Our passion provides the energy for our growth, which is why we have accepted our most intricate challenge yet, which will fulfill our ambitions for a better, bigger and brighter tomorrow.

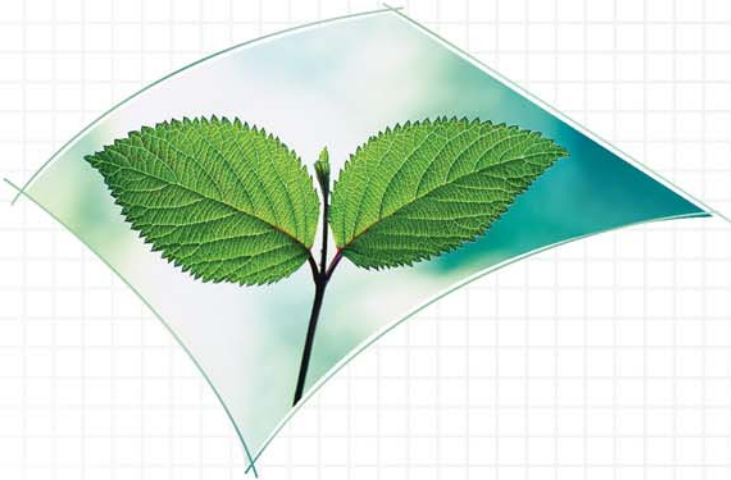
Vision

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



A view from inside the Prill Tower, Enven Site, Daharki

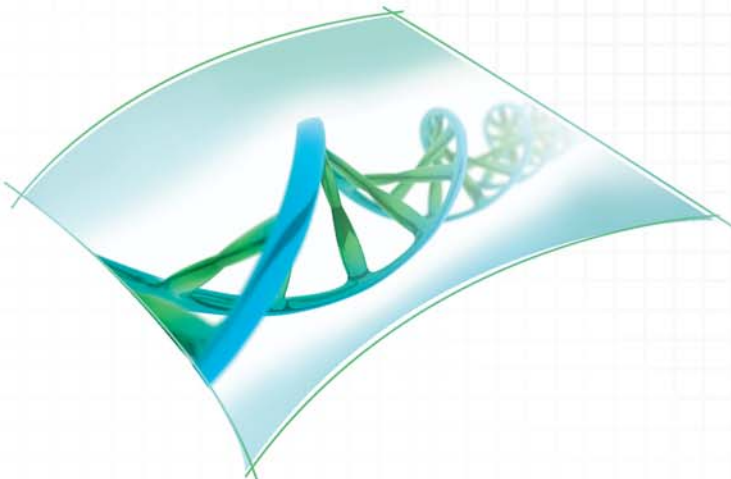
Accepting Challenges - Fulfilling Promises



At the Heart of **Growth**



Safe **Storage** Solutions



Engro Polymer & Chemicals Ltd.

Building **Bonds** for
a Better Tomorrow



AVANCEON

Coordinate, **Integrate**
and Innovate



Eat, Drink and be **Merry**



The **Energy** to Make a Difference



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(Enven Site, Daharki)

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Promises Fulfilled - Highlights

2009 was another successful year for the Company and we delivered a profit after tax of Rs 3,957 million. Our expansion projects remained on track and safety continued to be of prime importance in all our operations.

- Urea expansion project completed its 33rd month of execution and set a new safety record. Commercial Production is expected by 3rd Quarter 2010.
- Highest revenue of Rs 30 billion recorded during the year on account of significant increase in phosphate volumes.
- Engro Vopak achieved a landmark in the terminal industry of Pakistan, following the successful commissioning of Pakistan's first cryogenic import facility for ethylene in early 2009.
- Engro Polymer's new PVC Plant came into commercial production from January 1, 2009 enhancing capacity to 150,000 tons. EDC and caustic soda plants were also commissioned during the year while VCM Plant is expected by 1st quarter, 2010.
- Avanceon's International Execution capabilities were utilized by UAE and US businesses to execute engineering projects by using the pool based in Pakistan. The Company returned to profitability during the year.
- Engro Foods continued its aggressive growth plans and enjoyed phenomenal growth in UHT volumes during 2009 with the dairy segment recording a profit for the year. The year also saw the successful launch of the Ice Cream brand "Omoro".
- Engro Energy's Qadirpur Power Plant is on track with trial production currently underway and commercial operations are expected to start by February, 2010.
- Sindh Engro Coal Mining Company Limited was established as a result of a Joint Venture Agreement with the Government of Sindh, for the development, construction and operation of an open coal mine facility in Block II of Thar Coal Field. The Company is currently conducting a Detailed Feasibility Study and an Environmental Impact Assessment.

Key Figures



	2009	2008
Sales Revenue		
Rs Million	30,172	23,317
Profit after Tax		
Rs Million	3,957	4,240
Weighted average number of Ordinary Shares		
(000's)	281,119	252,247
Earnings per Share - Basic & Diluted		
Rs	14.08	16.81
Dividend		
Rs / Share	6.00	6.00
Capital Expenditure		
Rs Million	36,352	20,214
Long Term Investments		
Rs Million	12,989	11,092
Total Assets		
Rs Million	93,709	57,165
Total Equity		
Rs Million	26,888	21,054
Return on Capital Employed		
%	22%	31%

	2009	2008
Current Ratio		
	1.68	2.01
Debt: Equity Ratio		
	69:31	57:43
Market Capitalization (Year End)		
Rs Million	54,604	20,528
Market Capitalization (Year End)		
USD Million	649	244
Price to Earnings Ratio		
	13.02	5.74
Net Assets per Share		
Rs	90.2	98.9
Interest Coverage Ratio		
	4.9	4.4
Fixed Assets Turnover		
	0.6	1.0
Debtor Turnover		
	21.7	27.9
Inventory Turnover		
	9.1	4.6

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 S. Subhani

Muhammad Aliuddin Ansari

Abdul Samad Dawood

Saad Raja

COMPANY SECRETARY

Andalib Alavi

BANKERS

Arif Habib Bank Limited

Allied Bank Limited

Askari Bank Limited

Atlas Bank Limited

Bank Al-Habib Limited

Bank Al-Falah Limited

Bank Islami Pakistan Limited

Bank of Punjab

Barclays Bank PLC Pakistan

Citibank N.A. Pakistan

Deutsche Bank

Dubai Islamic Bank

Faysal Bank Limited

Habib Bank Limited

AUDITORS

A. F. Ferguson & Co.

Chartered Accountants

State Life Building No. 1-C

I. I. Chundrigar Road

Karachi-74000, Pakistan.

Tel: +92(21) 32426682-6 / 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 Fourth Annual General Meeting of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Saturday, February 27, 2010 at 10 a.m. to transact the following business:

A. ORDINARY BUSINESS

- (1) To receive and consider the Audited Accounts for the year ended December 31, 2009 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 31, 2009.
- (3) To appoint Auditors and fix their remuneration.

B. SPECIAL BUSINESS

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

“RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to transfer to Engro PowerGen Limited (EPGL), a wholly owned subsidiary of the Company, the 304 million ordinary shares owned by the Company in Engro Energy Limited, in exchange for shares of EPGL to be issued to the Company.

- (5) 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 for extending a subordinated loan of upto the rupee equivalent of US\$ 15 million to Engro Fertilizers Limited, a Subsidiary company.”

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

“RESOLVED that

- a) A sum of Rs. 297,942,560 (Rupees two hundred and ninety seven million, nine hundred and forty two thousand, five hundred and sixty only) out of the free reserves of the Company be capitalized and applied towards the issue of 29,794,256 ordinary shares of Rs.10/- each as bonus shares in the ratio of 1:10 i.e. 10% on ordinary shares held by the members whose names appear on the Members Register on February 16, 2010. These bonus shares shall 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, 2009.

- (b) Members entitled to fractions of shares as a result of their holding either being less than 10 ordinary shares or in excess of an exact multiple of 10 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,
January 22, 2010.

ANDALIB ALAVI
General Manager Legal
& Company Secretary

NB.

- (1) The share transfer books of the Company will be closed from Tuesday, February 16, 2010 to Friday, February 26, 2010 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Pvt) Limited, 1st Floor, State Life Building No. 1-A, I. I. Chundrigar Road, Karachi-74000 by the close of business (5:00 p.m) on Monday, February 15, 2010 will be treated as being in time for the purposes of payment of final dividend and issue 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 Fourth Annual General Meeting of Engro Corporation Limited. to be held on February 27, 2010 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

Approval for the transfer to Engro PowerGen Limited (EPGL) of the Company's 304 million shares in Engro Energy Limited (EEL) has already been obtained in the EGM of the Company held on November 27, 2009. However, the approval sought envisaged that an equal number of EPGL shares would be issued to the Company. Due increase in the cost of issuance of shares and as EPGL is a 100% subsidiary of the Company, it is proposed to obtain a lower number of EPGL shares in lieu of the transfer to it of the EEL Shares. The position of the Company remains unchanged.

ITEM (5) OF THE AGENDA

The Company had obtained a loan from the International Finance Corporation (IFC) of US\$ 50 million, of which US\$ 15 million was convertible into shares of the Company. Approval for this convertible loan has already been obtained at the EGM of the Company held on November 27, 2009 and the loan was fully disbursed in the end of December 2009. The shareholders had also been informed in the Statement under S.160 of the Companies Ordinance 1984, that if IFC exercised the conversion option after the demerger Scheme of the Company had been completed, then the rupee equivalent of the amount converted would be owed by Engro Fertilizers Limited to the Company, as its loan liability to IFC would be cancelled to that extent. The conversion option has not yet been exercised and the demerger has become effective from January 1, 2010. It had also been stated that the payment of this amount would be on otherwise similar terms, including as to subordination and tenor, as the IFC loan. The effect of the conversion by IFC would therefore be to create a loan liability in favour of the Company. Though Engro Fertilizers Limited is a wholly owned subsidiary and an exemption exists from obtaining shareholder approval where investments are being made in wholly owned subsidiaries, however, it is possible that at the time the loan is created, Engro Fertilizers Limited may not be a wholly owned subsidiary. Shareholder approval is therefore being sought out of abundant caution.

The information required under SRO 865(1)2000 for loans is provided below:

- (i) **Name of investee company together with the amount and purpose of loan or advance; in case any loan had already been provided or loan has been written off to the said investee company, the complete details of the said loan:**

Engro Fertilizers Limited
Subordinated Loan upto the rupee equivalent of US\$ 15M. No loans already provided / written off. Details about the maximum amount and purpose of the loans have been detailed above.

(ii) **A brief about the financial position of the investee company on the basis of last published financial statements:**

Engro Fertilizers Limited was incorporated in June 2009 and has done no business during 2009. Pursuant to the approval of the demerger scheme of the Company, effective January 1, 2010, Engro Fertilizers Limited has acquired the entire fertilizer business of the Company.

(iii) **Rate of mark-up to be charged:**

Equal to the mark-up payable by the Company on its loans in Pakistan of like or similar maturities plus a margin of 1%.

(iv) **Particulars of collateral security to be obtained from borrower and; if not needed, justification thereof:**

No security will be obtained as Engro Fertilizers Limited is a subsidiary of the Company. Its assets are anyway charged in favour of financiers that have provided it finance.

(v) **Sources of funds from where loans or advance will be given:**

There will be no cash transferred as explained above.

(vi) **Repayment Schedule:**

Subject to the subordination provisions, repayment is expected in three equal installments on September 15, 2015, March 15, 2016 and September 15, 2016. Mark-up will however be payable on semi-annual basis.

(vii) **Purpose of loans and advances; and**

As explained above.

(viii) **Benefits likely to accrue to the Company and the shareholders from loans and advances:**

As explained above there will be no cash transferred, but Engro Fertilizers Limited will owe this money to the Company as the Company would have issued its shares to IFC as part of the convertible option granted to IFC. Both companies benefited from the loan obtained.

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. 297,942,560 and the issue of bonus shares in the ratio of 1:10 i.e. 10%. The Directors of the Company are interested in the business to the extent of their shareholding in the Company.

Karachi,
January 22, 2010.

By Order of the Board

ANDALIB ALAVI
General Manager Legal
& Company Secretary

The Board of Directors



From left to right

(Seated)

| Khalid S. Subhani

Asif Qadir

Asad Umar
(President & Chief Executive)

(Standing)

| Abdul Samad Dawood

Muhammad A. Ansari

Isar Ahmed

Saad Raja



From left to right

(Seated)

Hussain Dawood
(Chairman)

Arshad Nasar

Shabbir Hashmi

(Standing)

Ruhail Mohammed

Khalid Mansoor

Shahzada Dawood

Directors' Profiles



Hussain Dawood
(Chairman)

is Chairman of Engro Corporation Limited, Dawood Hercules Chemicals Limited and the Karachi Education Initiative / Karachi School for Business & Leadership. He is also a Director on the Board of the Pakistan Centre for Philanthropy, Pakistan Business Council, Commonwealth Business Council, Beacon House National University & Asia House, London. He is a Global Charter Member of The Indus Entrepreneurs and a member of the World Economic Forum in Davos. He is the Honorary Consul of Italy, in Lahore, and was recently conferred the award "Ufficiale Ordine al Merito della Repubblica Italiana", by the Italian government. As part of his social responsibilities, he Chairs the Board of the Pakistan Poverty Alleviation Fund, one of the largest World Bank-financed social funds across the world. Mr Dawood is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK. He joined the Board in 2003.



Asad Umar
(President & Chief Executive)

is President & Chief Executive of Engro Corporation Limited, Chief Executive Officer of Engro Fertilizers Limited and Chairman of all Engro subsidiaries and joint ventures. He has held key assignments with the Company, and with Exxon Chemical in Canada. Mr Umar is also on the Board of The Pakistan Business Council, Karachi Education Initiative, Pakistan Institute of Corporate Governance, State Bank of Pakistan and Trustee of Lahore University of Management Sciences (LUMS). A Masters in Business Administration, he joined the Board in 2000.



Asif Qadir
(Director)

is a Senior Vice President of Engro Corporation Limited and Chief Executive of Engro Polymer & Chemicals Limited, Chairman and Chief Executive of Engro Polymer Trading (Pvt) Limited, Director of Engro Powergen Limited, and Chairman of the Board of Inbox Business Technologies (Pvt) Limited and Unicol (Pvt) Limited. He has held key assignments with the Company and with Exxon Chemical Canada. A Chemical Engineer by qualification, Mr Qadir joined the Board in 1997.



Arshad Nasar
(Director)

has worked as Country Chairman and Managing Director of Caltex Oil Pakistan Limited, having 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 and Funds for Inclusion of People with Disabilities (FIPD). He has a Masters degree in Economics as well as Political Science. Mr Nasar joined the Board in 2002.



Shahzada Dawood
(Director)

is the Chairman of Dawood Lawrencepur Limited and Chief Executive of Dawood Hercules Chemicals Limited. He is also a Member of the Board of Governors of National Management Foundation, the sponsoring Body of Lahore University of Management Sciences (LUMS). A Masters in Global Textile Marketing and an LLB, Mr Shahzada Dawood has been on the Board since 2003.



Shabbir Hashmi
(Director)

joined Actis Assets Limited (formerly CDC Group Plc) in 1994, prior to which he worked with the World Bank and US Aid, specializing in the energy sector. At Actis, he leads private equity investment activities out of Karachi for Pakistan and Bangladesh. He is an Engineer from DCET, Pakistan and holds an MBA from JF Kennedy University, USA. He has previously been on the Board as CDC nominee in 2001/02 and rejoined the Board in 2006 as an independent Director.



Isar Ahmad
(Director)

is Managing Director of the Holding Company Group at The Dawood Group. Mr Ahmad has 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 holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants of England & Wales. Mr Ahmad joined the Board in 2006.



Khalid Mansoor
(Director)

is a Senior Vice President of Engro Corporation Limited, and has held various key assignments with the Company and with Esso Chemical Canada, leading various major expansion projects. He is on the Board of Engro Polymer & Chemicals Limited and Chief Executive of Engro Energy Limited, Sindh Engro Coal Mining Company Limited and Engro Powergen Limited. A graduate in Chemical Engineering, Mr Mansoor joined the Board in 2006.



Ruhail Mohammed
(Director)

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 Energy Limited, Avanceon Limited, Engro Powergen Limited, Engro Fertilizers Limited, Engro Foods Supply Chain (Pvt) Limited, Engro Eximp (Pvt) Limited and Sigma Leasing Corporation Limited, as well as being Chief Executive of Engro Management Services (Pvt) Limited. A Masters in Business Administration in Finance, Mr Mohammed joined the Board in 2006.



Khalid S. Subhani
(Director)

is a Senior Vice President of Engro Corporation Limited, and has held key positions with the Company and Esso Chemical Canada. He is also on the Boards of Engro Vopak Terminal Limited, Engro Polymer & Chemicals Limited and Engro Fertilizers Limited. A Graduate in Chemical Engineering, Mr Subhani joined the Board in 2006.



Muhammad A. Ansari
(Director)

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 Boards of National Clearing Company of Pakistan & Al Meezan Investment Management. He joined the Board in 2009.



Abdul Samad Dawood
(Director)

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 Chairman of Central Insurance Co. Limited and on the Board(s) of Dawood Hercules Chemicals Limited, Sui Northern Gas Pipeline Co. Limited, Dawood Lawrencepur Limited, Tenaga Generasi Limited, Inbox Business Technologies, Sach International (Pvt) Limited and Pebbles (Pvt) Limited. He is also the Chief Executive of Dawood Corporation (Pvt.) Limited. Mr Abdul Samad Dawood, a member of the Young President Organization, joined the Board in 2009.



Saad Raja
(Director)

joined DFJ ePlant Ventures in 2002, before which he had worked at senior management levels in the international asset management & investments industry. His diverse experiences have included tenures with Diachi Life Mizuho Asset Management, Industrial Bank of Japan – Asset Management International and Intervest Europe Limited. An engineer from UET, Lahore and with management degrees from the London Business School, Mr Raja has joined the Board in December 2009.

Directors' Report



The Directors of Engro Corporation Limited (Formerly Engro Chemical Pakistan Limited) are pleased to submit the forty fourth annual report and the audited accounts for the year ended December 31, 2009.

PRINCIPAL ACTIVITIES

During 2009 the Company mainly manufactured and marketed fertilizers. It also owns joint venture / subsidiaries engaged in chemical terminal & storage, PVC resin manufacturing & marketing, control & automation, food and energy businesses.

DEMERGER

Over the years, Engro has expanded and diversified into several businesses such as foods, petrochemicals, automation and energy. This growth has necessitated a change in the way we operate and do business. Keeping in view our operations in multi category businesses, 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. As a result it was decided to demerge the fertilizer business and establish a Holding Company structure to manage the affairs of various businesses.

“ The name of Engro Chemical Pakistan Limited has been changed and, effective January 1, 2010, it has been renamed as ‘Engro Corporation Limited’ . ”

The announcement to demerge was made in April 2009, and Engro Fertilizers Limited was incorporated in June 2009 to manage the fertilizer business post demerger. The demerger required the approval of the High Court of Sindh, which was granted on December 9, 2009 after obtaining the requisite approvals from the creditors and shareholders of the Company. The demerger became effective from January 1, 2010 and as a result, all fertilizer business assets and liabilities have been transferred to '**Engro Fertilizers Limited**' against the issuance of shares to the Company.

To reflect the change in the scope of mandate and scale of operations, the name of Engro Chemical Pakistan Limited has been changed and, effective January 1, 2010, it has been renamed as '**Engro Corporation Limited**'. As the Holding Company, Engro Corp is responsible for the long term vision and profitable growth of the Company and its subsidiaries and affiliates.

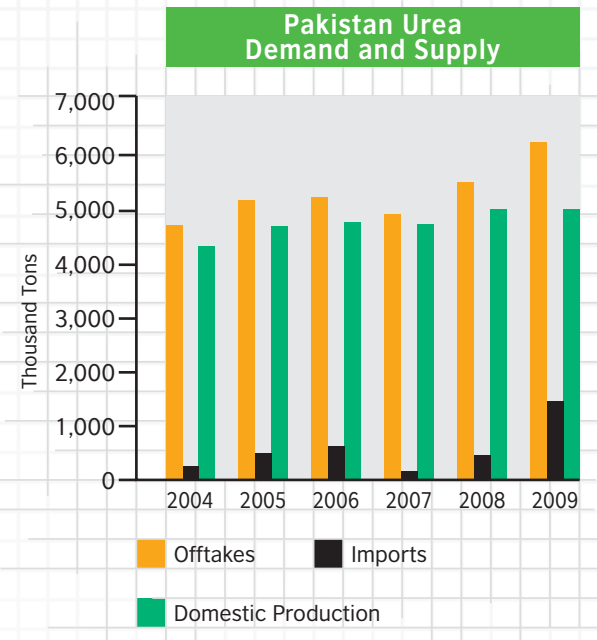
Engro Corp will maintain a lean structure, focused on its scope with maximum empowerment to the subsidiaries and affiliates in driving the operations of respective organizations.

BUSINESS REVIEW

Urea

Industry urea off-takes grew 17% during the year to 6.4 million tons. Increase was mainly due to (a) record wheat support prices (Rs 950/mound) for Rabi 08/09 and 09/10 resulting in highest ever returns for the farmers (b) increase in acreages under BT Cotton requiring more urea and (c) rising cotton prices encouraging increased fertilizer use.

Domestic urea production during 2009 on a national basis, was 5.05 million tons vs. 4.98 million tons in 2008, but it was well short of market demand. The Government of Pakistan filled the gap in demand through urea imports. A total of approximately 1.6 million tons were imported during the year, which was distributed through National Fertilizer Marketing Limited (NFML).

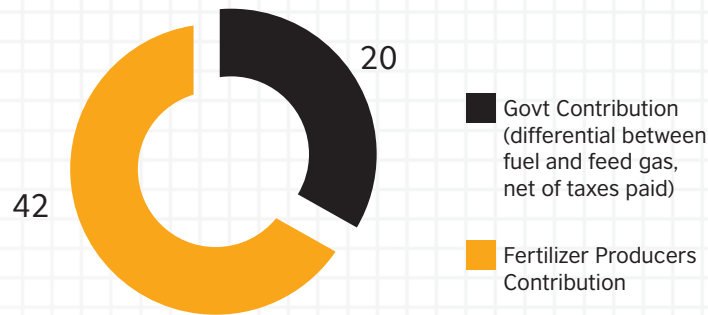


Imported urea cost was around Rs. 1,325/bag (average for the year) as compared to local urea price of Rs 700/bag.

“The total contribution by the fertilizer manufacturers to the farming community has been Rs 266 billion over the last five years.”

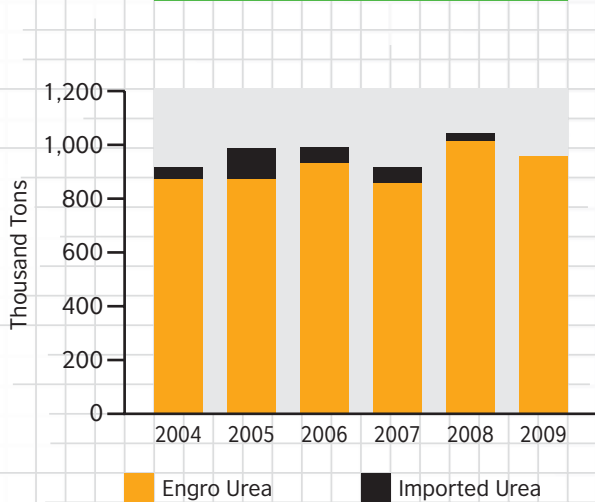
The fertilizer industry continued to sell urea at substantially lower prices than international prices resulting in a net benefit of Rs 62 billion to the farming community. Of this total benefit, Government of Pakistan contributed Rs 20 billion and the fertilizer industry contributed the remaining Rs 42 billion. The total contribution by the fertilizer manufacturers to the farming community has been Rs 266 billion over the last five years.

Total Benefit to Farmers (Rs. Billion)

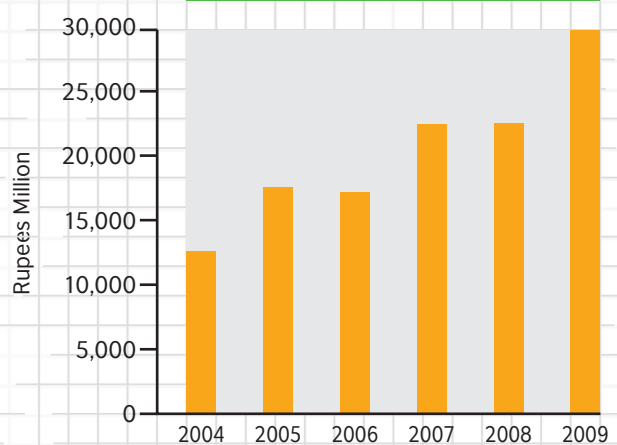


In 2009, we produced 952,000 tons, which is 4% lower than 995,000 tons in 2008 due to the planned maintenance shutdown in the second quarter. We sold 933,000 tons of urea and consumed 20,000 tons in our Zarkhez operations. Our full year market share was 15% vs 19% in 2008 primarily on account of (a) our production remaining constant having reached maximum capacity and (b) while there was growth in urea demand, the distribution of imported urea was handled directly by NFML.

Urea Sales Volume



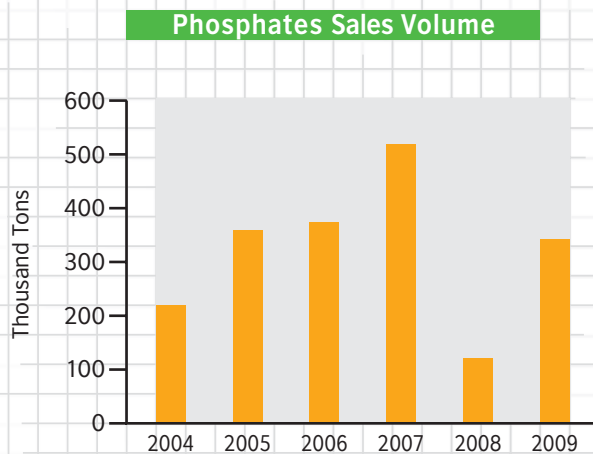
Total Fertilizer Sales Revenue



Total Fertilizer Sales Volume (Thousand Metric Tons)					
2004	2005	2006	2007	2008	2009
1,255	1,522	1,514	1,523	1,259	1,390

Phosphates

Global phosphate fertilizer market took a sluggish start in 2009 due to significant decline in demand and uncertainty in the wake of global economic recession. This resulted in a reduction in global prices as well as supply cutbacks from producers. While there were periods of sporadic demand generation, these were not sufficient to support a sustained increase in international prices. International phosphate prices which were around USD 410/ton CFR at the beginning of the year dropped to around USD 350/ton CFR by the end of June. Demand recovery has started since November with prices firming up to USD 420/ton CFR towards the end of the year.



Industry sales more than doubled to a record volume of 1.8 million tons in 2009 from 0.8 million tons in 2008. Growth is attributable to the following reasons:

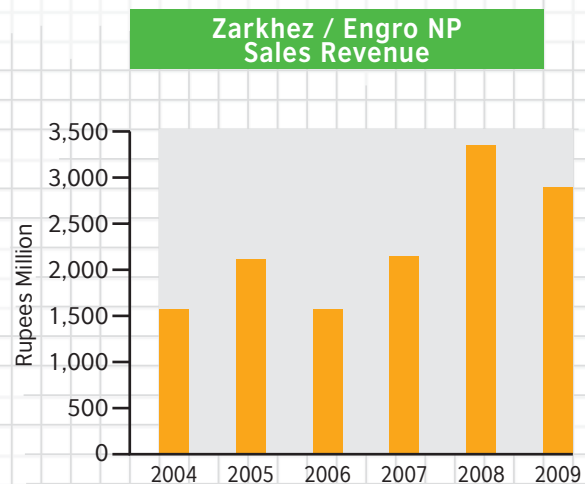
- Lower base effect of 2008 when the industry had contracted due to significant increase in phosphates prices
- Reduction in international and domestic phosphate prices
- Better crop economics as outlined for urea above

We sold 357,000 tons of phosphates in 2009, against 128,000 tons in 2008, achieving market share of 21% vs 16% in 2008. The growth was accomplished as a result of focus on anticipating demand and market trends.

Zarkhez

While commodity prices, including phosphates, saw a general decline in 2009 the decrease in potash prices was relatively lower in comparison. Blended fertilizer businesses worldwide were negatively impacted and a number of producers opted to shut down or carry out maintenance activities at their plants owing to low product demand. Potash trade and consumption decreased significantly.

As a result of relatively higher international potash prices in 2009 the potash nutrient industry registered a 33% decline during the year. Being the largest player in the potash market our Zarkhez sales dropped to 55,000 tons, a 20% decline from 69,000 tons in 2008. However, our market share of potash increased from 51% in 2008 to 65% in 2009.



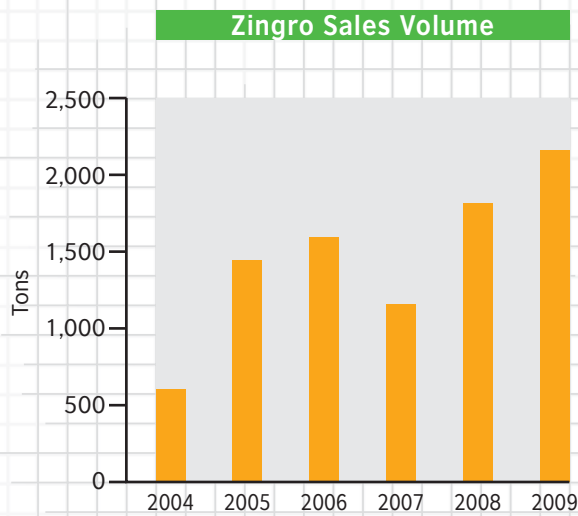
Year	2004	2005	2006	2007	2008	2009
Sales Volume	114	143	116	135	89	100

In line with the growth in the phosphate industry, our Nitrophos (E-NP) sales more than doubled to 45,000 tons during 2009 vs 20,000 tons in 2008.

Our Zarkhez plant produced a total 91,800 tons of blended fertilizers, which includes 47,700 tons of Zarkhez and 44,100 tons of E-NP vs a total of 98,000 tons during 2008.

Micro Nutrients

In addition to our fertilizer portfolio we also market Zinc Sulphate under the brand name “Zingro”. Zinc Sulphate is applied on specific crops, the main one being rice. Overall the Zinc industry declined during the year due to poor rice economics. However, for the second consecutive year, we achieved highest ever Zingro sales of 2,230 tons in 2009 vs 1,781 tons in 2008 recording a volume growth of 21% thereby resulting in a market share of 18% in 2009 vs 14% in 2008.



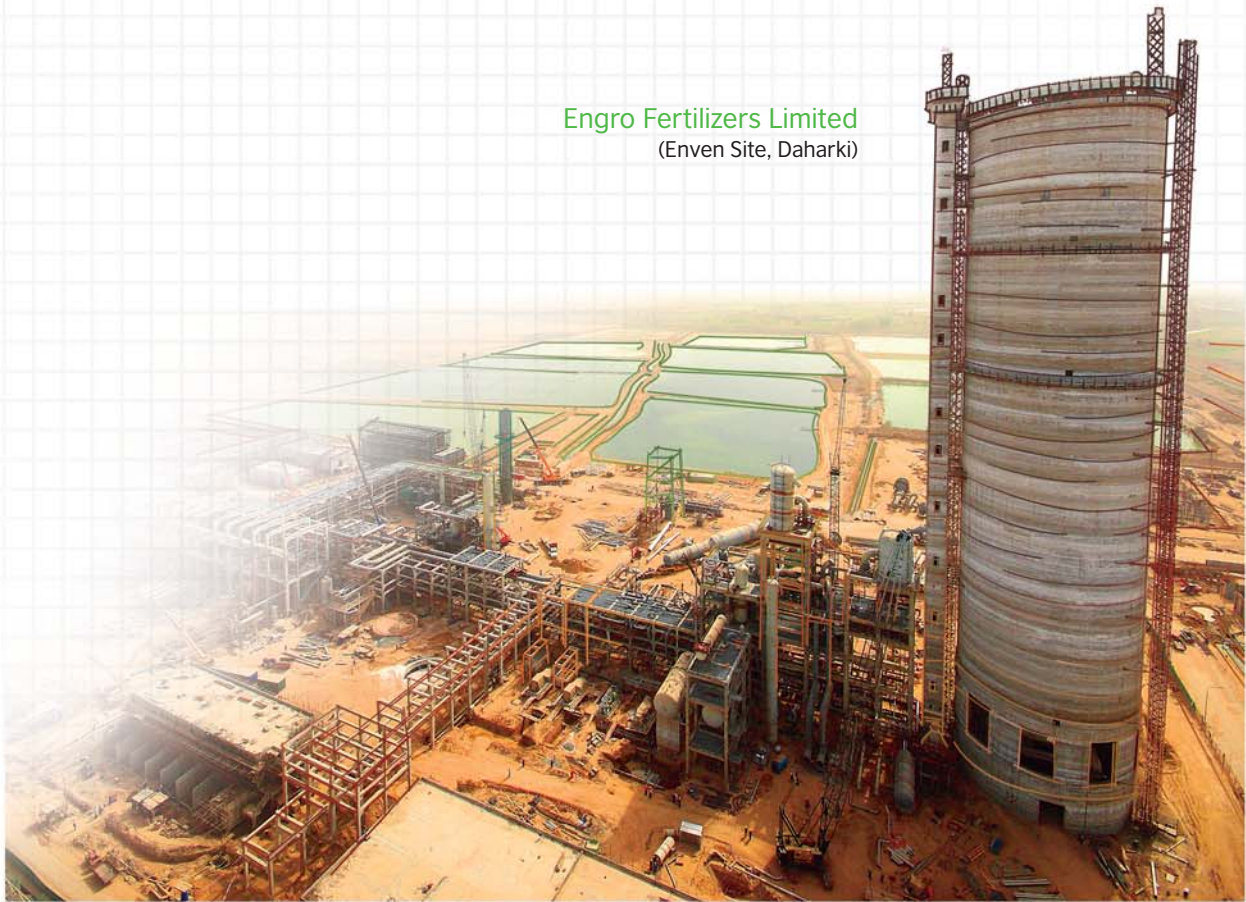
Urea Expansion Project

With the close of 2009, the urea expansion project completed its 33rd month of execution. The project team set a new record in 2009 with a staggering 29.8 million safe man hours without a single Lost Workday Injury (LWI - Apr 07 to Nov 09) since the start of the Project on April 4, 2007.

All in house engineered projects such as the Gas Turbine, Heat Recovery Steam Generation, Water Treatment Plant, Effluent system, Fire Water system, Instrument Air system and Natural Gas facility were successfully constructed and commissioned during 2009.

Delivery of major equipment began in December 2008 and continued into 2009 with approximately 29,000 tons of material delivered on site by the end of the year. With the arrival of the equipment came the next challenge of transportation to the project site. This mammoth task of delivery from port to plant site involved discharging both break bulk and containerized cargo from vessels and loading and lashing it onto specialized vehicles for road transportation to Daharki. In all 12 super cargoes, 60 heavy lifts and 1,400 containerized cargoes were moved from port to Daharki. The movement of these super cargoes created new records for the heaviest & longest pieces ever moved in Pakistan.

Engro Fertilizers Limited
(Enven Site, Daharki)



“ Start of the year also witnessed successful completion of the Prill Tower which is the tallest structure in Pakistan at a height of 125 meters. ”

In construction, civil activities continued in full swing on various work fronts comprising foundation works for various equipments, central control room, sub-stations construction, various other civil structures including compressor hall, cooling tower, etc.

Start of the year also witnessed successful completion of the Prill Tower which is the tallest structure in Pakistan at a height of 125 meters. Prill Tower Truss (450 tons) lifting

by Strand Jacking technique was also carried out safely by world-renowned company VSL on August 31, 2009. This super lift was the first of its kind carried out in Pakistan.

The year 2010 will be an even more challenging one for the project requiring untiring efforts by the entire team for construction completion leading to a safe and smooth commissioning and start up of the plant. A very well trained and high powered operations team has already been set up to undertake the commissioning and start up challenge.

Total project cost outlook remains at USD 1.05 billion with commercial production by 3Q 2010.

Other Businesses

Chemical Storage and Terminals

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.

“ Engro Vopak achieved a landmark in the terminal industry of Pakistan, following the successful commissioning of Pakistan's first cryogenic import facility for ethylene in early 2009. ”

The Company completed 12 years of safe operations and ended the year with a Total Recordable Injury Rate (TRIR) of 0.43. The Terminal continued to maintain health, safety and quality standards per OHSAS 18001, ISO 9001 and 14001. The Company achieved compliance of over 98% in Terminal Health Assessment (self assessment) whilst external assessment by Vopak is expected in 1Q 2010.

Engro Vopak Terminal Limited (EVTL)
(Port Qasim, Karachi)



Pakistan's first cryogenic storage facility was commissioned in first quarter 2009 at a cost of USD 32.6 million. During the year, dredging work was carried out in front of Jetty with an investment of USD 1.35million to increase the depth to 11m from 9m to cater to the future requirement of higher draught for oil, chemicals and LPG handling. Efforts have continued to position the Company for the LNG import terminal at Port Qasim. The Company has received provisional NOC from Port Qasim Authority for a feasibility study to be completed by June 2010. The long term Terminal Service Agreement with ICI Pakistan Limited for handling and storage of MEG was also renewed during the year for another seven years.

The Company's revenue from Terminal Services crossed the Rs 2 billion mark and throughput crossed 1 million tons in 2009. Actual throughput for the year was 1,063,000 tons vs. 879,000 tons in 2008. The increase in throughput is mainly attributable to Fauji Fertilizer Bin Qasim's first full year of operation after their expansion project completed in 2008. During the year the Company also handled 40,000 tons of LPG imports vs. 16,000 tons in 2008.

The profit after tax for 2009 was Rs 917 million vs Rs 514 million in 2008. Increase in profit is attributable to higher volumes of LPG, Ethylene, Phos Acid and VCM handled. The Company paid out total dividends of 100% vs 55% in 2008 of which Engro's share was Rs 450 million.

Petrochemicals

Engro Polymer & Chemicals Limited is a 56% owned subsidiary and is listed on all three stock exchanges of Pakistan. It is engaged in the manufacturing and marketing of PVC resin and caustic soda.

“ The Chlor-alkali plant came into commercial production from August 1, 2009 and produced 39,000 tons of caustic soda during the year which was well received by the customers. ”

The new PVC plant came into commercial production from January 1, 2009 raising the total annual capacity to 150,000 tons. During the year 2009, the Company produced 116,000 tons of PVC versus 103,000 tons in 2008. The production of PVC had to be curtailed due to limited availability of VCM. Domestic PVC sales volume during the year comprising of current production as well as carry forward inventory were 119,000 tons vs 98,000 tons in 2008, which is the highest ever since the inception of the Company. The domestic sales growth of over 20% was mainly attributable to government projects, increased usage of PVC pipes in agricultural sector and higher conversion from scrap to new resin. The Company also exported 10,000 tons of PVC during the year.

The Chlor-alkali plant came into commercial production from August 1, 2009 and produced 39,000 tons of caustic soda during the year which was well received by the customers. A total of 32,000 tons were sold in the domestic market, 2,000 tons were exported and some was used for self consumption. The company also produced and sold 7,000 tons of Sodium Hypochlorite.

Engro Polymer &
Chemicals Limited (EPCL)
(Port Qasim, Karachi)



The EDC Plant also started commercial production from August 1, 2009. Total EDC production during the year was 42,000 tons. As the VCM Plant was not commissioned during the year, 32,000 tons of EDC were exported.

Completion of the VCM Plant was delayed by three months which was followed by some unsuccessful startup attempts leading to delay in commissioning. The Plant started up for trial production at the end of October and a total of 6,000 tons of VCM was produced which was used to manufacture PVC. In December 2009, there was a fire incident at the plant site due to which the plant had to be shutdown. The efforts to put the VCM Plant back in operation are underway and it is expected to come into commercial operation in first quarter of 2010. Final project cost is expected to be USD 255 million. The Company ended the year with a TRIR of 0.50.

The Company made a loss of Rs 194 million for the year as compared to a profit after tax of Rs 350 million last year. The main reasons for the loss are attributable to incremental costs related to depreciation, financial charges and other fixed costs on account of expansion and back integration of those plants which were commissioned during the year, whereas full economic benefits of the integrated facility could not be attained as VCM Plant had not come into commercial production.

Automation and Control

Avanceon Limited is engaged in automation and control engineering services. Avanceon Pakistan, has a wholly owned subsidiary in Jebel Ali Free Zone, UAE. The UAE subsidiary owns seventy percent interest in its US subsidiary, which was acquired in 2007.

“ Avanceon’s International Execution capabilities were utilized by its UAE and US businesses to execute engineering projects by using the pool based in Pakistan. ”

Avanceon Limited
(Lahore)



Relentless focus of safety initiatives continued during the year and the Company achieved a TRIR of 0.

