ENGRO FERTILIZERS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

pwc

A. F. FERGUSON & CO.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Engro Fertilizers Limited as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the 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 46 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, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2012 and of the loss, total comprehensive loss, changes in equity and its cash flows for the year then ended;

(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; and

(f) we draw attention to note 1.3 to the financial statements which indicates that the Company incurred a loss before taxation of Rs. 3,951,794 thousand during the year ended December 31, 2012 and, as of that date, the Company's current liabilities exceeds its current assets by Rs. 11,865,763 thousand. These conditions, along with other matters as set forth in note 1.3, indicates the existence of a material uncertainty which may raise significant concerns about the Company's future operations. Our opinion is not qualified in respect of this matter.

Chartered Accountants
Karachi
Date: March 7, 2013

Engagement Partner: Imtiaz A. H. Laliwala

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ENGRO FERTILIZERS LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2012

(Amounts in thousand)

	Note	2012	2011
		---Rupees---	
ASSETS			
Non-current assets			
Property, plant and equipment	4	82,877,701	86,332,162
Intangible assets	5	161,555	134,769
Long term loans and advances	6	83,763	72,651
		83,123,019	86,539,582
Current assets			
Stores, spares and loose tools	7	4,107,291	4,209,593
Stock-in-trade	8	1,687,072	1,834,393
Trade debts	9	1,046,091	143,379
Derivative financial instruments	19	545	183,713
Loans, advances, deposits and prepayments	10	395,150	1,410,513
Other receivables	11	63,636	192,171
Taxes recoverable		2,000,249	1,869,058
Short term investments	12	2,635,339	3,901,719
Cash and bank balances	13	2,449,168	592,873
		14,384,541	14,337,412
TOTAL ASSETS		97,507,560	100,876,994

(Amounts in thousand)

	Note	2012	2011
		------Rupees------	
EQUITY & LIABILITIES			
Equity			
Share capital	14	10,728,000	10,728,000
Share premium		11,144	11,144
Employee share option compensation reserve	15	-	58,397
Hedging reserve	16	(323,880)	(497,821)
Unappropriated profit		5,382,763	8,317,338
		5,070,027	7,889,058
Total Equity		15,798,027	18,617,058
Liabilities			
Non-current liabilities			
Borrowings	17	48,481,626	56,398,432
Subordinated loan from Holding Company	18	3,000,000	3,000,000
Derivative financial instruments	19	497,869	544,951
Deferred liabilities	20	3,380,705	4,521,281
Employee housing subsidy	21	-	19,144
Retirement and other service benefits obligations	22	99,029	87,448
		55,459,229	64,571,256
Current liabilities			
Trade and other payables	23	7,959,771	5,153,078
Accrued interest / mark-up	24	1,788,282	2,087,719
Current portion of:			
- borrowings	17	14,896,412	9,986,885
- other service benefits obligations	22	39,624	32,559
Short term borrowings	25	999,791	3,780
Derivative financial instruments	19	566,424	424,659
		26,250,304	17,688,680
Total liabilities		81,709,533	82,259,936
Contingencies and Commitments	26		
TOTAL EQUITY & LIABILITIES		97,507,560	100,876,994

The annexed notes from 1 to 48 form an integral part of these financial statements.

Chief Executive

Director

ENGRO FERTILIZERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in thousand except for (loss) / earnings per share)

	Note	2012	2011
		----------Rupees----------	
Net sales	27	30,626,520	31,352,880
Cost of sales	28	(20,765,773)	(14,620,022)
Gross profit		9,860,747	16,732,858
Selling and distribution expenses	29	(2,499,982)	(2,245,094)
Administrative expenses	30	(582,779)	(549,449)
		6,777,986	13,938,315
Other operating income	31	379,443	1,164,479
Other operating expenses	32	(405,977)	(581,947)
Finance cost	33	(10,703,246)	(7,643,994)
		(11,109,223)	(8,225,941)
(Loss) / profit before taxation		(3,951,794)	6,876,853
Taxation	34	1,017,219	(2,288,567)
(Loss) / profit for the year		(2,934,575)	4,588,286
(Loss) / earnings per share - basic	35	(2.74)	4.28
(Loss) / earnings per share - diluted	35	(2.74)	4.25

The annexed notes from 1 to 48 form an integral part of these financial statements.

Chief Executive

Director

ENGRO FERTILIZERS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in thousand)

	2012	2011
	----------------Rupees----------------	
(Loss) / profit for the year	(2,934,575)	4,588,286
Other comprehensive income		
Hedging reserve - cash flow hedges		
Losses arising during the year	(587,841)	(490,955)
Less: Adjustment for amounts transferred to profit and loss account	848,374	190,290
Less: Adjustment for amounts transferred to initial carrying amount of hedged items (Capital work in progress)	7,069	899,828
	267,602	599,163
Income tax (Deferred) relating to hedging reserve	(93,661)	(209,707)
Other comprehensive income for the year, net of tax	173,941	389,456
Total comprehensive (loss) / income for the year	(2,760,634)	4,977,742

The annexed notes from 1 to 48 form an integral part of these financial statements.

Chief Executive

Director

ENGRO FERTILIZERS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	Unappropriated profit	Total
			-Rupees-			
Balance as at January 1, 2011	10,728,000	11,144	58,673	(887,277)	3,729,052	13,639,592
Transactions with owners						
Share options lapsed during the year	-	-	(276)	-	-	(276)
Total comprehensive income for the year ended December 31, 2011						
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
Share options lapsed during the year	-	-	(58,397)	-	-	(58,397)
Total comprehensive income / (loss) for the year ended December 31, 2012						
Loss for the year	-	-	-	-	(2,934,575)	(2,934,575)
Other comprehensive income						
- cash flow hedges, net of tax	-	-	-	173,941	-	173,941
	-	-	-	173,941	(2,934,575)	(2,760,634)
Balance as at December 31, 2012	10,728,000	11,144	-	(323,880)	5,382,763	15,798,027

The annexed notes from 1 to 48 form an integral part of these financial statements.

Chief Executive

Director

ENGRO FERTILIZERS LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in thousand)

	Note	2012	2011
		------Rupees------	
Cash flows from operating activities			
Cash generated from operations	38	15,482,221	16,295,866
Retirement and other service benefits paid		(30,361)	(171,498)
Finance cost paid		(8,725,883)	(6,209,928)
Taxes paid		(344,344)	(652,352)
Long term loans and advances		(11,112)	17,302
Net cash generated from operating activities		6,370,521	9,279,390
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		(2,069,686)	(2,275,040)
Finance cost paid (capitalised in PPE)		-	(2,644,756)
Proceeds from sale of PPE		43,835	49,215
Repayment of sub-ordinated loan by an associate company		-	770,000
Income on deposits / other financial assets		168,742	583,220
Net cash used in investing activities		(1,857,109)	(3,517,361)
Cash flows from financing activities			
Proceeds from borrowings		6,000,000	4,095,123
Repayments of borrowings		(10,919,508)	(8,684,450)
Net cash used in financing activities		(4,919,508)	(4,589,327)
Net (decrease) / increase in cash and cash equivalents		(406,096)	1,172,702
Cash and cash equivalents at beginning of the year		4,490,812	3,318,110
Cash and cash equivalents at end of the year	39	4,084,716	4,490,812

The annexed notes from 1 to 48 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, 2012

(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.

1.3 Going concern assumption

During the year, the Company continued to experience gas curtailment on its new Enven plant receiving less than 45 days of gas at 76% of the contracted volume. This approximately translates to only 9% of annual operational capacity. The limited operations of the Enven plant has severely put burden on the Company's cash flows.

As at December 31, 2012, the current liabilities have exceeded the current assets by Rs. 11,865,763 primarily due to current maturities of long term loans which are being re-profiled as explained below. Further, the loss before taxation for the year amounted to Rs. 3,951,794 as against a profit of Rs. 6,876,853 in the last year. Further, the loan installments due in the third and fourth quarters of the current year were deferred which has been approved by the lenders.

The worsening gas supply to Enven plant had placed the Company under severe financial pressure, raising concerns about Company's future. However, management cognizant of deteriorating cash flow and financial situation took numbers of steps to augment the situation as summarized below, which have already borne results:

- Enven plant was successfully converted to run on Mari gas resulting in incremental 10% to 15% production, enhancement of margins and significant increase in the operational cash flows. The conversion helped the Company coming into profits in 4th Quarter of 2012. Such conversion has been approved by Ministry of Petroleum and Natural Resources (MPNR) on January 2, 2013 for a further period of eight weeks. Based on discussion with MPNR the Company is confident that this approval would be extended till the gas from the alternative / new gas reserves, as stated below, comes on stream.

