

**ENGRO FERTILIZERS LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**



## A. F. FERGUSON & CO.

### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Engro Fertilizers Limited as at December 31, 2011 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the 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) to the financial statements, with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year 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, 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 December 31, 2011 and of the profit, total comprehensive income, changes in equity and its cash flows for the year then ended; and
- (e) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Chartered Accountants  
Karachi  
Date: February 27, 2012

Engagement Partner: Intiaz A. H. Laliwala

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**ENGRO FERTILIZERS LIMITED**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2011**

(Amounts in thousand)

	Note	2011	2010
-----Rupees-----			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	86,332,162	84,370,221
Intangible assets	5	134,769	149,238
Long term loans and advances	6	72,651	111,515
		<u>86,539,582</u>	<u>84,630,974</u>
<b>Current assets</b>			
Stores, spares and loose tools	7	4,209,593	3,392,080
Stock-in-trade	8	1,834,393	895,457
Trade debts	9	143,379	352,944
Deferred employee compensation expense	10	-	3,702
Derivative financial instruments	20	183,713	2,638
Loans, advances, deposits and prepayments	11	1,410,513	2,609,327
Other receivables	12	192,171	107,647
Taxes recoverable		1,869,058	1,770,476
Short term investments	13	3,901,719	2,452,285
Cash and bank balances	14	592,873	1,835,951
		<u>14,337,412</u>	<u>13,422,507</u>
<b>TOTAL ASSETS</b>		<u><u>100,876,994</u></u>	<u><u>98,053,481</u></u>

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(Amounts in thousand)

	Note	2011	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	(497,821)	(887,277)
Unappropriated profit		8,317,338	3,729,052
		7,889,058	2,911,592
<b>Total Equity</b>		<b>18,617,058</b>	<b>13,639,592</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	18	56,398,432	62,660,140
Subordinated loan from Holding Company	19	3,000,000	1,500,000
Derivative financial instruments	20	544,951	1,081,732
Deferred liabilities	21	4,521,281	2,580,644
Employee housing subsidy	22	19,144	347,886
Retirement and other service benefits obligations	23	87,448	54,823
		64,571,256	68,205,225
<b>Current liabilities</b>			
Trade and other payables	24	5,153,078	3,911,349
Accrued interest / mark-up	25	2,087,719	1,981,620
Current portion of:			
- borrowings	18	9,986,885	8,651,546
- other service benefits obligations	23	32,559	20,636
Short term borrowings	26	3,780	970,126
Derivative financial instruments	20	424,659	673,387
		17,688,680	16,208,664
<b>Total liabilities</b>		<b>82,259,936</b>	<b>84,413,889</b>
<b>Contingencies and Commitments</b>	27		
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>100,876,994</b>	<b>98,053,481</b>

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

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*Rahid Anwar*

Chief Executive

*J. Ashraf*

Director

**ENGRO FERTILIZERS LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

(Amounts in thousand except for earnings per share)

	Note	2011	2010
		-----Rupees-----	
Net sales	28	31,352,880	19,017,508
Cost of sales	29	(14,620,022)	(10,107,820)
<b>Gross profit</b>		16,732,858	8,909,688
Selling and distribution expenses	30	(2,245,094)	(1,727,476)
Administrative expenses	31	(549,449)	(566,978)
		13,938,315	6,615,234
Other operating income	32	1,164,479	457,989
Other operating expenses	33	(581,947)	(516,124)
Finance costs	34	(7,643,994)	(1,351,108)
		(8,225,941)	(1,867,232)
<b>Profit before taxation</b>		6,876,853	5,205,991
Taxation	35	(2,288,567)	(1,476,395)
<b>Profit for the year</b>		4,588,286	3,729,596
<b>Earnings per share</b>	36		
- Basic		4.28	3.48
- Diluted		4.25	3.48

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

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*Mohit Anand*  
 Chief Executive

*J. Ashar*  
 Director

**ENGRO FERTILIZERS LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

(Amounts in thousand)

	2011	2010
	-----Rupees-----	
<b>Profit for the year</b>	4,588,286	3,729,596
<b>Other comprehensive income</b>		
<b>Hedging reserve - cash flow hedges</b>		
Losses arising during the year	(490,955)	(1,678,402)
Less: Adjustment for amounts transferred to profit and loss account	190,290	-
Less: Adjustment for amounts transferred to initial carrying amount of hedged item (Capital work in progress)	899,828	1,251,390
	599,163	(427,012)
Income tax (Deferred) relating to hedging reserve	(209,707)	149,454
Other comprehensive income for the year, net of tax	389,456	(277,558)
<b>Total comprehensive income for the year</b>	<u>4,977,742</u>	<u>3,452,038</u>

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

*Mehid Ameen*  
 Chief Executive

*J. Akhtar*  
 Director

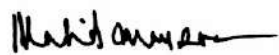
**ENGRO FERTILIZERS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

(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	-	-	-	-	(544)	(544)
<b>Transactions with owners</b>						
<b>Transfer of Fertilizer Undertaking (note 1.2)</b>						
- 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 year in the ratio of 2,880 shares for every 100 shares held	2,880,000	(2,880,000)	-	-	-	-
Bonus shares issued during the year in the ratio of 280 shares for every 100 shares held	7,748,000	(7,748,000)	-	-	-	-
	10,628,000	(10,628,000)	58,673	-	-	58,673
	10,728,000	11,144	58,673	(609,719)	-	10,188,098
<b>Total comprehensive income for the year ended December 31, 2010</b>						
Profit for the year	-	-	-	-	3,729,596	3,729,596
Other comprehensive income	-	-	-	-	-	-
- cash flow hedges net of tax	-	-	-	(277,558)	-	(277,558)
	-	-	-	(277,558)	3,729,596	3,452,038
Balance as at December 31, 2010	10,728,000	11,144	58,673	(887,277)	3,729,052	13,639,592
<b>Transaction with owners</b>						
Share options lapsed during the year (note 10.2)	-	-	(276)	-	-	(276)
<b>Total comprehensive income for the year ended December 31, 2011</b>						
Profit for the year	-	-	-	-	4,588,286	4,588,286
Other comprehensive income	-	-	-	-	-	-
- cash flow hedges, net of tax	-	-	-	389,456	-	389,456
	-	-	-	389,456	4,588,286	4,977,742
Balance as at December 31, 2011	10,728,000	11,144	58,397	(497,821)	8,317,338	18,617,058

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 YEAR ENDED DECEMBER 31, 2011**

(Amounts in thousand)

	Note	2011	2010
----- Rupees -----			
<b>Cash flows from operating activities</b>			
Cash generated from operations	39	16,295,866	6,130,728
Retirement and other service benefits paid		(171,498)	(159,058)
Finance cost paid		(6,209,928)	(623,595)
Taxes paid		(652,352)	(964,013)
Long term loans and advances - net		17,302	(24,514)
<b>Net cash generated from operating activities</b>		<b>9,279,390</b>	<b>4,359,548</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)		(2,275,040)	(10,613,742)
Finance cost paid (capitalised in PPE)		(2,644,756)	(4,543,135)
Proceeds from sale of PPE		49,215	371,902
Repayment of sub-ordinated loan by an associate company		770,000	-
Income on deposits / other financial assets		583,220	130,897
<b>Net cash used in investing activities</b>		<b>(3,517,361)</b>	<b>(14,654,078)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,095,123	13,713,510
Repayments of borrowings		(8,684,450)	(810,100)
<b>Net cash (used in) / generated from financing activities</b>		<b>(4,589,327)</b>	<b>12,903,410</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,172,702</b>	<b>2,608,880</b>
Cash and cash equivalents at beginning of the year		3,318,110	709,230
<b>Cash and cash equivalents at end of the year</b>	<b>40</b>	<b>4,490,812</b>	<b>3,318,110</b>

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

  
**Chief Executive**

  
**Director**



**ENGRO FERTILIZERS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 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 at 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

The following amendments to published standards are mandatory for the financial year beginning January 1, 2011:

- IFRS 7 (Amendment), 'Financial instruments: Disclosures'. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment only affects disclosures in the Company's financial statements which have been made.
- IAS 1 (Amendment), 'Presentation of financial statements'. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not effect the Company's financial statements since there are no items of other comprehensive income.
- IAS 34 (Amendment), 'Interim financial reporting'. This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets, changes in contingent liabilities and assets.
- 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 to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2011 are considered not to be relevant.

