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raising growth

First Quarter 2014 Accounts

company information

Board of Directors

Muhammad Aliuddin Ansari - Chairman
Ruhail Mohammed - Chief Executive Officer
Javed Akbar
Abdul Samad Dawood
Shabbir Hashmi
Naz Khan
Shahid Hamid Pracha
Khalid Siraj Subhani

Company Secretary

Faiz Chapra

Bankers

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al Habib Limited
Bank Islami Pakistan Limited
The Bank Of Punjab
Barclays Bank PLC
Burj Bank Limited
Citi Bank .N.A.
Deutche Bank AG
Dubai Islamic Bank (Pakistan) Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
HSBC Bank Middle East Limited
JS Bank Limited
KASB Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Samba Bank Limited
Silk Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited
United Bank Limited
Zarai Taraqiati Bank Limited

Auditors

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

Registered Office

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HC # 3, Marine Drive, Block 4, Clifton,
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Tel: +92(21) 35297501 – 35297510
Fax:+92(21) 35810669
Website: www.engrofertilizers.com

directors' report

On behalf of the Board of Directors of Engro Fertilizers Limited, we are pleased to present unaudited accounts for the three months ended March 31, 2014.

Pakistan Fertilizer Market

The Urea industry sales remained fairly stable at 1.36 MT during the quarter compared to 1.34 MT in the first quarter of 2013 on account of stable commodity prices and agricultural output. Within the urea industry, sale of branded urea has increased by 10% over the same period last year.

During the quarter, total urea production increased to 1,114 kT from 1,042 in first quarter of 2013 i.e. an increase of 7% due to improved gas availability to fertilizers sector by the Government.

Gas Infrastructure Development Cess (GIDC) was increased effective December 31, 2013 and the substantial portion of this cost increase was absorbed by the Industry. Significant gap between local urea and international urea prices prevailed during the quarter as international urea prices averaged USD 365 per ton (CFR) which was equivalent to local cost of Rs 2,740 per bag (inclusive of all ancillary charges) as against local price of Rs. 1,786/bag. The fertilizer industry continues to make significant contribution to the agricultural economy by keeping domestic prices substantially lower than international prices.

Company's Operating Performance

The company's urea production for the quarter was 456 kT as compared to 296 kT in the first quarter of the last year i.e. an increase of 54%. This production level was achieved due to two plant operations as the Company continues to receive temporary gas allocation of 60 mmscfd from Mari.

The Company sold 451 kT of urea versus 298 kT in the first quarter of 2013 showing a growth of 51%. The market share increased to 33% from 22%. The increase was due to improved market conditions with lower availability of imported urea stocks, no price difference between branded and imported urea and higher product availability due to increased production. Further, market share in branded / locally manufactured urea increased to 41% from 30%.

The Company's blended fertilizers' (Zarkhez & Engro NP) sales for the quarter increased to 26 kT from 21 kT in 1Q 2013. Overall potash industry saw 5% increase from 1Q 2013. Further, zarkhez market share increased to 55% from 45% in the first quarter of last year.

The Company continued to put up stellar performance on the safety front. The Total Recordable Injury Rate (TRIR) amongst employees for the year was Nil as compared to 0.09 in first quarter of last year 2013.

The gross profit for the period was Rs. 5,652 Million as compared to Rs. 4,213 Million in the same period last year. This increase was on account of higher sales volume. Finance cost was lower than last year as a result of loan repayments, lower KIBOR and appreciation of PKR against USD. Increase in fair value of conversion option on IFC loan resulted in higher operating expenses as compared to the corresponding period.

As a result of the above, the Company posted a profit of Rs. 1.4 Billion, more than twice the profit for the same period last year which has resulted into an EPS of Rs.1.12 per share versus Rs 0.57 per share in the comparative period.

Near Term Outlook

Local urea demand is expected to remain stable because of stable commodity prices and agricultural output. Due to Government's desire to reduce urea imports the temporary gas allocation of 60 mmscfd from Mari is likely to continue in the short term.