The automation industry is dependent upon capital expenditure of manufacturing plants. Recognizing the impact of recession, the Company re-organized itself in early 2009. A cost rationalization exercise was carried out at all three locations including a right sizing of the organization. In addition to cost rationalization, Company's International Execution capabilities were utilized by its UAE and US businesses to execute engineering projects by using the pool based in Pakistan.

The above measures also resulted in the US business breaking even post first quarter 2009 and the UAE business making a profit. The consolidated profits of the Company were Rs 35 million vs a loss of Rs 109 million in 2008.

Foods

Engro Foods Limited, a wholly owned subsidiary, continued its aggressive growth plans and enjoyed phenomenal growth in 2009 mainly in UHT volumes. Key highlights for the year were the launch of the Ice Cream brand "Omore" and Flavored milk brand "Owsum" in the first half of 2009. Both products were well received by consumers.

The Company's dairy segment recorded a revenue growth of 72%, which was mainly driven by "Tarang" tea whitener liquid, the continued growth momentum of Olper's and considerable improvements in distribution coverage and focused brand investments. The flagship Olper's brand

continued its growth trend and attained a volume growth of 24% vs an industry growth of only 4.2%.

The Company's milk collection network continued to grow in line with sales. The Company's milk collection activities now affect the livelihood of over 80,000 farmers every day.

“ Engro Foods continued its aggressive growth plans and enjoyed phenomenal growth in UHT volumes during 2009 with the dairy segment recording a profit for the year. The year also saw the successful launch of the Ice Cream brand “Omore” . ”

With the aim to bring innovation to the ice cream category at national level, the Company launched its dairy based premium quality ice cream brand "Omore" with an upbeat and catchy TV jingle. Omore's marketing plan was well received by both consumers and trade. Brand salience scores further confirmed Omore's total brand awareness at 99%. Omore attained a market share of 11% in the year of launch with a revenue of Rs 751 million. Further investment is planned in 2010.



Engro Foods Limited
(Sahiwal Plant)

The farm activities continue as per plan. To date 1,324 cows of the total imported Australian cows have started milking with a daily output of 24,000 liters of high quality international standard milk. The Company's focus on safety continued and it achieved TRIR of 0.32 during the year.

Engro Foods is committed to provide development opportunities to the working population and is investing in skill development programs. One such initiative is the Community Empowerment through Livestock Development and Credit (CELDAC), in partnership with UNDP. Under CELDAC, 1209 lady livestock workers have been trained. The program has contributed significantly to the social and economic empowerment of women in rural areas.

In partnership with TetraPak, Engro Foods has developed and implemented the concept of "dairy hub" in Sahiwal, which provides concentrated training and facilities on animal health, nutrition and fertility, as well as chillers and logistical arrangement, to increase milk production capacity in a cluster of selected villages. Currently the project is catering to 20 villages.

While dairy segment reported a profit for the year, the Company recorded a loss of Rs 434 million against loss of Rs 554 million of 2008 on account of significant initial brand investment for ice cream. However, the Company was cashflow positive with an EBITDA of Rs 258 million.

Energy and Power

Engro Energy Limited, Engro's first initiative in the power sector of Pakistan, is a 95% owned subsidiary. The 220 MW power project based in Qadirpur achieved financial close in April 2008, and is the first power project under the 2002 policy based on foreign debt financing. IFC has a 5% equity stake in the Company.

Engro Energy Limited
(Qadirpur Power Project)



“The initiatives being undertaken include a Joint Venture Company with the Government of Sindh for the development of Block II of the Thar Coal Field.”

The project will utilize low BTU and high sulphur permeate gas which is currently being flared from Qadirpur gas field resulting in economic benefits for the country and will comply with World Bank Emission Standards.

The EPC activities have progressed well with trial production currently underway and commercial operations expected to start by February 2010. The year end TRIR achieved was 0.12.

During the year, the Company signed a Joint Venture agreement with the Government of Sindh, Coal and Energy Development Department for the development, construction and operation of an open coal mine facility in Block II of Thar Coal Field, with an annual capacity of 3.5 to 6.5 million tons of coal. Under the Joint Venture agreement, a new subsidiary company called Sindh

Engro Coal Mining Company Limited (SECMC) has been established, which is currently conducting a Detailed Feasibility Study and an Environmental Impact Assessment. The work on the feasibility commenced during the fourth quarter of 2009.

Post confirmation of the viability of mining, a thermal IPP is also proposed to be set up utilizing the coal from the mining operations.

Rice processing and trading

During the year Engro announced its plans of setting up a rice processing plant in the province of Punjab which is expected to come online by the fourth quarter of 2010. The plant is expected to cost Rs 3.2 billion with an equity injection of Rs 1.6 billion, which will be contributed by Engro Foods and Engro Eximp.

The Company will export the processed rice primarily to the Middle East and European Union. The project will benefit from Engro's knowledge of the agricultural sector of Pakistan as well as its marketing and management expertise.

Health, Safety, Environment & Quality

“ Through the implementation of world class safety management systems and the untiring efforts of the plant management, employees and contractors, we were able to accomplish our maintenance shutdown activity without any injuries. We ended the year with a TRIR of 0.28. ”

HSE continues to be a high priority for Engro and our relentless focus is evident by the rating of 3.86 on a scale of 5, which was awarded to us this year when DuPont Safety Resources evaluated the Daharki Urea Plant for compliance with their Best Practices for Process Safety Management System. This rating is close to excellence on Dupont's scale and is comparable to the high standards maintained at plants in North America.

Through the implementation of world class safety management systems and the untiring efforts of the plant management, employees and contractors, we were able to accomplish our maintenance shutdown activity without any injuries. We ended the year with a TRIR of 0.28.

To benchmark ourselves against environmental standards, we are now following the British Safety Council's 5-star environmental audit program. An audit was conducted in February 2009 and we were given a rating of 3.0 (Good). Based upon the environmental audit, we have developed environmental sustainability targets for the next five years and plan to achieve a 4 star rating by year 2011.





Our quality re-certifications were achieved successfully for OHSAS-18001:2007, ISO-14001:2004, SA-8000:2008 and ISO-9001:2008 and shifted on an integrated management system (IMS).

MARKET DEVELOPMENT

The Company continued its endeavors to improve the livelihood of farmers by contacting them either individually or through group activities like field days, seminars and farmer meetings for farm technology transfer.

We continued publishing our crop production literature, including our popular quarterly magazine “Behtar Zindagi”, for all major crops. Our website engrozarai.com is also a good source of Agronomic information providing a forum for farmers, extension workers and agri scientists to share latest information and developments in the field of agriculture. Through brand activation, we contacted more than 42,000 farmers, not only creating awareness about our brands, but also focusing on imparting knowledge on best farming practices.

EMPLOYEE RELATIONS & ORGANIZATION DEVELOPMENT

Marketing division achieved compliance with DuPont Behavioral Safety Management System when DuPont Safety Resources evaluated the upgraded system and declared it to be at the skill level i.e., 3.0 as per their Best Practices rating.

The Company began work on Occupational Health and Industrial Hygiene during the year and plans to achieve basic skill level as per Dupont best practices in 2010.

Work continues to make our operations more environmental friendly with ongoing projects such as disposal of chromate sludge, CFC free Air conditioner replacement and a tree plantation campaign initiated during the year. As part of energy conservation, we embarked upon the replacement of mercury lamps and conventional tube light chokes with electronic ballasts.

The Company arranged the second national HSE seminar in October 2009 where leading industries of the country presented papers. During the year, we also won the sixth consecutive National Forum of Environment & Health (NFEH) annual environment excellence awards.

In 2009, we enacted several policies to enhance employee satisfaction, including Non-Harassment and Non-Discrimination, geared towards creating greater gender diversity, providing more opportunities for training and development, building career opportunities and nurturing leaders for tomorrow. Engro is setting up a day-care facility on its premises to give its employees continuity of careers while maintaining work life balance.

Envison (Engro Volunteers in Service of the Nation) and Weave (Engro Women’s Network), two informal employee networks were initiated this year to provide a platform for employees to gain a more meaningful experience out of their lives at Engro. These networks are not bound by hierarchy and provide an opportunity to all employees to take ownership of the programs and initiate and lead projects in their respective scope of work.

“ The President’s Award is the highest accolade received by an employee, and this year it was awarded to Mr Rais Azhar for his outstanding performance in clearing and transporting plant machinery and equipment related to the urea expansion project. ”



Rewards and Recognition

Recognition is an integral motivational tool at Engro. Employees are recognized on continuous basis not only for their accomplishments at work but also for going the extra mile in community services.

The President’s Award is the highest accolade received by an employee, and this year it was awarded to Mr Rais Azhar for his outstanding performance in clearing and transporting plant machinery and equipment related to the urea expansion project. He successfully delivered approximately 29,000 tons of super and heavy equipment to the plant site on schedule, despite bottlenecks, establishing new records of heaviest and longest cargo ever moved in Pakistan without any safety incident.

Social Investments

“ We launched a vocational training program, in collaboration with the Descon Training Institute, to create employment opportunities for local youth. This year 55 boys have graduated from the institution. ”

2009 was yet another year of continued commitment to corporate social responsibility, with focus on various social investments, primarily directed towards five areas i.e. education, health, skill development, environment, and emergency relief efforts.

We are playing a pivotal role in establishing a world-class business school in Karachi, to produce future business leaders to address the need of the country's large and diversified business sectors. The school is being established in partnership with Judge Business School, University of Cambridge.

To ensure better quality of life, Engro has continued to invest in health facilities such as subsidized clinics and specialized centres such as mother-child health centre, eye centre, snakebite treatment facility, dialysis centres, Thalassemia centre, as well as a major telemedicine project “Project Hope”. Support for these initiatives has benefitted more than 29,000 patients in 2009.

We launched a vocational training program, in collaboration with the Descon Training Institute, to create employment opportunities for local youth. This year 55 boys have graduated from the institution. In addition, Engro continues to spearhead joint government-industry efforts to establish a Technical Training Center at Daharki to develop local skilled labor. Major partners include Pakistan Industrial Development Corporation, Mari Gas and Saipem.

In response to the IDP suffering caused by security operations in Malakand division, we provided support of over Rs 3 million in cash and kind.



Corporate Awards

“ During 2009, we won the sixth consecutive National Forum of Environment & Health (NFEH) annual environment excellence awards. ”

“ In the year 2009, the Company was honored with the Investor Relation Award by CFA Association of Pakistan. ”

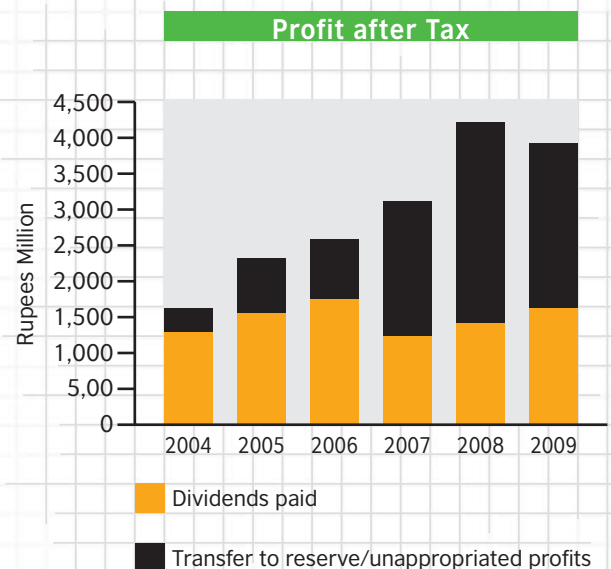


Results For The Year

Engro delivered a PAT of Rs 3.96 billion in 2009 vs Rs 4.24 billion in 2008. The decline is primarily due to lower income from affiliates.

Sales for the year amounted to Rs 30.2 billion against Rs 23.3 billion last year. Though urea sales volumes remained relatively constant, there was a significant increase in phosphate sales due to reasons mentioned in the business review segment.

Year-end cash dividend was Rs 2.00 per share and a bonus issue in the ratio of 1 share for every 10 shares held i.e. 10%.



PROFIT AFTER TAX (USD Million)					
2004	2005	2006	2007	2008	2009
20	28	31	39	52	48

Dividends

The Board is pleased to propose a final cash dividend of Rs 2.00 per share and a bonus issue in the ratio of 1 share for every 10 shares held. Together with the two interim dividends amounting to Rs 4.00 per share, the total cash dividend attributable to the year is Rs 6.00 per share and a bonus issue of 10% 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	6,911
Final dividend for the year 2008 on 212,816,117 shares of Rs 10 each at Rs 2.00 per share declared on January 21, 2009	(426)
Profit for the year after taxation	3,957
Disposable profit for appropriation	10,442
First interim dividend on 297,942,563 shares of Rs 10 each at Rs 2.00 per share declared on July 28, 2009	(596)
Second interim dividend on 297,942,563 shares of Rs 10 each at Rs 2.00 per share declared on October 28, 2009	(596)
Un-appropriated profit carried forward	9,250
Subsequent Effect	
Proposed final dividend on 297,942,563 shares of Rs 10 each at Rs 2.00 per share	(596)
Total Cash Dividend for the year Rs 6.00 per share	1,788

Key operating and financial data for 10 years is summarized on page 234

EARNINGS PER SHARE (EPS) / DIVIDENDS PER SHARE (DPS)

	2004	2005	2006	2007	2008	2009
EPS	8.3	11.33	12.40	13.54	16.81	14.08
DPS	8.5	11.00	9.00	7.00	6.00	6.00

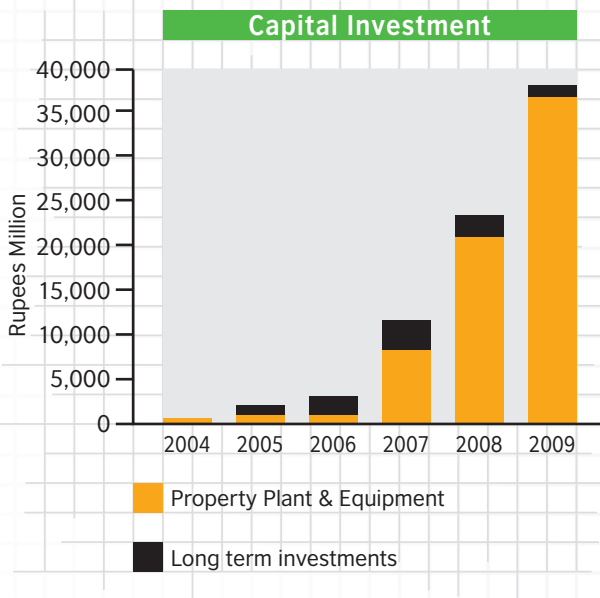
Value Addition

	2009 Rupees in Million	%	2008 Rupees in Million	%
Wealth Generated				
Total revenue inclusive of sales-tax and other income	32,190		26,706	
Bought-in-material and services	(19,405)		(13,817)	
	<u>12,785</u>		<u>12,889</u>	
Wealth Distributed				
To employees				
Salaries, benefits and other costs	1,565	12.24%	1,411	10.95%
To Government				
Taxes, duties and development surcharge	5,221	40.84%	5,032	39.04%
To society				
Donation towards education, health, environment and natural disaster	49	0.38%	42	0.33%
To Providers of Capital				
- Dividend to Shareholders	1,617	12.65%	1,432	11.11%
- Mark-up / interest expense on borrowed money	1,321	10.33%	1,509	11.71%
Retained for reinvestment & future growth, depreciation, amortization and retained profit	3,012	23.56%	3,462	26.86%
	<u>12,785</u>		<u>12,889</u>	

CASH FLOW AND CAPITAL INVESTMENT

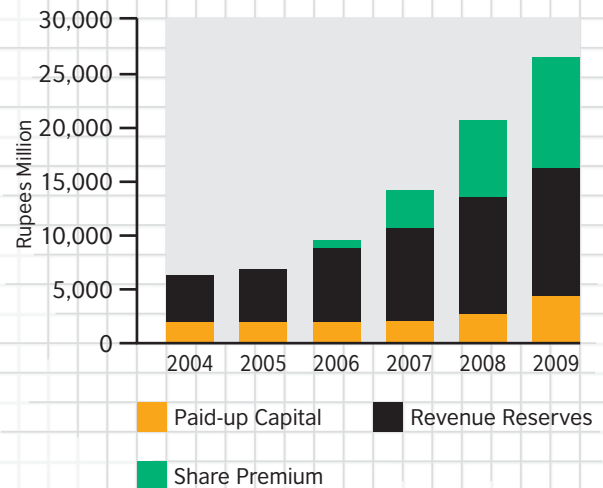
Cash generated from operations during the year was Rs 8,775 million (2008: Rs 2,413 million). This is after adjusting for a decrease in working capital of Rs 3,161 million mainly on account of liquidation of stock in trade. Taxes paid for the year amounted to Rs 1,227 million (2008: Rs 575 million) based on the regulations governing Income Tax. The increase was primarily due to withholding tax deducted at import stage on materials arriving for our urea expansion project during the year.

Total Long Term investments of Rs 1,897 million (2008: Rs 3,327 million) were made during the year. Rs 344 million (2008: Rs 1,377 million) was invested in the power business while Rs 1,073 million (2008: Rs 1,950 million) was invested in the food business.



Additions to property, plant and equipment mainly represent expenditure towards construction of the Urea Fertilizer expansion plant which amounted to Rs 54,540 million (2008: Rs 26,429 million) at the year end of which Rs 28,111 million (2008: Rs 19,223) was incurred during 2009.

Shareholder's Equity



CAPITAL INVESTMENT, CAPITAL STRUCTURE AND FINANCE

As part of its strategy to generate funds for its Urea Fertilizer expansion project, the Company offered 40% right shares at Rs 50 per share to the shareholders including premium of Rs 40 per share. The total issue including share premium amounted to Rs 4,249 million net of issuance costs.

Shareholders' funds (excluding Hedging Reserve) at the year-end totaled Rs 27,498 million (2008: Rs 20,926 million). The increase is largely due to the issuance of right shares (as mentioned earlier) as well as retained profits.

Net long term borrowings at the year-end increased to Rs 59,375 million (2008: Rs 27,833 million) primarily for financing the Company's Urea Fertilizer expansion project. The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2009 is 69:31 (2008 – 57:43). The liquidity position of the Company remains comfortable with a year-end current ratio of 1.68 (2008 – 2.01).

MAJOR JUDGEMENT AREAS

Taxation

The Company has filed tax returns up to income year 2008 of which tax returns for income years 2003 – 2008 have been filed under self-assessment scheme. All assessments up to income year 2002 have been finalized by the Department and appealed against. The Company is in appeal at the CIT and ITAT level for various income years for different issues. The two major ones being, the issue of apportionment of gross profit and selling and distribution expenses for income years 1999- 2002 and claiming the benefit of Group Relief under Section 59 B of Income Tax Ordinance, 2001 in respect of losses acquired for an equivalent consideration from Engro Foods Limited, a wholly owned subsidiary, for income years 2006 and 2007. In December 2009, the matter of Group relief before the CIT for the income year 2007 was decided in the Company's favour. The Company is confident that all pending issues will be ultimately resolved without any additional liability.

Marketing Incidentals

In 1988, the Company had commenced two separate arbitration proceedings against the Government of Pakistan for nonpayment of marketing incidentals for the years 1983-1984 and 1985-1986. Though we have been awarded Rs 47.8 million in 2002 in the later case, it is now pending hearing in the High Court due to objections being filed by the Government in 2003. No decision has been given on the earlier proceedings.

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's long term ratings and maintained its 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 Company's treasury activities are controlled and are 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 to the Company 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 centre.

Interest Rate Management

At the end of 2009, ECPL's core borrowings were Rs 59.4 billion. We have total foreign currency borrowings of USD 285 million which are linked to LIBOR. Of this amount, interest rates on USD 235 million are hedged through a fixed interest rate swap for the entire tenor of the loans. 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 Board had approved short term funded facilities of Rs 7.0 billion. Engro's policy is to ensure that adequate medium 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

Our foreign currency exposure is mainly on import of raw materials and stores and spares for our plant and machinery. Where deemed appropriate, we eliminate currency exposure on purchases of goods in foreign currency 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.

We have hedged USD 85 million out of our total foreign currency borrowings of USD 285 million. We continue to monitor foreign currency trends and take appropriate actions when required.

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 shall end 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 recognised in the financial statements. Movement of the deferred employee compensation expense for the year is as follows:

	Rupees in Thousands
Balance as at January 1, 2009	189,291
Options lapsed due to employee resignation	(16,794)
Amortization for the year	(82,432)
Balance as at December 31, 2009	<u>90,065</u>

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%

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	700,000
Syed Khalid S. Subhani	560,000
Ruhail Mohammed	420,000
M. Asif Sultan Tajik	280,000
Andalib Alavi	280,000
Tahir Jawaid	280,000
Inamullah Naveed Khan	280,000
Muhammad Khalid Mir	280,000
Abdul Samad Khan	280,000

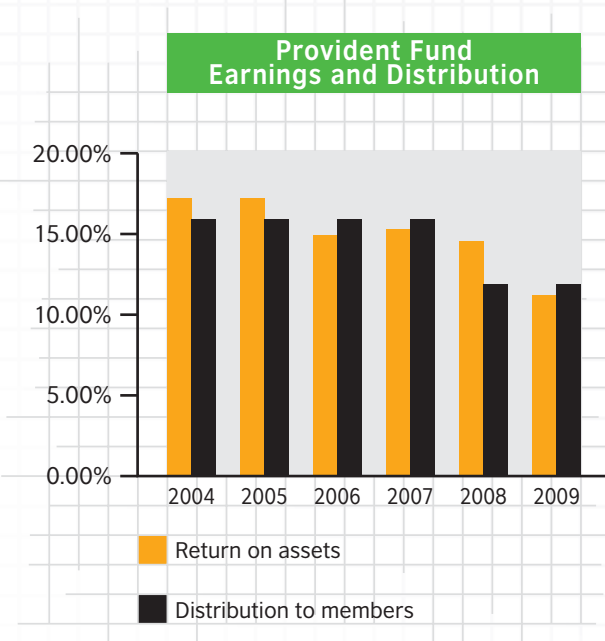
Above mentioned shares include the impact of right shares.

During the year, 392,700 options (including impact of right shares) lapsed on account of resigned employees. Further there is no dilutive effect on the basic earnings per share of the Company since the average market price of the share is less than the exercise price of the options granted.

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.

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, 2009 and the financial statements of these have been audited upto December 31, 2008. The latest audited accounts for the provident fund cover year ended June 30, 2009. 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, 2009	December 31, 2008	December 31, 2008
Net Assets as per last audited financial statements	686	524	243
DSCs/PIBs	444	430	172
Mutual Funds	-	13	-
TFCs	68	84	8
Shares	98	61	53
Bank Deposits	18	11	12
Receivables	62	6	3
Payables	(4)	(81)	(5)
Total	686	524	243

AUDITORS

Messrs. A. F. 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 recommendation.

PATTERN OF SHAREHOLDING

Major shareholders of Engro Corporation Limited (previously Engro Chemical Pakistan Limited) are The Dawood Group including Dawood Hercules Chemicals Limited (DH), Engro 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 2009 is shown on page 47 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 therefrom 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 2009, the Board of Directors held 08 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	8/8
Mr Asad Umar	8/8
Mr Isar Ahmad	7/8
Mr Muhammad Aliuddin Ansari *	7/8
Mr Abdul Samad Dawood*	7/8
Mr Shahzada Dawood	8/8
Mr Shabbir Hashmi	8/8
Ms Kigge Hvid*^	1/8
Mr Khalid Mansoor	8/8
Mr Ruhail Mohammed	8/8
Mr Arshad Nasar	8/8
Mr Asif Qadir	7/8
Mr Khalid S. Subhani	7/8
Mr Saad Raja ^	-

* Elected directors effective April 22, 2009

^ Saad Raja appointed on 29.12.09 after 8 meetings were completed in place of Ms. Kigge Hvid who resigned w.e.f. 1.12.2009

OUTLOOK AND CHALLENGES

Urea supply is expected to increase as a result of our own expansion project and Fatima Fertilizers coming online in 2010. This should lead to a significant reduction in urea imports in 2010. Phosphates demand is expected to remain stable.

With the Polymer and power projects almost complete, the Company will focus on timely completion of its urea expansion project and growth in the food business. We will continue to pursue the Thar Coal Mining and Power Project as well as the North African fertilizer venture.

The Board would like to take the opportunity to express its appreciation to the dealers, customers and employees for their dedication throughout the year. The Board also acknowledges the support and cooperation received from the Government, joint venture partners, bankers, suppliers, contractors and other stakeholders.



Hussain Dawood
Chairman

January 22, 2010



Asad Umar
President & Chief Executive

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.	113,620,371
Central Insurance Co. Ltd.	10,780,229
Patek (Pvt.) Ltd.	19,990,000

2. NIT and ICP

National Investment Trust	3,338,472
Investment Corporation of Pakistan	14,044

3. Directors, CEO & their spouses & minor children

Hussain Dawood	178,554
Asad Umar	1,343,949
Isar Ahmad	7,371
Muhammad Aliuddin Ansari	3,500
Abdul Samad Dawood	48,190
Shahzada Dawood	635,543
Shabbir Hashmi	25,376
Khalid Mansoor	352,037
Ruhail Mohammed	87,614
Arshad Nasar	192
Asif Qadir	560,871
Saad Raja	100
Khalid S. Subhani	413,587

Mrs Kulsoom Dawood (w/o. Mr Hussain Dawood)	962,002
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Mrs Farrukh Sultan Qadir (w/o. Mr Asif Qadir)	22,600
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4. Executives (Approx.)

The Company's employees, annuitants and their family members collectively hold approximately 8% shares of the Company.	4,800,000
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5. Public Sector Companies & Corporations

7,385,669

6. Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds

49,153,224

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

Dawood Hercules Chemicals Ltd.	113,620,371
--------------------------------	-------------

8. Details of purchase / sale of shares by Directors / Company Secretary / Chief Financial Officer and their spouses / minor children during 2009

Name	Dated	Purchase	Sale	Rate Rs./Share
Isar Ahmad	Feb 09	4000**		118.98
	June 09	2106*		50
Hussain Dawood	June 09	2905301*		50
	Aug 12		9990000***	144.39
Shahzada Dawood	June 09	295869*		50
	Aug 12		400000***	144.39
Shabbir Hashmi	Feb 11	13000**		114.96
	June 09	7250*		50
Khalid Mansoor	June 09	100459*		50
	Dec 08	430****		-
Ruhail Mohammed	June 09	24958*		50
	Dec 08	260****		-
Abdul Samad Dawood	June 09	442340*		50
	Aug 12		1500000***	144.39
Arshad Nasar	June 09	54*		50
Muhammad Aliuddin Ansari	June 09	1000*		50
Kigge Hvid*****	June 09	40*		50
Asif Qadir	June 09	131537*		50
	Dec 08	490****		-
Khalid S. Subhani	June 09	118036*		50
	Dec 08	460****		-
Asad Umar	June 09	383862*		50
	Dec 08	430****		-
Andalib Alavi	Jan 05	52000**		101.34
	June 09	52177*		50
	Dec 08	350****		-
Mrs. Kulsoom Dawood (w/o Mr Hussain Dawood)	June 09	1732000*		50
	Aug 12		5100000***	144.39

* 40% Rights Shares

** Shares purchased from Karachi Stock Exchange

*** Shares sold to Patek (Pvt) Ltd thru Karachi Stock Exchange

**** ECPL Employees Trust Donation Shares

***** Ms. Kigge Hvid resigned on 1.12.2009

Saad Raja appointed Director in place of Ms Kigge Hvid

Pattern of Holding of Shares

Pattern of holding of the shares held by the Shareholders as at December 31, 2009

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
2683	1	100	126,914
3230	101	500	942,430
1858	501	1000	1,461,819
3597	1001	5000	8,800,274
1042	5001	10000	7,548,721
467	10001	15000	5,777,383
234	15001	20000	4,044,282
159	20001	25000	3,569,048
104	25001	30000	2,868,123
77	30001	35000	2,535,943
54	35001	40000	2,039,645
48	40001	45000	2,041,483
43	45001	50000	2,081,761
36	50001	55000	1,892,733
36	55001	60000	2,073,832
30	60001	65000	1,875,863
22	65001	70000	1,494,642
16	70001	75000	1,161,083
14	75001	80000	1,091,856
11	80001	85000	898,719
8	85001	90000	695,539
7	90001	95000	646,148
17	95001	100000	1,672,222
7	100001	105000	713,989
7	105001	110000	748,588
7	110001	115000	787,939
10	115001	120000	1,182,626
7	120001	125000	858,988
4	125001	130000	511,529
4	130001	135000	529,914

Pattern of holding of the shares held by the Shareholders as at December 31, 2009

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
5	135001	140000	689,686
3	140001	145000	429,777
5	145001	150000	743,363
3	150001	155000	460,425
1	155001	160000	157,990
1	160001	165000	161,350
3	170001	175000	522,191
2	175001	180000	355,655
2	180001	185000	364,548
4	190001	195000	767,891
5	195001	200000	987,833
6	200001	205000	1,209,006
1	205001	210000	206,458
1	210001	215000	215,000
1	215001	220000	216,990
2	220001	225000	443,584
2	225001	230000	450,990
1	230001	235000	234,549
3	235001	240000	708,873
4	240001	245000	970,653
3	245001	250000	747,981
2	250001	255000	506,068
3	255001	260000	776,184
1	265001	270000	266,808
1	275001	280000	280,000
1	280001	285000	283,530
1	285001	290000	288,860
1	290001	295000	293,087
1	295001	300000	300,000
1	300001	305000	302,689
3	305001	310000	921,520
1	310001	315000	313,100
1	315001	320000	319,148
1	320001	325000	322,755
3	330001	335000	993,435

Pattern of holding of the shares held by the Shareholders as at December 31, 2009

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
5	345001	350000	1,743,435
2	350001	355000	706,607
1	355001	360000	355,335
2	365001	370000	739,493
1	390001	395000	390,137
3	395001	400000	1,194,403
2	410001	415000	825,580
1	450001	455000	451,141
2	490001	495000	984,588
1	500001	505000	502,602
2	510001	515000	1,025,500
2	520001	525000	1,041,911
2	540001	545000	1,084,470
1	550001	555000	554,800
1	560001	565000	560,381
2	565001	570000	1,135,768
1	595001	600000	597,666
1	620001	625000	622,656
1	630001	635000	630,400
1	635001	640000	638,750
1	670001	675000	674,448
1	825001	830000	825,956
1	875001	880000	878,424
1	895001	900000	897,400
1	900001	905000	903,741
1	940001	945000	941,342
1	945001	950000	945,808
1	965001	970000	968,000
1	1010001	1015000	1,010,301
1	1020001	1025000	1,021,316
1	1035001	1040000	1,040,000
1	1120001	1125000	1,123,026
1	1200001	1205000	1,201,149
1	1235001	1240000	1,236,115
1	1315001	1320000	1,315,218

Pattern of holding of the shares held by the Shareholders as at December 31, 2009

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
1	1340001	1345000	1,343,519
1	1375001	1380000	1,377,543
1	1400001	1405000	1,404,102
1	2000001	2005000	2,003,880
1	2695001	2700000	2,699,665
1	3725001	3730000	3,729,020
1	4600001	4605000	4,603,786
1	7900001	7905000	7,900,886
1	8350001	8355000	8,350,946
1	9480001	9485000	9,484,783
1	10780001	10785000	10,780,182
1	19985001	19990000	19,990,000
1	113620001	113625000	113,620,371
13,980			297,942,563

Category of shareholding as at December 31, 2009

S.No.	Categories of Shareholders	No. of Shareholders	Shares Held	Percentage
1	INDIVIDUALS	13,480	74,962,513	25.16
2	INVESTMENT COMPANIES	22	1,167,871	0.39
3	INSURANCE COMPANIES	20	23,536,148	7.9
4	JOINT STOCK COMPANIES	194	138,846,367	46.6
5	FINANCIAL INSTITUTIONS	63	31,832,750	10.69
6	MODARABA COMPANIES	66	13,330,424	4.47
7	COOPERATIVE SOCIETIES	1	27,494	0.01
8	SECURITIES & EXCHANGE COMMISSION OF PAKISTAN	1	1	-
9	OTHERS	133	14,238,995	4.78
	TOTAL	13,980	297,942,563	100

On behalf of the Board of Directors



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive



Shareholder Information

ANNUAL GENERAL MEETING

The annual shareholders meeting will be held at 10:00 a.m. on February 27, 2010 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of February 16, 2010 are encouraged to participate and vote.

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

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

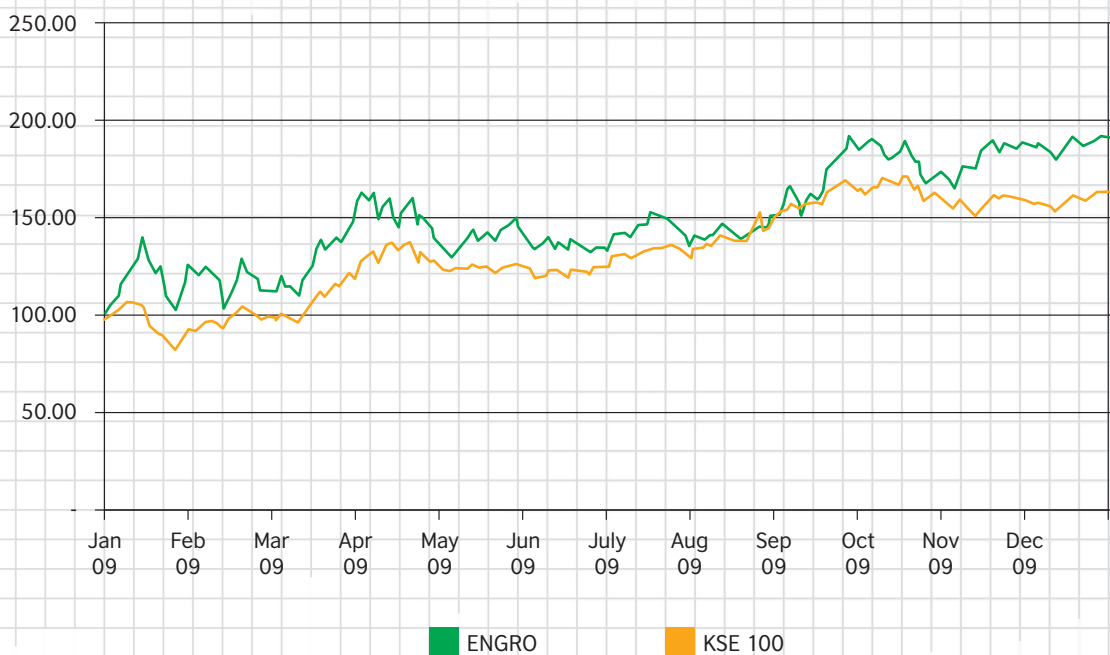
OWNERSHIP

On December 31, 2009 there were 13,980 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 February 16, 2010. 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. Bonus share certificates will also be posted to the shareholders or credited to their CDC accounts, as applicable.

ENGRO vs KSE 100 (2009)



QUARTERLY RESULTS

The Company issues quarterly financial statements. The planned dates for release of the quarterly results in 2010 are:

- 1st quarter : April 28
- 2nd quarter: July 28
- 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 : April 30
- 2nd quarter: July 30
- 3rd quarter: October 29

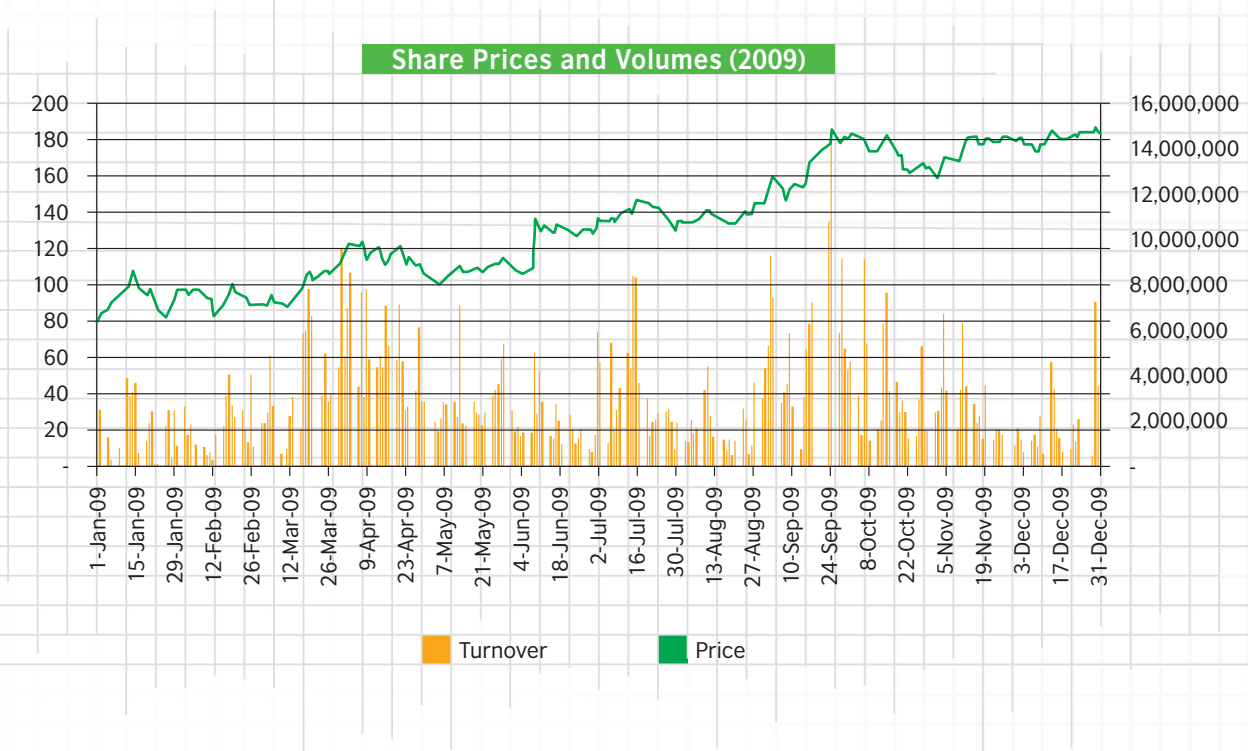
All annual/quarterly reports and presentations from quarterly briefings are regularly posted at the Company's website: www.engro.com

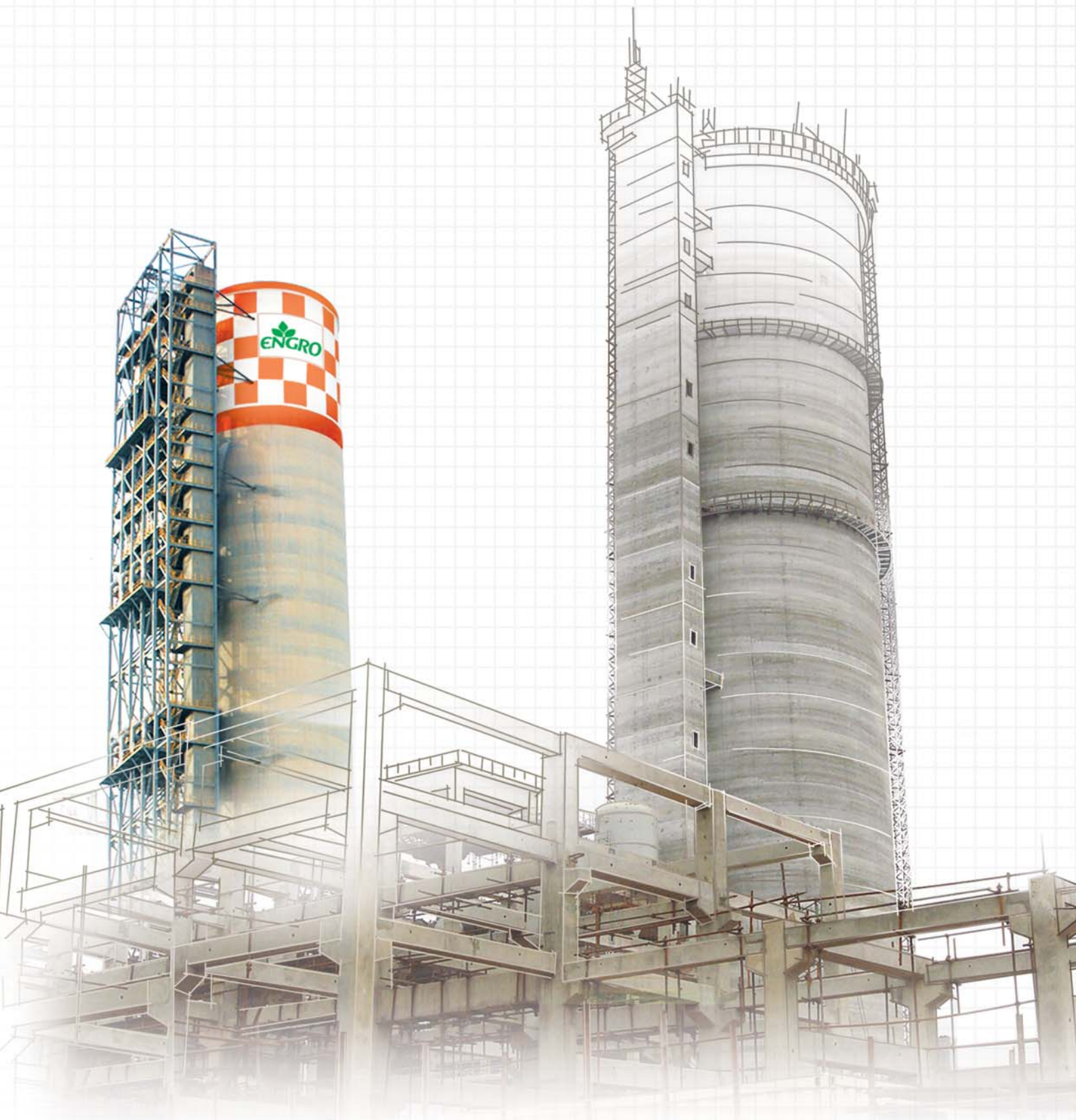
The Company reserves the right to change any of the above dates.

