

ENGRO FERTILIZERS LIMITED

FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED JUNE 30, 2011



**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of Engro Fertilizers Limited as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the half year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) as more fully explained in note 47 to the financial statements, due to a fire at the Holding Company's old premises on August 19, 2007 certain records, documents and books of account of the Holding Company relating to prior years were destroyed. These included records of the Fertilizers Undertaking, which on demerger is part of the Company (note 1.2 to the financial statements). Records in electronic form remained intact and certain hard copy records relating to financial years 2005 and 2006 have not been recreated;
- (b) in our opinion, except for the matter referred to in paragraph (a), proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (c) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes resulted on initial application of standards, amendments or an interpretation to existing standards, as stated in note 2.1.4 (a), with which we concur;
  - (ii) the expenditure incurred during the half year ended was for the purpose of the Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the half year ended were in accordance with the objects of the Company;
- (d) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2011 and of the profit, total comprehensive income, changes in equity and its cash flows for the half year then ended; and
- (e) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The corresponding figures of the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended June 30, 2010 are unaudited. Further, the profit and loss account and statement of comprehensive income for the quarter ended June 30, 2011 and 2010 are also unaudited.

Chartered Accountants  
Karachi  
Date: August 10, 2011

Engagement Partner: Imtiaz A. H. Laliwala

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938; <www.pwc.com/pk>

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872  
Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924  
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

**ENGRO FERTILIZERS LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2011**

(Amounts in thousand)

	Note	Audited June 30, 2011	Audited December 31, 2010
-----Rupees-----			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	88,409,526	84,370,221
Intangible assets	5	143,691	149,238
Long term loans and advances	6	<u>78,178</u>	<u>111,515</u>
		88,631,395	84,630,974
<b>Current assets</b>			
Stores, spares and loose tools	7	3,941,329	3,392,080
Stock-in-trade	8	1,573,752	895,457
Trade debts	9	253,792	352,944
Deferred employee compensation expense	10	193	3,702
Derivative financial instruments	20	9,524	2,638
Loans, advances, deposits and prepayments	11	1,715,868	2,609,327
Other receivables	12	44,628	107,647
Taxes recoverable		2,108,569	1,770,476
Short term investments	13	4,800,154	2,452,285
Cash and bank balances	14	<u>1,730,854</u>	<u>1,835,951</u>
		16,178,663	13,422,507
<b>TOTAL ASSETS</b>		<u>104,810,058</u>	<u>98,053,481</u>

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(Amounts in thousand)

	Note	Audited June 30, 2011	Audited December 31, 2010
-----Rupees-----			
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	10,728,000	10,728,000
Share premium	16	11,144	11,144
Employee share option compensation reserve	10	58,397	58,673
Hedging reserve	17	(571,314)	(887,277)
Unappropriated profit		5,903,713	3,729,052
		5,401,940	2,911,592
<b>Total Equity</b>		<b>16,129,940</b>	<b>13,639,592</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	18	60,759,356	62,660,140
Subordinated loan from Holding Company	19	3,000,000	1,500,000
Derivative financial instruments	20	920,677	1,061,732
Deferred liabilities	21	3,771,365	2,580,644
Employee housing subsidy	22	56,333	347,886
Retirement and other service benefits obligations	23	61,527	54,823
		68,569,258	68,205,225
<b>Current liabilities</b>			
Trade and other payables	24	7,411,659	3,911,349
Accrued interest / mark-up	25	2,051,050	1,981,620
Current portion of:			
- borrowings	18	10,138,680	8,651,546
- other service benefits obligations	23	32,559	20,636
Short term borrowings	26	34,955	970,126
Derivative financial instruments	20	441,957	673,387
		20,110,860	16,208,664
<b>Total Liabilities</b>		<b>88,680,118</b>	<b>84,413,889</b>
<b>Contingencies and Commitments</b>	27		
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>104,810,058</b>	<b>98,053,481</b>

The annexed notes from 1 to 49 form an integral part of these financial statements.

  
Chief Executive

  
Director

**ENGRO FERTILIZERS LIMITED  
PROFIT AND LOSS ACCOUNT  
FOR THE HALF YEAR ENDED JUNE 30, 2011**

(Amounts in thousand except for earnings per share)

	Note	Unaudited 3 months ended June 30, 2011	Unaudited 3 months ended June 30, 2010	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
-----Rupees-----					
Net sales	28	6,263,276	4,794,959	12,145,709	9,414,912
Cost of sales	29	(2,682,784)	(2,316,461)	(5,472,390)	(4,736,192)
<b>Gross profit</b>		<u>3,580,492</u>	<u>2,478,498</u>	<u>6,673,319</u>	<u>4,678,720</u>
Selling and distribution expenses	30	(459,221)	(362,355)	(953,232)	(772,138)
Administrative expenses	31	(200,304)	(190,287)	(317,521)	(266,335)
		<u>2,920,967</u>	<u>1,925,856</u>	<u>5,402,566</u>	<u>3,640,247</u>
Other operating income	32	220,931	302,052	390,739	307,146
Other operating expenses	33	(323,945)	(129,617)	(531,777)	(344,792)
Finance costs	34	(1,615,261)	(359,404)	(1,906,209)	(659,669)
		<u>(1,939,206)</u>	<u>(489,021)</u>	<u>(2,437,986)</u>	<u>(1,004,461)</u>
<b>Profit before taxation</b>		<u>1,202,692</u>	<u>1,738,887</u>	<u>3,355,319</u>	<u>2,942,932</u>
Taxation	35	(425,076)	(499,978)	(1,180,658)	(930,756)
<b>Profit for the period</b>		<u>777,616</u>	<u>1,238,909</u>	<u>2,174,661</u>	<u>2,012,176</u>
<b>Earnings per share - basic</b>	36	<u>0.72</u>	<u>1.15</u>	<u>2.03</u>	<u>1.88</u>
<b>Earnings per share - diluted</b>	36	<u>0.72</u>	<u>1.15</u>	<u>2.02</u>	<u>1.88</u>

The annexed notes from 1 to 49 form an integral part of these financial statements.

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Chief Executive

  
Director

**ENGRO FERTILIZERS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED JUNE 30, 2011**

(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	Unappropriated profit / (accumulated loss)	Total
	-----Rupees-----					
Balance as at January 1, 2010 (audited)	-	-	-	-	(544)	(544)
<b>Transactions with owners</b>						
Transfer of Fertilizer Undertaking (note 1.2)						
- 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	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	-	-	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)	-	-	-	-
<b>Total comprehensive Income for the half year ended June 30, 2010</b>						
Profit for the period	-	-	-	-	2,012,176	2,012,176
Other comprehensive income	-	-	-	(404,625)	-	(404,625)
- cash flow hedges net of tax	-	-	-	(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
<b>Transactions with owners</b>						
Bonus shares issued during the period in the ratio of 260 shares for every 100 shares held	7,748,000	(7,748,000)	-	-	-	-
<b>Total comprehensive Income for the half year ended December 31, 2010</b>						
Profit for the period	-	-	-	-	1,717,420	1,717,420
Other comprehensive income	-	-	-	127,067	-	127,067
- cash flow hedges, net of tax	-	-	-	127,067	1,717,420	1,844,487
Balance as at December 31, 2010 (audited)	10,728,000	11,144	58,673	(887,277)	3,729,052	13,639,592
<b>Transactions with owners</b>						
Share options lapsed during the period (note 10.2)	-	-	(276)	-	-	(276)
<b>Total comprehensive Income for the half year ended June 30, 2011</b>						
Profit for the period	-	-	-	-	2,174,661	2,174,661
Other comprehensive income	-	-	-	315,963	-	315,963
- cash flow hedges, net of tax	-	-	-	315,963	2,174,661	2,490,624
Balance as at June 30, 2011 (audited)	10,728,000	11,144	58,397	(571,314)	5,903,713	16,129,940

The annexed notes from 1 to 49 form an integral part of these financial statements.

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 Chief Executive

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 Director

**ENGRO FERTILIZERS LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF YEAR ENDED JUNE 30, 2011**

(Amounts in thousand)

	Unaudited 3 months ended June 30, 2011	Unaudited 3 months ended June 30, 2010	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
-----Rupees-----				
Profit for the period	777,616	1,238,909	2,174,661	2,012,176
Other comprehensive income				
Hedging reserve - cash flow hedges				
Losses arising during the period	(282,268)	(882,702)	(485,549)	(1,331,260)
Less: Adjustment for amounts transferred to profit & loss account	69,637		69,637	
Less: Adjustment for amounts transferred to initial carrying amount of hedged items (Capital work in progress)	325,862 113,231	502,542 (380,160)	902,009 486,097	708,760 (622,500)
Income tax (Deferred) relating to hedging reserve	(39,632)	133,056	(170,134)	217,875
Other comprehensive income for the period, net of tax	73,599	(247,104)	315,963	(404,625)
<b>Total comprehensive income for the period</b>	<u>851,215</u>	<u>991,805</u>	<u>2,490,624</u>	<u>1,607,551</u>

The annexed notes from 1 to 49 form an integral part of these financial statements.

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 Chief Executive

  
 Director

**ENGRO FERTILIZERS LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED JUNE 30, 2011**

(Amounts in thousand)

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
Note	-----Rupees-----	
<b>Cash flows from operating activities</b>		
Cash generated from operations	39 7,571,030	3,342,316
Retirement and other service benefits paid	(93,153)	(99,413)
Finance cost paid	(1,836,779)	(377,458)
Taxes paid	(496,229)	(837,643)
Long term loans and advances to executives and other employees - net	11,775	(50,229)
Net cash generated from operating activities	<u>5,156,644</u>	<u>1,977,573</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)	(4,009,593)	(7,613,163)
Proceeds from sale of PPE	18,612	346,596
Repayment of sub-ordinated loan by associate company	770,000	-
Income on deposits / other financial assets	232,380	10,524
Net cash used in investing activities	<u>(2,988,601)</u>	<u>(7,256,043)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	4,063,006	6,913,089
Repayments of borrowings	(3,053,106)	(251,300)
Net cash generated from financing activities	<u>1,009,900</u>	<u>6,661,789</u>
Net increase in cash and cash equivalents	<u>3,177,943</u>	<u>1,383,319</u>
Cash and cash equivalents at beginning of the period	<u>3,318,110</u>	<u>709,230</u>
Cash and cash equivalents at end of the period	<u><u>6,496,053</u></u>	<u><u>2,092,549</u></u>

The annexed notes from 1 to 49 form an integral part of these financial statements.

