

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM**  
**FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011**

ENGRO FERTILIZERS LIMITED  
 CONDENSED INTERIM BALANCE SHEET (UNAUDITED)  
 AS AT MARCH 31, 2011


(Amounts in thousand)

	Note	Unaudited March 31, 2011	Audited December 31, 2010
-----Rupees-----			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	87,590,139	84,370,221
Intangible assets		145,591	149,238
Long term loans and advances		99,546	111,515
		<u>87,835,276</u>	<u>84,630,974</u>
<b>Current Assets</b>			
Stores, spares and loose tools		3,645,633	3,392,080
Stock-in-trade	6	1,655,629	895,457
Trade debts	7	347,534	352,944
Deferred employee compensation expense	8	514	3,702
Derivative financial instruments	14	4,926	2,638
Loans, advances, deposits and prepayments	9	1,127,533	2,609,327
Other receivables	10	80,612	107,647
Taxes recoverable		1,467,200	1,770,476
Short term investments		52,184	2,452,285
Cash and bank balances		1,208,240	1,835,951
		9,590,005	13,422,507
<b>TOTAL ASSETS</b>		<u>97,425,281</u>	<u>98,053,481</u>

(Amounts in thousand)

	Note	Unaudited March 31, 2011	Audited December 31, 2010
-----Rupees-----			
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Share capital			
Authorised			
1,300,000,000 (December 31, 2010: 1,300,000,000)			
ordinary shares of Rs.10 each		<u>13,000,000</u>	<u>13,000,000</u>
Issued, subscribed and paid-up			
1,072,800,000 (December 31, 2010: 1,072,800,000)			
ordinary shares of Rs.10 each		10,728,000	10,728,000
Share premium		11,144	11,144
Employee share option compensation reserve	8	58,397	58,673
Hedging reserve	11	(644,913)	(887,277)
Unappropriated profit / (Accumulated loss)		5,126,097	3,729,052
		4,550,725	2,911,592
<b>Total Equity</b>		<u>15,278,725</u>	<u>13,639,592</u>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Borrowings	12	59,162,647	62,660,140
Subordinated loan from Holding Company	13	3,000,000	1,500,000
Derivative financial instruments	14	998,661	1,061,732
Deferred liabilities	15	3,095,708	2,580,644
Employee housing subsidy		55,098	347,886
Retirement and other service benefits obligations		28,984	54,823
		66,341,098	68,205,225
<b>Current Liabilities</b>			
Trade and other payables	16	3,989,804	3,911,349
Accrued interest / mark-up		1,163,087	1,981,620
Current portion of:			
- borrowings	12	10,152,227	8,651,546
- other service benefits obligations		22,761	20,636
Short term borrowings	17	48,697	970,126
Derivative financial instruments	14	428,882	673,387
		15,805,458	16,208,664
<b>Total Liabilities</b>		<u>82,146,556</u>	<u>84,413,889</u>
<b>Contingencies and Commitments</b>	18		
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<u>97,425,281</u>	<u>98,053,481</u>

The annexed notes from 1 to 30 form an integral part of this condensed interim financial information.

  
Khalid S. Subhani  
Chief Executive

  
Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(Amounts in thousand except for earnings per share)

	Note	3 months ended March 31, 2011	3 months ended March 31, 2010
-----Rupees-----			
Net sales		5,882,433	4,619,953
Cost of sales	19	(2,789,606)	(2,419,731)
<b>Gross profit</b>		<u>3,092,827</u>	<u>2,200,222</u>
Selling and distribution expenses	20	(494,011)	(359,783)
Administrative expenses	21	(117,217)	(126,048)
		<u>2,481,599</u>	<u>1,714,391</u>
Other operating income	22	169,808	5,094
Other operating expenses		(207,832)	(215,175)
Finance costs		(290,948)	(300,265)
		(498,780)	(515,440)
<b>Profit before taxation</b>		<u>2,152,627</u>	<u>1,204,045</u>
Taxation	23		
Current		(370,052)	(442,214)
Deferred		(385,530)	11,436
		(755,582)	(430,778)
<b>Profit for the period</b>		<u>1,397,045</u>	<u>773,267</u>
			<b>Restated</b>
<b>Earnings per share - basic and diluted</b>	24	<u>1.30</u>	<u>0.72</u>

The annexed notes from 1 to 30 form an integral part of this condensed interim financial information.

