

1st quarter **2010** accounts



**CONDENSED INTERIM  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2010**



# FIRST QUARTER 2010 REVIEW TO THE SHAREHOLDER ENGRO FERTILIZERS LIMITED

On behalf of the Board of Directors of Engro Fertilizers Limited, we are pleased to present the unaudited accounts for the three months ended on March 31, 2010.

## DEMERGER

Over the years, Engro has expanded and diversified into several businesses such as foods, petrochemicals, automation and energy. This growth necessitated a change in the way we operate and do business. Keeping in view our operations in multi category businesses, expansion strategy and growth vision, the management decided that the various businesses would be better served if Engro was converted to a Holding Company. As a result it was decided to demerge the fertilizer business and transfer it to a new company.

The announcement to demerge was made in April 2009, and Engro Fertilizers Limited was incorporated in June 2009 to manage the fertilizer business post demerger. The demerger required the approval of the High Court of Sindh, which was granted on December 9, 2009 after obtaining the requisite approvals from the creditors and shareholders of the Company and became effective from January 01, 2010. Consequently, all fertilizer business assets and liabilities have been transferred to Engro Fertilizers Limited against the issuance of shares to Engro Corporation.

## PAKISTAN FERTILIZER MARKET

The market demand for urea, during the three months ended March 31, 2010 was 1.5 million tons, a decrease of 3% over the same period last year (1.55 million tons). The decrease is attributable to higher off takes in December 2009 and limited avails in 1Q 2010. Domestic production at 1.19 million tons was 3% higher as compared to 1.16 million tons during the same period last year and imports for the period were 0.18 million tons versus 0.37 million tons in 1Q 2009.

International urea prices remained stable during the period. Current landed price of imported urea is approximately Rs. 1,542 per bag (C&F US\$ 335/ton) as against the domestic price of Rs. 780 per bag. By keeping domestic prices substantially lower than international prices, the fertilizer industry provided benefit of approximately Rs. 15 billion to farmers.

## COMPANY OPERATING PERFORMANCE

Urea sales were 252,000 tons, up by 7% for the same period last year primarily due to higher availability of product on account of higher production. Our plant produced 257,000 tons during the three months ended March 31, 2010 which is the best ever for a quarter and a 7% increase over the 240,000 tons produced during the same period last year. This combined with lower imports resulted in our market share increasing to 18% vs 15% last year.

The sale of company manufactured blended fertilizers (Zarkhez and Engro NP) was 21,300 tons vs 20,000 tons during same period last year. Rising international phosphate prices resulted in an increase in our Zarkhez sales which were 21,000 tons as compared to 11,000 tons during the same period last year.

The net profit for the three months ended March 31, 2010 was Rs. 773 million.

The urea expansion project at Daharki site, at 37th month of execution, is progressing satisfactorily.

## NEAR TERM OUTLOOK

Based on recent verbal communications, the Government is seriously considering gas curtailment of 15-20% to the fertilizer plants being supplied gas from the Mari field for a few weeks, though the scheme has not been finalized and formally communicated to us. Gas curtailment on the fertilizer plants located on the Sui networks has already started. With urea demand firm, urea inventories low and the kharif season just a few weeks away, it is critical that the import of urea already planned (0.4m tons) and the additional urea required due to gas curtailment be expedited.

**Asad Umar**  
Chairman & Chief Executive

**Khalid S. Subhani**  
Director

Karachi,  
April 26, 2010

# CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT MARCH 31, 2010

(Amounts in thousand)

	Note	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)			
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	72,859,922	-
Intangible assets		123,264	-
Deferred employee compensation expense	6	646	-
Long term loans and advances		150,508	-
		<u>73,134,340</u>	-
<b>Current Assets</b>			
Stores, spares and loose tools		1,630,878	-
Stock-in-trade	8	1,344,009	-
Trade debts	9	1,995,325	-
Deferred employee compensation expense	6	44,712	-
Loans, advances, deposits and prepayments		1,655,971	-
Other receivables	10	350,892	-
Taxes recoverable		111,895	-
Short term investments		70,811	-
Cash and bank balances		408,473	-
		<u>7,612,966</u>	-
<b>TOTAL ASSETS</b>		<u><u>80,747,306</u></u>	-

(Amounts in thousand)

	Note	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)			
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Share capital	11	100,000	-
Share premium		10,639,144	-
Employee share option compensation reserve	6	58,949	-
Hedging reserve	12	(767,240)	-
Unappropriated profit /(loss)		772,723	(544)
		10,703,576	(544)
<b>Total Equity</b>		10,803,576	(544)
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Borrowings	13	60,452,994	-
Derivative financial instruments	7	948,092	-
Deferred liabilities	14	890,049	-
Employee housing subsidy		249,256	-
Retirement and other service benefits obligations		28,724	-
		62,569,115	-
<b>Current Liabilities</b>			
Trade and other payables	15	2,701,469	544
Accrued interest / mark-up		1,304,424	-
Current portion of:			
- borrowings		2,587,730	-
- other service benefits obligations		23,407	-
Short term borrowings	16	59,661	-
Derivative financial instruments	7	697,924	-
		7,374,615	544
<b>Total Liabilities</b>		69,943,730	544
<b>Contingencies and Commitments</b>	17		
<b>TOTAL EQUITY &amp; LIABILITIES</b>		80,747,306	-

The annexed notes from 1 to 26 form an integral part of these financial statements.

