

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM**  
**FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

## **ENGRO FERTILIZERS LIMITED**

### **NINE MONTHS ENDING SEPTEMBER 30, 2011 REVIEW TO THE SHAREHOLDER**

On behalf of the Board of Directors of Engro Fertilizers Limited, we are pleased to present the unaudited accounts for the nine months ended September 30, 2011.

#### **PAKISTAN FERTILIZER MARKET**

The market offtake for Urea during the nine months ended September 30, 2011 was 4.1 million tons, a decline of 2% over the same period of last year. The decline was mainly due to product shortages created by curtailment of gas to domestic fertilizer manufacturers and unavailability of timely Urea imports. Domestic production stood at 3.7 million tons compared to 3.8 million tons produced in the same period of last year despite additional capacity of 1.3million tons per annum of Engro coming on-stream. To offset losses due to gas curtailment on the SNGPL network, the company was forced to increase the price of Urea three times during the year. This, coupled with imposition of 16% GST, resulted in the price of Urea bag increasing from Rs 830/bag at the end of December, 2010 to Rs 1,378/bag at the end of September 2011.

During Q3 2011, however, gas supplies to the SNGPL network based plants improved considerably allowing the network based fertilizer manufacturers to operate relatively consistently through most of this period. The reduction in gas load shedding by SNGPL during this quarter contributed significantly in improving urea availability in the market, resulting in market prices declining from approximately Rs. 1800/bag at the beginning of the quarter to approximately Rs. 1500/bag at the end of the quarter.

The international urea prices increased from US\$417 per ton at the beginning of the year to US\$ 546 per ton at the end of September 2011 which translates into approximately Rs 2,975/bag as against domestic price of Rs 1,378 per bag in end September. By keeping domestic prices lower than the international prices the fertilizer industry provided a benefit of approximately Rs 66 billion to the farmers in the nine months ending September 30, 2011.

#### **COMPANY'S OPERATING PERFORMANCE**

Urea sales of 954,000 tons were higher by around 48% from 645,000 tons for the same period last year, as a result of production from the new plant. Consequently, Engro's urea market share improved to 23% in the nine month period from 15% in the same period last year.

The Company's recently commissioned plant operated smoothly following declaration of Commercial Operations on June 24, 2011. Barring two intervals of over 25 days when production of Urea stopped due to gas outage, the plant operated at its expected level of performance, producing 234,000 tons till September 30, 2011.

The Company has filed a case in the Honorable Sindh High Court against the Ministry of Petroleum and Natural Resources, Ministry of Industries, Government of Pakistan and Sui Northern Gas Pipelines Lines Limited against the suspensions and curtailment of its gas supply. The Court issued its judgment on October 18, 2011, directing SNGPL to supply guaranteed quantity of 100mmscfd gas to Engro's fertilizer plant strictly in accordance with its contract; the Ministry of Petroleum and Natural Resources, and the Ministry of Industries and Production, Government of Pakistan have also been directed to ensure that the commitment, assurance and guarantee held out for the supply of 100mmscfd to Engro through SNGPL is honored.

Three separate writ petitions have been filed before the Lahore High Court against the supply of gas to the new Urea plant from the SNGPL network. No adverse Orders have been passed yet and the next hearing

has been scheduled for November 21, 2011. The Company believes that there is little prospect of proving the veracity of the petitions.

The sale of Company manufactured blended fertilizers (Zarkhez and Engro NP) increased to 83,000 tons from 66,000 tons during the same period last year. The increase is attributable to urea shortage and higher phosphate prices. Similarly, production of blended fertilizers during the first nine months of this year increased to 90,000 tons from 72,000 tons in the corresponding period in the previous year. During the period under review, the Zarkhez plant received an above-satisfactory rating in the Dupont Process Safety and Behavioral Systems for OSHA compliance.

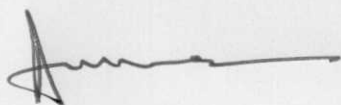
The net profit for the nine months ended September 30, 2011 was Rs. 3,510 million. This translates into a 22% growth over the corresponding period profit of Rs. 2,879 million, led primarily by higher production due to increased gas supply to the additional capacity in the 3Q2011. Notably, the Company, through its operating cashflows, has retired Rs 8.4 billion of debt, which takes care of almost all its project debt obligations for the current calendar year. With the commissioning of the project, the Company is now ontrack to deleverage its balance sheet.

