ENGRO FERTILIZERS LIMITED

FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED JUNE 30, 2011

AUDITORS' REPORT TO THE MEMBERS

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

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

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

(a) as more fully explained in note 47 to the financial statements, due to a fire at the Holding Company's old premises on August 19, 2007 certain records, documents and books of account of the Holding Company relating to prior years were destroyed. These included records of the Fertilizers Undertaking, which on demerger is part of the Company (note 1.2 to the financial statements). Records in electronic form remained intact and certain hard copy records relating to financial years 2005 and 2006 have not been recreated;

(b) in our opinion, except for the matter referred to in paragraph (a), proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(c) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes resulted on initial application of standards, amendments or an interpretation to existing standards, as stated in note 2.1.4 (a), with which we concur;

   (ii) the expenditure incurred during the half year ended was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the half year ended were in accordance with the objects of the Company;

(d) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2011 and of the profit, total comprehensive income, changes in equity and its cash flows for the half year then ended; and

(e) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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

Chartered Accountants
Karachi
Date: August 10, 2011

Engagement Partner: Imtiaz A. H. Laliwala

ENGRO FERTILIZERS LIMITED
BALANCE SHEET
AS AT JUNE 30, 2011

(Amounts in thousand)

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

(Amounts in thousand)

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

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

Chief Executive

Director

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

(Amounts in thousand except for earnings per share)

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

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

Chief Executive

Director

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

(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	Unappropriated profit / (accumulated loss)	Total
	-----	-----	-----	Rupees	-----	-----
Balance as at January 1, 2010 (audited)	-	-	-	-	(544)	(544)
Transactions with owners						
Transfer of Fertilizer Undertaking (note 1.2)						
- 9,999,993 shares of Rs.10 each issued to the Holding Company	100,000	10,639,144				10,739,144
- Transfer of hedging reserve from the Holding Company				(609,719)		(609,719)
	100,000	10,639,144	-	(609,719)	-	10,129,425
Other transactions with owners						
Issue of share options to employees, net of share options lapsed	-	-	58,673	-	-	58,673
Bonus shares issued during the period in the ratio of 2,880 shares for every 100 shares held	2,880,000	(2,880,000)	-	-	-	-
Total comprehensive income for the half year ended June 30, 2010						
Profit for the period	-	-	-	-	2,012,176	2,012,176
Other comprehensive income - cash flow hedges net of tax	-	-	-	(404,625)	-	(404,625)
	-	-	-	(404,625)	2,012,176	1,607,551
Balance as at June 30, 2010 (unaudited)	2,980,000	7,759,144	58,673	(1,014,344)	2,011,632	11,795,105
Transactions with owners						
Bonus shares issued during the period in the ratio of 260 shares for every 100 shares held	7,748,000	(7,748,000)	-	-	-	-
Total comprehensive income for the half year ended December 31, 2010						
Profit for the period	-	-	-	-	1,717,420	1,717,420
Other comprehensive income - cash flow hedges, net of tax	-	-	-	127,067	-	127,067
	-	-	-	127,067	1,717,420	1,844,487
Balance as at December 31, 2010 (audited)	10,728,000	11,144	58,673	(887,277)	3,729,052	13,639,592
Transactions with owners						
Share options lapsed during the period (note 10.2)	-	-	(276)	-	-	(276)
Total comprehensive income for the half year ended June 30, 2011						
Profit for the period	-	-	-	-	2,174,661	2,174,661
Other comprehensive income - cash flow hedges, net of tax	-	-	-	315,963	-	315,963
	-	-	-	315,963	2,174,661	2,490,624
Balance as at June 30, 2011 (audited)	10,728,000	11,144	58,397	(571,314)	5,903,713	16,129,940

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

Chief Executive

Director

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

(Amounts in thousand)

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

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

Chief Executive

Director

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

(Amounts in thousand)

