ENGRO FERTILIZERS LIMITED
CONDENSED INTERIM
FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010

A.F. FERGUSON & CO.

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AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of Engro Fertilizers Limited as at June 30, 2010 and the related 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 together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information"), for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarter ended June 30, 2010 have not been reviewed as we are required to review only the cumulative figures for the half year ended June 30, 2010.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our conclusion, we draw attention to note 26 to the condensed interim financial information and as more fully explained therein, the taxes recoverable amount transferred to the Company on separation from Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) includes the effect of acquisition of taxable losses of a group company amounting to Rs. 1,500,847 thousand.

Chartered Accountants
Karachi
Date: July 29, 2010

Engagement Partner: Imtiaz A. H. Lallwala

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ENGRO FERTILIZERS LIMITED
CONDENSED INTERIM BALANCE SHEET (UNAUDITED)
AS AT JUNE 30, 2010

(Amounts in thousand)

	Note	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	76,960,906	-
Intangible assets		119,803	-
Deferred employee compensation expense	6	219	-
Long term loans and advances		137,230	-
		77,218,158	-
Current Assets			
Stores, spares and loose tools	7	2,075,257	-
Stock-in-trade	8	1,193,382	-
Trade debts	9	325,859	-
Deferred employee compensation expense	6	31,198	-
Derivative financial instruments	18	3,406	-
Loans, advances, deposits and prepayments	10	1,993,062	-
Other receivables	11	127,057	-
Taxes recoverable		662,188	-
Short term investments	12	1,269,890	-
Cash and bank balances	13	843,533	-
		8,524,832	-
TOTAL ASSETS		85,742,990	-

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(Amounts in thousand)

	Note	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
EQUITY & LIABILITIES			
Equity			
Share capital	14	2,980,000	-
Share premium	15	7,759,144	-
Employee share option compensation reserve	6	58,673	-
Hedging reserve	16	(1,014,344)	-
Unappropriated profit / (Accumulated loss)		2,011,632	(544)
		8,815,105	(544)
Total Equity		11,795,105	(544)
Liabilities			
Non-Current Liabilities			
Borrowings	17	62,822,763	-
Derivative financial instruments	18	833,416	-
Deferred liabilities	19	986,595	-
Employee housing subsidy		282,633	-
Retirement and other service benefits obligations		35,221	-
		64,960,628	-
Current Liabilities			
Trade and other payables	20	2,687,446	544
Accrued interest / mark-up		1,648,233	-
Current portion of:			
- borrowings	17	3,511,335	-
- other service benefits obligations		23,407	-
Short term borrowings	21	20,874	-
Derivative financial instruments	18	1,095,962	-
		8,987,257	544
Total Liabilities		73,947,885	544
Contingencies and Commitments	22		
TOTAL EQUITY & LIABILITIES		85,742,990	-

The annexed notes from 1 to 33 form an integral part of this condensed interim financial information.

Asad Umar
Chairman and Chief Executive

Director

ENGRO FERTILIZERS LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010

(Amounts in thousand except for earnings per share)

	Note	3 months ended June 30, 2010	6 months ended June 30, 2010
		Rupees	
Net sales		4,794,959	9,414,912
Cost of sales	23	(2,428,967)	(4,917,808)
Gross profit		2,365,992	4,497,104
Selling and distribution expenses	24	(440,136)	(856,857)
		1,925,856	3,640,247
Other operating income	25	302,052	307,146
Other operating expenses		(129,617)	(344,792)
Finance costs		(359,404)	(659,669)
		(489,021)	(1,004,461)
Profit before taxation		1,738,887	2,942,932
Taxation	26		
- Current		(269,408)	(711,622)
- Deferred		(230,570)	(219,134)
		(499,978)	(930,756)
Profit for the period		1,238,909	2,012,176
Earnings per share - basic and diluted	27	4.16	6.75

The annexed notes from 1 to 33 form an integral part of this condensed interim financial information.

Asad Umar
Chairman and Chief Executive

Director

ENGRO FERTILIZERS LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010

(Amounts in thousand)

	3 months ended June 30, 2010	6 months ended June 30, 2010
	Rupees	
Profit for the period	1,238,909	2,012,176
Other comprehensive income		
Hedging reserve - cash flow hedges		
Losses arising during the period	(882,702)	(1,331,260)
Less: Adjustment for amounts transferred to initial carrying amount of hedged items (Capital work in progress)	502,542	708,760
	(380,160)	(622,500)
Income tax relating to hedging reserve	133,056	217,875
Other comprehensive income for the period, net of tax	(247,104)	(404,625)
Total comprehensive income for the period	991,805	1,607,551

The annexed notes from 1 to 33 form an integral part of this condensed interim financial information.

