

Financial Statements

Fauji Fertilizer Company Limited

Report of the Audit Committee on Adherence to the Code of Corporate Governance

The Audit Committee has concluded its annual review of the conduct and operations of the Company during 2011, and reports that:

- The Company has adhered in full, without any material departure, with the mandatory and voluntary provisions of the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges of Pakistan, Company's statements on ethics, values, codes of conduct and the international best practices of Governance throughout the year, and the Company did not engage in any activities in contravention of any applicable law or regulation.
- Understanding and compliance with Company codes and policies has been affirmed by the members of the Board, the Management and employees of the Company individually. Equitable treatment of shareholders has also been ensured.
- The Company has issued a "Statement of Compliance with the Code of Corporate Governance" which has also been reviewed and certified by the Auditors of the Company.
- Appropriate accounting policies have been consistently applied. All core & other applicable International Accounting Standards were followed in preparation of financial statements of the Company and consolidated financial statements on a going concern basis, for the financial year ended December 31, 2011, which present fairly the state of affairs, results of operations, profits, cash flows and changes in equities of the Company and its subsidiaries for the year under review.
- The Chief Executive and the CFO have reviewed the financial statements of the Company, consolidated financial statements and the Directors' Report. They acknowledge their responsibility for true and fair presentation of the Company's financial condition and results, compliance with regulations and applicable accounting standards and establishment and maintenance of internal controls and systems of the Company.
- Accounting estimates are based on reasonable and prudent judgment. Proper and adequate accounting records have been maintained by the Company in accordance with the Companies Ordinance, 1984. The financial statements comply with the requirements of the Fourth Schedule to the Companies Ordinance, 1984 and the external reporting is consistent with Management processes and adequate for shareholder needs.
- All Directors have access to the Company Secretary. All direct or indirect trading and holdings of Company's shares by Directors & executives or their spouses were notified in writing to the Company Secretary along with the price, number of shares, form of share certificates and nature of transaction which were notified by the Company Secretary to the Board within the stipulated time. All such holdings have been disclosed in the Pattern of Shareholdings. The Annual Secretarial Compliance Certificates are being filed regularly within stipulated time.
- Closed periods were duly determined and announced by the Company, precluding the Directors, the Chief Executive and executives of the Company from dealing in Company shares, prior to each Board meeting involving announcement of interim / final results, distribution to shareholders or any other business decision, which could materially affect the share market price of Company, along with maintenance of confidentiality of all business information.

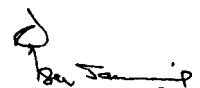
INTERNAL AUDIT

- The internal control framework has been effectively implemented through an independent in-house Internal Audit function established by the Board which is independent of the External Audit function.
- The Company's system of internal control is sound in design and has been continually evaluated for effectiveness and adequacy.

- The Audit Committee has ensured the achievement of operational, compliance, risk management, financial reporting and control objectives, safeguarding of the assets of the Company and the shareholders wealth at all levels within the Company.
- The Internal Audit function has carried out its duties under the charter defined by the Committee. The Committee has reviewed material Internal Audit findings, taking appropriate action or bringing the matters to the Board's attention where required.
- The Head of Internal Audit has direct access to the Chairman of the Audit Committee and the Committee has ensured staffing of personnel with sufficient internal audit acumen and that the function has all necessary access to Management and the right to seek information and explanations.
- Coordination between the External and Internal Auditors was facilitated to ensure efficiency and contribution to the Company's objectives, including a reliable financial reporting system and compliance with laws and regulations.

EXTERNAL AUDITORS

- The statutory Auditors of the Company, M/s KPMG Taseer Hadi & Company, Chartered Accountants, have completed their Audit assignment of the "Company's Financial Statements", the "Consolidated Financial Statements" and the "Statement of Compliance with the Code of Corporate Governance" for the financial year ended December 31, 2011 and shall retire on the conclusion of the 34th Annual General Meeting.
- The Audit Committee has reviewed and discussed Audit observations and Draft Audit Management Letter with the External Auditors. Final Management Letter is required to be submitted within 30 days of the date of the Auditors' Report on financial statements under the listing regulations and shall therefore accordingly be discussed in the next Audit Committee Meeting. Audit observations for interim review were also discussed with the Auditors.
- The Auditors have been allowed direct access to the Committee and the effectiveness, independence and objectivity of the Auditors has thereby been ensured. The Auditors attended the General Meetings of the Company during the year and have confirmed attendance of the 34th Annual General Meeting scheduled for March 07, 2012 and have indicated their willingness to continue as Auditors.
- Being eligible for reappointment as Auditors of the Company, the Audit Committee recommends their reappointment for the financial year ending December 31, 2012 with enhanced Audit Fee from 1.3 million to 1.5 million.
- The Firm has no financial or other relationship of any kind with the Company except that of External Auditors.



Qaiser Javed
Chairman - Audit Committee

Statement of Compliance

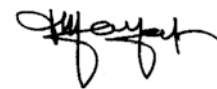
with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes at least 4 independent non-executive directors, 1 executive director, 1 director representing minority shareholders and 1 representing the interest of the Government of Pakistan.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred in the Board during the year 2011, if any, were filled up within 30 days of occurrence.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged one orientation course for its directors during the year 2011 to apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises three members, who all are non-executive directors including the Chairman of the Committee.

16. The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All material information as required under the relevant rules have been provided to the stock exchanges and to the Securities and Exchange Commission of Pakistan within the prescribed time limit.
21. All related party transactions entered during the year were at arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by Audit Committee and Board of Directors.
22. We confirm that all other material principles contained in the Code have been complied with.



Lt Gen Malik Arif Hayat, HI (M) (Retired)
Chief Executive & Managing Director

Rawalpindi
January 30, 2012

Review Report to the Members

on Directors' Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Directors' Statement of Compliance with the best practices ("the Statement") contained in the Code of Corporate Governance prepared by the Board of Directors of Fauji Fertilizer Company Limited, ("the Company") to comply with the Listing Regulation No. 35 of Karachi Stock Exchange (Guarantee) Limited, Listing Regulation No. 35 of Lahore Stock Exchange (Guarantee) Limited and Chapter XI of the Listing Regulation of Islamabad Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement covers all risks or controls, or to form an opinion on the effectiveness of such internal control, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE / N-269 dated January 19, 2009 requires the Company to place before the Board of Director for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternative pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2011.

Islamabad
January 30, 2012

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner
Muhammad Rehan Chughtai

Auditors' Report to the Members of Fauji Fertilizer Company Limited

We have audited the annexed balance sheet of Fauji Fertilizer Company Limited ("the Company") as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) 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;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance.