	Note	Audited Half year ended June 30, 2011	Unaudited Half year ended June 30, 2010
		---Rupees---	
Cash flows from operating activities			
Cash generated from operations	39	7,571,030	3,342,316
Retirement and other service benefits paid		(93,153)	(99,413)
Finance cost paid		(1,836,779)	(377,458)
Taxes paid		(496,229)	(837,643)
Long term loans and advances to executives and other employees - net		11,775	(50,229)
Net cash generated from operating activities		5,156,644	1,977,573
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		(4,009,593)	(7,613,163)
Proceeds from sale of PPE		18,612	346,596
Repayment of sub-ordinated loan by associate company		770,000	-
Income on deposits / other financial assets		232,380	10,524
Net cash used in investing activities		(2,988,601)	(7,256,043)
Cash flows from financing activities			
Proceeds from borrowings		4,063,006	6,913,089
Repayments of borrowings		(3,053,106)	(251,300)
Net cash generated from financing activities		1,009,900	6,661,789
Net increase in cash and cash equivalents		3,177,943	1,383,319
Cash and cash equivalents at beginning of the period		3,318,110	709,230
Cash and cash equivalents at end of the period	40	6,496,053	2,092,549

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

Chief Executive

Director

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

(Amounts in thousand)

1 LEGAL STATUS AND OPERATIONS

1.1 Engro Fertilizers Limited ('the Company') is a public company incorporated on June 29, 2009 in Pakistan under the Companies Ordinance, 1984 as a wholly owned subsidiary of Engro Corporation Limited (the Holding Company). The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company's registered office is situated at 7th & 8th floors, The Harbour Front Building, Plot Number HC-3, Block 4, Scheme Number 5, Clifton, Karachi. The Company has issued Term Finance Certificates which are listed at the Karachi Stock Exchange.

1.2 Effective January 1, 2010, the Holding Company through a Scheme of Arrangement, under Section 284 to 288 of the Companies Ordinance, 1984, separated its fertilizer undertaking for continuation thereof by the Company, from the rest of the undertaking which has been retained in the Holding Company. Further, the Holding Company was renamed from Engro Chemical Pakistan Limited to Engro Corporation Limited, the principal activity of which now is to manage investments in subsidiary companies and joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention, except for re-measurement of certain financial assets and liabilities at fair value through profit or loss and derivative hedging instrument as fair value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.1.3 The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(Amounts in thousand)

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

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

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

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

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

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

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

- IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). These amendments are a part of IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset.

- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

- IFRS 12, 'Disclosure of interests in other entities' (effective for periods beginning on or after January 1, 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

Afr

(Amounts in thousand)

- IFRS 13, 'Fair value measurement' (effective for periods beginning on or after January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective for periods beginning on or after July 1, 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

- IAS 12 (Amendment), 'Income taxes' (effective for periods beginning on or after January 1, 2012). Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.

- IAS 19 (Revised), 'Employee benefits' (effective for periods beginning on or after January 1, 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

2.2 Property, plant and equipment

2.2.1 Owned assets

These are stated at historical cost less accumulated depreciation and impairment losses, if any, except 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.

(Amounts in thousand)

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

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

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

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

2.2.2 Leased assets

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

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

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

2.3 Intangible assets

a) Computer Software and Licenses

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

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

Computer software and license cost treated as intangible assets are amortised from the date the software is put to use on a straight-line basis over a period of 3 to 4 years.

b) Rights for future gas utilization

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

(Amounts in thousand)

2.4 Impairment of non-financial assets

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

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

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the profit and loss account.

2.6 Financial assets

2.6.1 Classification

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

c) Held to maturity financial assets

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

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose off it within 12 months of the end of the reporting date. There were no available for sale financial assets at the balance sheet date.

(Amounts in thousand)

2.6.2 Recognition and measurement

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

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

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

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

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables is described in note 2.11.

2.7 Offsetting financial instruments

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

2.8 Derivative financial instruments and hedging activities

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

a) Cash flow hedges

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

(Amounts in thousand)

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

b) Other non-trading derivatives

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

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Further, the Company has issued options to convert IFC loan on its shares and the shares of the Holding Company as disclosed in note 18.4. The fair values of various derivative instruments used for hedging and the conversion options are disclosed in note 20.

2.9 Stores, spares and loose tools

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. For items which are slow moving and / or identified as surplus to the Company's requirements, adequate provision is made for any excess book value over estimated realizable value. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

2.10 Stock-in-trade

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

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

2.11 Trade debts and other receivables

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

2.12 Cash and cash equivalents

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

(Amounts in thousand)

2.13 Share capital

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

2.14 Employees' share option scheme

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

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

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

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

2.15 Borrowings

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

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

2.16 Trade and other payables

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

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

2.17 Current and deferred income tax

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

Current

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

(Amounts in thousand)

Deferred

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

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

2.18 Employees' housing subsidy scheme

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

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

2.19 Employee benefits

2.19.1 Defined contribution plans

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

The Company contributes to:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.