Asad Umar
Chairman and Chief Executive

Director

ENGRO FERTILIZERS LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010
(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	Unappropriated profit / (Accumulated loss)	Total
	Rupees					
Movement during the period June 29, 2009, the date of incorporation, to December 31, 2009						
Transactions with owners						
7 shares of Rs.10 each issued to nominated Directors of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited), the Holding Company	-	-	-	-	-	-
Total comprehensive loss for the period ended December 31, 2009	-	-	-	-	(544)	(544)
Balance as at December 31, 2009 (audited)	-	-	-	-	(544)	(544)
Transactions with owners						
Transfer of Fertilizer Undertaking (note 1.4)						
9,999,993 shares of Rs.10 each issued to the Holding Company	100,000	10,639,144	-	-	-	10,739,144
Transfer of hedging reserve from the Holding Company	-	-	-	(609,719)	-	(609,719)
	100,000	10,639,144	-	(609,719)	-	10,129,425
Other transactions with owners						
Issue of share options to employees, net of share options lapsed (note 6.2)	-	-	58,673	-	-	58,673
Bonus shares issued during the period in the ratio of 2,880 shares for every 100 shares held	2,880,000	(2,880,000)	-	-	-	-
	2,880,000	(2,880,000)	58,673	-	-	58,673
	2,980,000	7,759,144	58,673	(609,719)	-	10,188,098
Total comprehensive income for the half year ended June 30, 2010						
Profit for the period	-	-	-	-	2,012,176	2,012,176
Other comprehensive income - cash flow hedges, net of tax	-	-	-	(404,625)	-	(404,625)
	-	-	-	(404,625)	2,012,176	1,607,551
Balance as at June 30, 2010 (unaudited)	2,980,000	7,759,144	58,673	(1,014,344)	2,011,632	11,795,105

The annexed notes from 1 to 33 form an integral part of this condensed interim financial information.

Asad Umar
Chairman and Chief Executive

Director

ENGRO FERTILIZERS LIMITED
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010

(Amounts in thousand)

	Note	6 months ended June 30, 2010 Rupees
Cash flows from operating activities		
Cash generated from operations	28	3,342,316
Retirement and other service benefits paid		(99,413)
Finance cost paid		(377,458)
Taxes paid		(837,643)
Long term loans and advances - net		(50,229)
Net cash generated from operating activities		1,977,573
Cash flows from investing activities		
Purchases of property, plant and equipment (PPE)		(7,613,163)
Sale proceeds on disposal of PPE		346,596
Income on deposits / other financial assets		10,524
Net cash used in investing activities		(7,256,043)
Cash flows from financing activities		
Proceeds from borrowings		6,913,089
Repayments of borrowings		(251,300)
Net cash generated from financing activities		6,661,789
Net increase in cash and cash equivalents		1,383,319
Cash and cash equivalents at beginning of the period (after transfer of Fertilizer Undertaking)	29	709,230
Cash and cash equivalents at end of the period	29	2,092,549

The annexed notes from 1 to 33 form an integral part of this condensed interim financial information.

Asad Umar
Chairman and Chief Executive

Director

ENGRO FERTILIZERS LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2010

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 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, formerly Engro Chemical Pakistan Limited) for the purpose explained in note 1.3. 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 The Company's last audited financial statements pertains to the period June 29, 2009, the date of incorporation, to December 31, 2009. There were no significant transactions, pending transfer of Fertilizer Undertaking as of January 1, 2010 as stated in note 1.3 and 1.4, and the accumulated loss of Rs. 544 reflected in the condensed interim balance sheet and statement of changes in equity as comparatives, represents pre-operating expenses. Accordingly, no comparatives have been presented in the condensed interim profit and loss account, condensed interim statement of comprehensive income and condensed interim statement of cash flows.

1.3 The Holding Company through a Scheme of Arrangement (the Scheme), under Section 284 to 288 of the Companies Ordinance, 1984, separated its fertilizer undertaking, to be continued by the newly incorporated subsidiary company (the Company), from the rest of the undertaking that is to be retained in the Holding Company. Under the Scheme, effective January 1, 2010:

a) the Fertilizer Undertaking would be transferred and vested in the Company against the issuance of ordinary shares of the Company; and

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 then would become a Holding Company and oversee the business of new fertilizer subsidiary as well as business of its other existing subsidiaries/associates.

Henceforth, the fertilizer business (manufacturing, purchasing and marketing of fertilizers) including all assets, liabilities, agreements, arrangements and other matters have been transferred to the Company against the issuance of 9,999,993, in addition to existing 7, fully paid ordinary shares of Rs. 10 each plus share premium. Such share premium is based on the net assets so transferred over Rs. 100,000, being the paid up face value of the Company.