### **NEAR TERM OUTLOOK**

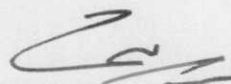
Continuation of gas curtailment is expected to result in a requirement of around 950,000 tons of Urea imports for the Rabi 2011-12 (Oct – Mar) season. Failure to import this quantity in a timely manner will result in an acute shortage of fertilizer and will seriously affect farm output as well.

The supply of gas to the new plant was again disrupted on October 1, 2011 for an uncertain period necessitating a further price increase of Rs. 174/bag by the company. The farming community of Pakistan has been badly affected by the urea supply situation. Severe gas curtailment, including unscheduled and adhoc gas outages, have resulted in urea shortfall and a consequent spike in prices. Urea prices have increased by over Rs 750/bag in the current year to Rs 1600/bag, compared to an increase of Rs 750/bag over the last 32 years. The expected shortfall of urea and the massive increases in urea prices may translate into constrained food supplies at inflated prices.

The Company is continuously engaging with various stakeholders in government to find a viable solution to the ongoing shortages faced by the fertilizer manufacturers. Until there is a permanent increase in the country's gas supply through import of LNG or alternative sources, fertilizer companies on the network are expected to continue to face gas shortages and forced outages during the foreseeable future.



**Asad Umar**  
Chairman



**Khalid S. Subhani**  
CEO

Karachi, October 19, 2011

ENGRO FERTILIZERS LIMITED  
 CONDENSED INTERIM BALANCE SHEET (UNAUDITED)  
 AS AT SEPTEMBER 30, 2011

(Amounts in thousand)

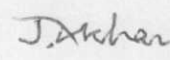
	Note	Unaudited September 30, 2011	Audited December 31, 2010
-----Rupees-----			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	87,319,203	84,370,221
Intangible assets		140,489	149,238
Long term loans and advances		96,910	111,515
		<u>87,556,602</u>	<u>84,630,974</u>
<b>Current assets</b>			
Stores, spares and loose tools		4,013,428	3,392,080
Stock-in-trade	6	1,902,786	895,457
Trade debts	7	217,237	352,944
Deferred employee compensation expense	8	-	3,702
Derivative financial instruments	13	10,664	2,638
Loans, advances, deposits and prepayments	9	1,422,408	2,609,327
Other receivables		40,797	107,647
Taxes recoverable		2,103,844	1,770,476
Short term investments		3,198,350	2,452,285
Cash and bank balances		755,788	1,835,951
		13,665,302	13,422,507
<b>TOTAL ASSETS</b>		<u>101,221,904</u>	<u>98,053,481</u>

(Amounts in thousand)

		Unaudited September 30, 2011	Audited December 31, 2010
-----Rupees-----			
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Share capital			
Authorised			
1,300,000,000 (December 31, 2010: 1,300,000,000)			
ordinary shares of Rs.10 each		<u>13,000,000</u>	<u>13,000,000</u>
Issued, subscribed and paid-up			
1,072,800,000 (December 31, 2010: 1,072,800,000)			
ordinary shares of Rs.10 each		10,728,000	10,728,000
Share premium		11,144	11,144
Employee share option compensation reserve	8	58,397	58,673
Hedging reserve	10	(593,801)	(887,277)
Unappropriated profit		7,239,378	3,729,052
		<u>6,715,118</u>	<u>2,911,592</u>
<b>Total Equity</b>		<u>17,443,118</u>	<u>13,639,592</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	11	57,304,789	62,660,140
Subordinated loan from Holding Company	12	3,000,000	1,500,000
Derivative financial instruments	13	888,249	1,061,732
Deferred liabilities	14	4,289,707	2,580,644
Employee housing subsidy		37,832	347,886
Retirement and other service benefits obligations		74,335	54,823
		<u>65,594,912</u>	<u>68,205,225</u>
<b>Current liabilities</b>			
Trade and other payables	15	6,045,472	3,911,349
Accrued interest / mark-up		1,076,082	1,981,620
Current portion of:			
- borrowings	11	10,583,270	8,651,546
- other service benefits obligations		32,559	20,636
Short term borrowings	16	13,047	970,126
Derivative financial instruments	13	433,444	673,387
		<u>18,183,874</u>	<u>16,208,664</u>
<b>Total liabilities</b>		<u>83,778,786</u>	<u>84,413,889</u>
<b>Contingencies and Commitments</b>	17		
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<u>101,221,904</u>	<u>98,053,481</u>

The annexed notes from 1 to 29 form an integral part of this condensed interim financial information.