In January 2014, ECC has approved the provision of Mari gas to the Company at concessionary rate in order to discharge the Government's contractual obligations. Implementation of this decision is expected in due course.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director

balance sheet
as at march 31, 2014

(Amounts in thousand)

	Note	Unaudited March 31, 2014	Audited December 31, 2013
		(Rupees)	
Assets			
Non-Current Assets			
Property, plant and equipment	4	78,170,202	79,315,218
Intangible assets		130,286	138,464
Long term loans and advances		119,658	109,349
		78,420,146	79,563,031
Current assets			
Stores, spares and loose tools		4,479,366	4,368,863
Stock-in-trade		1,084,698	1,381,665
Trade debts		780,497	758,253
Derivative financial instruments		-	130,207
Loans, advances, deposits and prepayments		397,730	625,832
Other receivables		42,726	28,177
Taxes recoverable		559,282	556,314
Short term investments		12,707,331	18,058,054
Cash and bank balances	5	1,593,637	4,458,391
		21,645,267	30,365,756
TOTAL ASSETS		100,065,413	109,928,787

(Amounts in thousand)

	Note	Unaudited March 31, 2014	Audited December 31, 2013
		(Rupees)	
Equity & Liabilities			
Equity			
Share capital		12,978,000	12,228,000
Share premium		1,281,974	11,144
Advance against issue of shares		-	2,118,750
Hedging reserve		(101,344)	(147,644)
Remeasurement of post employment benefits		(20,886)	(20,886)
Unappropriated profit		12,316,880	10,879,868
		13,476,624	12,841,232
Total Equity		26,454,624	25,069,232
Liabilities			
Non-current liabilities			
Borrowings	6	48,053,314	52,896,382
Subordinated loan from Holding Company		2,400,000	3,000,000
Derivative financial instruments		1,732,922	739,419
Deferred liabilities		5,249,191	4,654,523
Service benefits obligations		79,995	104,053
		57,515,422	61,394,377
Current liabilities			
Trade and other payables		9,181,854	18,012,445
Accrued interest / mark-up		705,393	1,479,667
Current portion of:			
- borrowings	6	5,130,918	2,924,299
- service benefits obligations		41,465	43,893
Derivative financial instruments		1,035,737	1,004,874
		16,095,367	23,465,178
Total liabilities		73,610,789	84,859,555
Contingencies and Commitments	7		
TOTAL EQUITY & LIABILITIES		100,065,413	109,928,787

The annexed notes from 1 to 15 form an integral part of these financial statements.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director

profit and loss account
for the three months ended march 31, 2014

(Amounts in thousand except for earnings per share)

	Note	Unaudited 3 months ended March 31, 2014	Unaudited 3 months ended March 31, 2013
		——(Rupees)——	
Net sales		14,895,648	9,716,596
Cost of sales		(9,244,103)	(5,503,906)
Gross profit		5,651,545	4,212,690
Selling and distribution expenses		(1,090,226)	(717,923)
Administrative expenses		(196,923)	(138,349)
		4,364,396	3,356,418
Other operating income		491,962	150,913
Other operating expenses		(1,280,584)	(304,675)
Finance cost		(1,410,621)	(2,204,097)
		(2,691,205)	(2,508,772)
Profit before taxation		2,165,153	998,559
Taxation	8	(728,141)	(352,240)
Profit for the period		1,437,012	646,319
			Restated
Earnings per share - basic	9	1.12	0.57
Earnings per share - diluted	9	1.11	0.57

The annexed notes from 1 to 15 form an integral part of these financial statements.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director

statement of comprehensive income
for the three months ended march 31, 2014

(Amounts in thousand)

