

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM**  
**FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**



**AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION**

**Introduction**

We have reviewed the accompanying condensed interim balance sheet of Engro Fertilizers Limited as at June 30, 2012 and the related condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information"), for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim statement of comprehensive income for the quarters ended June 30, 2012 and 2011 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2012.


**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2012 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our conclusion, we draw attention to note 5.4 to the condensed interim financial information and as more fully explained therein, the Company has approached lenders for re-profiling of various finance facilities. Pending finalization thereof alongwith other terms and conditions the effect of the proposed re-profiling has not been incorporated in the condensed interim financial information.

  
Chartered Accountants  
Karachi

Date: August 28, 2012

Engagement partner: Imtiaz A. H. Laliwala

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**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM BALANCE SHEET (UNAUDITED)**  
**AS AT JUNE 30, 2012**

(Amounts in thousand)

	Note	Unaudited June 30, 2012	Audited December 31, 2011
-----Rupees-----			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	84,786,742	86,332,162
Intangible assets		169,836	134,769
Long term loans and advances		90,242	72,651
		<u>85,046,820</u>	<u>86,539,582</u>
<b>Current assets</b>			
Stores, spares and loose tools		4,140,174	4,209,593
Stock-in-trade		3,964,728	1,834,393
Trade debts		1,362,882	143,379
Derivative financial instruments		91,209	183,713
Loans, advances, deposits and prepayments		525,540	1,410,513
Other receivables		96,117	192,171
Taxes recoverable		1,990,579	1,869,058
Short term investments		3,039,433	3,901,719
Cash and bank balances		647,363	592,873
		<u>15,858,025</u>	<u>14,337,412</u>
<b>TOTAL ASSETS</b>		<u>100,904,845</u>	<u>100,876,994</u>

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(Amounts in thousand)

	Note	Unaudited June 30, 2012	Audited December 31, 2011
-----Rupees-----			
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Share capital			
Authorised			
1,300,000,000 (December 31, 2011: 1,300,000,000) ordinary shares of Rs.10 each		<u>13,000,000</u>	<u>13,000,000</u>
Issued, subscribed and paid-up			
1,072,800,000 (December 31, 2011: 1,072,800,000) ordinary shares of Rs.10 each		10,728,000	10,728,000
Share premium		11,144	11,144
Employee share option compensation reserve		56,926	58,397
Hedging reserve		(415,168)	(497,821)
Unappropriated profit		6,585,988	8,317,338
		<u>6,238,890</u>	<u>7,889,058</u>
<b>Total Equity</b>		<u>16,966,890</u>	<u>18,617,058</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	5	51,820,138	56,398,432
Subordinated loan from Holding Company		3,000,000	3,000,000
Derivative financial instruments		498,165	544,951
Deferred liabilities		3,881,181	4,521,281
Employee housing subsidy		-	19,144
Retirement and other service benefits obligations		75,134	87,448
		<u>59,274,618</u>	<u>64,571,256</u>
<b>Current liabilities</b>			
Trade and other payables		5,482,809	5,153,078
Accrued interest / mark-up		2,048,661	2,087,719
Current portion of:			
- borrowings	5	11,096,075	9,986,885
- other service benefits obligations		39,624	32,559
Short term borrowings	6	5,543,542	3,780
Derivative financial instruments		452,626	424,659
		<u>24,663,337</u>	<u>17,688,680</u>
<b>Total liabilities</b>		<u>83,937,955</u>	<u>82,259,936</u>
<b>Contingencies and Commitments</b>	7		
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<u>100,904,845</u>	<u>100,876,994</u>

The annexed notes from 1 to 15 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