  
Chief Executive

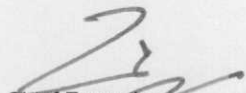
  
Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

(Amounts in thousand except for earnings per share)

	Note	3 months ended September 30, 2011	3 months ended September 30, 2010	9 months ended September 30, 2011	9 months ended September 30, 2010
-----Rupees-----					
Net sales		10,047,449	3,373,481	22,193,158	12,788,393
Cost of sales	18	(4,583,979)	(1,955,058)	(10,056,369)	(6,691,250)
<b>Gross profit</b>		<u>5,463,470</u>	<u>1,418,423</u>	<u>12,136,789</u>	<u>6,097,143</u>
Selling and distribution expenses	19	(638,972)	(311,193)	(1,592,204)	(1,083,331)
Administrative expenses	20	(208,461)	(153,526)	(525,982)	(419,861)
		<u>4,616,037</u>	<u>953,704</u>	<u>10,018,603</u>	<u>4,593,951</u>
Other operating income	21	311,966	33,780	702,705	340,926
Other operating expenses		(575,809)	(57,820)	(1,107,586)	(402,612)
Finance costs		(2,377,425)	(304,176)	(4,283,634)	(963,845)
		<u>(2,953,234)</u>	<u>(361,996)</u>	<u>(5,391,220)</u>	<u>(1,366,457)</u>
<b>Profit before taxation</b>		<u>1,974,769</u>	<u>625,488</u>	<u>5,330,088</u>	<u>3,568,420</u>
Taxation	22				
Current					
- for the period		(107,687)	(99,950)	(265,823)	(811,572)
- for prior periods		-	463,784	-	463,784
Deferred		(531,417)	(122,964)	(1,553,939)	(342,098)
		<u>(639,104)</u>	<u>240,870</u>	<u>(1,819,762)</u>	<u>(689,886)</u>
<b>Profit for the period</b>		<u><u>1,335,665</u></u>	<u><u>866,358</u></u>	<u><u>3,510,326</u></u>	<u><u>2,878,534</u></u>
<b>Earnings per share - basic</b>	23	<u>1.25</u>	<u>0.81</u>	<u>3.27</u>	<u>2.68</u>
<b>Earnings per share - diluted</b>	23	<u>1.23</u>	<u>0.81</u>	<u>3.25</u>	<u>2.68</u>

The annexed notes from 1 to 29 form an integral part of this condensed interim financial information.

  
Chief Executive


  
Director

ENGRO FERTILIZERS LIMITED  
 CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

(Amounts in thousand)

	3 months ended September 30, 2011	3 months ended September 30, 2010	9 months ended September 30, 2011	9 months ended September 30, 2010
	-----Rupees-----			
Profit for the period	1,335,665	866,358	3,510,326	2,878,534
Other comprehensive income				
Hedging reserve - cash flow hedges				
Losses arising during the period	(165,397)	(217,518)	(650,946)	(1,548,778)
Less: Adjustment for amounts transferred to profit & loss account	86,458	-	156,095	-
Less: Adjustment for amounts transferred to initial carrying amount of hedged items (Capital work in progress)	44,344 (34,595)	475,848 258,330	946,353 451,502	1,184,608 (364,170)
Income tax (Deferred) relating to hedging reserve	12,108	(90,415)	(158,026)	127,460
Other comprehensive income/(loss) for the period, net of tax	(22,487)	167,915	293,476	(236,710)
<b>Total comprehensive income for the period</b>	<u>1,313,178</u>	<u>1,034,273</u>	<u>3,803,802</u>	<u>2,641,824</u>