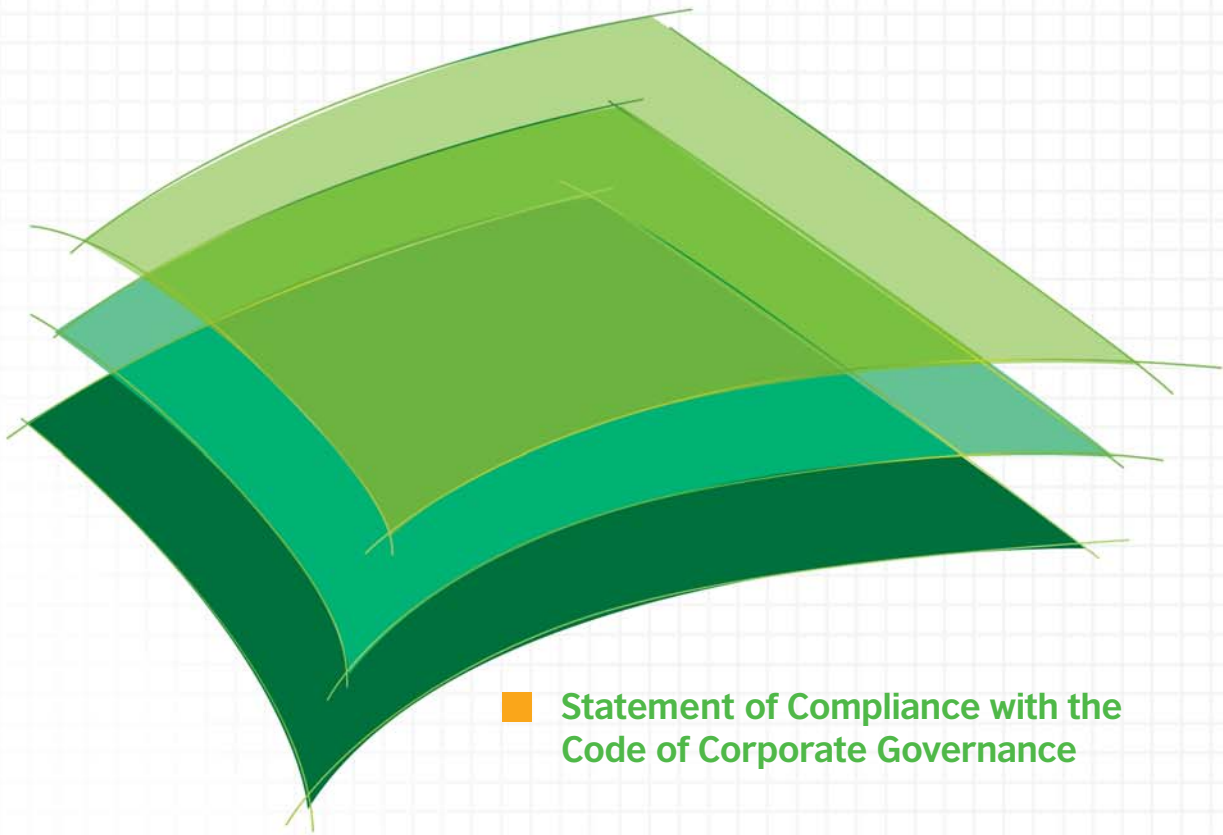
CHANGE OF ADDRESS

All registered shareholders should send information on changes of address to:

M/s. FAMCO Associates (Private) Limited
 1st Floor, State Life Building No. 1-A
 I. I. Chundrigar Road
 Karachi-74000







- **Statement of Compliance with the Code of Corporate Governance**
- **Review Report to the Members on Statement of Compliance with Best Practices of Code to Corporate Governance**
- **Auditors' Report to the Members on Compliance with Employee Share Option Scheme**
- **Auditors' Report to the Members**
- **Financial Statements**

Statement of Compliance With The Code of Corporate Governance

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

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


1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four independent non-executive directors, four non-executive directors and of the remaining five, who are all Executives of the Company, two 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 directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring in the Board on December 1, 2009 was filled up by the directors within 30 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
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 Board had arranged an orientation course for its directors to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of 4 members all of whom are non-executive directors including the Chairman.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The Related Party transactions have been placed before the Audit Committee and approved by the Board of Directors alongwith pricing methods for such transactions.
21. We confirm that all other material principles contained in the Code have been complied with.



Hussain Dawood
Chairman

Karachi
January 22, 2010



Asad Umar
President & Chief Executive

A.F. FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2009 prepared by the Board of Directors of Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited with effect January 1, 2010, after demerger of fertilizer business) 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**

Date: January 27, 2010

Engagement Partner: Imtiaz A. H. Laliwala

In case of any discrepancy on the Company's website, the auditors shall only be responsible in respect of the information contained in the hard copies of the audited financial statements available at the Company's registered office.

A.F.FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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

Auditors' Report to the Members on Compliance With Employees Share Option Scheme

We have audited the Engro Chemical Pakistan Limited's (renamed as Engro Corporation Limited with effect January 1, 2010, after demerger of fertilizer business) compliance as of December 31, 2009 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, 2009.



**Chartered Accountants
Karachi
Date: January 27, 2010**

Engagement Partner: Imtiaz A. H. Laliwala

In case of any discrepancy on the Company's website, the auditors shall only be responsible in respect of the information contained in the hard copies of the audited financial statements available at the Company's registered office.

A.F. FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

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Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

Auditors' Report to the Members

We have audited the annexed balance sheet of Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited with effect January 1, 2010, after demerger of fertilizer business) as at December 31, 2009 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.

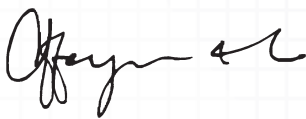
We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, 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 45 to the financial statements, due to a fire at the Company's premises on 19 August 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 except for the changes resulted on initial application of standards, amendments or an interpretation to existing standards and reclassification of capital spares, as stated in note 2.1.4 (a) and 4.6, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

- (d) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2009 and of the profit, total comprehensive income, changes in equity and 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.

Without qualifying our opinion, we draw attention to note 34.2 to the financial statements and as more fully explained therein, the Company has recognised the effect of acquisition of taxable losses of a subsidiary company amounting to Rs. 1,500,847 thousand, pending designation from Securities and Exchange Commission of Pakistan (SECP) as entity entitled for group relief under Income Tax Ordinance, 2001.

The financial statements for the year ended December 31, 2008 were audited by another firm of Chartered Accountants who vide their audit report dated January 27, 2009 expressed an unqualified opinion in all respects except on the matter stated in paragraph (a) above. In addition, an emphasis of matter paragraph has also been added pertaining to recognition of taxable losses of a subsidiary company pending designation by SECP, as explained above. Those financial statements however have been restated in respect of hedging reserve, as reflected in note 19.2 to the financial statements.



Chartered Accountants
Karachi
Date: January 27, 2010

Engagement Partner: Imtiaz A. H. Laliwala

Balance Sheet

As at December 31, 2009

(Amounts in thousand)

	Note	2009	2008 (Restated) note 19.2
(Rupees)			
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	69,517,512	33,552,912
Intangible assets	5	122,704	122,858
Long term investments	6	12,988,657	11,091,857
Deferred employee compensation expense	7	2,787	96,078
Derivative financial instruments	8	-	39,993
Long term loans and advances	9	328,907	218,820
		82,960,567	45,122,518
Current Assets			
Stores, spares and loose tools	10	961,117	800,091
Stock-in-trade	11	422,607	4,680,896
Trade debts	12	2,514,425	261,508
Deferred employee compensation expense	7	87,278	93,213
Loans, advances, deposits and prepayments	13	1,469,155	1,899,124
Other receivables	14	275,714	452,168
Derivative financial instruments	8	76,209	1,481,626
Taxes recoverable		536,167	618,746
Short term investments	15	450,857	67,811
Cash and bank balances	16	3,955,342	1,687,038
		10,748,871	12,042,221
TOTAL ASSETS		93,709,438	57,164,739

(Amounts in thousand)

	Note	2009	2008 (Restated) note 19.2
(Rupees)			
EQUITY & LIABILITIES			
Equity			
Share capital	17	2,979,426	2,128,161
Share premium	18	10,550,061	7,152,722
Employee share option compensation reserve	7	288,258	305,052
Hedging reserve	19	(609,719)	127,307
General reserve		4,429,240	4,429,240
Unappropriated profit		9,250,972	6,911,124
		<u>23,908,812</u>	<u>18,925,445</u>
Total Equity		<u>26,888,238</u>	<u>21,053,606</u>
Liabilities			
Non-Current Liabilities			
Borrowings	20	58,565,354	27,756,714
Derivative financial instruments	8	612,842	918,050
Deferred liabilities	21	988,169	1,319,432
Employee housing subsidy	22	211,785	73,319
Retirement and other service benefits obligations	23	47,581	44,265
		<u>60,425,731</u>	<u>30,111,780</u>
Current Liabilities			
Trade and other payables	24	3,160,852	2,915,274
Accrued interest / mark-up	25	1,366,022	804,390
Current portion of:			
- borrowings	20	810,100	76,600
- other service benefits obligations	23	20,600	18,334
Short term borrowings	26	195,753	1,711,275
Derivative financial instruments	8	740,043	155,160
Unclaimed dividends		102,099	318,320
		<u>6,395,469</u>	<u>5,999,353</u>
Total Liabilities		<u>66,821,200</u>	<u>36,111,133</u>
Contingencies and Commitments	27		
TOTAL EQUITY & LIABILITIES		<u>93,709,438</u>	<u>57,164,739</u>

The annexed notes from 1 to 47 form an integral part of these financial statements.



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Profit and Loss Account

For the year ended December 31, 2009

(Amounts in thousand except for earnings per share)

	Note	2009	2008
		(Rupees)	
Net sales	28	30,171,520	23,317,198
Cost of sales	29	(23,240,176)	(17,120,635)
Gross profit		6,931,344	6,196,563
Selling and distribution expenses	30	(1,945,176)	(1,657,815)
		4,986,168	4,538,748
Other operating income	31	1,973,467	2,754,330
Other operating expenses	32	(424,110)	(579,556)
Finance cost	33	(1,320,579)	(1,508,948)
		(1,744,689)	(2,088,504)
Profit before taxation		5,214,946	5,204,574
Taxation	34	(1,257,696)	(964,144)
Profit for the year		3,957,250	4,240,430
Earnings per share - basic and diluted	35	Rs. 14.08	Rs. 16.81

The annexed notes from 1 to 47 form an integral part of these financial statements.



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Statement of Comprehensive Income

For the year ended December 31, 2009

(Amounts in thousand)

	Note	2009	2008 (Restated) note 19.2
(Rupees)			
Profit for the year		3,957,250	4,240,430
Other comprehensive income			
Hedging reserve - cash flow hedges	19		
Gains/(losses) arising during the year		(226,520)	1,819,395
Adjustment for amounts transferred to initial carrying amount of hedged items (capital work in progress)		(907,366)	(3,219,517)
		(1,133,886)	(1,400,122)
Income tax relating to hedging reserve		396,860	490,043
Other comprehensive income for the year, net of tax		(737,026)	(910,079)
Total comprehensive income for the year		<u>3,220,224</u>	<u>3,330,351</u>

The annexed notes from 1 to 47 form an integral part of these financial statements.



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

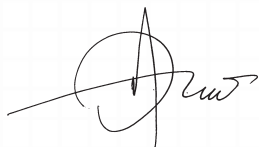
Statement of Changes in Equity

For the year ended December 31, 2009

(Amounts in thousand)

	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	General reserve	Unappropriated profit	Total
(Rupees)							
Balance as at January 1, 2008	1,934,692	3,963,977	272,990	1,037,386	4,429,240	4,102,366	15,740,651
Total comprehensive income for the year ended December 31, 2008, as restated							
Profit for the year	-	-	-	-	-	4,240,430	4,240,430
Other comprehensive income	-	-	-	(910,079)	-	-	(910,079)
- cash flow hedges, net of tax	-	-	-	(910,079)	-	-	(910,079)
	-	-	-	(910,079)	-	4,240,430	3,330,351
Transactions with owners							
Shares issued during the year in the ratio of 1 for every 10 shares @ Rs.175 per share (including share premium net of share issue cost)	193,469	3,188,745	-	-	-	-	3,382,214
Effect of changes in number of share options issued (note 7.2)	-	-	32,062	-	-	-	32,062
Final dividend for the year ended December 31, 2007 @ Rs. 3 per share	-	-	-	-	-	(580,408)	(580,408)
Interim dividends	-	-	-	-	-	(425,632)	(425,632)
- 1st @ Rs. 2 per share	-	-	-	-	-	(425,632)	(425,632)
- 2nd @ Rs. 2 per share	-	-	-	-	-	(425,632)	(425,632)
	193,469	3,188,745	32,062	-	-	(1,431,672)	1,982,604
Balance as at December 31, 2008, as restated	2,128,161	7,152,722	305,052	127,307	4,429,240	6,911,124	21,053,606
Balance as at January 1, 2009, as previously reported	2,128,161	7,152,722	305,052	2,157,769	4,429,240	6,911,124	23,084,068
Effect of change in fair values of cash flow hedges (note 19)	-	-	-	(2,030,462)	-	-	(2,030,462)
Balance as at January 1, 2009, as restated	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	-	-	-	(737,026)	-	-	(737,026)
- cash flow hedges, net of tax	-	-	-	(737,026)	-	-	(737,026)
	-	-	-	(737,026)	-	3,957,250	3,220,224
Transactions with owners							
Shares issued during the year 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
Effect of changes in number of share options issued (note 7.2)	-	-	(16,794)	-	-	-	(16,794)
Final dividend for the year ended December 31, 2008 @ Rs. 2 per share	-	-	-	-	-	(425,632)	(425,632)
Interim dividends	-	-	-	-	-	(595,885)	(595,885)
- 1st @ Rs. 2 per share	-	-	-	-	-	(595,885)	(595,885)
- 2nd @ Rs. 2 per share	-	-	-	-	-	(595,885)	(595,885)
	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

The annexed notes from 1 to 47 form an integral part of these financial statements.



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Statement of Cash Flows

For the year ended December 31, 2009


(Amounts in thousand)

	Note	2009	2008
		(Rupees)	
Cash flows from operating activities			
Cash generated from operations	38	8,775,252	2,412,558
Retirement and other service benefits paid		(140,636)	(72,940)
Financial charges paid		(758,947)	(1,090,518)
Taxes paid		(1,226,858)	(574,977)
Payment to Engro Foods Limited for acquisition of tax losses	34.2	(450,000)	(622,103)
Long term loans and advances - net		(110,087)	(169,399)
Net cash generated from/(used in) operating activities		6,088,724	(117,379)
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		(36,352,361)	(20,214,342)
Sale proceeds on disposal of PPE		58,366	87,727
Deferred income received		96,305	-
Long term investments		(1,896,800)	(3,327,375)
Income on deposits/other financial assets		14,370	52,807
Dividends received		1,862,500	2,604,075
Net cash used in investing activities		(36,217,620)	(20,797,108)
Cash flows from financing activities			
Proceeds from issue of shares - net		4,248,604	3,382,214
Proceeds from borrowings		31,957,387	12,412,394
Repayments of borrowings		(76,600)	(1,301,600)
Dividends paid		(1,833,623)	(1,306,419)
Net cash generated from financing activities		34,295,768	13,186,589
Net increase/(decrease) in cash and cash equivalents		4,166,872	(7,727,898)
Cash and cash equivalents at beginning of the year		43,574	7,771,472
Cash and cash equivalents at end of the year	39	4,210,446	43,574

The annexed notes from 1 to 47 form an integral part of these financial statements.



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Notes to the Financial Statements

For the year ended December 31, 2009

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

Engro Chemical Pakistan Limited (the Company) is a public listed company incorporated in Pakistan under the Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore and Islamabad stock exchanges of Pakistan. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company has also invested in joint ventures and other entities engaged in chemical terminal and storage, PVC resin manufacturing and marketing, control and automation, food and energy businesses. The Company's registered office is situated at 7th & 8th Floors, The Harbor Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi.

- 1.1** The Board of Directors in their meeting of April 28, 2009 decided to divide the Company into two companies by separating its fertilizer undertaking from the rest of the undertaking that is to be retained in the Company. In this regard, a wholly owned subsidiary namely Engro Fertilizers Limited was incorporated on June 29, 2009. The division was to be effected through a Scheme of Arrangement under Section 284 to 288 of the Companies Ordinance, 1984 whereby (a) the fertilizer undertaking would be transferred and vested in Engro Fertilizers Limited against the issuance of ordinary shares of Engro Fertilizers Limited to the Company; (b) the retention of the retained undertaking in the Company and the change of the name of the Company to Engro Corporation Limited. Engro Corporation Limited would then become a Holding Company and oversee the business of new fertilizer subsidiary as well as business of its other existing subsidiaries/associates.

The de-merger required the approval of the High Court of Sindh. After obtaining the requisite approvals from the creditors and the shareholders of the Company, the High Court approved the Scheme of Arrangement (Scheme) on December 9, 2009. The Scheme came into effect on January 1, 2010 (Effective Date).

In accordance with the Scheme, the fertilizer business, including all assets, liabilities, agreements, arrangements and other matters were automatically be transferred to Engro Fertilizers Limited on the Effective Date against the issuance of 9,999,993, in addition to existing 7, fully paid ordinary shares of Rs. 10 each plus the share premium. Such share premium is to be based on the net assets so transferred over Rs. 100,000 being the paid up face value of Engro Fertilizers Limited.

The retained undertaking comprises of specific assets and liabilities as of the aforementioned effective dates identified in the Scheme, which among other items include Investments/Shareholdings, Joint Venture Agreements, all reserves including goodwill, employee share option compensation reserve, share premium, capital & revenue reserves but excluding hedging reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

- 2.1.1 These financial statements have been prepared under the historical cost convention, except for remeasurement of certain financial assets and financial liabilities at fair value through profit or loss and derivative hedging instruments 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

(Amounts in thousand)

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 interpretations that are effective in 2009 and are relevant to the Company

- IAS 1 (revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

The Company has preferred to present two statements; a profit and loss account (income statement) and a statement of other comprehensive income. Comparative information has also been represented so that it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

Further, the Company has restated comparative information to incorporate the effect of change in fair values of cash flow hedges, as more fully explained in note 19. However, as the aforementioned change does not effect the balance sheet as at the beginning of the comparative period (balance sheet as at January 1, 2008 / December 31, 2007), it has not been presented in these financial statements.

- IAS 23 (amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Company's current accounting policy is in compliance with this amendment, and therefore there is no effect on the Company's financial statements.
- IFRS 2 (amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

(Amounts in thousand)

- The SECP vide S.R.O. 411 (1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. As IFRS 7 deals only with disclosures, there is no impact on profit for the year.
- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of the fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on profit for the year.
- IFRS 8 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. There is no impact of the new standard on the Company's financial statements.

b) Standards, amendments to published standards and interpretations that are effective in 2009 but not relevant to the Company

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 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 to existing standards that are not yet effective and have not been early adopted by the Company

- 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. The Company will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from July 1, 2009). The revised standard 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 remeasured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 1, 2010.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single

(Amounts in thousand)

asset if each asset has similar useful economic lives. The amendment will not result in any impact on the Company's financial statements.

- IAS 39 (amendment); 'Cash flow hedge accounting'. This amendment provides clarification when to recognise 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 Company will apply IAS 39 (amendment) from January 1, 2010. It is not expected to have any significant affect on the Company's financial statements.
- IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions' in addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of the Company's arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Company's financial statements.
- IFRS 3 (revised), 'Business combinations' (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to all business combinations from January 1, 2010.
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification 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, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Company will apply IFRS 5 (amendment) from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company will apply IFRIC 17 from January 1, 2010. It is not expected to have a material impact on the Company's financial statements.
- IFRIC 18, 'Transfers of assets from customers' (effective for periods beginning on or after July 1, 2009). The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This interpretation is not expected to have a material impact on the Company's financial statements.

(Amounts in thousand)

- There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and therefore have not been analysed in detail.

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 freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 2.24). 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 up to the preceding month of disposal.

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

2.2.2 Leased assets

Leases in terms of which the 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 utilisation

Rights for future gas utilisation represents premium paid to the Government of Pakistan for allocation of 100 MMCFD natural gas for a period of twenty 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.

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 sell 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 and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. 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.

(Amounts in thousand)

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. The Company's loans and receivables comprise 'loans and deposits', 'trade debts and other receivables' and 'cash and cash equivalents' in the balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are non derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

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.

(Amounts in thousand)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account within 'other operating income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is 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.

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 2.12.

2.8 Offsetting financial instruments

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

2.9 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.

(Amounts in thousand)

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Further, the Company also has issued a conversion option with the IFC loan availed during the year. The fair values of various derivative instruments used for hedging and the conversion options are disclosed in note 8.

2.10 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 realisable value. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

2.11 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 materials 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.

2.12 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.

2.13 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 short-term borrowings in current liabilities on the balance sheet.

2.14 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.

2.15 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.

(Amounts in thousand)

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

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

2.16 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.

2.17 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.

2.18 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.

2.18.1 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.

2.18.2 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

(Amounts in thousand)

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.

2.19 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.

2.20 Employee benefits

2.20.1 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.

2.20.2 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 37 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.

(Amounts in thousand)

The Company also operates:

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

The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme (note 37.1.10).

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

The Company also operates unfunded scheme for resignation gratuity of certain management employees. Provision is made annually to cover the liability under the scheme.

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

2.20.3 **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.

2.21 **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.

2.22 **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.

2.23 **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.
- Dividend income from investments is recognised when the Company's right to receive payment has been established.

(Amounts in thousand)

2.24 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.

2.25 Research and development costs

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

2.26 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.

2.27 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.

2.28 Transactions with related parties

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

2.29 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.

3.1 Property, plant and equipment

The Company 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 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 judgment.

3.4 Derivatives

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

3.5 Stock-in-trade and stores & spares

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

3.6 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.

3.7 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 7.

3.8 Provision for retirement and other service benefits obligations

The present value of these obligations depend on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present values of these obligation and the underlying assumptions are disclosed in notes 37.1.3 and 37.1.6 respectively.

(Amounts in thousand)

4. PROPERTY, PLANT AND EQUIPMENT

	2009	2008
	(Rupees)	
Operating assets (note 4.1)	6,156,969	5,689,276
Capital work in progress		
- Expansion and other projects (note 4.5)	63,233,217	27,706,486
- Capital spares (note 4.6)	127,326	157,150
	63,360,543	27,863,636
	<u>69,517,512</u>	<u>33,552,912</u>

(Amounts in thousand)

4.1 Operating assets

	Land		Building		Plant and Machinery	Plant and machinery held for disposal	Catalyst (note 4.3)	Furniture, fixture and equipment	Vehicles	Total
	Freehold	Leasehold	Freehold	Leasehold						
(Rupees)										
As at January 1, 2008										
Cost	22,101	166,876	592,101	332,726	9,825,878	151,394	326,408	372,032	298,981	12,088,497
Accumulated depreciation	-	(44,105)	(265,855)	(49,214)	(4,989,648)	(126,087)	(218,828)	(280,631)	(138,507)	(6,112,875)
Net book value	22,101	122,771	326,246	283,512	4,836,230	25,307	107,580	91,401	160,474	5,975,622
Year ended December 31, 2008										
Opening net book value	22,101	122,771	326,246	283,512	4,836,230	25,307	107,580	91,401	160,474	5,975,622
Additions including transfers (note 4.5)	60,048	-	11,374	276	67,516	-	-	100,021	134,384	373,619
Disposals / transfers										
Cost	-	(14,596)	-	-	(984)	(151,394)	-	(449)	(14,786)	(182,209)
Accumulated depreciation	-	4,985	-	-	151,394	214	126,087	390	6,802	138,478
	-	(9,611)	-	-	(126,087)	(25,307)	-	(59)	(7,984)	(126,087)
Depreciation charge (note 4.2)	-	(3,283)	(23,668)	(7,659)	24,537	(465,924)	(46,601)	(41,290)	(53,116)	(18,424)
Net book value	82,149	109,877	313,952	276,129	4,462,359	-	60,979	150,073	233,758	5,689,276
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 4.5)	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)
Accumulated depreciation	-	-	(5,405)	3,348	(986)	-	-	3,371	(328)	-
	-	-	32	2,121	44,516	-	-	76,341	62,432	185,442
	-	-	(3,982)	(2,818)	39	-	-	240	(1,443)	-
Depreciation charge (note 4.2)	-	(3,080)	(39,619)	(8,426)	(10,473)	-	(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
Annual rate of depreciation (%)	-	2 to 5	2.5 to 10	2.5	5 to 10	Nil	20 to 33.33	10 to 25	12 to 25	

(Amounts in thousand)

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

	2009	2008
	(Rupees)	
Cost of sales (note 29)	620,792	607,452
Selling and distribution expenses (note 30)	38,383	30,734
Capital work in progress (note 4.5.2)	27,281	3,355
	686,456	641,541

4.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 in prior years in respect of the first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of 'plant and machinery' which is exempt under the relevant SRO. The Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favor of the Company. The Supreme Court of Pakistan dismissed the Department's appeal thereagainst in 2005 and upheld the Sindh High Court judgment in Company's favor. During the year, the Department refunded the payments made by the Company, aggregating to Rs. 22,207 (note 14), against the aforementioned disallowances.

(Amounts in thousand)

4.4 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					
Assets written off		2,153	2,153	-	-
Plant & machinery					
Insurance claim		15,622	8,162	7,460	13,046
Assets written off		38,420	36,354	2,066	-
		54,042	44,516	9,526	13,046
Vehicles					
By Company policy	Askari Hazoor Syed	835	576	259	261
to existing/separating	Abbas Shahani	835	589	246	261
executives	Abdul Aleem Khokar	896	420	476	900
	Adil Aziz Khan	795	596	199	279
	Ahmad Abbas Mirza	879	618	261	220
	Ahmed Nadeem	900	436	464	422
	Ahsan Zafar Syed	879	591	288	220
	Akhtar Kamal Sami	886	595	291	261
	Ali Imam Naqvi	900	366	534	900
	Arshaduddin Ahmed	1,003	580	423	529
	Attaullah Shah Bokhari	795	596	199	310
	Fahd Khawaja	900	225	675	620
	Farhan Akram	1,500	352	1,148	1,500
	Farid Intisar	886	512	374	886
	Iftikhar Ahmed Dar	795	596	199	310
	Imran Anwer	1,003	596	407	561
	Irfan Nadeem Khan	1,002	663	339	352
	Irfan Nadeem Khan	1,857	206	1,651	1,607
	Jahangir Piracha	879	577	302	220
	Syed Khalid Siraj Subhani	1,288	966	322	322
	Mohammad Azhar Malik	835	562	273	261
	Mohammad Amir Zubair	896	476	420	900
	Mohammad Saifullah Tareen	1,060	166	894	861
	Mahmood Siddiqi	835	617	218	261
	Mumtaz Akhtar	795	596	199	345
	Muneeza Azfar	900	323	577	564
	Nasir Iqbal	879	567	312	326
	Nauman Shaikh	900	253	647	647
	Naveed A. Hashmi	879	626	253	220
	Muhammad Pervaiz Hamayoun	886	429	457	288
	Ruhail Mohammed	1,309	864	445	327
	Syed Salman Bin Aslam	1,695	874	821	914
	Tahir Jawaid	1,328	833	495	332
	Tahir Rasheed	835	626	209	261
	Umar Ali Khan	900	309	591	414
	Ummat Rasool	1,309	777	532	327
	Wajid Hussain Junejo	879	604	275	220
	Yousuf Mohiuddin	795	596	199	310

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		(Rupees)			
Sale through bid	Abdul Lateef Bawany	795	795	-	588
	Ahmed Jawed	886	471	415	640
	Akbar Khan	1,625	1,625	-	808
	Ameer Raza Khan	2,258	2,212	46	1,670
	Atif Zulfiqar	348	348	-	176
	Aurangzeb Shah	680	680	-	430
	Azbar Khan	1,470	1,213	257	883
	Danish Younus	560	504	56	311
	Faisal Abdul Aziz	1,432	1,170	262	962
	Farooq Raza	3,295	3,075	220	1,656
	Humayun Qureshi	436	436	-	195
	Kashif Farooq	3,900	3,133	767	2,579
	M. Aslam	6,690	6,355	335	315
	M. Kamran Chippa	1,660	1,549	111	957
	Maisuddin	2,750	2,584	166	1,468
	Matloob Elahi	560	504	56	295
	Mohammad Asghar	555	500	55	270
	Mohammad Iftikhar	769	769	-	531
	Mohammad Yasir	555	555	-	302
	Muhammad Ali Siddiqui	550	495	55	273
	Muhammad Kamran	2,770	2,450	320	1,388
	Rehan Mithani	900	408	492	634
	Shahid Mansoor	555	500	55	350
	Sultan Jan Mohd	1,026	923	103	561
	Tehzeebul Hasan	555	496	59	300
	Wali Mohammad Khan	5,530	5,262	268	2,286
Zia-ur-Rehman	4,218	1,181	3,037	3,760	
Zulfiqar Ahmed Khan	1,650	1,485	165	852	
		86,606	62,432	24,174	44,159
Furniture, fixture & equipment					
Sale through bid	Abdul Hameed	445	311	134	140
Assets written off		72,429	71,527	902	-
Items having net book value upto Rs. 50 each		4,529	4,503	26	1,021
		77,403	76,341	1,062	1,161
2009		220,204	185,442	34,762	58,366
2008		30,815	12,391	18,424	87,727

(Amounts in thousand)

4.5 Capital work in progress - Expansion and other projects

	Plant and machinery	Building & civil works	Furniture, fixture and equipment	Advances to Suppliers	Other ancillary costs (notes 4.5.2)	Total
(Rupees)						
Year ended December 31, 2008						
Balance as at January 1, 2008	6,201,928	943,437	33,152	20,088	644,447	7,843,052
Additions during the year	15,065,293	2,458,687	181,730	757,735	1,714,744	20,178,189
Transferred to:						
- operating assets (note 4.1)	(67,516)	(11,650)	(100,021)	(134,384)	-	(313,571)
- intangible assets (note 5)	-	-	(1,184)	-	-	(1,184)
Balance as at December 31, 2008	21,199,705	3,390,474	113,677	643,439	2,359,191	27,706,486
Year ended December 31, 2009						
Balance as at January 1, 2009	21,199,705	3,390,474	113,677	643,439	2,359,191	27,706,486
Additions during the year	26,552,353	4,545,384	89,841	(225,606)	5,616,498	36,578,470
Transferred to:						
- operating assets (note 4.1)	(388,437)	(449,109)	(81,422)	(118,117)	-	(1,037,085)
- intangible assets (note 5)	-	-	(14,654)	-	-	(14,654)
Balance as at December 31, 2009	47,363,621	7,486,749	107,442	299,716	7,975,689	63,233,217

4.5.1 Capital work in progress includes Rs. 47,081,203 (2008: Rs. 23,064,182) and Rs. 7,459,458 (2008: Rs. 3,365,197) with respect to Urea expansion project for plant & machinery and building & civil works respectively. The expansion project expected to be complete by third quarter 2010, adjacent to the existing Daharki Plant, will cost approximately US\$ 1,050,000 (2008: US\$ 1,050,000) and will have a capacity of 1.3 million tons of urea per annum.

4.5.2 The ancillary costs include net borrowing costs capitalized amounting to Rs. 5,342,066 (2008: Rs. 1,481,633) at borrowing rates ranging from 11.52% to 17.22% (2008: 11.52% to 17.22%). The other capitalised cost includes depreciation and amortisation (note 4.2 & 5.1), salaries, wages & benefits, legal & professional charges, etc.

4.6 During the year, the Company reclassified spares of capital nature from stores, spares and loose tools to capital work in progress. Such a change, made for better presentation, has no effect on the profit and loss account.

(Amounts in thousand)

5. INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilisation	Total
	(Rupees)		
As at January 1, 2008			
Cost	112,312	102,312	214,624
Accumulated amortisation	(80,757)	-	(80,757)
Net book value	<u>31,555</u>	<u>102,312</u>	<u>133,867</u>
Year ended December 31, 2008			
Opening net book value	31,555	102,312	133,867
Additions at cost (note 4.5)	1,184	-	1,184
Amortisation charge (note 5.1)	(12,193)	-	(12,193)
Closing net book value	<u>20,546</u>	<u>102,312</u>	<u>122,858</u>
As at January 1, 2009			
Cost	113,496	102,312	215,808
Accumulated amortisation	(92,950)	-	(92,950)
Net book value	<u>20,546</u>	<u>102,312</u>	<u>122,858</u>
Year ended December 31, 2009			
Opening net book value	20,546	102,312	122,858
Additions at cost (note 4.5)	14,654	-	14,654
Write off			
Cost	(11,577)	-	(11,577)
Accumulated amortisation	11,577	-	11,577
	-	-	-
Amortisation charge (note 5.1)	(14,808)	-	(14,808)
Closing net book value	<u>20,392</u>	<u>102,312</u>	<u>122,704</u>
As at December 31, 2009			
Cost	116,573	102,312	218,885
Accumulated amortisation	(96,181)	-	(96,181)
Net book value	<u>20,392</u>	<u>102,312</u>	<u>122,704</u>

5.1 Amortisation charge for the year has been allocated as follows:

	2009	2008
	(Rupees)	
Cost of sales (note 29)	9,448	6,961
Selling and distribution expenses (note 30)	3,899	4,285
Capital work in progress (note 4.5.2)	1,461	947
	<u>14,808</u>	<u>12,193</u>

5.2 The Company does not have any internally generated intangible assets.

(Amounts in thousand)

6. LONG TERM INVESTMENTS

	2009	2008
	(Rupees)	
Subsidiary companies - at cost (note 6.1)	12,533,657	10,636,857
Joint venture company - at cost		
Engro Vopak Terminal Limited		
45,000,000 Ordinary shares of		
Rs. 10 each, equity held 50% (2008: 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 6.2)	-	-
	12,988,657	11,091,857

6.1 Subsidiary companies

	2009		2008		
	Equity % held	Investment at cost	Equity % held	Investment at cost	
		(Rupees)		(Rupees)	
Quoted					
Engro Polymer & Chemicals Limited					
292,400,000 (2008: 292,400,000)					
Ordinary shares of Rs. 10 each	56.19	2,847,200	56.19	2,847,200	
Unquoted					
Engro Eximp (Private) Limited					
- 10,000 (2008: 10,000) Ordinary					
shares of Rs. 10 each	100	100	100	100	
- Advance against issue of share capital		480,000		-	
		480,100		100	
Engro Management Services (Private) Limited					
250,000 (2008: 250,000) Ordinary					
shares of Rs. 10 each	100	2,500	100	2,500	
Engro Foods Limited					
- 542,300,000 (2008: 430,000,000)					
Ordinary shares of Rs. 10 each	100	5,423,000	100	4,300,000	
- Advance against issue of share capital		-		50,000	
		5,423,000		4,350,000	
Balance carried forward		8,752,800		7,199,800	

(Amounts in thousand)

	2009		2008	
	Equity % held	Investment at cost (Rupees)	Equity % held	Investment at cost (Rupees)
Balance brought forward		8,752,800		7,199,800
Engro Energy Limited 304,000,000 (2008: 304,000,000) Ordinary shares of Rs. 10 each (note 6.1.1)	95	3,040,000	95	3,040,000
Engro PowerGen Limited - 6,010,000 (2008: Nil) Ordinary shares of Rs. 10 each	100	60,100	100	-
- Advance against issue of share capital		298,800		15,100
		358,900		15,100
Engro Fertilizers Limited 7 (2008: Nil) Ordinary shares of Rs. 10 each (note 6.1.2)	100	-	-	-
Avanceon Limited 25,066,667 (2008: 25,066,667) Ordinary shares of Rs. 10 each	62.67	381,957	62.67	381,957
		<u>12,533,657</u>		<u>10,636,857</u>

- 6.1.1 The Shareholders in the Extraordinary General Meeting (EOGM) held on November 27, 2009 have consented to the Company's proposed transfer of 304 million ordinary shares of Rs. 10 each in Engro Energy Limited to Engro PowerGen Limited (EPGL) in exchange for the same number of fully paid-up shares of EPGL. Such a transfer, to be effected upon completion of legal and other formalities, is on account of the Company's overall restructuring of its businesses to enable all direct subsidiaries to operate as holding companies for their respective lines of business.
- 6.1.2 Engro Fertilizers Limited has been incorporated on June 29, 2009 as a public unlisted company under the Companies Ordinance, 1984 for the transfer and vesting of fertilizer business, as referred to in note 1.1. As at December 31, 2009, the issued share capital comprise of seven ordinary shares of Rs. 10 each, held by seven employees of the Company as nominees thereof.
- 6.2 This represents the Company's share in the paid-up share capital of the investee transferred free of cost to the Company under a joint venture agreement.
- 6.3 Value of the above investments, based on the net assets of the investee companies as at December 31 was as follows:

(Amounts in thousand)

	2009	2008
	(Rupees)	
Engro Polymer & Chemicals Limited	3,593,712	3,688,167
Engro Fertilizers Limited	-	-
Engro Eximp (Private) Limited [including advance against issue of share capital amounting to Rs. 480,000 (2008: Nil)]	499,386	3,283
Engro Management Services (Private) Limited	2,663	2,579
Engro Foods Limited [including advance against issue of share capital amounting to Nil (2008: Rs. 50,000)]	3,370,148	2,731,747
Engro Energy Limited	2,928,318	2,984,011
Engro Vopak Terminal Limited	512,178	503,607
Engro PowerGen Limited [including advance against issue of share capital Rs. 298,800 (2008: Rs. 15,100)]	290,857	3,824
Avanceon Limited	58,392	49,584
Arabian Sea Country Club Limited (June 30, 2009)	3,197	3,043
Agrimall (Private) Limited (June 30, 2008)	(4,096)	(4,096)

7. 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 shall end 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.

(Amounts in thousand)

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 recognised in the financial statements.

7.1 Deferred employee compensation expense

	2009	2008
	(Rupees)	
Balance as at January 1	189,291	244,066
Options issued during the year	-	37,989
Options lapsed due to employee resignation	(16,794)	(5,927)
Amortisation for the year	(82,432)	(86,837)
Balance as at December 31	90,065	189,291
Current portion shown under current assets	(87,278)	(93,213)
Long term portion of deferred employee compensation expense	2,787	96,078

7.2 Employee share option compensation reserve

Balance as at January 1	305,052	272,990
Options issued during the year	-	37,989
Options lapsed due to employee resignation	(16,794)	(5,927)
	(16,794)	32,062
Balance as at December 31	288,258	305,052

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

	(Number)	
Balance as at January 1	4,631,818	4,145,000
Options issued during the year	-	576,818
Options lapsed during the year	(255,000)	(90,000)
	(255,000)	486,818
Balance as at December 31	4,376,818	4,631,818

7.3.1 The above mentioned share options do not include the effect of right shares which make the total number of share options outstanding at end of the year 6,740,300.

7.4 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%

(Amounts in thousand)

- 7.5** 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	700,000
Syed Khalid S. Subhani	560,000
Ruhail Mohammed	420,000
M. Asif Sultan Tajik	280,000
Andalib Alavi	280,000
Tahir Jawaid	280,000
Inamullah Naveed Khan	280,000
Muhammad Khalid Mir	280,000
Abdul Samad Khan	280,000

- 7.5.1 Above mentioned shares include the impact of right shares.

- 7.6** Consequent to the demerger, as referred to in note 1.1, the employees transferred to Engro Fertilizers Limited will be granted new share options under a new scheme of Engro Fertilizers Limited on surrender of existing share options. The new scheme is finalized and is awaiting approval by the Board of Directors of Engro Fertilizers Limited and Securities and Exchange Commission of Pakistan (SECP).