- Subsequent to the year end, the MPNR has issued a formal notification that the Economic co-ordination committee (ECC) of the Cabinet has allocated 202 mmcfd gas from new discoveries to a consortium of four fertilizer plants. This includes allocation of 79 mmcfd gas to Enven plant. The process to formalize the gas allocation and finalization of Gas Supply Agreements has been initiated and the inflow of gas is expected to start around first / second quarter of 2014.

- In 2nd Quarter of 2012, considering the liquidity situation, the Company approached majority of the lenders for re-profiling of various finance facilities by allowing 2 to 2.5 years of grace period in the existing repayment schedule. Lenders agreed to re-profile finance facilities after formal gas allocation by ECC and in the interim deferred one installment (as aforementioned). Since the ECC has allocated gas therefore the Company has initiated discussion on re-profiling with lenders subsequent to the year end. The management expects to finalize it by 1st Half of 2013.

Based on the above these financial statements have been prepared on a going concern assumption.

(Amounts in thousand)

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, derivative hedging instrument at fair value and recognition of certain staff retirement benefits at present 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.

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations effective in 2012 and relevant

The following amendment to published standard is mandatory for the financial year beginning January 1, 2012:

- IFRS 7 (Amendment) 'Financial instruments: Disclosures on transfer of financial assets'. 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 only affects the disclosures in the Company's financial statements.

b) Standards, amendments to published standards and interpretations that are effective in 2012 but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2012 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

(Amounts in thousand)

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

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2012 and have not been early adopted by the Company:

- IFRS 7 (Amendment) 'Financial instruments: Disclosures, on offsetting financial assets and financial liabilities' (effective for periods beginning on or after January 1, 2013). The amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. The amendment clarify the offsetting requirements for amounts presented in the financial statements to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare in accordance with US GAAP. The amendments will only affect the disclosures in the Company's financial statements. The amendment is not expected to have any material affect on the Company's financial statements.

- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015). IFRS 9 replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. The Company is yet to assess the full impact of IFRS 9, however, the initial indications are that it may not affect the Company's financial statements significantly.

- IFRS 12 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, 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 standards will have any significant impact on the 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 reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment do not address which items are presented in OCI. There will be no effect on the Company's financial statements as there are no items currently presented under 'Other comprehensive income'.

- IAS 1 (Amendment) 'Financial statement presentation' (effective for periods beginning on or after January 1, 2013). The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: (i) as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or (ii) voluntarily. It is unlikely that the amendment will have any effect on the Company's financial statements.

- IAS 16 (Amendment) 'Property, plant and equipment' (effective for periods beginning on or after January 1, 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The Company's current policies and disclosures are in line with this amendment.

(Amounts in thousand)

- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on or after January 1, 2013). The amendment eliminates the corridor approach and recognizes all actuarial gains and losses in 'Other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gain and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognized in the financial statements, and result in changes in benefit classification and presentation. The Company is in the process of assessing the full impact of the amendment. However, it is unlikely that the amendment will have any significant impact on the Company's financial statements.

- IAS 32 (Amendment) 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2014). This amendment updates the application guidance in IAS 32 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have any significant impact on the Company's financial statements.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented here.

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 free-hold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Disposal of asset is recognised when significant risk and rewards incidental to ownership have been transferred to buyers. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating expenses / income' in the profit and loss account.

Depreciation is charged to the profit and loss account using the straight line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life. Depreciation on addition is charged from the month following the month in which the asset is available for use and on disposals up to the preceding month of disposal.

Depreciation method, useful lives and residual values are reviewed annually.

(Amounts in thousand)

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.

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.

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.

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.

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 17.4. The fair values of various derivative instruments used for hedging and the conversion options are disclosed in note 19.

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.

(Amounts in thousand)

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.

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 a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to employee share option compensation reserve in the balance sheet.

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

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.

Deferred

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

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

2.18 Employees' housing subsidy scheme

Employee compensation expense under Housing Subsidy Scheme is recognised as an expense on a straight line basis over the vesting period with a corresponding credit to employee housing subsidy shown as long term liability in the balance sheet.

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

(Amounts in thousand)

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 contribution gratuity fund 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 benefits gratuity fund 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 37 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.

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.

(Amounts in thousand)

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:

- 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 and net gain / loss on the settlement of derivatives hedging instruments.

2.24 Research and development costs

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

(Amounts in thousand)

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.

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.

(Amounts in thousand)

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 current income taxes payable by the Company, the management considers the applicable laws and the decisions/judgments of appellate authorities on certain issues in the past. Accordingly, the recognition of deferred tax is also made, taking into account these judgments and the best estimates of future results of operations of the Company.

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 15.

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 37.1.3 and 37.1.7 respectively.

4 PROPERTY, PLANT AND EQUIPMENT	2012	2011
	----------Rupees----------	
Operating assets at net book value (note 4.1)	81,836,327	85,152,431
Capital work in progress		
- Expansion and other projects (note 4.4)	608,052	786,079
- Capital spares	433,322	393,652
	1,041,374	1,179,731
	82,877,701	86,332,162

(Amounts in thousand)

4.1 Operating assets

	Land		Building		Plant and machinery	Gas Pipeline	Catalyst	Furniture, fixture and equipments	Vehicles	Total
	Freehold	Leasehold	Freehold	Leasehold						
	Rupees									
As at January 1, 2011										
Cost	144,124	187,320	1,228,204	340,687	19,704,989	1,267,854	485,838	514,975	426,764	24,300,755
Accumulated depreciation	-	(39,172)	(387,177)	(74,503)	(6,544,203)	(28,818)	(333,801)	(358,160)	(194,387)	(7,960,221)
Net book value	144,124	148,148	841,027	266,184	13,160,786	1,239,036	152,037	156,815	232,377	16,340,534
Year ended December 31, 2011										
Net book value - January 1, 2011	144,124	148,148	841,027	266,184	13,160,786	1,239,036	152,037	156,815	232,377	16,340,534
Transfers from CWIP (note 4.4)	5,451	-	1,032,591	18,857	69,372,563	336,541	1,030,752	65,419	105,598	71,967,772
Disposals										
Cost	-	-	-	-	(759)	-	-	(12,994)	(73,571)	(87,324)
Accumulated depreciation	-	-	-	-	436	-	-	12,423	50,606	63,465
	-	-	-	-	(323)	-	-	(571)	(22,965)	(23,859)
Reclassification										
Cost	-	-	-	-	(109,197)	101,634	-	61	7,502	-
Accumulated depreciation	-	-	-	-	6,672	(6,129)	-	-	(543)	-
	-	-	-	-	(102,525)	95,505	-	61	6,959	-
Depreciation charge (note 4.2)	-	(4,393)	(108,891)	(8,904)	(2,614,861)	(68,278)	(181,344)	(69,817)	(75,528)	(3,132,016)
Net book value	149,575	143,755	1,764,727	276,137	79,815,640	1,602,804	1,001,445	151,907	246,441	85,152,431
As at January 1, 2012										
Cost	149,575	187,320	2,260,795	359,544	88,967,596	1,706,029	1,516,590	567,461	466,293	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	1,764,727	276,137	79,815,640	1,602,804	1,001,445	151,907	246,441	85,152,431
Year ended December 31, 2012										
Net book value - January 1, 2011	149,575	143,755	1,764,727	276,137	79,815,640	1,602,804	1,001,445	151,907	246,441	85,152,431
Transfers from CWIP (note 4.4)	-	-	199,078	7,627	1,518,591	797	266,587	77,590	79,120	2,149,390
Adjustments (note 4.5)	-	-	(74,703)	-	(244,627)	-	-	-	-	(319,330)
Disposals / write offs (note 4.3)										
Cost	-	-	-	-	(163,636)	-	-	(11,178)	(78,046)	(252,860)
Accumulated depreciation	-	-	-	-	11,843	-	-	9,808	42,212	63,863
	-	-	-	-	(151,793)	-	-	(1,370)	(35,834)	(188,997)
Depreciation charge (note 4.2)	-	(4,289)	(117,645)	(9,027)	(4,271,762)	(66,825)	(359,064)	(59,348)	(69,207)	(4,957,167)
Net book value	149,575	139,466	1,771,457	274,737	76,666,049	1,536,776	908,968	168,779	220,520	81,836,327
As at December 31, 2012										
Cost	149,575	187,320	2,385,170	367,171	90,077,924	1,706,826	1,783,177	633,873	467,367	97,758,403
Accumulated depreciation	-	(47,854)	(613,713)	(92,434)	(13,411,875)	(170,050)	(874,209)	(465,094)	(246,847)	(15,922,076)
Net book value	149,575	139,466	1,771,457	274,737	76,666,049	1,536,776	908,968	168,779	220,520	81,836,327
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:

	2012	2011
	Rupees	
Cost of sales (note 28)	4,897,618	2,747,632
Selling and distribution expenses (note 29)	28,037	32,983
Administrative expenses (note 30)	31,512	34,455
Capital work in progress	-	316,946
	4,957,167	3,132,016