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 Chief Executive

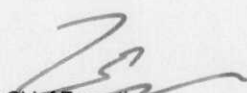
  
 Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 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						
- 9,999,993 shares of Rs.10 each issued to the Holding Company	100,000	10,639,144	-	-	-	10,739,144
- Transfer of hedging reserve from the Holding Company	-	-	-	(609,719)	-	(609,719)
	100,000	10,639,144	-	(609,719)	-	10,129,425
<b>Other transactions with owners</b>						
Issue of share options to employees, net of share options lapsed	-	-	58,673	-	-	58,673
Bonus shares issued during the second quarter of 2010 in the ratio of 2,880 shares for every 100 shares held	2,880,000	(2,880,000)	-	-	-	-
<b>Total comprehensive income for the nine months ended September 30, 2010</b>						
Profit for the period	-	-	-	-	2,878,534	2,878,534
Other comprehensive income	-	-	-	(236,710)	-	(236,710)
- cash flow hedges net of tax	-	-	-	(236,710)	2,878,534	2,641,824
<b>Balance as at September 30, 2010 (unaudited)</b>	<b>2,980,000</b>	<b>7,759,144</b>	<b>58,673</b>	<b>(846,429)</b>	<b>2,877,990</b>	<b>12,829,378</b>
<b>Transactions with owners</b>						
Bonus shares issued during the fourth quarter of 2010 in the ratio of 260 shares for every 100 shares held	7,748,000	(7,748,000)	-	-	-	-
<b>Total comprehensive income for the three months ended December 31, 2010</b>						
Profit for the period	-	-	-	-	851,062	851,062
Other comprehensive income	-	-	-	(40,848)	-	(40,848)
- cash flow hedges, net of tax	-	-	-	(40,848)	851,062	810,214
<b>Balance as at December 31, 2010 (audited)</b>	<b>10,728,000</b>	<b>11,144</b>	<b>58,673</b>	<b>(887,277)</b>	<b>3,729,052</b>	<b>13,639,592</b>
<b>Transactions with owners</b>						
Share options lapsed during the period (note 8.2)	-	-	(276)	-	-	(276)
<b>Total comprehensive income for the nine months ended September 30, 2011</b>						
Profit for the period	-	-	-	-	3,510,326	3,510,326
Other comprehensive income	-	-	-	293,476	-	293,476
- cash flow hedges, net of tax	-	-	-	293,476	3,510,326	3,803,802
<b>Balance as at September 30, 2011 (unaudited)</b>	<b>10,728,000</b>	<b>11,144</b>	<b>58,397</b>	<b>(593,801)</b>	<b>7,239,378</b>	<b>17,443,118</b>

The annexed notes from 1 to 29 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

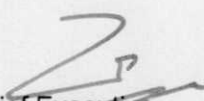


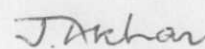
**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

(Amounts in thousand)

	Unaudited 9 months ended September 30, 2011	Unaudited 9 months ended September 30, 2010
Note	-----Rupees-----	
<b>Cash flows from operating activities</b>		
Cash generated from operations	24 12,310,177	4,751,123
Retirement and other service benefits paid	(160,779)	(169,697)
Finance cost paid	(7,881,306)	(4,793,564)
Taxes paid	(599,191)	(912,688)
Long term loans and advances to executives and other employees - net	(6,957)	(27,783)
Net cash generated from operating activities	<u>3,661,944</u>	<u>(1,152,609)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)	(1,826,221)	(8,744,781)
Proceeds from sale of PPE	24,000	362,911
Repayment of sub-ordinated loan by associate company	770,000	-
Income on deposits / other financial assets	455,217	36,612
Net cash used in investing activities	(577,004)	(8,345,258)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	4,074,104	11,415,220
Repayments of borrowings	(6,536,063)	(451,300)
Net cash (used in) / generated from financing activities	(2,461,959)	10,963,920
Net increase in cash and cash equivalents	<u>622,981</u>	<u>1,466,053</u>
Cash and cash equivalents at beginning of the period	3,318,110	709,230
Cash and cash equivalents at end of the period	<u>25 3,941,091</u>	<u>2,175,283</u>

The annexed notes from 1 to 29 form an integral part of this condensed interim financial information.

  
 Chief Executive

  
 Director

**ENGRO FERTILIZERS LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

(Amounts in thousand)

**1 LEGAL STATUS AND OPERATIONS**

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.

**2 BASIS OF PREPARATION**

This condensed interim financial information is unaudited and has been prepared and is being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard 34 - 'Interim Financial Reporting'. This condensed interim financial information does not include all the information required for complete set of financial statements and therefore should be read in conjunction with the financial statements for the half year ended June 30, 2011.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited financial statements of the Company for the half year ended June 30, 2011.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

**4.1** The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

**4.2** During preparation of these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to financial statements for the half year ended June 30, 2011.

**5 PROPERTY, PLANT AND EQUIPMENT**

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
Operating assets at net book value	86,377,420	16,340,534
Capital work in progress		
- Expansion and other projects (note 5.1)	632,265	67,711,577
- Capital spares	309,518	318,110
	941,783	68,029,687
	<u>87,319,203</u>	<u>84,370,221</u>

(Amounts in thousand)

## 5.1 Capital work-in-progress - Expansion and other projects

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
Plant and machinery	353,350	44,519,966
Building and civil works	171,219	8,530,067
Furniture, fixture and equipment	52,341	176,221
Advances to suppliers	16,310	220,718
Others	39,045	14,264,605
	<u>632,265</u>	<u>67,711,577</u>

5.1.1 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.