**Asad Umar**  
Chairman & Chief Executive

**Khalid S. Subhani**  
Director

## CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Amounts in thousand except for earnings per share)

	Note	3 months ended March 31, 2010 —(Rupees)—
Net sales		4,619,953
Cost of sales	18	(2,488,841)
<b>Gross profit</b>		<b>2,131,112</b>
Selling and distribution expenses	19	(416,721)
		1,714,391
Other operating income		5,094
Other operating expenses		(125,939)
Workers' welfare fund		(24,572)
Workers' profit participation fund		(64,664)
Finance cost		(300,265)
		(515,440)
<b>Profit before taxation</b>		<b>1,204,045</b>
Taxation	20	(442,214)
- Current		11,436
- Deferred		(430,778)
<b>Profit for the period</b>		<b>773,267</b>
<b>Earnings per share</b> - basic and diluted	21	<b>Rs. 77.33</b>

The annexed notes from 1 to 26 form an integral part of these financial statements.

# CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Amounts in thousand)

3 months ended  
March 31,  
2010  
—(Rupees)—

**Profit for the period**

773,267

**Other comprehensive income**

**Hedging reserve - cash flow hedges**

Gains / (losses) arising during the period

(448,558)

Adjustment for amounts transferred to initial  
carrying amount of hedged items (Capital  
work in progress)

206,218

(242,340)

Income tax relating to hedging reserve

84,819

Other comprehensive income for the period, net of tax

(157,521)

**Total comprehensive income for the period**

615,746

The annexed notes from 1 to 26 form an integral part of these financial statements.

## CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	General reserve	Unappropriated profit	Total
	(Rupees)						
<b>Balance as at June 29, 2009</b>							
Total comprehensive loss for the period	-	-	-	-	-	(544)	(544)
<b>Transactions with owners</b>							
7 shares of Rs.10 each issued to nominated Directors of the Holding Company	-	-	-	-	-	-	-
<b>Balance as at December 31, 2009 (audited)</b>							
	-	-	-	-	-	(544)	(544)
<b>Transactions with owners</b>							
9,999,993 shares of Rs.10 each issued to the Holding Company on transfer of Fertilizer Undertaking	100,000	10,639,144	-	-	-	-	10,739,144
Transfer of hedging reserve from the Holding Company on transfer of Fertilizer Undertaking	-	-	-	(609,719)	-	-	(609,719)
	100,000	10,639,144	-	(609,719)	-	-	10,129,425
<b>Balance as at January 1, 2010 after transfer of reserves of Fertilizer Undertaking</b>							
	100,000	10,639,144	-	(609,719)	-	(544)	10,128,881
<b>Total comprehensive income for the three months ended March 31, 2010</b>							
Profit for the period	-	-	-	-	-	773,267	773,267
Other comprehensive income - cash flow hedges net of tax	-	-	-	(157,521)	-	-	(157,521)
	-	-	-	(157,521)	-	773,267	615,746
<b>Transactions with owners</b>							
Issue of share options to employees (note 6.2)	-	-	58,949	-	-	-	58,949
<b>Balance as at March 31, 2010 (unaudited)</b>							
	100,000	10,639,144	58,949	(767,240)	-	772,723	10,803,576

The annexed notes from 1 to 26 form an integral part of these financial statements.



# CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Amounts in thousand)

	Note	3 months ended March 31, 2010 <u>———— (Rupees) ————</u>
<b>Cash flows from operating activities</b>		
Cash generated from operations	22	57,551
Retirement and other service benefits paid		(52,640)
Financial charges paid		(361,863)
Taxes paid		(53,952)
Long term loans and advances - net		(63,507)
Net cash used in operating activities		<u>(474,411)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)		(3,603,144)
Sale proceeds on disposal of PPE		3,984
Income on deposits / other financial assets		10,394
Net cash used in investing activities		<u>(3,588,766)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings		3,898,570
Repayments of borrowings		(125,000)
Net cash generated from financing activities		<u>3,773,570</u>
Net decrease in cash and cash equivalents		(289,607)
Cash and cash equivalents at beginning of the period		709,230
Cash and cash equivalents at end of the period	23	<u>419,623</u>

The annexed notes from 1 to 26 form an integral part of these financial statements.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2010

(Amounts in thousand)

### 1. LEGAL STATUS AND OPERATIONS

#### 1.1 As at December 31, 2009

Engro Fertilizers Limited ('the Company') is a public unlisted company incorporated on June 29, 2009 in Pakistan under the Companies Ordinance, 1984 as a wholly owned subsidiary of Engro Corporation Limited (the Holding Company, formerly Engro Chemical Pakistan Limited) for the purpose explained in note 1.2. The Company's registered office is situated at 7th & 8th floors, The Harbour Front Building, Plot Number HC-3, Block 4, Scheme Number 5, Clifton, Karachi.