Islamabad
January 30, 2012

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner
Muhammad Rehan Chughtai

Balance Sheet

as at December 31, 2011

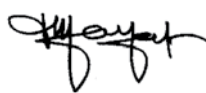
	Note	2011 (Rupees '000)	2010
EQUITY AND LIABILITIES			
EQUITY			
Share capital	4	8,481,588	6,785,271
Capital reserves	5	160,000	160,000
Revenue reserves	6	14,428,636	8,502,276
		23,070,224	15,447,547
NON - CURRENT LIABILITIES			
Long term borrowings	7	2,703,750	3,819,405
Deferred liabilities	8	3,832,614	3,806,795
		6,536,364	7,626,200
CURRENT LIABILITIES			
Trade and other payables	9	11,730,961	9,023,052
Interest and mark-up accrued	11	79,826	137,968
Short term borrowings	12	8,735,650	5,640,420
Current portion of long term borrowings	7	1,615,655	1,759,405
Taxation		3,762,236	3,426,264
		25,924,328	19,987,109
		55,530,916	43,060,856
CONTINGENCIES AND COMMITMENTS			
	13		

The annexed notes 1 to 41 form an integral part of these financial statements.

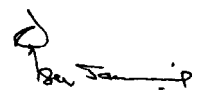
	Note	2011 (Rupees '000)	2010
ASSETS			
NON – CURRENT ASSETS			
Property, plant and equipment	14	17,050,951	15,933,588
Goodwill	15	1,569,234	1,569,234
Long term investments	16	8,659,073	7,870,027
Long term loans and advances	17	605,883	455,328
Long term deposits and prepayments	18	9,370	9,037
		27,894,511	25,837,214
CURRENT ASSETS			
Stores, spares and loose tools	19	2,447,452	2,440,201
Stock in trade	20	636,923	211,720
Trade debts	21	86,669	357,956
Loans and advances	22	431,582	336,269
Deposits and prepayments	23	53,852	50,188
Other receivables	24	891,673	617,664
Short term investments	25	21,794,480	12,020,581
Cash and bank balances	26	1,293,774	1,189,063
		27,636,405	17,223,642
		55,530,916	43,060,856



Chairman



Chief Executive



Director

Profit and Loss Account

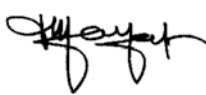
for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
Sales	27	55,221,168	44,874,359
Cost of sales	28	20,871,759	25,310,406
GROSS PROFIT		34,349,409	19,563,953
Distribution cost	29	4,372,151	3,944,473
		29,977,258	15,619,480
Finance cost	30	785,825	1,086,741
Other expenses	31	2,654,881	1,376,000
		26,536,552	13,156,739
Other income	32	6,629,501	3,153,110
NET PROFIT BEFORE TAXATION		33,166,053	16,309,849
Provision for taxation	33	10,674,000	5,281,000
NET PROFIT AFTER TAXATION		22,492,053	11,028,849
			Restated
Earnings per share – basic and diluted (Rupees)	34	26.52	13.00

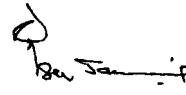
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Chairman



Chief Executive



Director

Statement of Comprehensive Income

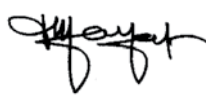
for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
Net profit after taxation	22,492,053	11,028,849
Other comprehensive income for the year		
Surplus / (deficit) on remeasurement of investments available for sale to fair value	18,802	(15,460)
Income tax relating to component of other comprehensive income	(2,990)	2,936
Other comprehensive income for the year – net of tax	15,812	(12,524)
Total comprehensive income for the year	22,507,865	11,016,325

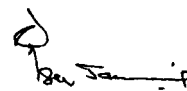
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Chairman



Chief Executive



Director

Cash Flow Statement

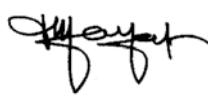
for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	33,121,687	20,381,138
Finance cost paid		(843,967)	(1,096,102)
Income tax paid		(10,398,028)	(3,488,331)
Payment to gratuity fund		(75,241)	(63,710)
Payment to pension fund		(109,220)	(77,446)
Payment to Workers' Welfare Fund		(329,070)	(261,143)
Payment to Workers' Profit Participation Fund - net		(1,808,776)	(625,969)
Net cash generated from operating activities	36.1	19,557,385	14,768,437
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(2,314,033)	(3,313,841)
Proceeds from sale of property, plant and equipment		14,123	82,379
Interest received		1,480,703	501,482
Investment in FFC Energy Limited		(800,000)	(650,000)
(Increase) / decrease in other investment		(3,230,683)	1,766,076
Dividends received		4,842,032	2,575,478
Net cash (used in) / generated from investing activities		(7,858)	961,574
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - disbursements		500,000	1,500,000
- repayments		(1,759,405)	(2,299,405)
Dividends paid		(14,774,032)	(10,622,306)
Net cash used in financing activities		(16,033,437)	(11,421,711)
Net increase in cash and cash equivalents		3,516,090	4,308,300
Cash and cash equivalents at beginning of the year		6,423,264	2,096,060
Effect of exchange rate changes		23,893	18,904
Cash and cash equivalents at end of the year	37	9,963,247	6,423,264

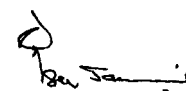
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Chairman