	Note	Unaudited 3 months ended March 31, 2014	Unaudited 3 months ended March 31, 2013
		——(Rupees)——	
Profit for the period		1,437,012	646,319
Items potentially re-classifiable to Profit and Loss Account			
Hedging reserve - cash flow hedges			
Losses arising during the period		(1,193,108)	(150,351)
Less: Adjustment for amounts transferred to profit and loss account		1,263,259	232,716
Income tax (Deferred) relating to hedging reserve		(23,851)	(28,828)
Other comprehensive income for the period, net of tax		46,300	53,537
Total comprehensive income for the period		1,483,312	699,856

The annexed notes from 1 to 15 form an integral part of these financial statements.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director

statement of changes in equity
for the three months ended march 31, 2014

(Amounts in thousand)

	Share capital	Advance against issue of share capital	Share premium	Hedging reserve	Unappropriated profit	Re-measurement of post employment benefits	Total
	Rupees						
Balance as at January 1, 2013 (audited)	10,728,000	-	11,144	(323,880)	5,382,763	-	15,798,027
Total comprehensive income for the three months ended March 31, 2013							
Profit for the period	-	-	-	-	646,319	-	646,319
Other comprehensive income							
- cash flow hedges, net of tax	-	-	-	53,537	-	-	53,537
	-	-	-	53,537	646,319	-	699,856
Balance as at March 31, 2013 (unaudited)	10,728,000	-	11,144	(270,343)	6,029,082	-	16,497,883
Transactions with owners							
Share capital issued during the period	1,500,000	-	-	-	-	-	1,500,000
Advance received during the period	-	2,118,750	-	-	-	-	2,118,750
Total comprehensive income for the nine months period ended December 31, 2013							
Profit for the period	-	-	-	-	4,850,786	-	4,850,786
Other comprehensive income							
- cash flow hedges, net of tax	-	-	-	122,699	-	-	122,699
- remeasurements, net of tax	-	-	-	-	-	(20,886)	(20,886)
	-	-	-	122,699	4,850,786	(20,886)	4,952,599
Balance as at December 31, 2013 (audited)	12,228,000	2,118,750	11,144	(147,644)	10,879,868	(20,886)	25,069,232
Transactions with owners							
Shares issued during the period	750,000	(2,118,750)	1,368,750	-	-	-	-
Share issuance cost	-	-	(97,920)	-	-	-	(97,920)
	750,000	(2,118,750)	1,270,830	-	-	-	(97,920)
Total comprehensive income for the three months ended March 31, 2014							
Profit for the period	-	-	-	-	1,437,012	-	1,437,012
Other comprehensive income							
- cash flow hedges, net of tax	-	-	-	46,300	-	-	46,300
	-	-	-	46,300	1,437,012	-	1,483,312
Balance as at March 31, 2014 (unaudited)	12,978,000	-	1,281,974	(101,344)	12,316,880	(20,886)	26,454,624

The annexed notes from 1 to 15 form an integral part of these financial statements.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director

statement of cash flows
for the three months ended march 31, 2014

(Amounts in thousand)

	Note	Unaudited 3 months ended March 31, 2014	Unaudited 3 months ended March 31, 2013
		(Rupees)	
Cash flows from operating activities			
Cash (used in) / generated from operations	10	(3,115,104)	720,900
Service benefits paid		(34,478)	(33,332)
Finance cost paid		(3,101,110)	(2,649,125)
Share issue costs paid		(51,106)	-
Taxes paid		(159,326)	(40,685)
Long term loans and advances		(10,309)	(14,966)
Net cash used in operating activities		(6,471,433)	(2,017,208)
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		(137,386)	(131,124)
Proceeds from sale of PPE		25,423	40,001
Income on deposits / other financial assets		464,430	104,464
Net cash generated from investing activities		352,467	13,341
Cash flows from financing activities			
Repayments of borrowings		(2,096,511)	(30,000)
Net cash used in financing activities		(2,096,511)	(30,000)
Net decrease in cash and cash equivalents		(8,215,477)	(2,033,867)
Cash and cash equivalents at beginning of the period		22,516,445	4,084,716
Cash and cash equivalents at end of the period	11	14,300,968	2,050,849