1.2 The Board of Directors of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) in their meeting on April 28, 2009 decided to divide the Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) into two companies by separating its fertilizer undertaking, to be continued by the newly incorporated subsidiary company, from the rest of the undertaking that was to be retained in Engro Corporation Limited (formerly Engro Chemical Pakistan Limited). The division was to be effected through a Scheme of Arrangement (the Scheme) under Section 284 to 288 of the Companies Ordinance, 1984 whereby:

- a) the Fertilizer Undertaking would be transferred and vested in the Company against the issuance of ordinary shares of the Company; and
- b) the retention of the Retained Undertaking in the Holding Company and the change of the name of Engro Chemical Pakistan Limited to Engro Corporation Limited. Engro Corporation Limited then would become a Holding Company and oversee the business of new fertilizer subsidiary as well as business of its other existing subsidiaries / associates.

The Scheme, after obtaining the requisite approvals from the creditors and the shareholders of the Holding Company, was approved by the Sindh High Court on December 9, 2009, and came into effect on January 1, 2010 (the Effective Date). Henceforth, the fertilizer business (manufacturing, purchasing and marketing of fertilizers) including all assets, liabilities, agreements, arrangements and other matters have been transferred to the Company against the issuance of 9,999,993, in addition to existing 7, fully paid ordinary shares of Rs. 10 each plus share premium. Such share premium is based on the net assets so transferred over Rs. 100,000 being the paid up face value of the Company.

#### 1.3 Transfer of Fertilizer Undertaking

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

(Amounts in thousand)

<b>Assets</b>	<b>—(Rupees)—</b>
Property, plant and equipment	69,462,873
Intangible assets	122,704
Long term loans, advances deposit and prepayments including current portion	1,552,468
Stores, spares and loose tools	961,117
Stock-in-trade	422,607
Trade debts	2,514,425
Other receivables	141,611
Derivative financial instruments	76,209
Taxes recoverable	536,167
Short term investments	450,857
Cash and bank balances	454,126
	76,695,164
<b>Liabilities</b>	
Borrowings including current portion	59,375,454
Derivative financial instruments including current portion	1,352,885
Deferred liabilities	987,270
Employee housing subsidy	211,785
Retirement and other service benefits obligations	67,245
Trade and other payables	3,009,325
Accrued interest / mark-up	1,366,022
Short term borrowings	195,753
	66,565,739
Net assets transferred - Fertilizer Undertaking	10,129,425
Less: Ordinary shares issued to the Holding Company	100,000
Share premium before adjustment of hedging reserve	10,029,425
Add: Hedging reserve (negative) - refer note below	609,719
	10,639,144

### Hedging Reserve

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

(Amounts in thousand)

### **2. BASIS OF PREPARATION**

#### **2.1 Basis of preparation of interim financial statements**

- 2.1.1** This condensed interim financial information is unaudited and has been prepared and is being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard 34 - 'Interim Financial Reporting'.
- 2.1.2** The significant accounting policies applied in the preparation of the unaudited condensed interim financial statements and the basis thereof are same as followed in the audited statutory financial statements of the Holding Company for the year ended December 31, 2009, prior to transfer of Fertilizer Undertaking, and are reproduced below in note 3.
- 2.1.3** The preparation of this condensed interim financial information in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its 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, are disclosed in note 4.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 Property, plant and equipment**

##### **3.1.1 Owned assets**

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except freehold land and capital work in progress which are stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items including borrowing costs (note 3.22). 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 preceeding month of disposal.

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

(Amounts in thousand)

### 3.1.2 Leased assets

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

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

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

### 3.2 Intangible assets

#### a) Computer software and licenses

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

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

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

#### b) Rights for future gas utilization

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

### 3.3 Impairment of non-financial assets

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

### 3.4 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 profit and loss account.

(Amounts in thousand)

### 3.5 Financial assets

#### 3.5.1 Classification

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

##### a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

##### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'loans and deposits', 'trade debts and other receivables' and 'cash and bank balances' in the balance sheet.

##### c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention and ability to hold to maturity. There were no held to maturity financial assets at the balance sheet date.

##### d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose off it within 12 months of the end of the reporting date.

#### 3.5.2 Recognition and measurement

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

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

(Amounts in thousand)

Changes in fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of other income when the Company's right to receive payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables is described in note 3.10.

### **3.6 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle either on a net basis, or realise the asset and settle the liability simultaneously.