  
**Khalid S. Subhani**  
 Chief Executive


  
 Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(Amounts in thousand)

	3 months ended March 31, 2011	3 months ended March 31, 2010
	-----Rupees-----	
<b>Profit for the period</b>	1,397,045	773,267
<b>Other comprehensive income</b>		
<b>Hedging reserve - cash flow hedges</b>		
Losses arising during the period	(203,281)	(448,558)
Less: Adjustment for amounts transferred to initial carrying amount of hedged items (Capital work in progress)	576,147	206,218
	372,866	(242,340)
Income tax relating to hedging reserve	(130,502)	84,819
Other comprehensive income / (loss) for the period, net of tax	242,364	(157,521)
<b>Total comprehensive income for the period</b>	<u>1,639,409</u>	<u>615,746</u>

The annexed notes from 1 to 30 form an integral part of this condensed interim financial information.

  
**Khalid S. Subhani**  
 Chief Executive

  
 Director




ENGRO FERTILIZERS LIMITED  
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2011

(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
Rupees						
<b>Balance as at January 1, 2010</b>	<b>100,000</b>	<b>10,639,144</b>	<b>-</b>	<b>(609,719)</b>	<b>(544)</b>	<b>10,128,881</b>
<b>Transactions with owners</b>						
Issue of share options to employees	-	-	58,949	-	-	58,949
<b>Total comprehensive income for the three months ended March 31, 2010</b>						
Profit for the period	-	-	-	-	773,267	773,267
Other comprehensive income	-	-	-	(157,521)	-	(157,521)
- cash flow hedges net of tax	-	-	-	(157,521)	773,267	615,746
<b>Balance as at March 31, 2010 (Unaudited)</b>	<b>100,000</b>	<b>10,639,144</b>	<b>58,949</b>	<b>(767,240)</b>	<b>772,723</b>	<b>10,803,576</b>
<b>Transactions with owners</b>						
Share options lapsed during the period	-	-	(276)	-	-	(276)
Bonus shares issued during second quarter of 2010 in the ratio of 2,880 shares for every 100 shares held	2,880,000	(2,880,000)	-	-	-	-
Bonus shares issued during fourth quarter of 2010 in the ratio of 260 shares for every 100 shares held	7,748,000	(7,748,000)	-	-	-	-
<b>Total comprehensive income for the nine months ended December 31, 2010</b>	<b>10,628,000</b>	<b>(10,528,000)</b>	<b>(276)</b>	<b>-</b>	<b>-</b>	<b>(276)</b>
Profit for the period	-	-	-	-	2,956,329	2,956,329
Other comprehensive income	-	-	-	(120,037)	-	(120,037)
- cash flow hedges, net of tax	-	-	-	(120,037)	2,956,329	2,836,292
<b>Balance as at December 31, 2010 (Audited)</b>	<b>10,728,000</b>	<b>11,144</b>	<b>58,673</b>	<b>(887,277)</b>	<b>3,729,052</b>	<b>13,639,592</b>
<b>Transactions with owners</b>						
Share options lapsed during the period (note 8.2)	-	-	(276)	-	-	(276)
<b>Total comprehensive income for the three months ended March 31, 2011</b>						
Profit for the period	-	-	-	-	1,397,045	1,397,045
Other comprehensive income	-	-	-	242,364	-	242,364
- cash flow hedges, net of tax	-	-	-	242,364	1,397,045	1,639,409
<b>Balance as at March 31, 2011 (Unaudited)</b>	<b>10,728,000</b>	<b>11,144</b>	<b>58,397</b>	<b>(644,913)</b>	<b>5,126,097</b>	<b>15,278,725</b>

The annexed notes from 1 to 30 form an integral part of this condensed interim financial information.

  
Khalid S. Subhani  
Chief Executive


  
J. Akhtar  
Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(Amounts in thousand)

	Note	3 months ended March 31, 2011	3 months ended March 31, 2010
----- Rupees -----			
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	1,669,089	63,166
Retirement and other service benefits paid		(69,400)	(52,640)
Finance cost paid		(339,305)	(361,863)
Taxes paid		(66,776)	(53,952)
Long term loans and advances - net		(1,717)	(63,507)
Net cash (utilized in) / generated from operating activities		1,191,891	(468,796)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)		(3,799,403)	(3,604,110)
Sale proceeds on disposal of PPE		9,058	3,984
Repayment of sub-ordinated loan by associate company		770,000	-
Income on deposits / other financial assets		151,016	5,745
Net cash generated utilized in investing activities		(2,869,329)	(3,594,381)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,500,000	3,898,570
Repayments of borrowings		(1,928,945)	(125,000)
Net cash generated from / (utilized in) financing activities		(428,945)	3,773,570
Net decrease in cash and cash equivalents		(2,106,383)	(289,607)
Cash and cash equivalents at beginning of the period		3,318,110	709,230
Cash and cash equivalents at end of the period	26	1,211,727	419,623

The annexed notes from 1 to 30 form an integral part of this condensed interim financial information.