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 Chief Executive

  
 Director



**ENGRO FERTILIZERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED JUNE 30, 2011**

(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. The Company has issued Term Finance Certificates which are listed at the Karachi Stock Exchange.
- 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.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of preparation**

- 2.1.1 These financial statements have been prepared under the historical cost convention, except for re-measurement of certain financial assets and liabilities at fair value through profit or loss and derivative hedging instrument as fair value.
- 2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.
- 2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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(Amounts in thousand)

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

##### a) Standards, amendments to published standards and interpretation that are effective in 2011 and are relevant to the Company

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for periods beginning on or after July 1, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. This interpretation does not have any impact on the current period's financial statements.

##### b) Standards, amendments to published standards and interpretations effective in 2011 but are not relevant

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

##### c) Other standards and amendments to published standards that are not yet effective and have not been early adopted by the Company

The following new standards, amendments to published standards and interpretations are not effective (although available for early adoption) for the accounting period beginning on or after January 1, 2011 and have not been early adopted by the Company:

- IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). These amendments are a part of IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset.
- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.
- IFRS 12, 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

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(Amounts in thousand)

- IFRS 13, 'Fair value measurement' (effective for periods beginning on or after January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.
- IAS 1 (Amendment), 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.
- IAS 12 (Amendment), 'Income taxes' (effective for periods beginning on or after January 1, 2012). Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.
- IAS 19 (Revised), 'Employee benefits' (effective for periods beginning on or after January 1, 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

## 2.2 Property, plant and equipment

### 2.2.1 Owned assets

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 2.23). 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.

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(Amounts in thousand)

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.

### 2.2.2 Leased assets

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

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

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

### 2.3 Intangible assets

#### a) Computer Software and Licenses

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

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

Computer software and license cost treated as intangible assets are amortised from the date the software is put to use on a straight-line basis over a period of 3 to 4 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 SNGPL network, initially from Qadirpur gas field, at a predetermined price for a period of ten years commencing from the date of commercial production. The rights are being amortised from the date of commercial production on a straight-line basis over the remaining allocation period.

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(Amounts in thousand)

## 2.4 Impairment of non-financial assets

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

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

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction 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.

## 2.6 Financial assets

### 2.6.1 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.

#### 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. There were no available for sale financial assets at the balance sheet date.

*off*

(Amounts in thousand)

## 2.6.2 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.

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 2.11.

## 2.7 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.

## 2.8 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 in statement of comprehensive income 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.

*off*

(Amounts in thousand)

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 deferred in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount previously deferred in equity is transferred to carrying amount of the asset when it is recognised. In other cases the amount deferred 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 has issued options to convert IFC loan on its shares and the shares of the Holding Company as disclosed in note 18.4. The fair values of various derivative instruments used for hedging and the conversion options are disclosed in note 20.

**2.9 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.

**2.10 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 necessary to be incurred in order to make the sales.

**2.11 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.

**2.12 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 short term borrowings in current liabilities on the balance sheet.

*At*

(Amounts in thousand)

### 2.13 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.

### 2.14 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.

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

### 2.15 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.

### 2.16 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.

### 2.17 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 the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity, respectively.

#### 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.

*afk*



(Amounts in thousand)

## Deferred

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

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

### 2.18 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 are set-off against the employee housing subsidy.

### 2.19 Employee benefits

#### 2.19.1 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.

#### 2.19.2 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, related details of which are given in note 38 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

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

*off*

**(Amounts in thousand)**

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.

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

**2.19.3** In June 2011, the Company gave a one time irrevocable offer to selected members of MPT Employees' defined benefit gratuity fund and Defined Contribution Pension Fund to join a new MPT employee's Defined Contribution Gratuity Fund (the Fund), a defined contribution plan. The present value, as at June 30, 2011 of the defined benefit obligation of those employees, who accept this offer, will be transferred to the Fund. Furthermore, the monthly contributions to Defined Contribution Pension Fund of such employees will be discontinued. The Company has not recognised the impact of this curtailment / settlement pending the outcome of the above mentioned offer. The Fund will be effective from July 1, 2011, the contribution thereto will be made by the Company for those employees who accept the above-mentioned offer.

**2.19.4 Service incentive plan**

Company recognises provision and an expense under a service incentive plan for certain category of experienced employees to continue in the Company's employment.

**2.19.5 Employees' compensated absences**

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

**2.20 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.

**2.21 Foreign currency transactions and translation**

These financial statements are 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.

**2.22 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:

*af*

**(Amounts in thousand)**

- Sales revenue is recognised when product is dispatched to customers.
- Income on deposits and other financial assets is recognised on accrual basis.
- Commission income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

**2.23 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.

**2.24 Research and development costs**

Research and development costs are charged to profit and loss account as and when incurred.

**2.25 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.

**2.26 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.

**2.27 Transactions with related parties**

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

**2.28 Dividend and appropriation to reserves**

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

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**3.1 Property, plant and equipment**

The Company reviews appropriateness of the rate of depreciation, useful life, residual value used in the calculation of depreciation. Further where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

*afz*

(Amounts in thousand)

**3.2 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.

**3.3 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 fair value of conversion options on IFC loan is determined using the option pricing model.

**3.4 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.

**3.5 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.

**3.6 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 10.

**3.7 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. The present value of these obligations and the underlying assumptions are disclosed in note 38.1.1 and 38.1.7 respectively.

**4 PROPERTY, PLANT AND EQUIPMENT**

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Operating assets at net book value (note 4.1)	87,184,679	16,340,534
Capital work in progress		
- Expansion and other projects (note 4.4)	921,398	67,711,577
- Capital spares	303,449	318,110
	1,224,847	68,029,687
	88,409,526	84,370,221

*At*

(Amounts in thousand)

## 4.1 Operating assets

	Land		Building		Plant and machinery	Gas Pipeline	Catalyst	Furniture, fixture and equipments	Vehicles	Total
	Freehold	Leasehold	Freehold	Leasehold						
Rupees										
As at January 1, 2010, after transfer of fertilizer undertaking										
Cost	130,668	152,280	1,041,929	339,447	10,377,213	-	429,715	476,873	380,861	13,329,076
Accumulated depreciation	-	(45,483)	(325,128)	(65,898)	(6,013,223)	-	(302,061)	(300,442)	(167,518)	(7,219,852)
Net book value	130,668	106,797	716,801	273,549	4,363,990	-	127,654	176,431	213,343	6,109,224
Year ended December 31, 2010										
Net book value - January 1, 2010	130,668	106,797	716,801	273,549	4,363,990	-	127,654	176,431	213,343	6,109,224
Additions including transfers	13,458	94,600	188,275	1,240	9,327,776	1,267,854	56,123	40,932	102,132	11,080,388
Disposals / transfers										
Cost	-	(49,560)	-	-	-	-	-	(2,751)	(56,398)	(108,709)
Accumulated depreciation	-	9,994	-	-	-	-	-	(79)	36,334	49,078
Depreciation charge	-	(3,683)	(62,048)	(8,507)	(530,980)	(28,816)	(31,740)	(60,521)	(63,150)	(789,448)
Net book value	144,124	148,148	841,027	266,184	13,160,785	1,239,036	152,037	156,815	232,377	16,340,534
As at January 1, 2011										
Cost	144,124	187,320	1,228,204	340,687	19,704,989	1,267,854	485,838	514,975	426,764	24,300,755
Accumulated depreciation	-	(39,172)	(387,177)	(74,503)	(6,544,203)	(28,818)	(333,801)	(358,160)	(194,387)	(7,960,221)
Net book value	144,124	148,148	841,027	266,184	13,160,786	1,239,036	152,037	156,815	232,377	16,340,534
Period ended June 30, 2011										
Net book value - January 1, 2011	144,124	148,148	841,027	266,184	13,160,786	1,239,036	152,037	156,815	232,377	16,340,534
Additions including transfers (note 4.4)	-	-	1,029,341	3,880	69,372,610	1,762	1,030,752	29,167	86,816	71,534,328
Disposals (note 4.3)										
Cost	-	-	-	-	(45)	-	-	(9,815)	(29,189)	(39,149)
Accumulated depreciation	-	-	-	-	28	-	-	9,747	21,622	31,397
Depreciation charge (note 4.2)	-	(2,197)	(36,055)	(4,292)	(465,278)	(30,587)	(68,193)	(33,878)	(37,951)	(682,431)
Net book value	144,124	145,951	1,834,313	265,772	82,064,101	1,210,211	1,114,596	151,936	253,875	87,184,878
As at June 30, 2011										
Cost	144,124	187,320	2,257,545	344,587	89,077,554	1,268,616	1,516,680	534,227	464,391	95,795,934
Accumulated depreciation	-	(41,369)	(423,232)	(78,795)	(7,013,453)	(58,405)	(401,984)	(382,291)	(210,716)	(8,811,255)
Net book value	144,124	145,951	1,834,313	265,772	82,064,101	1,210,211	1,114,596	151,936	253,875	87,184,878
Annual rate of depreciation (%)		2 to 5	2.5 to 10	2.5	5 to 10	5.0	10 to 50	10 to 25	12 to 25	

## 4.2 Depreciation charge for the period has been allocated as follows:

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
Cost of sales (note 29)	331,417	302,284
Selling and distribution expenses (note 30)	16,233	9,526
Administrative expenses (note 31)	17,435	10,964
Capital work in progress	317,346	35,457
	682,431	358,231

(Amounts in thousand)

## 4.3 The details of operating assets disposed during the period/year are as follows:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds	
						Rupees
<b>Furniture, fixture and equipments</b>						
Insurance claim	EFU General Insurance Limited	257	117	140	169	
<b>Vehicles</b>						
By Company policy to existing/ separating executives	Ahmad Shakoor	1,466	1,100	366	367	
	Askari Hazoor Syed	1,329	395	934	976	
	Farooq Nazim Shah	1,500	1,055	445	375	
	Hasan Akram	900	647	253	225	
	M.Minhajul Haq	900	661	239	225	
	Mahmood Siddiqui	1,329	395	934	893	
	Muhammad Mudassir	879	659	220	220	
	Mohammad Ali Khadim	1,500	1,078	422	375	
	Syed Abul Fazal Rizvi	1,500	1,048	452	375	
	Syed Mohammad Ali	1,500	1,078	422	375	
	Wasim Khalid	900	647	253	225	
	Zaid Bin Zeeshan	1,389	195	1,194	1,236	
			15,092	8,958	6,134	5,867
	Sale through bid	Abdullah Uraizee	884	663	221	557
Aftab Ahmed		555	555	-	467	
Aftab Ahmed		900	647	253	1,067	
Aftab Ahmed		560	512	48	457	
Farooq Raza		555	500	55	360	
Muhammad Iltifat		555	555	-	421	
Muhammad Iltifat		555	555	-	366	
Muhammad Iltifat		555	500	55	411	
Muhammad Iltifat		555	537	18	410	
Muhammad Nawaz		555	500	55	382	
S.Mohammad Saeed		555	500	55	414	
M. Wasseemuddin		555	500	55	371	
Shoaib		555	555	-	356	
Sultan Jan Niazi		849	764	85	737	
Sultan Jan Niazi		836	807	29	787	
Yasir Khan		1,099	988	111	672	
Zahid Qadri		900	732	168	859	
Zahid Qadri		900	675	225	789	
Zahid Qadri	850	850	-	559		
Zubair Ahmed Memon	769	769	-	731		
		14,097	12,664	1,433	11,173	
		29,189	21,622	7,567	17,040	
<b>Items having net book value upto Rs.50 each</b>						
Furniture, fixtures and equipment		9,658	9,630	28	1,400	
Plant & machinery		45	28	17	3	
		9,703	9,658	45	1,403	
Half year ended June 30, 2011		39,149	31,397	7,752	18,612	
Year ended December 31, 2010		108,709	49,079	59,630	371,902	