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

	Note	Unaudited Quarter ended June 30, 2012	Unaudited Quarter ended June 30, 2011	Unaudited Half year ended June 30, 2012	Audited Half year ended June 30, 2011
-----Rupees-----					
Net sales		9,601,787	6,263,276	12,804,464	12,145,709
Cost of sales		(5,996,169)	(2,682,784)	(8,299,268)	(5,472,390)
<b>Gross profit</b>		3,605,618	3,580,492	4,505,196	6,673,319
Selling and distribution expenses		(730,017)	(459,221)	(1,050,881)	(953,232)
Administrative expenses		(149,725)	(200,304)	(309,459)	(317,521)
		2,725,876	2,920,967	3,144,856	5,402,566
Other operating income		74,747	220,931	163,138	390,739
Other operating expenses		(25,212)	(48,713)	(89,099)	(256,545)
Finance costs		(2,934,070)	(1,890,493)	(5,562,874)	(2,181,441)
		(2,959,282)	(1,939,206)	(5,651,973)	(2,437,986)
<b>(Loss) / profit before taxation</b>		(158,659)	1,202,692	(2,343,979)	3,355,319
Taxation	8				
Current		(34,577)	211,916	(70,044)	(158,136)
Deferred		(117,962)	(636,992)	682,673	(1,022,522)
		(152,539)	(425,076)	612,629	(1,180,658)
<b>(Loss) / profit for the period</b>		<b>(311,198)</b>	<b>777,616</b>	<b>(1,731,350)</b>	<b>2,174,661</b>
<b>(Loss) / earnings per share - basic</b>	9	<b>(0.29)</b>	<b>0.72</b>	<b>(1.61)</b>	<b>2.03</b>
<b>(Loss) / earnings per share - diluted</b>	9	<b>(0.29)</b>	<b>0.72</b>	<b>(1.61)</b>	<b>2.02</b>

The annexed notes from 1 to 15 form an integral part of this condensed interim financial information.

  
Chief Executive

  
Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

(Amounts in thousand)

	Unaudited Quarter ended June 30, 2012	Unaudited Quarter ended June 30, 2011	Unaudited Half year ended June 30, 2012	Audited Half year ended June 30, 2011
	Rupees			
(Loss) / profit for the period	(311,198)	777,616	(1,731,350)	2,174,661
<b>Other comprehensive income</b>				
<b>Hedging reserve - cash flow hedges</b>				
Gain / (Losses) arising during the period	151,203	(282,268)	(229,339)	(485,549)
Less: Adjustment for amounts transferred to profit and loss account	(97,814)	69,637	343,732	69,637
Less: Adjustment for amounts transferred to initial carrying amount of hedged items (Capital work in progress)	9,432	325,862	12,766	902,009
	62,821	113,231	127,159	486,097
Income tax (Deferred) relating to hedging reserve	(21,988)	(39,632)	(44,506)	(170,134)
Other comprehensive income for the period, net of tax	40,833	73,599	82,653	315,963
<b>Total comprehensive (loss) / income for the period</b>	<b>(270,365)</b>	<b>851,215</b>	<b>(1,648,697)</b>	<b>2,490,624</b>

The annexed notes from 1 to 15 form an integral part of this condensed interim financial information.

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*R. S. M.*  
 Chief Executive

*J. Archan*  
 Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

(Amounts in thousand)

	Share capital	Share premium	Employees share option compensation reserve	Hedging reserve	Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2011 (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	-	-	(276)	-	-	(276)
<b>Total comprehensive income for the half year ended June 30, 2011</b>						
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	(671,314)	5,903,713	16,129,940
<b>Total comprehensive income for the half year ended December 31, 2011</b>						
Profit for the period	-	-	-	-	2,413,625	2,413,625
Other comprehensive income	-	-	-	-	-	-
- cash flow hedges, net of tax	-	-	-	73,493	-	73,493
	-	-	-	73,493	2,413,625	2,487,118
Balance as at December 31, 2011 (audited)	10,728,000	11,144	58,397	(497,821)	8,317,338	18,617,058
Share options lapsed during the period	-	-	(1,471)	-	-	(1,471)
<b>Total comprehensive income / (loss) for the half year ended June 30, 2012</b>						
Loss for the period	-	-	-	-	(1,731,350)	(1,731,350)
Other comprehensive income	-	-	-	-	-	-
- cash flow hedges, net of tax	-	-	-	82,653	-	82,653
	-	-	-	82,653	(1,731,350)	(1,648,697)
Balance as at June 30, 2012 (unaudited)	10,728,000	11,144	56,926	(415,168)	6,585,988	16,966,890

The annexed notes from 1 to 15 form an integral part of this condensed interim financial information.