(Amounts in thousand)

8. DERIVATIVE FINANCIAL INSTRUMENTS

	2009		2008 Restated	
	Assets	Liabilities	Assets	Liabilities
Conversion option on IFC loan (note 20.4)	-	338,647	-	-
Cash flow hedges				
- Foreign exchange forward contracts (note 8.1)	22,637	157,329	1,174,173	-
- Foreign exchange option contracts (note 8.2)	53,572	4,468	347,446	-
- Interest rate swaps (note 8.3)	-	852,441	-	1,073,210
	<u>76,209</u>	<u>1,014,238</u>	<u>1,521,619</u>	<u>1,073,210</u>
	76,209	1,352,885	1,521,619	1,073,210
Less: Current portion shown under current assets / liabilities				
Conversion option on IFC loan	-	338,647	-	-
Cash flow hedges				
- Foreign exchange forward contracts	22,637	157,329	1,134,180	-
- Foreign exchange option contracts	53,572	4,468	347,446	-
- Interest rate swaps	-	239,599	-	155,160
	<u>76,209</u>	<u>401,396</u>	<u>1,481,626</u>	<u>155,160</u>
	76,209	740,043	1,481,626	155,160
	<u>-</u>	<u>612,842</u>	<u>39,993</u>	<u>918,050</u>

8.1 Foreign exchange forward contracts

8.1.1 The Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at December 31, 2009, the Company had foreign exchange forward contracts to purchase Euros 9,543 (2008: Euros 130,505) at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts amounted to Rs. 22,637 (2008: Rs. 714,762).

During the year, the Company identified that the fair values of these contracts as at December 31, 2008 were overstated by Rs. 3,123,787. This has been adjusted in the current year by restating the comparative figure from Rs. 4,297,960 to Rs. 1,174,173. This however has no impact on the profit for the year ended December 31, 2008, as the fair values were recognised in the hedging reserve (note 19).

8.1.2 The Company entered into various US\$:PKR forward contracts to hedge its foreign currency exposure. As at December 31, 2009, the Company had forward contracts to purchase US\$ 85,000 (2008: US\$ 159,027) at various maturity dates to hedge its foreign currency loan obligations. The fair value of these contracts is negative amounting to Rs. 157,329 (2008: Rs. 459,411 positive).

8.2 Foreign exchange option contracts

The Company entered into various foreign exchange option contracts to hedge its currency exposure against US dollar relating to the expansion project. At the year end the Company had foreign exchange options amounting to Euro 12,628 (2008: Euro 55,669). The net fair value of these contracts amounted to Rs. 49,104 (2008: Rs. 347,446).

(Amounts in thousand)

8.3 Interest rate swaps

- 8.3.1 The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of US\$ 150,000 amortising up to September 2014. Under the swap agreement, the Company 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, 2009 is negative amounting to Rs. 542,385 (2008: Rs. 648,277).
- 8.3.2 The Company 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 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, 2009 is negative amounting to Rs. 310,056 (2008: Rs. 424,933).

9. LONG TERM LOANS AND ADVANCES - Considered good

	2009	2008
	(Rupees)	
Long term loans		
Executives (notes 9.1 and 9.2)	282,246	137,836
Other employees (note 9.3)	218,439	121,785
	500,685	259,621
Less: Current portion shown under current assets (note 13)	413,096	40,801
	87,589	218,820
Sub-ordinated loan to Avanceon Limited, a wholly owned subsidiary (note 9.5)	241,318	-
	<u>328,907</u>	<u>218,820</u>

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

Balance as at January 1	137,836	79,385
Disbursements	206,282	133,615
Repayments	(61,872)	(75,164)
Balance as at December 31	<u>282,246</u>	<u>137,836</u>

(Amounts in thousand)

- 9.2** Includes interest free service incentive loans to executives of Rs. 58,437 (2008: Rs. 47,367) repayable in equal monthly installments 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. 184,002 (2008: Rs. 52,970). It also includes advance of Rs. 33,717 (2008: Rs. 28,349) and Rs. 6,090 (2008: Rs. 9,150) to employees for car earn out assistance and house rent advance respectively.
- 9.3** Includes interest free loans given to workers of Rs. 6,988 (2008: Rs. 22,665) pursuant to Collective Labor Agreement and disbursement to workers under housing subsidy scheme amounting to Rs. 211,450 (2008: Rs. 99,120).
- 9.4** The maximum amount outstanding at the end of any month from the executives aggregated to Rs. 282,246 (2008: Rs. 141,143).
- 9.5** The loan carries mark-up at the rate of six months KIBOR plus a margin of 4% payable on quarterly basis. The loan is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable in two installments due on October 23, 2011 and April 23, 2012.

10. STORES, SPARES AND LOOSE TOOLS

	2009	2008
	(Rupees)	
Consumable stores	133,728	143,797
Spares	867,660	681,179
Loose tools	3,247	4,028
	<u>1,004,635</u>	<u>829,004</u>
Less: Provision for surplus and slow moving items	43,518	28,913
	<u>961,117</u>	<u>800,091</u>

11. STOCK-IN-TRADE

Raw materials (note 11.1)	284,733	1,091,557
Packing materials	19,259	51,277
	<u>303,992</u>	<u>1,142,834</u>
Work-in-process	6,115	9,027
Finished goods - own manufactured product	112,500	396,198
- purchased product (notes 11.1 & 11.2)	-	3,132,837
	<u>112,500</u>	<u>3,529,035</u>
	<u>422,607</u>	<u>4,680,896</u>

- 11.1** These include provision for write-down of inventories of raw materials and finished goods to net realisable value amounting to Nil (2008: Rs. 276,022) and Nil (2008: Rs. 578,350) respectively.
- 11.2** Consequent to restructuring of businesses, as referred to in note 1.1, the entire trading operations effective from January 1, 2010 will be handled by Engro Eximp (Private) Limited, a wholly owned subsidiary. Accordingly, the stock in hand as at December 31, 2009 of goods purchased from them has been returned. Effective January 1, 2010, Engro Fertilizers Limited will act as the selling agent thereof.

(Amounts in thousand)

	2009	2008
	(Rupees)	
12. TRADE DEBTS		
Considered good		
Secured (note 12.1)	2,508,564	243,546
Unsecured	5,861	17,962
	2,514,425	261,508
Considered doubtful	8,873	8,059
	2,523,298	269,567
Provision for impairment (note 12.2)	(8,873)	(8,059)
	<u>2,514,425</u>	<u>261,508</u>

12.1 These debts are secured by way of bank guarantees and inland letters of credit.

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

	2009	2008
	(Rupees)	
Balance as at January 1	8,059	8,159
Provision made/(written back) during the year and recognised in selling and distribution expenses	814	(100)
Balance as at December 31	<u>8,873</u>	<u>8,059</u>

12.3 As at December 31, 2009 trade debts aggregating to Rs. 132,741 (2008: Rs. 191,567) 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:

	2009	2008
	(Rupees)	
Upto 3 months	118,959	191,567
3 to 6 months	13,782	-
More than 6 months	-	-
	<u>132,741</u>	<u>191,567</u>

12.4 As at December 31, 2009 trade debts aggregating to Rs. 8,873 (2008: Rs. 8,059) were impaired and provided for, which are past due for more than six months.

(Amounts in thousand)

13. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2009	2008
	(Rupees)	
Current portion of long term loans and advances to executives and other employees - considered good (note 9)	413,096	40,801
Sub-ordinated loan to Engro Eximp (Private) Limited, a wholly owned subsidiary (note 13.1)	770,000	1,100,000
Advances and deposits	178,157	439,225
Transaction costs paid for unavailed financing facilities (note 13.2)	-	188,696
Prepayments:		
- insurance	85,823	81,820
- others	27,895	53,103
	1,474,971	1,903,645
Provision for impairment (note 13.3)	(5,816)	(4,521)
	<u>1,469,155</u>	<u>1,899,124</u>

- 13.1** The loan carries mark-up at rates not being lower than the mark-up payable by the Company for ordinary commercial finance of like maturities, presently at 15% per annum (2008: 15.13% per annum). The loan is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable on demand, taking into account the financing requirements of the subsidiary. Due to the nature of the transaction the sale and repurchase of underlying assets has not been recorded in the financial statements.
- 13.2** Consequent to draw down of the syndicated finance, these have been transferred to/netted there against.
- 13.3** As at December 31, 2009, loans and advances aggregating to Rs. 5,816 (2008: Rs. 4,521) were impaired and provided for, which are past due for more than six months. The movement in provision during the year is as follows:

	2009	2008
	(Rupees)	
Balance as at January 1	4,521	4,521
Provision made during the year	1,295	-
Balance as at December 31	<u>5,816</u>	<u>4,521</u>

(Amounts in thousand)

	2009	2008
	(Rupees)	
14. OTHER RECEIVABLES		
Receivable from Government of Pakistan for:		
- customs duty (note 4.3)	-	22,207
- subsidy (note 14.1)	-	198,150
- sales tax (note 14.2)	57,135	57,135
- others	19,277	13,560
	<u>76,412</u>	<u>291,052</u>
Accrued income on deposits / bonds	5,300	-
Receivable from pension fund (note 37.1.1)	31,887	31,187
Workers' profits participation fund (note 14.3)	-	5,738
Sales tax refundable	-	6,567
Due from:		
- Subsidiary Companies		
- Engro Eximp (Private) Limited	4,466	794
- Engro Foods Limited	1,062	4,015
- Engro Polymer & Chemicals Limited	3,220	874
- Engro Energy Limited	270	202
- Avanceon Limited	10,392	1,964
- Engro Fertilizers Limited	519	-
- Engro PowerGen Limited	2,072	-
- Joint venture		
- Engro Vopak Terminal Limited, net (note 14.4)	112,102	90,252
Claims on foreign suppliers	18,828	15,922
Less: Provision for impairment (note 14.7)	295	295
	18,533	15,627
Others	9,623	5,414
Less: Provision for impairment (note 14.7)	144	1,518
	9,479	3,896
	<u>275,714</u>	<u>452,168</u>

- 14.1** The total amount of subsidy for the year was Nil (2008: Rs. 572,946) of which Nil (2008: Rs. 198,150) was receivable on account of compensation for mandatory reduction in sales price. This compensation is provided by the Government of Pakistan on imported/purchased inventory.

(Amounts in thousand)

- 14.2** During 2008, Model Customs Collectorate raised a sales tax demand of Rs. 57,135 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609 (1) / 2004.

The Company has 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 aforementioned grade of MAP should be assessed at deemed value of import with retrospective effect. The management therefore is confident that the issue would be decided in Company's favor.

- 14.3** Workers' profits participation fund

	2009	2008
	(Rupees)	
Receivable/(payable) as at January 1	5,738	(3,747)
Allocation for the year (note 32)	(280,072)	(279,515)
Amount paid to the Trustees of the Fund	271,948	289,000
Receivable/(payable) as at December 31	<u>(2,386)</u>	<u>5,738</u>

- 14.4** This includes dividend receivable of Rs. 112,500 (2008: Rs. 90,000).

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

	2009	2008
	(Rupees)	
Subsidiary Companies		
- Engro Eximp (Private) Limited	66,012	2,066
- Engro Foods Limited	22,045	75,414
- Engro Energy Limited	6,809	31,819
- Engro Polymer & Chemicals Limited	11,621	159,249
- Avanceon Limited	13,899	2,225
- Engro PowerGen Limited	2,073	5,717
- Engro Management Services (Private) Limited	3	19
- Engro Fertilizers Limited	519	-
Joint venture		
- Engro Vopak Terminal Limited	<u>135,509</u>	<u>93,134</u>

- 14.6** As at December 31, 2009, receivables aggregating to Rs. 59,061 (2008: Rs. 57,292) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2009	2008
	(Rupees)	
Upto 3 months	9,953	23,501
3 to 6 months	-	1,941
More than 6 months	49,108	31,850
	<u>59,061</u>	<u>57,292</u>

(Amounts in thousand)

- 14.7** As at December 31, 2009, receivables aggregating to Rs. 439 (2008: Rs. 1,813) were deemed to be impaired of which Rs. 439 (2008: Rs. 1,813) were considered doubtful being outstanding for more than six months and provided for. The ageing analysis of these receivables is as follows:

	2009	2008
	(Rupees)	
3 to 6 months	-	344
More than 6 months	439	1,469
	<u>439</u>	<u>1,813</u>

- 14.8** The movement in provision during the year is as follows:

Balance as at January 1	1,813	344
Provision (reversed)/made during the year	(1,374)	1,469
Balance as at December 31	<u>439</u>	<u>1,813</u>

15. SHORT TERM INVESTMENTS

Financial assets at fair value through profit or loss

Fixed income placements

Money market funds (note 15.1)

	75,795	67,811
	375,062	-
	<u>450,857</u>	<u>67,811</u>

- 15.1** These represents investments in various money market funds which are valued at their respective net assets values at balance sheet date.

16. CASH AND BANK BALANCES

	2009	2008
	(Rupees)	
Cash at banks on		
- deposit accounts	3,491,666	29,195
- current accounts (note 16.1)	458,826	1,328,691
In hand		
- cheques/demand drafts	-	324,302
- cash	4,850	4,850
	<u>3,955,342</u>	<u>1,687,038</u>

- 16.1** This includes Nil (2008: Rs. 1,325,438) held in foreign currency bank accounts for letter of credit payments relating to urea expansion project.

(Amounts in thousand)

17. SHARE CAPITAL

2009		2008				2009		2008	
(Number of shares)						(Rupees)			
Authorised Capital									
350,000,000	300,000,000	Ordinary shares of Rs. 10 each (note 17.1)		3,500,000	3,000,000				
2009		2008				2009		2008	
(Number of shares)						(Rupees)			
Issued, subscribed and paid-up capital									
185,354,484	100,228,038	Ordinary shares of Rs. 10 each fully paid in cash		1,853,545	1,002,280				
112,588,079	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares		1,125,881	1,125,881				
297,942,563	212,816,117			2,979,426	2,128,161				

17.1 During the year, the authorised capital was increased to 350,000,000 ordinary shares of Rs. 10 each.

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

2009		2008				2009		2008	
(Number of Shares)						(Rupees)			
212,816,117	193,469,198	At January 1		2,128,161	1,934,692				
85,126,446	19,346,919	Ordinary shares of Rs. 10 each issued during the year ended December 31 as fully paid right shares (note 17.3)		851,265	193,469				
297,942,563	212,816,117			2,979,426	2,128,161				

17.3 These right shares were issued during the year at a premium of Rs. 40 per share (2008: Rs. 165 per share).

17.4 Associated companies held 144,390,600 (2008: 88,857,572) ordinary shares in the Company at year end.

(Amounts in thousand)

18. SHARE PREMIUM

	2009	2008
	(Rupees)	
Balance as at January 1	7,152,722	3,963,977
Shares issued during the year (note 17.3)	3,405,058	3,192,242
Issue cost - net of tax	(7,719)	(3,497)
Balance as at December 31	<u>10,550,061</u>	<u>7,152,722</u>

19. HEDGING RESERVE

	2009	2008
	(Rupees)	
		(Restated)
Fair values of :		
- Foreign exchange forward contracts (note 19.2 & 8.1)	(134,692)	1,174,173
- Foreign exchange option contracts (note 8.2)	49,104	347,446
- Interest rate swaps (note 8.3)	(852,441)	(1,073,210)
Arrangement fee	-	(252,552)
	<u>(938,029)</u>	<u>195,857</u>
Deferred tax	328,310	(68,550)
	<u>(609,719)</u>	<u>127,307</u>

19.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

19.2 Fair values of foreign exchange forward contracts as at December 31, 2008, recognised in hedging reserve, have been adjusted by the Company in the current year by restating the comparative figure from Rs. 4,297,960 to Rs. 1,174,173, as more fully explained in note 8.1.1. The net effect after tax of this amounts to Rs. 2,030,462.

(Amounts in thousand)

20. BORROWINGS - Secured (Non-participatory)

	Note	Mark - up rate p.a.	Instalments		Unavailed credit as at December		
			Number	Commencing from	31, 2009	2009	2008
					(Rupees)		
Long term finance utilised under mark-up arrangements:							
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	-	525,000	600,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	400,000	400,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	-	1,000,000	1,000,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	2,000,000	2,000,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	250,000	250,000
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	100,000	100,000
HSBC Middle East Limited		6 months KIBOR + 1.75%	8 half yearly	December 25, 2010	-	250,000	250,000
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	500,000	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	20.1	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	6,125,000	12,012,004	175,000
Islamic offshore finance	20.2	6 months LIBOR + 2.57%	8 half yearly	March 27, 2011	-	12,509,214	6,434,924
DFI Consortium finance	20.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	-	7,170,987	1,743,488
International Finance Corporation	20.4	6 months LIBOR + 6%	3 half yearly	September 15, 2015	-	3,794,812	-
Bank Islami Pakistan Limited	20.5	6 months KIBOR + 2.4%	14 half yearly	May 26, 2016	-	500,000	-
Pak Kuwait Investment Company (Private) Limited	20.5	6 months KIBOR + 2.35%	10 half yearly	April 29, 2012	-	494,357	-
Faysal Bank Limited	20.5	6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	-	1,497,683	-
Certificates							
Term Finance Certificates - 2nd Issue	20.6	6 months KIBOR + 1.55%			-	3,968,819	3,967,426
Term Finance Certificates - 3rd Issue	20.7	6 months KIBOR + 2.4%			-	1,974,360	-
Sukuk Certificates	20.8	6 months KIBOR + 1.5%			-	2,984,459	2,982,472
Privately Placed Sub-Ordinated Term Finance Certificates	20.9				-	5,943,759	5,930,004
						59,375,454	27,833,314
Less: Current portion shown under current liabilities						810,100	76,600
						<u>58,565,354</u>	<u>27,756,714</u>

20.1 The Company has entered into a syndicated finance agreement with Allied Bank Limited, Bank Al-Falah Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Standard Chartered Bank (Pakistan) Limited and United Bank Limited amounting to Rs.18,300,000, of which Rs. 12,175,000 was disbursed as at December 31, 2009 (2008: Rs. 175,000). Some of the banks have sold down their share to other banks.

20.2 The Company has also entered into 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. As at December 31, 2009, the Company has availed the full amount of facility (2008: US\$ 84,000).

(Amounts in thousand)

20.3 The Company has also entered into an agreement amounting to US\$ 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID. As at December 31, 2009 the Company has availed the full amount of finance (2008: US\$ 22,200).

20.4 The Company has contracted a loan with International Finance Corporation (IFC) for US\$ 50,000, divided into Tranche A (US\$ 15,000) and Tranche B (US\$ 35,000). Tranche A gives IFC an option to convert the loan amount of US\$ 15,000 into ordinary shares of the Company at Rs. 205 per ordinary share calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notice issued by IFC to exercise the conversion option. Such conversion option, shall always remain upon the shares of the Company on transfer of the loan consequent to demerger referred to in note 1.1 and can 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. As at December 31, 2009, the Company has availed the full amount of loan.

The fair value of the conversion option, included in note 8, is calculated on the date of disbursement, using option pricing model. The residual amount, representing the loan liability component is shown as long term borrowings.

The loan recognised in the balance sheet is as follows:

	(Rupees)
Total loan disbursed (Tranche A and Tranche B)	4,225,000
Transaction cost	(91,541)
Net proceeds	4,133,459
Fair value of conversion option – Tranche A (note 8)	(338,647)
Loan liability component as at December 31, 2009	<u>3,794,812</u>

20.5 The Company has arranged these finance facilities, during the year, for its urea expansion project.

20.6 The Company issued secured and listed Term Finance Certificates (TFCs) of Rs. 4,000,000. The TFCs are structured to redeem 0.28% of principal in the first 84 months and remaining 99.72% principal in two equal semi-annual installments. The Company has appointed First Dawood Islamic Bank as trustee in respect of these TFCs.

20.7 The Company has issued during the year, listed and secured Term Finance Certificates (TFCs) of Rs. 2,000,000 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	0.04%
2	0.04%
3	7.96%
4	7.96%
5	12%
6	12%
7	60%

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

(Amounts in thousand)

- 20.8** The Company 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 installments.
- 20.9** The Company has issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs. 6,000,000. 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% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Company has appointed IGI Investment Bank Limited as trustee in respect of these TFCs.
- 20.10** The above finances, excluding perpetual sub-ordinated TFCs and IFC Loan, are secured by an equitable mortgage upon the immovable property of the Company and hypothecation charge over current and future fixed assets of the Company. Perpetual subordinated TFCs and IFC loan are secured by a sub-ordinated floating charge over all present and future fixed assets excluding land and buildings.
- 20.11** In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these financial statements.
- 20.12** The above loans are being utilised for urea expansion project, base business operations and diversification initiatives.

21. DEFERRED LIABILITIES

	2009	2008 (Restated)
	(Rupees)	
Deferred taxation (note 21.1)	891,864	1,319,432
Deferred income (note 21.2)	96,305	-
	<u>988,169</u>	<u>1,319,432</u>
21.1 Deferred taxation		
Credit / (debit) balances arising on account of:		
- accelerated depreciation allowance	1,257,152	1,129,211
- net borrowing costs capitalised (note 34.1)	-	518,571
- fair values of hedging instruments (note 21.1.1)	(328,310)	68,550
- provision for:		
- retirement benefits	(23,863)	(21,910)
- inventories, slow moving stores & spares and doubtful receivables	(20,526)	(314,188)
- others	7,411	(60,802)
	<u>891,864</u>	<u>1,319,432</u>

- 21.1.1 Deferred tax on fair value of foreign exchange forward contracts as at December 31, 2008, has been adjusted by the Company during the year by restating the comparative figure from Rs. 1,119,775 to Rs. 68,550, as more fully explained in note 8.1.1.

(Amounts in thousand)

21.2 Deferred income

During the year, the Company received an amount of Rs. 96,627 from Engro Energy Limited (EEL), a subsidiary company, for the right to use Company's infrastructure facilities at Daharki Plant by the employees of EEL. The amount is being amortised over a period of twenty five years.

22. EMPLOYEE HOUSING SUBSIDY

In 2008, the Company announced a medium term Employee Housing Subsidy Scheme for its employees who were not entitled for Employee Share Options. Under this scheme, the Company planned to disburse housing subsidy upto the closing date i.e. December 31, 2009. This would be amortised over a period of 2.5 years of employee service being the vesting period of the scheme. As at December 31, 2009, the Company completed disbursements of Rs. 395,606 (2008: Rs. 152,223), as referred to in note 9.2 and 9.3. The amount amortised in the profit and loss account aggregated to Rs. 106,985 (2008: Rs. 69,587).

The expected future charge will be Rs. 134,226 and Rs. 26,776 for 2010 and 2011 respectively.

23. RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS

	2009	2008
	(Rupees)	
Payable to Separation Gratuity Plan - unfunded (note 37)	-	652
Other service benefit plan	68,181	61,947
Less: Current portion shown under current liabilities	20,600	18,334
	47,581	43,613
	<u>47,581</u>	<u>44,265</u>

24. TRADE AND OTHER PAYABLES

Creditors (note 24.1)	593,372	390,717
Payable to Engro Foods Limited (a subsidiary company) for taxable losses acquired (note 34.2)	-	450,000
Accrued liabilities (note 24.2)	1,116,378	727,165
Advances from customers	1,099,390	1,063,530
Deposits from dealers refundable on termination of dealership	11,073	10,553
Contractors' deposits and retentions	60,022	29,513
Workers' profits participation fund (note 14.3)	2,386	-
Workers' welfare fund	106,428	106,216
Sales tax payable	2,135	-
Others	169,668	137,580
	<u>3,160,852</u>	<u>2,915,274</u>

(Amounts in thousand)

24.1 This includes payable of Rs. 22,720 (2008: Rs. 7,507) to Engro Eximp (Private) Limited (a wholly owned subsidiary) on account of purchased products.

24.2 Accrued liabilities

	2009	2008
	(Rupees)	
Salaries, wages and other employee benefits	262,276	184,528
Vacation accruals	93,427	64,159
Freight accruals	54,302	47,196
Consultancy services	-	178,088
Others	706,373	253,194
	<u>1,116,378</u>	<u>727,165</u>

25. ACCRUED INTEREST / MARK-UP

Accrued interest / mark-up on secured:

- long term borrowings	1,355,503	660,387
- short term borrowings	10,519	144,003
	<u>1,366,022</u>	<u>804,390</u>

26. SHORT TERM BORROWINGS - Secured

The facilities for short term finances available from various banks amount to Rs. 6,550,000 (2008: Rs. 6,750,000), including Rs. 200,000 (2008: Rs. 200,000) for Bank Guarantees interchangeable with short term finance. The rates of mark-up ranges from 12.39% to 17.75% (2008: 10.40 % to 17.30%) and the facilities are secured by floating charge upon all present and future stocks including raw and packaging materials, finished goods, stores and spares and other merchandise and on all present and future book debts of the Company.

27. CONTINGENCIES AND COMMITMENTS**Contingencies**

27.1 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 47,658 (2008: Rs. 27,911).

27.2 Corporate guarantees of Rs. 273,482 (2008: Rs. 500,600) have been issued in favor of subsidiary companies.

27.3 Bank guarantees of Rs. 1,148,676 (2008: Rs. 141,126) have been issued in favor of third parties.

27.4 The Company is contesting the penalty of Rs. 99,936 (2008: 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.

(Amounts in thousand)

27.5 The Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Company Rs. 47,800 (2008: 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.

27.6 The Company has extended project completion support to the lenders of Engro Energy Limited for US\$ 15,400 (2008: US\$ 15,400) and a further support to the lenders of Engro Polymer and Chemicals Limited for US\$ 12,200 (2008: US\$ 10,000). These project supports are contingent upon occurrence or non-occurrence of specified future events.

	2009	2008
	(Rupees)	
Commitments		
27.7 Plant and machinery	3,999,846	26,846,940
27.8 Employee housing subsidy scheme	-	214,362
28. NET SALES		
Own manufactured products (note 28.2)	16,138,641	16,029,188
Less: Sales tax	2,185	520,365
	16,136,456	15,508,823
Purchased products	14,078,152	7,921,944
Less: Sales tax	43,088	113,569
	14,035,064	7,808,375
Net sales	30,171,520	23,317,198

28.1 Sales are net of marketing allowances of Rs. 177,970 (2008: Rs.103,609).

28.2 This includes sale of Liquid Ammonia amounting to Rs. 13,662 (2008: Nil).

(Amounts in thousand)

29. COST OF SALES

	2009	2008
	(Rupees)	
Raw materials consumed, net of write down (note 11.1)	3,763,746	4,391,860
Salaries, wages and staff welfare (note 29.1)	1,066,923	949,834
Fuel and power	2,981,411	2,584,851
Repairs and maintenance	495,232	368,955
Depreciation (note 4.2)	620,792	607,452
Amortisation (note 5.1)	9,448	6,961
Consumable stores	149,120	174,655
Staff recruitment, training, safety and other expenses	60,757	68,292
Purchased services	145,273	288,252
Travel	42,224	46,703
Communication, stationery and other office expenses	23,839	37,356
Insurance	137,016	72,910
Rent, rates and taxes	62,144	50,873
Other expenses	18,978	24,187
Manufacturing cost	<u>9,576,903</u>	<u>9,673,141</u>
Add: Opening stock of work-in-progress	9,027	7,952
Less: Closing stock of work-in-progress	6,115	9,027
	<u>2,912</u>	<u>(1,075)</u>
Cost of goods manufactured	<u>9,579,815</u>	<u>9,672,066</u>
Add: Opening stock of finished goods manufactured	396,198	397,129
Less: Closing stock of finished goods manufactured	112,500	396,198
	<u>283,698</u>	<u>931</u>
Cost of sales - own manufactured products	<u>9,863,513</u>	<u>9,672,997</u>
- purchased products (note 29.2)	<u>13,376,663</u>	<u>7,447,638</u>
	<u><u>23,240,176</u></u>	<u><u>17,120,635</u></u>

29.1 Salaries, wages and staff welfare includes Rs. 67,284 (2008: Rs. 56,315) in respect of staff retirement benefits.

29.2 Cost of sales - purchased products

	2009	2008
	(Rupees)	
Opening stock	3,132,837	1,677,287
Add: Purchases	10,243,826	8,903,188
Less: Closing stock	-	3,132,837
	<u>13,376,663</u>	<u>7,447,638</u>

(Amounts in thousand)

30. SELLING AND DISTRIBUTION EXPENSES

	2009	2008
	(Rupees)	
Salaries, wages and staff welfare (note 30.1)	400,361	346,032
Staff recruitment, training, safety and other expenses	36,961	47,214
Product transportation and handling	1,146,295	802,704
Repairs and maintenance	9,249	24,367
Advertising and sales promotion	66,864	68,222
Rent, rates and taxes	103,640	100,797
Communication, stationery and other office expenses	16,008	25,889
Travel	29,757	40,776
Depreciation (note 4.2)	38,383	30,734
Amortisation (note 5.1)	3,899	4,285
Purchased services	19,085	85,545
Donations	48,573	42,316
Other expenses	26,101	38,934
	<u>1,945,176</u>	<u>1,657,815</u>

30.1 Salaries, wages and staff welfare includes Rs. 33,794 (2008: Rs. 29,827) in respect of staff retirement benefits.

31. OTHER OPERATING INCOME

	2009	2008
	(Rupees)	
Dividend income (note 31.1)	1,885,000	2,605,396
Income on deposits / other financial assets	19,670	2,594
Service charges	25,255	22,567
Fair value of derivative interest rate swap (ineffective portion)	-	407
Reversal of Defined Benefit Pension Plan (curtailed) (note 37.1.10)	5,700	30,997
Gain on disposal of property, plant and equipment	23,604	69,303
Net foreign exchange gain on bank accounts	-	18,036
Others	14,238	5,030
	<u>1,973,467</u>	<u>2,754,330</u>

31.1 Dividend income

Subsidiary companies		
- Engro Eximp (Private) Limited	1,435,000	2,200,000
- Engro Polymer & Chemicals Limited	-	157,896
Joint venture		
- Engro Vopak Terminal Limited	450,000	247,500
	<u>1,885,000</u>	<u>2,605,396</u>

(Amounts in thousand)

32. OTHER OPERATING EXPENSES

	2009	2008
	(Rupees)	
Workers' profits participation fund (note 14.3)	280,072	279,515
Workers' welfare fund	106,428	106,216
Research and development (including salaries and wages)	16,081	78,126
Net foreign exchange loss on bank accounts	13,282	-
Auditors' remuneration (note 32.1)	7,545	1,905
Professional tax	213	200
Others	489	113,594
	<u>424,110</u>	<u>579,556</u>

32.1 Auditors' remuneration

Fee for the		
- audit of annual financial statements	1,350	1,350
- review of half yearly financial statements	300	150
Certifications, audit of retirement funds and other advisory services	4,435	123
Tax services	1,200	-
Reimbursement of expenses	260	282
	<u>7,545</u>	<u>1,905</u>

33. FINANCE COST

Interest/mark-up on		
- long term borrowings	870,103	824,662
- short term borrowings	450,476	684,286
	<u>1,320,579</u>	<u>1,508,948</u>

34. TAXATION

Current		
- for the year	1,135,050	949,607
- for prior years (note 34.1)	170,242	-
	<u>1,305,292</u>	<u>949,607</u>
Deferred		
- for the year	132,187	14,537
- for prior years (note 34.1)	(179,783)	-
	<u>(47,596)</u>	<u>14,537</u>
	<u>1,257,696</u>	<u>964,144</u>

(Amounts in thousand)

- 34.1** The current and deferred tax is net of adjustment in respect of net borrowing cost capitalised in prior years.
- 34.2** The 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 (EFL), 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) and Rs. 910,845 for financial years 2006 and 2007, on disallowance of mainly Group Relief (in both years), inter corporate dividend (in 2007) besides certain other issues. The Company has paid Rs. 170,000 and Rs. 400,000 respectively thereagainst. Stay by the High Court of Sindh for payment of balance amount for financial year 2006 has been granted pending decision of the appeal filed by the Company before the Income Tax Appellate Tribunal (ITAT). However, for financial year 2007, stay has been granted by the Tax Department till April 30, 2010.

The main contention for disallowance of Group Relief, among others, being the non-designation of the Company as well as the subsidiary company as 'companies' entitled to Group Relief by the Securities & Exchange Commission of Pakistan (SECP), a requirement of Section 59B of the Ordinance. The Company had applied for such a designation but remained pending with SECP for want of related regulations not framed then. These regulations have been framed by SECP subsequently in December 2008 under which the Company alongwith other subsidiaries have been registered as a Group and a fresh application for the aforesaid designation will now be filed. The Commissioner Inland Revenue (Appeals) taking cognizance of the above and other factors has, vide order dated November 13, 2009, decided the issue of Group Relief in Company's favor for the financial year 2007, while for 2006 it is pending at the ITAT level as stated above.

The Company has filed tax returns up to financial year 2008 of which tax returns from financial years 2003 – 2008 have been filed under the self assessment scheme. All assessments for income years 1995 to 2002 have been finalized by the Department and are in appeal at either the CIT or ITAT level on various issues, the major one being apportionment of gross profit and expenses between normal income and Final Tax Regime (FTR) income.

The Company is confident that all the above issues, including the issue of Group Relief, will be ultimately decided in its favor without any additional tax liability.

34.3 Relationship between tax expense and accounting profit

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

	2009	2008
	(Rupees)	
Profit before tax	5,214,946	5,204,574
Tax calculated at the rate of 35%	1,825,231	1,821,601
Depreciation on exempt assets not deductible for tax purposes	34,495	34,495
Effect of exemption from tax on certain income	(509,135)	(770,000)
Effect of applicability of lower tax rate and other tax credits/debits	(92,895)	(121,952)
Tax charge for the year	1,257,696	964,144

(Amounts in thousand)

35. EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, since the average market price of the Company's share is less than the exercise price of the options granted on Company's shares to employees (as per Company's policy, note 2.15 and note 7) and lender (note 20.4). These options may have a potential dilutive impact on basic earnings per share in future periods. The basic earnings per share of the Company is based on:

	2009	2008
	(Rupees)	
Profit after taxation	<u>3,957,250</u>	<u>4,240,430</u>
	(Number)	
Weighted average number of Ordinary shares (in thousand)	<u>281,119</u>	<u>252,247</u>

36. 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:

	2009			2008		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	(Rupees)					
Managerial remuneration	39,640	37,066	847,737	28,154	30,817	652,283
Retirement benefits funds	3,929	4,154	116,932	3,338	3,606	96,909
Other benefits	10,147	15,413	182,314	8,920	12,522	119,631
Fees	-	7,708	-	-	840	-
Total	<u>53,716</u>	<u>64,341</u>	<u>1,146,983</u>	<u>40,412</u>	<u>47,785</u>	<u>868,823</u>
Number of persons including those who worked part of the year	<u>1</u>	<u>13</u>	<u>415</u>	<u>1</u>	<u>9</u>	<u>385</u>

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

37. RETIREMENT BENEFITS**37.1 Defined benefit plans**

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2009, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

(Amounts in thousand)

37.1.1 **Balance sheet reconciliation**

	Defined Benefit Pension Plan Funded (Curtailed)		Defined Benefit Gratuity Plans Funded		Defined Benefit Separation Gratuity Plan Un-funded	
	2009	2008	2009	2008	2009	2008
	(Rupees)					
Present value of funded obligation	28,703	29,311	310,479	267,158	-	-
Fair value of plan assets	(62,645)	(67,276)	(346,583)	(291,946)	-	-
Surplus	(33,942)	(37,965)	(36,104)	(24,788)	-	-
Present value of unfunded obligation	-	-	-	-	-	652
Unrecognised actuarial gain	2,055	6,778	28,873	24,788	-	-
Unrecognised past service cost	-	-	7,231	-	-	-
Net (asset)/liability at end of the year	<u>(31,887)</u>	<u>(31,187)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652</u>

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

Net (asset)/liability at beginning of the year	(31,187)	(17,629)	-	-	652	652
(Reversal)/expense recognised	(5,700)	(30,997)	11,334	13,600	(652)	-
Amounts received from/(paid to) the Fund	5,000	17,439	(11,334)	(13,600)	-	-
Net (asset)/liability at end of the year	<u>(31,887)</u>	<u>(31,187)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652</u>

37.1.3 **Movement in defined benefit obligation**

Present value of defined benefit obligation at beginning of the year	29,311	358,974	267,158	228,681	-	-
Current service cost	-	-	17,345	14,936	-	-
Interest cost	4,172	29,351	39,540	22,658	-	-
Settlement in respect of pensioners	-	(298,819)	-	-	-	-
Benefits paid during the year	(2,501)	(23,072)	(4,755)	(12,698)	-	-
Actuarial (gain)/loss on obligation	(2,279)	(37,123)	540	13,581	-	-
Unrecognised past service cost	-	-	(10,198)	-	-	-
Liability transferred in respect of inter-company transfer	-	-	849	-	-	-
Present value of defined benefit obligation at end of the year	<u>28,703</u>	<u>29,311</u>	<u>310,479</u>	<u>267,158</u>	<u>-</u>	<u>-</u>

37.1.4 **Movement in fair value of plan assets**

Fair value of plan assets at beginning of the year	67,276	438,769	291,946	245,039	-	-
Expected return on plan assets	9,866	36,553	41,882	24,097	-	-
(Repayment to)/contribution by the Company	(5,000)	(17,439)	11,334	13,600	-	-
Benefits paid during the year	(2,501)	(23,072)	(4,755)	(12,698)	-	-
Settlement in respect of the pensioners	-	(298,819)	-	-	-	-
Actuarial gain/(loss) on plan assets	(6,996)	(68,716)	5,327	21,908	-	-
Liability transferred in respect of inter-company transfer	-	-	849	-	-	-
Fair value of plan assets at end of the year	<u>62,645</u>	<u>67,276</u>	<u>346,583</u>	<u>291,946</u>	<u>-</u>	<u>-</u>

(Amounts in thousand)

37.1.5 Charge for the year

	Defined Benefit Pension Plan Funded (Curtailed)		Defined Benefit Gratuity Plans Funded	
	2009	2008	2009	2008
	(Rupees)			
Current service cost	-	-	17,345	14,936
Interest cost	4,172	29,351	39,540	22,658
Expected return on plan assets	(9,866)	(36,553)	(41,882)	(24,097)
Recognition of curtailment gain (note 37.1.10)	-	(22,102)	-	-
Amortisation of unrecognized past service cost	-	-	(64)	-
Amortisation of transitional obligation	-	-	(439)	-
Recognition of past service cost	-	-	(2,464)	-
Net actuarial (gain)/loss recognised during the year	(6)	(1,693)	(702)	103
	<u>(5,700)</u>	<u>(30,997)</u>	<u>11,334</u>	<u>13,600</u>

37.1.6 Principal actuarial assumptions used in the actuarial valuation

	Defined Benefit Pension Plan Funded (Curtailed)		Defined Benefit Gratuity Plans Funded	
	2009	2008	2009	2008
	(Rupees)			
Discount rate	12%	15%	12%	15%
Expected per annum rate of return on plan assets	12%	15%	12%	15%
Expected per annum rate of increase in pension	4.5%	7.5%	-	-
Expected per annum rate of increase in future salaries	-	-	12%	15%
37.1.7 Actual return on plan assets	<u>2,870</u>	<u>(32,163)</u>	<u>47,209</u>	<u>46,005</u>

37.1.8 Plan assets comprise of the following

	2009		2008	
	(Rupees)	(%)	(Rupees)	(%)
Fixed income instruments	269,802	66%	7,417	2%
Cash	23,493	6%	13,021	4%
Others	115,933	28%	338,784	94%
	<u>409,228</u>		<u>359,222</u>	

(Amounts in thousand)

37.1.9 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.

37.1.10 During the year, the Company recognised a gain of Rs. 5,700 (2008: Rs. 30,997) on curtailed defined benefit plan. In 2005, the Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited MPT Employees Pension Fund (the Fund) for the benefit of management employees. Employees joining the Company from July 1, 2005 onwards were to become members of the new Fund. Members of the then existing pension fund (a defined benefit plan) were given a one-time option exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005.

37.1.11 **Comparison of five years**

	2009	2008	2007	2006	2005
	(Rupees)				
Present value of defined benefit obligation	(339,182)	(296,469)	(587,655)	(536,209)	(538,407)
Fair value of plan assets	409,228	359,222	683,808	722,867	605,797
Surplus/(deficit)	70,046	62,753	96,153	186,658	67,390

37.1.12 Effective from January 1, 2009, the normal retirement age for employees was increased from 58 years to 60 years, which resulted in negative past service cost of Rs. 10,198. As required under IAS-19, vested portion of this cost amounting to Rs. 2,464 was recognised immediately, whereas the non vested portion of Rs. 503 will be amortised over the average period to vesting for the plan participants, which is worked out to be approximately 15 years for MPT and 18 years for Non-MPT employees.

37.1.13 **Expected future cost for the year ending December 31, 2010 is as follows:**

	(Rupees)
MPT Pension Fund	(4,073)
MPT Gratuity Fund	10,839
Non-MPT Gratuity Fund	6,608

37.2 Defined contribution plans

An amount of Rs. 121,044 (2008: Rs. 95,714) has been charged during the year in respect of defined contribution plans maintained by the Company.