(Amounts in thousand)

## 4.4 Capital work in progress - Expansion and Other Project

	Plant & machinery	Building & civil works	Furniture, fixture & equipment	Advances to suppliers	Other ancillary cost	Total
Rupees						
<b>Year ended December 31, 2010</b>						
Balance as at January 1, 2010	47,363,621	7,486,749	107,442	292,822	7,975,689	63,226,323
Additions during the year	5,081,850	2,273,402	155,356	30,028	7,916,472	15,457,108
Reclassifications	1,402,271	225,285	-	-	(1,627,556)	-
Transferred to:						
- operating assets (note 4.1)	(9,327,776)	(1,455,369)	(40,932)	(102,132)	-	(10,926,209)
- intangible assets (note 5)	-	-	(45,645)	-	-	(45,645)
Balance as at December 31, 2010	<u>44,519,966</u>	<u>8,530,067</u>	<u>176,221</u>	<u>220,718</u>	<u>14,264,605</u>	<u>67,711,577</u>
<b>Period ended June 30, 2011</b>						
Balance as at January 1, 2011	44,519,966	8,530,067	176,221	220,718	14,264,605	67,711,577
Additions during the period	1,934,251	379,595	16,464	35,384	2,381,503	4,747,197
Reclassifications	24,348,525	(7,413,501)	(122,563)	(179,217)	(16,633,244)	-
Transferred to:						
- operating assets (note 4.1)	(70,403,362)	(1,034,983)	(29,167)	(66,816)	-	(71,534,328)
- intangible assets (note 5)	-	-	-	(3,048)	-	(3,048)
Balance as at June 30, 2011	<u>399,380</u>	<u>461,178</u>	<u>40,955</u>	<u>7,021</u>	<u>12,864</u>	<u>921,398</u>

4.4.1 The Company declared commencement of commercial production effective June 24, 2011 of Urea Expansion project "Enven Plant", adjacent to existing Daharki Plant. Accordingly, the Company has transferred costs related thereto aggregating to Rs. 71,395,335 to operating assets in the current period which is in addition to Rs.11,274,907 capitalized in previous years bringing the total current cost to Rs.82,670,243. The capacity of the Enven Plant is 1.3 million tons of urea per annum. The trial production sales credited to the cost of Enven Plant amounted to Rs. 2,432,100.

4.4.2 Other ancillary cost transferred to operating assets during the current period includes borrowing costs amounting to Rs 13,942,555. The Company ceased capitalization of borrowing costs of the main Enven plants on April 30, 2011 (the date when substantially all the activities necessary to prepare the main Enven plants were completed i.e. physical construction) except for the borrowing cost on certain efficiency units which were completed during June 2011. Borrowing costs incurred subsequently have been expensed.

Other ancillary costs also includes depreciation and amortization (note 4.2 and 5.1), salaries, wages and benefits, legal and professional charges etc.

(Amounts in thousand)

## 5 INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilisation	Total
	-----Rupees-----		
<b>As at January 1, 2010</b>			
Cost	116,573	102,312	218,885
Accumulated amortization	(96,181)	-	(96,181)
Net book value	<u>20,392</u>	<u>102,312</u>	<u>122,704</u>
<b>Year ended December 31, 2010</b>			
Net book value - January 1, 2010	20,392	102,312	122,704
Transferred from capital work in progress (note 4.4)	45,645	-	45,645
Amortization charge	(19,111)	-	(19,111)
Closing net book value	<u>46,926</u>	<u>102,312</u>	<u>149,238</u>
<b>As at December 31, 2010</b>			
Cost	162,218	102,312	264,530
Accumulated amortization	(115,292)	-	(115,292)
Net book value	<u>46,926</u>	<u>102,312</u>	<u>149,238</u>
<b>Period ended June 30, 2011</b>			
Net book value- January 1, 2011	46,926	102,312	149,238
Transferred from capital work in progress (note 4.4)	3,048	-	3,048
Amortization charge (note 5.1)	(8,497)	(98)	(8,595)
Closing net book value	<u>41,477</u>	<u>102,214</u>	<u>143,691</u>
<b>As at June 30, 2011</b>			
Cost	165,266	102,312	267,578
Accumulated amortization	(123,789)	(98)	(123,887)
Net book value	<u>41,477</u>	<u>102,214</u>	<u>143,691</u>

## 5.1 Amortization charge for the period has been allocated as follows:

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
	----- Rupees -----	
Cost of sales (note 29)	2,403	1,823
Selling and distribution expenses (note 30)	24	24
Administrative expenses (note 31)	5,317	4,180
Capital work in progress	851	934
	<u>8,595</u>	<u>6,961</u>

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

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(Amounts in thousand)

**6 LONG TERM LOANS AND ADVANCES - Considered good**

	June 30, 2011	December 31, 2010
	----- Rupees -----	
Long term loans to:		
Executives (notes 6.1 and 6.2)	130,213	289,814
Other employees (note 6.3)	77,886	235,570
	<u>208,099</u>	<u>525,384</u>
Less: Current portion shown under current assets (note 11)	129,921	413,869
	<u>78,178</u>	<u>111,515</u>

**6.1 Reconciliation of the carrying amount of loans and advances to executives**

Balance at beginning of the period / year	289,814	280,408
Disbursements	39,932	63,475
Repayments / amortisation	(199,533)	(54,069)
Balance at end of the period / year	<u>130,213</u>	<u>289,814</u>

**6.2** Includes interest free services incentive loans to executives of Rs. 75,027 (December 31, 2010: Rs. 66,723) repayable in equal monthly instalments over a three years period or in one lump sum at the end of such period and unvested disbursement to executives under housing subsidy scheme amounting to Rs. 20,730 (December 31, 2010: Rs. 182,910). It also includes advance of Rs. 31,310 (December 31, 2010: Rs.34,112) and Rs. 3,146 (December 31, 2010: Rs. 6,069) to executives for car earn out assistance and house rent advance respectively.

**6.3** Includes interest free loans given to workers of Rs. 38,483 (December 31, 2010: Rs. 49,446) pursuant to Collective Labour Agreement and disbursement to workers under housing subsidy scheme amounting to Rs. 39,403 (December 31, 2010: Rs. 186,124).

**6.4** The maximum amount outstanding at the end of any month during the half year ended June 30, 2011 from the executives aggregated to Rs. 154,273 (December 31, 2010: Rs. 311,099).

**7 STORES, SPARES AND LOOSE TOOLS**

	June 30, 2011	December 31, 2010
	----- Rupees -----	
Consumable stores	253,748	255,128
Spares (note 7.1)	3,757,931	3,192,630
Loose tools	3,857	3,606
Less: Provision for surplus and slow moving items	74,207	59,284
	<u>3,941,329</u>	<u>3,392,080</u>

**7.1** These include spares for the Enven Plant amounting to Rs 2,794,587 (December 31, 2010: Rs.2,297,695).

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(Amounts in thousand)

## 8 STOCK-IN-TRADE

	June 30, 2011	December 31, 2010
----- Rupees -----		
Raw materials (note 8.1)	1,130,207	576,641
Packing materials	46,965	46,438
	<u>1,177,172</u>	<u>623,079</u>
Finished goods	396,580	272,378
	<u>1,573,752</u>	<u>895,457</u>

8.1 Includes in-transit amounting to Rs. 442,573 (December 31, 2010: Rs. 219,726).

## 9 TRADE DEBTS

	June 30, 2011	December 31, 2010
----- Rupees -----		
Considered good		
- Secured (note 9.1)	214,570	342,600
- Unsecured	39,222	10,344
	<u>253,792</u>	<u>352,944</u>
Considered doubtful	8,073	8,073
	<u>261,865</u>	<u>361,017</u>
Provision for impairment (note 9.2 & 9.4)	(8,073)	(8,073)
	<u>253,792</u>	<u>352,944</u>

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

9.2 The movement in provision during the period / year is as follows:

	June 30, 2011	December 31, 2010
----- Rupees -----		
Balance at beginning of the period / year	8,073	8,873
Provisions reversed during the period / year	-	(800)
Balance at end of the period / year	<u>8,073</u>	<u>8,073</u>

9.3 As at June 30, 2011, trade debts aggregating to Rs. 29,883 (December 31, 2010: Rs. 31,938) were past due (upto three months) but not impaired. These relate to various customers for which there is no recent history of default.

9.4 As at June 30, 2011, trade debts aggregating to Rs. 8,073 (December 31, 2010: Rs. 8,073) were impaired and provided for, which are past due for more than six months.

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(Amounts in thousand)

**10 EMPLOYEE SHARE OPTION SCHEME**

Consequent to demerger of the fertilizer business into the Company as referred to in note 1.2, the employees transferred to the Company and holding share options of the Holding Company were, on surrender thereof, granted share options under a new Employee share option scheme (the Scheme) of the Company. Under the Scheme, employees were 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 has ended on December 31, 2010, whereafter these options can be exercised within a period of two years ending December 31, 2012.

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

**10.1 Deferred employee compensation expense**

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Balance at beginning of the period / year	3,702	-
Options issued during the period / year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Amortisation for the period / year	(3,233)	(54,971)
Balance at end of the period / year	<u>193</u>	<u>3,702</u>
Current portion shown under current assets	<u>(193)</u>	<u>(3,702)</u>
Long term portion of deferred employee compensation expense	<u>-</u>	<u>-</u>

**10.2 Employee share option compensation reserve**

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

**10.3 Movement in share options outstanding at end of the period / year is as follows:**

	-----Numbers-----	
Balance at beginning of the period / year	4,914,000	-
Options issued during the period / year	-	4,937,100
Options lapsed during the period / year	(23,100)	(23,100)
Balance at end of the period / year (note 10.3.2)	<u>4,890,900</u>	<u>4,914,000</u>

**10.3.1** The above mentioned share options do not include the effect of bonus shares issued in the fourth quarter of 2010, which makes the total number of share options outstanding at the end of the current period equal to 17,607,240. Further consequent to issue of bonus shares, the exercise price was also adjusted to Rs. 27.22 per share, duly approved by SECP. However, such adjustment has no effect on the fair value of share options recognised in the financial statements.