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

2.19.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than the defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method, related details of which are given in note 38 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

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

Afh

(Amounts in thousand)

The Company also contributes to:

- defined benefit funded pension scheme for its management employees.

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

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

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

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

2.19.4 Service incentive plan

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

2.19.5 Employees' compensated absences

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

2.20 Provisions

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

2.21 Foreign currency transactions and translation

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

2.22 Revenue recognition

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

(Amounts in thousand)

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

2.23 Borrowing costs

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

2.24 Research and development costs

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

2.25 Government grant

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

2.26 Earnings per share

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

2.27 Transactions with related parties

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

2.28 Dividend and appropriation to reserves

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Property, plant and equipment

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

(Amounts in thousand)

3.2 Investments stated at fair value through profit and loss

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

3.3 Derivatives

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

3.4 Stock-in-trade and stores & spares

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

3.5 Income taxes

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

3.6 Fair value of employee share option

The management has determined the value of options issued under the Employee Share Option Scheme at the grant date using the Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 10.

3.7 Provision for retirement and other service benefits obligations

The present value of these obligations depend on a number of factors that are determined on actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of these obligations. The present value of these obligations and the underlying assumptions are disclosed in note 38.1.1 and 38.1.7 respectively.

4 PROPERTY, PLANT AND EQUIPMENT

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

Afr

(Amounts in thousand)

4.1 Operating assets

	Land – Freehold	Land – Leasehold	Building – Freehold	Building – Leasehold	Plant and machinery	Gas Pipeline	Catalyst	Furniture, fixture and equipments	Vehicles	Total
	Rupees									
As at January 1, 2010, after transfer of fertilizer undertaking										
Cost	130,668	152,280	1,041,929	339,447	10,377,213	-	429,715	476,873	380,951	13,329,076
Accumulated depreciation	-	(45,483)	(325,128)	(65,996)	(6,013,223)	-	(302,061)	(300,442)	(167,519)	(7,219,852)
Net book value	130,668	106,797	716,801	273,451	4,363,990	-	127,654	176,431	213,432	6,109,224
Year ended December 31, 2010										
Net book value - January 1, 2010	130,668	106,797	716,801	273,451	4,363,990	-	127,654	176,431	213,432	6,109,224
Additions including transfers	13,456	84,600	186,275	1,240	9,327,776	1,267,854	56,123	40,932	102,132	11,080,388
Disposals / transfers										
Cost	-	(49,560)	-	-	-	-	-	(2,751)	(56,398)	(108,709)
								(79)	79	-
Accumulated depreciation	-	9,994		-	-	-		2,751	36,334	49,079
								52	(52)	-
	-	(39,566)	-	-	-	-	-	(27)	(20,037)	(59,630)
Depreciation charge	-	(3,683)	(62,049)	(8,507)	(530,980)	(28,818)	(31,740)	(60,521)	(63,150)	(789,448)
Net book value	144,124	148,148	841,027	266,184	13,160,785	1,239,036	152,037	156,815	232,377	16,340,534
As at January 1, 2011										
Cost	144,124	187,320	1,228,204	340,687	19,704,989	1,267,854	485,838	514,975	426,764	24,300,755
Accumulated depreciation	-	(39,172)	(387,177)	(74,503)	(6,544,203)	(28,818)	(333,801)	(358,160)	(194,387)	(7,960,221)
Net book value	144,124	148,148	841,027	266,184	13,160,786	1,239,036	152,037	156,815	232,377	16,340,534
Period ended June 30, 2011										
Net book value - January 1, 2011	144,124	148,148	841,027	266,184	13,160,785	1,239,036	152,037	156,815	232,377	16,340,534
Additions including transfers (note 4.4)	-	-	1,029,341	3,880	69,372,610	1,762	1,030,752	29,167	66,816	71,534,328
Disposals (note 4.3)										
Cost	-	-	-	-	(45)	-	-	(9,915)	(29,189)	(39,149)
Accumulated depreciation	-	-		-	28	-		9,747	21,622	31,397
	-	-	-	-	(17)	-	-	(168)	(7,567)	(7,752)
Depreciation charge (note 4.2)	-	(2,197)	(36,055)	(4,292)	(469,278)	(30,587)	(68,193)	(33,678)	(37,951)	(682,431)
Net book value	144,124	145,951	1,834,313	265,772	82,064,101	1,210,211	1,114,596	151,936	253,675	87,184,879
As at June 30, 2011										
Cost	144,124	187,320	2,257,545	344,567	89,077,554	1,269,616	1,516,590	534,227	464,391	95,795,934
Accumulated depreciation	-	(41,369)	(423,232)	(78,795)	(7,013,453)	(59,405)	(401,994)	(382,291)	(210,716)	(8,611,255)
Net book value	144,124	145,951	1,834,313	265,772	82,064,101	1,210,211	1,114,596	151,936	253,675	87,184,879
Annual rate of depreciation (%)	-	2 to 5	2.5 to 10	2.5	5 to 10	5.0	10 to 50	10 to 25	12 to 25	