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*A. S. S.*  
 Chief Executive

*J. Arora*  
 Director

**ENGRO FERTILIZERS LIMITED**  
**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

(Amounts in thousand)

	Note	Unaudited Half year ended June 30, 2012	Audited Half year ended June 30, 2011
-----Rupees-----			
<b>Cash flows from operating activities</b>			
Cash generated from operations	10	3,740,695	7,571,030
Retirement and other service benefits paid		(30,930)	(93,153)
Finance cost paid		(4,270,034)	(1,836,779)
Taxes paid		(191,565)	(496,229)
Long term loans and advances to executives and other employees - net		(17,591)	11,775
Net cash (utilised in) / generated from operating activities		(769,425)	5,156,644
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)		(987,094)	(4,009,593)
Proceeds from sale of PPE		19,079	18,612
Repayment of sub-ordinated loan by associate company		-	770,000
Income on deposits / other financial assets		96,063	232,380
Net cash utilised in investing activities		(871,952)	(2,988,601)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,500,000	4,063,006
Repayments of borrowings		(7,206,181)	(3,053,106)
Net cash (utilised in) / generated from financing activities		(2,706,181)	1,009,900
Net (decrease) / increase in cash and cash equivalents		(4,347,558)	3,177,943
Cash and cash equivalents at beginning of the period		4,490,812	3,318,110
Cash and cash equivalents at end of the period	11	143,254	6,496,053

The annexed notes from 1 to 15 form an integral part of this condensed interim financial information.

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Chief Executive

  
Director



**ENGRO FERTILIZERS LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

(Amounts in thousand)

**1 LEGAL STATUS AND OPERATIONS**

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

**2 BASIS OF PREPARATION**

2.1 This condensed interim financial information is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance, and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2011.

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

During the preparation of this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to annual audited financial statements for the year ended December 31, 2011.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of this interim condensed financial information are the same as those applied in the preparation of audited annual published financial statements of the Company for the year ended December 31, 2011.

**4 PROPERTY, PLANT AND EQUIPMENT**

Unaudited June 30, 2012	Audited December 31, 2011
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	Rupees	
Operating assets at net book value	82,798,483	85,152,431
Capital work in progress		
- Expansion and other projects	1,552,357	786,079
- Capital spares	435,902	393,652
	1,988,259	1,179,731
	84,786,742	86,332,162

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(Amounts in thousand)

	Unaudited June 30, 2012	Audited December 31, 2011
	-----Rupees-----	
<b>4.1 Additions in operating assets:</b>		
Land	-	5,451
Building	4,651	1,051,448
Plant and machinery	118,945	69,372,563
Gas pipeline	-	336,541
Catalyst	-	1,030,752
Furniture, fixture and equipment	17,930	65,419
Vehicles	30,347	105,598
	<u>171,873</u>	<u>71,967,772</u>
<b>4.2</b> During the period, the Company has not made any significant disposals.		
<b>4.3</b> Additions in capital work-in-progress - Expansion and other projects:		
Plant and machinery	808,644	1,990,955
Building and civil works including Gas pipeline	114,400	471,938
Furniture, fixture and equipment	15,028	45,036
Advances to suppliers	22,449	89,063
Others	26,573	2,445,644
	<u>987,094</u>	<u>5,042,636</u>
<b>5 BORROWINGS - Secured (Non - participatory)</b>		
Long term finance utilised under mark-up arrangements (notes 5.1-5.4)	48,065,793	51,469,952
Certificates	14,850,420	14,915,365
	<u>62,916,213</u>	<u>66,385,317</u>
Less: Current portion shown under current liabilities	11,096,075	9,986,885
Balance at end of the period / year	<u>51,820,138</u>	<u>56,398,432</u>