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(Amounts in thousand)

10.3.2 Options vested (excluding bonus impact) as at June 30, 2011 equals to 4,721,500 (December 31, 2010: 3,032,400).

10.4 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%

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

Name of employee	No. of share options
Khalid Siraj Subhani	560,000
Asif Sultan Tajik	280,000
Inamullah Naveed Khan	280,000
Khalid Mir	280,000
Abdul Samad Khan	280,000

The above mentioned shares do not include the impact of bonus shares, issued in the fourth quarter of 2010.

## 11 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Current portion of long term loans and advances to executives and other employees - considered good (note 6)	129,921	413,869
Sub-ordinated loan to Engro Eximp (Private) Limited, an associated company (note 11.1)	-	770,000
Loan to Descon Engineering Limited, considered good, unsecured (note 11.2)	650,000	650,000
Advances and deposits	321,379	95,832
Prepayments		
- Gas charge (note 11.3)	548,613	573,843
- Insurance	30,420	70,887
- Others	37,047	36,408
	<b>1,717,380</b>	<b>2,610,839</b>
Provision for impairment (note 11.4)	(1,512)	(1,512)
	<b>1,715,868</b>	<b>2,609,327</b>

11.1 The loan, repaid during the period, carried mark-up at rates not being lower than the mark-up payable by the Company for ordinary commercial finance of like maturities. Such mark-up for the period was 15% per annum (December 31, 2010: 15% per annum).

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(Amounts in thousand)

- 11.2 Represents interest free loan to Descon Engineering Limited, a contractor to the Enven Plant. The loan, repayable on demand, is given against a Corporate Bond/Guarantee and Promissory Note.
- 11.3 Represents payments made to Sui Northern Gas Pipeline Limited under Take or Pay arrangement in respect of the Enven Plant. The Company is confident that such prepayment will be adjusted, prior to the expiry period against the expected gas consumption in the coming months.
- 11.4 As at June 30, 2011, loans and advances aggregating to Rs. 1,512 (December 31, 2010: Rs. 1,512) were impaired and provided for, which are past due for more than six months. The movement in provision during the period / year is as follows:

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Balance at beginning of the period / year	1,512	5,816
Provision reversed during the period / year	-	(4,304)
Balance at end of the period / year	<u>1,512</u>	<u>1,512</u>

## 12 OTHER RECEIVABLES

Receivable from Government of Pakistan for:

- sales tax (note 12.1)	-	57,135
- others	197	193
	<u>197</u>	<u>57,328</u>

Accrued income on deposits / investments	14,421	17,173
Receivable from pension fund (note 38.1.1)	4,336	4,073

Due from associated companies:

- Engro Eximp (Private) Limited	8,064	-
- Engro Foods Limited	1,135	1,912
- Engro Polymer & Chemicals Limited	1,586	3,324
- Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited)	3,829	780
- Avanceon Limited	1,369	2,573
- Engro PowerGen Limited	-	6
- Sindh Engro Coal Mining Company Limited	170	6
- Engro Foods Supply Chain (Private) Limited	56	2
- Engro Vopak Terminal Limited	69	-

Claims on foreign suppliers	4,745	10,028
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Others	5,116	10,442
Less: Provision for impairment (note 12.4)	465	-
	<u>4,651</u>	<u>10,442</u>
	<u>44,628</u>	<u>107,647</u>



(Amounts in thousand)

12.1 This represented sales tax levied on the Holding Company in year 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 also 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. However, during the period, the Company has adjusted the sales tax receivable in the monthly returns filed with sales tax authorities subsequent to withdrawal of SRO 535(I)/2008 as referred to in note 28.2.

12.2 The maximum amount due from Holding Company / associate companies at the end of any month during the period / year aggregated as follows:

	June 30, 2011	December 31, 2010
-----Rupees-----		
Holding Company		
- Engro Corporation Limited	8,847	26,752
Associated companies		
- Engro Eximp (Private) Limited	11,327	44,540
- Engro Foods Limited	13,028	4,666
- Engro Polymer & Chemicals Limited	9,594	3,324
- Engro PowerGen Qadirpur Limited (formerly, Engro Energy Limited)	4,384	9,892
- Avanceon Limited	3,003	2,573
- Engro PowerGen Limited	2,026	813
- Sindh Engro Coal Mining Company Limited	857	352
- Engro Foods Supply Chain (Private) Limited	228	1,563
- Engro Management Services (Private) Limited	6	27
- Pakistan Chemical and Energy Sector Skill Development Company	-	413
- Engro Vopak Terminal Limited	69	419

12.3 As at June 30, 2011, receivables aggregating to Rs.15,862 (December 31, 2010: Rs. 22,796) were past due but not impaired. The ageing analysis of these receivables is as follows:

	June 30, 2011	December 31, 2010
-----Rupees-----		
Upto 3 months	1,051	6,988
3 to 6 months	871	6,162
More than 6 months	5,735	9,646
	<u>7,657</u>	<u>22,796</u>

12.4 The movement in provision during the period / year is as follows:

Balance at beginning of the period / year	-	439
Provision made / reversed during the period / year	465	(439)
Balance at end of the period / year	<u>465</u>	<u>-</u>

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(Amounts in thousand)

**13 SHORT TERM INVESTMENTS**

June 30, 2011	December 31, 2010
-----Rupees-----	

**Financial assets at fair value through profit or loss**

Fixed income placements (note 13.1)	49,771	61,303
Money market funds (note 13.2)	4,750,383	2,390,982
	<u>4,800,154</u>	<u>2,452,285</u>

**13.1** These represents foreign and local currency deposits with various banks, at the interest rates ranging upto 13.00% per annum (December 31, 2010: 12.55%).

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

**14 CASH AND BANK BALANCES**

June 30, 2011	December 31, 2010
-----Rupees-----	

**Cash at banks on:**

- deposit accounts (note 14.1)	1,408,296	1,401,181
- current accounts (note 14.2)	315,308	427,520
	<u>1,723,604</u>	<u>1,828,701</u>

**Cash in hand**

	7,250	7,250
	<u>1,730,854</u>	<u>1,835,951</u>

**14.1** Deposit accounts carried return at rates ranging upto 13.00% per annum (December 31, 2010: 12.55% per annum).

**14.2** This includes Rs. 10,587 (December 31, 2010: Rs. 10,602) held in foreign currency bank accounts.

**15 SHARE CAPITAL**

June 30, 2011	December 31, 2010
-----Rupees-----	

**Authorised Capital**

1,300,000,000 (December 31, 2010: 1,300,000,000) Ordinary shares of Rs.10 each	<u>13,000,000</u>	<u>13,000,000</u>
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**Issued, subscribed and paid-up capital**

1,072,800,000 (December 31, 2010: 1,072,800,000) Ordinary shares of Rs.10 each (note 15.1)	<u>10,728,000</u>	<u>10,728,000</u>
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*Handwritten mark*

(Amounts in thousand)

## 15.1 Movement in issued, subscribed and paid-up capital

June 30, 2011	December 31, 2010		June 30, 2011	December 31, 2010
-----Numbers-----			-----Rupees-----	
1,072,800,000	7	At beginning of the period / year	10,728,000	-
-	9,999,993	Ordinary shares of Rs. 10 each issued as at January 1, 2010 on transfer of fertilizer undertaking (note 1.2)	-	100,000
-	1,062,800,000	Ordinary shares of Rs. 10 each issued during the period / year as fully paid bonus shares	-	10,628,000
<u>1,072,800,000</u>	<u>1,072,800,000</u>		<u>10,728,000</u>	<u>10,728,000</u>

15.2 The Holding Company as at June 30, 2011 held 100% (December 31, 2010: 100%) ordinary shares in the Company.

## 16 SHARE PREMIUM

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Balance at beginning of the period / year	11,144	-
Transfer of fertilizer undertaking (note 1.2)	-	10,639,144
Utilized for issuance of bonus shares (note 15.1)	-	(10,628,000)
Balance at end of the period / year	<u>11,144</u>	<u>11,144</u>

## 17 HEDGING RESERVE

Hedging reserve on account of :

- Foreign exchange forward contracts	5,460	(231,417)
- Foreign exchange option contracts	-	(12,464)
- Interest rate swaps	<u>(884,404)</u>	<u>(1,121,158)</u>
	(878,944)	(1,365,039)
Deferred tax	<u>307,630</u>	<u>477,762</u>
	<u>(571,314)</u>	<u>(887,277)</u>

17.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges, net off associated gain/ losses recognised in initial cost of the hedged item.

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(Amounts in thousand)

**18 BORROWINGS**  
**Secured (Non-participatory)**

	Note	Mark - up rate p.a.	Instalments		June 30,	December 31,
			Number	Commencing from	2011	2010
					Rupees	
<b>Long term finance utilised under mark-up arrangements:</b>						
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	75,000	225,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	100,000	200,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	850,000	925,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	1,700,000	1,850,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	212,500	231,250
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	85,000	92,500
HSBC Middle East Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	212,500	231,250
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	425,000	462,500
National Bank of Pakistan Syndicated finance	18.1	6 months KIBOR + 1.8%	8 half yearly	September 4, 2011	1,500,000	1,500,000
Islamic offshore finance	18.2	6 months LIBOR + 2.57%	11 half yearly	February 27, 2012	18,181,545	18,165,889
DFI Consortium finance	18.3	6 months LIBOR + 2.6%	8 half yearly	March 28, 2011	11,080,137	12,755,717
International Finance Corporation	18.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	6,644,325	7,284,352
International Finance Corporation	18.4	6 months LIBOR + 6%	3 half yearly	September 15, 2015	3,932,090	3,889,941
International Finance Corporation	18.4	6 months LIBOR + 6%	3 half yearly	September 15, 2016	2,484,893	-
Bank Islami Pakistan Limited		6 months KIBOR + 2.4%	14 half yearly	May 25, 2010	499,700	499,800
Pak Kuwait Investment Company (Private) Limited		6 months KIBOR + 2.35%	10 half yearly	April 30, 2012	495,861	495,323
Faysal Bank Limited		6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	1,498,145	1,497,929
Dubai Islamic Bank Limited		6 Months Kibor + 2.11%	10 half yearly	December 31, 2012	491,598	490,400
Silk Bank Limited		6 Months Kibor + 2.35%	10 half yearly	January 21, 2013	299,459	299,405
Standard Chartered Bank		6 Months Kibor + 2.40%	10 half yearly	September 17, 2012	990,184	989,094
Samba Bank Limited		6 Months Kibor + 2.40%	10 half yearly	September 30, 2012	496,348	495,934
Habib Metropolitan Bank Limited		6 Months Kibor + 2.40%	10 half yearly	June 21, 2013	199,965	199,965
National Bank of Pakistan		6 Months Kibor + 2.40%	6 half yearly	March 28, 2013	991,975	990,949
Habib Bank Limited	18.9	6 Months Kibor + 1.5%	Bullet	October 28, 2011	1,000,000	1,000,000
Allied Bank Limited	18.9	6 Months Kibor + 1%	Bullet	November 29, 2011	149,942	149,942
Standard Chartered Bank Limited	18.10	6 Months Kibor + 1.5%	3 instalments	April 18, 2011	1,400,000	1,500,000
<b>Certificates</b>						
Term Finance Certificates - 2nd Issue	18.5	6 months KIBOR + 1.55%			3,971,800	3,970,694
Term Finance Certificates - 3rd Issue	18.6	6 months KIBOR + 2.4%			1,974,624	1,972,993
Sukuk Certificates	18.7	6 months KIBOR + 1.5%			2,987,765	2,986,590
Privately Placed Subordinated Term Finance Certificates	18.8				5,967,680	5,959,269
					70,898,036	71,311,686
Less: Current portion shown under current liabilities					10,138,680	8,651,546
					<u>60,759,356</u>	<u>62,660,140</u>

18.1 This represents a syndicated finance agreement with Allied Bank Limited, Bank Alfalah Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Standard Chartered and United Bank Limited which was fully disbursed. Some of the banks have sold down their share to other banks.