The annexed notes from 1 to 15 form an integral part of these financial statements.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director

notes to the condensed interim financial information for the three months ended march 31, 2014

(Amounts in thousand)

1 Legal Status And Operations

1.1 Engro Fertilizers Limited ('the Company') is a public 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.

1.2 Effective January 1, 2010, the Holding Company through a Scheme of Arrangement, under Section 284 to 288 of the Companies Ordinance, 1984, separated its fertilizer undertaking for continuation thereof by the Company, from the rest of the undertaking which has been retained in the Holding Company. Further, the Holding Company was renamed from Engro Chemical Pakistan Limited to Engro Corporation Limited, the principal activity of which now is to manage investments in subsidiary companies and joint ventures.

1.3 During last year, the Company made an Initial Public Offer (IPO) through issue of 75 million ordinary shares of Rs. 10 each at a price of Rs. 28.25 per share determined through book building process. Out of the total issue of 75 million ordinary shares, 56.25 million shares were subscribed through book building by High Net Worth Individuals and institutional investors whereas the remaining 18.75 million shares were subscribed by the general public. The shares were allotted on January 17, 2014, and the Karachi and Lahore Stock Exchanges approved the Company's application for formal listing and quotation of shares on the same date. On March 20, 2014, the Islamabad Stock Exchange also approved the listing of the Company. The Company's Term Finance Certificates are also listed at the Karachi Stock Exchange.

2 Basis For Preparation

During the 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 annual audited financial statements for the year ended December 31, 2013.

3 Summary of Significant Accounting Policies

The significant accounting policies adopted in the preparation of this interim condensed financial information are the same as those applied in the preparation of audited annual published financial statements of the Company for the year ended December 31, 2013.

4 Property, Plant And Equipment

	Note	Unaudited March 31, 2014	Audited December 31, 2013
		(Rupees)	
Operating assets at net book value		76,127,328	77,271,365
Capital work in progress			
- Other projects		1,639,429	1,640,564
- Major spare parts and stand-by equipment		403,445	403,289
		2,042,874	2,043,853
		78,170,202	79,315,218

(Amounts in thousand)

5 Cash And Bank Balances

The funded facilities for short term finances available from various banks and institutional investors amounts to Rs. 5,250,000 (December 31, 2013: Rs. 5,250,000) along with non-funded facilities of Rs. 1,275,000 (December 31, 2013: Rs. 1,275,000) for Bank Guarantees. The rates of markup on funded bank overdraft facilities ranged from 11.09% to 12.57%. 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, outstanding monies, receivable claims and bills of the Company.

6 Borrowings - Secured (Non - participatory)

	Unaudited March 31, 2014	Audited December 31, 2013
	(Rupees)	
Long term finance utilised under mark-up arrangements	38,539,440	41,179,539
Certificates	14,644,792	14,641,142
	53,184,232	55,820,681
Less: Current portion shown under current liabilities	5,130,918	2,924,299
Balance at end of the period / year	48,053,314	52,896,382

6.1 All senior debts are secured by an equitable mortgage upon the immovable property of the Company and equitable charge over current and future fixed assets excluding immovable property of the Company. Loans from IFC are secured by a sub-ordinated mortgage upon the immovable property of the Company and sub-ordinated charge over all present and future fixed assets excluding immovable property of the Company. Further, PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings. The Holding Company has issued corporate guarantees in respect of all debts excluding PPTFC whereas it has issued sub-ordinated corporate guarantee in respect of PPTFC.

6.2 The long term financing includes a loan of USD 30,000 from the International Finance Corporation (IFC) which carries interest of six months LIBOR plus a spread of 6% or 10% depending on the available free float shares of the Company at June 15, 2015. The management is confident that it will avail the spread of 6% for the entire loan tenor, and hence no related provision for the differential aggregating to Rs 330,487 (December 31, 2013: Rs. 323,512) has been made in this condensed financial information.This loan is divided into (I) 30% convertible loan on the shares of the Company at Rs. 24 per ordinary share calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option and (ii) 70% non-convertible loan. This conversion option can be exercised upto March 31, 2017. The fair value of the aforementioned conversion option, included in derivative financial instruments, amounts to Rs. 1,655,134 (December 31, 2013: Rs. 654,133).