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

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

(Amounts in thousand)

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

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

Ah

(Amounts in thousand)

4.4 Capital work in progress - Expansion and Other Project

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

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

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

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

(Amounts in thousand)

5 INTANGIBLE ASSETS

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

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

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

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

(Amounts in thousand)

6 LONG TERM LOANS AND ADVANCES - Considered good

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

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

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

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

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

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

7 STORES, SPARES AND LOOSE TOOLS

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

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

Afr

(Amounts in thousand)

8 STOCK-IN-TRADE

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

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

9 TRADE DEBTS

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

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

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

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

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

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

Afr

(Amounts in thousand)

10 EMPLOYEE SHARE OPTION SCHEME

Consequent to demerger of the fertilizer business into the Company as referred to in note 1.2, the employees 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. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. The number of options granted to an employee are the same as the number of options of the Holding Company surrendered by them. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period for employees who were initially granted options on or before June 30, 2008 in the Holding Company, has started from January 1, 2010 and has ended on December 31, 2010, whereafter these options can be exercised within a period of two years ending December 31, 2012.

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

10.1 Deferred employee compensation expense

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

10.2 Employee share option compensation reserve

	June 30, 2011	December 31, 2010
Balance at beginning of the period / year	58,673	-
Options issued during the period / year	-	58,949
Options lapsed due to employee resignation	(276)	(276)
Balance at end of the period / year	58,397	58,673

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

	June 30, 2011	December 31, 2010
	---Numbers---	
Balance at beginning of the period / year	4,914,000	-
Options issued during the period / year	-	4,937,100
Options lapsed during the period / year	(23,100)	(23,100)
Balance at end of the period / year (note 10.3.2)	4,890,900	4,914,000

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

aft

(Amounts in thousand)

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

10.4 The Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

Fair value of the share options at grant date	Rs. 11.94
Share price at grant date	Rs. 87.61
Exercise price	Rs. 98.00
Annual volatility	41.64%
Risk free rate used	12.21%
Dividend yield	5.71%

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

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

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

11 LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

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

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

(Amounts in thousand)

11.2 Represents interest free loan to Descon Engineering Limited, a contractor to the Enven Plant. The loan, repayable on demand, is given against a Corporate Bond/Guarantee and Promissory Note.

11.3 Represents payments made to Sui Northern Gas Pipeline Limited under Take or Pay arrangement in respect of the Enven Plant. The Company is confident that such prepayment will be adjusted, prior to the expiry period against the expected gas consumption in the coming months.

11.4 As at June 30, 2011, loans and advances aggregating to Rs. 1,512 (December 31, 2010: Rs. 1,512) were impaired and provided for, which are past due for more than six months. The movement in provision during the period / year is as follows:

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

12 OTHER RECEIVABLES

	June 30, 2011	December 31, 2010
Receivable from Government of Pakistan for:		
- sales tax (note 12.1)	-	57,135
- others	197	193
	197	57,328
Accrued income on deposits / investments	14,421	17,173
Receivable from pension fund (note 38.1.1)	4,336	4,073
Due from associated companies:		
- Engro Eximp (Private) Limited	8,064	-
- Engro Foods Limited	1,135	1,912
- Engro Polymer & Chemicals Limited	1,586	3,324
- Engro Powergen Qadirpur Limited (formerly, Engro Energy Limited)	3,829	780
- Avanceon Limited	1,369	2,573
- Engro PowerGen Limited	-	6
- Sindh Engro Coal Mining Company Limited	170	6
- Engro Foods Supply Chain (Private) Limited	56	2
- Engro Vopak Terminal Limited	69	-
Claims on foreign suppliers	4,745	10,028
Others	5,116	10,442
Less: Provision for impairment (note 12.4)	465	-
	4,651	10,442
	44,628	107,647

Ak

(Amounts in thousand)

12.1 This represented sales tax levied on the Holding Company in year 2008 on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 based on the actual import value rather than the deemed value as prescribed by SRO 609(1)/2004. The Holding Company had paid the demand made under protest and filed an appeal before the Collector, Sales Tax and Federal Excise. Further, the Ministry of Food, Agriculture and Livestock had also recommended through its letter dated June 27, 2008 that the said grade of MAP should be assessed at deemed value of import with retrospective effect. An appeal has also been filed before the Collector, Sales Tax and Federal Excise and the management is confident that it will be decided in the Company's favour. However, during the period, the Company has adjusted the sales tax receivable in the monthly returns filed with sales tax authorities subsequent to withdrawal of SRO 535(I)/2008 as referred to in note 28.2.

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

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

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

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

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

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

Atte

(Amounts in thousand)

13 SHORT TERM INVESTMENTS

	June 30, 2011	December 31, 2010
	----Rupees----	
Financial assets at fair value through profit or loss		
Fixed income placements (note 13.1)	49,771	61,303
Money market funds (note 13.2)	4,750,383	2,390,982
	4,800,154	2,452,285

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

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

14 CASH AND BANK BALANCES

	June 30, 2011	December 31, 2010
	----Rupees----	
Cash at banks on:		
- deposit accounts (note 14.1)	1,408,296	1,401.181
- current accounts (note 14.2)	315,308	427,520
	1,723,604	1,828,701
Cash in hand	7,250	7,250
	1,730,854	1,835,951

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

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

15 SHARE CAPITAL

	June 30, 2011	December 31, 2010
	----Rupees----	
Authorised Capital		
1,300,000,000 (December 31, 2010: 1,300,000,000) Ordinary shares of Rs.10 each	13,000,000	13,000,000
Issued, subscribed and paid-up capital		
1,072,800,000 (December 31, 2010: 1,072,800,000) Ordinary shares of Rs.10 each (note 15.1)	10,728,000	10,728,000

(Amounts in thousand)

15.1 Movement in issued, subscribed and paid-up capital

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

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

16 SHARE PREMIUM

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

17 HEDGING RESERVE

Hedging reserve on account of :		
- Foreign exchange forward contracts	5,460	(231,417)
- Foreign exchange option contracts	-	(12,464)
- Interest rate swaps	(884,404)	(1,121,158)
	(878,944)	(1,365,039)
Deferred tax	307,630	477,762
	(571,314)	(887,277)

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

(Amounts in thousand)

18 BORROWINGS

Secured (Non-participatory)

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

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

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

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

(Amounts in thousand)

18.4 The Holding Company entered into a C Loan Agreement (Original Agreement) dated September 29, 2009 with International Finance Corporation (IFC) for US$ 50,000, divided into Tranche A (US$ 15,000) and Tranche B (US$ 35,000). Both Tranche A and B were fully disbursed as at December 31, 2009 and transferred to the Company under the scheme of demerger effective January 1, 2010 as referred to in note 1.2. However, the option given to convert the Tranche A loan amount of US$ 15,000 shall remain upon the Holding Company's ordinary shares at Rs. 205 per ordinary share (reduced to Rs.155.30 and Rs. 186.36 as at June 30, 2011 and December 31, 2010 respectively consequent to bonus issues) calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option. Such option is to be exercised within a period of no more than five years from the date of disbursement of the loan (December 28, 2009). Tranche B, however, is not convertible. The Holding Company, upon shareholders' approval in the Annual General Meeting of February 27, 2010, has entered into an agreement with the Company that in the event IFC exercises the aforementioned conversion option (Tranche A), the loan amount then outstanding against the Company would stand reduced by the conversion option amount and the Company would pay the rupee equivalent of the corresponding conversion amount to the Holding Company which would simultaneously be given to the Company as a subordinated loan, carrying mark-up payable by the Holding Company for rupee finances of like maturities plus a margin of 1%. The effect of IFC conversion in substance would result in a loan from the Holding Company having the same repayment terms / dates as that of Tranche A.