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(Amounts in thousand)

4.3 The details of operating assets disposed / written off during the year are as follows:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------------------	Rupees	------------------	
Plant and machinery					
KS Coil	Written off	163,636	11,843	151,793	-
Furniture, fixture and equipments					
Genset	Khalid Mansoor (ex-executive)	1,561	247	1,314	1,314
Vehicles					
By Company policy to existing / separating executives	Aamir Aslam	1,060	795	265	265
	Abbas Shahani	1,329	727	602	602
	Abdul Wahid Khan	1,775	1,331	444	444
	Ahmad Shakoor	1,960	490	1,470	1,580
	Ahsan Zafar Syed	1,800	816	984	1,013
	Ali Ashar Jaffri	1,359	586	773	773
	Amer Ghafoor	1,359	531	828	836
	Amir Qasim	1,329	830	499	499
	Asad Waheed	1,401	482	919	936
	Asghar Ali Khan	1,775	1,331	444	444
	Asghar Naveed	1,965	492	1,473	1,473
	Asif Farooq	1,359	658	701	701
	Asim Rasheed Qureshi	888	666	222	222
	Atif Aboobukar	1,859	1,375	484	484
	Atif Kaludi	1,060	795	265	265
	Bilal Qasim	1,060	795	265	265
	Fahim	900	675	225	225
	Fahim	1,555	219	1,336	1,360
	Farrukh Rasheed	1,359	680	679	680
	Hassan Jawaid	1,485	368	1,117	1,117
	Hassan Mahmood Khan	1,490	140	1,350	1,490
	Iftikhar Dar	1,060	795	265	265
	Imran Daudi	1,859	1,394	465	465
	Inam-Ur-Rahim	1,775	1,331	444	444
	Jahangir Paracha	1,800	900	900	956
	Jahangir Waheed	1,500	1,125	375	375
	Jawed Hussain	915	690	225	225
	Khalid Shamsher	1,515	402	1,113	1,133
	M.Junaid Tariq	1,060	795	265	265
	Mirza Arsalan Baig	907	682	225	225
	Mirza Jawaz Baig	1,359	531	828	1,359
	Mohammad Nauman	1,359	721	638	638
	Mohammad Saqib	1,725	1,294	431	431
	Mudassir Shafique Chaudary	1,414	530	884	1,375
	Mudassir Y.Rathore	1,965	214	1,751	1,751
	Muhammad Khurram Karim	1,359	658	701	701
	Muhammad Muddassir	1,329	810	519	519
	Mumtaz Akhtar	900	675	225	225
	Najam Saeed	1,401	460	941	986
	Rais Azhar	1,445	158	1,287	1,324
	Rameez Ahmed Faraz	1,687	1,312	375	375
	Riaz Nazim Shah	1,359	721	638	638
	Saleem Ullah Memon	1,487	1,115	372	372
	Shujauddin Ahmad	1,461	434	1,027	1,027
	Syed Abdul Hameed	1,439	1,033	406	406
	Syed Mohammad Ali	1,930	332	1,598	1,650
	Syed Riaz H. Shah	1,401	591	810	810
	Usman Banuri	1,402	1,070	332	332
	Wasim Khalid	1,480	430	1,050	1,050
	Zeeshan Ahmed	1,029	755	274	332
		71,449	36,740	34,709	36,328
Insurance claim of Vehicle	Chartis Insurance Co.	1,359	680	679	1,100

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		------------	Rupees	------------	
Sale through bid	Hasan Ali Ansari	879	791	88	894
	Irfan Ali	605	575	30	476
	Muhammad Iltifat	605	595	10	481
	Muhammad Iltifat	555	500	55	449
	Sultan Jan Niazi	904	809	95	720
	Sultan Jan Niazi	605	545	60	422
	Waseem Mirza	530	477	53	501
	Zakir Ali	555	500	55	477
		5,238	4,792	446	4,420
		78,046	42,212	35,834	41,848
Items having net book value upto Rs.50 each					
Furniture, fixtures and equipment		9,617	9,561	56	673
Year ended December 31, 2012		252,860	63,863	188,997	43,835
Year ended December 31, 2011		87,324	63,465	23,859	49,215

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	------------	------------	------------
Year ended December 31, 2011						
Balance as at January 1, 2011	44,519,966	8,530,067	176,221	220,718	14,264,605	67,711,577
Additions during the 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	456,131	200,515	33,275	19,153	77,005	786,079
Year ended December 31, 2012						
Balance as at January 1, 2012	456,131	200,515	33,275	19,153	77,005	786,079
Additions during the year	1,783,042	156,004	26,727	62,794	1,449	2,030,016
Reclassifications	(13,168)	(4,219)	26,274	341	(9,228)	-
Transferred to:						
- operating assets (note 4.1)	(1,785,178)	(207,502)	(77,590)	(79,120)	-	(2,149,390)
- intangible assets (note 5)	-	-	-	-	(58,653)	(58,653)
Balance as at December 31, 2012	440,827	144,798	8,686	3,168	10,573	608,052

(Amounts in thousand)

4.4.1 The Company declared commencement of commercial production effective June 24, 2011 of its 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 during the year ended on December 31, 2011.

4.4.2 Other ancillary costs transferred to operating assets during the year ended on December 31, 2011 includes borrowing costs amounting to Rs. 13,942,555. Further, it includes depreciation and amortization (note 4.2 and 5.1), salaries, wages and benefits, legal and professional charges etc.

4.5 Includes reversal of expenditure amounting to Rs 244,627 accrued in respect of Enven plant.

5 INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilisation	Total
	---------------------	Rupees	---------------------
As at January 1, 2011			
Cost	162,218	102,312	264,530
Accumulated amortization	(115,292)	-	(115,292)
Net book value	46,926	102,312	149,238
Year ended December 31, 2011			
Net book value - January 1, 2011	46,926	102,312	149,238
Transfers from CWIP (note 4.4)	5,813	-	5,813
Amortisation (note 5.1)	(17,626)	(2,656)	(20,282)
Net book value	35,113	99,656	134,769
As at December 31, 2011			
Cost	168,031	102,312	270,343
Accumulated amortization	(132,918)	(2,656)	(135,574)
Net book value	35,113	99,656	134,769
Year ended December 31, 2012			
Net book value- January 1, 2012	35,113	99,656	134,769
Transfers from CWIP (note 4.4)	58,653	-	58,653
Amortisation (note 5.1)	(26,756)	(5,111)	(31,867)
Net book value	67,010	94,545	161,555
As at December 31, 2012			
Cost	226,684	102,312	328,996
Accumulated amortization	(159,674)	(7,767)	(167,441)
Net book value	67,010	94,545	161,555

(Amounts in thousand)

5.1 Amortisation for the year has been allocated as follows:

	2012	2011
	---Rupees---	
Cost of sales (note 28)	21,792	8,623
Selling and distribution expenses (note 29)	48	47
Administrative expenses (note 30)	10,027	10,758
Capital work in progress	-	854
	31,867	20,282

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

6 LONG TERM LOANS AND ADVANCES - Considered good

	2012	2011
Long term loans to:		
Executives (notes 6.1 and 6.2)	145,659	130,561
Other employees (note 6.3)	2,503	35,986
	148,162	166,547
Less: Current portion shown under current assets (note 10)	64,399	93,896
	83,763	72,651

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

	2012	2011
Balance at beginning of the year	130,561	289,814
Disbursements	105,347	78,493
Repayments / amortisation	(90,249)	(237,746)
Balance at end of the year	145,659	130,561

6.2 Includes interest free services incentive loans to executives of Rs. 87,686 (2011: Rs. 78,697) and unvested disbursement to executives under housing subsidy scheme amounting to Nil (2011: Rs. 9,803). It also includes advance of Rs. 37,001 (2011: Rs. 33,574), Rs 8,707 (2011: Nil) and Rs. 12,265 (2011: Rs. 8,487) to executives for car earn out assistance, long term incentive and house rent advance respectively.

6.3 Includes interest free loans given to workers of Rs. 2,503 (2011: Rs. 25,063) pursuant to Collective Labour Agreement and unvested disbursement to workers under housing subsidy scheme amounting to Nil (2011: Rs.10,923).

6.4 The maximum amount outstanding at the end of any month during the year ended December 31, 2012 from executives aggregated to Rs.160,101 (2011: Rs. 162,310).

6.5 The carrying values of the loan and advances are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults ever.

(Amounts in thousand)

7 STORES, SPARES AND LOOSE TOOLS

	2012	2011
	---Rupees---	
Consumable stores	360,975	250,712
Spares	3,818,143	4,038,716
Tools	3,373	3,360
	4,182,491	4,292,788
Less: Provision for surplus and slow moving items	75,200	83,195
	4,107,291	4,209,593

8 STOCK-IN-TRADE

	2012	2011
Raw materials (note 8.1 & 8.2)	1,007,159	1,039,601
Packing materials	48,906	55,373
	1,056,065	1,094,974
Finished goods	631,007	739,419
	1,687,072	1,834,393

8.1 Includes in-transit amounting to Rs. 424,637 (2011: Rs. 12,047).

8.2 Includes raw material amounting to Rs. 201,908 (2011: Nil) held in custody by Engro Eximp (Private) Limited, an associated undertaking.