6.3 The above finance also includes a loan for USD 50,000 entered into by the Holding Company with IFC. This loan is divided into (I) Tranche A (USD 15,000) convertible into the Holding Company's ordinary shares at Rs. 119.46 per ordinary share calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option. (ii) Tranche B (USD 35,000) non-convertible loan. Both Tranches were transferred to the Company under the scheme of demerger effective January 1, 2010. However, the option given to convert the Tranche A shall remain upon the Holding Company shares.

The Holding Company, upon shareholders' approval in the Annual General Meeting of February 27, 2010, has entered into an agreement with the Company that in the event IFC exercises the aforementioned conversion option (Tranche A), the loan amount then outstanding against the Company would stand reduced by the conversion option amount and the Company would pay the rupee equivalent of the corresponding conversion amount to the Holding Company which would simultaneously be given to the Company as a subordinated loan, carrying mark-up payable by the Holding Company for rupee finances of like maturities plus a margin of 1%. The effect of IFC conversion in substance would result in a loan from the Holding Company having the same repayment terms / dates as that of Tranche A.

(Amounts in thousand)

Subsequent to the period end, the Holding Company has received a notice from IFC for exercise of option on USD 7,000 loan and accordingly, 5,700,318 shares of the Holding Company would be allotted.

6.4 Under the terms of the agreements for long term borrowings, the Company is required to comply with certain financial debt covenants. As at March 31, 2014 all financial debt covenants have been complied with.

6.5 During the period ended March 31, 2014, the documentation of DEG with respect to reprofiling has been completed. Further, as part of the restructuring agreement, USD 36,000 out of total USD 72,000 (Balance as at December 31, 2013) of the Islamic Finance has been converted into a rupee loan.

7 Contingencies And Commitments

Contingencies

7.1 Bank guarantees of Rs.1,069,119 (December 31, 2013: Rs. 1,069,119) have been issued in favor of third parties.

7.2 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs.58,530 (December 31, 2013: Rs. 58,530).

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

7.4 The Holding Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Holding Company Rs. 47,800 whereas the award for the earlier years is awaited. The award for the second arbitration was challenged in High Court of Sindh during last year, the Sindh High Court upheld the award. However, as this can be challenged by way of further appeals, it will be recognized as income on realization thereof.

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

Further, the Company upon continual curtailment of gas after the aforementioned decision of the High Court has filed an application in respect of Contempt of Court under Article 199 & 204 of the Constitution of Pakistan. The Company, in the aforementioned application has submitted that SNGPL and MPNR have failed to restore full supply of gas to the Company's plant despite the judgment of High Court in the Company's favor. A show cause notice has also been issued against MPNR and SNGPL dated December 31, 2011 by the High Court. The application is pending for hearing and no orders have yet been passed in this regard.

7.6 All Pakistan Textile Processing Mills Association (APTMA), Agritech Limited (Agritech), Shan Dying & Printing Industries (Private) Limited and 27 others have each contended, through separate proceedings filed before the Lahore High Court that the supply to the Company's expansion plant is premised on the output from Qadirpur gas field exceeding 500 mmscfd by 100 mmscfd and the Gas Sale and Purchase Agreement (GSA) dated April 11, 2007 with Sui Northern Gas Pipeline Company Limited (SNGPL) be declared void ab initio because the output of Qadirpur has infact decreased. Agritech has additionally alleged discrimination in that it is receiving less gas than the other fertilizer companies on the SNGPL