Chief Executive



Director

Statement of Changes in Equity

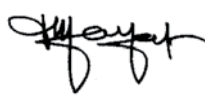
for the year ended December 31, 2011

	Share capital	Capital reserves	Revenue reserves		Total	
			Surplus / (deficit) on remeasurement of investments available for sale to fair value	General reserve		Unappropriated profit
(Rupees '000)						
Balance at January 01, 2010	6,785,271	160,000	6,970	3,739,471	2,390,730	13,082,442
Transfer from general reserve	-	-	-	500,000	(500,000)	-
Total comprehensive income for the year						
Profit for the year after taxation	-	-	-	-	11,028,849	11,028,849
Other comprehensive income - net of tax	-	-	(12,524)	-	-	(12,524)
Total comprehensive income for the year - net of tax	-	-	(12,524)	-	11,028,849	11,016,325
Distribution to owners						
Final dividend 2009: Rs 3.25 per share	-	-	-	-	(2,205,213)	(2,205,213)
First interim dividend 2010: Rs 4.00 per share	-	-	-	-	(2,714,108)	(2,714,108)
Second interim dividend 2010: Rs 3.50 per share	-	-	-	-	(2,374,845)	(2,374,845)
Third interim dividend 2010: Rs 2.00 per share	-	-	-	-	(1,357,054)	(1,357,054)
Total transactions with owners	-	-	-	-	(8,651,220)	(8,651,220)
Balance at December 31, 2010	6,785,271	160,000	(5,554)	4,239,471	4,268,359	15,447,547
Balance at January 01, 2011	6,785,271	160,000	(5,554)	4,239,471	4,268,359	15,447,547
Transfer to general reserve	-	-	-	3,000,000	(3,000,000)	-
Total comprehensive income for the year						
Profit for the year after taxation	-	-	-	-	22,492,053	22,492,053
Other comprehensive income - net of tax	-	-	15,812	-	-	15,812
Total comprehensive income for the year - net of tax	-	-	15,812	-	22,492,053	22,507,865
Distribution to owners						
Issue of bonus shares	1,696,317	-	-	(1,696,317)	-	-
Final dividend 2010: Rs 3.50 per share	-	-	-	-	(2,374,845)	(2,374,845)
First interim dividend 2011: Rs 4.50 per share	-	-	-	-	(3,816,715)	(3,816,715)
Second interim dividend 2011: Rs 4.75 per share	-	-	-	-	(4,028,754)	(4,028,754)
Third interim dividend 2011: Rs 5.50 per share	-	-	-	-	(4,664,874)	(4,664,874)
Total transactions with owners	1,696,317	-	-	(1,696,317)	(14,885,188)	(14,885,188)
Balance at December 31, 2011	8,481,588	160,000	10,258	5,543,154	8,875,224	23,070,224

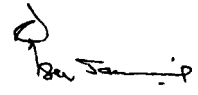
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Chairman



Chief Executive



Director

Notes to the Financial Statements

for the year ended December 31, 2011

1. STATUS AND NATURE OF BUSINESS

Fauji Fertilizer Company Limited ("the Company") is a public company incorporated in Pakistan under the Companies Act, 1913, (now the Companies Ordinance, 1984) and its shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The registered office of the Company is situated at 93 Harley Street, Rawalpindi, Pakistan. The Company is domiciled in Rawalpindi. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers and chemicals, including investment in other fertilizer, chemical and other manufacturing operations.

These financial statements are the separate financial statements of the Company in which investments in subsidiaries, associate and jointly controlled entity are accounted for on the basis of direct equity interest rather than on the basis of reported results. Consolidated financial statements are prepared separately.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments, which are carried at their fair values and staff retirement gratuity and pension which is carried at present value of defined benefit obligation net of fair value of plan assets and unrecognised actuarial losses.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Company's functional currency. All financial information presented in Pak Rupee has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with the approved accounting standards require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in respective policy notes.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Notes to the Financial Statements

for the year ended December 31, 2011

3.1 Retirement benefits

The Company has the following plans for its employees:

Funded Gratuity Scheme

Defined benefit funded gratuity for all eligible employees who complete qualifying period of service and age.

Funded Pension Scheme

Defined benefit funded pension for all eligible employees who complete qualifying period of service and age.

These funds are administered by trustees. Annual contributions to the gratuity and management staff pension funds are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in note 10 to the financial statements. All contributions are charged to profit and loss account for the year. 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.

Calculation of gratuity and pension requires 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.

Contributory Provident Fund

Defined contributory provident fund for all eligible employees for which the Company's contributions are charged to profit and loss account.

Compensated absences

The Company has the policy to provide for compensated absences of its employees in accordance with respective entitlement on cessation of service; related expected cost thereof has been included in the financial statements.

3.2 Taxation

Current

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Provision for current taxation is based on taxable income at the applicable rates of taxation after taking into account tax credits and tax rebates, if any.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits 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. Deferred tax is not recognised for the temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences arising on the initial recognition of goodwill.

Notes to the Financial Statements

for the year ended December 31, 2011

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The Company takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Company's views differ from the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3.3 Property, plant and equipment and capital work in progress

Property, plant and equipment including those acquired on PSFL acquisition, are stated at cost less accumulated depreciation and impairment losses, if any except freehold land and capital work in progress, which are stated at cost less impairment losses, if any. Cost comprises acquisition and other directly attributable costs. Property, plant and equipment acquired on PSFL acquisition are stated at their cost to the Company, which represents their fair value on acquisition, less accumulated depreciation.

Depreciation is provided on a straight-line basis and charged to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 14. Depreciation on addition in property, plant and equipment is charged from the date when the asset becomes available for use upto the date of its disposal.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised, if any. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit and loss account.

The Company reviews the useful life and residual value of property, plant and equipment on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on depreciation charge.

3.4 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. For non-financial assets and available-for-sale financial assets that are debt securities, the reversal is recognised in profit and loss account. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in statement of comprehensive income.

Notes to the Financial Statements

for the year ended December 31, 2011

3.5 Goodwill

On acquisition of an entity, excess of the purchase consideration over the fair value of the identifiable assets and liabilities acquired is initially recognised as goodwill and thereafter tested for impairment annually. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Subsequent to the initial recognition goodwill is recognised at cost less impairment, if any.

3.6 Investments

3.6.1 Investment in subsidiaries

Investments in subsidiaries are initially recognised at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognised as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognised in the profit and loss account.

3.6.2 Investment in associate and jointly controlled entity

Investments in associates and jointly controlled entities are initially recognised at cost. At subsequent reporting date, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognised as expense in the profit and loss account. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognised in the profit and loss account.

3.6.3 Investments available for sale

These are initially measured at their fair value plus directly attributable transaction cost and at subsequent reporting dates measured at fair values and gains or losses from changes in fair values other than impairment loss are recognised in other comprehensive income until disposal at which time these are recycled to profit and loss account. Impairment loss on investments available for sale is recognised in the profit and loss account.

3.6.4 Acquisition under common control

Acquisition under common control of the shareholders are initially recognised using exchange transaction basis. All the acquisitions under common control are accounted for from the year in which the acquisition takes place without restating the Company's (acquirer) comparative financial statements.

3.6.5 Investments at fair value through profit or loss - Held for trading

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking, are classified as held for trading and designated as such upon initial recognition. These are stated at fair values with any resulting gains or losses recognised directly in the profit and loss account.

The Company recognises the regular way purchase or sale of financial assets using settlement date accounting.

3.7 Stores, spares and loose tools

These are valued at lower of weighted average cost and net realisable value less impairment. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools. Impairment is also made for slow moving items.

Notes to the Financial Statements

for the year ended December 31, 2011

3.8 Stock in trade

Stocks are valued at the lower of cost and net realisable value.