##### 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 arise from the IASB's 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 securitization of financial assets. The amendment will only affect the disclosures in the Company's financial statements.

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(Amounts in thousand)

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2013) is the first step in the process to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. The Company is yet to assess the full impact of IFRS 9, however, initial indications are that it may not affect the Company's financial assets significantly.
- IFRS 12 'Disclosures 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, structured entities and other off balance sheet vehicles. The standard will only affect the disclosures in the Company's financial statements.
- 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 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. It is unlikely that this standard will have any significant impact on Company's financial statements.
- IAS 1 (Amendment), 'Financial statement presentation' (effective for periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassified to profit or loss subsequently (reclassification adjustments). The amendments will only affect the disclosures in the Company's financial 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 (Amendment), 'Employee benefits' (effective for periods beginning on or after July 1, 2012). The amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments are likely to effect the financial statements of the Company and hence their effects therefore need to be assessed by the Company.

## 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 it off within 12 months of the end of the reporting date. There were no available for sale financial assets at the balance sheet date.

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(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 statement of 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.

*etc*

(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 materials 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.

*off*

(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.

*att*



(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 it 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 and loss account 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 those management employees who have not opted for defined benefit gratuity and defined contribution pension plans as more fully explained in note 2.19.3. Monthly contributions are made by the Company to the fund at rates ranging from 12.5% to 13.75% of basic salary.
- defined contribution gratuity fund for the benefit of those management employees who have selected to opt out of defined benefit gratuity and defined contribution pension plans as more fully explained in note 2.19.3. Monthly contributions are made by the Company to the fund at the rate of 8.33% 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.

*Atc*

(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 accepted this offer, were transferred to the Fund. Furthermore, from July 2011, onwards the monthly contributions to Defined Contribution Pension Fund of such employees were discontinued.

**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:

att

(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; and
- 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.

*Atc*

(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 laws and 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 various 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**

	2011	2010
	-----Rupees-----	
Operating assets at net book value (note 4.1)	85,152,431	16,340,534
Capital work in progress		
- Expansion and other projects (note 4.4)	786,079	67,711,577
- Capital spares	393,652	318,110
	<u>1,179,731</u>	<u>68,029,687</u>
	<u>86,332,162</u>	<u>84,370,221</u>

off

(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										
<b>As at January 1, 2010, after transfer of fertilizer undertaking</b>										
Cost	130,668	152,280	1,041,929	338,447	10,377,213	-	429,715	476,873	380,851	13,328,076
Accumulated depreciation	-	(45,483)	(325,128)	(85,998)	(8,013,223)	-	(302,061)	(300,442)	(167,819)	(7,218,852)
Net book value	130,668	106,797	716,801	273,451	4,363,990	-	127,654	176,431	213,432	6,109,224
<b>Year ended December 31, 2010</b>										
Net book value - January 1, 2010	130,668	106,797	716,801	273,451	4,363,990	-	127,654	176,431	213,432	6,109,224
Additions including transfers (note 4.4)	13,450	84,600	186,275	1,240	9,327,778	1,287,854	56,123	40,832	102,132	11,080,388
Reclassification										
Cost	-	-	-	-	-	-	-	(79)	79	-
Accumulated depreciation	-	-	-	-	-	-	-	52	(52)	-
Disposals (note 4.3)								(27)	27	-
Cost	-	(48,560)	-	-	-	-	-	(2,751)	(58,398)	(108,709)
Accumulated depreciation	-	8,984	-	-	-	-	-	2,751	38,334	48,079
Depreciation charge (note 4.2)	-	(3,683)	(62,048)	(8,507)	(530,980)	(28,818)	(31,740)	(60,521)	(83,150)	(788,448)
Net book value	144,124	148,148	841,027	268,184	13,180,788	1,239,036	152,037	156,815	232,377	16,340,534
<b>As at January 1, 2011</b>										
Cost	144,124	187,320	1,228,204	340,687	19,704,989	1,287,854	485,838	514,875	428,764	24,300,758
Accumulated depreciation	-	(39,172)	(387,177)	(74,503)	(8,544,203)	(28,818)	(333,801)	(358,160)	(194,387)	(7,960,221)
Net book value	144,124	148,148	841,027	266,184	13,180,786	1,239,036	152,037	156,815	232,377	16,340,534
<b>Year ended December 31, 2011</b>										
Net book value - January 1, 2011	144,124	148,148	841,027	266,184	13,180,786	1,239,036	152,037	156,815	232,377	16,340,534
Additions including transfers (note 4.4)	5,451	-	1,032,591	18,857	69,372,563	336,541	1,030,752	65,419	105,588	71,987,772
Reclassifications										
Cost	-	-	-	-	(109,197)	101,634	-	61	7,502	-
Accumulated depreciation	-	-	-	-	6,672	(6,129)	-	-	(543)	-
Disposals (note 4.3)					(102,625)	95,505	-	61	8,959	-
Cost	-	-	-	-	(759)	-	-	(12,994)	(73,671)	(87,324)
Accumulated depreciation	-	-	-	-	436	-	-	12,423	50,606	63,465
Depreciation charge (note 4.2)		(4,393)	(108,891)	(8,904)	(2,814,861)	(68,278)	(181,344)	(68,817)	(75,528)	(3,132,016)
Net book value	149,575	143,755	1,784,727	276,137	79,815,640	1,602,804	1,001,445	151,907	248,441	85,152,431
<b>As at December 31, 2011</b>										
Cost	149,575	187,320	2,260,795	359,544	88,967,596	1,706,029	1,516,590	587,461	468,293	96,181,203
Accumulated depreciation	-	(43,565)	(496,068)	(83,407)	(9,151,956)	(103,225)	(515,145)	(415,554)	(219,852)	(11,028,772)
Net book value	149,575	143,755	1,784,727	276,137	79,815,640	1,602,804	1,001,445	151,907	248,441	85,152,431
Annual rate of depreciation (%)	-	2 to 5	2.5 to 8	2.5	5 to 10	5.0	10 to 50	10 to 25	12 to 25	

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

	2011	2010
	Rupees	
Cost of sales (note 29)	2,747,632	612,576
Selling and distribution expenses (note 30)	32,983	19,879
Administrative expenses (note 31)	34,455	31,037
Capital work in progress (note 4.4.2)	316,946	125,956
	<u>3,132,016</u>	<u>789,448</u>

off

(Amounts in thousand)

## 4.3 The details of operating assets disposed during the 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 claims	EFU General Insurance Limited	257	117	140	169	
Sale through auction	Imran	441	265	176	86	
Sale through auction	Jahanghir	206	18	188	76	
<b>Vehicles</b>						
By Company policy to existing / separating executives	Ahmad Naeem Aftab Pasha	900	661	239	225	
	Ahmad Shakoor	1,466	1,100	366	367	
	Amir Mahmud	1,389	304	1,085	1,107	
	Asgar Naveed	1,389	260	1,129	1,129	
	Askari Hazoor Syed	1,329	395	934	976	
	Atif Aboobakar	900	591	309	225	
	S. Attaullah Shah Bokhari	1,071	803	268	265	
	Bilal Asad Kayani	1,329	478	851	813	
	Dr.Amina Waheed	900	661	239	225	
	Dr.Muhammad Sajid	1,359	382	977	1,359	
	Faisal Shafiq	879	659	220	220	
	Farman Ahmad Khan Lodhi	900	661	239	225	
	Farooq M. Saleem	900	661	239	225	
	Farooq Nazim Shah	1,500	1,055	445	375	
	Hasan Akram	900	647	253	225	
	Kashan M.Niazi	1,439	652	787	1,439	
	Khalid Shamsher	900	675	225	225	
	M.Azhar Malik	1,329	498	831	831	
	M.Khurrum Farooq	1,389	347	1,042	1,389	
	M.Minhajul Haq	900	661	239	225	
	Mahmood Siddiqui	1,329	395	934	893	
	Muhammad Majid Latif	1,080	547	513	464	
	Mohammad Ali Khadim	1,500	1,078	422	375	
	Mudassar Y. Rathore	1,500	1,125	375	375	
	Mudassir Siddiqui	1,329	519	810	1,329	
	Muhammad Mudassir	879	659	220	220	
	Muzaffar A. Khan	1,389	347	1,042	1,059	
	Rais Azhar	900	661	239	225	
	S.Muhammad Mustafa	1,401	285	1,116	1,056	
	Syed Abul Fazal Rizvi	1,500	1,048	452	375	
	Syed Hussain Abid	900	647	253	225	
	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	
			40,544	21,382	19,162	20,502
	Sale through bid	Abdullah Uraizee	884	663	221	557
		Aftab Ahmed	555	555	-	467
		Aftab Ahmed	900	647	253	1,067
		Aftab Ahmed	560	513	47	457
		Aftab Ahmed	885	885	-	613
		Aftab Ahmed	555	500	55	616
		Asgar Khan	1,482	1,358	124	800
		Faiz Gul	21	21	-	30
		Farooq Raza	555	500	55	360
		Farukh Zindani	879	733	146	528
		Farrukh Zindani	605	545	60	412
		Farrukh Zindani	555	509	46	404
Farrukh Zindani		555	509	46	373	
Mudassir Ali		605	526	79	450	
Muhammad Akram Khan		555	500	55	533	
Muhammad Dawood		898	883	15	669	
Muhammad Dawood		900	708	192	645	
Muhammad Dawood		900	810	90	630	
Muhammad Dawood		555	527	28	470	
Muhammad Iltifat		555	555	-	421	
Muhammad Iltifat		555	555	-	366	
			14,514	13,002	1,512	10,868