### **3.7 Derivative financial instruments and hedging activities**

Derivatives are recognised initially at fair value; attributable transaction cost are recognised in profit and loss account when incurred. Subsequent to initial recognition, derivatives are measured at fair values, and changes therein are accounted for as described below:

#### **a) Cash flow hedges**

Changes in fair value of derivative hedging instruments designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognised in profit and loss account.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit and loss account in the same period that the hedge item affects profit and loss account.

#### **b) Other non-trading derivatives**

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Further, the Company also has issued a conversion option with the IFC loan availed during the year. The fair values of various derivative instruments used for hedging and the conversion option are disclosed in note 7.

(Amounts in thousand)

### **3.8 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 realisable value. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

### **3.9 Stock-in-trade**

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

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

### **3.10 Trade debts and other receivables**

These are recognised initially at fair value plus directly attributable transaction costs, if any and subsequently measured at amortised cost using effective interest rate method less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is charged to profit and loss account. Trade debts and other receivables considered irrecoverable are written-off.

### **3.11 Cash and cash equivalents**

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

### **3.12 Share capital**

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **3.13 Employees' share option scheme**

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

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

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortised portion with a corresponding effect to employee share option compensation reserve in the balance sheet.



(Amounts in thousand)

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

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

### **3.14 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### **3.15 Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### **3.16 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### **3.16.1 Current**

The current income tax charge is based on the taxable income for the year calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

#### **3.16.2 Deferred**

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

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

(Amounts in thousand)

### 3.17 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.

When an employee leaves the company before the vesting period and 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 housing subsidy in the balance sheet.

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

### 3.18 Employee benefits

#### 3.18.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company contributes to:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.
- defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Company to the fund at rates ranging from 12.5% to 13.75% of basic salary.

#### 3.18.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than the defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method. Actuarial gains / losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

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

The Company also contributes to:

- defined benefit funded pension scheme for its management employees.
- defined benefit funded gratuity schemes for its management and non-management employees.

The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme.

(Amounts in thousand)

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

The Company also contributes to unfunded scheme for resignation gratuity of certain management employees. Provision is made annually to cover the liability under the scheme.

Annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Company's employment.

### **3.18.3 Employees' compensated absences**

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

### **3.19 Provisions**

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

### **3.20 Foreign currency transactions and translation**

This balance sheet is presented in Pakistan Rupees, which is Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

### **3.21 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and is reduced for marketing allowances. Revenue is recognised on the following basis:

- Sales revenue is recognised when product is dispatched to customers.
- Income on deposits and other financial assets is recognised on accrual basis.

### **3.22 Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalised as part of the cost of that asset. Borrowing costs includes exchange differences arising on foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

### **3.23 Research and development costs**

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

(Amounts in thousand)

### **3.24 Government grant**

Government grant that compensates the Company for expenses incurred is recognised in the profit and loss account on a systematic basis in the same period in which the expenses are recognised. Government grants are deducted from related expense.

### **3.25 Earnings per share**

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### **3.26 Transactions with related parties**

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

### **3.27 Dividend and appropriation to reserves**

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

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

### **4.1 Property, plant and equipment**

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

### **4.2 Investments stated at fair value through profit and loss**

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgment.

### **4.3 Derivatives**

The Company reviews the changes in fair values of the derivative hedging financial instruments at each reporting date based on the valuations received from the contracting banks. These valuations represent estimated fluctuations in the relevant currencies / interest rates over the reporting period and other relevant variables signifying currency and interest rate risks. The Company has calculated the fair value of conversion option on IFC loan using the option pricing model.

### **4.4 Stock-in-trade and stores & spares**

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

(Amounts in thousand)

#### 4.5 Income taxes

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

#### 4.6 Fair value of employee share options

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

#### 4.7 Provision for retirement and other service benefits obligations

The present value of these obligations depend on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations.

### 5. PROPERTY, PLANT AND EQUIPMENT

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
	(Rupees)	
Operating assets at net book value	5,961,057	-
Capital work-in-progress		
- Expansion and other projects (note 5.1)	66,767,971	-
- Capital spares	130,894	-
	66,898,865	-
	72,859,922	-

#### 5.1 Capital work-in-progress - Urea expansion project and other projects

Plant and machinery	47,855,967	-
Building and civil works	8,498,139	-
Furniture, fixture and equipment	116,790	-
Advances to suppliers	326,209	-
Other ancillary costs (note 5.1.2)	9,970,866	-
	66,767,971	-

- 5.1.1** Capital work in progress includes Rs. 48,263,376 (December 31, 2009: NIL) and Rs. 8,464,279 (December 31, 2009: NIL) with respect to Urea expansion project for plant & machinery and building & civil works respectively. The expansion project expected to be complete by third quarter 2010, adjacent to the existing Daharki Plant, will cost approximately US\$ 1,050,000 and will have a capacity of 1.3 million tons of Urea per annum.