5.1.2 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.

## 6 STOCK-IN-TRADE

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
Raw materials	1,073,374	576,641
Packing materials	39,950	46,438
	<u>1,113,324</u>	<u>623,079</u>
Finished goods	789,462	272,378
	<u>1,902,786</u>	<u>895,457</u>

## 7 TRADE DEBTS

Considered good		
Secured (note 7.1)	195,827	342,600
Unsecured	21,410	10,344
	<u>217,237</u>	<u>352,944</u>
Considered doubtful	8,073	8,073
	<u>225,310</u>	<u>361,017</u>
Provision for impairment	(8,073)	(8,073)
	<u>217,237</u>	<u>352,944</u>

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

(Amounts in thousand)

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>8 EMPLOYEE SHARE OPTION SCHEME</b>		
<b>8.1 Deferred employee compensation expense</b>		
Balance at start of period / year	3,702	-
Options issued during the period / year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Amortisation for the period / year	(3,426)	(54,971)
Balance at end of the period / year - Current	<u>-</u>	<u>3,702</u>
<b>8.2 Employee share option compensation reserve</b>		
Balance at start of period / year	58,673	-
Options issued during the period / year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Balance at end of the period / year	<u>58,397</u>	<u>58,673</u>
<b>8.3 Movement in share options outstanding at end of the period is as follows:</b>		
	-----Numbers-----	
Balance at start of period / year	4,914,000	-
Options issued during the period / year	-	4,937,100
Options lapsed during the period / year	(23,100)	(23,100)
Balance at end of the period / year (note 8.3.1)	<u>4,890,900</u>	<u>4,914,000</u>
<b>8.3.1</b> 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.		
	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>9 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS</b>		
Current portion of long term loans and advances to executives and other employees - considered good	115,870	413,869
Sub-ordinated loan to Engro Eximp (Private) Limited, an associated company	-	770,000
Loans, advances and deposits (note 9.1)	1,010,274	745,832
Prepayments		
- Gas charge (note 9.2)	239,453	573,843
- Insurance	32,971	70,887
- Others	25,352	36,408
	1,423,920	2,610,839
Provision for impairment	(1,512)	(1,512)
	<u>1,422,408</u>	<u>2,609,327</u>

(Amounts in thousand)

- 9.1 These include Rs. 650,000 (December 31, 2010: Rs. 650,000) interest free loan to Descon Engineering Limited, a contractor to the Enven Plant. The loan, repayable on demand, is given against a Corporate Bond/Guarantee and Promissory Note.
- 9.2 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 prepayments will be adjusted against the expected gas consumption in the coming months.

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>10 HEDGING RESERVE</b>		
Hedging reserve on account of:		
- Foreign exchange forward contracts - net	(19,783)	(231,417)
- Foreign exchange option contracts	-	(12,464)
- Interest rate swaps	(893,757)	(1,121,158)
	<u>(913,540)</u>	<u>(1,365,039)</u>
Deferred tax	319,739	477,762
	<u>(593,801)</u>	<u>(887,277)</u>

- 10.1 Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges, net off recognised gain/ losses.

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>11 BORROWINGS - Secured</b>		
Long term finance utilised under mark-up arrangements Certificates	52,978,987	56,422,140
	<u>14,909,072</u>	<u>14,889,546</u>
	67,888,059	71,311,686
Less: Current portion shown under current liabilities	10,583,270	8,651,546
Balance at end of the period / year	<u>57,304,789</u>	<u>62,660,140</u>

- 11.1 The Company has began repayment of its long term finance facilities obtained for its urea expansion project.
- 11.2 During the period, the Company listed its Privately Placed Term Finance Certificates (PPTFC 1 and PPTFC2) on the Karachi Stock Exchange under the symbol TFC 4 and TFC 5 respectively.
- 11.3 The maturity of loan facilities are upto 7 years and mark-up range from 1.00% to 2.40% over six month KIBOR and 1.3% over three month KIBOR for Rupee facilities, and 2.57% to 6.00% over six month LIBOR for USD facilities. These facilities, excluding the TFC 4 and TFC 5, International Finance Corporation's (IFC) facility and bridge loans obtained in the year 2010, are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The TFCs, IFC's facility and above-mentioned bridge loans are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

(Amounts in thousand)

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

During the period, the Company obtained additional sub-ordinated loan of Rs. 1,500,000 from Engro Corporation Limited, its Holding Company bringing the total loan amount to Rs 3,000,000 (December 31, 2010: Rs. 1,500,000). The entire loan is payable on or before the end of the term, that is September 14, 2015. The Loan carries mark-up at rates 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.