Carried forward

dk

(Amounts in thousand)

Brought forward

14,514

13,002

1,512

10,868

Muhammad Iltifat	555	499	56	411
Muhammad Iltifat	555	537	18	410
Muhammad Nawaz	555	499	56	382
Muhammad Safdar Murad	899	764	135	716
Noman Ahmed Siddiqui	915	755	160	1,200
S. Mohammad Saeed	555	499	56	414
Sh. M. Wassemuiddin	555	499	56	371
Shoalb	555	555	-	356
Sultan Jan Niazi	849	764	85	737
Sultan Jan Niazi	836	808	28	787
Sultan Jan Niazi	849	835	14	714
Sultan Jan Niazi	836	808	28	886
Sultan Jan Niazi	555	527	28	513
Sultan Jan Niazi	879	659	220	878
Syed Ammar Faheem	735	603	132	540
Waris Ali Gilani	892	681	211	614
Wasim Mirza	610	549	61	553
Wasim Mirza	1,015	571	444	1,043
Yasir Khan	1,099	989	110	672
Zahid Qadri	900	732	168	858
Zahid Qadri	900	675	225	789
Zahid Qadri	850	850	-	559
Zubair Ahmed Memon	769	769	-	731
Zubair Ahmed Memon	795	795	-	616
	<u>18,513</u>	<u>16,222</u>	<u>2,291</u>	<u>15,750</u>
	<u>33,027</u>	<u>29,224</u>	<u>3,803</u>	<u>26,618</u>
	<u>73,571</u>	<u>50,606</u>	<u>22,965</u>	<u>47,120</u>

Items having net book value upto Rs.50 each

Furniture, fixtures and equipment

Plant &amp; machinery

	12,090	12,023	67	1,535
	759	436	323	229
	<u>12,849</u>	<u>12,459</u>	<u>390</u>	<u>1,764</u>

Year ended December 31, 2011

87,324

63,465

23,859

49,215

Year ended December 31, 2010

108,709

49,079

59,630

371,902

d/c

(Amounts in thousand)

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

	Plant & machinery	Building & civil works including Gas pipeline	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	5,137,973	2,273,402	155,356	30,028	7,916,472	15,513,231
Reclassifications	1,402,271	225,285	-	-	(1,627,556)	-
Transferred to:						
- operating assets (note 4.1)	(9,383,899)	(1,455,369)	(40,932)	(102,132)	-	(10,982,332)
- intangible assets (note 5)	-	-	(45,645)	-	-	(45,645)
Balance as at December 31, 2010	<u>44,519,968</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>Year ended December 31, 2011</b>						
Balance as at January 1, 2011	44,519,968	8,530,067	176,221	220,718	14,264,605	67,711,577
Additions during the year	1,990,955	471,938	45,036	89,063	2,445,644	5,042,636
Reclassifications	24,348,525	(7,413,501)	(122,563)	(179,217)	(16,633,244)	-
Transferred to:						
- operating assets (note 4.1)	(70,403,315)	(1,387,989)	(65,419)	(105,598)	-	(71,962,321)
- intangible assets (note 5)	-	-	-	(5,813)	-	(5,813)
Balance as at December 31, 2011	<u>456,131</u>	<u>200,515</u>	<u>33,275</u>	<u>19,153</u>	<u>77,005</u>	<u>786,079</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. 71,335,320 to operating assets in the year which is in addition to Rs. 11,274,907 capitalized in previous years bringing the total current cost to Rs. 82,610,228. 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. 2,526,330.

4.4.2 Other ancillary costs transferred to operating assets during the year 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.

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(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 (note 5.1)	(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>Year ended December 31, 2011</b>			
Net book value- January 1, 2011	46,926	102,312	149,238
Transferred from capital work in progress (note 4.4)	5,813	-	5,813
Amortization charge (note 5.1)	(17,626)	(2,656)	(20,282)
Closing net book value	<u>35,113</u>	<u>99,656</u>	<u>134,769</u>
<b>As at December 31, 2011</b>			
Cost	168,031	102,312	270,343
Accumulated amortization	(132,918)	(2,656)	(135,574)
Net book value	<u>35,113</u>	<u>99,656</u>	<u>134,769</u>

5.1 Amortization charge for the year has been allocated as follows:

	2011	2010
	Rupees	
Cost of sales (note 29)	8,623	3,695
Selling and distribution expenses (note 30)	47	48
Administrative expenses (note 31)	10,758	13,278
Capital work in progress (note 4.4.2)	854	2,090
	<u>20,282</u>	<u>19,111</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**

	2011	2010
	-----Rupees-----	
<b>Long term loans to:</b>		
Executives (notes 6.1 and 6.2)	130,561	289,814
Other employees (note 6.3)	35,986	235,570
	<u>166,547</u>	<u>525,384</u>
Less: Current portion shown under current assets (note 11)	93,896	413,869
	<u>72,651</u>	<u>111,515</u>

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

Balance at beginning of the year	289,814	280,408
Disbursements	78,493	63,475
Repayments / amortisation	(237,746)	(54,069)
Balance at end of the year	<u>130,561</u>	<u>289,814</u>

**6.2** Includes interest free services incentive loans to executives of Rs. 78,697 (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. 9,803 (2010: Rs. 182,910). It also includes advance of Rs. 33,574 (2010: Rs. 34,112) and Rs. 8,487 (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. 25,063 (2010: Rs. 49,446) pursuant to Collective Labour Agreement and unvested disbursement to workers under housing subsidy scheme amounting to Rs. 10,923 (2010: Rs. 186,124).

**6.4** The maximum amount outstanding at the end of any month during the year ended December 31, 2011 from executives aggregated to Rs. 162,310 (2010: Rs. 311,099).

**7 STORES, SPARES AND LOOSE TOOLS**

	2011	2010
	-----Rupees-----	
Consumable stores	250,712	255,128
Spares (note 7.1)	4,038,716	3,192,630
Tools	3,360	3,606
	<u>4,292,788</u>	<u>3,451,364</u>
Less: Provision for surplus and slow moving items	83,195	59,284
	<u>4,209,593</u>	<u>3,392,080</u>

**7.1** These include spares for the Enven Plant amounting to Rs. 3,003,490 (2010: Rs. 2,297,695). These also include left over items amounting to Rs. 211,013 transferred subsequent to capitalisation of Enven Plant.