9 TRADE DEBTS

	2012	2011
	---Rupees---	
Considered good		
- Secured (note 9.1)	1,006,181	131,759
- Unsecured	39,910	11,620
	1,046,091	143,379
Considered doubtful	8,073	8,073
	1,054,164	151,452
Provision for impairment (note 9.3)	(8,073)	(8,073)
	1,046,091	143,379

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

9.2 As at December 31, 2012, trade debts aggregating to Rs. 93,927 (2011: Rs. 17,222) were past due upto 3 months but not impaired. These relate to various customers for which there is no recent history of default.

9.3 As at December 31, 2012, trade debts aggregating to Rs. 8,073 (2011: Rs. 8,073) were impaired and provided for, which are past due for more than one year.

(Amounts in thousand)

10 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2012	2011
	------Rupees------	
Current portion of long term loans and advances to executives and other employees - considered good (note 6)	64,399	93,896
Loan to Descon Engineering Limited considered good, unsecured (note 10.1)	-	650,000
Advances and deposits	140,060	344,251
Prepayments		
- Gas charge (note10.2)	-	109,986
- Insurance	179,407	184,547
- Others	12,796	29,345
	396,662	1,412,025
Provision for impairment (note 10.3)	(1,512)	(1,512)
	395,150	1,410,513

10.1 Represents interest free loan, repayable on demand, to Descon Engineering Limited (Descon), a contractor to the Enven Plant. The loan was given against a Corporate Bond / Guarantee and Promissory Note. During the year, Rs. 201,000 has been received and the remaining amount has been adjusted against Descon's outstanding invoices.

10.2 Represent payments made to Sui Northern Gas Pipeline Limited under Take or Pay arrangement in respect of the Enven Plant. Such prepayments have been adjusted against the gas consumption during the year.

10.3 As at December 31, 2012, loans and advances aggregating to Rs. 1,512 (2011: Rs. 1,512) were impaired and provided for, which are past due for more than one year.

11 OTHER RECEIVABLES

	2012	2011
	------Rupees------	
Receivable from Government of Pakistan for:		
- sales tax	-	43,652
- others	291	394
	291	44,046
Accrued income on deposits / investments	10,816	12,819
Receivable from pension fund (note 37.1.1)	1,800	4,599
Due from the Holding Company and associated companies:		
- Engro Corporation Limited	-	2,082
- Engro Eximp (Private) Limited	2,598	11,480
- Engro Foods Limited	259	511
- Engro Polymer & Chemicals Limited	4,425	7,441
- Engro Powergen Qadirpur Limited	4,534	796
- Engro Foundation	462	-
- Engro PowerGen Limited	-	174
- Sindh Engro Coal Mining Company Limited	-	1
- Engro Eximp Agri Products (Private) Limited (formerly, Engro Foods Supply Chain (Private) Limited)	203	73
- Engro Vopak Terminal Limited	7	9
Claims on foreign suppliers	3,848	9,339
Insurance claims / receivables	30,455	89,082
Others	4,403	10,184
Less: Provision for impairment (note 11.3)	465	465
	3,938	9,719
	63,636	192,171

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(Amounts in thousand)

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

	2012	2011
	Rupees	
Holding Company		
- Engro Corporation Limited	36,342	13,250
Associated companies		
- Engro Eximp (Private) Limited	69,798	31,452
- Engro Foods Limited	7,755	13,028
- Engro Polymer & Chemicals Limited	17,267	9,593
- Engro Powergen Qadirpur Limited	12,960	9,191
- Engro PowerGen Limited	1,090	2,025
- Sindh Engro Coal Mining Company Limited	452	857
- Engro Eximp Agri Products (Private) Limited (formerly, Engro Foods Supply Chain (Private) Limited)	1,623	335
- Engro Foundation	462	-
- Engro Vopak Terminal Limited	447	344

11.2 As at December 31, 2012, receivables aggregating to Rs. 42,047 (2011: Rs. 25,395) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2012	2011
	Rupees	
Upto 3 months	36,109	16,990
3 to 6 months	3,229	4,874
More than 6 months	2,709	3,531
	42,047	25,395

11.3 As at December 31, 2012, other receivables aggregating to Rs. 465 (2011: Rs. 465) were impaired and provided for, which are past due for more than one year.

12 SHORT TERM INVESTMENTS

	2012	2011
	Rupees	
Financial assets at fair value through profit or loss		
Fixed income placements (note 12.1)	52,148	52,300
Money market funds (note 12.2)	400,000	3,375,487
	452,148	3,427,787
Loans and receivables		
Reverse repurchase of treasury bills (note 12.3)	1,088,681	473,932
Held to maturity		
Treasury bills (note 12.4)	494,510	-
Term deposit receipts (note 12.5)	600,000	-
	1,094,510	-
	2,635,339	3,901,719

12.1 These represents foreign and local currency deposits with various banks, at the interest rates ranging upto 10.00% per annum (2011: 13.10%).

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(Amounts in thousand)

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

12.3 These represents reverse repurchase of treasury bills at the interest rate ranging upto 9.25% per annum (2011: 11.70%).

12.4 These represents treasury bills at the interest rate ranging upto 9.21% per annum (2011: Nil).

12.5 These represents term deposit receipts at the interest rate of 9.70% per annum (2011: Nil).

13 CASH AND BANK BALANCES

	2012	2011
	Rupees	
Cash at banks on:		
- deposit accounts (note 13.1 & 13.2)	2,356,345	198,365
- current accounts (note 13.2)	85,573	387,258
	2,441,918	585,623
Cash in hand - imprest funds	7,250	7,250
	2,449,168	592,873

13.1 Deposit accounts carried return at rates ranging upto 10.00% per annum (2011: 11.60% per annum).

13.2 Includes Rs. 14,716 (2011: Rs.10,773) held in foreign currency bank accounts.

14 SHARE CAPITAL

	2012	2011
	Rupees	
Authorised Capital		
1,300,000,000 (2011: 1,300,000,000) Ordinary shares of Rs.10 each	13,000,000	13,000,000
Issued, subscribed and paid-up capital		
7 (2011: 7) Ordinary shares of Rs. 10 each, fully paid in cash	-	-
9,999,993 (2011: 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 (2011: 1,062,800,000) Ordinary shares of Rs. 10 each, issued as fully paid bonus shares	10,628,000	10,628,000
	10,728,000	10,728,000

14.1 The Holding Company as at December 31, 2012 held 100% (2011: 100%) ordinary shares in the Company.

(Amounts in thousand)

15 EMPLOYEE SHARE OPTION SCHEME

Consequent to demerger of the fertilizer business into the Company, as referred to in note 1.2, the employees transfered 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, which were subsequently adjusted to 17,773,560 having an exercise price of 27.22 due to issue of bonus shares. Vesting period depended on years of service and ended on December 31, 2012. No options were exercised during the year, and on the expiry of the exercise period, all options stand lapsed as at December 31, 2012.

15.1 Deferred employee compensation expense

	2012	2011
	Rupees	
Balance at beginning of the year	-	3,702
Options lapsed due to employee resignation	-	(276)
Amortisation for the year	-	(3,426)
Balance at end of the year	-	-

15.2 Employee share option compensation reserve

	2012	2011
Balance at beginning of the year	58,397	58,673
Options lapsed due to employee resignation	(58,397)	(276)
Balance at end of the year	-	58,397

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

	2012	2011
	Numbers	
Balance at beginning of the year	17,607,240	17,690,400
Options lapsed during the year	(17,607,240)	(83,160)
Balance at end of the year	-	17,607,240

15.4 The company used Black Scholes pricing model to calculate the fair value of share option at the grant date. The fair value of the share options before adjustment of bonus issue as per the model and underlying assumption 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%

(Amounts in thousand)

16 HEDGING RESERVE

	2012	2011
	---------------Rupees--------------	
Hedging reserve on account of:		
- Foreign exchange forward contracts	-	(905)
- Interest rate swaps	(498,277)	(764,974)
	(498,277)	(765,879)
Deferred tax	174,397	268,058
	(323,880)	(497,821)

16.1 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.