Cost is determined as follows:

Raw materials	at weighted average purchase cost
Work in process and finished goods	at weighted average cost of purchase, raw materials and applicable manufacturing expenses

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Company reviews the carrying amount of stock in trade on a regular basis and as appropriate, inventory is written down to its net realisable value or provision is made for obsolescence if there is any change in usage pattern and physical form of related inventory.

3.9 Foreign currencies

Transactions in foreign currency are accounted for at the exchange rates prevailing on the date of transactions. All monetary assets and liabilities denominated in foreign currencies at the year end are translated at exchange rates prevailing at the balance sheet date. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions. Exchange differences are included in profit and loss account for the year.

3.10 Revenue recognition

Sales revenue is recognised when the goods are dispatched and significant risks and rewards of ownership are transferred to the customer. Revenue from sale of goods is measured at the fair value of consideration received or receivable, net of returns and trade discounts. Scrap sales and miscellaneous receipts are recognised on realised amounts. Commission on sale of the subsidiary company products is recognised when such products are sold on its behalf.

3.11 Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Borrowing cost includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs. All other borrowing costs are charged to profit or loss.

3.12 Research and development costs

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

3.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.14 Basis of allocation of common expenses

Selling and distribution expenses are allocated to the subsidiary company, in proportion to the sales volume handled on its behalf under the Inter Company Services Agreement.

Notes to the Financial Statements

for the year ended December 31, 2011

3.15 Fertilizer subsidy for farmers

Subsidy on potassic and phosphatic fertilizers announced by the GoP for farmers is recognised in the profit and loss account by adjusting the amount of subsidy against the related cost of purchase on a systematic basis in the same period in which these costs are incurred.

3.16 Dividend and reserve appropriation

Dividend is recognised as a liability in the period in which it is declared. Movement in reserves is recognised in the year in which it is approved.

3.17 Mark-up bearing borrowings

Mark-up bearing borrowings are recognised initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortised cost less subsequent repayments.

3.18 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks on current, saving and deposit accounts, short term running finances and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

3.19 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortised cost respectively. The Company derecognises the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. The Company recognises the regular way purchase or sale of financial assets using settlement date accounting.

a) Trade and other payables

Liabilities for trade and other payables are carried at their amortised cost which approximates the fair value of the consideration to be paid in the future for goods and services received.

b) Trade and other receivables

Trade and other receivables are recognised and carried at their amortised cost less an allowance for any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

c) Off-setting of financial assets and liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.20 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 shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Notes to the Financial Statements

for the year ended December 31, 2011

3.21 Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of investments held for trading. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, changes in the fair value of held for trading investments and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3.22 Operating leases

Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the term of the relevant lease.

3.23 New accounting standards, amendments and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 01, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 - Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.
- IAS 27 - Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities, dealing with IAS 27 would be applicable effective January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.
- IAS 28 - Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

Notes to the Financial Statements

for the year ended December 31, 2011

- IAS 19 - Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company does not plan to adopt this change early and the extent of the impact has not been determined.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after July 01, 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 - Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. This amendment may result in certain additional disclosures and presentational changes without any impact on the results of operations.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment may result in certain additional disclosures and presentational changes without any impact on the results of operations.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalised if certain criteria are met. The amendments have no impact on financial statements of the Company.

Notes to the Financial Statements

for the year ended December 31, 2011

		2011	2010
		(Rupees '000)	
4.	SHARE CAPITAL		
	ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
	Numbers		
	December 31, 2011	December 31, 2010	
	256,495,902	256,495,902	Ordinary shares of Rs 10 each issued for consideration in cash
			2,564,959
	591,662,929	422,031,163	Ordinary shares of Rs 10 each issued as fully paid bonus shares
			5,916,629
	848,158,831	678,527,065	
			8,481,588
			6,785,271

AUTHORISED SHARE CAPITAL

This represents 1,500,000,000 (2010: 1,000,000,000) ordinary shares of Rs 10 each amounting to Rs 15,000,000 thousand (2010: Rs 10,000,000 thousand).

- 4.1 During the year, the Company issued 169,631,766 ordinary shares of Rs 10 each as fully paid bonus shares. Fauji Foundation held 44.35% (2010: 44.35%) ordinary shares of the Company at the year end.

		Note	2011	2010
			(Rupees '000)	
5.	CAPITAL RESERVES			
	Share premium	5.1	40,000	40,000
	Capital redemption reserve	5.2	120,000	120,000
			160,000	160,000

5.1 Share premium

This represents premium of Rs 5 per share received on public issue of 8,000,000 ordinary shares of Rs 10 each in 1991.

5.2 Capital redemption reserve

This represents reserve setup on redemption of preference shares of Rs 120,000 thousand in 1996.

		2011	2010
		(Rupees '000)	
6.	REVENUE RESERVES		
	Surplus / (deficit) on remeasurement of available for sale investments to fair value – net of tax	10,258	(5,554)
	General reserve	5,543,154	4,239,471
	Unappropriated profit	8,875,224	4,268,359
		14,428,636	8,502,276

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
7. LONG TERM BORROWINGS			
This represents secured long term borrowings from the following:			
Loans from banking companies – secured	7.1		
i) Habib Bank Limited (HBL - 1)	7.1.1	-	125,000
ii) United Bank Limited (UBL)	7.1.1	228,572	457,143
iii) Bank Alfalah Limited (BAFL)	7.1.1	31,250	156,250
iv) Standard Chartered Bank (Pakistan) Limited (SCB)	7.1.1	150,000	250,000
v) National Bank of Pakistan (NBP - 1)	7.1.1	100,000	200,000
vi) Silk Bank Limited (SB - 1)	7.1.1	30,000	60,000
vii) Silk Bank Limited (SB - 2)	7.1.1	30,000	60,000
viii) National Bank of Pakistan (NBP - 2)	7.1.1	333,333	416,667
ix) Faysal Bank Limited (FBL)	7.1.1	240,000	320,000
x) Bank Islami Limited (BIL)	7.1.1	93,750	156,250
xi) Al-Baraka Islamic Bank Limited (AIBL)	7.1.1	175,000	225,000
xii) Dubai Islamic Bank (DIB)	7.1.1	210,000	270,000
xiii) Meezan Bank Limited (MBL - 1)	7.1.1	187,500	312,500
xiv) MCB Bank Limited (MCB)	7.1.1	210,000	270,000
xv) Habib Bank Limited (HBL - 2)	7.1.1	200,000	300,000
xvi) Habib Bank Limited (HBL - 3)	7.1.1	100,000	500,000
xvii) Meezan Bank Limited (MBL - 2)	7.1.1	1,000,000	1,000,000
xviii) Bank of Punjab (BOP)	7.1.1	500,000	500,000
xix) Allied Bank Limited (ABL)	7.1.1	500,000	-
		4,319,405	5,578,810
Less: Current portion shown under current liabilities		1,615,655	1,759,405
		2,703,750	3,819,405