1.4 Transfer of Fertilizer Undertaking

In order to determine the net assets for the aforementioned transfer referred to in note 1.3, the assets and liabilities of the Holding Company as at January 1, 2010 were bifurcated, as per the Scheme, between the Fertilizer Undertaking and Retained Undertaking. Based on such bifurcated balance sheet duly audited by the external auditors, the assets and liabilities transferred to the Company are summarized below including the issuance of shares and share premium resulted therefrom:

(Amounts in thousand)

Assets	**Note**	**Rupees**
Property, plant and equipment	5	69,462,873
Intangible assets		122,704
Stores, spares and loose tools	7	961,117
Stock-in-trade	8	422,607
Trade debts	9	2,514,425
Loans, advances, deposit and prepayments		
- long term		87,001
- current	10	1,465,467
		1,552,468
Other receivables		141,611
Taxes recoverable		536,167
Short term investments	12	450,857
Cash and bank balances	13	454,126
		76,618,955
Liabilities		
Borrowings including current portion of Rs. 810,100	17	59,375,454
Derivative financial instruments (net) including current portion of Rs. 663,834	18	1,276,676
Deferred liabilities	19	987,270
Employee housing subsidy		211,785
Retirement and other service benefits obligations including current portion		67,245
Trade and other payables	20	3,009,325
Accrued interest / mark-up		1,366,022
Short term borrowings	21	195,753
		66,489,530
Net assets transferred - Fertilizer Undertaking		10,129,425
Less: Ordinary shares issued to the Holding Company	14.3	100,000
Share premium before adjustment of hedging reserve		10,029,425
Add: Hedging reserve (negative) - refer note below	16	609,719
Share premium after adjustment of hedging reserve	15	10,639,144

Hedging Reserve

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

(Amounts in thousand)

2 BASIS OF PREPARATION

2.1 This condensed interim financial information is unaudited and has been prepared in accordance with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

2.2 The preparation of this condensed interim financial information in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and the methods of computation adopted in the preparation of this unaudited condensed interim financial information also disclosed in the condensed interim financial information for the first quarter ended March 31, 2010 (unaudited and not reviewed by external auditors) are set out below. These policies are same as applied in the preparation of the audited financial statements of the Holding Company for the year ended December 31, 2009, prior to transfer of Fertilizer Undertaking (note 1.3).

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

a) Standards, amendments and interpretations to existing standards that are effective in 2010

Following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2010, but are either not currently relevant to the Company or do not have any significant effect on the Company's financial information:

- IAS 1 (amendment), 'Presentation of financial statements'
- IFRS 2 (amendments), 'Group cash-settled and share based-payment transactions'
- IFRS 3 (revised), 'Business combinations'
- IFRS 5 (amendment), 'Non-current assets (or disposal groups) classified as held for sale or discontinued
- IAS 38 (amendment), 'Intangible assets'
- IFRIC 17, 'Distribution of non-cash assets to owners'
- IFRIC 18, 'Transfer of assets from customers'; and
- Number of other amendments in other IFRS and IAS which were part of the International Accounting Standards Board's (IASB's) annual improvements project, published in April 2009.

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

Following new standards, amendments and interpretation to existing standards have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted by the Company:

- IFRS 9, 'Financial Instruments', effective from January 1, 2013. IFRS 9 addresses the classification and measurement of financial assets. The Company is yet to asses the full impact of IFRS 9.

(Amounts in thousand)

- IAS 24 (revised), 'Related Party Disclosures', effective from January 1, 2011. The revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. Application of the revised standard will only impact the format and extent of disclosures presented in the Company's financial statements.
- Classification of right issues (amendment to IAS 32), effective from annual periods beginning on or after February 1, 2010. The amendment states that if right issues, which are offered for a fixed amount of foreign currency, are issued pro rata to all the entity's existing shareholders in the same class for fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The Company has not issued any right shares in foreign currency, therefore the amendment will not have any effect on the Company's financial statements.
- IFRIC 19 (interpretation), 'Extinguishing Financial Liabilities with Equity Instruments', effective from annual periods beginning on or after July 1, 2010. The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Company has not offered its shares to the creditors, therefore, this interpretation will have no impact on the Company's financial statements.
- Improvements to International Financial Reporting Standards 2010, issued in May 2010.

3.2 Property, plant and equipment

3.2.1 Owned assets

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except free-hold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 3.23). The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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. 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.

(Amounts in thousand)

3.2.2 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.

3.3 Intangible assets

a) Computer Software and Licenses

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. However, costs that are directly attributable to identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognised as an intangible asset. Direct costs include the purchase cost of software (license fee) and related overhead cost.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognised as a capital improvement and added to the original cost of the software.