  
**Khalid S. Subhani**  
 Chief Executive

  
 Director

**ENGRO FERTILIZERS LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011**

(Amounts in thousand)

**1. LEGAL STATUS AND OPERATIONS**

Engro Fertilizers Limited ('the Company') is a public unlisted company incorporated on June 29, 2009 in Pakistan under the Companies Ordinance, 1984 as a wholly owned subsidiary of Engro Corporation Limited (the Holding Company). The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company's registered office is situated at 7th & 8th floors, The Harbour Front Building, Plot Number HC-3, Block 4, Scheme Number 5, Clifton, Karachi.

**2 BASIS OF PREPARATION**

This condensed interim financial information is unaudited and has been prepared and is being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard 34 - 'Interim Financial Reporting'. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements for the year ended December 31, 2010.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2010.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

**4.1** The preparation of this condensed interim financial information in conformity with the approved accounting standards 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. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

**4.2** During preparation of this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to financial statements for the year ended December 31, 2010.



(Amounts in thousand)

5	PROPERTY, PLANT AND EQUIPMENT	Unaudited March 31, 2011	Audited December 31, 2010
		-----Rupees-----	
	Operating assets at net book value	16,198,601	16,340,534
	Capital work in progress		
	- Expansion and other projects (note 5.1)	71,092,098	67,711,577
	- Capital spares	299,440	318,110
		<u>71,391,538</u>	<u>68,029,687</u>
		<u>87,590,139</u>	<u>84,370,221</u>
5.1	Capital work-in-progress - Expansion and other projects		
		Unaudited March 31, 2011	Audited December 31, 2010
		-----Rupees-----	
	Plant and machinery (note 5.1.1)	45,766,322	44,519,966
	Building and civil works (note 5.1.1)	8,627,520	8,530,067
	Furniture, fixture and equipment	150,931	176,221
	Advances to suppliers	45,207	220,718
	Other ancillary costs (note 5.1.2)	16,502,118	14,264,605
		<u>71,092,098</u>	<u>67,711,577</u>
5.1.1	Capital work in progress includes Rs. 45,472,468 (December 31, 2010: Rs. 44,256,976) and Rs. 8,255,648 (December 31, 2010: Rs. 7,877,933) with respect to Urea expansion project (Enven Plant), adjacent to existing Daharki plant, for plant & machinery and building & civil works respectively. The capacity of the Enven Plant will be 1.3 million tons of Urea per annum and will cost approximately US\$ 1.1 billion. The Company commenced trial production on December 29, 2010 but could not continue for a reasonable period, as required for commissioning of commercial production, due to curtailment of gas by Sui Northern Gas Pipeline Limited (SNGPL) for forty five days from January 7, 2011. However, gas outage was extended till second week of March. While efforts were underway to smoothen plant operations, further outages of gas were faced from first week of April which has pushed forward declaration of commercial production. Same is now targeted for May subject to gas availability.		
5.1.2	Other ancillary costs also include net borrowing costs capitalized amounting to Rs. 13,280,751 (December 31, 2010: Rs. 11,318,874) at borrowing rates ranging from 11.52% to 17.22%. It also includes depreciation and amortization, salaries, wages & benefits, legal & professional charges, etc.		
		Unaudited March 31, 2011	Audited December 31, 2010
		-----Rupees-----	
6	STOCK-IN-TRADE		
	Raw materials	1,303,195	576,641
	Packing materials	54,079	46,438
		<u>1,357,274</u>	<u>623,079</u>
	Finished goods	298,355	272,378
		<u>1,655,629</u>	<u>895,457</u>

(Amounts in thousand)

	Unaudited March 31, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>7 TRADE DEBTS</b>		
Considered good		
Secured (note 7.1)	303,268	342,600
Unsecured	44,266	10,344
	<u>347,534</u>	<u>352,944</u>
Considered doubtful	8,073	8,073
	<u>355,607</u>	<u>361,017</u>
Provision for impairment	(8,073)	(8,073)
	<u>347,534</u>	<u>352,944</u>