(Amounts in thousand)

system. The Company has out rightly rejected these contentions, and is of the view that it has a strong case for the reasons that (1) 100 mmscfd gas has been allocated to the Company through a transparent international competitive bidding process held by the Government of Pakistan, and upon payment of valuable license fee, (2) GSA guarantees uninterrupted supply of gas to the expansion plant, with right to first 100 mmscfd gas production from the Qadirpur gas field, and (3) both the Company and the Qadirpur gas field, that is to initially supply gas to the Company are located in Sindh. Also neither the gas allocation by the Government of Pakistan nor the GSA predicates the gas supply from Qadirpur field producing 100 mmscfd over 500 mmscfd. No orders have been passed in this regard and the petition has also been adjourned sine die. However, the Company's management, as confirmed by the legal advisor, considers chances of petitions being allowed to be remote.

7.7 The Company along with other fertilizer companies, received a show cause notice from the Competition Commission of Pakistan (CCP) for initiating action under the Competition Act, 2010 in relation to unreasonable increase in fertilizer prices. The Company has responded in detail that factors resulting in such increase were mainly the imposition of infrastructure cess and sales tax and partially the gas curtailment. The CCP has issued an order in March 2013, whereby it has held that the Company enjoys a dominant position in the urea market and that it has abused this position by unreasonable increases of urea prices in the period from December 2010 to December 2011. The CCP has also held another fertilizer company to be responsible for abusing its dominant position. In addition, the CCP has imposed a penalty of Rs. 3,140,000 and Rs. 5,500,000 on the Company and that other fertilizer company respectively. An appeal has been filed in the Competition Appellate Tribunal (at present non-functional) and a writ has been filed in the Sindh High Court and stay has been granted against the recovery of the imposed fine. The Company's management believes that the chances of ultimate success are very good, as confirmed by legal advisor. Hence, no provision has been made in these financial statements.

7.8 The Company has filed a suit against the Government of Pakistan and SNGPL in the Lahore High Court for the recovery of damages incurred as a result of SNGPL suspending / curtailing gas supply to the Company amounting to Rs. 61,410,000. This would be recognized as income upon realization thereof.

		Unaudited March 31, 2014	Audited December 31, 2013
		(Rupees)	
	Commitments		
7.9	Property, plant and equipment	570,848	873,019

8 Taxation

	Unaudited March 31, 2014	Unaudited March 31, 2013
	(Rupees)	
Current		
- for the year (note 8.1)	156,358	54,160
- for prior years	-	1,356,898
	156,358	1,411,058
Deferred		
- for the year	571,783	298,080
- for prior years	-	(1,356,898)
	571,783	(1,058,818)
	728,141	352,240

8.1 Includes minimum turnover tax amounting to Rs.153,601 (March 31, 2013: Rs. 48,916).

(Amounts in thousand)

8.2 As a result of demerger, all pending tax issues of the Holding Company had been transferred to the Company. Major issues pending before the tax authorities are described below:

In 2012, the income tax department raised a demand of Rs. 1,481,709, subsequently rectified to Rs. 1,074,938, for the financial year 2010. The disallowances were mainly on account of initial allowance on capitalization which were later confirmed by the Commissioner Inland Revenue-Appeals (CIRA). The demand was subsequently reduced to Rs. 666,536 after application of rectifications from prior years amounting to Rs. 258,402 and payment of Rs. 150,000.

During last year, the Appellate Tribunal Inland Revenue (ATIR) and CIRA has remanded back the issues of Group Relief (Rs. 450,000) and Inter-Corporate Dividend (Rs. 220,000) related to the financial year 2008 in favour of the Company resulting in an available refund of Rs. 1,032,770 which has been partially adjusted against the aforementioned balance demand of Rs. 666,536.