(Amounts in thousand)

5.1.2 Other ancillary costs also include net borrowing costs capitalised amounting to Rs. 6,983,992 (December 31, 2009: NIL) at borrowing rates ranging from 11.52% to 17.22%. It also includes depreciation and amortisation, salaries, wages & benefits, legal & professional charges, etc.

## 6. EMPLOYEE SHARE OPTION SCHEME

Consequent to demerger, the employees transferred to Engro Fertilizers Limited will be granted new share options under a new scheme and have surrendered share options of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited). Under the Employee Share Option Scheme (the Scheme) employees will be granted options to purchase 4,937,100 ordinary shares at an exercise price of Rs. 98 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee will be the same as the number of options of the Holding Company surrendered by them. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period for employees who were initially granted options on or before June 30, 2008 in the Holding Company, shall end on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012.

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

The above Scheme is conceptually approved by the Securities and Exchange Commission of Pakistan (SECP). However, formal approval from SECP is still awaited. As the vesting period has started from January 1, 2010 and the Scheme is being viewed as continuation of the old scheme announced by the Holding Company, a charge based on fair value of share options i.e. Rs. 11.94 per share has been recognised in these financial statements.

Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)	

### 6.1 Deferred employee compensation expense

Balance as at January 1	-	-
Options issued during the period	58,949	-
Options lapsed due to employee resignation	-	-
Amortisation for the period	(13,591)	-
Balance as at end of period	45,358	-
Current portion shown under current assets	(44,712)	-
Long term portion of deferred employee compensation expense	646	-

### 6.2 Employee share option compensation reserve

Balance as at January 1	-	-
Options issued during the period	58,949	-
Options lapsed due to employee resignation	-	-
	58,949	-
Balance as at end of period	58,949	-

(Amounts in thousand)

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
	(Numbers)	
<b>6.3 Movement in share options outstanding at end of the period is as follows:</b>		
Balance as at January 1	-	-
Options issued during the period	4,937,100	-
Options lapsed during the period	-	-
	4,937,100	-
Balance as at end of period	4,937,100	-

**7. DERIVATIVE FINANCIAL INSTRUMENTS**

	Unaudited March 31, 2010		Audited December 31, 2009 (note 1.3)	
	Assets	Liabilities	Assets	Liabilities
	(Rupees)			
Conversion option on IFC loan	-	465,647	-	-
Cash flow hedges				
- Foreign exchange forward contracts (note 7.1)	-	224,278	-	-
- Foreign exchange option contracts (note 7.2)	-	7,999	-	-
- Interest rate swaps (note 7.3)	-	948,092	-	-
	-	1,180,369	-	-
	-	1,646,016	-	-
Less: Current portion shown under current assets / liabilities				
Conversion option on IFC loan	-	465,647	-	-
Cash flow hedges				
- Foreign exchange forward contracts	-	224,278	-	-
- Foreign exchange option contracts	-	7,999	-	-
- Interest rate swaps	-	-	-	-
	-	232,277	-	-
	-	697,924	-	-
	-	948,092	-	-

(Amounts in thousand)

## 7.1 Foreign exchange forward contracts

**7.1.1** The Company entered into various forward exchange contracts to hedge its foreign currency exposure. As at March 31, 2010, the Company had forward exchange contracts to purchase Euros 13,485 (December 31, 2009: NIL) at various maturity dates matching the anticipated payment dates for commitments with respect to Urea expansion project. The fair value of these contracts, as at March 31, 2010 is negative amounting to Rs. 48,494 (December 31, 2009: NIL).

**7.1.2** The Company entered in various US\$: PKR forward contracts to hedge its foreign currency exposure. As at March 31, 2010, the Company had forward contracts to purchase US\$ 85,000 (December 31, 2009: NIL) at various maturity dates to hedge its foreign currency loan obligations. The fair value of these contracts as at March 31, 2010 is negative amounting to Rs.175,784 (December 31, 2009: NIL).

## 7.2 Foreign exchange option contracts

The Company entered into various foreign exchange option contracts to hedge its currency exposure against US dollar relating to the expansion project. As at the balance sheet date, the Company had foreign exchange options amounting to Euro 8,579 (December 31, 2009: NIL). The net fair value of these contracts is negative amounting to Rs. 7,999 (December 31, 2009: NIL).

## 7.3 Interest rate swaps

**7.3.1** The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of US\$ 150,000 (December 31, 2009: NIL) 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 March 31, 2010 is negative and amounted to Rs. 516,483 (December 31, 2009: NIL).

**7.3.2** The Company entered into another interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from a consortium of Development Finance Institutions for a notional amount of US\$ 85,000 (December 31, 2009: NIL) 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 March 31, 2009 is negative and amounted to Rs. 431,609 (December 31, 2009: NIL).