On December 22, 2010, the Company and IFC entered into an amended agreement for further disbursement of US$ 30,000 over and above the aforementioned disbursed amount of US$ 50,000. The amount has been fully disbursed as at June 30, 2011. The salient features of the Original Loan essentially remained the same. The additional loan of US$ 30,000 is divided into (i) 30% convertible loan on the shares of the Company at Rs. 41.67 per ordinary share calculated at the dollar rupee exchange rate prevailing on the business day prior to the date of the notices issued by IFC to exercise the conversion option and (ii) 70% non-convertible loan. The additional loan is repayable by September 15, 2017 in three equal installments and carries interest at six months LIBOR plus a spread of 6% or 10% depending on the listing status of the Company at various intervals. However, the management is confident that it will comply with the requirements of listing and avail the spread of 6% for the entire loan tenor.

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

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

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

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

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

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

(Amounts in thousand)

18.7 This represents privately placed Sukuk Certificates based on diminishing Musharika amounting to Rs.3,000,000. The principal amount is payable after seven years in two semi-annual equal instalments.

18.8 This represents Subordinated Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively. The PPTFCs are perpetual in nature with a five year call and a ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% whereas the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. IGI Investment Bank Limited has been appointed as trustees in respect of these TFCs. Subsequent to period end, the aforementioned TFCs have been listed on the Over-The-Counter (OTC) market of the Karachi Stock Exchange.

18.9 These loans are secured against a ranking charge over the assets of the Company.

18.10 This loan is secured against a ranking charge over the assets of the Company and Corporate Guarantee by the Holding Company. The entire outstanding amount has been paid subsequent to the period end.

18.11 The above finances, excluding those covered in notes 18.4,18.8,18.9 and 18.10, are secured by an equitable mortgage upon the immovable property of the Company and hypothecation charge over current and future fixed assets of the Company. Perpetual subordinated TFCs, IFC and above mentioned bridge loans are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

18.12 In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these financial statements.

19 SUBORDINATED LOAN FROM HOLDING COMPANY - unsecured

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

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

(Amounts in thousand)

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

20.1 Foreign exchange forward contracts

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

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

20.2 Interest rate swaps

20.2.1 The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of USD 129,750 (December 31, 2010: USD 150,000) amortising up to September 2014. Under the swap agreement, the Company would receive USD-LIBOR from Citibank N.A Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap as at June 30, 2011 is negative and amounted to Rs. 568,360 (December 31, 2010: Rs. 654,163 negative).

ofh

(Amounts in thousand)

20.2.2 The Company entered into another interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from a consortium of Development Finance Institutions for a notional amount of USD 77,273 (December 31, 2010: USD 85,000) amortising upto April 2016. Under the swap agreement, the Company would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap as at June 30, 2011 is negative and amounted to Rs. 442,328 (December 31, 2010: Rs. 466,995 negative).

21 DEFERRED LIABILITIES

	June 30, 2011	December 31, 2010
	----------Rupees----------	
Deferred taxation (note 21.1)	3,680,858	2,488,204
Deferred income (note 21.2)	90,507	92,440
	3,771,365	**2,580,644**

21.1 Deferred taxation

Credit balances arising on account of:		
- Accelerated depreciation allowance	16,616,387	3,376,158
- Carried forward tax losses substantially pertaining to unabsorbed tax depreciation	(12,342,899)	(324,811)
- Carried forward minimum tax	(146,663)	-
- Fair values of hedging instruments	(307,630)	(477,762)
- Exchange loss	(96,331)	(20,631)
- Fair value of IFC conversion option	24,572	(10,078)
- Provision for:		
- retirement benefits	(32,930)	(26,410)
- slow moving stores and spares and doubtful receivables	(29,490)	(24,104)
- others	(4,158)	(4,158)
	3,680,858	**2,488,204**

21.2 Deferred income

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

22 EMPLOYEE HOUSING SUBSIDY

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

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