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

b) Rights for future gas utilization

Rights for future gas utilization represents premium paid to the Government of Pakistan for allocation of 100 MMCFD natural gas for a period of 20 years from Qadirpur gas field at a predetermined price for a period of ten years commencing from the date of commercial production. The rights will be amortised from the date of commercial production on a straight-line basis over the remaining allocation period.

3.4 Impairment of non-financial assets

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

3.5 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 the profit and loss account.

(Amounts in thousand)

3.6 Financial assets

3.6.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also 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, other receivables and cash and bank balances 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.

3.6.2 Recognition and measurement

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

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

(Amounts in thousand)

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 other comprehensive income 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 3.11.

3.7 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.

3.8 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 and loss account.

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 option are disclosed in note 18.

(Amounts in thousand)

3.9 Stores, spares and loose tools

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

3.10 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material in transit which are stated at cost (invoice value) plus other charges incurred thereon till the balance sheet date. Cost in relation to finished goods includes applicable purchase cost and manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

Net realisable value signifies the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessarily to be incurred in order to make the sales.

3.11 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.

3.12 Cash and cash equivalents

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

3.13 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.

3.14 Employees' share option scheme

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

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

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

(Amounts in thousand)

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.

3.15 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.

3.16 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.

3.17 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.

3.17.1 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.

3.17.2 Deferred

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

A deferred tax asset is recognised to the extent that is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(Amounts in thousand)

3.18 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.

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

3.19 Employee benefits

3.19.1 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 contributes to:

- 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.

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

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

The Company also contributes to:

- 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.

(Amounts in thousand)

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

The Company also contributes to 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.

3.19.3 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.

3.20 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.

3.21 Foreign currency transactions and translation

This condensed interim financial information is presented in Pakistan Rupees, which is the 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.

3.22 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.

3.23 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.

3.24 Research and development costs

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

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(Amounts in thousand)

3.25 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.

3.26 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.

3.27 Transactions with related parties

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

3.28 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

4 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.

4.1 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.

4.2 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.

4.3 Derivatives

The Company reviews 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.

4.4 Stock-in-trade and stores & spares

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

(Amounts in thousand)

4.5 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.

4.6 Fair value of employee share option

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

4.7 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.

5 PROPERTY, PLANT AND EQUIPMENT

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
Operating assets at net book value (note 5.1 and 5.2)	6,102,330	**8,315,140**	-
Capital work in progress			
- Expansion and other projects (note 5.3)	63,233,217	**68,514,872**	-
- Capital spares	127,326	**130,894**	-
	63,360,543	**68,645,766**	-
	69,462,873	**76,960,906**	-

5.1 Additions to operating assets during the period are as follows:

	Annual rate of depreciation (%)	Transfer of Fertilizer Undertaking (note 1.4)	Other additions during the period
		Rupees	
Land			
- Freehold	-	130,668	-
- Leasehold	2 - 5	106,797	84,600
Building			
- Freehold	2.5 - 10	716,801	1,028,461
- Leasehold	2.5	273,451	778
Plant and machinery	5 - 10	4,363,990	1,443,102
Catalyst	20 - 33.33	127,654	-
Furniture, fixture and equipment	10 - 25	176,431	17,779
Vehicles	12 - 25	206,538	35,925
		6,102,330	2,610,645

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(Amounts in thousand)

5.2 During the period, land at Port Qasim Authority was sold at a gross amount of Rs. 345,150, against which transaction cost of Rs. 5,900 was incurred. The net book value of the aforesaid land amounted to Rs. 39,780.

5.3 Capital work-in-progress - Urea expansion project and other projects

	Transfer of Fertilizer Undertaking (note 1.4)	Unaudited June 30, 2010
	Rupees	
Plant and machinery	47,363,621	46,783,572
Building and civil works	7,486,749	9,532,386
Furniture, fixture and equipment	107,442	163,297
Advances to suppliers	299,716	366,195
Other ancillary costs (note 5.3.2)	7,975,689	11,669,422
	63,233,217	68,514,872

5.3.1 Capital work in progress includes Rs. 46,449,632 (January 1, 2010: Rs. 47,081,203) and Rs.9,494,986 (January 1, 2010: Rs. 7,459,458) 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 and will have a capacity of 1.3 million tons of Urea per annum.

5.3.2 Other ancillary costs also include net borrowing costs capitalized amounting to Rs. 8,186,437 (January 1, 2010: Rs. 5,342,066) at borrowing rates ranging from 11.52% to 17.22%. It also includes depreciation and amortization, salaries, wages & benefits, legal & professional charges, etc.