**13 DERIVATIVE FINANCIAL INSTRUMENTS**

	Unaudited September 30, 2011		Audited December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
-----Rupees-----				
Conversion option on IFC loan	-	293,442	-	367,442
Cash flow hedges				
- Foreign exchange forward contracts net (note 13.1)	10,664	30,447	2,638	234,055
- Foreign exchange option contracts	-	-	-	12,464
- Interest rate swaps (note 13.2)	-	997,804	-	1,121,158
	10,664	1,321,693	2,638	1,735,119
Less: Current portion shown under current assets / liabilities				
Cash flow hedges:				
- Foreign exchange forward contracts - net	10,664	30,447	2,638	234,055
- Foreign exchange option contracts	-	-	-	12,464
- Interest rate swaps	-	402,997	-	426,868
	10,664	433,444	2,638	673,387
	-	888,249	-	1,061,732

**13.1 Foreign exchange forward contracts**

**13.1.1** The Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at September 30, 2011, the Company had forward exchange contracts to purchase Euros 1,229 (December 31, 2010: Euros 2,698) at various maturity dates. The fair value of these contracts, as at September 30, 2011 is negative and amounted to Rs. 5,329 (December 31, 2010: Rs. 2,638 positive).

**13.1.2** The Company entered in various USD: PKR forward contracts to hedge its foreign currency exposure. As at September 30, 2011, the Company had forward contracts to purchase USD 152,000 (December 31, 2010: USD 85,000) at various maturity dates to hedge its foreign currency loan obligations. The net fair value of these contracts as at September 30, 2011 is negative and amounted to Rs.14,454 (December 31, 2010: Rs. 234,055 negative).

(Amounts in thousand)

**13.2 Interest rate swaps**

**13.2.1** 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 150,000 amortising up to September 2014. The outstanding notional amount as at September 30, 2011 was USD 109,500 (December 31, 2010: USD 150,000). Under the swap agreement, the Company would receive USD-LIBOR from Citibank N.A Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap as at September 30, 2011 is negative and amounted to Rs. 457,530 (December 31, 2010: Rs. 654,163 negative).

**13.2.2** 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 85,000 amortising upto April 2016. The outstanding notional amount as at September 30, 2011 was USD 77,273 (December 31, 2010: USD 85,000). 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 September 30, 2011 is negative and amounted to Rs. 540,274 (December 31, 2010: Rs. 466,995 negative).

**14 DEFERRED LIABILITIES**

Deferred taxation (note 14.1)  
Deferred income (note 14.2)

Unaudited September 30, 2011	Audited December 31, 2010
-----Rupees-----	
4,200,166	2,488,204
89,541	92,440
<u>4,289,707</u>	<u>2,580,644</u>

**14.1 Deferred taxation**

Credit / (Debit) balances arising on account of:

- Accelerated depreciation allowance	16,835,718	3,376,158
- Carried forward tax losses substantially pertaining to unabsorbed tax depreciation	(11,788,514)	(324,811)
- Carried forward minimum tax	(247,193)	-
- Fair values of hedging instruments	(319,739)	(477,762)
- Exchange Loss	(245,216)	(20,631)
- Fair value of IFC conversion option	37,872	(10,078)
- Provision for:		
- retirement benefits	(37,413)	(26,410)
- inventories, slow moving stores and spares and doubtful receivables	(31,191)	(24,104)
- others	(4,158)	(4,158)
	<u>4,200,166</u>	<u>2,488,204</u>

(Amounts in thousand)

**14.2 Deferred income**

The Company in 2009 received an amount of Rs. 96,627 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.