(Amounts in thousand)

38. CASH GENERATED FROM OPERATIONS

	2009	2008
	(Rupees)	
Profit before taxation	5,214,946	5,204,574
Adjustment for non-cash charges and other items:		
Depreciation	659,175	642,488
Amortisation	13,347	11,246
Profit on disposal of property, plant and equipment	(23,604)	(69,303)
Provision for retirement and other service benefits obligations	146,218	78,317
Income on deposits/other financial assets	(19,670)	(20,630)
Dividend income	(1,885,000)	(2,605,396)
Financial charges	1,320,579	1,508,948
Employee share compensation expense	65,174	66,673
Employee housing subsidy expense	106,985	69,587
Provision for surplus and slow moving stores and spares	14,605	7,523
Provision for doubtful trade debts	814	(100)
Provision for other receivables	(1,374)	(1,469)
Provision for loans, advances, deposits and prepayments	1,295	-
Working capital changes (note 38.1)	3,161,762	(2,479,900)
	<u>8,775,252</u>	<u>2,412,558</u>

38.1 Working capital changes

Decrease/(increase) in current assets:		
- Stores, spares and loose tools	(175,631)	(223,891)
- Stock-in-trade	4,258,289	(1,990,743)
- Trade debts	(2,253,731)	1,147,477
- Loans, advances, deposits and prepayments	428,674	(1,009,503)
- Other receivables - net	208,583	(123,632)
	<u>2,466,184</u>	<u>(2,200,292)</u>
Increase/(decrease) in current liabilities:		
- Trade and other payables including other service benefits - net	695,578	(279,608)
	<u>3,161,762</u>	<u>(2,479,900)</u>

39. CASH AND CASH EQUIVALENTS

Cash and bank balances (note 16)	3,955,342	1,687,038
Short term borrowings	(195,753)	(1,711,275)
Short term investments (note 15)	450,857	67,811
	<u>4,210,446</u>	<u>43,574</u>

(Amounts in thousand)

40. FINANCIAL INSTRUMENTS BY CATEGORY

	2009	2008
	(Rupees)	
Financial assets as per balance sheet		
- Loans and receivables		
Loans, advances and deposits	1,644,174	1,756,826
Trade debts	2,514,425	261,508
Other receivables	167,415	117,624
Cash and bank balances	3,955,342	1,687,038
	<u>8,281,356</u>	<u>3,822,996</u>
- Fair value through profit and loss		
Short term investments	450,857	67,811
- Derivatives used for hedging		
Derivatives	76,209	1,521,619
Financial liabilities as per balance sheet		
- Financial liabilities measured at amortised cost		
Borrowings	59,571,207	29,544,589
Retirement and other service benefits obligations	68,181	62,599
Trade and other payables	1,680,932	1,667,531
Accrued interest/mark-up	1,366,022	804,390
Unclaimed dividends	102,099	318,320
	<u>62,788,441</u>	<u>32,397,429</u>
- Fair value through profit and loss		
Conversion option on IFC loan	338,647	-
- Derivatives used for hedging		
Derivatives	1,014,238	1,073,210

(Amounts in thousand)

41. FINANCIAL RISK MANAGEMENT

41.1 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.

This exists due to the Company'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 Company to take currency exposure for limited periods within predefined limits while open exposures are rigorously monitored. The Company 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 Company is exposed to currency risk on commitments to purchase plant and machinery in connection with urea expansion project (note 4.5.1) denominated primarily in Euros. However, as at December 31, 2009, this exposure is minimal since major procurements have been completed.

The Company 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 (note 8). The Company'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\$ 235,000 for the urea expansion project, the Company maintains a minimum Rupee-Dollar hedge of US\$ 85,000 as per lender covenants. IFC loan of US\$ 50,000 which was drawn down end of December 2009 has not been hedged so far.

The impact of other devaluation/revaluation on post tax profit for the year is negligible since all foreign currency borrowings/funds relates to the project, hence gain/loss arising is capitalised.

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's interest rate risk arises from short and long term borrowings. These are benchmarked to variable rates which expose the Company to cash flow interest rate risk.

(Amounts in thousand)

The Company 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 arising on foreign currency loans are hedged through interest rate swaps (note 8). Rates on short term loans vary as per market movement.

As at December 31, 2009, if interest rates on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax profit for the year would have been lower/higher by Rs. 53,548 (2008: Rs. 67,421), 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 Company is not exposed to equity securities price risk as all of its investments are in subsidiary companies which are stated at cost. The Company'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 Company maintains an internal policy to place funds with commercial banks/mutual funds having a minimum short term credit rating of A1+.

The Company 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 and by the fact that the exposure is spread over a wide customer base.

The credit risk arising on account of acceptance of these bank guarantees is managed by ensuring that the bank guarantees are issued by banks of reasonably high credit ratings as approved by the management.

(Amounts in thousand)

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:

	2009	2008
	(Rupees)	
Loans, advances and deposits	1,644,174	1,756,826
Trade debts	2,381,684	69,941
Other receivables	108,354	60,332
Short term investments	450,857	67,811
Bank balances	3,950,492	1,357,886
	<u>8,535,561</u>	<u>3,312,796</u>

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

Bank	Rating Agency	Rating	
		Short term	Long term
Askari Bank Limited	PACRA	A1+	AA
Allied Bank Limited	PACRA	A1+	AA
Bank Al-Habib Limited	PACRA	A1+	AA+
Bank Al-Falah Limited	PACRA	A1+	AA
Barclay's Bank plc	S&P	A1+	AA-
Citibank N. A.	S&P	A1	A+
Deutsche Bank AG	S&P	A1	A+
Faysal Bank Limited	JCR-VIS	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AA+
HSBC Bank Middle East Limited	Moody's	P1	AA2
MCB Bank Limited	PACRA	A1+	AA+
National Bank of Pakistan	JCR-VIS	A1+	AAA
Royal Bank of Scotland Limited	PACRA	A1+	AA
Standard Chartered Bank (Pakistan) Limited	JCR-VIS	A1+	AA+
United Bank Limited	JCR-VIS	A1+	AA+

(Amounts in thousand)

c) Liquidity risk

Liquidity risk represents the risk that the Company 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 Company maintains flexibility in funding by maintaining committed credit lines available.

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.

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.

	2009			2008		
	Maturity Upto One Year	Maturity after One Year	Total	Maturity Upto One Year	Maturity after One Year	Total
	(Rupees)					
Derivatives	740,043	612,842	1,352,885	155,160	918,050	1,073,210
Trade and other payables	1,680,932	-	1,680,932	1,667,531	-	1,667,531
Accrued interest/mark-up	1,366,022	-	1,366,022	804,390	-	804,390
Retirement & other service benefits obligations	20,600	47,581	68,181	18,986	43,613	62,599
Borrowings	1,005,853	58,565,354	59,571,207	1,787,875	27,756,714	29,544,589
Unclaimed dividends	102,099	-	102,099	318,320	-	318,320
	<u>4,915,549</u>	<u>59,225,777</u>	<u>64,141,326</u>	<u>4,752,262</u>	<u>28,718,377</u>	<u>33,470,639</u>

(Amounts in thousand)

41.2 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 shareholders and benefit for other stakeholders 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 Company ensures that the total long term borrowings to equity ratio does not exceed 73.5:26.5 as per lender covenants. The total long term borrowings to equity ratio as at December 31, 2009 and 2008 are as follows:

	2009	2008
	(Rupees)	
Total borrowings	59,375,454	27,833,314
Total equity	26,888,238	21,053,606
	<u>86,263,692</u>	<u>48,886,920</u>
Total borrowings to equity ratio	<u>69%</u>	<u>57%</u>

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

41.3 Fair value estimation

Effective January 1, 2009, the Company adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices 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)

(Amounts in thousand)

The following table presents the Company's assets and liabilities that are measured at fair value as at December 31, 2009:

	Level 1	Level 2	Level 3	Total
	(Rupees)			
Assets				
Financial assets at fair value through profit and loss				
- Short term investments (money market funds)	375,062	-	-	375,062
Derivative financial instruments				
- Derivatives used for hedging	-	76,209	-	76,209
	<u>375,062</u>	<u>76,209</u>	<u>-</u>	<u>451,271</u>
Liabilities				
Financial liabilities measured at amortised cost				
- Retirement and other service benefits obligations	-	68,181	-	68,181
Derivative financial instruments				
- Derivatives used for hedging	-	1,014,238	-	1,014,238
- Conversion option on IFC loan	-	338,647	-	338,647
	<u>-</u>	<u>1,421,066</u>	<u>-</u>	<u>1,421,066</u>

41.4 Fair value of financial assets and liabilities

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

(Amounts in thousand)

42. 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:

	2009	2008
	(Rupees)	
Subsidiary companies		
Purchases and services	10,614,781	7,768,018
Sales	734	-
Services rendered	186,267	37,373
Rent	17,646	-
Associated companies		
Purchases and services	1,236,921	5,028,589
Dividend paid	751,280	597,769
Payment of interest on TFCs and repayment of principal amount	7,051	1,624
Right shares issued (including share premium)	1,777,152	1,413,643
Investment in mutual funds	699,250	-
Redemption of mutual funds	611,025	-
Joint ventures		
Services rendered	2,215	1,540
Others		
Dividend paid	50,195	41,949
Right shares issued (including share premium)	314,732	26,889
Remuneration of key management personnel	153,441	121,395

(Amounts in thousand)

43. DONATIONS

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

	Interest in Donee	Name and Address of Donee	2009 (Rupees)	2008
Mr. Hussain Dawood	Director	Pakistan Centre for Philanthropy	850	-
Mr. Hussain Dawood and Mr. Asad Umar	Chairman Director	Karachi Education Initiative	13,000	-
Mr. Asad Umar and Mr. Shahzada Dawood	Member	Lahore University of Management Sciences, Lahore	300	300
			<u>14,150</u>	<u>300</u>

44. PRODUCTION CAPACITY

	Designed Annual Capacity	Actual Production 2009 Metric Tons	2008
Urea Plant (note 44.1)	975,000	952,024	995,020
NPK Plant (note 44.2)	160,000	91,821	97,669

44.1 Urea Plant also produced 561 metric tons (2008: NIL) of Liquid Ammonia for outside sale. Actual production was below designed annual capacity due to planned maintenance shutdown.

44.2 Actual production was below the designed annual capacity due to planned shut downs as per market demand for NPK products.

45. LOSS OF CERTAIN ACCOUNTING RECORDS

During 2007, a fire broke out at PNSC Building, Karachi where the Head Office and Registered Office of the Company 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 01, 2007 to August 19, 2007 although, electronic data remained intact due to the Company's 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.

(Amounts in thousand)

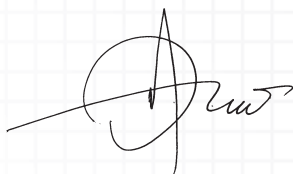
46. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on January 22, 2010 has proposed a final cash dividend of Rs. 2 per share (2008: Rs. 2 per share final cash dividend) and bonus issue in the ratio of 1 share for every 10 shares held i.e. 10% bonus, for approval of the members at the Annual General Meeting to be held on February 27, 2010.

The financial statements for the year ended December 31, 2009 do not include the effect of the proposed cash dividend and bonus issue, which will be accounted for in the financial statements for the year ending December 31, 2010.

47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 22, 2010 by the Board of Directors of the Company.

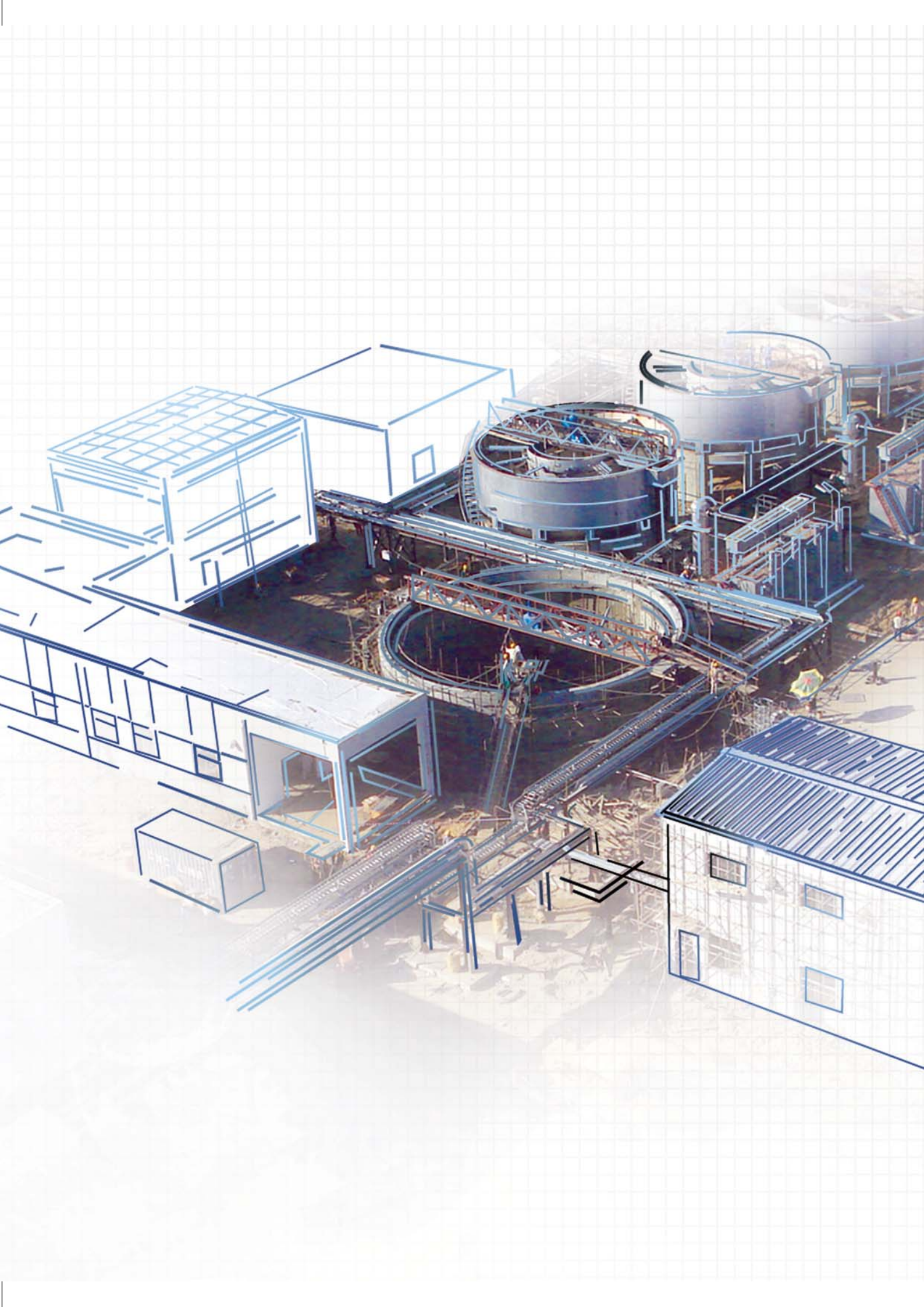


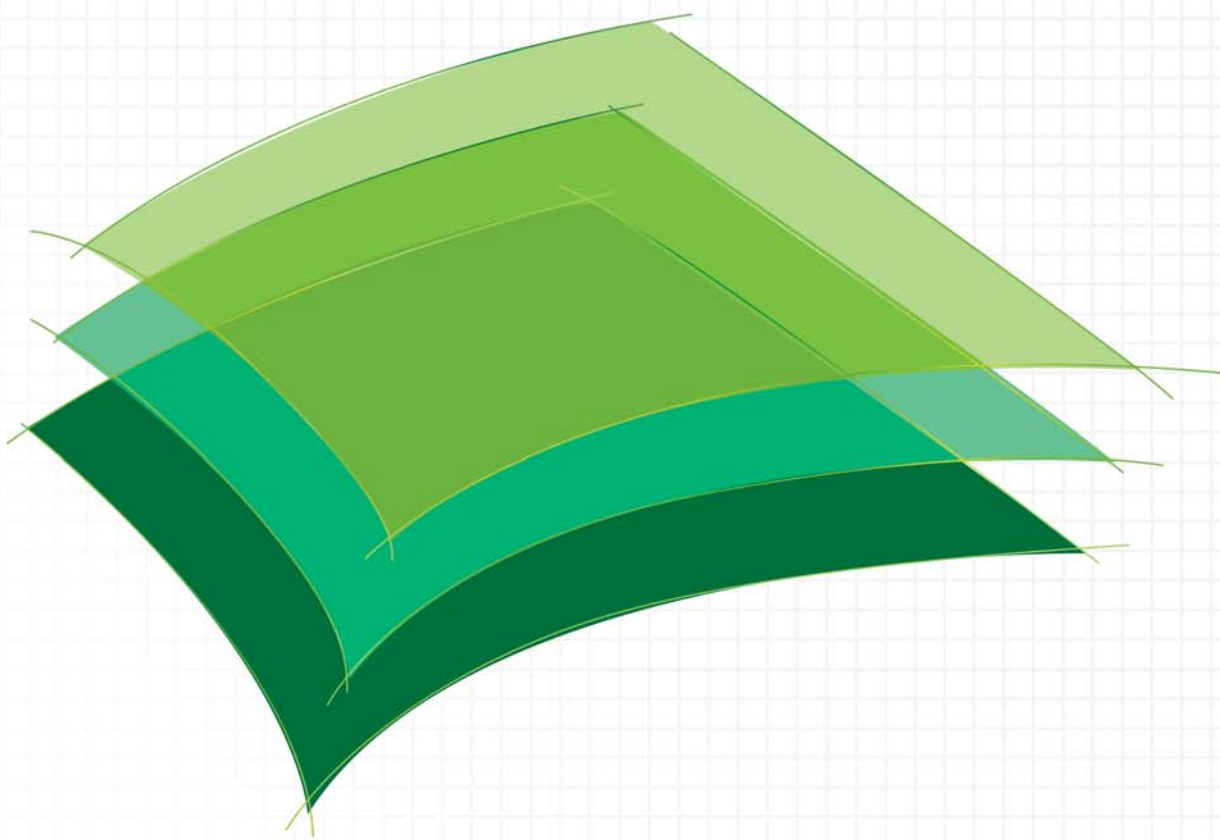
Hussain Dawood
Chairman



Asad Umar
President & Chief Executive







- **Auditors' Report to the Members**
- **Consolidated Financial Statement**

A.F. FERGUSON & CO.

A member firm of

PRICEWATERHOUSECOOPERS 

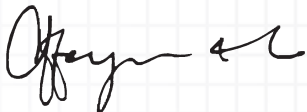
A.F. Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited, the Holding Company) and its subsidiary companies (the Group) as at December 31, 2009 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, together with the notes forming part thereof, for the year then ended. The financial statements of 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 other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such test of accounting records and such other auditing procedures as we considered necessary in the circumstances.
3. In our opinion the consolidated financial statements present fairly the financial position of Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited) and its subsidiary companies as at December 31, 2009 and the results of their operations, changes in equity and cash flows for the year then ended.
4. **Without qualifying our opinion we draw attention to:**
 - (a) note 50 to the consolidated financial statements and as more fully explained therein, due to a fire at the Holding Company's 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.
 - (b) note 38.2 to the consolidated financial statements and as more fully explained therein, the Group has recognised the effect of taxable losses acquired by the Holding Company from a subsidiary company amounting to Rs. 1,500,847 thousand, pending designation from the Securities and Exchange Commission of Pakistan (SECP) as companies entitled for group relief under the Income Tax Ordinance, 2001.
5. As stated in notes 2.1.4 (a) and 4.7 to the financial statements, the Company has changed its accounting policies on initial application of standards, amendments or an interpretation to existing standards and reclassification of capital spares.

6. The consolidated financial statements for the year ended December 31, 2008 were audited by another firm of Chartered Accountants who vide their audit report dated January 27, 2009 expressed an unqualified opinion. A paragraph on the matter relating to destruction of records due to a fire, as explained in paragraph 4 (a) above, and, an emphasis of matter paragraph pertaining to recognition of taxable losses of a subsidiary company pending designation by SECP, as explained in paragraph 4 (b) above, had been added after the opinion paragraph. Further, those financial statements however have been restated in respect of hedging reserve and exchange revaluation reserve on translation of foreign operations, as reflected in the consolidated statement of changes in equity.



**Chartered Accountants
Karachi
Date: January 27, 2010**

Engagement partner: Imtiaz A. H. Laliwala

Consolidated Balance Sheet

As at December 31, 2009

(Amounts in thousand)

	Note	2009	2008 (Restated) note 20.2
		(Rupees)	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	110,503,710	58,292,903
Biological assets	5	438,873	306,826
Intangible assets	6	585,358	570,833
Long term investments	7	499,780	491,210
Deferred employee compensation expense	8	2,969	101,826
Derivative financial instruments	9	-	39,993
Long term loans and advances	10	150,960	337,398
		<u>112,181,650</u>	<u>60,140,989</u>
Current Assets			
Stores, spares and loose tools	11	1,451,532	1,114,969
Stock-in-trade	12	3,819,971	7,129,907
Trade debts	13	3,536,533	758,491
Deferred employee compensation expense	8	97,492	103,343
Loans, advances, deposits and prepayments	14	1,372,425	1,155,707
Other receivables	15	1,136,265	3,783,223
Derivative financial instruments	9	76,209	1,481,626
Taxes recoverable		1,040,636	869,055
Short term investments	16	512,255	2,067,074
Cash and bank balances	17	6,880,408	2,197,608
		<u>19,923,726</u>	<u>20,661,003</u>
TOTAL ASSETS		<u><u>132,105,376</u></u>	<u><u>80,801,992</u></u>

(Amounts in thousand)

	Note	2009	2008 (Restated) note 20.2
(Rupees)			
EQUITY & LIABILITIES			
Equity			
Share capital	18	2,979,426	2,128,161
Share premium	19	10,550,061	7,152,722
Employee share option compensation reserve	8	318,242	327,020
Hedging reserve	20	(617,000)	105,337
Revaluation reserve on business combination		114,900	125,102
Exchange revaluation reserve		(43,185)	(31,532)
General reserves		4,429,240	4,429,240
Unappropriated profit		8,387,520	6,198,004
		<u>23,139,778</u>	<u>18,305,893</u>
		26,119,204	20,434,054
		<u>3,225,191</u>	<u>3,113,677</u>
Minority Interest			
Total Equity		<u>29,344,395</u>	<u>23,547,731</u>
Liabilities			
Non-Current Liabilities			
Borrowings	21	84,142,153	40,738,824
Derivative financial instruments	9	632,777	978,204
Obligations under finance lease	22	20,587	29,385
Deferred taxation	23	1,687,298	2,507,709
Employee housing subsidy	24	211,785	73,319
Deferred liabilities	25	96,163	93,446
Retention money against project payments	26	-	553,445
		<u>86,790,763</u>	<u>44,974,332</u>
Current Liabilities			
Trade and other payables	27	9,608,000	5,624,366
Accrued interest / mark-up	28	1,800,428	1,228,889
Current portion of:			
- borrowings	21	2,375,675	321,915
- obligations under finance lease	22	18,246	20,038
- deferred liabilities	25	22,961	20,023
Short term borrowings	29	1,302,766	4,591,218
Derivative financial instruments	9	740,043	155,160
Unclaimed dividends		102,099	318,320
		<u>15,970,218</u>	<u>12,279,929</u>
Total Liabilities		<u>102,760,981</u>	<u>57,254,261</u>
Contingencies and Commitments	30		
TOTAL EQUITY & LIABILITIES		<u>132,105,376</u>	<u>80,801,992</u>

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



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Consolidated Profit and Loss Account

For the year ended December 31, 2009

(Amounts in thousand except for earnings per share)

	Note	2009 (Rupees)	2008
Net sales	31	58,152,368	40,973,047
Cost of sales	32	(44,658,196)	(30,111,348)
Gross Profit		13,494,172	10,861,699
Selling and distribution expenses	33	(6,215,316)	(4,253,652)
		7,278,856	6,608,047
Other operating income	34	390,157	1,038,314
Other operating expenses	35	(843,561)	(969,583)
Finance cost	36	(2,221,739)	(1,737,953)
		(3,065,300)	(2,707,536)
Share of income from joint venture	37	458,570	245,193
Profit before taxation		5,062,283	5,184,018
Taxation	38	(1,343,481)	(977,328)
Profit for the year		3,718,802	4,206,690
Profit attributable to:			
- Owners of the Holding Company		3,806,918	4,125,754
- Minority interest		(88,116)	80,936
		3,718,802	4,206,690
Earnings per share attributable to owners of the Holding Company - basic and diluted	39	13.54	(Restated) 16.36

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



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2009

(Amounts in thousand)

	Note	2009	2008 (Restated) note 20.2
(Rupees)			
Profit for the year		3,718,802	4,206,690
Other comprehensive income			
Hedging reserve - cash flow hedges	20		
Gains / (losses) arising during the year		(226,998)	2,076,968
Reclassification adjustments for losses / (gains) included in profit and loss		22,557	(118,649)
Adjustments for amounts transferred to initial carrying amount of hedged items (capital work in progress)		(889,226)	(3,418,595)
		(1,093,667)	(1,460,276)
Revaluation reserve on business combination		(21,974)	(21,974)
Exchange differences on translation of foreign operations		(18,595)	(55,685)
		(1,134,236)	(1,537,935)
Income tax relating to:			
Hedging reserve - cash flow hedges		382,783	511,097
Revaluation reserve on business combination		7,691	7,691
		390,474	518,788
Other comprehensive income for the year, net of tax		(743,762)	(1,019,147)
Total comprehensive income for the year		<u>2,975,040</u>	<u>3,187,543</u>
Total comprehensive income attributable to:			
- Owners of the Holding Company		3,062,726	3,148,605
- Minority interest		(87,686)	38,938
		<u>2,975,040</u>	<u>3,187,543</u>

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



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Consolidated Statement of Changes in Equity


For the year ended December 31, 2009

(Amounts in thousand)

	Attributable to owners of the Holding Company										
	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Revaluation reserve on business combination	Exchange revaluation reserve	General reserve	Unappropriated profit	Sub total	Minority interest	Total (Restated)
Balance as at January 1, 2008	1,934,692	3,963,977	272,990	1,037,386	135,304	3,366	4,429,240	3,503,922	15,280,877	3,002,417	18,283,294
Total comprehensive income for the year ended December 31, 2008, as restated											
Profit for the year	-	-	-	-	-	-	-	4,125,754	4,125,754	80,936	4,206,690
Other comprehensive income	-	-	-	(932,049)	(10,202)	(34,898)	-	-	(977,149)	(41,998)	(1,019,147)
	-	-	-	(932,049)	(10,202)	(34,898)	-	4,125,754	3,148,605	38,938	3,187,543
Transactions with owners											
Shares issued during the period in the ratio of 1 for every 10 shares @ Rs.175 per share (including share premium net of share issue cost)	193,469	3,188,745	-	-	-	-	-	-	3,382,214	-	3,382,214
Effect of changes in number of share options issued	-	-	54,030	-	-	-	-	-	54,030	-	54,030
Final dividend for the year ended December 31, 2007 @ Rs. 3 per share	-	-	-	-	-	-	-	(580,408)	(580,408)	-	(580,408)
Interim dividends: - 1st @ Rs. 2 per share - 2nd @ Rs. 2 per share	-	-	-	-	-	-	-	(425,632) (425,632)	(425,632) (425,632)	-	(425,632) (425,632)
Addition to minority interest due to change in holding percentage of EPCL & EEL	-	-	-	-	-	-	-	-	-	167,322	167,322
Dividend pertaining to minority interest	-	-	-	-	-	-	-	-	-	(95,000)	(95,000)
	193,469	3,188,745	54,030	-	-	-	-	(1,431,672)	2,004,572	72,322	2,076,894
Balance as at December 31, 2008, as restated	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
Balance as at January 1, 2009, as previously reported	2,128,161	7,152,722	327,020	2,135,799	125,102	-	4,429,240	6,166,472	22,464,516	3,113,677	25,578,193
Effect of change in fair values of cash flow hedges (note 20.2)	-	-	-	(2,030,462)	-	-	-	-	(2,030,462)	-	(2,030,462)
Holding Company's share of exchange revaluation reserve of a Subsidiary Company (Avanceon Limited) (note 2.24.3)	-	-	-	-	-	(31,532)	-	31,532	-	-	-
Balance as at January 1, 2009, as restated	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 year 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 per share	-	-	-	-	-	-	-	(425,632)	(425,632)	-	(425,632)
Advance against issue of shares of Sindh Engro Coal Mining Company Limited	-	-	-	-	-	-	-	-	-	199,200	199,200
Interim dividends: - 1st @ Rs. 2 per share - 2nd @ Rs. 2 per share	-	-	-	-	-	-	-	(595,885) (595,885)	(595,885) (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

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


Hussain Dawood
 Chairman


Asad Umar
 President & Chief Executive


Consolidated Statement of Cash Flows

For the year ended December 31, 2009

(Amounts in thousand)

	Note	2009	2008
		(Rupees)	
Cash flows from operating activities			
Cash generated from operations	42	15,410,170	1,768,855
Retirement and other service benefits paid		(183,579)	(109,231)
Financial charges paid		(1,650,200)	(1,000,050)
Taxes paid		(1,955,654)	(1,025,967)
Long term loans and advances - net		186,438	(183,462)
Net cash generated from / (used in) operating activities		11,807,175	(549,855)
Cash flows from investing activities			
Purchases of property, plant & equipment and biological assets		(53,893,535)	(36,213,438)
Sale proceeds on disposal of property, plant & equipment		100,952	117,755
Income on deposits / other financial assets		128,459	292,420
Dividends received		427,500	247,500
Net cash used in investing activities		(53,236,624)	(35,555,763)
Cash flows from financing activities			
Proceeds from issue of shares - net		4,248,604	3,382,214
Proceeds from borrowings		46,061,410	23,688,568
Repayments of borrowings		(265,674)	(2,344,600)
Obligations under finance lease - net		(10,590)	2,388
Retention money against project payments		(553,445)	452,485
Advance against issue of shares - minority interest		199,200	-
Proceeds from issuance of shares by subsidiary companies		-	445,580
Dividends paid		(1,833,623)	(1,401,419)
Net cash generated from financing activities		47,845,882	24,225,216
Net increase / (decrease) in cash and cash equivalents		6,416,433	(11,880,402)
Cash and cash equivalents at beginning of the year		(326,536)	11,553,866
Cash and cash equivalents at end of the year	43	6,089,897	(326,536)

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



Hussain Dawood
Chairman



Asad Umar
President & Chief Executive

Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

Engro Chemical Pakistan Limited - ECPL and the Holding Company (renamed as Engro Corporation Limited with effect from January 1, 2010) is a public listed company incorporated in Pakistan under the Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore & Islamabad stock exchanges of Pakistan. The principal activity of the Holding Company is manufacturing, purchasing and marketing of fertilizers. The Holding Company has also invested in joint ventures and other entities engaged in chemical terminal and storage, PVC resin manufacturing and marketing, control and automation, food and energy businesses. The Holding Company's registered office is situated at 7th & 8th Floors, The Harbor Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi.

- 1.1** The Board of Directors in their meeting of April 28, 2009 decided to divide the Holding Company into two companies by separating its fertilizer undertaking from the rest of the undertaking that is to be retained in the Holding Company. In this regard, a wholly owned subsidiary namely Engro Fertilizers Limited was incorporated on June 29, 2009. The division was to be effected through a Scheme of Arrangement under Section 284 to 288 of the Companies Ordinance, 1984 whereby (a) the fertilizer undertaking would be transferred and vested in Engro Fertilizers Limited against the issuance of ordinary shares of Engro Fertilizers Limited to the Holding Company; (b) the retention of the retained undertaking in the Holding Company and the change of the name of the Holding Company to Engro Corporation Limited. Engro Corporation Limited would then become a Holding Company and oversee the business of new fertilizer subsidiary as well as business of its other existing subsidiaries / associates.

The de-merger required the approval of the High Court of Sindh. After obtaining the requisite approvals from the creditors and the shareholders of the Holding Company, the High Court approved the Scheme of Arrangement (Scheme) on December 9, 2009. The Scheme came into effect on January 1, 2010 (Effective Date).

In accordance with the Scheme, the fertilizer business, including all assets, liabilities, agreements, arrangements and other matters were automatically be transferred to Engro Fertilizers Limited on the Effective Date against the issuance of 9,999,993, in addition to existing 7, fully paid ordinary shares of Rs. 10 each plus the share premium. Such share premium is to be based on the net assets so transferred over Rupees 100,000 being the paid up face value of Engro Fertilizers Limited.

The retained undertaking comprises of specific assets and liabilities as of the aforementioned effective dates identified in the Scheme, which among other items include Investments / Shareholdings, Joint Venture Agreements, all reserves including goodwill, employee share option compensation reserve, share premium, capital & revenue reserves but excluding hedging reserve.

- 1.2** The 'Group' consists of:

Holding Company: Engro Chemical Pakistan Limited

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

	%age of holding	
	2009	2008
- Engro Fertilizers Limited (incorporated on June 29, 2009 - note 1.1)	100	-
- Engro Foods Limited	100	100
- Engro Energy Limited	95	95
- Engro Eximp (Private) Limited	100	100
- Engro Management Services (Private) Limited	100	100
- Avanceon Limited	62.67	62.67
- Engro Polymer and Chemicals Limited	56.19	56.19
- Engro PowerGen Limited	100	100

(Amounts in thousand)

	%age of holding	
	2009	2008
Joint Venture Company:		
- Engro Vopak Terminal Limited	50	50
Associated Companies:		
- Agrimall (Private) Limited		
- Arabian Sea Country Club Limited		

1.3 Subsidiary Companies

Engro Fertilizers Limited

Engro Fertilizers Limited is a public unlisted company incorporated on June 29, 2009 in Pakistan under the Companies Ordinance, 1984, for the transfer and vesting of fertilizer business, as referred to note 1.1. As at December 31, 2009, the issued share capital comprised of seven ordinary shares of Rs. 10 each, held by seven employees of the Holding Company as nominees thereof.

Consequent to restructuring of its businesses by Engro Chemical Pakistan Limited (ECPL), effective January 1, 2010, the entire trading operations of fertilizer business of ECPL (i.e. purchase of fertilizers from Engro Eximp (Private) Limited (EXIMP) and sale to dealers) has been transferred to EXIMP. Effective January 1, 2010, Engro Fertilizer Limited, will act as the selling agent of EXIMP.

Engro Foods Limited

Engro Foods Limited (EFL), a wholly owned subsidiary of ECPL was incorporated in Pakistan on April 26, 2005 as a private limited company and was converted to an unlisted public limited company effective from April 27, 2006. The principal activity of the Subsidiary Company is to manufacture, process and sell dairy and other food products. The Subsidiary Company also owns and operates a dairy farm. During the year, the Subsidiary Company has commenced commercial production of ice cream, which is presently being sold only in selected parts of the country.

Further during the year, Engro Foods Limited incorporated a new wholly owned subsidiary on November 3, 2009, Engro Foods Supply Chain (Private) Limited (the sub-sub-subsidiary). The principal activity of this sub-sub-subsidiary is to produce, manufacture and trade all kinds of raw, processed and prepared food products including agriculture, dairy and farming products. In this regard, 491 acres of land at Muridke, Baweray Akalian, District Sheikhpura has been acquired to construct a rice processing plant, the commissioning of which is expected to be completed in the last quarter of 2010.

Engro Energy Limited

Engro Energy Limited (EEL), is a 95% owned subsidiary of ECPL. The Subsidiary Company, was 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. The Subsidiary Company is currently in the process of constructing a 217 MW combined cycle power plant at Qadirpur, District Ghotki, Sindh. The Subsidiary Company expects to start commercial operations in January 2010. The electricity generated will be sold to the National Transmission and Dispatch Company (NTDC) under the Power Purchase Agreement (PPA) dated October 26, 2007 for a period of 25 years.

(Amounts in thousand)

The Shareholders in the Extraordinary General Meeting (EOGM) held on November 27, 2009 have consented to the Holding Company's proposed transfer of 304 million ordinary shares of Rs. 10 each in Engro Energy Limited, to Engro PowerGen Limited (EPGL) in exchange for the same number of fully paid-up shares of EPGL. Such a transfer, to be effected upon completion of legal and other formalities, is on account of the Holding Company's overall restructuring of its businesses to enable all direct subsidiaries to operate as holding companies for their respective lines of business.

Engro Eximp (Private) Limited

Engro Eximp (Private) Limited (EXIMP), a wholly owned subsidiary of ECPL, is a private limited company, and was incorporated in Pakistan on January 16, 2003 under the Companies Ordinance, 1984. The Subsidiary Company is principally engaged in the import and sale of fertilizers. However, during the year, the Subsidiary Company has also commenced rice business whereby, bulk quantities of rice are procured from local suppliers which are processed and packed for export to foreign buyers.

As a result of restructuring, stated earlier, the entire trading operations of purchased fertilizers will be handled by EXIMP effective January 1, 2010 with Engro Fertilizers Limited to act as a selling agent for EXIMP.

Engro Management Services (Private) Limited

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

Avanceon Limited

Avanceon Limited is a 62.67% owned subsidiary of ECPL. 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 the Subsidiary Company is to trade in products of automation and control equipment and provide related technical services. Avanceon Limited consists of following subsidiaries:

% age of holding of Avanceon Limited

- Avanceon Free Zone Establishment, UAE (AFZE)	100%
- Engro Innovative Inc., USA. (EI);	100%
- Innovative Automation (Private) Limited (IAPL)	100%
- Avanceon LP, USA. (ALP);	70%
- Avanceon GP LLC, USA (AGP)	70%

- Avanceon, FZE (AFZE) 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. (EI), a wholly owned subsidiary of AFZE 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. The principal activity of the Company is to explore investment opportunities in automation industry in USA and provide related technical support from its holding companies.

(Amounts in thousand)

- Innovative Automation (Private) Limited was incorporated in Pakistan as a private company limited by shares under the Companies Ordinance, 1984 on December 4, 2008. The Company is a wholly owned subsidiary of Avanceon Limited (AVL).
- Avanceon LP (formerly Advanced Automation LP - ALP) a 70% owned subsidiary of EI, 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 (AGP), a 70% owned subsidiary of EI, is a Pennsylvania Limited Liability Corporation, which is a general partner with 0.01% general partner interest in ALP.

Engro Polymer and Chemicals Limited

Engro Polymer and Chemicals Limited (EPCL) is a 56.19% owned subsidiary of ECPL. The Subsidiary Company, incorporated in Pakistan in 1997 under the Companies Ordinance, 1984, got listed on Karachi Stock Exchange in 2008 and in Islamabad and Lahore Stock Exchanges during the year. The principal activity of the Subsidiary Company is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, caustic soda and other related chemicals.

In 2006, the Subsidiary Company 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). The new PVC plant commenced commercial production on January 1, 2009. Further, on August 1, 2009, the Subsidiary Company commenced commercial operations of EDC, Chlor-alkali and Power plants (Gas turbines). The VCM plant is still in the test production phase. These plants have been set up adjacent to the Subsidiary Company's existing PVC facilities in the Port Qasim Industrial Area. Furthermore, during the year, the Subsidiary Company has also commenced supply of surplus power generated from Power plants to Karachi Electric Supply Corporation (KESC), under an agreement.

Engro PowerGen Limited

Engro PowerGen Limited (EPGL) is a wholly owned subsidiary incorporated as a private limited company in Pakistan on May 31, 2008 under the Companies Ordinance, 1984, was converted to an unlisted public company effective August 11, 2009. The Subsidiary Company is established with the primary objective to analyse potential opportunities in Power Sector and undertake Independent Power Projects (IPPs) based on feasibilities of new venture. Accordingly, the Holding Company is to transfer, as stated earlier, 304 million ordinary shares of Rs. 10 each in Engro Energy Limited in exchange for the same number of wholly paid shares in EPGL.

During the year, the Subsidiary Company along with ECPL, has entered into a Joint Venture Agreement (JVA) dated September 8, 2009 with the Government of Sindh, Coal and Energy Development Department (GoS). This is consequent to the selection of the Subsidiary Company as GoS's joint venture partner, through an International Competitive Bidding Process, for the development, construction and operation of an open coal mine facility in Block II of Thar Coal Field, Sindh (the Project), with an annual mining capacity of 3.5 to 6.5 million tons of coal. Under the JVA, a new company called Sindh Engro Coal Mining Company Limited (the Sub-Subsidiary) has been incorporated on October 15, 2009 with 60% shares held by the Subsidiary Company and remaining 40% by GoS. Under the JVA, the Sub-Subsidiary has initiated a detailed feasibility study by a team of international consultants to support the technical feasibility and commercial viability of the Project.

(Amounts in thousand)

1.4 Joint Venture Company

Engro Vopak Terminal Limited

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all 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 and biological assets at fair 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 2009 and are relevant to the Group

- IAS 1 (revised), 'Presentation of financial statements'(effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

(Amounts in thousand)

The Group has preferred to present two statements; a profit and loss account (income statement) and a statement of comprehensive income. Comparative information has also been represented so that it is also in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

The Group has restated 2008 comparative figures to incorporate the effect of change in fair values of cash flow hedges, as more fully explained in note 20.2. This change does not effect the balance sheet as at the beginning of the comparative period (balance sheet as at January 1, 2008 / December 31, 2007). Further, exchange revaluation reserve on foreign operations has now been reflected as a separate component of equity, previously it was reflected under unappropriated profits. The effect of this change on the balance sheet as at January 1, 2008 / December 31, 2007 is not material.