6 EMPLOYEE SHARE OPTION SCHEME

Consequent to the demerger, as referred to in note 1.3, the employees transferred to the Company and holding share options of the Holding Company have been, on surrender thereof, granted share options under a new Employee Share Option Scheme (the Scheme) of the Company. Under the Scheme, employees have been granted options to purchase 4,937,100 ordinary shares of the Company at an exercise price of Rs. 98 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee are the same as the number of options of the Holding Company surrendered by them. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period for employees who were initially granted options on or before June 30, 2008 in the Holding Company, has started from January 1, 2010 and 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 which were initially granted by the Holding Company after June 30, 2008, the vesting period will end such number of days after December 31, 2010 as is equal to the number of days between the date the initial option letters were issued and the date of grant of the later options by the Holding Company. However, the later options can also only be exercised up to December 31, 2012.

The above Scheme was conceptually approved by the Securities and Exchange Commission of Pakistan (SECP) before the transfer of Fertilizer Undertaking to the Company, referred to in note 1.3, whereas the formal approval was granted during the current period. As the vesting period has started from January 1, 2010 and the Scheme being considered a continuation of the old Scheme announced by the Holding Company, a charge based on fair value of share options i.e. Rs. 11.94 per share, calculated as on January 1, 2010, has been recognised in this condensed interim financial information.

(Amounts in thousand)

6.1	**Deferred employee compensation expense**	**Unaudited June 30, 2010**	**Audited December 31, 2009 (note 1.2)**
		Rupees	
	Options issued during the period	58,949	-
	Options lapsed due to employee resignation	(276)	-
	Amortisation for the period	(27,256)	-
	Balance at end of the period	31,417	-
	Current portion shown under current assets	(31,198)	-
	Long term portion of deferred employee compensation expense	219	-

6.2	**Employee share option compensation reserve**		
	Options issued during the period	58,949	-
	Options lapsed due to employee resignation	(276)	-
	Balance at end of the period	58,673	-

6.3	**Movement in share options outstanding at end of the period is as follows:**		
		Numbers	
	Options issued during the period	4,937,100	-
	Options lapsed during the period	(23,100)	-
	Balance at end of the period	4,914,000	-

6.4 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. 11.94
Share price at grant date	Rs. 87.61
Exercise price	Rs. 98.00
Annual volatility	41.64%
Risk free rate used	12.21%
Dividend yield	5.71%

7 STORES, SPARES AND LOOSE TOOLS

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	**Unaudited June 30, 2010**	**Audited December 31, 2009 (note 1.2)**
		Rupees	
Stores, spares and loose tools	1,004,635	**2,127,005**	-
Less: Provision for surplus and slow moving items	43,518	**51,748**	-
	961,117	**2,075,257**	-

8 STOCK-IN-TRADE

Raw materials	290,848	**872,789**	-
Packing materials	19,259	**29,610**	-
	310,107	**902,399**	-
Finished goods	112,500	**290,983**	-
	422,607	**1,193,382**	-

(Amounts in thousand)

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010 Rupees	Audited December 31, 2009 (note 1.2) Rupees
9 TRADE DEBTS			
Considered good			
Secured (note 9.1)	2,508,564	284,013	-
Unsecured	5,861	41,846	-
	2,514,425	325,859	-
Considered doubtful	8,873	8,873	-
	2,523,298	334,732	-
Provision for impairment	(8,873)	(8,873)	-
	2,514,425	325,859	-

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

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010 Rupees	Audited December 31, 2009 (note 1.2) Rupees
10 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS			
Current portion of long term loans and advances to executives and other employees - considered good	411,846	361,306	-
Sub-ordinated loan to Engro Eximp (Private) Limited, an associated company (note 10.1)	770,000	770,000	-
Advance and deposits	80,594	65,155	-
Prepayments	208,843	803,017	-
	1,471,283	1,999,478	-
Provision for impairment	(5,816)	(6,416)	-
	1,465,467	1,993,062	-

10.1 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 13.75% per annum (January 1, 2010: 15.13% per annum). The loan is subordinated to the facilities provided to Engro Eximp (Private) Limited (Eximp) by its banking creditors and is repayable on demand, taking into account the financing requirements of Eximp. Due to the nature of the transaction the sale and repurchase of underlying assets has not been recorded in this condensed interim financial information.

(Amounts in thousand)

11 OTHER RECEIVABLES

11.1 Other receivables transferred from Fertilizer Undertaking include 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.