17 BORROWINGS Secured (Non-participatory)

	Note	Mark - up rate p.a.	Instalments Number	Instalments Commenced / Commencing from	2012	2011
					---Rupees---	
Long term finance utilised under mark-up arrangements:						
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	700,000	775,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	1,400,000	1,550,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	175,000	193,750
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	70,000	77,500
HSBC Middle East Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	137,500	193,750
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 29, 2010	350,000	387,500
National Bank of Pakistan		6 months KIBOR + 1.1%	8 half yearly	September 4, 2011	1,275,000	1,387,500
Syndicated finance	17.1	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	16,567,178	18,198,436
Islamic offshore finance	17.2	6 months LIBOR + 2.57%	8 half yearly	March 28, 2011	8,786,240	9,784,189
DFI Consortium finance	17.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	6,002,460	6,250,169
International Finance Corporation	17.4	6 months LIBOR + 6%	3 half yearly	September 15, 2015	4,554,822	4,144,709
International Finance Corporation	17.4	6 months LIBOR + 6%	3 half yearly	September 15, 2016	2,831,600	2,604,858
Bank Islami Pakistan Limited		6 months KIBOR + 2.4%	14 half yearly	May 25, 2010	363,418	454,273
Pak Kuwait Investment Company (Private) Limited		6 months KIBOR + 2.35%	10 half yearly	April 30, 2012	397,605	496,449
Faysal Bank Limited		6 months KIBOR + 2.35%	9 half yearly	November 26, 2012	1,498,896	1,498,382
Dubai Islamic Bank Limited		6 Months Kibor + 2.11%	10 half yearly	December 31, 2012	494,856	492,738
Silk Bank Limited		6 Months Kibor + 2.35%	10 half yearly	January 21, 2013	299,648	299,517
Standard Chartered Bank		6 Months Kibor + 2.40%	10 half yearly	September 17, 2012	993,967	991,380
Samba Bank Limited		6 Months Kibor + 2.40%	10 half yearly	September 30, 2012	497,740	496,787
Habib Metropolitan Bank Limited		6 Months Kibor + 2.40%	10 half yearly	June 21, 2013	199,965	199,965
National Bank of Pakistan		6 Months Kibor + 2.40%	6 half yearly	March 28, 2013	995,628	993,100
Certificates						
Term Finance Certificates - 2nd Issue	17.5	6 months KIBOR + 1.55%			3,976,108	3,973,084
Term Finance Certificates - 3rd Issue	17.6	6 months KIBOR + 2.4%			1,822,096	1,976,494
Sukuk Certificates		6 months KIBOR + 1.5%	2 half yearly	March 6, 2015	2,991,775	2,989,029
Privately Placed Subordinated Term Finance Certificates	17.7				5,996,536	5,976,758
					63,378,038	66,385,317
Less: Current portion shown under current liabilities					14,896,412	9,986,885
					48,481,626	56,398,432

(Amounts in thousand)

17.1 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.

17.2 This represents the balance amount of 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.

17.3 This represents the balance amount of a facility agreement amounting to USD 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID.

17.4 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. 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. 119.46 and Rs. 155.30 as at December 31, 2012 and December 31, 2011 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 was 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 installments and carries interest at six months LIBOR plus a spread of 6% or 10% depending on the listing status of the Company at December 31, 2012. During the year, IFC in principle waived the interest rate step up of 4% till June 30, 2013, the exact terms and conditions of which are under discussion with the Company and that the formal amendment document in respect of the waiver is in the process of being finalized. 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. 180,584 as at December 31, 2012 has been made in these financial statements.

The fair value of the aforementioned conversion options, included in note 19, 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, 2012 amounted to Rs. 243,964 (2011: Rs. 63,082).

17.5 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 installments. First Dawood Islamic Bank is the trustee for these TFCs.

(Amounts in thousand)

17.6 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.

17.7 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. In 2011, the aforementioned TFCs have been listed on the Over-The-Counter (OTC) market of the Karachi Stock Exchange.

17.8 The above finances, excluding those covered in notes 17.4 and 17.7 are secured by an equitable mortgage upon the immovable property of the Company and equitable charge over current and future fixed assets excluding immovable property of the Company. Loans from IFC are secured by a sub-ordinated mortgage upon the immovable property of the Company and sub-ordinated charge over all present and future fixed assets excluding immovable property of the Company. PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

Further, the Holding Company has issued corporate guarantees in respect of above finances excluding PPTFC whereas it has issued sub-ordinated corporate guarantee in respect of PPTC.

17.9 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.

17.10 Under the terms of the agreements for long term borrowings, the Company is required to comply with certain financial debt covenants. As at December 31, 2012 all financial debt covenants have been complied with except for current ratio and debt service coverage ratio due to financial burden resulting from gas curtailment, as stated in note 1.3. Till the formal allocation of the gas fields and consequent revision in cashflows and repayment profile, the lenders agreed to defer one installment of Rs. 5,292,834 out of the principal outstanding of Rs. 38,929,888. The formal deferral approval is in place for Rs. 5,061,168 while the approval for remaining amount will be part of re-profiling.

(Amounts in thousand)

18 SUBORDINATED LOAN FROM HOLDING COMPANY - unsecured

	2012	2011
	Rupees	
Balance at beginning of the year	3,000,000	1,500,000
Loan disbursed during the year	-	1,500,000
Balance as at end of the year	3,000,000	3,000,000

18.1 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% (2011: 17.1%).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	Rupees			
Conversion options on IFC loan (note 17.4)	-	243,964	-	63,082
Cash flow hedges				
- Foreign exchange forward contracts - net (note 19.1)	545	233,768	183,713	20,284
- Interest rate swaps (note 19.2)	-	586,561	-	886,244
	545	1,064,293	183,713	969,610
Less: Current portion shown under current assets / liabilities				
Cash flow hedges:				
- Foreign exchange forward contracts	545	233,768	183,713	20,284
- Interest rate swaps	-	332,656	-	404,375
	545	566,424	183,713	424,659
	-	497,869	-	544,951

19.1 Foreign exchange forward contracts

The Company entered in various USD : PKR forward contracts to hedge its foreign currency exposure. As at December 31, 2012, the Company had forward contracts to purchase USD 185,671 (2011: USD 222,214) at various maturity dates to hedge its foreign currency exposure, primarily loan obligations. The net fair value of these contracts as at December 31, 2012 is negative and amounted to Rs. 233,223 (2011: Rs. 163,429 positive).

19.2 Interest rate swaps

19.2.1 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 72,000 (2011: USD 109,500) amortising up to September 2014. Under the swap agreement, the Company would receive USD-LIBOR from Citibank N.A Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap as at December 31, 2012 is negative and amounted to Rs. 252,479 (2011: Rs. 449,789 negative).

(Amounts in thousand)

19.2.2 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 54,091 (2011: USD 69,545) 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, 2012 is negative and amounted to Rs. 334,082 (2011: Rs. 436,455 negative).

20 DEFERRED LIABILITIES

	2012	2011
	Rupees	
Deferred taxation (note 20.1)	3,295,995	4,432,706
Deferred income (note 20.2)	84,710	88,575
	3,380,705	4,521,281

20.1 Deferred taxation

Credit balances arising on account of:		
- Accelerated depreciation allowance	17,322,415	16,979,581
- Carried forward tax losses substantially pertaining to unabsorbed tax depreciation	(12,502,554)	(11,372,689)
- Carried forward minimum tax (note 34.1)	(153,505)	(531,259)
- Fair values of hedging instruments	(174,397)	(268,058)
- Exchange loss	(1,168,631)	(414,573)
- Fair value of IFC conversion option	55,189	118,497
- Provision for:		
- retirement benefits	(48,529)	(42,002)
- slow moving stores and spares and doubtful receivables	(29,838)	(32,473)
- Others	(4,155)	(4,318)
	3,295,995	4,432,706

20.2 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.

21 EMPLOYEE HOUSING SUBSIDY

This represents unvested 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. 1,581 and refunds received during the year amounted to Rs. 1,687. During the year, the employee housing subsidy was completely vested / amortized.