## 8. STOCK-IN-TRADE

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
	(Rupees)	
Raw materials	1,073,862	-
Packing materials	17,444	-
	1,091,306	-
Work-in-process	4,765	-
Finished goods	247,938	-
	1,344,009	-



(Amounts in thousand)

**9. TRADE DEBTS**

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)		
Considered good		
Secured	1,989,925	-
Unsecured	5,400	-
	1,995,325	-
Considered doubtful	8,873	-
	2,004,198	-
Provision for impairment	(8,873)	-
	1,995,325	-

**10. OTHER RECEIVABLES**

- 10.1** Other receivables includes a balance of Rs. 57,135 for sales tax receivable from the Government of Pakistan, which was transferred to the Company due to the demerger. The details are as described below:

During 2008, Model Customs Collectorate raised a sales tax demand of Rs. 57,135 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609(1) / 2004.

The Holding Company had paid the demand made under protest and filed an appeal before the Collector, Sales Tax and Federal Excise. Further, the Ministry of Food, Agriculture and Livestock had also recommended through its letter dated June 27, 2008 that the aforementioned grade of MAP should be assessed at deemed value of import with retrospective effect. The management therefore is confident that the issue would be decided in Company's favor.

- 10.2** Other receivables also include Rs. 3,264 (December 31, 2009: NIL) on account of compensation for mandatory reduction in sales price by the Government of Pakistan on phosphatic and potassic fertilizer inventory.

**11. SHARE CAPITAL**

**11.1 Authorised Capital**

	Unaudited March 31, 2010	Audited December 31, 2009
(Rupees)		
10,000,000 (December 31, 2009: 10,000,000) Ordinary shares of Rs.10 each	100,000	100,000

(Amounts in thousand)

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

Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)		Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Numbers)			(Rupees)	
7	7	At June 29,	-	-
9,999,993	-	Ordinary shares of Rs. 10 each issued during the period	100,000	-
<u>10,000,000</u>	<u>7</u>		<u>100,000</u>	<u>-</u>

**12. HEDGING RESERVE**

Fair values of:

- Foreign exchange forward contracts (note 7.1)
- Foreign exchange option contracts (note 7.2)
- Interest rate swaps (note 7.3)

Deferred tax

(224,278)	-
(7,999)	-
(948,092)	-
(1,180,369)	-
413,129	-
<u>(767,240)</u>	<u>-</u>

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

(Amounts in thousand)

**13. BORROWINGS - Secured (Non-participatory)**

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
	(Rupees)	
Balance as at December 31, 2009	-	-
Balance transferred to the Company due to demerger (note 1.3)	59,375,454	-
Balance as at January 1,	59,375,454	-
Loans availed during the period-net of transaction cost	3,790,270	-
	63,165,724	-
Repayments during the period	(125,000)	-
	63,040,724	-
Current portion shown under current liabilities	(2,587,730)	-
Balance at end of the period	60,452,994	-

**13.1** Loans availed represents fresh bilateral loans from Standard Chartered Bank (Pakistan) Ltd. and SAMBA Bank Ltd. along with further draw down on existing Syndicated finance facility.

**13.2** The tenor of loan facilities range from 7 to 9 years and mark-up is 1.10% to 2.40% over six month KIBOR and 1.3% over three month KIBOR for Rupee facilities, and 2.57% to 6.00% over six month LIBOR for USD facilities. These facilities, excluding the Privately Placed TFCs (PPTFCs) and International Finance Corporation's (IFC) facility, are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs and IFC's facility are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

**14. DEFERRED LIABILITIES**

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
	(Rupees)	
Deferred taxation (note 14.1)	794,710	-
Deferred income (note 14.2)	95,339	-
	890,049	-

(Amounts in thousand)

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)		
<b>14.1 Deferred taxation</b>		
Credit / (debit) balances arising on account of:		
- Accelerated depreciation allowance	1,237,396	-
- Fair values of hedging instruments	(413,125)	-
- Provision for:		
- retirement benefits	(18,246)	-
- inventories, slow moving stores and spares and doubtful receivables	(21,987)	-
- others	10,672	-
	794,710	-

**14.2 Deferred income**

The Company received an amount of Rs. 96,627 (December 31, 2009: NIL) from Engro Energy Limited, a subsidiary company of the Holding Company, for the right to use Company's infrastructure facilities at Daharki Plant by the employees of Engro Energy Limited for a period of twenty five years. The amount is being amortised over the aforementioned period.

**15. TRADE AND OTHER PAYABLES**

	Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)		
Creditors	711,619	-
Payable to Engro Corporation Limited	-	519
Payable to Engro Eximp (Private) Limited (note 15.1)	184,988	-
Accrued liabilities	777,261	25
Advances from customers	710,998	-
Deposits from dealers refundable on termination of dealership	11,173	-
Contractors' deposits and retentions	61,026	-
Workers' profits participation fund	64,507	-
Workers' welfare fund	24,572	-
Sales tax payable	886	-
Others	154,439	-
	2,701,469	544

**15.1** This represents payable to Engro Eximp (Private) Limited under an agency agreement on account of sales made to dealers on credit. The corresponding receivable from the dealers is shown under other receivables (note 10).