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(Amounts in thousand)

**8 STOCK-IN-TRADE**

	2011	2010
	-----Rupees-----	
Raw materials (note 8.1)	1,039,601	576,641
Packing materials	55,373	46,438
	<u>1,094,974</u>	<u>623,079</u>
Finished goods	739,419	272,378
	<u>1,834,393</u>	<u>895,457</u>

8.1 Includes in-transit amounting to Rs. 12,047 (2010: Rs. 219,726).

**9 TRADE DEBTS**

Considered good

- Secured (note 9.1)
- Unsecured

	131,759	342,600
	11,620	10,344
	<u>143,379</u>	<u>352,944</u>
Considered doubtful	8,073	8,073
	<u>151,452</u>	<u>361,017</u>
Provision for impairment (note 9.2 & 9.4)	(8,073)	(8,073)
	<u>143,379</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 year is as follows:

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

9.3 As at December 31, 2011, trade debts aggregating to Rs. 17,222 (2010: Rs. 31,938) were past due upto 3 months but not impaired. These relate to various customers for which there is no recent history of default.

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

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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, commenced from January 1, 2010 and 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**

	2011	2010
	-----Rupees-----	
Balance at beginning of the year	3,702	-
Options issued during the year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Amortisation for the year	(3,426)	(54,971)
Balance at end of the year	<u>-</u>	<u>3,702</u>
Current portion shown under current assets	-	(3,702)
Long term portion of deferred employee compensation expense	<u>-</u>	<u>-</u>

**10.2 Employee share option compensation reserve**

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

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

	-----Numbers-----	
Balance at beginning of the year	4,914,000	-
Options issued during the year	-	4,937,100
Options lapsed during the year	(23,100)	(23,100)
Balance at end of the 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 year 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 December 31, 2011 equals to 4,890,900 (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

	2011	2010
	-----Rupees-----	
Current portion of long term loans and advances to executives and other employees - considered good (note 6)	93,896	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	344,251	95,832
Prepayments		
- Gas charge (note 11.3)	109,986	573,843
- Insurance	184,547	70,887
- Others	29,345	36,408
	1,412,025	2,610,839
Provision for impairment (note 11.4)	(1,512)	(1,512)
	<u>1,410,513</u>	<u>2,609,327</u>

11.1 The loan, repaid during the year, 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 year was 15% per annum (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 Represent 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.
- 11.4 As at December 31, 2011, loans and advances aggregating to Rs. 1,512 (2010: Rs. 1,512) were impaired and provided for, which are past due for more than six months. The movement in provision during the year is as follows:

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

## 12 OTHER RECEIVABLES

Receivable from Government of Pakistan for:

- sales tax (note 12.1)	43,652	57,135
- others	394	193
	<u>44,046</u>	<u>57,328</u>

Accrued income on deposits / investments	12,819	17,173
Receivable from pension fund (note 38.1.1)	4,599	4,073

Due from Holding Company and associated companies:

- Engro Corporation Limited	2,082	-
- Engro Eximp (Private) Limited	11,480	-
- Engro Foods Limited	511	1,912
- Engro Polymer & Chemicals Limited	7,441	3,324
- Engro Powergen Qadirpur Limited	796	780
- Avanceon Limited	649	2,573
- Engro PowerGen Limited	174	6
- Sindh Engro Coal Mining Company Limited	1	6
- Engro Foods Supply Chain (Private) Limited	73	2
- Engro Vopak Terminal Limited	9	-

Claims on foreign suppliers	9,339	10,028
Insurance claims	89,082	4,117

Others	9,535	6,325
Less: Provision for impairment (note 12.4)	465	-
	<u>9,070</u>	<u>6,325</u>
	<u>192,171</u>	<u>107,647</u>

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(Amounts in thousand)

- 12.1 The sales tax receivable of Rs. 57,135 in 2010 is on account of sales tax levied in 2008 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609(1)/2004. The Holding Company had paid the demand made under protest and filed an appeal before the Collector, Sales Tax and Federal Excise. Further, the Ministry of Food, Agriculture and Livestock had also recommended through its letter dated June 27, 2008 that the said grade of MAP should be assessed at deemed value of import with retrospective effect. An appeal has 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 year, 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 28.3.

The current receivable balance of Rs. 43,652 pertains to fertilizers, levied during the year.

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

	2011	2010
	-----Rupees-----	
Holding Company		
- Engro Corporation Limited	13,250	26,752
Associated companies		
- Engro Eximp (Private) Limited	31,452	44,540
- Engro Foods Limited	13,028	4,666
- Engro Polymer & Chemicals Limited	9,593	3,324
- Engro Powergen Qadirpur Limited	9,191	9,892
- Avanceon Limited	3,003	2,573
- Engro PowerGen Limited	2,025	813
- Sindh Engro Coal Mining Company Limited	857	352
- Engro Foods Supply Chain (Private) Limited	335	1,563
- Engro Management Services (Private) Limited	6	27
- Pakistan Chemical and Energy Sector Skill Development Company	-	413
- Engro Vopak Terminal Limited	344	419

- 12.3 As at December 31, 2011, receivables aggregating to Rs. 25,395 (2010: Rs. 22,796) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2011	2010
	-----Rupees-----	
Upto 3 months	16,990	6,988
3 to 6 months	4,874	6,162
More than 6 months	3,531	9,646
	<u>25,395</u>	<u>22,796</u>

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

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

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(Amounts in thousand)

**13 SHORT TERM INVESTMENTS**

	2011	2010
	-----Rupees-----	
<b>Financial assets at fair value through profit or loss</b>		
Fixed income placements (note 13.1)	52,300	61,303
Money market funds (note 13.2)	3,375,487	2,390,982
	3,427,787	2,452,285
<b>Loans and receivables</b>		
Reverse repurchase of treasury bills (note 13.3)	473,932	-
	<u>3,901,719</u>	<u>2,452,285</u>

13.1 These represents foreign and local currency deposits with various banks, at the interest rates ranging upto 13.10% per annum (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.

13.3 These represents reverse repurchase of treasury bills at the interest rate of 11.70% per annum (2010: Nil).

**14 CASH AND BANK BALANCES**

	2011	2010
	-----Rupees-----	
<b>Cash at banks on:</b>		
- deposit accounts (note 14.1)	198,365	1,401,181
- current accounts (note 14.2)	387,258	427,520
	585,623	1,828,701
<b>Cash in hand - imprest funds</b>	7,250	7,250
	<u>592,873</u>	<u>1,835,951</u>

14.1 Deposit accounts carried return at rates ranging upto 11.60% per annum (2010: 12.55% per annum)..

14.2 Includes Rs. 10,773 (2010: Rs.10,602) held in foreign currency bank accounts.

**15 SHARE CAPITAL**

	2011	2010
	-----Rupees-----	
<b>Authorised Capital</b>		
1,300,000,000 (2010: 1,300,000,000) Ordinary shares of Rs.10 each	<u>13,000,000</u>	<u>13,000,000</u>
<b>Issued, subscribed and paid-up capital</b>		
7 (2010: 7) Ordinary shares of Rs. 10 each, fully paid in cash	-	-
9,999,993 (2010: 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	100,000
1,062,800,000 (2010: 1,062,800,000) Ordinary shares of Rs. 10 each, issued as fully paid bonus shares	10,628,000	10,628,000
	<u>10,728,000</u>	<u>10,728,000</u>

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(Amounts in thousand)

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

2011		2010				2011		2010	
-----Numbers-----						-----Rupees-----			
1,072,800,000		7	At beginning of the 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 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 December 31, 2011 held 100% (2010: 100%) ordinary shares in the Company.

## 16 SHARE PREMIUM

		2011		2010	
		-----Rupees-----			
	Balance at beginning of the 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 year	<u>11,144</u>		<u>11,144</u>	

## 17 HEDGING RESERVE

Hedging reserve on account of:					
-	Foreign exchange forward contracts	(905)		(231,417)	
-	Foreign exchange option contracts	-		(12,464)	
-	Interest rate swaps	(764,974)		(1,121,158)	
		<u>(765,879)</u>		<u>(1,365,039)</u>	
	Deferred tax	268,058		477,762	
		<u>(497,821)</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 gains / losses recognised in initial cost of the hedged item and profit and loss account where applicable.