Notes to the Financial Statements

for the year ended December 31, 2011

7.1 Terms and conditions of these borrowings are given below:

	Lenders	Mark-up rate p.a. (%)	No of installments outstanding	Date of final repayment
i)	HBL - 1	6 months' KIBOR+1.45	-	Paid on November 30, 2011
ii)	UBL	6 months' KIBOR+1.50	2 half yearly	August 30, 2012
iii)	BAFL	6 months' KIBOR+1.50	1 quarterly	March 20, 2012
iv)	SCB	6 months' KIBOR+1.30	3 half yearly	March 29, 2013
v)	NBP - 1	6 months' KIBOR+1.40	2 half yearly	August 30, 2012
vi)	SB - 1	6 months' KIBOR+1.50	2 half yearly	September 27, 2012
vii)	SB - 2	6 months' KIBOR+1.50	2 half yearly	December 28, 2012
viii)	NBP - 2	6 months' KIBOR+1.00	8 half yearly	September 17, 2015
ix)	FBL	6 months' KIBOR+1.00	6 half yearly	September 26, 2014
x)	HBL-2	6 months' KIBOR+1.00	4 half yearly	September 29, 2013
xi)	BIL	6 months' KIBOR+1.00	3 half yearly	June 30, 2013
xii)	AIBL	6 months' KIBOR+1.00	7 half yearly	June 27, 2015
xiii)	DIB	6 months' KIBOR+1.00	7 half yearly	June 30, 2015
xiv)	MBL -1	6 months' KIBOR+0.96	3 half yearly	March 28, 2013
xv)	MCB	6 months' KIBOR+1.00	7 half yearly	June 30, 2015
xvi)	HBL - 3	6 months' KIBOR+0.30	1 periodic	February 28, 2012
xvii)	MBL -2	6 months' KIBOR+0.90	8 half yearly	December 31, 2015
xviii)	BOP	6 months' KIBOR+0.80	8 half yearly	December 31, 2015
xix)	ABL	6 months' KIBOR+0.80	8 half yearly	December 22, 2016

7.1.1 Finances (i) through (xix) have been obtained to meet the debottle-necking, equity investment in associated/ subsidiary company and other capital expenditure requirements of the Company. These finances, except finance (xvi) are secured by an equitable mortgage on the Company's assets and hypothecation of all Company assets including plant, machinery, tools and spares, and all other moveable properties including stocks and book debts, ranking pari passu with each other with 25% margin. Finance (xvi) is secured against lien on Pakistan Investment Bonds (PIBs) having face value of Rs 100 million. Repayment dates of installments for this finance coincide with the maturity dates of PIBs.

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
8. DEFERRED LIABILITIES			
Deferred taxation	8.1	3,158,811	3,215,821
Compensated leave absences	8.2	673,803	590,974
		<u>3,832,614</u>	<u>3,806,795</u>

8.1 DEFERRED TAXATION

The balance of deferred tax is in respect of the following major temporary differences:			
Accelerated depreciation		3,270,000	3,317,000
Provision for slow moving spares, doubtful debts, other receivables and investments		(112,000)	(99,000)
Remeasurement of investment available for sale		811	(2,179)
		<u>3,158,811</u>	<u>3,215,821</u>

8.2 Actuarial valuation has not been carried out as the impact is considered to be immaterial. This balance was previously included in trade and other payables and has been reclassified to deferred liabilities for appropriate presentation.

	Note	2011 (Rupees '000)	2010
9. TRADE AND OTHER PAYABLES			
Creditors		365,810	116,568
Accrued liabilities		2,212,668	1,867,199
Consignment account with			
Fauji Fertilizer Bin Qasim Limited - unsecured		2,124,704	-
Other liabilities		59,872	26,053
Sales tax - net		724,310	62,646
Deposits		180,825	171,047
Retention money		92,056	71,935
Advances from customers		4,435,326	5,798,379
Workers' Welfare Fund		1,060,648	726,397
Gratuity fund	10	79,053	32,174
Pension fund	10	133,879	-
Unclaimed dividend		261,810	150,654
		<u>11,730,961</u>	<u>9,023,052</u>

Notes to the Financial Statements

for the year ended December 31, 2011

10. RETIREMENT BENEFIT FUNDS	Funded gratuity	Funded pension	2011 Total	2010 Total
	(Rupees '000)			
a) Reconciliation of amounts recognised in the balance sheet is as follow:				
Present value of defined benefit obligation	1,323,367	1,838,728	3,162,095	2,452,849
Fair value of plan assets	(973,277)	(1,377,160)	(2,350,437)	(1,940,034)
Deficit	350,090	461,568	811,658	512,815
Net actuarial losses not recognised	(271,037)	(327,689)	(598,726)	(480,641)
	<u>79,053</u>	<u>133,879</u>	<u>212,932</u>	<u>32,174</u>
b) The movement in the present value of defined benefit obligation is as follows:				
Present value of defined benefit obligation at beginning of the year	1,146,571	1,306,278	2,452,849	2,048,797
Current service cost	66,477	83,451	149,928	114,015
Interest cost	156,611	261,486	418,097	260,319
Benefits paid during the year	(57,897)	(37,852)	(95,749)	(71,999)
Past service cost	-	52,298	52,298	-
Actuarial loss	11,605	173,067	184,672	101,717
Present value of defined benefit obligation at end of the year	<u>1,323,367</u>	<u>1,838,728</u>	<u>3,162,095</u>	<u>2,452,849</u>
c) The movement in fair value of plan assets is as follows:				
Fair value of plan assets at beginning of the year	857,578	1,082,456	1,940,034	1,702,951
Expected return on plan assets	116,764	205,921	322,685	217,955
Contributions	75,241	109,220	184,461	141,156
Benefits paid during the year	(57,897)	(37,852)	(95,749)	(71,999)
Actuarial (loss) / gain	(18,409)	17,415	(994)	(50,029)
Fair value of plan assets at end of the year	<u>973,277</u>	<u>1,377,160</u>	<u>2,350,437</u>	<u>1,940,034</u>
d) Plan assets comprise of:				
Investment in debt securities	51,444	51,444	102,888	95,034
Investment in equity securities	314,259	492,042	806,301	178,041
Term Deposit Receipts	455,990	590,085	1,046,075	912,077
National Investment Trust Units	53,891	94,188	148,079	169,634
Deposits with banks	37,228	75,807	113,035	431,045
Mutual Funds	67,105	79,905	147,010	154,844
Others	(6,640)	(6,311)	(12,951)	(641)
	<u>973,277</u>	<u>1,377,160</u>	<u>2,350,437</u>	<u>1,940,034</u>
e) Actual return on plan assets				
	98,355	223,336	321,691	167,926
Contributions expected to be paid to the plan during the next financial year				
	133,582	103,580	237,162	231,340

f) The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the Company, at the beginning of the year, for returns over the entire life of the related obligations.