(Amounts in thousand)

**16. SHORT TERM BORROWINGS - Secured**

The facilities for short term finances available from various banks amounts to Rs. 5,200,000 (December 31, 2009: NIL) including Rs. 200,000 (December 31, 2009: NIL) for Bank Guarantees interchangeable with short term finance. The rates of markup ranges from 13.14% to 14.61% and 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.

**17. CONTINGENCIES AND COMMITMENTS**

**Contingencies**

- 17.1** Bank Guarantees of Rs. 1,170,679 (December 31, 2009: NIL) have been issued in favor of third parties.
- 17.2** As per the scheme of demerger, certain contingencies and commitments of the Holding Company, were transferred to the Company. The contingencies and commitments transferred are described below:
- 17.2.1** Claims, including pending lawsuits, against the Holding Company not acknowledged as debts amounted to Rs. 47,658.
- 17.2.2** The Holding Company is contesting the penalty of Rs. 99,936 paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.
- 17.2.3** The Holding Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Company Rs. 47,800 whereas the award for the earlier years is awaited. The award for the second arbitration has not been recognised due to inherent uncertainties arising from its challenge in the High Court of Sindh.

Unaudited March 31, 2010	Audited December 31, 2009 (note 1.3)
(Rupees)	

**Commitments**

<b>17.3</b>	Plant and machinery	2,941,985	-
<b>17.4</b>	Others	2,912	-

(Amounts in thousand)

**18. COST OF SALES**

 3 months ended  
 March 31,  
 2010  
 ——— (Rupees) ———

Raw materials consumed	1,162,740
Salaries, wages and staff welfare	244,704
Fuel and power	847,093
Repairs and maintenance	71,392
Depreciation	152,342
Amortisation	2,177
Consumable stores	32,352
Staff recruitment, training, safety and other expenses	9,108
Purchased services	39,036
Travel	8,715
Communication, stationery and other office expenses	6,240
Insurance	31,193
Rent, rates and taxes	15,003
Other expenses	834
Manufacturing cost	2,622,929
Add: Opening stock of work-in-progress	6,115
Less: Closing stock of work-in-progress	4,765
	1,350
Cost of goods manufactured	2,624,279
Add: Opening stock of finished goods manufactured	112,500
Less: Closing stock of finished goods manufactured	247,938
	(135,438)
	2,488,841

**19. SELLING AND DISTRIBUTION EXPENSES**

Salaries, wages and staff welfare	81,196
Staff recruitment, training, safety and other expenses	5,176
Product transportation and handling	193,921
Repairs and maintenance	2,253
Advertising and sales promotion	2,435
Rent, rates and taxes	25,908
Communication, stationery and other office expenses	4,728
Travel	6,880
Depreciation	5,840
Amortisation	856
Purchased services	5,951
Donations	10,980
Insurance	11
Royalty expense	62,368
Other expenses	8,218
	416,721

(Amounts in thousand)

## 20. TAXATION

As a result of demerger, tax issues relating to cases prior to demerger will flow to the Company. The issues which may have an impact on the Company are described below:

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

The tax department raised a demand of Rs. 476,479 (rectified to Rs. 406,644) and Rs. 910,845 for financial years 2006 and 2007, on disallowance of mainly Group Relief (in both years), intercorporate dividend (in 2007) besides certain other issues. The Holding Company prior to demerger has paid Rs. 170,000 and Rs. 400,000 respectively thereagainst. Stay by the High Court of Sindh for payment of balance amount for financial year 2006 has been granted to Holding Company pending decision of the appeal filed by the Holding Company before the Income Tax Appellate Tribunal (ITAT). However, for financial year 2007, stay has been granted by the tax department till April 30, 2010.

The main contention for disallowance of Group Relief, among others, being the non-designation of the Holding Company as well as the subsidiary company as 'companies' entitled to Group Relief by the Securities & Exchange Commission of Pakistan (SECP), a requirement of section 59 B of the Ordinance. The Holding Company had applied for such a designation but remained pending with SECP for want of related regulations not framed then. These regulations were framed by SECP subsequently in December 2008 and during the period, the Holding Company along with other subsidiaries have been registered as a Group. The Commissioner Inland Revenue (Appeals) taking cognizance of the above and other factors has, vide order dated November 13, 2009, decided the issue of Group Relief in Company's favor for the financial year 2007, while for 2006 it is pending at the ITAT level as stated above. However, during the period, department has filed an appeal for financial year 2007 at the ITAT level against the decision of Commissioner Inland Revenue (Appeals).

All the assessments of Holding Company, for income years 1995 to 2002 have been finalised by the Department and are in appeal at either the CIT or ITAT level on various issues, the major one being apportionment of gross profit and expenses between normal income and final tax regime (FTR) income.