**5.1** The maturity of loan facilities are upto 6 years and mark-up range from 1.1% to 2.4% over six months KIBOR for Rupee facilities, and 2.57% to 6% over six months LIBOR for USD facilities. These facilities, excluding the privately placed TFCs (PPTFC) and International Finance Corporation's (IFC) facility, are secured by an equitable mortgage upon immovable property of the Company and hypothecation charge over current and future 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.

**5.2** This includes a loan of USD 30,000 from the International Finance Corporation (IFC) which carries interest of six months LIBOR plus a spread of 6% or 10% depending of the listing status of the Company at various intervals. The management is confident that it will avail the spread of 6% for the entire loan tenor, and hence no related provision for the differential aggregating to Rs 118,662 (December 31, 2011: Rs. 59,332) has been made in this condensed financial information.

**5.3** Under the terms of the agreements for long term borrowings the Company is required to comply with certain debt covenants. As at June 30, 2012 all debt covenants have been complied with except for current ratio and debt service coverage ratio.

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(Amounts in thousand)

5.4 The Company, during the period, due to gas curtailment by SNGPL has been able to operate EnVen plant for only one month. This has severely put burden on Company's cash flows. The Company, therefore, while aggressively pursuing in consultation with the Ministry of Petroleum and Natural Resources for other alternate source of gas supply, has approached majority of the lenders for re-profiling of various finance facilities. This mainly comprises of amending the principal payment schedule by allowing 2.5 to 3 year grace in the existing repayment schedule. Interest payments, however, is not affected by this proposed re-profiling and the Company's cash generation from base plant can sustain interest payment of all outstanding debt. The management is very confident, based on initial discussion, that the lenders will agree / formalise alongwith other terms and conditions of the aforementioned re-profiling prior to the due date falling in between end of August to October 2012.

## 6 SHORT TERM BORROWINGS

6.1 The funded facilities for short term finances, including Sukuk, available from various banks and institutional investors amounts to Rs. 6,950,000 (December 31, 2011: Rs. 4,150,000) along with non-funded facilities of Rs.1,275,000 (December 31, 2011: Rs. 1,450,000) for Bank Guarantees. The rates of markup on funded bank overdraft facilities ranges from 12.77% to 13.55% and all the facilities are secured by floating charge upon all present and future stocks including raw and packaging materials, finished goods, stores and spares and other merchandise and on all present and future book debts of the Company.

6.1.1 The Company, during the period, acquired funds through money market loans and under an Istisna Agreement from various banks amounting to Rs. 1,940,000 out of which Rs 940,000 was repaid before June 30, 2012. These loans carry mark-up rates ranging from 12.41% to 13.60% per annum.

6.1.2 The Company issued Sukuk of Rs. 2,000,000, with a tenor of 6 months, carrying profit rate of 6 month KIBOR plus 1.60%. The principal repayment will commence from July 2012 with 25% repayment in first two months and the balance 50% in September 2012. The Sukuk is secured by first pari passu charge on all stocks, raw materials, packaging material, finished goods, stock in trade and book debts of the Company.

6.2 The Company, during the period, signed a short term finance agreement with Engro Corporation Limited, the Holding Company, for upto Rs. 1,000,000 under mark-up arrangement, at around Holding Company's cost of borrowing. As at June 30, 2012, all the outstanding amount of loan has been repaid.

6.3 The Company, during the period, signed a short term finance agreement with Engro Eximp (Private) Limited, an associated undertaking, for upto Rs. 1,500,000 under mark-up arrangement, at associated undertaking's incremental cost of borrowing for the first Rs. 1,000,000 and thereafter (for the remaining Rs. 500,000) at its highest cost of borrowing for the remaining balance. The finance payable in one lump sum installment due on June 30, 2012, was repaid.