18.2 This represents an offshore Islamic Finance Facility Agreement of USD 150,000 with Citi Bank, Dubai Islamic Bank, Habib Bank Limited, National Bank of Pakistan, SAMBA Financial Group and Standard Chartered Bank. The first installment amounting to USD 20,250 was paid during the period on due date.

18.3 This represents an agreement amounting to USD 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID. The first installment amounting to USD 7,727 was paid during the period on due date.

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(Amounts in thousand)

18.4 The Holding Company entered into a C Loan Agreement (Original Agreement) dated September 29, 2009 with International Finance Corporation (IFC) for US\$ 50,000, divided into Tranche A (US\$ 15,000) and Tranche B (US\$ 35,000). Both Tranche A and B were fully disbursed as at December 31, 2009 and transferred to the Company under the scheme of demerger effective January 1, 2010 as referred to in note 1.2. However, the option given to convert the Tranche A loan amount of US\$ 15,000 shall remain upon the Holding Company's ordinary shares at Rs. 205 per ordinary share (reduced to Rs.155.30 and Rs. 186.36 as at June 30, 2011 and December 31, 2010 respectively consequent to bonus issues) calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option. Such option is to be exercised within a period of no more than five years from the date of disbursement of the loan (December 28, 2009). Tranche B, however, is not convertible. The Holding Company, upon shareholders' approval in the Annual General Meeting of February 27, 2010, has entered 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.

On December 22, 2010, the Company and IFC entered into an amended agreement for further disbursement of US\$ 30,000 over and above the aforementioned disbursed amount of US\$ 50,000. The amount has been fully disbursed as at June 30, 2011. The salient features of the Original Loan essentially remained the same. The additional loan of US\$ 30,000 is divided into (i) 30% convertible loan on the shares of the Company at Rs. 41.67 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. The additional loan is repayable by September 15, 2017 in three equal installments and carries interest at six months LIBOR plus a spread of 6% or 10% depending on the listing status of the Company at various intervals. However, the management is confident that it will comply with the requirements of listing and avail the spread of 6% for the entire loan tenor.

The fair value of the aforementioned conversion options, included in note 20, on the date of disbursement amounted to Rs. 338,647 and Rs. 63,000 for the original and additional loan respectively. The residual amount, representing the loan liability component is shown as long term borrowings. The fair value of these options as at June 30, 2011 amounted to Rs. 331,442 (December 31, 2010: Rs. 367,442).

The entire loan is subordinated to other parallel senior debt of the Company and guaranteed by the Holding Company to IFC through a Corporate Guarantee.

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

18.6 These represents listed and secured Term Finance Certificates (TFCs) of Rs. 2,000,000 which comprises of Private Placement of Rs 1,500,000 and Initial Public Offer of Rs. 500,000. The TFCs are structured to redeem as follows:

Year	Redemption %age
1	0.04%
2	0.04%
3	7.96%
4	7.96%
5	12%
6	12%
7	60%

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

*After*

(Amounts in thousand)

- 18.7 This represents privately placed Sukuk Certificates based on diminishing Musharika amounting to Rs.3,000,000. The principal amount is payable after seven years in two semi-annual equal instalments.
- 18.8 This represents Subordinated Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively. The PPTFCs are perpetual in nature with a five year call and a ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% whereas the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. IGI Investment Bank Limited has been appointed as trustees in respect of these TFCs. Subsequent to period end, the aforementioned TFCs have been listed on the Over-The-Counter (OTC) market of the Karachi Stock Exchange.
- 18.9 These loans are secured against a ranking charge over the assets of the Company.
- 18.10 This loan is secured against a ranking charge over the assets of the Company and Corporate Guarantee by the Holding Company. The entire outstanding amount has been paid subsequent to the period end.
- 18.11 The above finances, excluding those covered in notes 18.4,18.8,18.9 and 18.10, are secured by an equitable mortgage upon the immovable property of the Company and hypothecation charge over current and future fixed assets of the Company. Perpetual subordinated TFCs, IFC and above mentioned bridge loans are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.
- 18.12 In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these financial statements.

19 SUBORDINATED LOAN FROM HOLDING COMPANY - unsecured

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Balance at beginning of the period / year	1,500,000	-
Loan disbursed during the period / year	1,500,000	1,500,000
Balance as at end of the period / year	<u>3,000,000</u>	<u>1,500,000</u>

- 19.1 Represents subordinated loan obtained from the Holding Company for a period of five years. The entire loan is payable on or before the end of the term, that is, September 14, 2015. The loan carries mark-up at rate not being lower than the cost of the Holding Company for finances of like maturities plus 1% on a quarterly or semi-annual basis. at the option of the Company.

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(Amounts in thousand)

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

	June 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
	-----Rupees-----			
Conversion options on IFC loan	-	331,442	-	367,442
Cash flow hedges				
- Foreign exchange forward contracts, net (note 20.1)	9,524	20,504	2,638	234,055
- Foreign exchange option contracts, net	-	-	-	12,464
- Interest rate swaps (note 20.2)	-	1,010,688	-	1,121,158
	<u>9,524</u>	<u>1,362,634</u>	<u>2,638</u>	<u>1,735,119</u>
Less: Current portion shown under current assets / liabilities				
Cash flow hedges:				
- Foreign exchange forward contracts	9,524	20,504	2,638	234,055
- Foreign exchange option contracts	-	-	-	12,464
- Interest rate swaps	-	421,453	-	426,868
	<u>9,524</u>	<u>441,957</u>	<u>2,638</u>	<u>673,387</u>
	<u>-</u>	<u>920,677</u>	<u>-</u>	<u>1,061,732</u>

## 20.1 Foreign exchange forward contracts

20.1.1 The Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at June 30, 2011, the Company had forward exchange contracts to purchase Euros 2,584 (December 31, 2010: Euros 2,698) at various maturity dates. The fair value of these contracts, as at June 30, 2011 is positive and amounted to Rs. 9,524 (December 31, 2010: Rs. 2,638 positive).

20.1.2 The Company entered in various USD: PKR forward contracts to hedge its foreign currency exposure. As at June 30, 2011, the Company had forward contracts to purchase USD 57,000 (December 31, 2010: USD 85,000) at various maturity dates to hedge its foreign currency loan obligations. The fair value of these contracts as at June 30, 2011 is negative and amounted to Rs. 20,504 (December 31, 2010: Rs. 234,055 negative).

## 20.2 Interest rate swaps

20.2.1 The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of USD 129,750 (December 31, 2010: USD 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, 2011 is negative and amounted to Rs. 568,360 (December 31, 2010: Rs. 654,163 negative).

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(Amounts in thousand)

20.2.2 The Company entered into another interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from a consortium of Development Finance Institutions for a notional amount of USD 77,273 (December 31, 2010: USD 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, 2011 is negative and amounted to Rs. 442,328 (December 31, 2010: Rs. 466,995 negative).

## 21 DEFERRED LIABILITIES

	June 30, 2011	December 31, 2010
-----Rupees-----		
Deferred taxation (note 21.1)	3,680,858	2,488,204
Deferred income (note 21.2)	90,507	92,440
	<u>3,771,365</u>	<u>2,580,644</u>
<b>21.1 Deferred taxation</b>		
Credit balances arising on account of:		
- Accelerated depreciation allowance	16,616,387	3,376,158
- Carried forward tax losses substantially pertaining to unabsorbed tax depreciation	(12,342,899)	(324,811)
- Carried forward minimum tax	(146,663)	-
- Fair values of hedging instruments	(307,630)	(477,762)
- Exchange loss	(96,331)	(20,631)
- Fair value of IFC conversion option	24,572	(10,078)
- Provision for:		
- retirement benefits	(32,930)	(26,410)
- slow moving stores and spares and doubtful receivables	(29,490)	(24,104)
- others	(4,158)	(4,158)
	<u>3,680,858</u>	<u>2,488,204</u>
<b>21.2 Deferred income</b>		

This represents an amount of Rs. 96,627 received from Engro Powergen Qadirpur Limited (formerly Engro Energy Limited), an associated company, for the right to use the Company's infrastructure facilities at Daharki Plant by the employees of Engro Powergen Qadirpur Limited (formerly Engro Energy Limited) for a period of twenty five years. The amount is being amortised over such period.

## 22 EMPLOYEE HOUSING SUBSIDY

This represents unamortised balance of Employee Housing Subsidy Scheme (the Scheme) transferred to the Company as at January 1, 2010 upon transfer of fertilizer undertaking by the Holding Company. As per the Scheme, which expired on December 31, 2009, employees who were not entitled for Employee Share Options were provided Housing Subsidy to be vested/amortised over a period of 2.5 years of employee service.

The expected future charge will be Rs. 7,945 for the six months period ending December 31, 2011 and Rs. 1,656 for the year ending December 31, 2012 respectively.