7.1 These debts are secured by way of bank guarantee and inland letter of credit.

**8 EMPLOYEE SHARE OPTION SCHEME**

	Unaudited March 31, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>8.1 Deferred employee compensation expense</b>		
Balance at start of period / year	3,702	-
Options issued during the period / year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Amortisation for the period / year	(2,912)	(54,971)
Balance at end of the period / year	514	3,702
Current portion shown under current assets	(514)	(3,702)
Long term portion of deferred employee compensation expense	-	-

**8.2 Employee share option compensation reserve**

Balance at start of period / year	58,673	-
Options issued during the period / year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Balance at end of the period / year	<u>58,397</u>	<u>58,673</u>

**8.3 Movement in share options outstanding at end of the period is as follows:**

	-----Numbers-----	
Balance at start of period / year	4,914,000	-
Options issued during the period / year	-	4,937,100
Options lapsed during the period / year	(23,100)	(23,100)
Balance at end of the period / year (note 8.3.1)	<u>4,890,900</u>	<u>4,914,000</u>

8.3.1 The above mentioned share options do not include the effect of bonus shares, issued during fourth quarter of the previous year, which makes the total number of share options outstanding at the end of the current period equal to 17,607,240. Further consequent to issue of bonus shares, the exercise price was also adjusted to Rs. 27.22 per share, however, such adjustment has no effect on the fair value of share options recognised in the financial statements.

(Amounts in thousand)

<b>Unaudited March 31, 2011</b>	<b>Audited December 31, 2010</b>
-----Rupees-----	

**9 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS**

Current portion of long term loans and advances to executives and other employees - considered good	130,772	413,869
Sub-ordinated loan to Engro Eximp (Private) Limited, an associated company	-	770,000
Loans, advances and deposits (note 9.1)	724,655	745,832
Prepayments (note 9.2)	273,618	681,138
	1,129,045	2,610,839
Provision for impairment	(1,512)	(1,512)
	1,127,533	2,609,327

**9.1** These include Rs 650,000 (December 31, 2010: Rs 650,000) interest free loan to Descon Engineering Limited, a contractor to the Enven Plant. The loan, repayable on demand, is given against a Corporate Bond/Guarantee and Promissory Note.

**9.2** Prepayments include Rs 173,117 (December 31, 2010: Rs 573,843) representing the unadjusted balance of payments made to Sui Northern Gas Pipeline Limited under Take or Pay arrangement in respect of the Enven Plant as per agreement. The Company is confident that such prepayment will be adjusted, prior to the expiry period against the expected gas consumption in the coming months.

**10 OTHER RECEIVABLES**

Other receivables include Rs. 57,135 (December 31, 2010: Rs 57,135) in respect of sales tax receivable from the Government of Pakistan, levied in 2008 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609(1)/2004. The Holding Company had paid the demand made under protest and filed an appeal before the Collector, Sales Tax and Federal Excise. Further, the Ministry of Food, Agriculture and Livestock had also recommended through its letter dated June 27, 2008 that the said grade of MAP should be assessed at deemed value of import with retrospective effect. An appeal has been filed before the Collector, Sales Tax and Federal Excise and the management is confident that it will be decided in the Company's favour and the aforementioned amount paid under protest would be fully recovered.



(Amounts in thousand)

	Unaudited March 31, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>11 HEDGING RESERVE</b>		
Fair values of:		
- Foreign exchange forward contracts - net (note 14.1)	(51,586)	(231,417)
- Foreign exchange option contracts	-	(12,464)
- Interest rate swaps (note 14.2)	(940,589)	(1,121,158)
	<u>(992,175)</u>	<u>(1,365,039)</u>
Deferred tax	347,262	477,762
	<u>(644,913)</u>	<u>(887,277)</u>

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

	Unaudited March 31, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>12 BORROWINGS - Secured (Non-participatory)</b>		
Long term finance utilised under mark-up arrangements	54,418,867	56,422,140
Certificates	14,896,007	14,889,546
	<u>69,314,874</u>	<u>71,311,686</u>
Less: Current portion shown under current liabilities	10,152,227	8,651,546
Balance at end of the period / year	<u>59,162,647</u>	<u>62,660,140</u>

12.1 During the period, the Company paid its first installment amounting to US\$ 20,250 under Islamic Offshore 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.