## 7 CONTINGENCIES AND COMMITMENTS

### Contingencies

7.1 Bank guarantees of Rs. 1,039,119 (December 31, 2011: Rs. 1,015,730) have been issued in favor of third parties.

7.2 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 24,695 (December 31, 2011: Rs. 34,938).

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**(Amounts in thousand)**

- 7.3 The Company is contesting a penalty of Rs. 99,936 paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.
- 7.4 The Holding Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Holding Company Rs. 47,800 whereas the award for the earlier years is awaited. The award for the second arbitration has not been recognised due to inherent uncertainties arising from its challenge in the High Court of Sindh.
- 7.5 The Company had filed a constitutional petition in the High Court of Sindh, Karachi against the Ministry of Petroleum and Natural Resource (MPNR), Ministry of Industries and Production (MIP) and Sui Northern Gas Pipeline Company Limited (SNGPL) for continuous supply of 100 MMCFD gas per day to the Enven Plant and to prohibit from suspending, discontinuing or curtailing the aforesaid supply. The High Court of Sindh, in its order dated October 18, 2011, has ordered that SNGPL should supply 100 MMCFD of gas per day to the Company's new plant. However, five petitions have been filed in the Supreme Court of Pakistan against the aforementioned order of High Court of Sindh by SNGPL, MPNR, Agritech Limited, Pak Arab Fertilizers and Kohinoor Mills Limited along with 21 other companies (mainly engaged in textile business). The aforementioned petitions are pending for further hearing. The Company's management as confirmed by the legal advisor considers the chances of petitions being allowed to be remote.

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

- 7.6 All Pakistan Textile Processing Mills Association (AFTPMA), Shan Dying & Printing Industries (Private) Limited, Agritech Limited (Agritech) and 27 others have each contended, through separate proceedings filed before the Lahore High Court that the supply to the Company's expansion plant is premised on the output of Qadirpur gas field exceeding 500 MMCFD by 100 MMCFD and the Gas Sale and Purchase Agreement (GSA) dated April 11, 2007 with Sui Northern Gas Pipe Line Limited (SNGPL) be declared void abinitio because the output of Qadirpur has infact decreased. Agritech has additionally alleged discrimination in that it is receiving less gas than the other fertilizer companies on the SNGPL system. The Company has out rightly rejected these contentions, and is of the view that it has a strong case for the reasons that (i) 100 MMCFD gas has been allocated to the Company through a transparent international competitive bidding process held by the Government of Pakistan, and upon payment of valuable license fee; (ii) GSA which guarantees uninterrupted supply of gas to the expansion plant, with right to first 100 MMCFD gas production from the Qadirpur field; and (iii) both the Company and gas field (Qadirpur), that is to initially supply gas to the Company, are in Sindh. Also, neither the gas allocation by Government nor the GSA predicates the gas supply upon Qadirpur field producing 100 MMCFD over and above 500 MMCFD. No orders have been passed in this regard and the petitions have been adjourned sine die. However, the Company's management, as confirmed by the legal advisor, considers the chances of the petitions being allowed to be remote.
- 7.7 The Company, along with other fertilizer Companies, has received a show cause notice from the Competition Commission of Pakistan (CCP) for initiating action under the Competition Act 2010 in relation to unreasonable increase in the price of fertilizer. The Company has responded in detail to factors resulting in such increase, gas curtailment being the single largest factor, to CCP and the Company is hopeful that there will be no adverse action taken against the Company.