- IAS 23 (amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires the Group to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Group's current accounting policy is in compliance with this amendment, and therefore there is no effect on the consolidated financial statements.
- IFRS 2 (amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- The SECP vide S.R.O. 411 (1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Group's accounting periods beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. As IFRS 7 deals only with disclosures, there is no impact on profit for the year.
- IFRS 7 'Financial Instruments – Disclosures' (amendment) – effective January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of the fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on profit for the year.
- IFRS 8 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. There is no impact on the Group's financial statements.

b) Standards, amendments to published standards and interpretations that are effective in 2009 but not relevant to the Group.

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 are considered not to be relevant or to have any significant effect on the Group's financial reporting and operations.

(Amounts in thousand)

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.

- 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. The Group will apply IAS 1 (amendment) from January 1, 2010. It is not expected to have a material impact on the Group's financial statements.
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from July 1, 2009). The revised standard 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 remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 1, 2010.
- IAS 38 (amendment), 'Intangible assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any impact on the Group's financial statements.
- IAS 39 (amendment), 'Cash flow hedge accounting'. This amendment provides clarification when to recognise 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 will apply IAS 39 (amendment) from January 1, 2010. It is not expected to have any significant affect on the Group's financial statements.
- IFRS 2 (amendment), 'Group cash-settled and share-based payment transactions' in addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of the Group's arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.
- IFRS 3 (revised), 'Business combinations' (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from January 1, 2010.
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification 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, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group will apply IFRS 5 (amendment) from January 1, 2010. It is not expected to have a material impact on the Group's financial statements.

(Amounts in thousand)

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRIC 17 from January 1, 2010. It is not expected to have a material impact on the Group's financial statements.
- There are a number of minor amendments in IAS 1 'Presentation of financial statements', IAS 7 'Statement of cash flows', IAS 36 'Impairment of assets', IAS 38 'Intangible assets', IAS 39 'Financial Instruments: recognition and measurement', IFRS 2 'Share based payments' and IFRS 17 'Distribution of non-cash assets to owners', which are part of annual improvement project published in April 2009 (not addressed above). These amendments are unlikely to have any impact on the Group's financial statements and therefore have not been analysed in detail.

2.1.5 Basis of consolidation

- All business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recorded as goodwill.
- The consolidated financial statements include the financial statements of ECPL - the Holding Company and its subsidiary companies - 'the Group'.
- Subsidiary companies are consolidated from the date on which more than 50% voting rights are transferred to the Group or power to control the company is established and are excluded from consolidation from the date of disposal or reduction of control.
- The assets and liabilities of subsidiary companies have been consolidated on a line-by-line basis and the carrying value of investments held by the Holding Company is eliminated against the subsidiaries' share capital and pre-acquisition reserves in the consolidated financial statements.
- Material intra-group balances and transactions are eliminated.
- Minority interests are that part of the net results of operations and of net assets of subsidiary companies attributable to interest which are not owned by the Holding Company.
- Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Holding Company.

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 freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 2.26). 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.

(Amounts in thousand)

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 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 up to the preceding month of disposal.

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

2.2.2 Leased assets

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

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

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

2.3 Biological assets

Livestock are measured at their fair value less estimated point-of-sale costs. Fair value of livestock is determined 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 recognised 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 mostly used as internal consumption for cattle feed and have a very short biological transformation and consumption cycle.

(Amounts in thousand)

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 capitalised 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 cash flow statement.

2.5 Intangible assets

a) Goodwill

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

b) 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 10 years.

c) Rights for future gas utilisation

Rights for future gas utilisation represents premium paid by the Holding Company to the Government of Pakistan for allocation of 100 MMCFD natural gas for a period of twenty 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.

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.

(Amounts in thousand)

2.6 Impairment of non-financial assets

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

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

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. 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.

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. There were no held to maturity financial assets at the balance sheet date.

(Amounts in thousand)

d) Available-for-sale financial assets

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

2.9.2 Recognition and measurement

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

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

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

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

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. Impairment testing of trade debts and other receivables is described in note 2.14.

2.10 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.

2.11 Derivative financial instruments and hedging activities

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

(Amounts in thousand)

a) 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.

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 and loss account.

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Further, the Group has also issued a conversion option on IFC loan, availed during the year. The fair values of the conversion option and other derivatives used for hedging purposes are disclosed in note 9.

2.12 Stores, spares and loose tools

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

2.13 Stock-in-trade

These are valued at the lower of cost and net realisable 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.

2.14 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.

(Amounts in thousand)

2.15 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 short term borrowings in current liabilities on the balance sheet.

2.16 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.

2.17 Employees' share option scheme

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

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

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

2.18 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.

2.19 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.

(Amounts in thousand)

2.20 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.

2.20.1 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.

2.20.2 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.

2.21 Employees' housing subsidy scheme

Employees compensation expense under housing subsidy scheme is recognised by the Holding Company 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 Holding Company 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.

2.22 Employee benefits

2.22.1 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 recognised as an employee benefit expense in the profit and loss account when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(Amounts in thousand)

The Holding Company operates:

- 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.
- 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 Foods Limited, Engro Polymer and Chemicals Limited, Engro Energy 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.

2.22.2 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 consolidated 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 pension scheme for its management employees.
- defined benefit funded gratuity schemes for its management and 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 (note 41.1.1.10).

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

The Holding Company also operates unfunded scheme for resignation gratuity of certain management employees. Provision is made annually to cover the liability under the scheme.

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

(Amounts in thousand)

Engro Foods Limited (Subsidiary Company) operates:

- defined benefit funded gratuity schemes for its permanent employees. The gratuity scheme 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.

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, if any, as reduced by the fair value of plan assets.

Actuarial gains and losses are recognised 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 and gratuity schemes for two of its management employees. The gratuity scheme has been terminated and the employees are now members of the gratuity fund.

Engro Polymer and Chemicals Limited (Subsidiary Company) operates:

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

Engro Energy Limited (Subsidiary Company) operates:

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

Avanceon Limited (Subsidiary Company) operates:

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

2.22.3 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.

2.23 Provisions

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

(Amounts in thousand)

2.24 Foreign currency transactions and translation

2.24.1 These consolidated 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 recognised in the profit and loss account.

2.24.2 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.

2.24.3 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.

2.25 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 dispatched to customers or services are delivered.
- 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 the supply of electricity is recorded based upon the output delivered.

2.26 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 such costs are capitalised 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.

(Amounts in thousand)

2.27 Research and development costs

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

2.28 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.

2.29 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.

2.30 Transactions with related parties

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

2.31 Dividend and appropriation to reserves

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

2.32 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.

3.2 Biological assets

The fair values of biological assets – (Dairy livestock) is determined semi-annually by utilising 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.

(Amounts in thousand)

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 judgment.

3.4 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.

3.5 Stock-in-trade and stores & spares

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

3.6 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.

3.7 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.

3.8 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 note 41.

3.9 Impairment of financial assets

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

(Amounts in thousand)

4. PROPERTY, PLANT AND EQUIPMENT

	<u>2009</u>	<u>2008</u>
	<u>(Rupees)</u>	
Operating assets, at net book value (note 4.1)	26,179,073	11,495,113
Capital work in progress		
- Expansion and other projects (note 4.5)	84,181,544	46,640,640
- Exploration and evaluation expenditure (note 4.6)	15,767	-
- Capital spares (note 4.7)	127,326	157,150
	<u>110,503,710</u>	<u>58,292,903</u>

(Amounts in thousand)

4.1 Operating assets

	Land		Building		Pipelines	Plant and machinery		Plant and machinery held for disposal	Catalyst	Furniture fixture and equipment		Vehicles		Total
	Freehold	Leasehold	Freehold	Leasehold		Owned (note 4.3)	Leased			Owned	Leased	Owned	Leased	
(Rupees)														
As at January 1, 2008														
Cost	122,754	335,460	1,303,545	603,099	107,315	14,896,919	-	151,395	326,408	550,088	21,449	430,671	46,555	18,895,658
Accumulated depreciation	-	(56,081)	(286,945)	(95,899)	(59,650)	(6,287,314)	-	(126,087)	(218,828)	(361,495)	(3,774)	(184,539)	(21,664)	(7,702,276)
Net book value	122,754	279,379	1,016,600	507,200	47,665	8,609,605	-	25,308	107,580	188,593	17,675	246,132	24,891	11,193,382
Year ended December 31, 2008														
Opening net book value	122,754	279,379	1,016,600	507,200	47,665	8,609,605	-	25,308	107,580	188,593	17,675	246,132	24,891	11,193,382
Amortisation of revaluation surplus	-	(2,572)	-	(1,140)	3,355	(33,649)	-	-	-	-	-	-	-	(34,006)
Additions	124,281	3,348	348,470	278	-	619,226	12,946	-	-	168,675	3,396	229,947	5,467	1,516,034
Disposals														
Cost	-	(14,596)	-	-	-	(28,161)	-	-	-	(5,239)	-	(25,213)	(2,637)	(75,846)
Accumulated depreciation	-	4,985	-	-	-	6,379	-	-	-	3,853	-	11,795	1,918	28,930
	-	(9,611)	-	-	-	(21,782)	-	-	-	(1,386)	-	(13,418)	(719)	(46,916)
Reclassifications														
Cost	-	-	-	-	-	145,506	-	(151,395)	-	300	(300)	5,889	-	-
Accumulated depreciation	-	-	-	-	-	(123,103)	-	126,087	-	(285)	(285)	285	-	-
	-	-	-	-	-	22,403	-	(25,308)	-	15	(15)	2,905	-	-
Adjustments														
Cost	-	-	(1,767)	-	-	-	-	-	-	6,966	2,361	(832)	3,016	9,744
Accumulated depreciation	-	-	2,750	-	-	-	-	-	-	(4,727)	(750)	599	(903)	(3,031)
	-	-	983	-	-	-	-	-	-	2,239	1,611	(233)	2,113	6,713
Depreciation charge	-	(4,665)	(72,480)	(13,486)	(7,355)	(806,986)	(1,575)	-	(46,601)	(79,784)	(5,180)	(89,538)	(12,444)	(1,140,094)
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
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
Amortisation 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 December 31, 2009														
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
Annual rate of depreciation %	-	2 to 5	2.5 to 10	2.5	5	5 to 16.67	5 to 10	Nil	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:

	2009	2008
	(Rupees)	
Cost of sales (note 32)	1,589,923	1,038,399
Selling and distribution expenses (note 33)	118,112	89,846
Capital work in progress (note 4.5)	47,687	11,849
	1,755,722	1,140,094

4.3 Includes equipment costing Rs. 129,872 (2008: Rs. 113,918) having net book value of Rs. 101,720 (2008: Rs. 97,655) mounted on transport contractors' vehicles. Also includes freezers and trikes held by third parties costing Rs. 244,634 (2008: Nil), having net book value of Rs. 218,634 (2008: Nil).

4.4 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					
Assets written off		2,153	2,153	-	-
Plant and machinery					
Insurance claims	EFU General Insurance Ltd.	15,622	8,162	7,460	13,046
	EFU General Insurance Ltd.	927	218	709	862
Sale through bid	Chaudary Enterprises, Gujranwala and others	25,787	3,392	22,395	21,148
Assets written off		38,420	36,354	2,066	-
		80,756	48,126	32,630	35,056
Vehicles					
By Company policy	Aasim Butt	872	381	491	640
to existing / separating executives	Abbas Shahani	835	589	246	261
	Abdul Aleem Khokar	896	420	476	900
	Adil Aziz Khan	795	596	199	279
	Adnan Mehmood	900	113	787	788
	Ahmad Abbas Mirza	879	618	261	220
	Ahmed Nadeem	900	436	464	422
	Ahsan Feroz	890	334	556	-
	Ahsan Zafar Syed	879	591	288	220
	Akhtar Kamal Sami	886	595	291	261
	Ali Imam Naqvi	900	366	534	900
	Amir Khawas	882	537	345	338
	Arshaduddin Ahmed	1,003	580	423	529
	Asif Rasul Khan	859	683	176	322

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		(Rupees)			
	Askari Hazoor Syed	835	576	259	261
	Attaullah Shah Bokhari	795	596	199	310
	Fahd Khawaja	900	225	675	620
	Fakhra Ashraf	600	405	195	176
	Farhan Akram	1,500	352	1,148	1,500
	Farid Intisar	886	512	374	886
	Farooq Fasih	900	366	534	520
	Hassan Ahmed	886	595	291	253
	Iftikhar Ahmed Dar	795	596	199	310
	Imran Anwer	1,003	596	407	561
	Imran Hashmi	900	436	464	464
	Imran Sheikh	530	454	76	220
	Irfan Nadeem Khan	1,002	663	339	352
	Irfan Nadeem Khan	1,857	206	1,651	1,607
	Jahangir Piracha	879	577	302	220
	Kiran Dewani	390	263	127	183
	M. Imran Farookhi	1,500	831	669	609
	M. Sarmad	1,269	59	1,210	991
	Mahmood Siddiqi	835	617	218	261
	Mati ur Rab Siddiqui	900	422	478	478
	Matloob Hussain	870	245	625	651
	Mohammad Amir Zubair	896	476	420	900
	Mohammad Azhar Malik	835	562	273	261
	Mohammad Saifullah Tareen	1,060	166	894	861
	Muhammad Pervaiz Hamayoun	886	429	457	288
	Mumtaz Akhtar	795	596	199	345
	Muneem Khan Tareen	530	454	76	228
	Muneeza Azfar	900	323	577	564
	Nasir Iqbal	879	567	312	326
	Nauman Shaikh	900	253	647	647
	Naveed A. Hashmi	879	626	253	220
	Rafey Nisar Zubari	836	539	297	327
	Rizwan Ali	704	53	651	479
	Ruhail Mohammed	1,309	864	445	327
	Salman Goheer	1,043	769	274	310
	Syed Ahsenuddin	1,328	1,015	313	332
	Syed Khalid Siraj Subhani	1,288	966	322	322
	Syed Salman Bin Aslam	1,695	874	821	914
	Syed Zubair Ahmed	900	449	451	422
	Tahir Jawaid	1,328	833	495	332
	Tahir Rasheed	835	626	209	261
	Umar Ali Khan	900	309	591	414
	Ummat Rasool	1,309	777	532	327
	Wajid Hussain Junejo	879	604	275	220
	Younus Ali Siddiqui	900	694	206	338
	Yousuf Mohiuddin	795	596	199	310
	Zahid Mehmood	730	674	56	303
	Zahid Mehmood	1,270	143	1,127	1,119

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		(Rupees)			
Sale through bid	Ahmed Jawed	886	471	415	640
	Azbar Khan	1,470	1,213	257	883
	Danish Younus	560	504	56	311
	Faisal Abdul Aziz	1,432	1,170	262	962
	Faisal Rashid Ch.	595	476	119	491
	Farooq Raza	3,295	3,075	220	1,656
	Hamid Nawaz	2,380	1,904	476	1,868
	Kashif Farooq	3,900	3,133	767	2,579
	Kashif Imran	395	316	79	330
	M. Aslam	6,690	6,355	335	315
	M. Kamran Chippa	1,660	1,549	111	957
	Maisuddin	2,750	2,584	166	1,468
	Matloob Elahi	560	504	56	295
	Mohammad Asghar	555	500	55	270
	Mohammad Ali Siddiqui	550	495	55	273
	Mohammad Kamran	2,770	2,450	320	1,388
	Rashid Mehmood	879	806	73	750
	Rehan Mithani	900	408	492	634
	Riasat Ali	595	476	119	425
	Shahid Mansoor	555	500	55	350
Sultan Jan Mohd	1,026	923	103	561	
Tehzeebul Hasan	555	496	59	300	
Wali Mohammad Khan	5,530	5,262	268	2,286	
Zia-ur-Rehman	4,218	1,181	3,037	3,760	
Zulfiqar Ahmed Khan	1,650	1,485	165	852	
Items having net book value upto Rs. 50 each		22,425	22,166	259	9,525
Insurance claims	EFU General Insurance Ltd.	581	216	365	494
		128,379	92,286	36,093	63,833
Furniture, fixture & equipment					
Sale through bid	Abdul Hameed	445	311	134	140
Insurance claims	Adamjee Insurance Company Ltd.	90	34	56	76
Insurance claims	EFU General Insurance Ltd.	246	77	169	193
Assets written off		73,107	71,603	1,504	-
Items having net book value upto Rs. 50 each		4,597	4,549	48	1,654
		78,485	76,574	1,911	2,063
		<u>289,773</u>	<u>219,139</u>	<u>70,634</u>	<u>100,952</u>
		<u>75,846</u>	<u>28,930</u>	<u>46,916</u>	<u>117,755</u>
		2009			
		2008			

(Amounts in thousand)

4.5 Capital work in progress - Expansion and other projects

	Plant and machinery	Building & civil works including pipelines	Furniture, fixture and equipment	Advances to suppliers	Other ancillary costs (note 4.5.5)	Total
	(Rupees)					
Year ended December 31, 2008						
Balance as at January 1, 2008	9,665,319	1,308,631	49,559	34,633	1,226,455	12,284,597
Additions during the year	28,086,258	3,172,025	294,341	870,531	3,343,953	35,767,108
Transferred to:						
- operating assets (note 4.1)	(632,172)	(348,748)	(172,071)	(229,947)	-	(1,382,938)
- intangible assets (note 6)	-	-	-	(28,127)	-	(28,127)
Balance as at December 31, 2008	37,119,405	4,131,908	171,829	647,090	4,570,408	46,640,640

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 6)	-	-	-	(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

4.5.1 Capital work in progress with respect to urea expansion project includes Rs. 47,081,203 (2008: Rs. 23,064,182) and Rs. 7,459,458 (2008: Rs. 3,365,197) for plant & machinery and building & civil works respectively. The expansion project expected to be complete by third quarter 2010, adjacent to the existing Daharki Plant, will cost approximately US\$ 1,050,000 (2008: US\$ 1,050,000) and will have a capacity of 1.3 million tons of urea per annum.

The ancillary costs includes net borrowing cost of Rs. 5,342,066 (2008: Rs. 1,481,633) capitalised at borrowing rates ranging from 11.52% to 17.22% (2008: 11.52% to 17.22%). Other ancillary cost also includes interest on investment in a Subsidiary Company amounting to Rs. 803,083 (2008: Rs. 359,851).

4.5.2 Capital work in progress also includes expenditure incurred by Engro Energy Limited in respect of 217 MW combined cycle power plant at Qadirpur of Rs. 12,563,033 (2008: Rs. 1,360,832) and Rs. 243,566 (2008: Rs. 140,616) for plant & machinery and building & civil works respectively. The plant, is expected to be completed in January 2010, with cost of approximately US\$ 205,000. The ancillary costs in this respect includes net borrowing costs capitalised amounting to Rs. 711,990 (2008: Rs. 60,117) at borrowing rates ranging from 3.45% to 5.32% (2008: 5.32%).

(Amounts in thousand)

- 4.5.3 In 2006, Engro Polymer and Chemicals Limited commenced work on its expansion and backward integration project. During the year, the Subsidiary Company commenced commercial production from the new PVC plant and declared commercial operations of Ethylene Di Chloride (EDC), Chlor-alkali and Power plants (Gas turbines) and transferred the related costs of these plants aggregating to Rs. 12,641,139 to operating assets. However, the expenditure of Vinyl Chloride Monomer (VCM) plant, currently in the test production phase, included in capital work in progress aggregated to Rs. 3,744,783. The ancillary costs, related to VCM, include net borrowing costs amounting to Rs. 591,810 (2008: Rs. 591,713) capitalised using a rate of 12.08% - net (2008: 13.45% - net) and storage and handling costs amounting to Rs. 481,667 (2008: Nil).
- 4.5.4 During the year, Engro Foods Limited, capitalised the ice cream plant at Sahiwal on completion comprising of plant & machinery and building & civil works amounting to Rs. 1,845,900 and Rs. 441,207 respectively.
- 4.5.5 The ancillary costs, other than net borrowing costs and storage & handling cost, capitalised include depreciation, amortisation, salaries, wages and benefits, legal and professional charges, etc.
- 4.6** Exploration and evaluation expenditure have been incurred by Engro PowerGen Limited through its Subsidiary, in connection with the feasibility studies initiated during the year to support the technical feasibility and commercial viability of Thar Coal Project (Block II), under the Joint Venture Agreement with the Government of Sindh, Coal and Energy Development Department.
- 4.7** During the year, the Holding Company reclassified spares of capital nature from stores, spares and loose tools to capital work in progress. Such a change, made for better presentation, has no effect on the profit and loss account.

(Amounts in thousand)

5. BIOLOGICAL ASSETS

	2009	2008
	(Rupees)	
Dairy livestock (note 5.1)		
- mature	415,147	24,238
- immature	19,759	273,461
	<u>434,906</u>	<u>297,699</u>
Crops - feed stock	3,967	9,127
	<u>438,873</u>	<u>306,826</u>
5.1 Reconciliation of carrying amounts of livestock		
Carrying amount at the beginning of the year	297,699	10,065
Purchases during the year	16,299	232,545
Gain / (loss) arising from changes in fair value less estimated point-of-sale costs attributable to physical / price changes	136,677	55,979
Decreases due to deaths / sales	(15,769)	(890)
Carrying amount at the end of the year, which approximates the fair value	<u>434,906</u>	<u>297,699</u>

5.2 As at December 31, 2009 the Subsidiary Company, Engro Foods Limited, held 1,455 (2008: 95) mature assets able to produce milk and 808 (2008: 1,444) immature assets that are being raised to produce milk in the future. During the year, the Subsidiary Company produced approximately 1,844,142 liters (2008: 151,824 liters) of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 66,939 (2008: Rs.4,216), determined at the time of milking.

5.3 As at December 31, 2009, the Subsidiary Company held 15 (2008: 16) mature bulls and 23 (2008: 47) immature male calves. Mature bulls are used for insemination and subsequent disposal at the end of their inseminating life and male calves are held for disposal.

5.4 The valuation of dairy livestock has been conducted by an independent dairy livestock expert as on December 31, 2009. In the absence of an active market of the Subsidiary Company's dairy livestock in Pakistan, replacement values of these animals from most relevant active market being Australia, have been used as basis for the valuation model. Mature bulls and immature male calves were not included in the fair valuation due to their insignificant value in use.

(Amounts in thousand)

6. INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilisation	Development cost	Covenants	Goodwill	Total
	(Rupees)					
As at January 1, 2008						
Cost	129,952	102,312	6,000	1,222	418,690	658,176
Accumulated amortisation	(90,258)	-	(5,700)	(611)	-	(96,569)
Net book value	<u>39,694</u>	<u>102,312</u>	<u>300</u>	<u>611</u>	<u>418,690</u>	<u>561,607</u>
Year ended December 31, 2008						
Opening net book value	39,694	102,312	300	611	418,690	561,607
Adjustment / transfer	4,043	-	-	-	-	4,043
Additions at cost	28,127	-	-	-	-	28,127
Amortisation charge	(22,033)	-	(300)	(611)	-	(22,944)
Closing net book value	<u>49,831</u>	<u>102,312</u>	<u>-</u>	<u>-</u>	<u>418,690</u>	<u>570,833</u>
As at January 1, 2009						
Cost	162,122	102,312	6,000	1,222	418,690	690,346
Accumulated amortisation	(112,291)	-	(6,000)	(1,222)	-	(119,513)
Net book value	<u>49,831</u>	<u>102,312</u>	<u>-</u>	<u>-</u>	<u>418,690</u>	<u>570,833</u>
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
	-	-	-	-	-	-
Amortisation charge	(27,626)	-	-	-	-	(27,626)
Closing net book value	<u>64,356</u>	<u>102,312</u>	<u>-</u>	<u>-</u>	<u>418,690</u>	<u>585,358</u>
As at December 31, 2009						
Cost	204,273	102,312	6,000	1,222	418,690	732,497
Accumulated amortisation	(139,917)	-	(6,000)	(1,222)	-	(147,139)
Net book value	<u>64,356</u>	<u>102,312</u>	<u>-</u>	<u>-</u>	<u>418,690</u>	<u>585,358</u>

2009 **2008**
(Rupees)

6.1 Amortisation charge for the year has been allocated as follows:

Cost of sales (note 32)	9,532	6,961
Selling and distribution expenses (note 33)	16,240	15,036
Capital work in progress (note 4.5)	1,854	947
	<u>27,626</u>	<u>22,944</u>

(Amounts in thousand)

7. LONG TERM INVESTMENTS

	2009	2008
	(Rupees)	
Unquoted		
Joint venture company - (note 7.1)	494,780	486,210
Associated companies		
- Agrimall (Private) Limited (note 7.4)	-	-
- Arabian Sea Country Club Limited 500,000 Ordinary shares of Rs. 10 each	5,000	5,000
	<u>499,780</u>	<u>491,210</u>

7.1 Details of investment in joint venture company

Engro Vopak Terminal Limited

At beginning of the year	486,210	488,517
Share of income after tax for the year	458,570	245,193
Less:		
- Dividend received during the year	337,500	157,500
- Dividend receivable	112,500	90,000
	<u>494,780</u>	<u>486,210</u>

7.2 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%

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

	2009	2008
	(Rupees)	
- Total assets	5,512,256	5,077,050
- Total liabilities	4,487,901	4,069,836
- Total equity	1,024,355	1,007,214
- Total revenue	2,135,658	1,177,485
- Profit for the year	917,141	490,385

7.4 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)

8. EMPLOYEES SHARE OPTION SCHEME

8.1 Engro Chemical Pakistan Limited

Under the Employees Share Option Scheme (the Scheme) of Engro Chemical Pakistan 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 shall end on December 31, 2010, whereafter these options can be exercised within a period of two years ending December 31, 2012.

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

In 2008, the grant date was changed to August 23, 2007 from the date approved in the original scheme. Further, consequent to the issue of right shares in 2008 and 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 recognised in the consolidated financial statements.

8.2 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 Scheme, senior employees who were considered critical to the business operations were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to how critical an employee was considered to the business and his abilities, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ended on December 31, 2009, whereafter the options can be exercised within a period of two years. Further, employees who joined the Subsidiary Company by October 31, 2008 and those promoted to the eligible employee grade by the same date have also been granted options on similar terms.

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

(Amounts in thousand)

8.3 Engro Energy Limited

The Employees Share Option Scheme (the Scheme) of Engro Energy 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. 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 and shall end on December 31, 2010, whereafter these options can be exercised within a period of two years. Employee 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.

8.4 Engro Foods Limited

The shareholders of the Company, 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).

Under the Scheme, vesting period commenced from the date of grant and will end on December 31, 2010. Those eligible employees who joined the Company 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.

8.5 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 at an exercise price of Rs 31.50 per ordinary share. 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 shall end on December 31, 2010, whereafter the options can be exercised within a period of two years.

8.6 The effect of grant of share options has been incorporated in these consolidated financial statements except for the options of Engro Foods Limited as its share price is significantly less than the exercise price and the option has a Nil value. Amounts recognised in the consolidated financial statements are as follows:

(Amounts in thousand)

8.7 Deferred employee compensation expense

	2009	2008
	(Rupees)	
Balance as at January 1	205,169	244,066
Options issued during the year	9,336	59,957
Options lapsed due to employee resignation	(18,114)	(5,927)
Amortisation for the year	(95,930)	(92,927)
Balance as at December 31	100,461	205,169
Current portion shown under current assets	(97,492)	(103,343)
Long term portion of deferred employee compensation expense	2,969	101,826

8.8 Employee share option compensation reserve

Balance as at January 1	327,020	272,990
Amount recognised on grant date	-	59,957
Options issued during the year	9,336	-
Options lapsed due to employee resignation	(18,114)	(5,927)
Balance as at December 31	318,242	327,020

8.9 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			
	ECPL	EPCL	EFL	EEL	AVANCEON
Total number of share options issued	4,376,818	5,300,000	21,000,000	6,900,000	381,000
Fair value of the share options at grant date	Rs. 65.86	Rs. 1.86	Nil	Rs. 1.29	Rs. 22.89
Share price at grant date	Rs. 220	Rs. 18	Rs. 5.61	Rs. 9.90	Rs. 47.46
Exercise price	Rs. 277	Rs. 22	Rs. 17	Rs. 15	Rs. 36.62
Annual volatility	34.54%	15.13%	10%	30.19%	52%
Risk free rate used	10.77%	10.12%	14%	14.20%	14%

8.10 Consequent to the demerger, as referred to in note 1.1, the Holding Company's employees transferred to Engro Fertilizers Limited will be granted new share options under a new scheme of Engro Fertilizers Limited on surrender of existing share options. The new scheme is finalised and is awaiting approval by the Board of Directors of Engro Fertilizers Limited and Securities and Exchange Commission of Pakistan.

(Amounts in thousand)

9. DERIVATIVE FINANCIAL INSTRUMENTS

	2009		2008 (Restated)	
	Assets	Liabilities	Assets	Liabilities
Conversion option on IFC loan (note 21.4)	-	338,647	-	-
Cash flow hedges:				
Foreign exchange forward contracts (note 9.1)	22,637	157,329	1,174,173	-
Foreign exchange option contracts (note 9.2)	53,572	4,468	347,446	-
Interest rate swaps (note 9.3)	-	872,376	-	1,133,364
	<u>76,209</u>	<u>1,372,820</u>	<u>1,521,619</u>	<u>1,133,364</u>
Less: Current portion shown under current assets / liabilities				
Conversion option on IFC loan	-	338,647	-	-
Cash flow hedges:				
Foreign exchange forward contracts	22,637	157,329	1,134,180	-
Foreign exchange option contracts	53,572	4,468	347,446	-
Interest rate swaps	-	239,599	-	155,160
	<u>76,209</u>	<u>401,396</u>	<u>1,481,626</u>	<u>155,160</u>
	<u>76,209</u>	<u>740,043</u>	<u>1,481,626</u>	<u>155,160</u>
	<u>-</u>	<u>632,777</u>	<u>39,993</u>	<u>978,204</u>

9.1 Foreign exchange forward contracts

9.1.1 The Holding Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at December 31, 2009, the Holding Company had foreign exchange forward contracts to purchase Euros 9,543 (2008: Euros 130,505) at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts amounted to Rs. 22,637 (2008: Rs. 714,762).

During the year, the Holding Company identified that the fair values of these contracts as at December 31, 2008 were overstated by Rs. 3,123,787. This has been adjusted in the current year by restating the comparative figure from Rs. 4,297,960 to Rs. 1,174,173. This however, has no impact on the profit for the year ended December 31, 2008, as the fair values were recognised in the hedging reserve (note 20).

9.1.2 The Holding Company entered into various US\$:PKR forward contracts to hedge its foreign currency exposure. As at December 31, 2009, the Holding Company had forward contracts to purchase US\$ 85,000 (2008: US\$ 159,027) at various maturity dates to hedge its foreign currency loan obligations. The fair value of these contracts is negative amounting to Rs. 157,329 (2008: Rs. 459,411 positive).

9.2 Foreign exchange option contracts

The Holding Company entered into various foreign exchange option contracts to hedge its currency exposure against US Dollar relating to the expansion project. At the year end the Holding Company had foreign exchange options amounting to Euro 12,628 (2008: Euro 55,669). The fair value of these contracts amounted to Rs. 49,104 (2008: Rs. 347,446).

(Amounts in thousand)

9.3 Interest rate swaps

9.3.1 The Holding Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of US\$ 150,000 amortising upto September 2014. Under the swap agreement, the Holding Company 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, 2009 is negative and amounted to Rs. 542,385 (2008: Rs. 648,277).

The Holding Company 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 (2008: US\$ 85,000) amortising upto April 2016. Under the swap agreement, the Holding 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, 2009 is negative and amounted to Rs. 310,056 (2008: Rs. 424,933).

9.3.2 The Subsidiary Company (EPCL) entered into a interest rate swap agreement with a bank to hedge its interest rate exposure on floating rate borrowing from International Finance Corporation (IFC) for a notional amount of US\$ 40,000. Under the swap agreement, EPCL would receive USD-LIBOR from the bank on notional amount and pay fixed 3.385% to 2.800% which will be settled semi-annually. The fair value of the interest rate swap at the year end is negative amounting to Rs. 19,935 (2008: Rs. 60,154).

10. LONG TERM LOANS AND ADVANCES - Considered good

	2009	2008
	(Rupees)	
Long term loans		
Executives (note 10.1 and 10.2)	386,824	264,752
Other employees (note 10.3)	241,158	163,976
	627,982	428,728
Less: Current portion shown under current assets (note 14)	484,243	113,158
	143,739	315,570
Others	7,221	21,828
	150,960	337,398

10.1 Reconciliation of the carrying amount of loans and advances to executives:

Balance as at January 1	264,752	196,510
Disbursements	250,073	431,380
Repayments / amortisation	(128,001)	(363,138)
Balance as at December 31	386,824	264,752

(Amounts in thousand)

10.2 This includes interest free service incentive loans to executives amounting to Rs. 61,730 (2008: Rs. 47,367) repayable in equal monthly installments 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. 184,002 (2008: Rs. 52,970). It also includes advances of Rs. 36,102 (2008: Rs. 34,762) and Rs. 6,090 (2008: Rs. 12,330) to employees for car earn out assistance and house rent advance respectively.

10.3 Includes interest free loans given to workers of Rs. 6,988 (2008: Rs. 22,665) pursuant to Collective Labor Agreement and disbursement to workers under housing subsidy scheme amounting to Rs. 211,450 (2008: Rs. 99,120).

10.4 The maximum amount outstanding at the end of any month from the executives of the Group aggregated Rs. 406,504 (2008: Rs. 277,742).

11. STORES, SPARES AND LOOSE TOOLS

	2009	2008
	(Rupees)	
Consumable stores	179,039	165,838
Spares and loose tools, including in transit	1,320,378	978,044
	1,499,417	1,143,882
Provision for surplus and slow moving items	(47,885)	(28,913)
	<u>1,451,532</u>	<u>1,114,969</u>

12. STOCK-IN-TRADE

Raw materials and packing materials (note 12.1 and 12.2)	2,473,461	2,438,019
Inventory of fuel stock (note 12.4)	22,323	-
Work-in-process	62,663	63,381
Finished goods - own manufactured products (note 12.3)	863,140	1,445,233
- purchased products (note 12.1)	401,607	3,185,107
Provision for slow moving inventory	(3,223)	(1,833)
	<u>1,261,524</u>	<u>4,628,507</u>
	<u>3,819,971</u>	<u>7,129,907</u>

12.1 These include provision for write-down of inventories of raw materials and finished goods of the Holding Company to net realisable value amounting to Nil (2008: Rs. 276,022) and Nil (2008: Rs. 578,350) respectively.

12.2 This includes stocks-in-transit amounting to Rs. 248,065 (2008: Rs. 155,925) and stocks held at the storage facilities of Engro Vopak Terminal Limited amounting to Rs. 595,104 (2008: Rs. 22,148) and Dawood Hercules Chemical Limited amounting to Rs. 1,635 (2008 : Nil).

12.3 This includes carrying value of PVC resin in respect of finished goods of the Subsidiary Company (EPCL), net of realisable value reduction of Rs. 21,084 (2008: Rs. 6,791).

This also includes Rs. 23,940 (2008: Rs. 10,405) in respect of finished goods of Subsidiary Company (Engro Foods Limited) carried at net realizable value and Rs. 19,387 (2008: Rs. 7,152) in respect of stock held by third parties.

(Amounts in thousand)

12.4 Represents High Speed Diesel (HSD) purchased by the Subsidiary Company (EEL) for testing of the Power Plant by the EPC contractor. HSD consumed during the testing phase is reimbursable to the Subsidiary Company by the EPC contractor / WAPDA under agreements with respective parties.

13. TRADE DEBTS	2009	2008
	(Rupees)	
Considered good		
- secured (note 13.1)	2,794,542	313,060
- unsecured (note 13.2)	741,991	445,431
	3,536,533	758,491
Considered doubtful	40,507	33,541
	3,577,040	792,032
Provision for impairment (note 13.3)	(40,507)	(33,541)
	<u>3,536,533</u>	<u>758,491</u>

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

13.2 This includes due from Mitsubishi Corporation, Cadbury Pakistan Limited and Dawood Hercules Chemicals Limited, related parties, amounting to Rs. 164,228 (2008: Nil), Rs. 123 (2008: Nil) and Rs. 16,318 (2008: Nil) respectively.

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

	2009	2008
	(Rupees)	
Balance as at January 1	33,541	932
Provision made during the year and recognised in selling and distribution expenses (note 33)	25,241	32,609
Balances written off	(18,275)	-
Balance as at December 31	<u>40,507</u>	<u>33,541</u>

13.4 As at December 31, 2009 trade debts aggregating to Rs. 132,741 (2008: Rs. 191,567) 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:

	2009	2008
	(Rupees)	
Upto 3 months	118,959	191,567
3 to 6 months	13,782	-
More than 6 months	-	-
	<u>132,741</u>	<u>191,567</u>

(Amounts in thousand)

13.5 As at December 31, 2009 trade debts aggregating to Rs. 40,507 (2008: Rs. 33,541) were impaired and provided for, which are past due for more than six months.

14. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS	2009	2008
	(Rupees)	
Current portion of long term loans and advances to executives and other employees - considered good (note 10)	484,243	113,158
Advances to executives and other employees (note 14.1 and 14.2)	27,551	3,180
Advances and deposits (note 14.3)	617,357	625,371
Transaction costs paid for unavailed financing facilities (note 14.4)	-	188,696
Prepayments:		
- insurance	85,823	81,820
- others	163,267	148,003
	<u>1,378,241</u>	<u>1,160,228</u>
Less: Provision for impairment (note 14.5)	5,816	4,521
	<u>1,372,425</u>	<u>1,155,707</u>

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

14.2 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 4,805 (2008: Rs. 4,354).

14.3 This includes advances given to related parties, JDW Sugar Mills Limited and Agility Logistics (Private) Limited, amounting to Rs. 144,428 (2008: Nil) and Rs. 70,129 (2008: Nil) respectively.

14.4 Consequent to draw down of the Syndicated Finance, these have been transferred to / netted there against.

14.5 As at December 31, 2009, loans and advances aggregating to Rs. 5,816 (2008: Rs. 4,521) were impaired and provided for, which are past due for more than six months. The movement in provision during the year is as follows:

	2009	2008
	(Rupees)	
Balance as at January 1	4,521	4,521
Provision made during the year	1,295	-
Balance as at December 31	<u>5,816</u>	<u>4,521</u>

(Amounts in thousand)

	2009	2008
	(Rupees)	
15. OTHER RECEIVABLES		
Receivable from Government of Pakistan for:		
- customs duty (note 15.1)	-	22,207
- subsidy (note 15.2)	-	3,085,352
- sales tax (note 15.3)	57,135	57,135
- others	30,651	14,174
	<u>87,786</u>	<u>3,178,868</u>
Accrued income on deposits / bonds	5,392	30
Receivable from Pension Fund (note 41.1.1.2)	31,887	31,187
Sales tax refundable (note 15.4)	629,372	398,087
Less: Provision for impairment	121,539	36,361
	507,833	361,726
Special excise duty refundable - considered doubtful (note 27.4)	36,687	36,687
Less: Provision for impairment	36,687	36,687
	-	-
Customs duty claims refundable (note 15.5)	18,043	18,043
Less: Provision for impairment	18,043	18,043
	-	-
Joint venture- Engro Vopak Terminal Limited (note 15.6)	112,102	90,252
Claims on suppliers and insurance companies	21,388	39,333
Less: Provision for impairment	295	295
	21,093	39,038
Receivable from Tetra Pak Pakistan Limited (note 15.7)	226,322	46,221
Reimbursable cost of fuel oil consumed (note 12.4)	84,830	-
Others	62,989	40,455
Less: Provision for impairment	3,969	4,554
	59,020	35,901
	<u>1,136,265</u>	<u>3,783,223</u>

15.1 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2008: Rs. 48,236) in prior years in respect of first catalyst and other items being part and parcel of the expansion plant of the Holding Company on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Holding Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favor of the Holding Company. The Supreme Court of Pakistan dismissed the Department's appeal thereagainst in 2005 and upheld the Sindh High Court judgment in Holding Company's favor. During the year, the Department refunded the payments made by the Holding Company, aggregating to Rs. 22,207 against the aforementioned disallowances.

15.2 This represents subsidy from Government of Pakistan outstanding as at December 31, 2008 as compensation for mandatory reduction in sales price of imported phosphatic and potassic fertilizers, in accordance with the circular dated September 5, 2008. The entire amount was received during the year.

(Amounts in thousand)

- 15.3** During 2008, Model Customs Collectorate raised a sales tax demand of Rs. 57,135 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 by the Holding Company based on the actual import value rather than the deemed value as prescribed by SRO 609 (1) / 2004.

The Holding Company has 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 aforementioned grade of MAP should be assessed at deemed value of import with retrospective effect. The management therefore is confident that the issue would be decided in the Holding Company's favor.

- 15.4** Includes sales tax refundable of the Subsidiary Company, Engro Foods Limited, amounting to Rs. 409,328 (2008: Rs. 239,516). Sales tax has been zero rated on Engro Foods Limited's supplies (output), raw materials, components and assemblies imported or purchased locally by the Subsidiary Company for manufacturing in respect of its dairy operations. Provisions for impairment amounting to Rs. 121,539 (2008: Rs. 36,361) has been made against the aforementioned refundable balance.