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
12 SHORT TERM INVESTMENTS			
Financial assets at fair value through profit or loss			
Fixed income placements	75,795	69,597	-
Money market funds (note 12.1)	375,062	1,200,293	-
	450,857	1,269,890	-

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

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
13. CASH AND BANK BALANCES			
Cash at banks in deposit and current accounts	449,276	838,683	-
Cash in hand	4,850	4,850	-
	454,126	843,533	-

14 SHARE CAPITAL

14.1 Authorised Capital

305,000,000 (December 31, 2009: 10,000,000) Ordinary shares of Rs.10 each (note 14.2)	3,050,000	100,000

14.2 During the period, the Company increased its authorized capital by 295,000,000 ordinary shares of Rs.10 each.

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(Amounts in thousand)

14.3 Movement in issued, subscribed and paid-up capital during the period

Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)		Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
——— Numbers ———			——— Rupees ———	
7	7	At beginning of the period / year	-	-
9,999,993	-	Ordinary shares of Rs. 10 each issued as at January 1, 2010 on transfer of Fertilizer Undertaking (notes 1.3 and 1.4)	100,000	-
288,000,000	-	Ordinary shares of Rs. 10 each issued during the period as fully paid bonus shares (note 14.4)	2,880,000	-
298,000,000	7		2,980,000	-

14.4 During the period, the Company issued bonus shares out of the share premium in the ratio of 2,880 shares for every 100 shares held.

	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
	——— Rupees ———	
15 SHARE PREMIUM		
Transfer of Fertilizer Undertaking (note 1.4)	10,639,144	-
Utilized for issuance of bonus shares (note 14.4)	(2,880,000)	-
Balance as at end of the period	7,759,144	-

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(Amounts in thousand)

16 HEDGING RESERVE	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010 Rupees	Audited December 31, 2009 (note 1.2) Rupees
Fair values of:			
- Foreign exchange forward contracts (note 18.1)	(134,692)	**(307,337)**	-
- Foreign exchange option contracts (note 18.2)	49,104	**(22,671)**	-
- Interest rate swaps (note 18.3)	(852,441)	**(1,230,522)**	-
	(938,029)	**(1,560,530)**	-
Deferred tax	328,310	**546,186**	-
	(609,719)	**(1,014,344)**	-

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

17 BORROWINGS - Secured (Non-participatory)	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010 Rupees	Audited December 31, 2009 (note 1.2) Rupees
Long term finance utilised under mark-up arrangements	44,504,057	**51,456,351**	-
Certificates	14,871,397	**14,877,747**	-
	59,375,454	**66,334,098**	-
Less: Current portion shown under current liabilities	810,100	**3,511,335**	-
Balance at end of the period / year	58,565,354	**62,822,763**	-

17.1 During the period, the Company availed loans amounting to Rs. 6,900,000 (2009: Nil), which represents fresh bilateral loans from Standard Chartered Bank (Pakistan) Limited, SAMBA Bank Limited and Dubai Islamic Bank Limited, along with further draw down on existing Syndicated finance facility.

17.2 The maturity of loan facilities range from 7 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, are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs and IFC's facility are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

(Amounts in thousand)

18 DERIVATIVE FINANCIAL INSTRUMENTS

	Transfer of Fertilizer Undertaking (note 1.4) Assets / (Liabilities) Rupees	Unaudited June 30, 2010 Assets	Unaudited June 30, 2010 Liabilities	Audited December 31, 2009 (note 1.2) Assets / (Liabilities)
		Rupees		
Conversion option on IFC loan	(338,647)	-	365,442	-
Cash flow hedges				
- Foreign exchange forward contracts, net (note 18.1)	(134,692)	3,406	310,743	-
- Foreign exchange option contracts, net (note 18.2)	49,104	-	22,671	-
- Interest rate swaps (note 18.3)	(852,441)	-	1,230,522	-
	(1,276,676)	3,406	1,929,378	-
Less: Current portion shown under current assets / liabilities				
Conversion option on IFC loan	(338,647)	-	365,442	-
Cash flow hedges:				
- Foreign exchange forward contracts	(134,692)	3,406	310,743	-
- Foreign exchange option contracts	49,104	-	22,671	-
- Interest rate swaps	(239,599)	-	397,106	-
	(663,834)	3,406	1,095,962	-
	(612,842)	-	833,416	-

18.1 Foreign exchange forward contracts

18.1.1 The Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at June 30, 2010, the Company had forward exchange contracts to purchase Euros 14,008 (January 1, 2010: Euros 9,543) at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts, as at June 30, 2010 is negative and amounted to Rs. 44,690 (Januray 1, 2010: positive fair value of Rs. 22,637).

18.1.2 The Company entered in various US$: PKR forward contracts to hedge its foreign currency exposure. As at June 30, 2010, the Company had forward contracts to purchase US$ 85,000 (January 1, 2010: US$ 85,000) at various maturity dates to hedge its foreign currency loan obligations. The fair value of these contracts as at June 30, 2010 is negative and amounted to Rs. 262,647 (January 1, 2010: Rs. 157,329).