The Holding Company is confident that all the above issues, including the issue of Group Relief, will be ultimately decided in its favor without any additional tax liability.

## 21. EARNINGS PER SHARE

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

	3 months ended March 31, 2010 — (Rupees) —
Profit after taxation	773,267
	— (Number) —
Weighted average number of Ordinary shares (in thousand)	10,000

(Amounts in thousand)

**22. CASH GENERATED FROM OPERATIONS**

 3 months ended  
 March 31,  
 2010  
 (Rupees)

Profit before taxation	1,204,045
Adjustment for non-cash charges and other items:	
Depreciation	158,182
Amortisation	3,033
Profit on disposal of property, plant and equipment	(372)
Amortisation of deferred income	(966)
Provision for retirement and other service benefits	53,114
Income on deposits / other financial assets	(5,094)
Financial charges	300,265
Employee share compensation expense	9,720
Employee Housing Subsidy expense	28,456
Provision for surplus and slow moving stores and spares	4,173
Provision for fair value of derivative financial instruments	127,000
Exchange gain on foreign currency loans	(19,000)
Working capital changes (note 22.1)	(1,805,005)
	<u>57,551</u>

**22.1 Working capital changes**

(Increase) / decrease in current assets

- Stores, spares and loose tools	(673,934)
- Stock-in-trade	(921,402)
- Trade debts	519,100
- Loans, advances, deposits and prepayments	(190,504)
- Other receivables (net)	(214,277)
	<u>(1,481,017)</u>

Increase / (decrease) in current liabilities

- Trade and other payables	(323,988)
	<u>1,805,005</u>

**23. CASH AND CASH EQUIVALENTS**

Cash and bank balances	408,473
Short term borrowings	(59,661)
Short term investments	70,811
	<u>419,623</u>



(Amounts in thousand)

## 24. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise subsidiaries, joint venture companies, other companies with common directors, retirement benefit funds, directors and key management personnel. Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	3 months ended March 31, 2010	
	(Rupees)	
<b>Associated companies</b>		
Purchases and services	416,311	
Markup from associate	27,530	
Contributions to retirement benefit schemes / funds	51,534	
Service charges recoverable	41,117	
Funds collected against sales of an associate	3,522,729	
Commission income	3,291	
Payment of interest on TFCs and repayment of principal amount	1,924	
<b>Holding company</b>		
Purchases and services	18,676	
Service charges recoverable	966	
Royalty paid	62,368	
Shares issued (including share premium) consequent to demerger	10,739,000	
<b>Others</b>		
Remuneration of key management personnel	40,524	
	Unaudited March 31, 2010	Audited December 31, 2009
	(Rupees)	
<b>Balances due from:</b>		
- Associates (including subordinated loan of Rs. 770,000 to Engro Eximp (Private) Limited)	818,017	-
- Holding Company	24,317	-
<b>Balances due to:</b>		
- Holding Company	-	519

(Amounts in thousand)

### 25. 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 urea and phosphates fertilizers sales are more tilted towards Rabi season. The Company manages seasonality in the business through appropriate inventory management.

### 26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on April 26, 2010 by the Board of Directors of the Company.

**Asad Umar**  
Chairman & Chief Executive

**Khalid S. Subhani**  
Director

# Company Information

## **Board of Directors**

Asad Umar, Chairman & Chief Executive

Khalid S. Subhani

Javed Akbar

Abdul Samad Dawood

Shahzada Dawood

Shabbir Hashmi

Asif Jooma

Ruhail Mohammed

Arshad Nasar

Asif Qadir

## **Company Secretary**

Andalib Alavi

## **Chief Financial Officer**

Ruhail Mohammed

## **Members of Audit Committee**

Javed Akbar

Shabbir Hashmi

Abdul Samad Dawood

Asif Qadir

## **Auditors**

A. F. Ferguson & Co.

Chartered Accountants

**Bankers**

Allied Bank Limited  
Arif Habib Bank Limited  
Askari Commercial Bank Limited  
Bank Al-Falah Limited  
Bank Al-Habib Limited  
Bank Islami Pakistan Limited  
Bank of Punjab Limited  
Barclays Bank Plc, Pakistan  
Citibank N.A.  
Samba Bank Limited  
Deutsche Bank  
Dubai Islamic Bank Pakistan Limited  
Faysal Bank Limited  
Habib Bank Limited  
JS Bank Limited  
MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
The Royal Bank of Scotland Limited  
Standard Chartered Bank (Pakistan) Limited  
HSBC Bank Middle East Limited  
United Bank Limited

**Registered Office**

7<sup>th</sup> & 8<sup>th</sup> Floors, The Harbor Front Building, HC # 3, Marine Drive, Block-4, Clifton, Karachi - 75600, Pakistan.



7th & 8th Floor, The Harbor Front Building, HC # 3,  
Marine Drive, Block 4, Clifton, Karachi-75600, Pakistan  
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