22 RETIREMENT AND OTHER SERVICE BENEFITS OBLIGATIONS

	2012	2011
	Rupees	
Service benefit obligation	138,653	120,007
Less: Current portion shown under current liabilities	39,624	32,559
	99,029	87,448

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(Amounts in thousand)

23 TRADE AND OTHER PAYABLES

	2012	2011
	---------------Rupees---------------	
Creditors	1,848,012	1,048,889
Accrued liabilities (note 23.1)	693,450	1,077,973
Advances from customers	3,756,249	2,387,849
Sales tax payable	1,121,623	-
Payable to:		
- Engro Corporation Limited	10,202	-
- Engro Eximp (Private) Limited (note 23.2)	66,930	8,681
- Engro PowerGen Limited	571	-
Deposits from dealers refundable on termination of dealership	15,412	14,749
Contractors' deposits and retentions	33,326	103,344
Workers' profits participation fund (note 23.3)	-	49,326
Workers' welfare fund	246,589	246,589
Others	167,407	215,678
	7,959,771	5,153,078

23.1 Accrued liabilities

Salaries, wages and other employee benefits	74,401	272,790
Vacation accruals	117,375	104,409
Freight accruals	2,715	
Others	498,959	700,774
	693,450	1,077,973

23.2 This includes amount of Rs. 53,859 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.

23.3 Workers' profits participation fund

	2012	2011
	---------------Rupees---------------	
Payable at beginning of the year	49,326	9,742
Interest charged for the year (note 33)	1,000	225
Allocation for the year (note 32)	-	369,326
Less: Amount paid to the trustees of the fund	50,326	329,967
Payable at end of the year	-	49,326

24 ACCRUED INTEREST / MARK-UP

Accrued interest / mark-up on:		
- long term borrowings	1,728,746	2,076,250
- short term borrowings	59,536	11,469
	1,788,282	2,087,719

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(Amounts in thousand)

25 SHORT TERM BORROWINGS - SECURED

	2012	2011
	------Rupees------	
Running Finance / Bank overdraft (note 25.1)	209,791	3,780
Money market loans / Istisna (note 25.2)	790,000	-
	999,791	3,780

25.1 The funded facilities for short term finances available from various banks and institutional investors amounts to Rs. 5,250,000 (2011: Rs. 4,150,000) along with non-funded facilities of Rs.1,275,000 (2011: Rs. 1,450,000) for Bank Guarantees. The rates of markup on funded bank overdraft facilities ranges from 10.26% to 11.51% 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.

25.2 The Company, during the year, acquired funds through money market loans and under an Istisna Agreement from various banks amounting to Rs. 3,310,000 out of which Rs 2,520,000 was repaid before December 31, 2012. Outstanding loans carry mark-up rates ranging from 10.08% to 10.99% per annum.

25.3 The Company issued Sukuk of Rs. 2,000,000, with a tenor of 6 months, carrying profit rate of six month KIBOR plus 1.60%. The Sukuk was secured by first pari passu charge on all stocks, raw materials, packaging material, finished goods, stock in trade and book debts of the Company. As at December 31, 2012, all the outstanding amount of loan has been repaid.

25.4 The Company, during the year, signed a short term finance agreement with Engro Corporation Limited, the Holding Company, for upto Rs. 2,500,000 under mark-up arrangement, at around Holding Company's cost of borrowing. The entire loan was repaid before December 31, 2012.

25.5 The Company, during the year, signed a short term finance agreement with Engro Eximp (Private) Limited, an associated undertaking, for upto Rs. 1,500,000 under mark-up arrangement, at associated undertaking's incremental cost of borrowing for the first Rs. 1,000,000 and thereafter (for the remaining Rs. 500,000) at its highest cost of borrowing for the remaining balance. The entire loan was repaid before December 31, 2012.

26 CONTINGENCIES AND COMMITMENTS

Contingencies

26.1 Bank guarantees of Rs.1,052,364 (2011: Rs. 1,015,730) have been issued in favour of third parties.

26.2 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 58,530 (2011: Rs. 34,938).

26.3 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.

26.4 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.

(Amounts in thousand)

26.5 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 & 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.

26.6 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 ab initio because the output of Qadirpur has infact decreased. Agritech has additionally alleged discrimination in that it is receiving less gas than the other fertilizer companies on the SNGPL 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. No orders have been passed in this regard and the petitions have been adjourned sine die. However, the Company's management, as confirmed by the legal advisor, considers the chances of the petitions being allowed to be remote.

26.7 The Company, along with other fertilizer Companies, received a show cause notice from the Competition Commission of Pakistan (CCP) for initiating action under the Competition Act 2010 in relation to unreasonable increase in the price of fertilizer. The Company has responded in detail that factors resulting in such increase were mainly the imposition of infrastructure cess and sales tax and partially the gas curtailment. The hearing has concluded and order is awaited. The management is confident that there will be no adverse action taken against the Company.

Commitments

		2012	2011
		---------------Rupees---------------	
26.8	Plant and machinery	70,134	596,378

27 NET SALES

	2012	2011
Own manufactured product (note 27.1)	35,531,065	35,688,527
Less: Sales tax	4,904,545	4,335,647
	30,626,520	31,352,880

27.1 Sales are net of marketing allowances of Rs.199,592 (2011: Rs. 2,526).

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(Amounts in thousand)

28 COST OF SALES

	2012	2011
	Rupees	
Raw materials consumed	9,254,778	6,898,995
Salaries, wages and staff welfare (note 28.1)	1,397,247	1,266,139
Fuel and power	3,486,341	2,966,532
Repairs and maintenance	719,016	438,159
Depreciation (note 4.2)	4,897,618	2,747,632
Amortisation (note 5.1)	21,792	8,623
Consumable stores	231,209	265,611
Staff recruitment, training, safety and other expenses	78,961	58,621
Purchased services	236,142	184,731
Travel	46,774	38,232
Communication, stationery and other office expenses	35,253	26,955
Insurance	238,976	176,453
Rent, rates and taxes	10,793	9,177
Other expenses	2,461	1,203
Cost of goods manufactured	20,657,361	15,087,063
Add: Opening stock of finished goods manufactured	739,419	272,378
Less: Closing stock of finished goods manufactured	631,007	739,419
	108,412	(467,041)
Cost of sales	20,765,773	14,620,022

28.1 Salaries, wages and staff welfare includes Rs. 92,635 (2011: Rs. 58,835) in respect of staff retirement benefits.

29 SELLING AND DISTRIBUTION EXPENSES

	2012	2011
	Rupees	
Salaries, wages and staff welfare (note 29.1)	317,949	359,043
Staff recruitment, training, safety and other expenses	35,970	40,452
Product transportation and handling	1,402,836	1,140,151
Royalty expense	433,057	431,809
Repairs and maintenance	4,874	3,003
Advertising and sales promotion	62,402	65,335
Rent, rates and taxes	127,851	79,976
Communication, stationery and other office expenses	23,400	22,965
Travel	38,712	33,633
Depreciation (note 4.2)	28,037	32,983
Amortisation (note 5.1)	48	47
Purchased services	4,747	5,278
Insurance	10,472	14,036
Other expenses	9,627	16,383
	2,499,982	2,245,094

29.1 Salaries, wages and staff welfare includes Rs. 28,906 (2011: Rs. 25,613) in respect of staff retirement benefits.

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(Amounts in thousand)

30 ADMINISTRATIVE EXPENSES

	2012	2011
	----Rupees----	
Salaries, wages and staff welfare (note 30.1)	200,960	239,807
Staff recruitment, training, safety and other expenses	16,814	30,562
Repairs and maintenance	12,375	7,192
Rent, rates and taxes	68,885	71,428
Communication, stationery and other office expenses	28,939	29,884
Travel	11,733	9,821
Depreciation (note 4.2)	31,512	34,455
Amortisation (note 5.1)	10,027	10,758
Purchased services	158,340	72,629
Donations	21,154	30,019
Insurance	1,504	2,294
Other expenses	20,536	10,600
	582,779	549,449

30.1 Salaries, wages and staff welfare includes Rs. 28,542 (2011: Rs. 20,007) in respect of staff retirement benefits.

31 OTHER OPERATING INCOME

	2012	2011
	----Rupees----	
On financial assets		
Income on deposits, treasury bills & term deposit certificates	74,489	176,275
Income on mutual funds	92,250	382,959
Gain on fair value adjustments of embedded derivatives	-	367,360
On non-financial assets		
Commission income (note 31.1)	146,489	192,897
Gain on disposal of property, plant and equipment	-	25,356
Rental income	3,594	6,237
Gain on disposal of spares / scrap	43,617	-
Others	19,004	13,395
	212,704	237,885
	379,443	1,164,479

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

32 OTHER OPERATING EXPENSES

	2012	2011
	----Rupees----	
Workers' profits participation fund (note 23.3)	-	369,326
Workers' welfare fund	-	140,344
Research and development (including salaries and wages)	20,314	18,406
Auditors' remuneration (note 32.1)	3,980	5,267
Legal and professional charges	52,604	47,915
Loss on disposal of property, plant and equipment (note 4.3)	145,162	-
Loss on fair value adjustments of embedded derivative	180,882	-
Others	3,035	689
	405,977	581,947

32.1 Auditors' remuneration

- audit of annual financial statements	1,780	1,515
- audit / review of half yearly financial statements	195	1,200
Certifications, audit of retirement funds and other advisory services	1,225	1,055
Reimbursement of expenses	780	1,497
	3,980	5,267

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(Amounts in thousand)

	2012	2011
	---Rupees---	

33 FINANCE COST

	2012	2011
Interest / mark-up on:		
- long term borrowings (note 33.1)	7,863,080	6,424,557
- short term borrowings	684,715	93,664
- net foreign exchange loss	2,154,451	1,125,548
- workers' profits participation fund (note 23.3)	1,000	225
	10,703,246	7,643,994

33.1 Interest / mark-up on long term borrowings is net of Interest / mark-up earned amounting to Nil (2011: Rs. 27,847) on subordinated loan provided to Engro Eximp (Private) Limited, an associated undertaking.