18.2 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. As at the balance sheet date, the Company had foreign exchange options amounting to Euros 8,744 (January 1, 2010: Euros 12,628). The net fair value of these contracts as at June 30, 2010 is negative and amounted to Rs. 22,671 (January 1, 2010: positive fair value of Rs. 49,104).

(Amounts in thousand)

18.3 Interest rate swaps

18.3.1 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 (January 1, 2010: 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 June 30, 2010 is negative and amounted to Rs. 727,349 (January 1, 2010: Rs. 542,385).

18.3.2 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 (January 1, 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 June 30, 2010 is negative and amounted to Rs. 503,173 (January 1, 2010: Rs. 310,056).

	Transfer of Fertilizer Undertaking (note 1.4)	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
	Rupees	Rupees	
19 DEFERRED LIABILITIES			
Deferred taxation (note 19.1)	890,965	**892,223**	-
Deferred income (note 19.2)	96,305	**94,372**	-
	987,270	**986,595**	-

19.1 Deferred taxation

	Transfer of Fertilizer Undertaking (note 1.4)	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
Credit / (Debit) balances arising on account of:			
- Accelerated depreciation allowance	1,255,925	**1,461,506**	-
- Fair values of hedging instruments	(328,310)	**(546,186)**	-
- Provision for:			
- retirement benefits	(23,535)	**(20,520)**	-
- inventories, slow moving stores and spares and doubtful receivables	(20,526)	**(20,174)**	-
- others	7,411	**17,597**	-
	890,965	**892,223**	-

19.2 Deferred income

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.

(Amounts in thousand)

20 TRADE AND OTHER PAYABLES

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
Creditors	593,372	**649,840**	-
Payable to Engro Corporation Limited	-	**-**	519
Payable to Engro Eximp (Private) Limited	-	**99,792**	-
Accrued liabilities	1,075,800	**877,073**	25
Advances from customers	1,099,390	**615,027**	-
Deposits from dealers refundable on termination of dealership	11,073	**11,203**	-
Contractors' deposits and retentions	60,022	**66,325**	-
Workers' profits participation fund	-	**157,895**	-
Workers' welfare fund	-	**60,060**	-
Sales tax payable	-	**787**	-
Others	169,668	**149,444**	-
	3,009,325	**2,687,446**	544

21 SHORT TERM BORROWINGS - Secured

The funded facilities for short term finances available from various banks amounts to Rs. 3,600,000 (January 1, 2010; Rs. 6,550,000) along with non-funded facilities of Rs. 1,450,000 (January 1, 2010: Rs. 200,000) for Bank Guarantees. The rates of markup on funded financing facilities ranges from 12.88% to 14.61% 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.

22 CONTINGENCIES AND COMMITMENTS

Contingencies

22.1 Bank guarantees of Rs. 1,170,916 (January 1, 2010: Rs. 1,148,676) have been issued in favor of third parties.

22.2 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 47,610 (January 1, 2010: Rs. 47,658).

22.3 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.

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(Amounts in thousand)

22.4 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.

	Commitments	**Unaudited June 30, 2010**	**Audited December 31, 2009 (note 1.2)**
		Rupees	
22.5	Plant and machinery	2,409,197	-
22.6	Others	8,330	-

22.7 Commitments on transfer of Fertilizer Undertaking as at January 1, 2010 in respect of plant and machinery amounted to Rs. 3,999,846.

23 COST OF SALES

	3 months ended June 30, 2010	**6 months ended June 30, 2010**
	Rupees	
Raw materials consumed, net of write down	1,189,830	2,590,518
Salaries, wages and staff welfare	254,335	499,039
Fuel and power	617,860	1,228,355
Repairs and maintenance	95,668	167,060
Depreciation	153,437	305,779
Amortisation	2,154	4,331
Consumable stores	52,103	84,455
Staff recruitment, training, safety and other expenses	19,354	28,462
Purchased services	41,995	81,031
Travel	8,665	17,380
Communication, stationery and other office expenses	5,617	11,857
Insurance	25,378	56,571
Rent, rates and taxes	5,026	20,029
Other expenses	590	1,424
Cost of goods manufactured	2,472,012	5,096,291
Add: Opening stock of finished goods manufactured	247,938	112,500
Less: Closing stock of finished goods manufactured	290,983	290,983
	(43,045)	(178,483)
Cost of sales	2,428,967	4,917,808

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(Amounts in thousand)