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(Amounts in thousand)

	Unaudited June 30, 2012	Audited December 31, 2011
Commitments	-----Rupees-----	
7.8 Property, plant and equipment	<u>34,596</u>	<u>596,378</u>

## 8 TAXATION

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

During the period, the income tax department raised a demand of Rs 1,481,709 subsequently rectified to Rs. 1,074,938 for the financial year 2010. The disallowances, mainly on account of borrowing cost during construction of Enven and initial allowance on capitalisation, were later confirmed by the Commissioner Inland Revenue-Appeals (CIRA). Besides a payment of Rs 100,000, the Company has also obtained a stay order against the demand from the Sindh High Court. Moreover, the Company has applied to the department for offsetting the demand with the pending rectifications in appeal which have been decided in the Company's favour for previous years. Further, during the period, the Company has received rectification and appeal effect orders related to various years, creating a refund of Rs 336,157.

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

The tax department had raised demands of Rs. 476,479 (rectified to Rs. 406,644), Rs. 910,845 and Rs.1,670,814 for financial years 2006, 2007 and 2008 respectively, mainly on account of disallowance of Group Relief (in all three years), inter corporate dividend (in 2007 and 2008) and write down of inventories to net realisable value (in 2008) besides certain other issues. The Holding Company had paid Rs. 170,000, Rs. 400,000 and Rs. 600,000 for financial years 2006, 2007 and 2008 respectively. During the period, the Company received appeal effect orders for financial years 2006 and 2007 confirming Appellate Tribunal Inland Revenue (ATIR) decision in favour of the Company on the issues of both group relief and intercorporate dividend. However, subsequent to this, the CIRA has decided these issues against the Company for the financial year 2008 and the Company has consequently appealed to ATIR. Furthermore, in 2011, appeal effect orders were received relating to financial / income years 1995 to 2002 to give effect to the ATIR's decision on the apportionment of gross profit in the Company's favour. The tax department has however, filed reference application against the ATIR's decisions on group relief, inter-company dividend and apportionment of gross profits before the Sindh High Court, which is pending for hearing. The Company is confident that all pending issues, including the references filed by the department in the High Court, will eventually be decided in its favour.

(Amounts in thousand)

## 9 (LOSS) / EARNINGS PER SHARE

The effect of conversion of potential ordinary shares is not considered in the current period as it is anti-dilutive. The potential ordinary shares outstanding comprise of employees stock options and convertible International Finance Corporation (IFC) loan. The information necessary to calculate basic and diluted (loss) / earnings per share is as follows:

	Unaudited Quarter ended June 30, 2012	Unaudited Quarter ended June 30, 2011	Unaudited Half year ended June 30, 2012	Audited Half year ended June 30, 2011
-----Rupees-----				
(Loss) / profit for the period	(311,198)	777,616	(1,731,350)	2,174,661
Add: Interest on IFC loan of USD 9,000 (net of tax)	-	-	-	1,260
(Loss) / profit used for the determination of Diluted EPS	<u>(311,198)</u>	<u>777,616</u>	<u>(1,731,350)</u>	<u>2,175,921</u>

	-----Numbers (in thousand)-----			
Weighted average number of ordinary shares	1,072,800	1,072,800	1,072,800	1,072,800
Add : Weighted average adjustments for:				
Assumed conversion of employees' share options	-	3,027	-	3,027
Assumed conversion of USD 9,000 IFC loan	-	1,610	-	1,610
	-	4,637	-	4,637
Weighted average number of shares for determination of diluted EPS	<u>1,072,800</u>	<u>1,077,437</u>	<u>1,072,800</u>	<u>1,077,437</u>

SAH

(Amounts in thousand)