Notes to the Financial Statements

for the year ended December 31, 2011

	Funded gratuity	Funded pension	2011 Total	2010 Total	
	(Rupees '000)				
g) Movement in liability recognised in the balance sheet:					
Opening liability	32,174	-	32,174	5,940	
Expense for the year	122,120	243,099	365,219	167,390	
Payments to the fund during the year	(75,241)	(109,220)	(184,461)	(141,156)	
Closing liability	79,053	133,879	212,932	32,174	
h) Amount recognised in the profit and loss account is as follows:					
Current service cost	66,477	83,451	149,928	114,015	
Interest cost	156,611	261,486	418,097	260,319	
Expected return on plan assets	(116,764)	(205,921)	(322,685)	(217,955)	
Past service cost	-	52,298	52,298	-	
Actuarial losses recognised	15,796	51,785	67,581	11,011	
Total cost for the year	122,120	243,099	365,219	167,390	
i) Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of gratuity fund for the current year and previous four years is as follows:					
	2011	2010	2009	2008	2007
	(Rupees '000)				
Present value of defined benefit obligation	1,323,367	1,146,571	953,746	854,834	736,148
Fair value of plan assets	(973,277)	(857,578)	(744,468)	(611,570)	(644,234)
Deficit	350,090	288,993	209,278	243,264	91,914
Experience adjustments					
- on obligations	(11,605)	(60,214)	(4,407)	(28,426)	(34,126)
- on plan assets	(18,409)	(1,572)	28,655	(119,116)	15,663
j) Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of pension fund for the current year and previous four years is as follows:					
	2011	2010	2009	2008	2007
	(Rupees '000)				
Present value of defined benefit obligation	1,838,728	1,306,278	1,095,051	928,899	816,872
Fair value of plan assets	(1,377,160)	(1,082,456)	(958,483)	(735,717)	(781,717)
Deficit	461,568	223,822	136,568	193,182	35,155
Experience adjustments					
- on obligations	(173,067)	(41,503)	(17,283)	(9,565)	(72,385)
- on plan assets	17,415	(48,457)	63,868	(148,462)	16,750

Notes to the Financial Statements

for the year ended December 31, 2011

	2011		2010	
	Funded gratuity	Funded pension	Funded gratuity	Funded pension
k) Principal actuarial assumptions used in the actuarial valuations are as follows:				
Discount rate	13%	13%	14%	14%
Expected rate of salary growth				
Management	13%	13%	14%	14%
Non- Management	12%	N/A	13%	N/A
Expected rate of return on plan assets	13%	13%	14%	14%
Expected rate of increase in post retirement pension	N/A	7%	N/A	9%

- l) "Salaries, wages and benefits" expense, stated in notes 28 and 29 include retirement benefits in respect of gratuity, provident fund, pension plans and compensated absences amounting to Rs 115,634 thousand, Rs 90,825 thousand, Rs 222,162 thousand and Rs 143,652 thousand respectively (2010: Rs 84,634 thousand, Rs 79,986 thousand, Rs 70,956 thousand and Rs 112,512 thousand respectively). These are reduced by the amount of charges debited to Fauji Fertilizer Bin Qasim Limited under Inter Company Services Agreement.

	Note	2011 (Rupees '000)	2010
11. INTEREST AND MARK-UP ACCRUED			
On long term borrowings		64,434	112,484
On short term borrowings		15,392	25,484
		<u>79,826</u>	<u>137,968</u>
12. SHORT TERM BORROWINGS-SECURED			
From banking companies			
Short term running finance	12.1	<u>8,735,650</u>	<u>5,640,420</u>

12.1 Short term running finance

Short term running finance and istisna facilities are available from various banking companies under mark-up/profit arrangements amounting to Rs 11.54 billion (2010 Rs 11.49 billion) which represent the aggregate of sale prices of all mark-up / profit agreements between the Company and respective banks. The facilities have various maturity dates upto June 30, 2012.

These facilities are secured by first pari passu and ranking hypothecation charges on assets of the Company. Istisna facility of Rs 1.3 billion from an islamic financial institution is secured against lien over Term Deposits. Mark-up rates range between one month KIBOR + 0.1% to 1% and three months' KIBOR + 0.3% per annum (2010: one month KIBOR + 0.1% to 0.8% to three months' KIBOR + 0.50% per annum).

Notes to the Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
13. CONTINGENCIES AND COMMITMENTS		
a) Contingencies:		
i) Guarantees issued by banks on behalf of the Company.	17,192	17,192
ii) Disputed demands for income tax and levy of contribution to Workers' Welfare Fund related to former PSFL decided in favour of the Company by the Income Tax Appellate Authorities, are currently in appeal by the department. The Company is confident that there are reasonable grounds for a favourable decision.	178,590	178,590
iii) Claims against the Company and / or potential exposure not acknowledged as debt.	50,696	50,696
iv) Company's share of contingent liabilities of Fauji Cement Company Limited as at September 30, 2011.	101,247	187,685
b) Commitments in respect of:		
i) Capital expenditure.	2,721,870	1,412,000
ii) Purchase of fertilizer, stores, spares and other revenue items.	3,126,910	333,833
iii) Investment in FFC Energy Limited. The Company's commitment to the bank is secured against all present and future, movable and fixed assets excluding immovable properties, land and buildings of the Company.	1,236,000	1,163,000
iv) Rentals under lease agreements:		
Premises – not later than one year	80,499	14,689
– later than one year and not later than:		
two years	48,841	17,935
three years	23,894	4,603
four years	23,733	725
five years	23,740	791
Vehicles – not later than one year	31,831	32,311
– later than one year and not later than:		
two years	22,035	20,027
three years	26,644	16,033
four years	17,892	21,206
five years	9,856	9,552