12.2 The maturity of loan facilities range from 13 months to 9 years and mark-up is 1.10% to 2.40% over six month KIBOR and 1.3% over three month KIBOR for Rupee facilities, and 2.57% to 6.00% over six month LIBOR for USD facilities. These facilities, excluding the Privately Placed TFCs (PPTFCs), International Finance Corporation's (IFC) facility and bridge loans obtained in the year 2010, are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs, IFC's facility and above-mentioned bridge loans are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

**13 SUBORDINATED LOAN FROM HOLDING COMPANY - Unsecured**

During the period, the Company obtained additional sub-ordinated loan of Rs 1,500,000 from Engro Corporation Limited, its Holding Company bringing the total loan amount to Rs 3,000,000 (December 31, 2010: Rs 1,500,000). These loans have a maturity of five years, with bullet repayments at the end of their respective terms and carry mark-up at rates not being lower than the cost of the Holding Company for finance of like maturities plus 1%.

(Amounts in thousand)

**14 DERIVATIVE FINANCIAL INSTRUMENTS**

	Unaudited March 31, 2011		Audited December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
-----Rupees-----				
Conversion option on IFC loan	-	430,442		367,442
Cash flow hedges				
- Foreign exchange forward contracts net (note 14.1)	4,926	56,512	2,638	234,055
- Foreign exchange option contracts	-	-	-	12,464
- Interest rate swaps (note 14.2)	-	940,589	-	1,121,158
	4,926	1,427,543	2,638	1,735,119
Less: Current portion shown under current assets / liabilities				
Cash flow hedges:				
- Foreign exchange forward contracts, net	4,926	56,512	2,638	234,055
- Foreign exchange option contracts	-	-	-	12,464
- Interest rate swaps	-	372,370	-	426,868
	4,926	428,882	2,638	673,387
	-	998,661	-	1,061,732

**14.1 Foreign exchange forward contracts**

**14.1.1** The Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at March 31, 2011, the Company had forward exchange contracts to purchase Euros 3,872 (December 31, 2010: Euros 2,698) at various maturity dates matching the anticipated payment dates for commitments with respect to the urea expansion project. The net fair value of these contracts as at March 31, 2011 is positive and amounted to Rs. 4,838 (December 31, 2010: Rs. 2,638 positive).

**14.1.2** The Company entered in various US\$: PKR forward contracts to hedge its foreign currency exposure. As at March 31, 2011, the Company had forward contracts to purchase US\$ 85,000 (December 31, 2010: US\$ 85,000) at various maturity dates to hedge its foreign currency loan obligations. The net fair value of these contracts as at March 31, 2011 is negative and amounted to Rs. 56,424 (December 31, 2010: Rs. 234,055 negative).

**14.2 Interest rate swaps**

**14.2.1** 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. The outstanding notional amount as at March 31, 2011 is US\$ 129,750 (December 31, 2010: US\$ 150,000). 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 March 31, 2011 is negative and amounted to Rs. 475,027 (December 31, 2010: Rs. 654,163 negative).

**14.2.2** 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 (December 31, 2010: 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 March 31, 2011 is negative and amounted to Rs. 465,562 (December 31, 2010: Rs. 466,995 negative).



(Amounts in thousand)