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(Amounts in thousand)

**23 RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS**

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Service benefit obligation	94,086	75,459
Less: Current portion shown under current liabilities	<u>32,559</u>	<u>20,636</u>
	<u><b>61,527</b></u>	<u><b>54,823</b></u>

**24 TRADE AND OTHER PAYABLES**

Creditors	1,757,760	1,006,034
Accrued liabilities (note 24.1)	1,061,893	961,190
Advances from customers	3,877,478	1,338,022
Payable to:		
- Engro Corporation Limited	8,778	296
- Engro Eximp (Private) Limited (note 24.2)	1,113	151,626
- Engro Vopak Terminal Limited	-	68
- Engro PowerGen Limited	107	-
Deposits from dealers refundable on termination of dealership	14,064	11,800
Contractors' deposits and retentions	110,918	94,201
Workers' profits participation fund (note 24.3)	180,200	9,742
Workers' welfare fund	174,721	106,245
Others	<u>224,627</u>	<u>232,125</u>
	<u><b>7,411,659</b></u>	<u><b>3,911,349</b></u>

**24.1 Accrued liabilities**

Salaries, wages and other employee benefits	182,328	512,201
Vacation accruals	88,753	88,753
Others	790,812	360,236
	<u><b>1,061,893</b></u>	<u><b>961,190</b></u>

**24.2** Represents amount due to Engro Eximp (Private) Limited in respect of funds collected on their behalf by the Company under an agreement as a selling agent of imported fertilizers.

**24.3 Workers' profits participation fund**

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Payable at beginning of the period / year	9,742	-
Allocation for the period / year (note 33)	180,200	279,591
Less: Amount paid to the trustees of the fund	<u>9,742</u>	<u>269,849</u>
Payable at end of period / year	<u><b>180,200</b></u>	<u><b>9,742</b></u>

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(Amounts in thousand)

**25 ACCRUED INTEREST / MARK-UP**

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Accrued interest / mark-up on:		
- long term borrowings	2,037,850	1,971,297
- short term borrowings	<u>13,200</u>	<u>10,323</u>
	<u><u>2,051,050</u></u>	<u><u>1,981,620</u></u>

**26 SHORT TERM BORROWINGS**

Secured (note 26.1)	34,955	-
Unsecured (note 26.2)	-	970,126
	<u><u>34,955</u></u>	<u><u>970,126</u></u>

**26.1** The funded facilities for short term finances available from various banks amounts to Rs. 4,150,000 (December 31, 2010: Rs. 3,900,000) along with non-funded facilities of Rs. 1,450,000 (December 31, 2010: Rs. 1,450,000) for Bank Guarantees. The rates of markup on funded financing facilities ranges from 13.97% to 15.15% 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.

**26.2** During the current period, the Company repaid its obligation of Rs 1,000,000 (face value) upon maturity of the 6 months Commercial Paper, issued in September 2010, carrying mark-up of 14.14% per annum.

**27 CONTINGENCIES AND COMMITMENTS****Contingencies**

**27.1** Bank guarantees of Rs. 1,222,126 (December 31, 2010: Rs. 1,214,295) have been issued in favour of third parties.

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

**27.3** 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.

**27.4** 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 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.

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(Amounts in thousand)

27.5 The Company has filed a constitutional petition in the High Court of Sindh, Karachi against the Ministry of Petroleum and Natural Resources, Ministry of Industries and Production and Sui Northern Gas Pipeline Company Limited for continuous supply of 100 MMCFD gas to the Enven Plant and to prohibit from suspending, discontinuing or curtailing the aforesaid supply. The honourable High Court of Sind on May 31, 2011 has ordered that SNGPL should supply 80-100 MMCFD to the petitioner's new fertilizer plant.

27.6 All Pakistan Textile Processing Mills Association (APTPMA), Shan Dying & Printing Industries (Private) Limited, Agritech Limited (Agritech) 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 of Qadirpur gas field exceeding 500 MMCFD by 100 MMCFD and the Gas Sale and Purchase Agreement (GSA) dated April 11, 2007 with Sui Northern Gas Pipe Line Limited (SNGPL) be declared void abinitio 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 system. However, no orders have been passed in these matters. The Company has out rightly rejected these contentions, and is of the view that it has a strong case for the reasons that (i) 100 MMCFD 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; (ii) GSA which guarantees uninterrupted supply of gas to the expansion plant, with right to first 100 MMCFD gas production from the Qadirpur field; and (iii) both the Company and gas field (Qadirpur), that is to initially supply the Company, are in Sindh. Also, neither the gas allocation by Government nor the GSA predicates the gas supply upon Qadirpur field producing 100 MMCFD over and above 500 MMCFD. Further, the Company's management, as confirmed by the legal advisor, consider the chances of the petitions being allowed to be remote.

Commitments		June 30, 2011	December 31, 2010
		-----Rupees-----	
27.7	Plant and machinery	805,387	1,630,879
28	NET SALES	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
		-----Rupees-----	
	Own manufactured product	13,756,518	9,417,361
	Less: Sales tax (note 28.2)	1,610,809	2,449
		<u>12,145,709</u>	<u>9,414,912</u>

28.1 Sales are net of marketing allowances of Rs.307 (June 30, 2010: Rs.42,920).

28.2 Effective March 15, 2011, the Federal Government of Pakistan vide SRO/229/(1)/2011 has withdrawn SRO 535/1/2008 under which import and supply of fertilizers were exempt from payment of sales tax. Accordingly, sales tax has been charged by the Company to its customers from the date of withdrawal of the aforementioned SRO.

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(Amounts in thousand)

## 29 COST OF SALES

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
-----Rupees-----		
Raw materials consumed	3,198,757	2,591,972
Salaries, wages and staff welfare (note 29.1)	467,126	409,390
Fuel and power	1,153,881	1,226,254
Repairs and maintenance	133,396	131,395
Depreciation (note 4.2)	331,417	302,284
Amortisation (note 5.1)	2,403	1,823
Consumable stores	128,005	84,455
Staff recruitment, training, safety and other expenses	27,861	21,543
Purchased services	72,819	60,653
Travel	17,005	13,979
Communication, stationery and other office expenses	10,464	8,576
Insurance	51,346	57,314
Rent, rates and taxes	1,568	4,134
Other expenses	544	903
Cost of goods manufactured	<u>5,596,592</u>	<u>4,914,675</u>
Add: Opening stock of finished goods	<u>272,378</u>	<u>112,500</u>
Less: Closing stock of finished goods	<u>396,580</u>	<u>290,983</u>
	<u>(124,202)</u>	<u>(178,483)</u>
Cost of sales	<u>5,472,390</u>	<u>4,736,192</u>

29.1 Salaries, wages and staff welfare includes Rs 33,423 (June 30, 2010: Rs. 27,273) in respect of staff retirement benefits.

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(Amounts in thousand)

**30 SELLING AND DISTRIBUTION EXPENSES**

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
-----Rupees-----		
Salaries, wages and staff welfare (note 30.1)	156,358	104,351
Staff recruitment, training, safety and other expenses	31,915	25,077
Product transportation and handling	468,220	424,264
Royalty expense	161,123	127,739
Repairs and maintenance	1,395	844
Advertising and sales promotion	22,454	11,623
Rent, rates and taxes	42,099	36,707
Communication, stationery and other office expenses	11,933	7,781
Travel	17,945	12,726
Depreciation (note 4.2)	16,233	9,526
Amortisation (note 5.1)	24	24
Purchased services	2,296	796
Insurance	1,727	2,119
Other expenses	19,510	8,561
	<u>953,232</u>	<u>772,138</u>

**30.1** Salaries, wages and staff welfare includes Rs. 16,778 (June 30, 2010: Rs. 12,628) in respect of staff retirement benefits.

**31 ADMINISTRATIVE EXPENSES**

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
-----Rupees-----		
Salaries, wages and staff welfare (note 31.1)	160,594	149,414
Staff recruitment, training, safety and other expenses	13,853	10,652
Repairs and maintenance	6,044	9,443
Rent, rates and taxes	29,950	26,363
Communication, stationery and other office expenses	18,223	5,389
Travel	4,128	4,048
Depreciation (note 4.2)	17,435	10,964
Amortisation (note 5.1)	5,317	4,180
Purchased services	41,996	29,461
Donations	14,765	14,343
Insurance	2,416	226
Other expenses	2,800	1,852
	<u>317,521</u>	<u>266,335</u>

**31.1** Salaries, wages and staff welfare includes Rs.7,628 (June 30, 2010: Rs. 5,369) in respect of staff retirement benefits.

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(Amounts in thousand)

32	OTHER OPERATING INCOME	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
		-----Rupees-----	
	<b>On financial assets</b>		
	Income on deposits / other financial assets	225,014	1,061
	Gain on fair value adjustments of embedded derivatives	99,000	-
	<b>On non-financial assets</b>		
	Commission income (note 32.1)	51,251	4,849
	Gain on disposal of property, plant and equipment (note 4.3)	10,860	300,122
	Others	4,614	1,114
		66,725	306,085
		<u>390,739</u>	<u>307,146</u>
32.1	Represents commission earned as selling agent of imported fertilizer on behalf of Engro Eximp (Private) Limited, under an amended agreement effective January 1, 2011.		
33	OTHER OPERATING EXPENSE	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
		-----Rupees-----	
	Workers' profits participation fund (note 24.3)	180,200	158,052
	Workers' welfare fund	68,476	60,060
	Research and development (including salaries and wages)	5,742	17,223
	Net foreign exchange loss	275,232	66,773
	Auditors' remuneration (note 33.1)	2,127	1,224
	Loss on fair value adjustments of embedded derivative	-	26,795
	Others	-	14,665
		<u>531,777</u>	<u>344,792</u>
33.1	<b>Auditors' remuneration</b>		
	Fee for:		
	- audit/review of half yearly financial statements	1,200	150
	- certifications, audit of retirement funds and other advisory services	620	785
	- tax services	-	150
	Reimbursement of expenses	307	139
		<u>2,127</u>	<u>1,224</u>

(Amounts in thousand)

34	FINANCE COST	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
-----Rupees-----			
	Interest/mark-up on		
	- long term borrowings (net of interest earned on sub-ordinated loan to Eximp)	1,860,789	518,815
	- short term borrowings	<u>45,420</u>	<u>140,854</u>
		<u>1,906,209</u>	<u>659,669</u>
35	TAXATION		
	Current		
	- for the period (note 35.1)	<u>158,136</u>	<u>711,622</u>
	Deferred		
	- for the period	<u>1,022,522</u>	<u>219,134</u>
		<u>1,180,658</u>	<u>930,756</u>

35.1 Includes minimum turnover tax amounting to Rs. 146,663.

35.2 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:

During the period, the tax department finalized the audit for the financial year 2009, and raised a demand of Rs 1,110,862 (rectified to Rs 982,958), including adjustment of demand of Rs 561,595 for financial year 2008 from the filed refund for the year and non-adjustment of assessed refund amounting to Rs 443,554 relating to financial year 2007. The Company has filed an appeal with the Commissioner Inland Revenue (Appeals) who restrained the department from taking any coercive action unless the assessed refund of Rs 443,554 is adjusted through a stay order. Subsequently, the demand has been partially adjusted against refunds arising on account of appeal effect orders for income/financial year 1995 to 2002 (discussed below).