34 TAXATION

	2012	2011
	---Rupees---	
Current		
- for the year (note 34.1)	177,703	388,770
- for prior years (note 34.2)	35,450	165,000
	213,153	553,770
Deferred		
- for the year	(1,535,475)	1,734,797
- for prior years (note 34.2)	305,103	-
	(1,230,372)	1,734,797
	(1,017,219)	2,288,567

34.1 Includes minimum turnover tax amounting to Rs.153,505 (2011: Rs. 340,553).

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

During the year, the income tax department raised a demand of Rs 1,481,709, subsequently rectified to Rs 1,074,938, for the financial year 2010. The disallowances were mainly on account of initial allowance on capitalization which was later confirmed by the Commissioner Inland Revenue-Appeals (CIRA). The demand has been subsequently reduced to Rs 616,536 after application of rectifications from prior years amounting to Rs 308,402 and payment of Rs 150,000. The Company has further applied to account for a pending appeal affect in favor of the Company of Rs 251,000. The balance demand of Rs 365,536 is expected to be offset against the likely refunds from the financial year 2008 appeal pending before Appellate Tribunal Inland Revenue (ATIR) as discussed in the following paragraph. Accordingly, ATIR has granted a stay against the above-said demand.

In second quarter of 2012, the CIRA confirmed the disallowance of Group Relief amounting to Rs. 450,000 and Inter-Corporate Dividend amounting to Rs. 220,000 for the financial year 2008. Subsequently, the Company appealed against the decision on the grounds that both the above disallowances had been decided by ATIR, being a higher forum, in previous years. The hearing has been concluded and the order is awaited.

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

- Group Relief (Financial year 2007 and 2008): Rs. 1,050,847
- Inter-Corporate Dividend (Financial year 2007): Rs. 116,500
- G.P. Apportionment (Financial years 1995 to 2002): Rs. 653,000

The Company is confident that all pending issues will eventually be decided in its favour.

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(Amounts in thousand)

A prior year incremental current tax charge of Rs. 35,450 has been recognized in the financial statements consequent to the partial disallowance of accelerated depreciation claimed in the financial year 2010. Further, the prior year deferred tax charge represents reversal of deferred tax asset on minimum tax amounting to Rs. 340,553 for the financial year 2011 being unrecoupable, net of adjustment resulting from the aforementioned disallowance of accelerated depreciation.

34.3 Relationship between tax expense and accounting profit

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

	2012	2011
	Rupees	
(Loss) / profit before taxation	(3,951,794)	6,876,853
Tax calculated at the rate of 35%	(1,383,128)	2,406,899
Prior year deferred tax charge / (reversals)	305,103	(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)
Effect of applicability of lower tax rate and other tax credits / debits	(9,139)	(35,237)
Prior year tax effects	35,450	165,000
Tax (credit) / charge for the year	(1,017,219)	2,288,567

35 (LOSS) / EARNINGS PER SHARE

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

Dilutive (loss) / 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 affect of these options are anti-dilutive as at December 31, 2012.

The information necessary to calculate basic and diluted (loss) / earnings per share is as follows:

	2012	2011
	Rupees	
(Loss) / profit for the year	(2,934,575)	4,588,286
Add: Interest on IFC loan of USD 9,000 (net of tax)	-	16,748
(Loss) / profit used for the determination of Diluted EPS	(2,934,575)	4,605,034
	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	1,072,800	1,083,488

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(Amounts in thousand)

36 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:

	2012			2011		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	----------Rupees----------			----------Rupees----------		
Managerial remuneration	22,932	-	1,112,741	40,346	-	978,697
Retirement benefits funds	4,810	-	125,249	3,609	-	126,515
Other benefits	422	-	73,803	374	-	138,231
Fees	-	2,500	-	-	2,900	-
Total	28,164	2,500	1,311,793	44,329	2,900	1,243,443
Number of persons including those who worked part of the year	2	9	446	1	9	415

36.1 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.

36.2 Premium charged in the financial statements in respect of directors' indemnity insurance policy, purchased by the Company during the year, amounted to Rs. 885 (2011: Rs. 1,020).

37 RETIREMENT BENEFITS

37.1 Defined benefit plans

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2012, using the Projected Unit Credit Method. Details of the defined benefit plans are as follows:

(Amounts in thousand)

37.1.1 Balance sheet reconciliation

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012	2011	2012	2011
	Rupees			
Present value of funded obligation	239,377	277,645	31,289	32,023
Fair value of plan assets	(237,281)	(256,976)	(38,313)	(37,023)
Deficit / (Surplus)	2,096	20,669	(7,024)	(5,000)
Payable to associated companies	12		-	-
Unrecognised actuarial (loss) / gain	(5,000)	(22,636)	1,800	401
Payable to DC Gratuity Fund	15,272	2,454	-	-
Unrecognised past service cost	3,914	4,253	-	-
Unrecognized asset	-	-	3,424	-
Net liability / (asset) at end of the year	16,294	4,740	(1,800)	(4,599)

37.1.2 Movement in net (asset) / liability recognised

Net liability / (asset) at beginning of the year	4,740	-	(4,599)	(4,073)
Expense / (reversal) recognised	17,288	4,740	(625)	(526)
Amounts paid to the Fund	(5,734)	-	-	-
Unrecognized asset	-	-	3,424	-
Net liability / (asset) at end of the year	16,294	4,740	(1,800)	(4,599)

37.1.3 Movement in defined benefit obligation

As at beginning of the year	277,645	269,523	32,023	31,230
Current service cost	13,657	14,582	-	-
Interest cost	33,866	32,901	3,777	4,286
Benefits paid during the year	(21,055)	(10,939)	(3,608)	(3,377)
Actuarial (gain) / loss on obligation	(1,080)	49,473	(903)	(116)
Settlement gain		(8,126)	-	-
Liability transferred in respect of inter-company transfer	(3)	(445)	-	-
Liability transferred to DC Gratuity Fund	(63,653)	(69,324)	-	-
As at end of the year	239,377	277,645	31,289	32,023

37.1.4 Movement in fair value of plan assets

At beginning of the year	256,976	289,580	37,023	34,855
Expected return on plan assets	31,618	33,726	4,402	4,812
Contribution by the Company	5,734	-	-	-
Benefits paid during the year	(21,055)	(10,939)	(3,608)	(3,377)
Actuarial gain / (loss) on plan assets	14,834	14,676	496	733
Assets transferred in respect of transfers	9	(3,197)	-	-
Assets transferred to DC Gratuity Fund	(50,835)	(66,870)	-	-
As at end of the year	237,281	256,976	38,313	37,023

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(Amounts in thousand)

37.1.5 Charge / (Reversal) for the year

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012	2011	2012	2011
	Rupees			
Current service cost	13,657	14,582	-	-
Interest cost	33,866	32,901	3,777	4,286
Expected return on plan assets	(31,618)	(33,726)	(4,402)	(4,812)
Settlement gain (note 2.19.3)	-	(8,678)	-	-
Amortisation of unrecognized past service cost	(339)	(339)	-	-
Amortisation of actuarial gain	1,722	-	-	-
	17,288	4,740	(625)	(526)

37.1.6 Actual return on plan assets	46,452	48,402	4,898	5,545

37.1.7 Principal actuarial assumptions used in the actuarial valuation

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012	2011	2012	2011
Discount rate	12.0%	12.5%	12.0%	12.5%
Expected per annum rate of return on plan assets	12.0%	12.5%	12.0%	12.5%
Expected per annum rate of increase in pension	-	-	4.0%	4.5%
Expected per annum rate of increase in future salaries	11.0%	11.5%	11.0%	12.5%

37.1.8 Plan assets comprise of the following

	Defined Benefit Gratuity Plans Funded		Defined Benefit Pension Plan Funded (Curtailed)	
	2012		2012	
	Rupees	(%)	Rupees	(%)
Fixed income instruments	193,258	81%	36,846	96%
Cash	5,860	3%	1,408	4%
Others	38,163	16%	59	0%
	237,281		38,313	

37.1.9 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.

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(Amounts in thousand)

37.1.10 Expected future cost / (reversal) for the year ending December 31, 2013 is as follows:

	Rupees
- MPT Pension Fund	(843)
- MPT Gratuity Fund	(753)
- Non-MPT Gratuity Fund	10,895

37.2 Defined contribution plans

An amount of Rs. 55,019 has been charged during the year in respect of defined contribution plans maintained by the Holding Company.