	Unaudited March 31, 2011	Audited December 31, 2010
-----Rupees-----		
<b>15 DEFERRED LIABILITIES</b>		
Deferred taxation (note 15.1)	3,004,234	2,488,204
Deferred income (note 15.2)	91,474	92,440
	<u>3,095,708</u>	<u>2,580,644</u>
<b>15.1 Deferred taxation</b>		
Credit / (Debit) balances arising on account of:		
- Accelerated depreciation allowance	3,433,785	3,376,158
- Carried forward tax losses substantially pertaining to unabsorbed tax depreciation	-	(324,811)
- Fair values of hedging instruments	(347,261)	(477,762)
- Fair value of IFC conversion option	(32,128)	(10,078)
- Provision for:		
- retirement benefits	(18,111)	(26,410)
- inventories, slow moving stores and spares and doubtful receivables	(27,893)	(24,104)
- others	(4,158)	(24,789)
	<u>3,004,234</u>	<u>2,488,204</u>
<b>15.2 Deferred income</b>		
The Company in 2009 received an amount of Rs. 96,627 from Engro Energy Limited, an associated company, for the right to use the Company's infrastructure facilities at Daharki Plant by the employees of Engro Energy Limited for a period of twenty five years. The amount is being amortised over the aforementioned period.		
<b>16 TRADE AND OTHER PAYABLES</b>		
	Unaudited March 31, 2011	Audited December 31, 2010
-----Rupees-----		
Creditors	958,881	1,006,034
Accrued liabilities	554,600	942,800
Advances from customers	1,740,134	1,338,022
Payable to:		
- Engro Corporation Limited	2,382	296
- Engro Eximp (Private) Limited	-	151,626
- Engro Vopak Terminal Limited	-	68
- Engro Foods Limited	307	-
- Engro Foods Supply Chain (Private) Limited	5	-
Deposits from dealers refundable on termination of dealership	13,316	11,800
Contractors' deposits and retentions	106,502	94,201
Workers' profits participation fund	115,608	9,742
Workers' welfare fund	150,176	106,245
Sales tax payable	94,230	29
Others	253,663	250,486
	<u>3,989,804</u>	<u>3,911,349</u>

(Amounts in thousand)

**17 SHORT TERM BORROWINGS**

**17.1** The funded facilities for short term finances available from various banks amounts to Rs. 4,150,000 (December 31, 2010: Rs. 3,900,000) along with non-funded facilities of Rs. 1,450,000 (December 31, 2010: Rs. 1,450,000) for Bank Guarantees. The rates of markup on funded financing facilities ranges from 14.04% to 14.80% and all the facilities are secured by floating charge upon all present and future stocks including raw and packaging materials, finished goods, stores and spares and other merchandise and on all present and future book debts of the Company.

**17.2** During the current period, the Company repaid its obligation of Rs 1,000,000 upon maturity of the 6 months unsecured Commercial Paper issued in September 2010.

**18 CONTINGENCIES AND COMMITMENTS****Contingencies**

**18.1** Bank guarantees of Rs. 1,213,626 (December 31, 2010: Rs. 1,214,295) have been issued in favor of third parties.

**18.2** Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 36,018 (December 31, 2010: Rs. 36,018).

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

**18.4** The Company and the Holding Company, by virtue of the scheme of demerger have extended project completion support to the lenders of the Engro Powergen Qadirpur Limited, a subsidiary of Engro PowerGen Limited for USD 15,400 (December 31, 2010: USD 15,400). These projects supports are contingent upon occurrence or non-occurrence of specified future events. The project is complete and lender NOCs are awaited.

**18.5** 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 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.

	<b>Unaudited March 31, 2011</b>	<b>Audited December 31, 2010</b>
<b>Commitments</b>	-----Rupees-----	
<b>18.6</b> Property, plant and equipment	<u>936,217</u>	<u>1,630,879</u>

(Amounts in thousand)

## 19 COST OF SALES

	Unaudited 3 months ended March 31, 2011	Unaudited 3 months ended March 31, 2010
-----Rupees-----		
Raw materials consumed	1,616,784	1,424,397
Salaries, wages and staff welfare	240,899	207,659
Fuel and power	586,342	586,785
Repairs and maintenance	66,403	68,562
Depreciation	158,135	150,665
Amortisation	968	912
Consumable stores	61,196	32,352
Staff recruitment, training, safety and other expenses	13,538	7,243
Purchased services	31,867	30,139
Travel	8,148	7,085
Communication, stationery and other office expenses	4,748	4,595
Insurance	24,070	31,235
Rent, rates and taxes	2,424	3,427
Other expenses	61	113
Cost of goods manufactured	<u>2,815,583</u>	<u>2,555,169</u>
Add: Opening stock of finished goods manufactured	<u>272,378</u>	<u>112,500</u>
Less: Closing stock of finished goods manufactured	<u>298,355</u>	<u>247,938</u>
	<u>(25,977)</u>	<u>(135,438)</u>
Cost of sales	<u><u>2,789,606</u></u>	<u><u>2,419,731</u></u>

## 20 SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and staff welfare	78,403	56,499
Staff recruitment, training, safety and other expenses	8,835	3,961
Product transportation and handling	259,170	211,282
Royalty Expense	83,842	62,368
Repairs and maintenance	632	367
Advertising and sales promotion	7,352	2,435
Rent, rates and taxes	23,979	510
Communication, stationery and other office expenses	3,426	3,670
Travel	8,784	5,804
Depreciation	6,842	4,722
Amortisation	12	12
Purchased services	1,001	320
Insurance	328	95
Other expenses	11,405	7,738
	<u>494,011</u>	<u>359,783</u>