The Holding Company in its tax return for financial years 2006 to 2008 (tax years 2007 to 2009) claimed the benefit of Group Relief under section 59B of the Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from its wholly owned subsidiary, Engro Foods Limited (EFL), amounting to Rs. 428,744, Rs. 622,103 and Rs. 450,000 respectively.

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(Amounts in thousand)

The tax department had raised demands of Rs. 476,479 (rectified to Rs. 406,644), Rs. 910,845 and Rs. 1,670,814 for financial years 2006, 2007 and 2008 respectively, mainly on account of disallowance of Group Relief (in all three years), inter corporate dividend (in 2007 and 2008) and write down of inventories to net realisable value (in 2008) besides certain other issues. Uptill last year, the Holding Company had paid Rs. 170,000, Rs. 400,000 and Rs 600,000 for financial years 2006, 2007 and 2008 respectively. Stay by the High Court of Sindh for payment of balance amount for financial year 2006 was granted to the Holding Company pending decision of the appeal filed by the Holding Company before the Income Tax Appellate Tribunal (ITAT). However, for financial year 2007 the issue of Group Relief was decided by the Commissioner Inland Revenue (Appeals I) in Company's favour against which the tax department filed an appeal with ITAT. The Holding Company had filed appeal with the Commissioner Inland Revenue (Appeals I) for financial year 2008 and stay by the Department for the payment of the balance amount was granted to the Holding Company for financial year 2008 till December 31, 2010. However, the tax department upon expiry of the stay period raised a payment demand of Rs. 509,218 (after adjustment of Rs 561,596 from filed refund of financial year 2009) on January 27, 2011, against which the management has requested the department to apply its refunds granted during the period against these demands.

During the period, appeal effect orders were received relating to financial / income years 1995 to 2002 which were decided in Company's favour at ITAT level. Appeal effects relating to financial years 2005, 2006 and 2007 are pending at the department level. The tax department has however, filed reference application against the ITAT decisions before the Sindh High Court, which is pending for hearing. The Company is confident that all pending issues, including the references filed by the department in high court, will eventually be decided in its favour.

### 35.3 Relationship between tax expense and accounting profit

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

	Audited June 30, 2011	Unaudited June 30, 2010
-----Rupees-----		
Profit before tax	<u>3,355,319</u>	<u>2,942,932</u>
Tax calculated at the rate of 35%	1,174,362	1,030,026
Depreciation on exempt assets not deductible for tax purposes	17,248	17,248
Effect of exemption from tax on certain income	(25,564)	(103,457)
Effect of applicability of lower tax rate and other tax credits / debits	<u>14,612</u>	<u>(13,061)</u>
Tax charge for the period	<u>1,180,658</u>	<u>930,756</u>

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(Amounts in thousand)

## 36 EARNINGS PER SHARE

Basic earnings per shares has been calculated by dividing the profit attributable to equity holders of the Company by weighted average number of ordinary shares in issue during the period.

Dilutive earnings per share has been calculated by adjusting the weighted average number of ordinary shares outstanding for assumed conversion of share options under Employees' share option scheme and the convertible equity option on IFC loan of USD 9,000.

The information necessary to calculate basic and diluted earnings per share is as follows:

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
	-----Rupees-----	
Profit for the period	2,174,661	2,012,176
Add: Interest on IFC loan of USD 9,000 (net of tax)	1,260	-
Profit used for the determination of Diluted EPS	<u>2,175,921</u>	<u>2,012,176</u>
	---- Numbers (in thousand) ----	
Weighted average number of ordinary shares	1,072,800	1,072,800
Add : Weighted average adjustments for:		
Assumed conversion of employees' share options	3,027	-
Assumed conversion of USD 9,000 IFC loan	1,610	-
	4,637	-
Weighted average number of shares for determination of diluted EPS	<u>1,077,437</u>	<u>1,072,800</u>

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(Amounts in thousand)

**37 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

The aggregate amounts charged in these financial statements for remuneration, including all benefits, to chief executive, directors and executives of the Company are given below:

	Audited			Unaudited		
	Half year ended June 30, 2011			Half year ended June 30, 2010		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
-----Rupees-----			-----Rupees-----			
Managerial remuneration	18,401	-	567,521	17,105	-	442,491
Retirement benefits funds	1,611	-	64,660	1,371	-	52,250
Other benefits	160	-	26,784	198	-	51,997
Fees	-	1,600	-	-	700	-
<b>Total</b>	<b>20,172</b>	<b>1,600</b>	<b>658,965</b>	<b>18,674</b>	<b>700</b>	<b>546,738</b>
Number of persons including those who worked part of the period	1	9	391	1	9	334

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

**37.2** Premium charged in the financial statements in respect of directors' indemnity insurance policy, purchased by the Company during the period, amounted to Rs. 1,020.

**38 RETIREMENT BENEFITS****38.1 Defined benefit plans**

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

*Atz*

(Amounts in thousand)

**38.1.1 Balance sheet reconciliation**

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	-----Rupees-----			
Present value of funded obligation	298,861	269,523	31,704	31,230
Fair value of plan assets	(300,767)	(289,580)	(33,541)	(34,855)
Surplus	(1,906)	(20,057)	(1,837)	(3,625)
Payable to associated companies	2,538	2,875	-	-
Unrecognised actuarial gain / (loss)	3,894	12,161	(2,499)	(448)
Unrecognised past service cost	4,835	5,021	-	-
Net (asset) / liability at end of the period / year	<u>9,361</u>	<u>-</u>	<u>(4,336)</u>	<u>(4,073)</u>

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

Net (asset)/liability at beginning of the period/year	-	-	(4,073)	(31,887)
(Reversal)/expense recognised	9,361	15,470	(263)	(4,073)
Amounts received from/(paid to) the Fund	-	(15,470)	-	31,887
Net (asset)/liability at end of the period / year	<u>9,361</u>	<u>-</u>	<u>(4,336)</u>	<u>(4,073)</u>

**38.1.3 Movement in defined benefit obligation**

As at beginning of the year after transfer of Fertilizer Undertaking	269,523	241,276	31,230	28,703
Current service cost	9,650	17,735	-	-
Interest cost	19,688	29,510	2,143	3,264
Benefits paid during the period / year	-	(6,785)	(1,669)	(3,197)
Actuarial (gain)/loss on obligation	-	(8,235)	-	2,460
Liability transferred in respect of inter-company transfer	-	(3,978)	-	-
As at end of the period / year	<u>298,861</u>	<u>269,523</u>	<u>31,704</u>	<u>31,230</u>

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(Amounts in thousand)

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

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	-----Rupees-----			
At beginning of the period/year	289,580	263,645	34,855	62,645
Expected return on plan assets	19,791	30,947	2,406	7,337
(Repayment to) / Contribution by the Company		15,470	-	(31,887)
Benefits paid during the period / year	(337)	(6,785)	(1,669)	(3,197)
Actuarial gain / (loss) on plan assets	(8,267)	(12,594)	(2,051)	(43)
Liability transferred in respect of inter-company transfer	-	(1,103)	-	-
As at end of the period / year	<u>300,767</u>	<u>289,580</u>	<u>33,541</u>	<u>34,855</u>

**38.1.5 Charge for the period / year**

Current service cost	9,650	17,735	-	-
Interest cost	19,688	29,510	2,143	3,264
Expected return on plan assets	(19,791)	(30,947)	(2,406)	(7,337)
Amortisation of unrecognized past service cost	(186)	(372)	-	-
Amortisation of actuarial gain	-	(456)	-	-
	<u>9,361</u>	<u>15,470</u>	<u>(263)</u>	<u>(4,073)</u>

**38.1.6 Actual return on plan assets**

	<u>11,524</u>	<u>18,353</u>	<u>355</u>	<u>7,294</u>
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**38.1.7 Principal actuarial assumptions used in the actuarial valuation**

	Defined Benefit Gratuity Plans Funded	Defined Benefit Pension Plan Funded (Curtailed)
	June 30, 2011	June 30, 2011
Discount rate	14.5%	14.5%
Expected per annum rate of return on plan assets	14.5%	14.5%
Expected per annum rate of increase in pension	-	7.0%
Expected per annum rate of increase in future salaries	13.5%	14.5%

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(Amounts in thousand)

38.1.8	Plan assets comprise of the following	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
		June 30, 2011		June 30, 2011	
		Rupees	(%)	Rupees	(%)
	Fixed income instruments	245,240	82%	32,680	97%
	Cash and Bank	1,092	0%	861	3%
	Equity securities	54,435	18%	-	0%
		<u>300,767</u>		<u>33,541</u>	

38.1.9 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

38.1.10 Expected future cost / (reversal) for the period ending December 31, 2011 is as follows:

	Rupees
- MPT Pension Fund	<u>(263)</u>
- MPT Gratuity Fund	<u>6,376</u>
- Non-MPT Gratuity Fund	<u>2,986</u>

### 38.2 Defined contribution plans

An amount of Rs. 48,426 has been charged during the period in respect of defined contribution plans maintained by the Holding Company.