	Unaudited Half year ended June 30, 2012	Audited Half year ended June 30, 2011
<b>10 CASH GENERATED FROM OPERATIONS</b>	-----Rupees-----	
<b>Profit / (Loss) before taxation</b>	(2,343,979)	3,355,319
Adjustment for non-cash charges and other items:		
Depreciation	2,510,518	365,085
Amortisation	11,943	7,744
Profit on disposal of property, plant and equipment	(3,776)	(10,860)
Provision for retirement and other service benefits	25,681	92,242
Income on deposits / other financial assets	(83,244)	(229,628)
Financial charges	5,468,053	2,190,732
(Reversal) / expense for employee share compensation	(1,471)	696
Employee Housing Subsidy expense	-	5,983
(Reversal) / provision for surplus and slow moving stores and spares	(5,477)	14,923
Provision against other receivables	-	465
Change in the fair value of IFC conversion option	71,353	(99,000)
Un-realised loss on cash flow hedges	129,491	-
Working capital changes (note 10.1)	<u>(2,038,397)</u>	<u>1,877,329</u>
	<u>3,740,695</u>	<u>7,571,030</u>
<b>10.1 Working capital changes</b>		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	32,646	(564,172)
- Stock-in-trade	(2,130,335)	(678,295)
- Trade debts	(1,219,503)	99,152
- Loans, advances, deposits and prepayments	865,829	(539,466)
- Other receivables (net)	83,235	59,800
	<u>(2,368,128)</u>	<u>(1,622,981)</u>
Increase in current liabilities		
- Trade and other payables including other service benefits - net	329,731	3,500,310
	<u>(2,038,397)</u>	<u>1,877,329</u>
<b>11 CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	647,363	1,730,854
Short term investments	3,039,433	4,800,154
Short term borrowings	<u>(3,543,542)</u>	<u>(34,955)</u>
	<u>143,254</u>	<u>6,496,053</u>
<b>11.1</b> Short term sukuk (note 6.3) of Rs. 2,000,000 has been excluded.		

*Atu*

(Amounts in thousand)

**12 TRANSACTIONS WITH RELATED PARTIES**

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

	Unaudited Half year ended June 30, 2012	Audited Half year ended June 30, 2011
-----Rupees-----		
<b><i>Holding Company</i></b>		
Purchases and services	109,687	61,841
Services provided	8,711	4,693
Royalty	201,065	197,317
Reimbursements	46,666	31,568
Mark-up paid on Long term sub-ordinated loan	255,797	235,138
Mark-up paid on Short term sub-ordinated loan	19,810	-
Use of assets	7,477	2,396
Receipt of sub-ordinated loan	1,000,000	1,500,000
Payment of sub-ordinated loan	1,000,000	-
<b><i>Associated companies</i></b>		
Purchases and services	992,360	1,073,150
Sale of product	1,330	12,500
Contributions to retirement benefit schemes / funds	75,309	83,881
Services provided	43,957	17,842
Reimbursements	95,429	54,081
Funds collected against sales made on behalf of an associate	5,695,774	7,548,991
Payment of mark-up on TFCs and repayment of principal amount	104,092	99,886
Sale of T-Bills	487,621	-
Purchase of T-Bill	-	979,264
Commission on sales	35,997	51,251
Purchase of mutual fund units	400,000	1,385,000
Redemption of mutual fund units	588,577	814,358
Donation to Engro Foundation	13,519	12,007
Commission expense	7,453	15,737
Mark-up to associate	26,685	27,847
Use of Assets	7,424	6,607
Receipt of sub-ordinated loan	1,500,000	770,000
Payment of sub-ordinated loan	1,500,000	-
<b><i>Others</i></b>		
Remuneration of key management personnel	50,627	47,857

**13 SEASONALITY**

The Company's fertilizer business is subject to seasonal fluctuations as a result of two different farming seasons viz, Rabi (from October to March) and Kharif (from April to September). On an average fertilizer sales are more tilted towards Rabi season. The Company manages seasonality in the business through appropriate inventory management.



(Amounts in thousand)

#### 14 CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet has been compared with the balances of annual audited financial statements of preceding financial year, whereas the condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the audited balances of comparable period of immediately preceding financial year. The financial statements for the half year ended June 30, 2011 were audited on the request of the management.

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

#### 15 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on August 10, 2012 by the Board of Directors of the Company.

*off*

  
Chief Executive

  
Director