Notes to the Financial Statements

for the year ended December 31, 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Leasehold land	Buildings and structures on freehold land	Buildings and structures on leasehold land	Railway siding	Plant and machinery	Catalysts	Office and electrical equipment	Furniture and fixtures	Vehicles	Maintenance and other equipment	Library books	Capital work in progress (note 14.3)	Total
(Rupees '000)														
COST														
Balance as at January 01, 2010	228,386	178,750	2,678,038	42,150	26,517	23,628,727	701,036	344,796	169,175	313,163	1,154,530	16,599	1,325,052	30,806,919
Additions during the year	304,845	-	213,982	-	-	968,852	281,607	49,911	20,248	28,696	202,014	1,808	2,300,992	4,372,955
Disposals	-	-	(2,463)	-	-	(300,008)	-	(7,880)	(7,968)	(11,663)	(34,745)	(546)	-	(365,273)
Transfers / adjustments	-	-	-	-	-	-	(114,565)	-	-	-	-	-	(1,059,114)	(1,173,679)
Balance as at December 31, 2010	533,231	178,750	2,889,557	42,150	26,517	24,297,571	868,078	366,827	181,455	330,196	1,321,799	17,861	2,566,930	33,640,922
Balance as at January 01, 2011	533,231	178,750	2,889,557	42,150	26,517	24,297,571	868,078	366,827	181,455	330,196	1,321,799	17,861	2,566,930	33,640,922
Additions during the year	1,580	-	185,190	-	-	1,699,296	62,310	50,734	12,718	36,960	96,766	373	2,928,147	5,074,074
Disposals	-	-	(418)	-	-	(1,502)	(144,652)	(9836)	(2,246)	(20,388)	(14,134)	(10)	-	(193,186)
Transfers / adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(2,760,041)	(2,760,041)
Balance as at December 31, 2011	534,811	178,750	3,074,329	42,150	26,517	25,995,365	785,736	427,725	191,927	346,768	1,404,431	18,224	2,735,036	35,761,769
DEPRECIATION														
Balance as at January 01, 2010	-	64,132	1,426,609	40,978	26,517	13,538,878	358,153	218,789	75,394	236,181	814,629	13,141	-	16,813,401
Charge for the year	-	14,323	116,613	107	-	731,440	133,211	37,252	14,996	26,269	126,242	1,912	-	1,202,365
Depreciation on disposals	-	-	(2,463)	-	-	(140,968)	-	(7,322)	(7,845)	(11,663)	(23,060)	(546)	-	(193,867)
Transfers / adjustments	-	-	-	-	-	-	(114,565)	-	-	-	-	-	-	(114,565)
Balance as at December 31, 2010	-	78,455	1,540,759	41,085	26,517	14,129,350	376,799	248,719	82,545	250,787	917,811	14,507	-	17,707,334
Balance as at January 01, 2011	-	78,455	1,540,759	41,085	26,517	14,129,350	376,799	248,719	82,545	250,787	917,811	14,507	-	17,707,334
Charge for the year	-	14,072	125,064	107	-	711,739	143,483	36,561	15,256	23,363	124,472	1,852	-	1,195,969
Depreciation on disposals	-	-	(221)	-	-	(1,483)	(144,652)	(9,506)	(2,223)	(20,387)	(14,003)	(10)	-	(192,485)
Balance as at December 31, 2011	-	92,527	1,665,602	41,192	26,517	14,839,606	375,630	275,774	95,578	253,763	1,028,280	16,349	-	18,710,818
Written down value														
- as at December 31, 2010	533,231	100,295	1,348,798	1,065	-	10,168,221	491,279	138,108	98,910	79,409	403,988	3,354	2,566,930	15,933,588
- as at December 31, 2011	534,811	86,223	1,408,727	958	-	11,155,759	410,106	151,951	96,349	93,005	376,151	1,875	2,735,036	17,050,951
Rate of depreciation in %	-	6.1/4	5 to 10	5	5	5	5	20	15	10	20	15	-	30

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
14.1	Depreciation charge has been allocated as follows:		
Cost of sales	28	1,172,751	1,177,038
Distribution cost	29	16,927	17,364
Charged to FFBL under Inter Company Services Agreement		6,291	7,963
		<u>1,195,969</u>	<u>1,202,365</u>

14.2 Details of property, plant and equipment disposed off:

Description	Method of disposal	Cost (Rupees '000)	Book value	Sale proceeds
Building	Write-off	250	142	-
Submersible drainage pump	Write-off	168	55	-
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand				
		192,768	504	14,123
2011		<u>193,186</u>	<u>701</u>	<u>14,123</u>
2010		<u>365,273</u>	<u>171,406</u>	<u>82,379</u>

	2011 (Rupees '000)	2010
14.3	Capital Work in Progress	
Civil works including mobilisation advance	1,289,382	996,493
Plant and machinery including advances to suppliers	1,178,226	1,380,239
Intangible assets under development	267,428	190,198
	<u>2,735,036</u>	<u>2,566,930</u>

15. GOODWILL

This represents excess of the amount paid over fair value of net assets of PSFL on its acquisition. The recoverable amount of goodwill was tested for impairment by allocating the amount of goodwill to respective assets on which it arose, based on value in use in accordance with IAS-36 "Impairment of Assets". The value in use calculations are based on cash flow projections. These are then extrapolated for a period of 5 years using a steady long term expected demand growth of 2% and terminal value determined based on long term earning multiples. The cash flows are discounted using applicable discount rate. Based on this calculation no impairment is required to be accounted for against the carrying amount of goodwill.

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
16. LONG TERM INVESTMENTS			
Investment in associate – at cost			
Fauji Cement Company Limited (FCCL)	16.1	1,500,000	1,500,000
Investment in joint venture – at cost			
Pakistan Maroc Phosphore S.A., Morocco (PMP)	16.2	705,925	705,925
Investment in subsidiaries – at cost			
Fauji Fertilizer Bin Qasim Limited (FFBL)	16.3	4,752,330	4,752,330
FFC Energy Limited (FFCEL)	16.4	1,450,000	650,000
Investments available for sale	16.5		
Certificates of Investment		108,961	94,556
Pakistan Investment Bonds		162,043	493,775
Term Finance Certificates		123,712	130,093
		394,716	718,424
		8,802,971	8,326,679
Less: Current portion shown under short term investments	25		
Investments available for sale			
Certificates of Investment		22,507	43,086
Pakistan Investment Bonds		104,706	396,929
Term Finance Certificates		16,685	16,637
		143,898	456,652
		8,659,073	7,870,027

16.1 Investment in associate – at cost

Investment in associate represents 93,750 thousand fully paid ordinary shares of Rs 10 each representing 6.79% of FCCL share capital as at December 31, 2011. Market value of the Company's investment as at December 31, 2011 was Rs 309,375 thousand (December 31, 2010 was Rs 470,625 thousand). The recoverable amount of the investment in Fauji Cement Company Limited was tested for impairment based on value in use, in accordance with IAS - 36 "Impairment of Assets". The value in use calculations are based on cash flow projections. These are then extrapolated for a period of 5 years using a steady long term expected demand growth of 3% and terminal value determined based on long term earning multiples. The cash flows are discounted using applicable discount rate. Based on this calculation, no impairment is required to be accounted for against the carrying amount of investment.