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(Amounts in thousand)

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

Note	Mark - up rate p.a.	Number	Instalments Commenced / 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	-	-	228,600	
MCB Bank Limited	3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	-	200,000	
Habib Bank Limited	6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	776,000		925,000	
Allied Bank Limited	6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	1,560,000		1,650,000	
Askari Bank Limited	6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	193,750		231,250	
Citibank N.A.	6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	77,500		92,500	
HSBC Middle East Limited	6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	193,750		231,250	
Standard Chartered Bank (Pakistan) Limited	6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	387,500		462,500	
National Bank of Pakistan Syndicated finance	6 months KIBOR + 1.1%	8 half yearly	September 4, 2011	1,387,500		1,500,000	
Islamic offshore finance	18.1 6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	18,198,436		18,168,888	
DFI Consortium finance	18.2 6 months LIBOR + 2.57%	8 half yearly	March 28, 2011	9,784,189		12,766,717	
International Finance Corporation	18.3 6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	6,250,169		7,284,362	
International Finance Corporation	18.4 6 months LIBOR + 6%	3 half yearly	September 15, 2015	4,144,709		3,689,941	
Bank Islami Pakistan Limited	18.4 6 months LIBOR + 6%	3 half yearly	September 15, 2016	2,804,868		-	
Pak Kuwait Investment Company (Private) Limited	6 months KIBOR + 2.4%	14 half yearly	May 25, 2010	454,273		499,900	
Faysal Bank Limited	6 months KIBOR + 2.35%	10 half yearly	April 30, 2012	498,449		496,323	
Dubai Islamic Bank Limited	6 months KIBOR + 2.35%	9 half yearly	November 28, 2012	1,498,382		1,497,929	
Silk Bank Limited	6 Months Kibor + 2.11%	10 half yearly	December 31, 2012	492,738		490,400	
Standard Chartered Bank	6 Months Kibor + 2.35%	10 half yearly	January 21, 2013	299,617		299,406	
Samba Bank Limited	6 Months Kibor + 2.40%	10 half yearly	September 17, 2012	991,380		989,094	
Habib Metropolitan Bank Limited	6 Months Kibor + 2.40%	10 half yearly	September 30, 2012	496,787		496,934	
National Bank of Pakistan	6 Months Kibor + 2.40%	10 half yearly	June 21, 2013	199,965		199,965	
Habib Bank Limited	6 Months Kibor + 2.40%	6 half yearly	March 28, 2013	993,100		990,949	
Allied Bank Limited	18.8 6 Months Kibor + 1.5%	Bullet	October 28, 2011	-		1,000,000	
Standard Chartered Bank Limited	18.8 6 Months Kibor + 1%	Bullet	November 29, 2011	-		149,942	
	18.9 6 Months Kibor + 1.5%	3 instalments	April 18, 2011	-		1,500,000	
<b>Certificates</b>							
Term Finance Certificates - 2nd Issue	18.5 6 months KIBOR + 1.55%			3,973,084		3,970,694	
Term Finance Certificates - 3rd Issue	18.6 6 months KIBOR + 2.4%			1,976,494		1,972,993	
Sukuk Certificates	6 months KIBOR + 1.5%	2 half yearly	March 6, 2015	2,989,029		2,986,690	
Privately Placed Sub-Ordinated Term Finance Certificates	18.7			5,976,768		5,969,269	
				66,386,317		71,311,886	
Less: Current portion shown under current liabilities							
				9,986,885		8,651,546	
				<u>56,399,432</u>		<u>62,660,340</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. Two installments, each amounting to USD 20,250 were paid during the year on respective due dates.
- 18.3 This represents an agreement amounting to USD 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID. Two installments, each amounting to USD 7,727 were paid during the year on respective due dates.

*etc*

(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 USD 50,000, divided into Tranche A (USD 15,000) and Tranche B (USD 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 USD 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 December 31, 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 USD 30,000 over and above the aforementioned disbursed amount of USD 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 USD 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 instalments 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, and hence no related provision for the differential aggregating to Rs. 59,332 as at December 31, 2011 has been made in these financial statements.

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 and is being amortised using effective interest method. The residual amount, representing the loan liability component is shown as long term borrowings. The fair value of these options as at December 31, 2011 amounted to Rs. 63,082 (2010: Rs. 367,442).

- 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. First Dawood Islamic Bank is the trustee for these TFCs.
- 18.6 These represent secured and listed Term Finance Certificates (TFCs) of Rs. 2,000,000. 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 is the trustee for these TFCs.

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**(Amounts in thousand)**

- 18.7** 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 is the trustee for these TFCs. During the year, the aforementioned TFCs have been listed on the Over-The-Counter (OTC) market of the Karachi Stock Exchange.
- 18.8** These loans were secured against a ranking charge over the assets of the Company and were repaid during the year.
- 18.9** These loans, repaid during the year, were secured against a ranking charge over the assets of the Company and Corporate Guarantee by the Holding Company.
- 18.10** The above finances, excluding those covered in notes 18.4, 18.7, 18.8 and 18.9, 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. All other loans are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.
- 18.11** 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**

	2011	2010
	-----Rupees-----	
Balance at beginning of the year	1,500,000	-
Loan disbursed during the year	1,500,000	1,500,000
Balance as at end of the 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 the rate of 17.1% (2010: 15.5%).

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(Amounts in thousand)

**20 DERIVATIVE FINANCIAL INSTRUMENTS**

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
-----Rupees-----				
Conversion options on IFC loan (note 18.4)	-	63,082	-	367,442
Cash flow hedges				
- Foreign exchange forward contracts, net (note 20.1)	183,713	20,284	2,638	234,055
- Foreign exchange option contracts, net	-	-	-	12,464
- Interest rate swaps (note 20.2)	-	886,244	-	1,121,158
	183,713	969,610	2,638	1,735,119
Less: Current portion shown under current assets / liabilities				
Cash flow hedges:				
- Foreign exchange forward contracts	183,713	20,284	2,638	234,055
- Foreign exchange option contracts	-	-	-	12,464
- Interest rate swaps	-	404,375	-	426,868
	183,713	424,659	2,638	673,387
	-	544,951	-	1,061,732

**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 December 31, 2011, the Company had forward exchange contracts to purchase Euros Nil (2010: Euros 2,698) at various maturity dates matching the anticipated payment dates for commitments with respect to the urea expansion project. The fair value of these contracts, as at December 31, 2011 is Nil (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 December 31, 2011, the Company had forward contracts to purchase USD 222,214 (2010: USD 85,000) at various maturity dates to hedge its foreign currency exposure, primarily loan obligations. The net fair value of these contracts as at December 31, 2011 is positive and amounted to Rs. 163,429 (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 109,500 (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 swaps as at December 31, 2011 is negative and amounted to Rs. 449,789 (2010: Rs. 654,163 negative).

**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 69,545 (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 December 31, 2011 is negative and amounted to Rs. 436,455 (2010: Rs. 466,995 negative).

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(Amounts in thousand)

**21 DEFERRED LIABILITIES**

	2011	2010
	-----Rupees-----	
Deferred taxation (note 21.1)	4,432,706	2,488,204
Deferred income (note 21.2)	88,575	92,440
	<u>4,521,281</u>	<u>2,580,644</u>

**21.1 Deferred taxation**

Credit balances arising on account of:

- Accelerated depreciation allowance	16,979,581	3,376,158
- Carried forward tax losses substantially pertaining to unabsorbed tax depreciation	(11,372,689)	(324,811)
- Carried forward minimum tax	(531,259)	-
- Fair values of hedging instruments	(268,058)	(477,762)
- Exchange loss	(414,573)	(20,631)
- Fair value of IFC conversion option	118,497	(10,078)
- Provision for:		
- retirement benefits	(42,002)	(26,410)
- slow moving stores and spares and doubtful receivables	(32,473)	(24,104)
- Others	(4,318)	(4,158)
	<u>4,432,706</u>	<u>2,488,204</u>

**21.2 Deferred income**

This represents an amount of Rs. 96,627 received from Engro Powergen Qadirpur 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 for a period of twenty five years. The amount is being amortised over such period.

**22 EMPLOYEE HOUSING SUBSIDY**

This represents invested 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 amortised amount charged in the profit and loss account amounted to Rs. 5,095. The expected future charge will be Rs. 1,581 for the year ending December 31, 2012.