38 CASH GENERATED FROM OPERATIONS

	2012	2011
	---Rupees---	
(Loss) / profit before taxation	(3,951,794)	6,876,853
Adjustment for non-cash charges and other items:		
Depreciation	4,760,759	2,815,070
Amortisation	28,002	19,428
Profit on disposal of property, plant and equipment	-	(25,356)
Loss on disposal of property, plant and equipment	145,162	-
Provision for retirement and other service benefits	49,007	193,264
Income on deposits / other financial assets	(166,739)	(580,798)
Financial cost	10,703,246	7,643,994
(Reversal) / expense for employee share compensation	(58,397)	891
(Reversal) / expense on Employee Housing Subsidy	(106)	5,095
(Reversal) / provision for surplus and slow moving stores and spares	(7,995)	23,910
Provision against other receivables	-	465
Change in the fair value of IFC conversion option	180,882	(367,360)
Working capital changes (note 38.1)	3,800,194	(309,590)
	15,482,221	16,295,866

38.1 Working capital changes

	2012	2011
(Increase) / decrease in current assets		
- Stores, spares and loose tools	110,297	(841,423)
- Stock-in-trade	343,729	(938,936)
- Trade debts	(902,712)	209,565
- Loans, advances, deposits and prepayments	996,325	108,818
- Other receivables (net)	126,532	(89,343)
	674,171	(1,551,319)
Increase in current liabilities		
- Trade and other payables	3,126,023	1,241,729
	3,800,194	(309,590)

(Amounts in thousand)

	2012	2011
	---------------Rupees---------------	
39 CASH AND CASH EQUIVALENTS		
Cash and bank balances (note 13)	2,449,168	592,873
Short term investments (note 12)	2,635,339	3,901,719
Short term borrowings (note 25)	(999,791)	(3,780)
	4,084,716	4,490,812

40 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets as per balance sheet

	2012	2011
- Loans and receivables		
Loans, advances and deposits	109,215	753,760
Trade debts	1,046,091	143,379
Other receivables	56,254	147,891
Cash and bank balances	2,449,168	592,873
Short term Investment	1,088,681	473,932
	4,749,409	2,111,835
- Fair value through profit and loss		
Short term investments	452,148	3,427,787
Derivative financial instruments	545	183,713
	452,693	3,611,500
- Held for maturity		
Short term investments	1,094,510	-

Financial liabilities as per balance sheet

	2012	2011
- Financial liabilities measured at amortised cost		
Borrowings	67,377,829	69,389,097
Trade and other payable	2,464,773	2,253,636
Accrued interest / mark-up	1,788,282	2,087,719
	71,630,884	73,730,452
- Fair value through profit and loss		
Conversion options on IFC loan	243,964	63,082
Derivative financial instruments	820,329	906,528
	1,064,293	969,610

41 FINANCIAL RISK MANAGEMENT

41.1 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 program focuses on having cost efficient funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to shareholders.

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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.

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 232,568 as on December 31, 2012, the Company has Rupee / USD hedge of USD 177,000.

At December 31, 2012, if the currency had weakened / strengthened by 1% against the US dollar with all other variables held constant, post-tax loss for the year would have been Rs. 35,094 higher / lower, mainly as a result of foreign exchange loss / gain on translation of US dollar denominated loans.

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 126,091 out of its non-current foreign currency borrowings of USD 232,568 as on December 31, 2012 (note 19). Rates on short term loans vary as per market movement.

As at December 31, 2012, if interest rates on Company's borrowings had been 1% higher / lower with all other variables held constant, post tax loss for the year would have been higher / lower by Rs. 357,469 mainly as a result of interest exposure on variable rate borrowings.

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.

(Amounts in thousand)

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:

	2012	2011
	----------------Rupees----------------	
Loans, advances and deposits	109,215	753,760
Trade debts	952,164	126,157
Other receivables	50,316	122,496
Short term investments	2,635,339	3,901,719
Cash and bank balances	2,449,168	592,873
	6,196,202	5,497,005

(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
Allied Bank Limited	PACRA	A1+	AA+
Askari Bank Limited	PACRA	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
Bank Al Habib Limited	PACRA	A1+	AA+
Bank Islami Pakistan Limited	PACRA	A1	A
The Bank Of Punjab	PACRA	A1+	AA-
Barclays Bank PLC	MOODY'S	P-1	A2
Burj Bank Limited	JCR-VIS	A-1	A
Citi Bank .N.A.	MOODY'S	P-1	A1
Deutche Bank AG	MOODY'S	P-1	Aa3
Dubai Islamic Bank (Pakistan) Limited	JCR-VIS	A-1	A
Faysal Bank Limited	PACRA	A1+	AA
Habib Bank Limited	JCR-VIS	A-1+	AA+
Habib Metropolitan Bank Limited	PACRA	A1+	AA+
HSBC Bank Middle East Limited	MOODY'S	P-1	A1
JS Bank Limited	PACRA	A1	A+
KASB Bank Limited	PACRA	A3	BBB
MCB Bank Limited	PACRA	A1+	AA+
Meezan Bank Limited	JCR-VIS	A-1+	AA-
National Bank of Pakistan	JCR-VIS	A-1+	AAA
Samba Bank Limited	JCR-VIS	A-1	AA-
Silk Bank Limited	JCR-VIS	A-3	A-
Soneri Bank Limited	PACRA	A1+	AA-
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
Summit Bank Limited	JCR-VIS	A-2	A-
United Bank Limited	JCR-VIS	A-1+	AA+
Zarai Taraqiati Bank Limited	JCR-VIS	B	B+

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.

(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.

	2012			2011		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	Rupees			Rupees		
Financial liabilities						
Derivatives	566,424	497,869	1,064,293	424,659	544,951	969,610
Trade and other payables	2,464,773	-	2,464,773	2,253,636	-	2,253,636
Accrued interest / mark-up	1,788,282	-	1,788,282	2,087,719	-	2,087,719
Borrowings	15,896,203	51,481,626	67,377,829	9,990,665	59,398,432	69,389,097
	20,715,682	51,979,495	72,695,177	14,756,679	59,943,383	74,700,062

41.2 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, 2012 based on total long term borrowings of Rs. 66,378,038 and total equity of Rs. 15,798,027 was 80.78%.

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.

41.3 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			
Assets				
Financial assets at fair value through profit and loss				
- Short term investments	452,148	-	-	452,148
- Derivative financial instruments	-	545	-	545
	452,148	545	-	452,693
Liabilities				
Derivatives				
- Derivative financial instruments	-	820,329	-	820,329
- Conversion option on IFC loans	-	243,964	-	243,964
	-	1,064,293	-	1,064,293

(Amounts in thousand)

41.4 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.

42 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:

	2012	2011
	------Rupees------	
Holding Company		
Purchases and services	231,769	128,262
Services provided to Holding Company	17,051	9,429
Royalty	433,058	431,809
Reimbursements	78,836	85,076
Mark-up paid on Long term sub-ordinated loan	514,405	503,585
Mark-up paid on Short term loan	55,910	-
Use of assets	17,243	10,763
Subordinated loan received	-	1,500,000
Short term loan received	2,500,000	-
Short term loan paid	2,500,000	-
Associated companies		
Purchases and services	1,492,813	3,065,670
Sale of product	1,531	22,996
Contributions to retirement benefit schemes / funds	154,188	123,710
Services provided	74,320	55,995
Reimbursements	160,642	98,465
Funds collected against sales made on behalf of an associate	19,863,240	26,545,957
Payment of mark-up on TFCs and repayment of principal amount	215,611	200,388
Purchase of T-Bill	1,583,191	1,453,197
Sale of T-Bill	473,933	979,264
Markup on T-Bill	18,165	-
Commission on sales collection	146,489	192,897
Purchase of mutual fund units	400,000	1,755,967
Redemption of mutual fund units	992,397	1,434,358
Donation to Engro Foundation	16,500	24,221
Commission expense	17,167	32,471
Markup paid to associate	26,685	-
Markup received from associate	-	27,847
Use of Assets	17,295	11,912
Receipt of sub-ordinated loan	-	770,000
Short term Loan received	1,500,000	-
Short term Loan paid	1,500,000	-
Others		
Remuneration of key management personnel	111,206	105,052

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(Amounts in thousand)

43 DONATIONS

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

	Interest in Donee	Name and address of Donee	2012	2011
			------Rupees------	
Asad Umar (ex-director) and Khalid Siraj Subhani	President and Trustee	Engro Foundation	-	24,221
Aliuddin Ansari and Khalid Siraj Subhani	President and Trustee	Engro Foundation	16,500	-

44 PRODUCTION CAPACITY

	Designed capacity Metric Tons		Actual production Metric Tons	
	2012	2011	2012	2011
Urea plant I & II note (44.1)	2,275,000	2,275,000	974,425	1,279,378
NPK plant	100,000	100,000	67,755	113,172

44.1 During the year, the Company continued to experience gas curtailment receiving less than 45 days of gas for Enven, and that too at 76% which approximately translates to only 9% of annual operational capacity.

45 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.

46 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.

(Amounts in thousand)

47 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.

48 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 8, 2013 by the Board of Directors of the Company.

Chief Executive

Director