- 15.5** The Collector of Customs through his order dated April 11, 2008 disposed off the refund applications filed by the Subsidiary Company (EPCL) for the refund of custom duty paid at import stage on import of Vinyl Chloride Monomer. The Subsidiary Company 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.

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

	2009	2008
	(Rupees)	
Engro Vopak Terminal Limited [includes dividend of Rs. 112,500 (2008: Rs. 90,000)]	135,509	93,134

- 15.7** Includes marketing support subsidy receivable amounting to Rs. 226,322 (2008: Rs. 46,221), under an agreement dated September 24, 2009 for quantity size discount and investment support allowance, net off amount due on account of packaging material purchased by the Subsidiary Company, Engro Foods Limited.

- 15.8** As at December 31, 2009 receivables aggregating to Rs. 59,061 (2008: Rs. 57,292) were past due but not impaired. The ageing analysis of these loans and advances is as follows:

	2009	2008
	(Rupees)	
Upto 3 months	9,953	23,501
3 to 6 months	-	1,941
More than 6 months	49,108	31,850
	59,061	57,292

(Amounts in thousand)

- 15.9** As at December 31, 2009 receivables aggregating to Rs. 180,533 (2008: Rs. 95,940) were deemed to be impaired of which Rs. 180,533 (2008: Rs. 95,940) were considered doubtful being outstanding for more than six months and provided for. The ageing analysis of these receivables is as follows:

	2009	2008
	(Rupees)	
3 to 6 months	-	344
More than 6 months	180,533	95,596
	<u>180,533</u>	<u>95,940</u>

- 15.10** The movement in provision during the year is as follows:

Balance as at January 1	95,940	204
Provision made during the year	84,593	95,736
Balance as at December 31	<u>180,533</u>	<u>95,940</u>

16. SHORT TERM INVESTMENTS**Financial assets at fair value through profit or loss**

Fixed income placements	75,795	2,023,426
Money market funds (note 16.1)	436,460	43,648
	<u>512,255</u>	<u>2,067,074</u>

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

17. CASH AND BANK BALANCES

With banks		
- deposit accounts (note 17.1)	5,627,521	413,416
- current accounts (note 17.2)	1,121,650	1,374,454
In hand		
- cheques / demand drafts / cash in transit (note 17.3)	123,450	403,953
- cash	7,787	5,785
	<u>6,880,408</u>	<u>2,197,608</u>

- 17.1** Includes Rs. 24,193 (2008: Rs. 3,116) kept in a separate bank account in respect of security deposits.

- 17.2** This includes Rs. 735,898 (2008: 1,325,438) held in foreign currency bank accounts for letter of credit payments relating to expansion projects of the Group.

- 17.3** Represents banking instruments received from dealers / distributors at regional offices / warehouses in respect of future sales but not yet deposited in the Group's bank accounts.

(Amounts in thousand)

18. SHARE CAPITAL

<u>2009</u>		<u>2008</u>			<u>2009</u>		<u>2008</u>		
<u>(Number of shares)</u>					<u>(Rupees)</u>				
Authorised Capital									
<u>350,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs. 10 each (note 18.1)			<u>3,500,000</u>	<u>3,000,000</u>			
Issued, subscribed and paid-up capital									
<u>185,354,484</u>	<u>100,228,038</u>	Ordinary shares of Rs. 10 each fully paid in cash			<u>1,853,545</u>	<u>1,002,280</u>			
<u>112,588,079</u>	<u>112,588,079</u>	Ordinary shares of Rs. 10 each issued as fully paid bonus shares			<u>1,125,881</u>	<u>1,125,881</u>			
<u>297,942,563</u>	<u>212,816,117</u>				<u>2,979,426</u>	<u>2,128,161</u>			

18.1 During the year, the authorised capital was increased to 350,000,000 ordinary shares of Rs. 10 each.

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

<u>2009</u>		<u>2008</u>			<u>2009</u>		<u>2008</u>		
<u>(Number of shares)</u>					<u>(Rupees)</u>				
<u>212,816,117</u>	<u>193,469,198</u>	As at January 1			<u>2,128,161</u>	<u>1,934,692</u>			
<u>85,126,446</u>	<u>19,346,919</u>	Ordinary shares of Rs. 10 each issued during the year ended December 31 as fully paid right shares (note 18.3)			<u>851,265</u>	<u>193,469</u>			
<u>297,942,563</u>	<u>212,816,117</u>				<u>2,979,426</u>	<u>2,128,161</u>			

18.3 These right shares were issued during the year at a premium of Rs. 40 per share (2008: Rs. 165 per share).

18.4 Associated companies held 144,390,600 (2008: 88,857,572) ordinary shares in the Company at year end.

(Amounts in thousand)

19. SHARE PREMIUM

	2009	2008
	(Rupees)	
Balance as at January 1	7,152,722	3,963,977
Shares issued during the year (note 18.3)	3,405,058	3,192,242
Issue cost - net of tax	(7,719)	(3,497)
Balance as at December 31	<u>10,550,061</u>	<u>7,152,722</u>

20. HEDGING RESERVE

	2009	2008
	(Restated)	
	(Rupees)	
Fair values of:		
- Foreign exchange forward contracts (note 20.2 and 9.1)	(134,692)	1,174,173
- Foreign exchange option contracts (note 9.2)	49,104	347,446
- Interest rate swaps (note 9.3)	(872,376)	(1,133,364)
Arrangement fee	-	(252,552)
	<u>(957,964)</u>	<u>135,703</u>
Deferred tax	335,287	(47,496)
Minority interest	5,677	17,130
	<u>(617,000)</u>	<u>105,337</u>

20.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

20.2 Fair values of foreign exchange forward contracts as at December 31, 2008 recognised in hedging reserve, have been corrected by the Holding Company in the current year by restating the comparative figure from Rs. 4,297,960 to Rs. 1,174,173, as more fully explained in note 9.1.1. The net effect after tax of this amounts to Rs. 2,030,462.

(Amounts in thousand)

21. BORROWING - Secured (Non-participatory)

	Note	Mark - up rate p.a.	Instalments		Unavailed credit as at December		
			Number	Commencing from	31, 2009	2009	2008
(Rupees)							
Engro Chemical Pakistan Limited							
Long term finance utilised under mark-up arrangements:							
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	-	525,000	600,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	400,000	400,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	-	1,000,000	1,000,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	2,000,000	2,000,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	250,000	250,000
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	100,000	100,000
HSBC Middle East Limited		6 months KIBOR + 1.75%	8 half yearly	December 25, 2010	-	250,000	250,000
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	500,000	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	21.1	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	6,125,000	12,012,004	175,000
Islamic offshore finance	21.2	6 months LIBOR + 2.57%	8 half yearly	March 27, 2011	-	12,509,214	6,434,924
DFI Consortium finance	21.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	-	7,170,987	1,743,488
International Finance Corporation	21.4	6 months LIBOR + 6%	3 half yearly	September 15, 2015	-	3,794,812	-
Bank Islami Pakistan Limited	21.5	6 months KIBOR + 2.4%	14 half yearly	May 26, 2016	-	500,000	-
Pak Kuwait Investment Company (Private) Limited	21.5	6 months KIBOR + 2.35%	10 half yearly	April 29, 2012	-	494,357	-
Faysal Bank Limited	21.5	6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	-	1,497,683	-
Certificates							
Term Finance Certificates - 2nd Issue	21.6	6 months KIBOR + 1.55%			-	3,968,819	3,967,426
Term Finance Certificates - 3rd Issue	21.7	6 months KIBOR + 2.4%			-	1,974,360	-
Sukuk Certificates	21.8	6 months KIBOR + 1.5%			-	2,984,459	2,982,472
Privately Placed Sub-Ordinated Term Finance Certificates	21.9				-	5,943,759	5,930,004
						59,375,454	27,833,314
Engro Polymer and Chemicals Limited							
Syndicated term Finance I		6 months KIBOR + 2.25%	13 half yearly	November 2010	51,475	5,655,127	5,648,525
Morabaha Finance		6 months KIBOR + 0.5%	8 half yearly	September 2009	2,374,500	-	100,000
Long term finance utilised under mark-up arrangements		6 months KIBOR + 0.5%	5 half yearly	June 2007	250,000	-	30,000
Syndicated Term Finance II	21.12	6 months KIBOR + 3%	13 half yearly	June 2010	-	1,485,599	-
International Finance Corporation (IFC)	21.13	6 months LIBOR + 2.6 to 3%	15 half yearly	June 2010	-	5,010,830	2,324,547
						12,151,556	8,103,072
Engro Foods Limited							
	21.15 to 21.17						
Royal Bank of Scotland		6 month KIBOR + 1.4%	6 half yearly	August 21, 2009	-	291,667	350,000
Syndicated Finance I		6 month KIBOR + 0.69%	4 half yearly	February 20, 2015	-	1,500,000	1,500,000
Syndicated Finance II		6 month KIBOR + 2.6%	5 half yearly	July 10, 2012	-	200,000	-
Habib Bank Limited		6 month KIBOR + 2.25%	6 half yearly	September 3, 2011	-	500,000	-
Certificate							
Sukuk Certificates		6 month KIBOR + 0.69%	4 half yearly	July 13, 2015	-	950,000	950,000
						3,441,667	2,800,000
						74,968,677	38,736,386
Balance carried forward							

(Amounts in thousand)

	Note	Mark - up rate p.a.	Instalments		Unavailed credit as at December		
			Number	Commencing from	31, 2009	2009	2008
					(Rupees)		
Balance brought forward					74,968,677	38,736,386	
Avanceon Limited							
MCB Bank Limited	21.18	6 months KIBOR + 1%	16 quarterly	September 30, 2004	-	-	2,500
MCB Bank Limited	21.18	6 months KIBOR + 1%	16 quarterly	September 30, 2009	-	20,000	-
Faysal Bank Limited	21.19	6 months KIBOR + 2%	20 quarterly	September 30, 2008	-	37,500	47,500
Habib Bank Limited	21.20	3 months LIBOR + 3%					
		with a floor of 8%	20 quarterly	December 31, 2007	-	114,841	140,545
Loan 5	21.21	5.96 % to 12 %	-	-	-	-	3,508
					172,341	194,053	
Engro Energy Limited							
DFI Consortium finance	21.22	6 months LIBOR + 3%	20 half yearly	Six months after COD	1,504,100	11,376,810	2,130,300
					86,517,828	41,060,739	
Less: Current portion shown under current liabilities					2,375,675	321,915	
					<u>84,142,153</u>	<u>40,738,824</u>	

Engro Chemical Pakistan Limited

- 21.1** The Holding Company has entered into a syndicated finance agreement with Allied Bank Limited, Bank Alfalah Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Standard Chartered Bank and United Bank Limited amounting to Rs.18,300,000, of which Rs. 12,175,000 was disbursed as at December 31, 2009 (2008:175,000). Some of the banks have sold down their share to other banks.
- 21.2** The Holding Company has also entered into an offshore Islamic Finance Facility Agreement of US\$ 150,000 with Citibank, Dubai Islamic Bank, Habib Bank Limited, National Bank of Pakistan, SAMBA Financial Group and Standard Chartered Bank. As at December 31, 2009 the Holding Company has availed the full amount of facility (2008: US\$ 84,000).
- 21.3** The Holding Company has also entered into an agreement amounting to US\$ 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID. As at December 31, 2009 the Holding Company has availed the full amount of finance (2008: US\$ 22,200).
- 21.4** The Holding Company has contracted a loan with International Finance Corporation (IFC) for US\$ 50,000, divided into Tranche A (US\$ 15,000) and Tranche B (US\$ 35,000). Tranche A gives IFC an option to convert the loan amount of US\$ 15,000 into ordinary shares of the Holding Company at Rs. 205 per ordinary share calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notice issued by IFC to exercise the conversion option. Such conversion option, shall always remain upon the shares of the Holding Company on transfer of the loan consequent to demerger referred to in note 1.1, and can 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. As at December 31, 2009 the Holding Company has availed the full amount of loan.

The fair value of the conversion option, included in note 9, is calculated on the date of disbursement using option pricing model. The residual amount, representing the loan liability component is shown as long term borrowings.

(Amounts in thousand)

The loan recognised in the balance sheet is as follows:

	(Rupees)
Total loan disbursed (Tranche A and Tranche B)	4,225,000
Transaction cost	(91,541)
Net proceeds	4,133,459
Fair value of conversion option – Tranche A (note 9)	(338,647)
Loan liability component as at December 31, 2009	3,794,812

- 21.5** The Holding Company has arranged these finance facilities, during the year, for its urea expansion project.
- 21.6** The Holding Company issued secured and listed Term Finance Certificates (TFCs) of Rs. 4,000,000. The TFCs are structured to redeem 0.28% of principal in the first 84 months and remaining 99.72% principal in two equal semi-annual installments. The Holding Company has appointed First Dawood Islamic Bank as trustee in respect of these TFCs.
- 21.7** The Holding Company has issued, listed and secured Term Finance Certificates (TFCs) of Rs. 2,000,000 which comprises of Private Placement of Rs. 1,500,000 and Initial Public Offer of Rs. 500,000. The Holding Company has appointed IGI Investment Bank Limited as trustee in respect of these TFCs.
- 21.8** The Holding Company 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 installments.
- 21.9** The Holding Company has issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFCs of Rs. 6,000,000. 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% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Holding Company has appointed IGI Investment Bank Limited as trustee in respect of these TFCs.
- 21.10** The above finances, excluding perpetual sub-ordinated TFCs and IFC Loan, are secured by an equitable mortgage upon the immovable property of the Holding Company and hypothecation charge over current and future fixed assets of the Holding Company. Perpetual sub-ordinated TFCs and IFC loan are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.
- 21.11** In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these consolidated financial statements. The above loan are being utilised for urea expansion project, core business operations and diversification initiatives.

Engro Polymer & Chemicals Limited

- 21.12** During the year, the Subsidiary Company entered into a Syndicate Term Finance Agreement with a consortium of local banks for Rs. 1,500,000. The facility, in addition to the mark-up, also carries a monitoring fee of Rs. 300 for the first year and Rs. 500 per annum, thereafter. Commitment fee at rate of 0.15% per annum is also payable on that part of the finance that has not been drawn down. During the year, the entire facility has been drawn down.
- 21.13** During the year, the Subsidiary Company has drawn down the remaining balance of US\$ 30,000 against the loan agreement / facility with International Finance Corporation (IFC).

(Amounts in thousand)

21.14 The above finances of Engro Polymer & Chemicals Limited are secured by:

- (i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs;
- (ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the other facilities; and
- (iii) hypothecation by way of:
 - a first charge over all Project Assets, ranking pari passu with other facilities; and
 - a first charge over all present and future moveable fixed assets other than Project Assets.

Engro Foods Limited

21.15 During the year, the Subsidiary Company has obtained:

- a Syndicated Term Finance Facility (STFF) amounting to Rs. 200,000 with a syndicate of banks led by MCB Bank Limited; and
- a long term loan amounting to Rs. 500,000 from Habib Bank Limited through a Term Finance Facility Agreement

21.16 The above finances are secured by a registered sub-ordinate floating charge / mortgage over the present and future fixed assets of the Subsidiary Company upto maximum of Rs. 4,125,000.

21.17 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.

Avanceon Limited

21.18 This facility is secured against first registered pari passu equitable mortgage / hypothecation charge over current and fixed assets of the Subsidiary Company. In addition to this the facility is collaterally secured by the Demand Promissory Note executed by the customer and delivered to the Bank, and this shall be continuing security of the payment of the ultimate balance of the purchase price remaining unpaid.

21.19 This facility is secured against first registered pari passu hypothecation charge on all present and future current assets of the Subsidiary Company for Rs 167,000. In addition to this, the facility is collaterally secured by the corporate guarantee of Engro Chemical Pakistan Limited covering 51% of the total funded exposure and the personal guarantees of the sponsoring directors.

21.20 This facility is secured against letter of comfort from Avanceon Limited, corporate guarantee from EI Inc., personal guarantees of three directors and maintenance of minimum shareholding undertaking by ECPL.

21.21 This represent financing obtained from financial institutions to finance insurance premium and purchase of software licenses by foreign subsidiary of Avanceon Limited. This loan was restructured during the year and was converted into a short term note payable.

(Amounts in thousand)

Engro Energy Limited

21.22 The Subsidiary Company entered into a financing agreement with a consortium led by International Finance Corporation comprising of DEG, FMO, Proparko, Sweed Fund and OFID amounting to US\$ 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 commencing six months after the date of commercial operations in twenty semi-annual payments / installments. Commitment fee at the rate of 0.5% per annum is also payable on that part of finance that has not been drawn. As at December 31, 2009, the Subsidiary Company has drawn down US\$ 136,000 (2008: US\$ 27,000) against the aforementioned amount.

The above finances are secured by an equitable mortgage upon the immovable property of the Subsidiary Company and the hypothecation charge against current and future fixed assets of the Subsidiary Company.

22. OBLIGATIONS UNDER FINANCE LEASE

	2009	2008
	(Rupees)	
Present value of minimum lease payments	38,833	49,423
Current portion shown under current liabilities	(18,246)	(20,038)
	<u>20,587</u>	<u>29,385</u>

22.1 It includes mark-up free leases of milk cooling chillers, obtained by the Subsidiary Company, 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 the Subsidiary Company'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. 9,710 (2008: Rs. 11,652).

22.2 The Subsidiary Company has entered into lease arrangements on vehicles with various financial institutions. Out of the gross present value of minimum lease payments, Rs.3,571 (2008: Rs. 11,478) 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 14.19% to 17.42% (2008: 16.97% to 17.42%) per annum which has been used as the discount factor. The Subsidiary Company 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 amortised over the lease term.

(Amounts in thousand)

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

	2009			2008
	Minimum lease payments	Finance costs	Present value of minimum lease payments	Present value of minimum lease payments
(Rupees)				
Not later than one year	21,484	3,238	18,246	20,038
Later than one year but not later than 5 years	22,605	2,018	20,587	29,385
	<u>44,089</u>	<u>5,256</u>	<u>38,833</u>	<u>49,423</u>

23. DEFERRED TAXATION

	2009	2008
	(Restated)	
(Rupees)		
Credit / (debit) balances arising on account of:		
- Accelerated depreciation allowance	5,340,447	2,380,058
- Net borrowing costs capitalised	207,133	678,625
- Fair value of hedging instruments (note 23.1)	(335,287)	26,447
- Recoupable carried forward tax losses	(3,352,092)	(231,956)
- Tax on subsidiary reserves	18,589	40,367
- Tax on fair value adjustment	153,200	166,803
- Recoupable minimum turnover tax	(201,438)	(93,520)
- Unrealised foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	(70,444)	(47,153)
- Provision for:		
- inventories, slow moving stores and spares and doubtful receivables	(21,879)	(320,642)
- others	(50,931)	(91,320)
	<u>1,687,298</u>	<u>2,507,709</u>

- 23.1** Deferred tax on fair value of foreign exchange forward contracts of the Holding Company as at December 31, 2008 has been adjusted during the year by restating the comparative figure from Rs. 1,119,775 to Rs. 68,550, as more fully explained in note 9.1.1.

(Amounts in thousand)

24. EMPLOYEE HOUSING SUBSIDY

In 2008, the Holding Company announced a medium term Employee Housing Subsidy Scheme for its employees who were not entitled for Employee Share Options. Under this scheme, the Holding Company planned to disburse housing subsidy upto the closing date i.e. December 31, 2009. This would be amortised over a period of 2.5 years of employee service being the vesting period of the Scheme. As at December 31, 2009 the Holding Company completed disbursements of Rs. 395,606 (2008: Rs. 152,223), as referred to in note 10.2 and 10.3. The amount amortised in the profit and loss account aggregated to Rs. 106,985 (2008: Rs. 69,587).

The expected future charge will be Rs. 134,226 and Rs. 26,776 for 2010 and 2011 respectively.

25. DEFERRED LIABILITIES

	2009	2008
	(Rupees)	
Deferred income on sale and leaseback arrangement for vehicles (note 25.1)	111	700
Retirement and other service benefits obligations (note 25.2)	96,052	92,746
	<u>96,163</u>	<u>93,446</u>

25.1 Deferred income on sale and leaseback arrangements

Balance as at January 1	700	1,103
Amortisation during the year	(589)	(403)
Balance as at December 31	<u>111</u>	<u>700</u>

25.2 Retirement and other service benefits obligations

Payable to Separation Gratuity Plan - unfunded (note 41)	6,725	5,707
Other service benefit plans	112,288	107,062
Current portion shown under current liabilities	(22,961)	(20,023)
	89,327	87,039
	<u>96,052</u>	<u>92,746</u>

26. RETENTION MONEY AGAINST PROJECT PAYMENTS

Amounts retained as at December 31 (note 26.1)	801,718	792,478
Current portion shown under current liabilities (note 27)	(801,718)	(239,033)
	<u>-</u>	<u>553,445</u>

26.1 This represents the amounts retained from progress payment made against work completed on the expansion project initiated by the Subsidiary Company (EPCL) which includes construction of Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Chlor Alkali and Power plant.

(Amounts in thousand)

27. TRADE AND OTHER PAYABLES

	2009	2008
	(Rupees)	
Creditors (note 27.1)	2,243,921	1,530,954
Accrued liabilities	2,911,903	1,817,248
Advances from customers	1,735,730	1,331,801
Deposits from dealers / distributors refundable on termination of dealership	11,073	13,063
Retention money including current portion (note 26)	1,803,495	239,033
Contractors' / suppliers deposits	111,121	58,497
Workers' profits participation fund (note 27.2)	31,045	18,887
Workers' welfare fund	143,583	115,575
Sales tax payable	8,441	-
Provision for infrastructure fee (note 27.3)	335,121	260,088
Provision for special excise duty (note 27.4)	70,494	54,929
Others	202,073	184,291
	<u>9,608,000</u>	<u>5,624,366</u>

27.1 This includes amounts due to related parties, Rs. 730 (2008: Rs. 1,768) due to Inbox Business Technologies (Private) Limited, Rs.1,152,402 (2008: Rs. 740,811) due to Mitsubishi Corporation and Rs. 77,045 (2008: Rs. 15,046) due to Engro Vopak Terminal Limited.

27.2 Workers' profits participation fund

	2009	2008
	(Rupees)	
Payable at the beginning of the year	18,887	34,735
Interest charge for the year (note 36)	4,034	-
Allocation for the year (note 35)	280,072	304,140
Amount paid to the Trustees of the Fund	(271,948)	(319,988)
Payable to the Fund	<u>31,045</u>	<u>18,887</u>

27.3 Represents provision for infrastructure cess imposed by the Government of Sindh on December 26, 2006 at the rate of 0.85% of the value of goods of Subsidiary Company, Engro Eximp (Private) Limited, entering or leaving the Province. The Subsidiary Company has filed an appeal in the Supreme Court of Pakistan against the levy of such infrastructure cess. However, pending outcome of the appeal, the Subsidiary Company on prudence has recorded provision in the books and has also provided bank guarantees.

27.4 As at December 31, 2009 the Subsidiary Company (EPCL) had paid Rs. 94,611 (2008: Rs. 91,616) on account of Special Excise Duty (SED) on import of plant and machinery for its Project. Out of this amount the Subsidiary Company has adjusted Rs. 57,924 (2008: Rs. 54,929) in the monthly sales tax returns against SED on goods produced and sold by the Subsidiary Company. The Subsidiary Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment of SED made by the Subsidiary Company in monthly sales tax returns.

(Amounts in thousand)

Pending such clarification, the Subsidiary Company 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, during the year, the Subsidiary Company received show cause notices from the Additional Collector (Adjudication) – Federal Board of Revenue, stating that the Subsidiary Company, 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 Subsidiary Company under the Federal Excise Act, 2005 along with default surcharge and penalty. In response to these notices, the Subsidiary Company has filed a Constitutional Petition before the Honorable High Court, Sindh, on May 18, 2009. The High Court is in the process of evaluating the Constitutional Petition. The Subsidiary Company is confident that the ultimate outcome of the matter will be in its favor, however, based on prudence is maintaining the aforementioned provision. Further, a provision of Rs. 12,570 for surcharge and penalty thereagainst upto December 31, 2009 has also been made.

28. ACCRUED INTEREST / MARK-UP

	<u>2009</u>	<u>2008</u>
	<u>(Rupees)</u>	
Accrued interest / mark-up on secured:		
- long term borrowings	1,777,872	1,006,237
- short term borrowings	22,556	222,652
	<u>1,800,428</u>	<u>1,228,889</u>

29. SHORT TERM BORROWINGS - Secured

29.1 The facility for short term running finance available to the Group from various banks amounts to Rs. 12,382,200 (2008: Rs. 12,117,500) including Rs. 200,000 (2008: Rs. 200,000) for Bank Guarantees interchangeable with short term finance. The rates of mark up range from 12% to 18.5% (2008: 10.37% 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, the Subsidiary Company (EPCL) entered into a short term financing arrangement for Rs. 200,000 with a local bank to obtain export refinance available at concessionary rate. The finance carries mark-up at the equivalent State Bank of Pakistan rate plus 1% per annum. The finance is secured by a floating charge of Rs. 250,000 upon all present and future current assets of the Subsidiary Company. The principal amount of the facility is payable in lump sum at maturity on April 30, 2010.

29.3 The facilities of the Subsidiary Company (Avanceon Limited) are secured by a corporate guarantee of the Holding Company for 51% of the total funded exposure along with personal guarantees of sponsoring directors.

29.4 The facilities for opening letters of credit and guarantees of Subsidiary Companies as at December 31, 2009 amounts to Rs. 6,299,000 (2008: Rs. 11,162,700).

(Amounts in thousand)

30. CONTINGENCIES AND COMMITMENTS**Contingencies**

- 30.1** Claims, including pending lawsuits, against the Group not acknowledged as debts amounted to Rs. 47,658 (2008: Rs. 27,911).
- 30.2** Corporate guarantees of Rs. 2,480,283 (2008: Rs. 1,093,247) have been issued by various banks on behalf of the Group.
- 30.3** Post dated cheques issued by the Subsidiary Company (Avanceon Limited) to Customs & Excise Department for the clearance of Rockwell Automation and Autogen software shipments and to Adamjee Insurance Company Limited as cash margin against insurance guarantee issued by them in favor of BP Pakistan Exploration and Production Inc., for performance of contracts amounting to Rs 10,271 (2008: Rs 14,500).
- 30.4** Undated cheques issued by the Subsidiary Company (Avanceon Limited) to Adamjee Insurance Company Limited as insurance guarantee in favor of BP Pakistan Exploration and Production Inc., amounting to Rs. 14,255 (2008: Nil) for performance of contract.
- 30.5** The Holding Company is contesting the penalty of Rs. 99,936 (2008: 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 (2008: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.
- 30.6** The Holding Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Group Rs. 47,800 (2008: 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.
- 30.7** The Holding Company has extended project completion support to the lenders of Engro Energy Limited for US\$ 15,400 (2008: US\$ 15,400) and a further support to the lenders of Engro Polymer and Chemicals Limited for US\$ 12,200 (2008: US\$ 10,000). These project supports are contingent upon occurrence or non-occurrence of specified future events.

Commitments	2009	2008
	(Rupees)	
30.8 Property, plant & equipment	5,504,260	37,797,963
30.9 Employee housing subsidy scheme	-	214,362
30.10 Letter of credits other than for capital expenditure	2,863,584	28,900

(Amounts in thousand)

- 30.11** Avanceon LP (USA) is obligated under non-cancellable operating leases for computer & office equipment which expire at various dates through 2011.

The future lease commitments related to the non-cancellable operating leases as of December 31 are as follows:

	2009	2008
	(Rupees)	
Not later than one year	1,723,490	2,004,357
Later than one year and not later than five years	799,479	1,137,399
Later than five years	398,603	325,436
	<u>2,921,572</u>	<u>3,467,192</u>

- 30.12** Avanceon Limited leases its facilities from Cornerstone Investments (a related party) under an operating lease at a monthly rental of Rs. 2,324 (2008: Rs. 2,637). The lease shall expire on April 30, 2010 and future commitments in respect thereof amount to Rs. 9,295 all of which are due not later than one year.

- 30.13** The Subsidiary Company (Engro PowerGen Limited) through its subsidiary, Sindh Engro Coal Mining Company Limited, has signed various agreements with consultants for detailed feasibility study and other related studies aggregating to Rs. 271,582, against which the Subsidiary Company has made an advance payment of Rs. 8,395 (2008: Nil) as at December 31, 2009.

31. NET SALES

	2009	2008
	(Rupees)	
Own manufactured products (note 31.1 and 31.2)	44,554,782	35,304,462
Less: Sales tax	<u>2,167,280</u>	<u>2,156,007</u>
	42,387,502	33,148,455
Purchased products / services rendered	<u>15,839,885</u>	<u>7,938,161</u>
Less: Sales tax	75,019	113,569
	15,764,866	7,824,592
Net sales	<u>58,152,368</u>	<u>40,973,047</u>

- 31.1** Includes export sales by Engro Foods Limited, Engro Polymer and Chemicals Limited, Avanceon Limited and Engro Eximp (Private) Limited amounting to Rs. 15,994 (2008: Rs. 9,923), Rs. 1,463,441 (2008: Rs. 79,223), Rs. 259,224 (2008: Rs. 212,251) and Rs. 114,303 (2008: Rs. Nil) respectively.

- 31.1.1 Includes sale of Liquid Ammonia by the Holding Company and sale of electricity by the Subsidiary Company (Engro Polymer and Chemicals Limited) amounting to Rs. 13,662 (2008: Nil) and Rs. 167,854 (2008: Nil) respectively.

- 31.2** Sales are net of marketing allowances of Rs. 177,970 (2008: Rs. 103,609), special excise duty Rs. 103,998 (2008: Rs. 78,363) and discounts of Rs. 174,579 (2008: Rs. 94,543).

(Amounts in thousand)

32. COST OF SALES

	2009	2008
	(Rupees)	
Raw and packing materials consumed (note 32.1)	21,775,169	16,704,322
Salaries, wages and staff welfare (note 32.2)	1,618,171	1,243,248
Fuel and power	4,184,779	2,954,371
Repairs and maintenance	789,094	665,318
Depreciation (note 4.2)	1,589,923	1,038,399
Amortisation (note 6.1)	9,532	6,961
Consumable stores	244,636	195,965
Staff recruitment, training, safety and other expenses	60,757	68,292
Purchased services	277,735	329,558
Storage and handling	339,425	139,405
Travel	103,028	88,668
Communication, stationery and other office expenses	105,063	102,284
Insurance	234,744	101,434
Rent, rates and taxes	114,619	69,152
Stock - finished goods written off	14,139	528
Other expenses	123,130	66,233
Manufacturing cost	31,583,944	23,774,138
Add: Opening stock of work-in-progress	63,381	45,297
Less: Closing stock of work-in-progress	62,663	63,381
	718	(18,084)
Cost of goods manufactured	31,584,662	23,756,054
Add: Opening stock of finished goods manufactured	1,445,233	1,194,921
Less: Closing stock of finished goods manufactured	863,140	1,445,233
	582,093	(250,312)
Cost of goods sold - own manufactured products	32,166,755	23,505,742
- purchased products (note 32.3)	11,414,714	5,375,140
- others	1,076,727	1,230,466
	44,658,196	30,111,348

32.1 This includes write down of raw material of the Holding Company to net realisable value amounting to Nil (2008: Rs. 276,022).

32.2 Salaries, wages and staff welfare includes Rs. 106,944 (2008: Rs. 80,267) in respect of staff retirement benefits.

(Amounts in thousand)

32.3 Cost of sales - purchased product

	2009	2008
	(Rupees)	
Opening stock	3,185,107	1,677,287
Purchases	8,631,214	6,882,960
Less: Closing stock (note 32.3.1)	401,607	3,185,107
	<u>11,414,714</u>	<u>5,375,140</u>

32.3.1 This includes write down of purchased products of Holding Company to net realisable value Nil (2008: Rs. 578,350).

33. SELLING AND DISTRIBUTION EXPENSES

	2009	2008
	(Rupees)	
Salaries, wages and staff welfare (note 33.1)	1,361,411	1,098,859
Staff recruitment, training, safety and other expenses	93,541	47,214
Product transportation and handling	2,090,356	1,320,076
Repairs and maintenance	22,666	71,901
Advertising and sales promotion	1,631,022	831,715
Rent, rates and taxes	255,718	200,045
Communication, stationery and other office expenses	215,263	132,815
Travel	174,595	176,857
Depreciation (note 4.2)	118,112	89,846
Amortisation (note 6.1)	16,240	15,036
Purchased services	64,724	120,423
Donations (note 48)	57,988	42,316
Provision for impairment of trade debts (note 13.3)	25,241	32,609
Trade debts written off	154	-
Others	88,285	73,940
	<u>6,215,316</u>	<u>4,253,652</u>

33.1 Salaries, wages and staff welfare include Rs. 95,432 (2008: Rs. 70,779) in respect of staff retirement benefits.

(Amounts in thousand)

34. OTHER OPERATING INCOME

	2009	2008
	(Rupees)	
Income on deposits / other financial assets	133,821	259,355
Commission income	-	192,094
Service charges	1,782	18,452
Fair value of derivative interest rate swap (ineffective portion)	-	407
Gain on curtailed defined benefit pension plan (note 41.1.1.10)	5,700	30,997
Negative goodwill recognised	-	309,157
Gain on disposal of property, plant and equipment	30,318	71,248
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	136,667	55,979
Exchange gain	23,157	83,624
Others	58,712	17,001
	<u>390,157</u>	<u>1,038,314</u>

35. OTHER OPERATING EXPENSES

Workers' profits participation fund (note 27.2)	280,072	304,140
Workers' welfare fund	143,737	154,569
Legal and professional charges	80,911	131,782
Research and development (including salaries and wages)	26,800	3,075
Loss on sale of fixed assets / fixed assets written off	-	409
Loss on death / sales of biological assets	2,503	786
Foreign exchange loss	290,280	230,257
Auditors' remuneration (note 35.1)	15,752	7,127
Professional tax	213	210
Unrealized fair value loss on investment	-	2,352
Others	3,293	134,876
	<u>843,561</u>	<u>969,583</u>

(Amounts in thousand)

35.1 Auditors' remuneration:

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

	2009	2008
	(Rupees)	
Fee for the		
- audit of annual financial statements	6,869	4,296
- review of half yearly financial statements	1,000	300
- review of compliance with Code of Corporate Governance	100	50
Certifications, audit of retirement benefit funds and other advisory services	4,791	1,628
Tax services	1,840	-
Reimbursement of expenses	1,152	853
	<u>15,752</u>	<u>7,127</u>

36. FINANCE COST

Interest / mark-up on		
- long term borrowings	1,571,528	858,420
- short term borrowings	598,367	832,472
Accrued interest on Workers' profits participation fund (note 27.2)	4,034	-
Others	47,810	47,061
	<u>2,221,739</u>	<u>1,737,953</u>

37. SHARE OF INCOME FROM JOINT VENTURE

Engro Vopak Terminal Limited		
Share of income before taxation	691,485	373,211
Less: Share of provision for taxation	232,915	128,018
	<u>458,570</u>	<u>245,193</u>

(Amounts in thousand)

38. TAXATION	2009	2008
	(Rupees)	
Current		
- for the year	1,613,568	1,181,926
- for prior years	170,505	-
	<u>1,784,073</u>	<u>1,181,926</u>
Deferred		
- for the year	(197,303)	(204,598)
- for prior years	(243,289)	-
	<u>(440,592)</u>	<u>(204,598)</u>
	<u>1,343,481</u>	<u>977,328</u>

38.1 The current and deferred tax is net of adjustment in respect of net borrowing cost capitalised in prior years.

38.2 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) and Rs. 910,845 for financial years 2006 and 2007, on disallowance of mainly Group Relief (in both years), inter corporate dividend (in 2007) besides certain other issues. The Holding Company has paid Rs. 170,000 and Rs. 400,000 respectively thereagainst. Stay by the High Court of Sindh for payment of balance amount for financial year 2006 has been granted pending decision of the appeal filed by the Holding Company before the Income Tax Appellate Tribunal (ITAT). However, for financial year 2007, stay has been granted by the tax department till April 30, 2010.

The main contention for disallowance of Group Relief, among others, being the non-designation of the Holding Company as well as the Subsidiary Company 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 have been framed by SECP subsequently in December 2008 under which the Holding Company along with other subsidiaries have been registered as a Group and a fresh application for the aforesaid designation will now be filed. The Commissioner Inland Revenue (Appeals) taking cognizance of the above and other factors has, vide order dated November 13, 2009, decided the issue of Group relief in Holding Company's favor for the financial year 2007, while for 2006 it is pending at the ITAT level as stated above.

The Holding Company has filed tax returns up to financial year 2008 of which tax returns from financial years 2003 – 2008 have been filed under the self assessment scheme. All assessments for income years 1995 to 2002 have been finalized by the Department and are in appeal at either the CIT or ITAT level on various issues, the major one being apportionment of gross profit and expenses between normal income and final tax regime (FTR) income.

The Holding Company is confident that all the above issues, including the issue of Group Relief, will be ultimately decided in its favor without any additional tax liability.

(Amounts in thousand)

38.3 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:

	2009	2008
	(Rupees)	
Profit before tax	<u>5,062,283</u>	<u>5,184,018</u>
Tax calculated at the rate of 35%	1,771,799	1,814,406
Depreciation on exempt assets not deductible for tax purposes	34,495	34,495
Effect of exemption from tax on certain income	(509,135)	(770,000)
Effect of applicability of lower tax rate and other tax credits / debits	44,231	(93,591)
Un-recoupable minimum turnover tax	23,869	14,557
Net effect of consolidation adjustments	(21,778)	(22,539)
Tax charge for the year	<u>1,343,481</u>	<u>977,328</u>

39. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Group, since the average market price of the Holding Company's share is less than the exercise price of the options granted on Holding Company's shares to employees (as per Holding Company's policy - note 8) and lender (note 21.4). These options may have a potential dilutive impact on basic earnings per share in future periods. The basic earnings per share of the Group is based on:

	2009	2008
	(Rupees)	
Profit after taxation (attributable to the owners of the Holding Company)	<u>3,806,918</u>	<u>4,125,754</u>
	(Number)	
Weighted average number of ordinary shares (in thousand)	<u>281,119</u>	<u>252,247</u> (Restated)

(Amounts in thousand)

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:

	2009			2008		
	Directors		Executives	Directors		Executives
	Chief Executives	Others		Chief Executives	Others	
	(Rupees)					
Managerial remuneration	112,273	37,066	1,580,120	86,545	28,565	943,144
Retirement benefit funds	11,660	4,154	174,333	8,016	3,606	113,826
Other benefits	35,589	15,413	303,512	15,753	3,252	139,279
Fees	-	8,433	-	-	1,015	-
Total	159,522	65,066	2,057,965	110,314	36,438	1,196,249
Number of persons including those who worked part of the year	8	30	922	8	26	574

- 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, directors and some employees.