**23 RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS**

	2011	2010
	-----Rupees-----	
Service benefit obligation	120,007	75,459
Less: Current portion shown under current liabilities	32,559	20,636
	<u>87,448</u>	<u>54,823</u>

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(Amounts in thousand)

24	TRADE AND OTHER PAYABLES	2011	2010
		-----Rupees-----	
	Creditors	1,048,889	1,006,034
	Accrued liabilities (note 24.1)	1,077,973	961,190
	Advances from customers	2,387,849	1,338,022
	Payable to:		
	- Engro Corporation Limited	-	296
	- Engro Eximp (Private) Limited (note 24.2)	8,681	151,626
	- Engro Vopak Terminal Limited	-	68
	Deposits from dealers refundable on termination of dealership	14,749	11,800
	Contractors' deposits and retentions	103,344	94,201
	Workers' profits participation fund (note 24.3)	49,326	9,742
	Workers' welfare fund	246,589	106,245
	Others	215,678	232,125
		<u>5,153,078</u>	<u>3,911,349</u>
24.1	Accrued liabilities		
	Salaries, wages and other employee benefits	272,790	512,201
	Vacation accruals	104,409	88,753
	Others	700,774	360,236
		<u>1,077,973</u>	<u>961,190</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	2011	2010
		-----Rupees-----	
	Payable at beginning of the year	9,742	-
	Interest charged for the year	225	157
	Allocation for the year (note 33)	369,326	279,591
	Less: Amount paid to the trustees of the fund	329,967	270,006
	Payable at end of the year	<u>49,326</u>	<u>9,742</u>
25	ACCRUED INTEREST / MARK-UP		
	Accrued interest / mark-up on:		
	- long term borrowings	2,076,250	1,971,297
	- short term borrowings	11,469	10,323
		<u>2,087,719</u>	<u>1,981,620</u>
26	SHORT TERM BORROWINGS	2011	2010
		-----Rupees-----	
	Secured (note 26.1)	3,780	-
	Unsecured (note 26.2)	-	970,126
		<u>3,780</u>	<u>970,126</u>

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**(Amounts in thousand)**

- 26.1 The funded facilities for short term finances available from various banks amounts to Rs. 4,150,000 (2010: Rs. 3,900,000) alongwith non-funded facilities of Rs.1,450,000 (2010: Rs.1,450,000) for Bank Guarantees. The rates of markup on funded financing facilities ranges from 12.67% 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 year, 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.1,015,730 (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. 34,938 (2010: Rs. 36,018).
- 27.3 The Company is contesting a penalty of Rs. 99,936 paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.
- 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 Holding 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.
- 27.5 The Company had filed a constitutional petition in the High Court of Sindh, Karachi against the Ministry of Petroleum and Natural Resource (MPNR), Ministry of Industries and Production (MIP) and Sui Northern Gas Pipeline Company Limited (SNGPL) for continuous supply of 100 MMCFD gas per day to the Enven Plant and to prohibit from suspending, discontinuing or curtailing the aforesaid supply. The High Court of Sindh, in its order dated October 18, 2011, has ordered that SNGPL should supply 100 MMCFD of gas per day to the Company's new plant. However, five petitions have been filed in the Supreme Court of Pakistan against the aforementioned order of High Court of Sindh by SNGPL, MPNR, Agritech Limited, Pak Arab Fertilizers and Kohinoor Mills Limited along with 21 other companies (mainly engaged in textile business). The aforementioned petitions are pending for further hearing. The Company's management as confirmed by the legal advisor considers the chances of petitions being allowed to be remote.

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

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(Amounts in thousand)

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. 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 gas to 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. The petition is pending for hearing and no orders have yet been passed in this regard. However, the Company's management, as confirmed by the legal advisor, considers the chances of the petitions being allowed to be remote.

**Commitments**

	2011	2010
	-----Rupees-----	
27.7 Plant and machinery	<u>596,378</u>	<u>1,630,879</u>
<b>28 NET SALES</b>		
Own manufactured product (note 28.1 and 28.2)	35,688,527	19,020,007
Less: Sales tax (note 28.3)	<u>4,335,647</u>	<u>2,499</u>
	<u>31,352,880</u>	<u>19,017,508</u>
28.1 Sales are net of marketing allowances of Rs. 2,526 (2010: Rs. 42,920).		
28.2 Includes sale of liquid ammonia amounting to Nil (2010: Rs. 18,118).		
28.3 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

	2011	2010
	-----Rupees-----	
Raw materials consumed	6,898,995	5,379,537
Salaries, wages and staff welfare (note 29.1)	1,266,139	1,017,381
Fuel and power	2,966,532	2,423,973
Repairs and maintenance	438,159	276,119
Depreciation (note 4.2)	2,747,632	612,576
Amortisation (note 5.1)	8,623	3,695
Consumable stores	265,611	182,632
Staff recruitment, training, safety and other expenses	58,621	48,129
Purchased services	184,731	142,112
Travel	38,232	24,662
Communication, stationery and other office expenses	26,955	22,604
Insurance	176,453	113,378
Rent, rates and taxes	9,177	17,962
Other expenses	1,203	2,938
Cost of goods manufactured	<u>15,087,063</u>	<u>10,267,698</u>
Add: Opening stock of finished goods manufactured	<u>272,378</u>	<u>112,500</u>
Less: Closing stock of finished goods manufactured	<u>739,419</u>	<u>272,378</u>
	<u>(467,041)</u>	<u>(159,878)</u>
Cost of sales	<u>14,620,022</u>	<u>10,107,820</u>

29.1 Salaries, wages and staff welfare includes Rs. 58,835 (2010: Rs. 55,154) in respect of staff retirement benefits.

## 30 SELLING AND DISTRIBUTION EXPENSES

	2011	2010
	-----Rupees-----	
Salaries, wages and staff welfare (note 30.1)	359,043	305,593
Staff recruitment, training, safety and other expenses	40,452	39,507
Product transportation and handling	1,140,151	925,797
Royalty expense	431,809	257,584
Repairs and maintenance	3,003	2,266
Advertising and sales promotion	55,872	42,361
Rent, rates and taxes	79,976	58,880
Communication, stationery and other office expenses	22,965	26,010
Travel	33,633	28,426
Depreciation (note 4.2)	32,983	19,879
Amortisation (note 5.1)	47	48
Purchased services	5,278	1,683
Insurance	14,036	3,655
Other expenses	25,846	15,787
	<u>2,245,094</u>	<u>1,727,476</u>

30.1 Salaries, wages and staff welfare includes Rs. 25,613 (2010: Rs. 28,182) in respect of staff retirement benefits.

etc

(Amounts in thousand)

**31 ADMINISTRATIVE EXPENSES**

	2011	2010
	-----Rupees-----	
Salaries, wages and staff welfare (note 31.1)	239,807	241,067
Staff recruitment, training, safety and other expenses	30,562	26,592
Repairs and maintenance	7,192	18,078
Rent, rates and taxes	71,428	81,488
Communication, stationery and other office expenses	29,884	19,950
Travel	9,821	11,750
Depreciation (note 4.2)	34,455	31,037
Amortisation (note 5.1)	10,758	13,278
Purchased services	72,629	62,741
Donations	30,019	51,986
Insurance	2,294	262
Other expenses	10,600	8,749
	<u>549,449</u>	<u>566,978</u>

31.1 Salaries, wages and staff welfare includes Rs. 20,007 (2010: Rs. 20,716) in respect of staff retirement benefits.

**32 OTHER OPERATING INCOME**

	2011	2010
	-----Rupees-----	
<b>On financial assets</b>		
Income on deposits	176,275	53,140
Other financial assets	382,959	66,980
Gain on fair value adjustments of embedded derivatives	367,360	-
<b>On non-financial assets</b>		
Commission income (note 32.1)	192,897	14,699
Gain on disposal of property, plant and equipment (note 4.3)	25,356	312,272
Rental income	6,237	2,948
Others	13,395	7,950
	<u>237,885</u>	<u>337,869</u>
	<u>1,164,479</u>	<u>457,989</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**

	2011	2010
	-----Rupees-----	
Workers' profits participation fund (note 24.3)	369,326	279,591
Workers' welfare fund	140,344	106,245
Research and development (including salaries and wages)	18,406	21,725
Auditors' remuneration (note 33.1)	5,267	2,334
Legal and professional charges	47,915	65,692
Loss on fair value adjustments of embedded derivative	-	28,795
Others	689	11,742
	<u>581,947</u>	<u>516,124</u>

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(Amounts in thousand)

33.1 Auditors' remuneration	2011	2010
	-----Rupees-----	
Fee for:		
- audit of annual financial statements	1,515	1,375
- audit / review of half yearly financial statements	1,200	150
Certifications, audit of retirement funds and other advisory services	1,055	388
Reimbursement of expenses (including technical consultant fee)	1,497	421
	<u>5,267</u>	<u>2,334</u>

**34 FINANCE COST**

Interest / mark-up on:

- long term borrowings (note 34.1)	6,424,557	1,070,545
- short term borrowings	93,664	221,459
- net foreign exchange loss	1,125,548	58,947
- workers' profits participation fund (note 24.3)	225	157
	<u>7,643,994</u>	<u>1,351,108</u>

34.1 Interest / mark-up on long term borrowings is net of Interest / mark-up earned amounting to Rs. 27,847 (2010: Rs.110,695) on subordinated loan provided to Engro Eximp (Private) Limited, an associated undertaking.