(Amounts in thousand)

21 ADMINISTRATIVE EXPENSES	Unaudited 3 months ended March 31, 2011	Unaudited 3 months ended March 31, 2010
	-----Rupees-----	
Salaries, wages and staff welfare	50,717	61,742
Staff recruitment, training, safety and other expenses	3,689	3,080
Repairs and maintenance	2,708	4,716
Rent, rates and taxes	11,751	19,208
Communication, stationery and other office expenses	2,868	2,703
Travel	832	2,587
Depreciation	8,593	7,517
Amortisation	2,659	2,109
Purchased services	20,410	10,212
Donations	10,241	10,980
Other expenses	2,749	1,194
	<u>117,217</u>	<u>126,048</u>

**22 OTHER OPERATING INCOME****22.1** Other operating income includes:

- Rs. 136,705 (3 months ended March 31, 2010: Rs 445) in respect of income on short term investments.

- Rs. 24,116 (3 months ended March 31, 2010: Rs 3,291) in respect of commission earned as selling agent of imported fertilizer on behalf of Engro Eximp (Private) Limited, an associated company.

**23 TAXATION**

As a result of demerger, as more fully explained in statement of financial information for the year ended December 31, 2010, all pending tax issues of the Fertilizer Undertaking have been transferred to the Company. Major issues pending before the tax authorities are described below:

The Holding Company in its tax return for financial years 2006 to 2008 (tax years 2007 to 2009) claimed the benefit of Group Relief under section 59 B 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), Rs. 910,845 and Rs. 1,670,814 for financial years 2006, 2007 and 2008 respectively, mainly on account of disallowance of Group Relief (in all three years), inter corporate dividend (in 2007 and 2008) and write down of inventories to net realisable value (in 2008) besides certain other issues. Uptil last year, the Holding Company had paid Rs. 170,000 and Rs. 400,000 for 2006 and 2007 respectively. Stay by the High Court of Sindh for payment of balance amount for financial year 2006 was granted to the Holding Company pending decision of the appeal filed by the Holding Company before the Income Tax Appellate Tribunal (ITAT). However, for financial year 2007 the issue of Group Relief was decided by the Commissioner Inland Revenue (Appeals I) in Company's favor against which the tax department filed an appeal with ITAT. During 2010, the Company paid Rs. 600,000 for financial year 2008, while stay for payment for the balance amount was granted by the tax department till December 31, 2010. Appeal was also filed by the Company with the Commissioner Inland Revenue (Appeals). During the quarter, the tax department raised a demand for Rs. 509,218 after expiry of stay, despite available refunds. The Company is confident that the issue will be resolved in Company's favour.

(Amounts in thousand)

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 59 B of the Ordinance. The Holding Company had applied for such a designation but remained pending with SECP for want of related regulations not framed then. These regulations were framed by SECP subsequently in December 2008 and on resubmission of application the Holding Company along with other subsidiaries have been registered as a Group. Designation has also been granted for Group Relief and Group Taxation during the period.

During 2010, orders were received for cases pending at ITAT relating to financial years 2006 and 2007. The major issues of Group Taxation and Group Relief was decided in the Company's favor in both the years. On Group relief for financial year 2006 the case was remanded back to the tax department with directions to relook the case in the light of the relevant law as it existed at the close of the tax year.

All the assessments of the Holding Company, for income years 1995 to 2002 finalized by the Department which were in appeal at the ITAT level were decided during 2010. The major one being apportionment of gross profit and expenses between normal income and Final Tax Regime (FTR) income has been remanded back to the tax department by ITAT with specific directions for apportionment of gross profit on the basis of turnover as claimed by Holding Company. In view of the decision, the Company has written back a provision amounting to Rs. 463,784 in 2010.

The Company has filed appeal effects with the tax department in respect of decisions made by ITAT in Company's favour in 2010.