24 SELLING AND DISTRIBUTION EXPENSES

	3 months ended June 30, 2010	6 months ended June 30, 2010
	Rupees	
Salaries, wages and staff welfare	82,921	164,117
Staff recruitment, training, safety and other expenses	23,635	28,811
Product transportation and handling	178,831	372,752
Repairs and maintenance	22,368	24,621
Advertising and sales promotion	9,188	11,623
Rent, rates and taxes	22,779	48,687
Communication, stationery and other office expenses	5,161	9,889
Travel	8,491	15,371
Depreciation	6,017	11,857
Amortisation	840	1,696
Purchased services	8,429	14,380
Donations	3,363	14,343
Royalty Expense	65,371	127,739
Other expenses	2,742	10,971
	440,136	856,857

25 OTHER OPERATING INCOME

25.1 Other operating income includes:

- Rs. 299,470 in respect of gain on sale of Company's land at Port Qasim Authority, as referred to in note 5.2; and

- Rs. 4,849 in respect of commission earned as selling agent of imported fertilizer on behalf of Engro Eximp (Private) Limited, under an agreement effective January 1, 2010. These were previously purchased by the Company from Eximp and sold in its own name.

26 TAXATION

As a result of demerger, 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.

(Amounts in thousand)

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 has been decided by the Commissioner Inland Revenue (Appeals I) in Company's favor against which the tax department has filed an appeal with ITAT. During the current period, the Company has paid Rs. 600,000 for financial year 2008, while stay for payment for the balance amount has been granted by the tax department till December 31, 2010. Appeal has also been filed by the Company with the Commissioner Inland Revenue (Appeals I).

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 current period.

All the assessments of the Holding Company, 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.

27 EARNINGS PER SHARE

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

	3 months ended June 30, 2010	6 months ended June 30, 2010
	Rupees	
Profit for the period	1,238,909	2,012,176
Weighted average number of Ordinary shares (in thousand)	298,000	298,000

[initials]

(Amounts in thousand)

28 CASH GENERATED FROM OPERATIONS

	6 months ended June 30, 2010 Rupees
Profit before taxation	2,942,932
Adjustment for non-cash charges and other items:	
Depreciation	317,636
Amortisation	6,027
Profit on disposal of property, plant and equipment	(300,122)
Amortisation of deferred income	-
Provision for retirement and other service benefits	106,311
Income on deposits / other financial assets	(7,024)
Financial charges	659,669
Employee share compensation expense	19,471
Employee Housing Subsidy expense	54,630
Provision for surplus and slow moving stores and spares	8,230
Decrease in the fair value of IFC conversion option	26,795
Exchange loss on foreign currency loans	66,773
Working capital changes (note 28.1)	(559,012)
	3,342,316

28.1 Working capital changes

(Increase) / decrease in current assets	
- Stores, spares and loose tools	(1,122,370)
- Stock-in-trade	(770,775)
- Trade debts	2,188,566
- Loans, advances, deposits and prepayments	(527,595)
- Other receivables (net)	11,100
	(221,074)
Decrease in current liabilities - Trade and other payables	(337,938)
	(559,012)

	Transfer of Fertilizer Undertaking (note 1.4) Rupees	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
		Rupees	
29 CASH AND CASH EQUIVALENTS			
Cash and bank balances (note 13)	454,126	**843,533**	-
Short term borrowings	(195,753)	**(20,874)**	-
Short term investments (note 12)	450,857	**1,269,890**	-
	709,230	**2,092,549**	-

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(Amounts in thousand)

30 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:

	3 months ended June 30, 2010	6 months ended June 30, 2010
	Rupees	
Associated companies		
Purchases and services	739,984	1,156,295
Markup from associate	26,396	53,926
Contributions to retirement benefit schemes / funds	51,528	103,062
Service charges recoverable	26,154	67,271
Funds collected against sales made on behalf of an associate	899,355	4,422,084
Commission income on sales made on behalf of an associate	1,558	4,849
Payment of interest on TFCs and repayment of principal amount	53,673	55,597
Investments in mutual funds	100,000	100,000
Redemption of mutual funds	92,304	92,304
Holding Company		
Purchases and services	18,901	37,577
Royalty paid	65,371	127,739
Others		
Remuneration of key management personnel	11,189	51,713

	Unaudited June 30, 2010	Audited December 31, 2009 (note 1.2)
	Rupees	
Balances due from:		
- Associates	**15,880**	**-**
- Holding Company	**23,839**	**-**
Balances due to:		
- Holding Company	**-**	**544**

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(Amounts in thousand)

31 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.

32 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on July 26, 2010 by the Board of Directors of the Company.

33 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. The corresponding figures for the three and six months ended June 30, 2009 have not been presented in this condensed interim financial information, other than in the condensed interim statement of changes in equity, for the reasons mentioned in note 1.2.

Asad Umar
Chairman and Chief Executive

Director