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(Amounts in thousand)

39 CASH GENERATED FROM OPERATIONS	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
	-----Rupees-----	
Profit before taxation	3,355,319	2,942,932
Adjustment for non-cash charges and other items:		
Depreciation	365,085	317,636
Amortisation	7,744	6,027
Profit on disposal of property, plant and equipment	(10,860)	(300,122)
Amortisation of transaction cost on loans	9,291	-
Provision for retirement and other service benefits	92,242	106,311
Income on deposits / other financial assets	(229,628)	(7,024)
Financial charges	1,906,209	659,669
Employee share compensation expense	696	19,471
Employee Housing Subsidy expense	5,983	54,630
Provision for surplus and slow moving stores and spares	14,923	8,230
Provision against other receivables	465	-
Change in the fair value of IFC conversion option	(99,000)	26,795
Foreign exchange loss	275,232	66,773
Working capital changes (note 39.1)	1,877,329	(559,012)
	<u>7,571,030</u>	<u>3,342,316</u>
<b>39.1 Working capital changes</b>		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(564,172)	(1,122,370)
- Stock-in-trade	(678,295)	(770,775)
- Trade debts	99,152	2,188,566
- Loans, advances, deposits and prepayments	(539,466)	(527,595)
- Other receivables (net)	59,800	11,100
	<u>(1,622,981)</u>	<u>(221,074)</u>
Increase in current liabilities		
- Trade and other payables including other service benefits - net	3,500,310	(337,938)
	<u>1,877,329</u>	<u>(559,012)</u>
<b>40 CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances (note 14)	1,730,854	843,533
Short term investments (note 13)	4,800,154	1,269,890
Short term borrowings (note 26)	(34,955)	(20,874)
	<u>6,496,053</u>	<u>2,092,549</u>

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(Amounts in thousand)

## 41 FINANCIAL INSTRUMENTS BY CATEGORY

	June 30, 2011	December 31, 2010
	-----Rupees-----	
<b>Financial assets as per balance sheet</b>		
- Loans and receivables		
Loans, advances and deposits	763,509	1,632,002
Trade debts	253,792	352,944
Other receivables	43,516	46,149
Cash and bank balances	<u>1,730,854</u>	<u>1,835,951</u>
	<u>2,791,671</u>	<u>3,867,046</u>
- Fair value through profit and loss		
Short term investments	<u>4,800,154</u>	<u>2,452,285</u>
- Derivatives used for hedging		
Derivative financial instruments	<u>9,524</u>	<u>2,638</u>
<b>Financial liabilities as per balance sheet</b>		
- Financial liabilities measured at amortised cost		
Borrowings	73,932,991	73,781,812
Trade and other payable	2,784,633	2,225,215
Accrued interest / mark-up	<u>2,051,050</u>	<u>1,981,620</u>
	<u>78,768,674</u>	<u>77,988,647</u>
- Fair value through profit and loss		
Conversion options on IFC loan	<u>331,442</u>	<u>367,442</u>
- Derivatives used for hedging		
Derivative financial instruments	<u>1,031,192</u>	<u>1,367,677</u>

## 42 FINANCIAL RISK MANAGEMENT

## 42.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on having cost efficient funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

Risk management is carried out by the Company's Finance and Planning department under policies approved by the Management Committee.

## a) Market risk

i) *Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

(Amounts in thousand)

This exists due to the Company's exposure resulting from outstanding import payments, foreign currency loan liabilities and related interest payments. A foreign exchange risk management policy has been developed and approved by the management. The policy allows the Company to take currency exposure for limited periods within predefined limits while open exposures are rigorously monitored. The Company ensures to the extent possible that it has options available to manage exposure, either through forward contracts, options or prepayments, etc. subject to the prevailing foreign exchange regulations.

The Company has entered into Euro-Dollar forward exchange contracts / options to hedge its currency risk, most of which have a maturity of less than one year from the reporting date (note 20).

On foreign currency borrowing of USD 287,023 as on June 30, 2011, the Company has Rupee/USD hedge of USD 57,000.

At June 30, 2011, if the currency had weakened/ strengthened by 1% against the US dollar with all other variables held constant, post-tax profit for the period would have been Rs. 119,784 lower/higher, mainly as a result of foreign exchange loss/gain on translation of US dollar denominated loans.

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

ii) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest rate risk arises from short and long-term borrowings. These are benchmarked to variable rates which expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a regular basis by monitoring interest rate trends to determine whether they should enter into hedging alternatives.

The Company has entered into Interest Rate Swaps for USD 207,023 out of its non-current foreign currency borrowings of USD 287,023 as on June 30, 2011 (note 20). Rates on short term loans vary as per market movement.

As at June 30, 2011, if interest rates on Company's borrowings had been 1% higher/lower with all other variables held constant, post tax profit for the period would have been lower/higher by Rs.56,650 mainly as a result of interest exposure on variable rate borrowings.



(Amounts in thousand)

iii) *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors effecting all similar financial instruments traded in the market. The Company's investments in money market mutual funds are exposed to price risk.

b) *Credit risk*

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits, bank guarantees and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with a reasonably high credit rating or mutual funds which in turn are deposited in banks and government securities. The Company maintains an internal policy to place funds with commercial banks and mutual funds of asset management companies having a minimum short term credit rating of A1+ and AM3 respectively. However, the Company maintains operational balances with certain banks of lower rating for the purpose of effective collection of bank guarantees and to cater to loan disbursements.

The Company is exposed to a concentration of credit risk on its trade debts by virtue of all its customers being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees and inland letter of credit.

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

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as under:

	June 30, 2011	December 31, 2010
	-----Rupees-----	
Loans, advances and deposits	763,509	1,632,002
Trade debts	223,909	321,006
Other receivables	35,859	33,306
Short term investments	4,800,154	2,452,285
Cash and bank balances	1,730,854	1,835,951
	<u>7,554,285</u>	<u>6,274,550</u>

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(Amounts in thousand)

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

	Rating agency	Rating	
		Short term	Long term
Askari Bank Limited	PACRA	A1+	AA
Allied Bank Limited	PACRA	A1+	AA
Bank Al Habib Limited	PACRA	A1+	AA+
Bank Al Falah Limited	PACRA	A1+	AA
Bank of Khyber	PACRA	A2	A-
Barclay's Bank plc	S&P	A1+	AA-
Bank Islami Pakistan	PACRA	A1	A
Citibank N.A.	S&P	A1	A+
Deutsche Bank AG	S&P	A1	A+
Dubai Islamic Bank	JCR-VIS	A1	A
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A1+	AA+
Habib Metropolitan Bank	PACRA	A1+	AA+
HSBC Bank Middle East Ltd	Moody's	P1	AA2
JS Bank	PACRA	A1	A
KASB Bank	PACRA	A2	A-
MCB Bank Limited	PACRA	A1+	AA+
Meezan Bank Limited	JCR-VIS	A1+	AA-
NIB Bank	PACRA	A1+	AA-
National Bank of Pakistan	JCR-VIS	A1+	AAA
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
SAMBA Bank Limited	JCR-VIS	A1	A+
Soneri Bank Limited	PACRA	A1+	AA-
Summit Bank	JCR-VIS	A2	A
United Bank Limited	JCR-VIS	A1+	AA+

### c) Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to dynamic nature of the business, the Company maintains flexibility in funding by maintaining committed credit lines available.

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

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(Amounts in thousand)

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

	June 30, 2011			December 31, 2010		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees			Rupees		
<b>Financial liabilities</b>						
Derivatives	441,957	920,677	1,362,634	673,387	1,061,732	1,735,119
Trade and other payables	2,784,633	-	2,784,633	2,225,215	-	2,225,215
Accrued interest / mark-up	2,051,050	-	2,051,050	1,981,620	-	1,981,620
Borrowings	10,173,635	63,759,356	73,932,991	9,621,672	64,160,140	73,781,812
	<u>15,451,275</u>	<u>64,680,033</u>	<u>80,131,308</u>	<u>14,501,894</u>	<u>65,221,872</u>	<u>79,723,766</u>

#### 42.2 Capital risk management

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for share holders and benefit for other stake holders and to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

The total long term borrowings to equity ratio as at June 30, 2011 based on total long term borrowings of Rs. 73,898,036 and total equity of Rs. 16,129,940 was 82.1%.

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



(Amounts in thousand)

**42.3 Fair value estimation**

The table below analyzes financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

	Level 1	Level 2	Level 3	Total
	Rupees			
<b>Assets</b>				
Financial assets at fair value through profit and loss				
- Short term investments	4,750,383	-	-	4,750,383
Derivatives used for hedging				
- Derivatives	-	9,524	-	9,524
	<u>4,750,383</u>	<u>9,524</u>	<u>-</u>	<u>4,759,907</u>
<b>Liabilities</b>				
Derivatives				
- Derivatives used for hedging	-	1,031,192	-	1,031,192
- Conversion option on IFC loans	-	331,442	-	331,442
	<u>-</u>	<u>1,362,634</u>	<u>-</u>	<u>1,362,634</u>

**42.4 Fair value of financial assets and liabilities**

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

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(Amounts in thousand)

## 43 TRANSACTIONS WITH RELATED PARTIES

Related parties comprises of Holding Company, associated companies and other companies with common director, retirement benefits funds, directors and key management personnel.

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

	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
	-----Rupees-----	
<b><i>Holding Company</i></b>		
Purchases and services	61,841	37,577
Services provided to Holding Company	4,693	-
Royalty	197,317	127,739
Reimbursements	31,568	80,708
Shares issued consequent to demerger	-	10,739.144
Mark-up paid on sub-ordinated loan	235,138	-
Use of assets	2,396	1,932
Subordinated loan received from Holding Company	1,500,000	-
<b><i>Associated companies</i></b>		
Purchases and services	1,073,150	1,035,939
Sale of product	12,500	-
Contributions to retirement benefit schemes / funds	83,881	66,762
Services provided	17,842	66,504
Reimbursements	54,081	33,585
Funds collected against sales made on behalf of an associate	7,548,991	4,422,084
Payment of mark-up on TFCs and repayment of principal amount	99,886	56,356
Purchase of T-Bill	979,264	-
Commission on sales collection	51,251	4,849
Purchase of mutual fund units	1,385,000	100,000
Redemption of mutual fund units	814,358	92,305
Donation to Engro Foundation	12,007	10,000
Commission expense	15,737	-
Markup from associate	27,847	53,926
Use of Assets	6,607	7,060
Receipt of sub-ordinated loan	770,000	-
Land swap arrangement	-	3,200
<b><i>Others</i></b>		
Remuneration of key management personnel	47,857	41,397

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(Amounts in thousand)

**44 DONATIONS**

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

	Interest in Donee	Name and address of Donee	Audited June 30, 2011	Unaudited June 30, 2010
-----Rupees-----				
Asad Umar and Khalid Siraj Subhani	President and Trustee	Engro Foundation	12,007	10,000

**45 PRODUCTION CAPACITY**

	Designed capacity Metric Tons		Actual production Metric Tons	
	Annual 2011	Annual 2010	June 30, 2011	December 31, 2010
Urea plant I & II (note 45.1 & 45.2)	2,275,000	975,000	475,237	971,913
NPK plant	100,000	100,000	61,043	100,270

45.1 This includes 1,300,000 MT designed capacity of Urea plant II. The plant II (Enven) commenced commercial production on June 24, 2011 and produced 21,764 MT till June 30, 2011.

45.2 Urea plant also produced Nil (December 31, 2010: 611 ) metric tons of Liquid Ammonia for outside sale.

**46 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.

**47 LOSS OF CERTAIN ACCOUNTING RECORDS**

During 2007, a fire broke out at PNSC Building, Karachi where the Holding Company's registered office was located. Immediately following this event the Holding Company launched its Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal.

The fire destroyed a substantial portion of its hard copy records, including that of Fertilizer Undertaking (note 1.2), related to the financial years 2005, 2006 and the period January 1, 2007 to August 19, 2007 although, electronic data remained intact due to the aforementioned Disaster Recovery Plan. The Holding Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the financial year 2007. Hard copy records related to the financial years 2005 and 2006 have not been recreated.

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(Amounts in thousand)

48 CORRESPONDING FIGURES

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

49 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 10 AUG 2011 by the Board of Directors of the Company.

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Chief Executive

  
Director