#### 24 EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company which is based on:

	<b>3 months ended March 31, 2011</b>	<b>3 months ended March 31, 2010</b>
	-----Rupees-----	
Profit for the period	<u>1,397,045</u>	<u>773,267</u>
	-----numbers-----	
Weighted average number of Ordinary shares (in thousand)	<u>1,072.800</u>	<u>1,072.800</u>



(Amounts in thousand)

**25 CASH GENERATED FROM OPERATIONS**

<b>Unaudited 3 months ended March 31, 2011</b>	<b>Unaudited 3 months ended March 31, 2010</b>
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-----Rupees-----

Profit before taxation	2,152,627	1,204,045
Adjustment for non-cash charges and other items:		
Depreciation	173,570	158,182
Amortisation	3,639	3,033
Profit on disposal of property, plant and equipment	(6,206)	(372)
Provision for retirement and other service benefits	31,384	53,114
Income on deposits / other financial assets	(136,705)	(445)
Financial charges	290,948	300,265
Employee share compensation expense	374	9,720
Employee Housing Subsidy expense	5,164	28,456
Provision for surplus and slow moving stores and spares	10,825	4,173
Provision against other receivables	465	-
Change in the fair value of derivative financial instruments	63,000	127,000
Exchange gain on foreign currency loans	(18,373)	(19,000)
Working capital changes (note 25.1)	(901,623)	(1,805,005)
	<u>1,669,089</u>	<u>63,166</u>

**25.1 Working capital changes**

(Increase) / decrease in current assets

- Stores, spares and loose tools	(264,378)	(673,934)
- Stock-in-trade	(760,172)	(921,402)
- Trade debts	5,410	519,100
- Loans, advances, deposits and prepayments	26,803	(190,504)
- Other receivables (net)	12,259	(214,277)
	<u>(980,078)</u>	<u>(1,481,017)</u>

Increase / (Decrease) in current liabilities - Trade and other payables

	78,455	(323,988)
	<u>(901,623)</u>	<u>(1,805,005)</u>

**26 CASH AND CASH EQUIVALENTS**

Cash and bank balances	1,208,240	408,473
Short term borrowings	(48,697)	(59,661)
Short term investments	52,184	70,811
	<u>1,211,727</u>	<u>419,623</u>

(Amounts in thousand)

**27 TRANSACTIONS WITH RELATED PARTIES**

Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in this condensed interim financial information, are as follows:

	<b>3 months ended March 31, 2011</b>	<b>3 months ended March 31, 2010</b>
	-----Rupees-----	
<b>Associated companies</b>		
Purchases and services	233,636	416,311
Sale of product	10,920	-
Contributions to retirement benefit schemes / funds	42,112	33,088
Services provided	6,678	37,628
Funds collected against sales made on behalf of an associate	3,246,997	3,522,729
Payment of mark-up on TFCs and repayment of Principal amount	4,344	1,924
Purchase of T-Bill	979,264	
Investment in mutual fund	595,000	-
Redemption of mutual fund	814,358	-
Donation to Engro Foundation	10,000	10,000
Commission expense	14,720	-
Markup from associate	27,847	27,530
Use of Assets	3,162	3,489
Reimbursements	25,162	11,371
<b>Holding Company</b>		
Purchases and services	23,909	18,676
Services provided	2,209	-
Royalty	83,842	62,368
Shares issued (including share premium) consequent to demerger	-	10,739,000
Mark-up on sub-ordinated loan	114,970	-
Use of assets	1,428	966
Reimbursements	19,420	45,578
<b>Others</b>		
Remuneration of key management personnel	22,985	19,829
	-----numbers-----	
Share options granted to key management personnel	-	1,680
	<b>Unaudited March 31, 2011</b>	<b>Audited December 31, 2010</b>
	-----Rupees-----	
<b>Balances due from:</b>		
- Associates	<u>7,761</u>	<u>8,603</u>
<b>Balances due to:</b>		
- Associates	<u>312</u>	<u>151,694</u>
- Holding Company	<u>2,382</u>	<u>296</u>

(Amounts in thousand)

**28 SEASONALITY**

The Company's fertilizer business is subject to seasonal fluctuations as a result of two different farming seasons viz, Rabi (from October to March) and Kharif (from April to September). On an average fertilizer sales are more tilted towards Rabi season. The Company manages seasonality in the business through appropriate inventory management.

**29 DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was authorised for issue on April 26, 2011 by the Board of Directors of the Company.

**30 CORRESPONDING FIGURES**

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet and condensed interim statement of changes in equity have been compared with the balances of annual audited financial statements of preceding financial year, whereas, the condensed interim profit and loss account, condensed interim statement of comprehensive income and the condensed interim cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which are not material.



**Khalid S. Subhani**  
Chief Executive



Director