**15 TRADE AND OTHER PAYABLES**

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
Creditors	999,655	1,006,034
Accrued liabilities	1,005,698	961,190
Advances from customers	2,835,873	1,338,022
Payable to:		
- Engro Corporation Limited	5,856	296
- Engro Eximp (Private) Limited	9,015	151,626
- Engro Vopak Terminal Limited	-	68
- Sindh Engro Coal Mining Company Limited	23	-
Deposits from dealers refundable on termination of dealership	14,354	11,800
Contractors' deposits and retentions	115,315	94,201
Workers' profits participation fund	286,256	9,742
Workers' welfare fund	215,022	106,245
Sales tax payable	299,369	29
Others	259,036	232,096
	<u>6,045,472</u>	<u>3,911,349</u>

**16 SHORT TERM BORROWINGS**

**16.1** 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.



(Amounts in thousand)

**17 CONTINGENCIES AND COMMITMENTS****Contingencies**

- 17.1** Bank guarantees of Rs. 995,730 (December 31, 2010: Rs. 1,214,295) have been issued in favor of third parties.
- 17.2** Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 36,018 (December 31, 2010: Rs. 36,018).
- 17.3** 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.
- 17.4** 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.
- 17.5** 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 Sindh on May 31, 2011 has ordered that SNGPL should supply 80-100 MMCFD to the petitioner's new fertilizer plant. Arguments of all sides have been heard and a final decision has been reserved.
- 17.6** 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 in fact 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.

	Unaudited September 30, 2011	Audited December 31, 2010
	-----Rupees-----	
<b>Commitments</b>		
<b>17.7</b> Property, plant and equipment	<u>891,745</u>	<u>1,630,879</u>

(Amounts in thousand)

18 COST OF SALES	Unaudited 9 months ended September 30, 2011	Unaudited 9 months ended September 30, 2010
	-----Rupees-----	
Raw materials consumed	5,317,376	3,839,739
Salaries, wages and staff welfare	818,113	673,914
Fuel and power	2,132,693	1,815,319
Repairs and maintenance	245,650	223,996
Depreciation	1,539,749	455,273
Amortisation	5,668	2,735
Consumable stores	199,403	147,791
Staff recruitment, training, safety and other expenses	41,285	33,384
Purchased services	115,174	96,284
Travel	23,501	21,484
Communication, stationery and other office expenses	16,392	13,223
Insurance	115,441	83,455
Rent, rates and taxes	2,170	6,118
Other expenses	838	2,477
Cost of goods manufactured	<u>10,573,453</u>	<u>7,415,192</u>
Add: Opening stock of finished goods manufactured	<u>272,378</u>	<u>112,500</u>
Less: Closing stock of finished goods manufactured	<u>789,462</u>	<u>836,442</u>
	<u>(517,084)</u>	<u>(723,942)</u>
Cost of sales	<u><u>10,056,369</u></u>	<u><u>6,691,250</u></u>

## 19 SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and staff welfare	243,940	170,705
Staff recruitment, training, safety and other expenses	34,184	30,267
Product transportation and handling	813,912	602,054
Royalty Expense	302,542	172,571
Repairs and maintenance	2,091	1,347
Advertising and sales promotion	34,644	16,220
Rent, rates and taxes	61,574	30,266
Communication, stationery and other office expenses	14,786	10,733
Travel	25,874	20,063
Depreciation	24,777	14,626
Amortisation	36	36
Purchased services	3,680	1,095
Insurance	9,376	2,527
Other expenses	20,788	10,821
	<u><u>1,592,204</u></u>	<u><u>1,083,331</u></u>

(Amounts in thousand)

20	ADMINISTRATIVE EXPENSES	Unaudited 9 months September 30, 2011	Unaudited 9 months September 30, 2010
		-----Rupees-----	
	Salaries, wages and staff welfare	298,840	210,561
	Staff recruitment, training, safety and other expenses	16,682	18,643
	Repairs and maintenance	4,372	11,413
	Rent, rates and taxes	54,936	44,466
	Communication, stationery and other office expenses	21,636	12,847
	Travel	5,920	6,485
	Depreciation	25,397	17,934
	Amortisation	8,007	6,159
	Purchased services	63,328	50,887
	Donations	16,760	36,118
	Other expenses	10,104	4,348
		<u>525,982</u>	<u>419,861</u>
21	OTHER OPERATING INCOME		
	<b>On financial assets</b>		
	Income on deposits / other financial assets	434,018	21,190
	Gain on fair value adjustments of embedded derivatives	137,000	-
	<b>On non-financial assets</b>		
	Commission income (21.1)	108,304	9,097
	Gain on disposal of property, plant and equipment	11,754	309,188
	Others	11,629	1,451
		131,687	319,736
		<u>702,705</u>	<u>340,926</u>

21.1 Represents commission earned as selling agent of imported fertilizer on behalf of Engro Eximp (Private) Limited, under an amended agreement effective January 1, 2011.

## 22 TAXATION

As a result of demerger, all pending tax issues of the Fertilizer Undertaking have been transferred to the Company. Major issues pending before the tax authorities are described below:

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.