**35 TAXATION**

	2011	2010
	-----Rupees-----	
Current		
- for the year (note 35.1)	388,770	193,488
- for prior years (note 35.2)	165,000	(463,784)
	<u>553,770</u>	<u>(270,296)</u>
Deferred - for the year	1,734,797	1,746,691
	<u>2,288,567</u>	<u>1,476,395</u>

35.1 Includes minimum turnover tax amounting to Rs. 340,553. (2010: Rs. 190,706).

35.2 Prior year charge provided during the current year pertains to disallowance of finance cost allocated to exempt income and dividend income and other adjustments.

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 year, the tax department finalized the audit for the financial year 2009 and raised a demand of Rs. 1,110,862, subsequently rectified to Rs. 982,958 which included Rs. 561,595 demanded against financial year 2008. The department while assessing the tax liability of the Company for the aforementioned year, disallowed adjustment of refund amounting to Rs. 443,554 pertaining to financial year 2007. The Company filed an appeal with the Commissioner Inland Revenue (Appeals) for the stay of the outstanding demand who in its order dated May 14, 2011 granted the stay and restrained the department from taking any coercive action unless the assessed refund of Rs. 443,554 is adjusted. Subsequently, the demand has been partially adjusted against refunds arising from the effect of appeal orders for income / financial years 1995 – 2002, as discussed below.

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(Amounts in thousand)

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.

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 assessed refunds against these demands.

During the year, appeal effect orders were received relating to financial / income years 1995 to 2002. 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 the 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:

	2011	2010
	-----Rupees-----	
Profit before tax	<u>6,876,853</u>	<u>5,205,991</u>
Tax calculated at the rate of 35%	2,406,899	1,822,097
Minimum turnover tax	(190,706)	190,706
Depreciation on exempt assets not deductible for tax purposes	34,495	34,495
Effect of exemption from tax on certain income	(91,884)	(123,741)
Effect of applicability of lower tax rate and other tax credits / debits	(35,237)	16,622
Prior year tax effects	165,000	(463,784)
Tax charge for the year	<u>2,288,567</u>	<u>1,476,395</u>

etc

(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 year.

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:

	2011	2010
	-----Rupees-----	
Profit for the year	4,588,286	3,729,596
Add: Interest on IFC loan of USD 9,000 (net of tax)	16,748	-
Profit used for the determination of Diluted EPS	<u>4,605,034</u>	<u>3,729,596</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	538	-
Assumed conversion of USD 9,000 IFC loan	10,150	-
	10,688	-
Weighted average number of shares for determination of diluted EPS	<u>1,083,488</u>	<u>1,072,800</u>

*Atc*

(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:

	2011			2010		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	Rupees			Rupees		
Managerial remuneration	40,346	-	978,697	24,641	-	815,027
Retirement benefits funds	3,609	-	126,515	2,983	-	118,126
Other benefits	374	-	138,231	7,751	95	174,019
Fees	-	2,900	-	-	1,800	-
<b>Total</b>	<b>44,329</b>	<b>2,900</b>	<b>1,243,443</b>	<b>35,375</b>	<b>1,895</b>	<b>1,107,172</b>
Number of persons including those who worked part of the year	1	9	415	1	9	393

**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 year, amounted to Rs. 1,020 (2010: Rs. 79)

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

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2011, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

*etc*

(Amounts in thousand)

**38.1.1 Balance sheet reconciliation**

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2011	2010	2011	2010
	-----Rupees-----			
Present value of funded obligation	277,645	269,523	32,023	31,230
Fair value of plan assets	(256,976)	(289,580)	(37,023)	(34,855)
Surplus	20,889	(20,057)	(5,000)	(3,625)
Payable to associated companies	-	2,875	-	-
Unrecognised actuarial gain / (loss)	(22,636)	12,161	401	(448)
Payable to DC Gratuity Fund	2,454	-	-	-
Unrecognised past service cost	4,253	5,021	-	-
Net (asset) / liability at end of the year	<u>4,740</u>	<u>-</u>	<u>(4,599)</u>	<u>(4,073)</u>

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

Net (asset) / liability at beginning of the year	-	-	(4,073)	(31,887)
(Reversal) / expense recognised	4,740	15,470	(526)	(4,073)
Amounts received from / (paid to) the Fund	-	(15,470)	-	31,887
Net (asset) / liability at end of the year	<u>4,740</u>	<u>-</u>	<u>(4,599)</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	14,582	17,735	-	-
Interest cost	32,901	29,510	4,286	3,264
Benefits paid during the year	(7,516)	(6,785)	(3,377)	(3,197)
Actuarial (gain) / loss on obligation	49,473	(8,235)	(116)	2,460
Settlement gain	(8,128)	-	-	-
Liability transferred in respect of inter-company transfer	(445)	(3,978)	-	-
Liability transferred to DC Gratuity Fund	(69,324)	-	-	-
Actual distribution during the year	(3,423)	-	-	-
As at end of the year	<u>277,645</u>	<u>269,523</u>	<u>32,023</u>	<u>31,230</u>

dk



(Amounts in thousand)

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

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2011	2010	2011	2010
	-----Rupees-----			
At beginning of the year	289,580	263,645	34,855	62,645
Expected return on plan assets	33,726	30,947	4,812	7,337
(Repayment to) / Contribution by the Company	-	15,470	-	(31,887)
Benefits paid during the year	(10,939)	(6,785)	(3,377)	(3,197)
Actuarial gain / (loss) on plan assets	14,676	(12,594)	733	(43)
Assets transferred in respect of transfers	(3,197)	-	-	-
Assets transferred to DC Gratuity Fund	(66,870)	-	-	-
Liability transferred in respect of inter-company transfer	-	(1,103)	-	-
As at end of the year	<u>256,976</u>	<u>289,580</u>	<u>37,023</u>	<u>34,855</u>

**38.1.5 Charge for the year**

Current service cost	14,582	17,735	-	-
Interest cost	32,901	29,510	4,286	3,264
Expected return on plan assets	(33,726)	(30,947)	(4,812)	(7,337)
Settlement gain (note 38.1.11)	(8,678)	-	-	-
Amortisation of unrecognized past service cost	(339)	(372)	-	-
Amortisation of actuarial gain	-	(456)	-	-
	<u>4,740</u>	<u>15,470</u>	<u>(526)</u>	<u>(4,073)</u>

-----Rupees-----

**38.1.6 Actual return on plan assets**

	<u>48,402</u>	<u>18,353</u>	<u>5,545</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)	
	2011	2010	2011	2010
Discount rate	12.5%	14.5%	12.5%	14.5%
Expected per annum rate of return on plan assets	12.5%	14.5%	12.5%	14.5%
Expected per annum rate of increase in pension	-	-	4.5%	6.5%
Expected per annum rate of increase in future salaries	11.5%	13.5%	12.5%	14.5%

(Amounts in thousand)

38.1.8 Plan assets comprise of the following	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2011		2011	
	Rupees	(%)	Rupees	(%)
Fixed income instruments	250,033	97%	36,103	98%
Cash / (Payable)	6,943	3%	323	1%
Others	-	0%	597	2%
	<u>256,976</u>		<u>37,023</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 During the year, the Company recognised a gain of Rs. 526 on curtailed defined benefit plan. In 2005, the Holding Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited (renamed as Engro Corporation Limited) MPT Employees Pension Fund (the Fund) for the benefit of management employees, including those transferred to the Company after demerger. Employees joining the Holding Company from July 1, 2005 onwards became members of the new Fund. Members of the existing pension fund (a defined benefit plan) were given a one-time option exercisable upto June 15, 2005 to join the new Fund effective July 1, 2005.
- 38.1.11 The Company has recognised a total gain of Rs. 8,678 on settlement of liability of those employees who have accepted the offer to opt out of defined benefit gratuity plan as more fully explained in note 2.19.3.
- 38.1.12 Expected future cost / (reversal) for the year ending December 31, 2012 is as follows:

	Rupees
- MPT Pension Fund	<u>(625)</u>
- MPT Gratuity Fund	<u>4,951</u>
- Non-MPT Gratuity Fund	<u>12,337</u>

### 38.2 Defined contribution plans

An amount of Rs. 43,436 has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

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(Amounts in thousand)

**39 CASH GENERATED FROM OPERATIONS**

	2011	2010
	-----Rupees-----	
Profit before taxation	6,876,853	5,205,991
Adjustment for non-cash charges and other items:		
Depreciation	2,815,070	663,492
Amortisation	19,428	17,021
Profit on disposal of property, plant and equipment	(25,356)	(312,272)
Provision for retirement and other service benefits	193,264	124,203
Income on deposits / other financial assets	(580,798)	(142,770)
Financial charges	7,643,994	1,351,108
Employee share compensation expense	891	39,272
Employee housing subsidy expense	5,095	105,661
Provision for surplus and slow moving stores and spares	23,910	15,766
Provision against other receivables	465	(4,304)
Change in the fair value of IFC conversion option	(367,360)	28,795
Working capital changes (note 39.1)	(309,590)	(961,235)
	<u>16,295,866</u>	<u>6,130,728</u>

**39.1 Working capital changes**

(Increase) / decrease in current assets

- Stores, spares and loose tools	(841,423)	(2,446,729)
- Stock-in-trade	(938,936)	(472,850)
- Trade debts	209,565	2,161,481
- Loans, advances, deposits and prepayments	108,818	(1,139,556)
- Other receivables (net)	(89,343)	46,410
	<u>(1,551,319)</u>	<u>(1,851,244)</u>

Increase in current liabilities

- Trade and other payables including other service benefits - net	1,241,729	890,009
	<u>(309,590)</u>	<u>(961,235)</u>

**40 CASH AND CASH EQUIVALENTS**

Cash and bank balances (note 14)	592,873	1,835,951
Short term investments (note 13)	3,901,719	2,452,285
Short term borrowings (note 26)	(3,780)	(970,126)
	<u>4,490,812</u>	<u>3,318,110</u>

etc

(Amounts in thousand)

## 41 FINANCIAL INSTRUMENTS BY CATEGORY

	2011	2010
	-----Rupees-----	
<b>Financial assets as per balance sheet</b>		
- Loans and receivables		
Loans, advances and deposits	753,760	1,632,002
Trade debts	143,379	352,944
Other receivables	147,891	46,149
Cash and bank balances	592,873	1,835,951
Short term investment	473,932	-
	<u>2,111,835</u>	<u>3,867,046</u>
- Fair value through profit and loss		
Short term investments	<u>3,427,787</u>	<u>2,452,285</u>
- Derivatives used for hedging		
Derivative financial instruments	<u>183,713</u>	<u>2,638</u>
<b>Financial liabilities as per balance sheet</b>		
- Financial liabilities measured at amortised cost		
Borrowings	69,389,097	73,781,812
Trade and other payable	2,253,636	2,225,215
Accrued interest / mark-up	2,087,719	1,981,620
	<u>73,730,452</u>	<u>77,988,647</u>
- Fair value through profit and loss		
Conversion options on IFC loan	<u>63,082</u>	<u>367,442</u>
- Derivatives used for hedging		
Derivative financial instruments	<u>906,528</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.

etc.

(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.

On foreign currency borrowing of USD 259,045 as on December 31, 2011, the Company has Rupee / USD hedge of USD 217,450.

At December 31, 2011, if the currency had weakened / strengthened by 1% against the US dollar with all other variables held constant, post-tax profit for the year would have been Rs. 22,641 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 year 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 179,045 out of its non-current foreign currency borrowings of USD 259,045 as on December 31, 2011 (note 20). Rates on short term loans vary as per market movement.

As at December 31, 2011, if interest rates on Company's borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been lower / higher by Rs. 230,722 mainly as a result of interest exposure on variable rate borrowings.

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(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:

	2011	2010
	-----Rupees-----	
Loans, advances and deposits	753,760	1,632,002
Trade debts	126,157	321,006
Other receivables	122,496	33,306
Short term investments	3,901,719	2,452,285
Cash and bank balances	592,873	1,835,951
	<u>5,497,005</u>	<u>6,274,550</u>

*dfc*

(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
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	A1
JS Bank	PACRA	A1	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+
Zarai Taraqati Bank Limited	JCR-VIS	A1+	AAA
Silk Bank Limited	JCR-VIS	A2	A-

### 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.

	2011			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	424,659	544,951	969,610	673,387	1,061,732	1,735,119
Trade and other payables	2,253,636	-	2,253,636	2,225,215	-	2,225,215
Accrued interest / mark-up	2,087,719	-	2,087,719	1,981,620	-	1,981,620
Borrowings	9,990,665	59,398,432	69,389,097	9,621,672	64,160,140	73,781,812
	<u>14,756,679</u>	<u>59,943,383</u>	<u>74,700,062</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 December 31, 2011 based on total long term borrowings of Rs. 69,385,317 and total equity of Rs. 18,617,058 was 78.8%.

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.

*off*



(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	3,427,787	-	-	3,427,787
Loans and receivables				
- Reverse repurchase of treasury bills	473,932	-	-	473,932
Derivatives used for hedging				
- Derivatives	-	183,713	-	183,713
	<u>3,901,719</u>	<u>183,713</u>	<u>-</u>	<u>4,085,432</u>
<b>Liabilities</b>				
Derivatives				
- Derivatives used for hedging	-	906,528	-	906,528
- Conversion option on IFC loans	-	63,082	-	63,082
	<u>-</u>	<u>969,610</u>	<u>-</u>	<u>969,610</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 year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2011	2010
	-----Rupees-----	
<b><i>Holding Company</i></b>		
Purchases and services	128,262	73,604
Services provided to Holding Company	9,429	-
Royalty	496,136	257,584
Reimbursements	85,076	100,747
Shares issued consequent to demerger	-	10,739,144
Mark-up paid on sub-ordinated loan	503,585	-
Use of assets	10,763	3,860
Subordinated loan received from Holding Company	1,500,000	1,500,000
<b><i>Associated companies</i></b>		
Purchases and services	3,065,670	1,875,457
Sale of product	22,996	8,047
Contributions to retirement benefit schemes / funds	123,710	151,440
Services provided	55,995	126,132
Reimbursements	98,465	91,913
Funds collected against sales made on behalf of an associate	26,545,957	17,018,833
Payment of mark-up on TFCs and repayment of principal amount	200,388	120,454
Purchase of T-Bill	1,453,197	-
Sale of T-Bill	979,264	-
Commission on sales collection	192,897	14,699
Purchase of mutual fund units	1,755,967	300,000
Redemption of mutual fund units	1,434,358	192,304
Donation to Engro Foundation	24,221	48,516
Commission expense	32,471	-
Markup from associate	27,647	110,695
Use of Assets	11,912	13,282
Receipt of sub-ordinated loan	770,000	-
Land swap arrangement	-	3,200
<b><i>Others</i></b>		
Remuneration of key management personnel	105,052	72,376

off

(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	-----Rupees-----	
			2011	2010
Asad Umar and Khalid Siraj Subhani	President and Trustee	Engro Foundation	24,221	46,516

**45 PRODUCTION CAPACITY**

	Designed capacity Metric Tons		Actual production Metric Tons	
	2011	2010	2011	2010
Urea plant I & II (note 45.1 & 45.2)	2,275,000	975,000	1,279,378	971,913
NPK plant	100,000	100,000	113,172	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 328,994 MT till December 31, 2011.

45.2 Urea plant also produced Nil (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.

**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 February 8, 2012 by the Board of Directors of the Company.

*off*

*Khalid Siraj Subhani*  
Chief Executive

*J. Durrani*  
Director