41. RETIREMENT BENEFITS**41.1** Defined benefit plans

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2009 using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

(Amounts in thousand)

41.1.1 **Engro Chemical Pakistan Limited, Holding Company**

41.1.1.1 **Balance sheet reconciliation**

	Defined Benefit Pension Plan Funded (Curtailed)		Defined Benefit Gratuity Plans Funded		Defined Benefit Separation Gratuity Plan Un-funded	
	2009	2008	2009	2008	2009	2008
	(Rupees)					
Present value of funded obligation	28,703	29,311	310,479	267,158	-	-
Fair value of plan assets	(62,645)	(67,276)	(346,583)	(291,946)	-	-
Surplus	(33,942)	(37,965)	(36,104)	(24,788)	-	-
Present value of unfunded obligation	-	-	-	-	-	652
Unrecognised actuarial gain	2,055	6,778	28,873	24,788	-	-
Unrecognised past service cost (note 41.1.12)	-	-	7,231	-	-	-
Net (asset) / liability at the end of the year	<u>(31,887)</u>	<u>(31,187)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652</u>

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

Net (asset) / liability at beginning of the year	(31,187)	(17,629)	-	-	652	652
(Reversal) / expense recognised	(5,700)	(30,997)	11,334	13,600	(652)	-
Amounts received from / (paid to) the Fund	5,000	17,439	(11,334)	(13,600)	-	-
Net (asset) / liability at end of the year	<u>(31,887)</u>	<u>(31,187)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652</u>

41.1.1.3 **Movement in defined benefit obligation**

Present value of defined benefit obligation at beginning of the year	29,311	358,974	267,158	228,681	-	-
Current service cost	-	-	17,345	14,936	-	-
Interest cost	4,172	29,351	39,540	22,658	-	-
Settlement in respect of the pensioners	-	(298,819)	-	-	-	-
Benefits paid during the year	(2,501)	(23,072)	(4,755)	(12,698)	-	-
Actuarial (gain) / loss on obligation	(2,279)	(37,123)	540	13,581	-	-
Unrecognised past service cost	-	-	(10,198)	-	-	-
Liability transferred	-	-	849	-	-	-
Present value of defined benefit obligation at end of the year	<u>28,703</u>	<u>29,311</u>	<u>310,479</u>	<u>267,158</u>	<u>-</u>	<u>-</u>

41.1.1.4 **Movement in fair value of Plan assets**

Fair value of plan assets at beginning of the year	67,276	438,769	291,946	245,039	-	-
Expected return on plan assets	9,866	36,553	41,882	24,097	-	-
(Repayment) / contribution	(5,000)	(17,439)	11,334	13,600	-	-
Benefits paid during the year	(2,501)	(23,072)	(4,755)	(12,698)	-	-
Settlement in respect of the pensioners	-	(298,819)	-	-	-	-
Actuarial gain / (loss) on plan assets	(6,996)	(68,716)	5,327	21,908	-	-
Liability transferred	-	-	849	-	-	-
Fair value of plan assets at end of the year	<u>62,645</u>	<u>67,276</u>	<u>346,583</u>	<u>291,946</u>	<u>-</u>	<u>-</u>

(Amounts in thousand)

	Defined Benefit Pension Plan Funded (Curtailed)		Defined Benefit Gratuity Plans Funded		Defined Benefit Separation Gratuity Plan Un-funded	
	2009	2008	2009	2008	2009	2008
	(Rupees)					
41.1.1.5 Charge for the year						
Current service cost	-	-	17,345	14,936	-	-
Interest cost	4,172	29,351	39,540	22,658	-	-
Expected return on plan assets	(9,866)	(36,553)	(41,882)	(24,097)	-	-
Recognition of curtailment gain (note 41.1.1.10)	-	(22,102)	-	-	-	-
Amortisation of unrecognised past service cost	-	-	(64)	-	-	-
Amortisation of transitional obligation	-	-	(439)	-	-	-
Recognition of past service cost	-	-	(2,464)	-	-	-
Net actuarial (gain) / losses recognised in current year	(6)	(1,693)	(702)	103	-	-
	<u>(5,700)</u>	<u>(30,997)</u>	<u>11,334</u>	<u>13,600</u>	<u>-</u>	<u>-</u>
41.1.1.6 Principal actuarial assumptions used in the actuarial valuation						
Discount rate	12%	15%	12%	15%	-	-
Expected per annum rate of return on plan assets	12%	10%	12%	15%	-	-
Expected per annum rate of increase on pension	4.5%	7.5%	-	-	-	-
Expected per annum rate of increase in future salaries	-	-	12%	15%	-	-
41.1.1.7 Actual return on plan assets	<u>2,870</u>	<u>(32,163)</u>	<u>47,209</u>	<u>46,005</u>	<u>-</u>	<u>-</u>
41.1.1.8 Plan assets comprise of the following						
	2009		2008			
	(Rupees)	%	(Rupees)	%		
Fixed income instruments	269,802	66%	7,417	2%		
Cash	23,493	6%	13,021	4%		
Others	115,934	28%	332,170	94%		
	<u>409,229</u>		<u>352,608</u>			

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 During the year, the Holding Company recognised a gain of Rs. 5,700 (2008: Rs.30,997) on curtailed defined benefit plan. In 2005, the Holding Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited MPT Employees Pension Fund (the Fund) for the benefit of management employees. Employees joining the Holding Company from July 1, 2005 onwards were to become members of the new Fund. Members of the then existing pension fund (a defined benefit plan) were given a one-time option exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005.

41.1.1.11 Comparison of five years

	2009	2008	2007	2006	2005
	(Rupees)				
Present value of obligation	(339,182)	(296,469)	(587,655)	(536,209)	(538,407)
Fair value of plan assets	409,228	359,222	683,808	722,867	588,559
Surplus / (deficit)	70,046	62,753	96,153	186,658	50,152

41.1.1.12 Effective from January 1, 2009, the normal retirement age for employees was increased from 58 years to 60 years, which resulted in negative past service cost of Rs. 10,198. As required under IAS-19, vested portion of this cost amounting to Rs. 2,464 was recognised immediately, whereas the non vested portion of Rs. 503 will be amortised over the average period to vesting for the plan participants, which is worked out to be approximately 15 years for MPT and 18 years for Non-MPT employees.

41.1.1.13 Expected future cost for the year ending December 31, 2010 is as follows:

	(Rupees)
MPT Pension Fund	(4,073)
MPT Gratuity Fund	10,839
Non-MPT Gratuity Fund	6,608

41.1.1.14 Defined contribution plans

An amount of Rs. 121,044 (2008: Rs. 95,714) has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

(Amounts in thousand)

41.1.2 Engro Polymer and Chemicals Limited, Subsidiary Company

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2009	2008	2009	2008	2009	2008
	(Rupees)					
41.1.2.1 Balance sheet reconciliation						
Present value of defined benefit obligations	78,994	68,644	26,048	22,888	-	-
Fair value of plan assets	(88,607)	(73,582)	(27,618)	(21,821)	-	-
(Surplus) / deficit	(9,613)	(4,938)	(1,570)	1,067	-	-
Present value of unfunded obligations	-	-	-	-	4,523	3,359
Unrecognised net actuarial gains / (losses)	9,613	4,938	1,570	(1,067)	(383)	(383)
Net liability at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,140</u>	<u>2,976</u>
41.1.2.2 Movement in the defined benefit obligations						
Obligation as at January 1	68,644	53,267	22,888	19,600	3,359	2,429
Current service cost	6,841	5,525	3,270	2,223	680	413
Interest cost	9,704	5,603	3,300	2,049	481	246
Actuarial losses / (gains)	-	4,754	-	4,280	3	271
Benefits paid	(6,195)	(505)	(3,410)	(5,264)	-	-
Obligation as at December 31	<u>78,994</u>	<u>68,644</u>	<u>26,048</u>	<u>22,888</u>	<u>4,523</u>	<u>3,359</u>
41.1.2.3 Movement in the fair value of plan assets						
Fair value as at January 1	73,582	62,237	21,821	21,742	-	-
Expected return on plan assets	10,350	6,449	3,160	2,253	-	-
Actuarial gains	-	905	-	1,071	-	-
Employer contributions	6,195	4,496	3,410	2,019	-	-
Benefits paid	(1,520)	(505)	(773)	(5,264)	-	-
Fair value as at December 31	<u>88,607</u>	<u>73,582</u>	<u>27,618</u>	<u>21,821</u>	<u>-</u>	<u>-</u>
41.1.2.4 Charge for the year						
Current service cost	6,841	5,525	3,270	2,223	680	413
Interest cost	9,704	5,603	3,300	2,049	481	246
Expected return on plan assets	(10,350)	(6,449)	(3,160)	(2,253)	-	-
Recognition of actuarial (gains) / losses	-	(183)	-	-	3	-
Expense	<u>6,195</u>	<u>4,496</u>	<u>3,410</u>	<u>2,019</u>	<u>1,164</u>	<u>659</u>
41.1.2.5 Actual return on plan assets	<u>(3,867)</u>	<u>2,461</u>	<u>(222)</u>	<u>827</u>	<u>-</u>	<u>-</u>

(Amounts in thousand)

41.1.2.6 **Expected future costs for the year ending December 31, 2010:**

	(Rupees)
- Pension Fund	8,256
- Gratuity Fund	4,217
	<u>12,473</u>

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

	Pension Fund		Gratuity Fund	
	2009	2008	2009	2008
Discount rate	14%	14%	14%	14%
Expected rate of return per annum on plan assets	14%	14%	14%	14%
Expected rate of increase per annum on future salaries	13%	13%	13%	13%

41.1.2.8 **Plan assets comprise of following:**

	Pension Fund		Gratuity Fund	
	2009	2008	2009	2008
			(Rupees)	
Equity	36,329	25,754	11,323	14,402
Debt	47,848	25,754	13,809	6,110
Others	4,430	22,074	2,486	1,309
	<u>88,607</u>	<u>73,582</u>	<u>27,618</u>	<u>21,821</u>

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 **Historical information of staff retirement benefits:**

	2009	2008	2007	2006	2005
			(Rupees)		
Pension Fund					
Present value of defined benefit obligation	78,994	68,644	53,267	44,310	34,760
Fair value of plan assets	(88,607)	(73,582)	(62,237)	(47,516)	(34,861)
(Surplus) / deficit	<u>(9,613)</u>	<u>(4,938)</u>	<u>(8,970)</u>	<u>(3,206)</u>	<u>(101)</u>
Gratuity Fund					
Present value of defined benefit obligation	26,048	22,888	19,600	16,145	12,784
Fair value of plan assets	(27,618)	(21,821)	(21,742)	(15,665)	(12,870)
(Surplus) / deficit	<u>(1,570)</u>	<u>1,067</u>	<u>(2,142)</u>	<u>480</u>	<u>(86)</u>

(Amounts in thousand)

41.1.2.11 During the year, Rs. 22,620 (2008: Rs. 8,658) has been recognised in the profit and loss account in respect of defined contribution provident fund.

41.1.3 Engro Foods Limited, Subsidiary Company

	Gratuity Fund		Un-funded Pension Scheme		Total	
	2009	2008	2009	2008	2009	2008
	(Rupees)					
41.1.3.1 Reconciliation of obligations as at year end						
Present value of defined benefit obligation	(77,010)	(39,033)	-	-	(77,010)	(39,033)
Fair value of plan assets	58,688	29,417	-	-	58,688	29,417
Deficit	(18,322)	(9,616)	-	-	(18,322)	(9,616)
Present value of unfunded obligations	-	-	(2,372)	(1,570)	(2,372)	(1,570)
Unrecognised actuarial (gain) / loss	18,322	9,616	(213)	(322)	18,109	9,294
Net liability at end of the year	-	-	(2,585)	(1,892)	(2,585)	(1,892)
41.1.3.2 Movement in liability						
Net liability at beginning of the year	-	-	(1,892)	(1,096)	(1,892)	(1,096)
Charge for the year	(21,250)	(13,690)	(693)	(796)	(21,943)	(14,486)
Contributions	21,250	13,690	-	-	21,250	13,690
Net liability at end of the year	-	-	(2,585)	(1,892)	(2,585)	(1,892)
41.1.3.3 Movement in fair value of plan assets						
Fair value of plan assets at beginning of the year	29,417	15,464	-	-	29,417	15,464
Expected return on plan assets	5,508	2,205	-	-	5,508	2,205
Contributions for the year	21,250	13,690	-	-	21,250	13,690
Transfers from ECPL	2,845	-	-	-	2,845	-
Benefits paid during the year	(2,096)	(1,632)	-	-	(2,096)	(1,632)
Actuarial gain / (loss) on assets	1,764	(310)	-	-	1,764	(310)
Fair value of plan assets at end of the year	58,688	29,417	-	-	58,688	29,417

(Amounts in thousand)

	Gratuity Fund		Un-funded Pension Scheme		Total	
	2009	2008	2009	2008	2009	2008
(Rupees)						
41.1.3.4 Movement in present value of defined benefit obligations / un-funded obligations						
Present value of defined benefit obligations at beginning of the year	39,033	18,947	1,570	1,291	40,603	20,238
Service cost	19,610	13,250	453	628	20,063	13,878
Interest cost	6,739	2,531	252	164	6,991	2,695
Transfers from ECPL	2,845	-	-	-	2,845	-
Benefits paid during the year	(2,096)	(1,632)	-	-	(2,096)	(1,632)
Actuarial (gain) / loss	10,879	5,937	97	(513)	10,976	5,424
Present value of defined benefit obligation / unfunded obligation at end of the year	<u>77,010</u>	<u>39,033</u>	<u>2,372</u>	<u>1,570</u>	<u>79,382</u>	<u>40,603</u>

41.1.3.5 Charge for the year						
Current service cost	19,610	13,250	453	628	20,063	13,878
Interest cost	6,739	2,531	252	164	6,991	2,695
Expected return on plan assets	(5,508)	(2,205)	-	-	(5,508)	(2,205)
Recognition of actuarial (gain) / loss	409	114	(12)	4	397	118
Cost for the year	<u>21,250</u>	<u>13,690</u>	<u>693</u>	<u>796</u>	<u>21,943</u>	<u>14,486</u>

41.1.3.6 In addition, salaries, wages and benefits also include Rs. 53,201 (2008: Rs.33,463) in respect of defined contribution provident fund.

41.1.3.7 **Principal actuarial assumptions used are as follows:**

	Gratuity Fund		Un-funded Pension Scheme	
	2009	2008	2009	2008
Discount rate	12%	14%	14%	14%
Expected per annum rate of return on plan assets	12%	14%	12%	-
Expected per annum rate of increase in future salaries	12%	14%	12%	14%
Expected per annum rate of increase in pension	-	-	4%	6%

(Amounts in thousand)

	Gratuity Fund		Un-funded Pension Scheme	
	2009	2008	2009	2008
	(Rupees)			
41.1.3.8 Actual return on plan assets	5,967	1,251	-	-

41.1.3.9 Plan assets are comprised as follows:

	Gratuity Fund			
	2009		2008	
	Rupees	%	Rupees	%
Held to maturity investments				
- Pakistan Investment Bonds (PIBs)	3,313	6%	3,189	11%
- Term Finance Certificates (TFCs)	9,467	16%	7,929	27%
- Term Deposit Receipts (TDRs)	6,000	10%	18,000	61%
- Regular Income Certificates (RICs)	19,000	32%	-	-
- Treasury Bills	1,000	2%	-	-
	<u>38,780</u>	<u>66%</u>	<u>29,118</u>	<u>99%</u>
Mutual funds (income fund) - units	19,005	32%	-	-
Others	903	2%	299	1%
	<u>58,688</u>	<u>100%</u>	<u>29,417</u>	<u>100%</u>

41.1.3.10 The expected return on plan assets has been determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected return on equity investments reflect long-term real rates of return experienced in the market.

41.1.3.11 Expected contributions to post employment benefit plans for the year ending December 31, 2010 are Rs. 32,401.

41.1.3.12 Historical information of staff retirement benefits:

	2009	2008	2007	2006	2005
	(Rupees)				
Present value of obligations	(77,010)	(39,033)	(18,947)	(8,088)	(1,316)
Fair value of plan assets	58,688	29,417	15,464	-	-
Deficit	<u>(18,322)</u>	<u>(9,616)</u>	<u>(3,483)</u>	<u>(8,088)</u>	<u>(1,316)</u>

(Amounts in thousand)

41.1.4 **Engro Energy 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, 2009, using the Projected Unit Credit Method. Details of the defined benefit plan are as follows:

41.1.4.1 **Balance sheet reconciliation**

	2009	2008
	(Rupees)	
Present value of defined benefit obligation	3,742	2,186
Fair value of plan assets	(2,009)	(1,681)
Deficit	1,733	505
Unrecognised actuarial (gain) / loss	(432)	(318)
Unrecognised past service cost	(504)	-
Net liability at end of the year	<u>797</u>	<u>187</u>

41.1.4.2 **Movement in liability**

Net liability at beginning of the year	187	262
Charge for the year	610	187
Amounts paid to the fund	-	(262)
Net liability at end of the year	<u>797</u>	<u>187</u>

41.1.4.3 **Movement in defined benefit obligations**

Present value of defined benefit obligations at beginning of the year	2,186	175
Current service cost	531	168
Interest cost	365	26
Actuarial loss on obligation	156	440
Unrecognised past service cost	504	-
Liability transferred	-	1,377
Present value of defined benefit obligation / unfunded obligation at end of the year	<u>3,742</u>	<u>2,186</u>

(Amounts in thousand)

41.1.4.4 **Movement in fair value of plan assets**

	2009	2008
	(Rupees)	
Fair value of plan assets at beginning of the year	1,681	-
Expected return on plan assets	295	-
Contributions for the year	-	262
Actuarial gain on assets	32	41
Assets transferred	-	1,378
Fair value of plan assets at end of the year	<u>2,008</u>	<u>1,681</u>

41.1.4.5 **Charge for the year**

Current service cost	531	168
Interest cost	365	26
Expected return on plan assets	(295)	-
Net actuarial loss / gain recognised in current year	9	(6)
	<u>610</u>	<u>188</u>

41.1.4.6 **Principal actuarial assumptions used in the actuarial valuation are as follows:**

	2009	2008
Discount rate	12%	15%
Expected per annum rate of return on plan assets	12%	15%
Expected per annum rate of increase in future salaries	12%	15%

41.1.4.7 **Actual return on plan assets**

	2009	2008
	(Rupees)	
	<u>327</u>	<u>41</u>

(Amounts in thousand)

41.1.4.8 **Plan assets comprise of the following:**

	2009		2008	
	Rupees	%	Rupees	%
Cash and cash equivalents	1,981	99%	1,681	100%
Others	28	1%	-	-
	<u>2,009</u>	<u>100%</u>	<u>1,681</u>	<u>100%</u>

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**

	2009	2008	2007
	Rupees		
Present value of defined benefit obligation	3,742	2,186	49
Fair value of plan assets	(2,009)	(1,681)	-
Deficit	<u>1,733</u>	<u>505</u>	<u>49</u>

41.1.4.11 Expected future cost for the year ending December 2010 is Rs. 1,615.

41.1.4.12 **Defined Contribution Plan**

An amount of Rs. 2,079 (2008: Rs. 532) has been charged during the year in respect of defined contribution plan maintained by the Subsidiary Company.

(Amounts in thousand)

42. CASH GENERATED FROM OPERATIONS	2009	2008
	(Rupees)	
Profit before taxation	5,062,283	5,184,018
Adjustment for non-cash charges and other items:		
Depreciation	1,708,035	1,128,245
Amortisation	25,772	21,997
Profit on disposal of property, plant and equipment	(30,318)	(70,839)
Loss on sale / death of biological assets	2,503	786
Provision for retirement and other service benefits	189,823	132,525
Negative goodwill arising on further issuance of shares of a subsidiary	-	(309,157)
Income on deposits / other financial assets	(133,821)	(259,355)
Share of income from joint venture companies (note 37)	(458,570)	(245,193)
Financial charges (note 36)	2,221,739	1,737,953
Employee share compensation expense	78,672	72,763
Employee housing subsidy expense	106,985	69,587
Provision for surplus and slow moving stores and spares	18,972	7,523
Provision for doubtful trade debts	6,966	16,339
Provision for loans and advances	1,295	-
Provision for other receivables	84,593	95,596
Working capital changes (note 42.1)	6,525,241	(5,813,933)
	<u>15,410,170</u>	<u>1,768,855</u>

42.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(355,535)	(364,258)
- Stock-in-trade	3,309,936	(3,395,769)
- Trade debts	(2,785,008)	1,138,670
- Loans, advances, deposits and prepayments	(218,013)	(77,387)
- Other receivables - net	2,590,227	(2,317,789)
	<u>2,541,607</u>	<u>(5,016,533)</u>
Increase / (decrease) in current liabilities		
- Trade and other payables	3,983,634	(797,400)
	<u>6,525,241</u>	<u>(5,813,933)</u>

(Amounts in thousand)

43. CASH AND CASH EQUIVALENTS

	2009	2008
	(Rupees)	
Cash and bank balances (note 17)	6,880,408	2,197,608
Short term investments (note 16)	512,255	2,067,074
Short-term borrowings	(1,302,766)	(4,591,218)
	<u>6,089,897</u>	<u>(326,536)</u>

44. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets as per balance sheet

- Loans and receivables		
Loans, advances and deposits	1,226,222	1,029,237
Trade debts	3,536,533	758,491
Other receivables	540,640	242,629
Cash and bank balances	6,880,408	2,197,608
	<u>12,183,803</u>	<u>4,227,965</u>
- Fair value through profit and loss		
Short term investments	512,255	2,067,074
	<u>512,255</u>	<u>2,067,074</u>
- Derivatives used for hedging		
Derivatives	76,209	1,521,619
	<u>76,209</u>	<u>1,521,619</u>

Financial liabilities as per balance sheet

- Financial liabilities measured at amortised cost		
Borrowings	87,820,594	45,651,957
Liabilities against assets subject to finance lease	38,833	49,423
Retirement & other service benefit obligations	119,013	112,769
Trade and other payables	7,014,005	4,318,534
Accrued interest / mark-up	1,800,428	1,228,889
Unclaimed dividends	102,099	318,320
	<u>96,894,972</u>	<u>51,679,892</u>
- Fair value through profit and loss		
Conversion option on IFC loan	338,647	-
	<u>338,647</u>	<u>-</u>
- Derivatives used for hedging		
Derivatives	1,034,173	1,133,364
	<u>1,034,173</u>	<u>1,133,364</u>

(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 Holding Company 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, 2009 this exposure is minimal since major procurements have been completed.

The Holding Company 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\$ 235,000 for the Urea expansion project, the Holding Company maintains a minimum Rupee- Dollar hedge of US\$ 85,000 as per lender covenants. IFC loan of US\$ 50,000 which was drawn down end of December 2009 has not been hedged so far.

The impact of other devaluation / revaluation on post tax profit for the year of the Holding Company is negligible since all foreign currency borrowings / funds relates to the project, hence gain / loss arising is capitalised.

Engro Energy Limited (EEL) is exposed to currency risk on commitments to purchase plant and machinery, in connection with the construction of power plant, denominated primarily in US Dollars. EEL's exposure to currency risk is limited as all the fluctuations in foreign exchange rates will be recovered through tariff after the commencement of commercial operations.

(Amounts in thousand)

At December 31, 2009 the financial assets and liabilities of the Engro Polymer and Chemicals Limited are exposed to foreign exchange risk amount to Rs. 248,323 (2008: Rs. 88,276) and Rs. 7,009,120 (2008: Rs. 3,117,025) respectively.

At December 31, 2009 if Pakistani 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. 221,641 (2008: Rs. 98,522), 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 arising on foreign currency loans of Holding Company 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.

EEL's exposure to interest rate risk is limited as the unfavorable fluctuations in the interest rates will be recovered through tariff after the commencement of commercial operations.

As at December 31, 2009, 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. 124,105 (2008: Rs. 118,826), 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 Holding Company'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

(Amounts in thousand)

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+.

The Holding Company 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 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.

The credit risk arising on account of acceptance of bank guarantees is managed by ensuring that the bank guarantees are issued by banks of reasonably high credit ratings as approved by the management.

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

	2009	2008
	(Rupees)	
Loans, advances and deposits	1,226,222	1,029,237
Trade debts	3,403,792	566,924
Other receivables	481,579	185,337
Short term investments	512,255	2,067,074
Bank balances	6,880,408	2,197,608
	<u>12,504,256</u>	<u>6,046,180</u>

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
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
Barclay's Bank plc	S&P	A1+	AA-
Citibank N.A.	S&P	A1	A+
Deutsche Bank AG	S&P	A1	A+
Faysal Bank Limited	JCR-VIS	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AA+
HSBC Bank Middle East Ltd	Moody's	P1	AA2
MCB Bank Limited	PACRA	A1+	AA+
National Bank of Pakistan	JCR-VIS	A1+	AAA
The Royal Bank of Scotland Limited	PACRA	A1+	AA
Standard Chartered Bank (Pakistan) Limited	JCR-VIS	A1+	AA+
United Bank Limited	JCR-VIS	A1+	AA+
Bank of Punjab	PACRA	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 maintaining committed credit lines available.

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates.

(Amounts in thousand)

	2009			2008		
	Maturity Upto one year	Maturity after one year	Total	Maturity Upto one year	Maturity after one year	Total
	(Rupees)					
Financial liabilities						
Derivatives	740,043	632,777	1,372,820	155,160	978,204	1,133,364
Trade and other payables	7,014,005	-	7,014,005	4,318,534	-	4,318,534
Accrued interest / mark-up	1,800,428	-	1,800,428	1,228,889	-	1,228,889
Retirement & other service benefit obligations	22,961	96,052	119,013	20,023	92,746	112,769
Liabilities against assets subject to finance lease	18,246	20,587	38,833	20,038	29,385	49,423
Borrowings	3,678,441	84,142,153	87,820,594	4,913,133	40,738,824	45,651,957
Unclaimed dividends	102,099	-	102,099	318,320	-	318,320
	<u>13,376,223</u>	<u>84,891,569</u>	<u>98,267,792</u>	<u>10,974,097</u>	<u>41,839,159</u>	<u>52,813,256</u>

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 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, 2009 and 2008 are as follows:

	2009	2008
	(Rupees)	
Total long term borrowings	86,517,828	41,060,739
Total equity	<u>29,344,395</u>	<u>23,547,731</u>
	<u>115,862,223</u>	<u>64,608,470</u>
Total borrowings to equity ratio	<u>75%</u>	<u>64%</u>

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

Effective January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices 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, 2009:

	Level 1	Level 2	Level 3	Total
	(Rupees)			
Assets				
Financial assets at fair value through profit and loss				
- Short term investments (mutual fund securities)	436,460	-	-	436,460
Derivative financial instruments				
- Derivatives used for hedging	-	76,209	-	76,209
	<u>436,460</u>	<u>76,209</u>	<u>-</u>	<u>512,669</u>
Liabilities				
Financial liabilities measured at amortised cost				
- Retirement & other service benefits	-	119,013	-	119,013
Derivative financial instruments				
- Derivatives used for hedging	-	1,034,173	-	1,034,173
- Conversion option on IFC loan	-	338,647	-	338,647
	<u>-</u>	<u>1,491,833</u>	<u>-</u>	<u>1,491,833</u>

(Amounts in thousand)

45.4 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the consolidated 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		Polymer		Food		Power		Other operations		Elimination - net		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Revenue from external customers (note 31)	30,285,823	23,317,198	11,632,775	7,847,606	14,665,341	8,173,497	-	-	1,615,499	1,634,746	(47,070)	-	58,152,368	40,973,047
Segment gross profit / (loss)	8,935,525	8,293,050	1,214,183	1,111,948	2,716,271	1,049,581	-	-	625,353	404,280	2,840	2,840	13,494,172	10,861,699
Segment expenses - net of other income	(1,960,161)	(1,543,547)	(908,171)	(739,343)	(2,861,762)	(1,559,640)	(142,173)	(52,166)	(474,388)	(453,341)	(455,886)	(96,239)	(6,802,541)	(4,444,276)
Income on deposits / other financial assets (note 34)	23,136	94,364	103,026	116,522	3,461	6,943	645	40,040	3,553	1,486	-	-	133,821	259,355
Financial charges (note 36)	(1,424,970)	(1,595,173)	(606,175)	(33,531)	(515,308)	(353,986)	(67)	-	(118,451)	(82,830)	443,232	327,567	(2,221,739)	(1,737,953)
Share of income from joint venture (note 37)	-	-	-	-	-	-	-	-	-	-	458,570	245,193	458,570	245,193
Income tax (charge) / credit (note 38)	(1,579,966)	(1,189,428)	3,441	(105,243)	222,739	302,965	-	-	(11,473)	(8,161)	21,778	22,539	(1,343,481)	(977,328)
Segment profit after tax / (loss)	<u>3,993,564</u>	<u>4,059,266</u>	<u>(193,696)</u>	<u>350,353</u>	<u>(434,599)</u>	<u>(554,137)</u>	<u>(141,595)</u>	<u>(12,126)</u>	<u>24,594</u>	<u>(138,566)</u>	<u>470,534</u>	<u>501,900</u>	<u>3,718,802</u>	<u>4,206,690</u>
Segment assets	94,179,878	58,921,085	22,799,495	18,277,226	9,004,026	7,325,530	16,164,759	5,535,270	1,181,901	1,097,602	(11,724,463)	(10,845,931)	131,605,596	80,310,782
Investment in joint venture / associate (note 7)	-	-	-	-	-	-	-	-	-	-	499,780	491,210	499,780	491,210
Total segment assets	<u>94,179,878</u>	<u>58,921,085</u>	<u>22,799,495</u>	<u>18,277,226</u>	<u>9,004,026</u>	<u>7,325,530</u>	<u>16,164,759</u>	<u>5,535,270</u>	<u>1,181,901</u>	<u>1,097,602</u>	<u>(11,224,683)</u>	<u>(10,354,721)</u>	<u>132,105,376</u>	<u>80,801,992</u>
Total segment liabilities	<u>67,272,354</u>	<u>37,884,505</u>	<u>16,403,852</u>	<u>11,713,484</u>	<u>5,633,878</u>	<u>4,593,783</u>	<u>12,593,457</u>	<u>2,365,857</u>	<u>1,052,812</u>	<u>985,323</u>	<u>(195,372)</u>	<u>(288,691)</u>	<u>102,760,981</u>	<u>57,254,261</u>
Capital expenditure including biological assets	<u>36,352,358</u>	<u>20,214,342</u>	<u>3,745,935</u>	<u>11,158,033</u>	<u>2,012,884</u>	<u>2,380,589</u>	<u>10,034,224</u>	<u>1,476,917</u>	<u>25,416</u>	<u>94,100</u>	<u>1,722,718</u>	<u>889,457</u>	<u>53,893,535</u>	<u>36,213,438</u>
Depreciation (note 4.2)	<u>686,456</u>	<u>641,541</u>	<u>519,802</u>	<u>185,460</u>	<u>511,955</u>	<u>284,688</u>	<u>10,377</u>	<u>3,938</u>	<u>29,972</u>	<u>27,307</u>	<u>(2,840)</u>	<u>(2,840)</u>	<u>1,755,722</u>	<u>1,140,094</u>
Amortisation of intangibles (note 6.1)	<u>14,808</u>	<u>12,193</u>	<u>3,701</u>	<u>749</u>	<u>7,793</u>	<u>4,649</u>	<u>831</u>	<u>831</u>	<u>815</u>	<u>4,522</u>	<u>(322)</u>	-	<u>27,626</u>	<u>22,944</u>

(Amounts in thousand)

47. TRANSACTIONS WITH RELATED PARTIES

Related party comprise 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 consolidated financial statements, are as follows:

	2009	2008
	(Rupees)	
Associated Companies		
Purchases and services	9,247,750	11,686,635
Services rendered	1,321,901	40,132
Dividends paid	751,280	597,769
Payment of interest on TFCs and repayment of principal amount	7,051	-
Right shares issued (including share premium)	1,777,152	1,413,643
Investment in mutual funds	799,250	-
Redemption of mutual funds	611,025	-
Joint Ventures		
Purchase of services	1,564,559	142,293
Services rendered	3,829	1,540
Others		
Dividends paid	50,195	41,949
Right shares issued (including share premium)	314,732	27,889
Remuneration of key management personnel	396,412	339,607

48. DONATIONS

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

	Interest in donee	Name and address of donee	2009	2008
			(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	13,000	-
Mr. Asad Umar and Mr. Shahzada Dawood	Member	Lahore University of Management Sciences, Lahore	300	300
			<u>14,380</u>	<u>300</u>

(Amounts in thousand)

49. PRODUCTION CAPACITY

		Design Annual Capacity		Actual Production	
		2009	2008	2009	2008
Urea (note 49.1)	Metric Tons	975,000	975,000	952,024	995,020
* NPK	Metric Tons	160,000	160,000	91,821	97,669
* PVC Resin (note 49.2)	Metric Tons	150,000	100,000	115,620	98,660
* Caustic soda (note 49.2)	Metric Tons	106,000	-	38,739	-
* Processed Milk	Thousand Litres	367,900	320,580	247,074	177,347
* Ice cream	Thousand Litres	10,290	-	6,900	-

* Actual production was below from designed annual capacity as per market demand.

49.1 Urea plant also produced 561 metric tons (2008: Nil) of Liquid Ammonia for outside sale. Actual production was below designed annual capacity due to planned maintenance shutdown.

49.2 Commencement of commercial production of the new PVC Plant was from January 1, 2009 and that of Chlor-alkali plant was from August 1, 2009.

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 1, 2007 to August 19, 2007 although, electronic data remained intact due to the Holding Company's Disaster Recovery Plan. The Holding Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the financial year 2007. Hard copy records related to the already reported financial years 2005 and 2006 have not been recreated.

51. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Holding Company in its meeting held on January 22, 2010 has proposed a final cash dividend of Rs.2 per share (2008: Rs. 2 per share final cash dividend) and bonus issue in the ratio of one share for every ten shares held i.e. 10% bonus, for approval of the members at the Annual General Meeting to be held on February 27, 2010.

The consolidated financial statements for the year ended December 31, 2009 do not include the effect of the proposed cash dividend and bonus issue, which will be accounted for in the consolidated financial statements for the year ending December 31, 2010.

(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 Energy 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

There were no major reclassifications / restatements other than those as disclosed in notes 2.24.3, 20.2 and 4.7.

54. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on January 22, 2010 by the Board of Directors of the Holding Company.

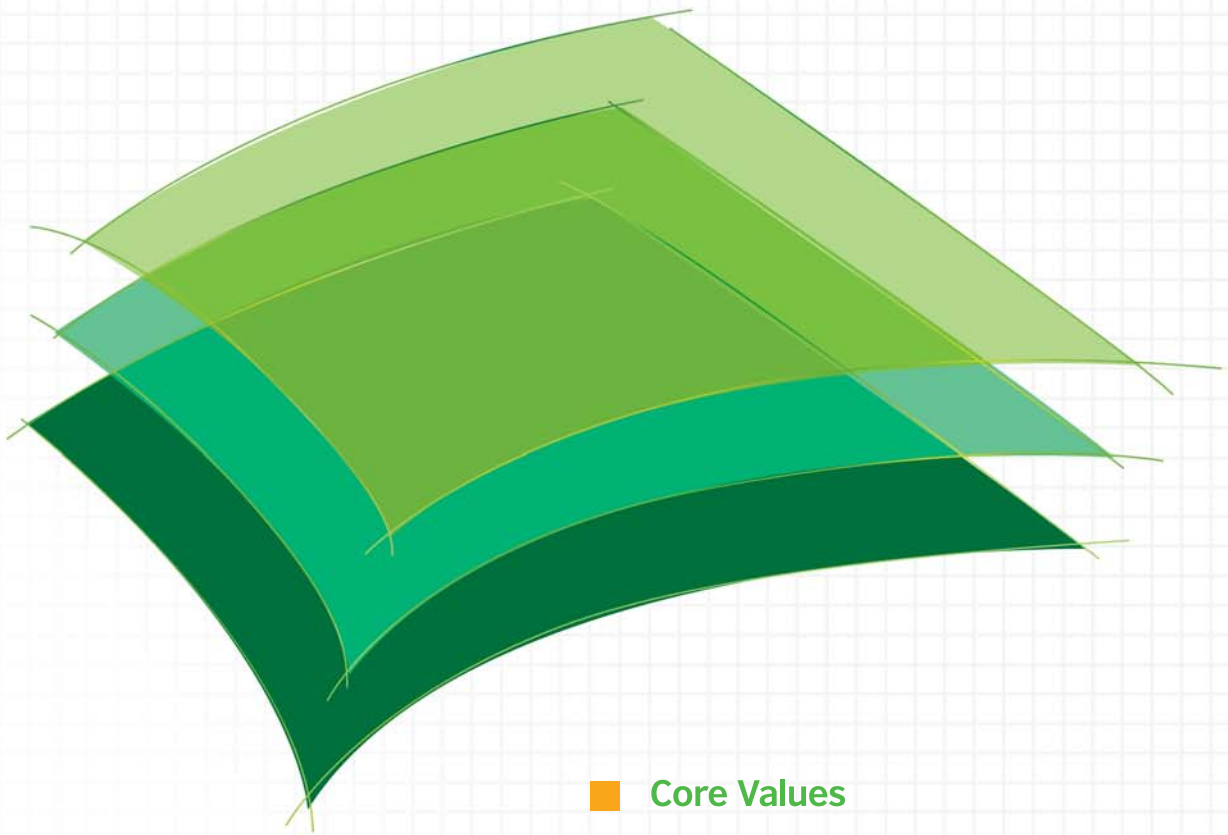


Hussain Dawood
Chairman



Asad Umar
President & Chief Executive





- Core Values
- Corporate Governance
- Principal Board Committees
- Principal Operation Committees
- Ten Years at a Glance
- Proxy Form

Core Values

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 100 percent of the time. Our motto is, "Quality in all we do."

Ethics And 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.

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 and plans and of the thinking behind them.

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.

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.

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.

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.

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 in which we live and conduct our business."

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.

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.

Corporate Governance

COMPLIANCE STATEMENT

The Board of Directors has throughout the year 2009 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

The Management Committee periodically reviews major financial and operating risks faced by the business. In 2009 it undertook an assessment of critical risks and shared its results with the Board Audit Committee. There are plans to launch a detailed Enterprise-wide Risk Management (ERM) initiative in a phased manner after the completion of the urea expansion project.

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 and review processes. All policies and control procedures are documented in manuals.

The Board establishes corporate strategy and the Company's business objectives. Divisional management integrates these objectives into divisional business strategies with supporting financial objectives.

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 reports directly to the Audit Committee on the results of its work. 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.

To underpin the effectiveness of controls, it is Engro's policy to attract, retain and develop staff of high caliber and integrity in appropriate disciplines. There is an annual appraisal process, which assesses employee performance against agreed objectives and identifies necessary training to maintain and enhance standards of performance.

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 19.

A Board of Directors' meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board meets at least eight times a year 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.

Principal Board Committees

The Board has established two committees both of which are chaired by independent non-executive directors. The specific terms of references are as follows:

Board Compensation Committee is responsible for reviewing and recommending all the elements of the Compensation, Organization & Employee Development Policies relating to the senior executives' remuneration and for approving all matters relating to the remuneration of Executive Directors and members of the Management Committee.

The Board Compensation Committee consists of non-executive Directors. The Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. The Committee met 5 times during 2009.

DIRECTORS' NAMES

Hussain Dawood (Chairman)
Shabbir Hashmi
Arshad Nasar
Shahzada Dawood

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

Board Audit 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 Board Audit Committee comprises of non-executive Directors. The Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. The Committee also privately meets with the external auditors at least once a year. After each meeting the Chairman of the Committee reports to the Board. The Committee met 7 times during 2009.

DIRECTORS' NAMES

Shabbir Hashmi (Chairman)
Isar Ahmad
Abdul Samad Dawood
M. Aliuddin Ansari

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

Principal Operation Committees



COMMITTEE MEMBERS *(from left to right)*

Andalib Alavi

Tahir Jawaid

Asif Tajik

Asad Umar (Chairman)

Ruhail Mohammed

Khalid Siraj Subhani

Inamullah N. Khan

Khalid Mir

The following Committees act at the operation level in an advisory capacity to the Chief Executive Officer, providing recommendations relating to businesses and employee matters:

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

Corporate HSE Committee is responsible for providing leadership and strategic guidance on all Health, Safety and Environment (HSE) improvement initiatives and has stewardship responsibility for monitoring compliance against regulatory standards and selected international benchmarks.

COED Committee is responsible for the review of Compensation, Organization and Employee Development (COED) matters of all people excluding employee directors and senior executives.

Ten Years at a Glance

(Million Rupees)	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net Sales Revenue	30,172	23,317	23,183	17,602	18,276	12,798	11,884	10,620	8,006	8,080
Operating Profit	4,986	4,539	3,279	2,756	2,641	2,233	2,534	2,327	1,736	1,914
Profit before Tax	5,215	5,205	4,235	3,445	3,220	2,315	2,323	1,836	1,191	1,350
Profit after Tax	3,957	4,240	3,155	2,547	2,319	1,611	1,557	1,133	1,064	1,126
Employee Costs	1,565	1,411	1,050	950	804	795	749	673	594	544
Taxes, Duties & Development Surcharge	5,221	5,032	5,420	4,633	4,168	3,911	3,457	3,062	2,266	1,762
Workers' Funds	387	386	316	251	215	156	168	113	69	71
Property, Plant and Equipment	6,280	5,812	6,109	6,318	6,351	6,492	6,648	6,865	6,643	6,462
Capital Expenditure	36,352	20,214	8,298	391	377	520	370	823	435	578
Long Term Investments	1,897	3,327	4,108	1,480	748	–	85	–	–	–
Long Term Borrowings	58,565	27,757	15,423	1,800	2,890	2,580	3,236	3,323	2,992	3,070
Net Current Assets	4,353	6,043	10,421	2,042	2,211	1,618	1,796	1,252	1,194	993
Dividends And Shares										
Total Equity	26,888	21,054	15,741	9,370	7,376	6,586	6,199	5,817	5,727	5,582
Shares Outstanding at Year End (in Million)	298	213	193	168	153	153	153	139	139	121
Dividend Payout Rate	45%	30%	41%	59%	73%	81%	79%	92%	98%	75%
Bonus Shares	10%	–	–	–	–	–	–	10%	–	15%
(Thousand Metric Tons)										
Engro Urea Production	952	995	954	969	912	870	955	852	790	808
Engro Urea Sales	933	1,039	874	945	890	891	930	846	779	800
Zarkhez/Engro NP Production	92	98	125	108	157	121	72	73	31	–
Zarkhez/Engro NP Sales	100	89	135	116	143	114	86	64	24	–
Purchased Fertiliser Sales (including imported urea)	357	150	570	453	491	250	290	309	181	223

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 27th day of February, 2010 and at any adjournment thereof.

Signed this _____ day of _____ 2010.

WITNESSES:

1. Signature : _____
Name : _____
Address : _____

CNIC or : _____
Passport No. : _____

2. Signature : _____
Name : _____
Address : _____

CNIC or : _____
Passport No. : _____

Signature

Signature should agree with
the specimen registered with
the Company

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

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



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