(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 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.

## 23 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:

	9 months ended September 30, 2011	9 months ended September 30, 2010
	-----Rupees-----	
Profit for the period	3,510,326	2,878,534
Add: Interest on IFC loan of USD 9,000 (net of tax)	8,784	-
Profit used for the determination of Diluted EPS	<u>3,519,110</u>	<u>2,878,534</u>
	---- Numbers (in thousand) ---- Restated	
Weighted average number of ordinary shares	1,072,800	1,072,800
Add : Weighted average adjustments for:		
Assumed conversion of employees' share options	1,674	-
Assumed conversion of USD 9,000 IFC loan	7,344	-
	9,018	-
Weighted average number of shares for determination of diluted EPS	<u>1,081,818</u>	<u>1,072,800</u>

(Amounts in thousand)

**24 CASH GENERATED FROM OPERATIONS**

	Unaudited 9 months ended September 30, 2011	Unaudited 9 months ended September 30, 2010
	-----Rupees-----	
Profit before taxation	5,330,088	3,568,420
Adjustment for non-cash charges and other items:		
Depreciation	1,589,923	479,574
Amortisation	13,711	8,931
Profit on disposal of property, plant and equipment	(11,754)	(309,188)
Provision for retirement and other service benefits	166,576	170,178
Income on deposits / other financial assets	(445,646)	(31,738)
Financial charges	4,283,634	963,845
Employee share compensation expense	891	29,371
Employee Housing Subsidy expense	8,814	76,192
Provision for surplus and slow moving stores and spares	19,783	12,034
Provision against other receivables	465	600
Change in the fair value of IFC conversion option	(137,000)	15,975
Foreign exchange loss	700,616	84,893
Working capital changes (note 24.1)	790,076	(317,964)
	<u>12,310,177</u>	<u>4,751,123</u>

**24.1 Working capital changes**

(Increase) / decrease in current assets

- Stores, spares and loose tools	(641,131)	(1,183,210)
- Stock-in-trade	(1,007,329)	(1,428,808)
- Trade debts	135,707	2,141,099
- Loans, advances, deposits and prepayments	111,892	(840,322)
- Other receivables (net)	56,814	46,219
	<u>(1,344,047)</u>	<u>(1,265,022)</u>

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

	<u>2,134,123</u>	<u>947,058</u>
	<u>790,076</u>	<u>(317,964)</u>

**25 CASH AND CASH EQUIVALENTS**

Cash and bank balances	755,788	1,984,162
Short term borrowings	(13,047)	(971,044)
Short term investments	3,198,350	1,162,165
	<u>3,941,091</u>	<u>2,175,283</u>

(Amounts in thousand)

**26 TRANSACTIONS WITH RELATED PARTIES**

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

	9 months ended September 30, 2011	9 months ended September 30, 2010
	-----Rupees-----	
<b><i>Holding Company</i></b>		
Purchases and services	95,591	56,542
Services provided to Holding Company	6,983	1,130
Royalty	340,150	172,751
Reimbursements	56,070	99,964
Shares issued consequent to demerger	-	10,739,144
Mark-up paid on sub-ordinated loan	364,442	-
Use of assets	3,818	2,898
Subordinated loan received from Holding Company	1,500,000	1,200,000
<b><i>Associated companies</i></b>		
Purchases and services	1,891,754	1,824,453
Sale of product	13,366	-
Contributions to retirement benefit schemes / funds	118,318	142,203
Services provided	29,452	98,935
Reimbursements	76,423	56,779
Funds collected against sales made on behalf of an associate	15,850,104	7,595,382
Payment of mark-up on TFCs and repayment of principal amount	105,218	57,522
Purchase of T-Bill	979,264	-
Commission on sales collection	108,304	9,097
Purchase of mutual fund units through associated company	1,455,000	300,000
Redemption of mutual fund units	884,358	192,304
Donation to Engro Foundation	13,020	28,640
Commission expense	29,503	-
Markup from associate	27,847	81,583
Use of Assets	9,270	10,101
Receipt of sub-ordinated loan	770,000	-
Land swap arrangement	-	3,200
<b><i>Others</i></b>		
Remuneration of key management personnel	76,799	67,031

**27 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.

**28 DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information authorised for issue on **October 19, 2011** by the Board of Directors of the Company.

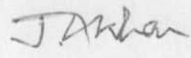
**29 CORRESPONDING FIGURES**

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

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



Chief Executive



Director