In previous years, the department had filed reference applications in High Court against the below-mentioned ATIR's decisions in Company's favor. No hearing has been conducted to-date. The reference application includes the following matters:

- Group Relief (Financial year 2006 to 2007): Rs. 1,050,847
- Inter-Corporate Dividend (Financial year 2007): Rs. 116,500
- G.P. Apportionment (Financial years 1995 to 2002): Rs. 653,000

9 Earnings Per Share

	Unaudited March 31, 2014	Unaudited March 31, 2013
	(Rupees)	
Profit for the period	1,437,012	646,319
Add: Interest on IFC loan of USD 9,000 - net of tax	8,729	-
Profit used for the determination of Diluted EPS	1,445,741	646,319
Weighted average number of ordinary shares at the beginning of period	1,222,800	1,072,800
Adjustment of Bonus factor in right issue	-	61,861
Add: Weighted average adjustments for:		
Shares issued during the period	60,833	-
Weighted average number of shares for determination of basic EPS	1,283,633	1,134,661
Assumed conversion of USD 9,000 IFC loan	19,952	-
Weighted average number of shares for determination of diluted EPS	1,303,585	1,134,661

(Amounts in thousand)

	Unaudited March 31, 2014	Unaudited March 31, 2013
	(Rupees)	

10 Cash Generated From Operations

Profit before taxation	2,165,153	998,559
Adjustment for non-cash charges and other items:		
Depreciation	1,167,147	1,225,682
Amortization	7,696	6,945
Loss / (Profit) on disposal of property, plant and equipment	89,348	(10,662)
Provision for service benefits	7,992	11,990
Income on deposits / other financial assets	(474,965)	(103,528)
Financial charges	1,410,621	2,204,097
Provision for surplus and slow moving stores and spares	748	4,288
Provision against trade debts	-	19,000
Change in the fair value of IFC conversion option	1,001,001	182,121
Working capital changes (note 10.1)	(8,489,845)	(3,817,592)
	(3,115,104)	720,900

10.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(111,251)	(97,681)
- Stock-in-trade	296,967	635,260
- Trade debts	(22,244)	(16,171)
- Loans, advances, deposits and prepayments	130,182	(2,924)
- Other receivables (net)	(4,014)	(8,462)
	289,640	510,022
Increase in current liabilities		
- Trade and other payables including other service benefits - net	(8,779,485)	(4,327,614)
	(8,489,845)	(3,817,592)

11. Cash And Cash Equivalents

Cash and bank balances	1,593,637	445,895
Short term investments	12,707,331	1,842,179
Short term borrowings	-	(237,225)
	14,300,968	2,050,849

(Amounts in thousand)

12 Transactions With Related Parties

Details of transactions with related parties during the period are as follows:

	Unaudited March 31, 2014	Unaudited March 31, 2013
	(Rupees)	
Holding Company		
Purchases and services	48,845	36,129
Services provided	4,906	3,446
Royalty	214,219	137,055
Reimbursements	25,955	34,197
Mark-up paid on Long term sub-ordinated loan	106,816	126,493
Repayment of sub-ordinated loan	600,000	-
Use of assets	1,492	1,025
Associated companies		
Purchases and services	15,690	121,187
Sale of product	1,429	1,336
Contributions to retirement benefit schemes / funds	40,554	46,206
Services provided	24,631	16,711
Reimbursements	28,529	38,505
Funds collected against sales made on behalf of an associate	3,908,796	2,306,574
Payment of mark-up on TFCs and repayment of principal amount	3,315	3,834
Sale of T-Bills	-	4,161,893
Purchase of T-Bill	-	4,067,897
Income on T-Bill	-	40,864
Commission on sales	15,993	19,111
Purchase of mutual fund units	-	780,000
Redemption of mutual fund units	-	781,195
Donation to Engro Foundation	10,000	5,000
Commission expense	4,070	4,680
Use of Assets	2,992	3,365
Others		
Remuneration of key management personnel	34,586	30,442

13 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.

14 Corresponding Figures

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet has 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, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the unaudited 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.

15 Date of Authorisation For Issue

This condensed interim financial information was authorized for issue on by the Board of Directors of the Company.

Ruhail Mohammed
Chief Executive Officer

Javed Akbar
Director