The Company is committed not to dispose off its investment in FCCL so long as the loan extended to FCCL by The Royal Bank of Scotland Limited, remains outstanding or without prior consent of FCCL.

16.2 Investment in joint venture – at cost

The Company has 12.5% equity participation in PMP, amounting to Moroccan Dirhams (MAD) 100,000 thousand equivalent to Rs 705,925 thousand. PMP is a joint venture between the Company, Fauji Foundation, FFBL and Officie Cherifien Des Phosphates, Morocco. The principal activity of PMP is to manufacture and market Phosphoric acid, fertilizer and other related products in Morocco and abroad.

According to the Shareholders' agreement, if any legal restriction is laid on dividends by PMP, the investment will be converted to interest bearing loan. The Company has also committed not to pledge shares of PMP without prior consent of PMPs' lenders.

16.3 Investment in FFBL – at cost

Investment in FFBL represents 475,233 thousand fully paid ordinary shares of Rs 10 each representing 50.88% of FFBL's share capital as at December 31, 2011. Market value of the Company's investment as at December 31, 2011 was Rs 20,165,069 thousand (2010: Rs 16,980,075 thousand).

Notes to the Financial Statements

for the year ended December 31, 2011

16.4 Investment in FFCEL - at cost

16.4.1 Investment in FFCEL represents 145,000 thousand fully paid shares of Rs 10 each. FFCEL has been incorporated for the purpose of implementing a project comprising the establishment and operation of wind power generation facility and the supply of electricity. Under the terms of project financing agreements with the lender, the Company is committed to contribute further amounts aggregating upto Rs 1,558,500 thousand in the event of cost over-runs during the construction phase of the project of FFCEL. The Company currently holds 100% shareholding interest in FFCEL, out of which 70,000 shares amounting to Rs 700 thousand are held in the name of seven nominee directors of the Company in FFCEL. As at December 31, 2011, 58,650 thousand shares of FFCEL are pledged as security under project financing agreements.

16.4.2 All present and future movable and fixed assets excluding immovable properties, land and buildings of the Company are secured against guarantees given by the banks in favour of National Transmission and Despatch Company amounting to USD 1,732,500 on behalf of FFCEL.

16.5 Investments available for sale

Certificates of Investment (COI)

These represent placements in certificates of investment of a financial institution for periods ranging from one to five years at profit rates ranging from 8.1% to 14.18% per annum (2010: 8.1% to 14.18% per annum).

Pakistan Investment Bonds (PIBs)

PIBs with 3, 5, 7 and 10 years tenure were purchased and are due to mature within a period of 4 years. Profit is receivable on half yearly basis with coupon rates ranging from 8% to 11.75% per annum (2010: 11% to 14% per annum). These PIBs have face value of Rs 164 million and PIBs with face value of Rs 100 million are under lien of a bank against loan for capital expenditure requirements.

Term Finance Certificates (TFCs)

These include 4,992 & 20,000 certificates of Rs 5,000 each of Pakistan Mobile Communications Limited and Engro Chemicals Pakistan Limited respectively. Profit is receivable on half yearly basis at the rate of six months' KIBOR + 2.85% and 1.55% per annum respectively.

	Note	2011 (Rupees '000)	2010
17. LONG TERM LOANS AND ADVANCES – SECURED			
Loans and advances – considered good, to:			
Executives		625,590	534,782
Other employees		199,709	147,954
		825,299	682,736
Less: Amount due within twelve months, shown under current loans and advances	22	219,416	227,408
		605,883	455,328

17.1 Reconciliation of carrying amount of loans and advances to executives and other employees:

	Opening balance as at January 01, 2011	Disbursements (Rupees '000)	Repayments	Closing balance as at December 31, 2011
Executives	534,782	251,093	160,285	625,590
Other employees	147,954	114,658	62,903	199,709
2011	682,736	365,751	223,188	825,299
2010	417,065	423,474	157,803	682,736

These represent secured house building loans, house rent advances and advances pursuant to agreement with employees which are repayable within one to ten years. House building loans carry mark-up at 5% per annum.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs 625,590 thousand (2010: Rs 534,782 thousand).

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
18. LONG TERM DEPOSITS AND PREPAYMENTS			
Deposits		8,149	7,538
Prepayments		1,221	1,499
		<u>9,370</u>	<u>9,037</u>
19. STORES, SPARES AND LOOSE TOOLS			
Stores		140,566	151,569
Spares		2,467,085	2,438,472
Provision for slow moving items		(273,970)	(237,198)
		<u>2,193,115</u>	<u>2,201,274</u>
Loose tools		279	279
Items in transit		113,492	87,079
		<u>2,447,452</u>	<u>2,440,201</u>
20. STOCK IN TRADE			
Raw materials		81,038	78,036
Work in process		17,522	28,075
Finished goods - manufactured urea		7,538	105,609
- purchased fertilizer		144,090	-
Stocks in transit		386,735	-
		<u>636,923</u>	<u>211,720</u>
21. TRADE DEBTS			
Considered good:			
Secured		86,640	346,773
Unsecured	21.1	29	11,183
		<u>86,669</u>	<u>357,956</u>
Considered doubtful		1,758	1,758
		<u>88,427</u>	<u>359,714</u>
Provision for doubtful debts		(1,758)	(1,758)
		<u>86,669</u>	<u>357,956</u>

21.1 This represents amounts due from Fauji Foundation, an associated undertaking.

	Note	2011 (Rupees '000)	2010
22. LOANS AND ADVANCES			
Loans and advances – unsecured, considered good			
– Executives		106,420	36,005
– Others		21,648	14,562
Advances to suppliers – considered good		84,098	58,294
Current portion of long term loans and advances	17	219,416	227,408
		<u>431,582</u>	<u>336,269</u>

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
23. DEPOSITS AND PREPAYMENTS			
Deposits		3,786	1,224
Prepayments		50,066	48,964
		53,852	50,188
24. OTHER RECEIVABLES			
Accrued income on investments and bank deposits		277,680	55,866
Sales tax receivable		42,486	42,486
Advance tax	24.1	322,368	322,368
Receivable from Workers' Profit Participation Fund – unsecured	24.2	39,304	11,021
Receivable from FFC Energy Limited (a wholly owned company) – unsecured		18,256	25,553
Other receivables – considered good		191,579	160,370
– considered doubtful		2,232	2,232
		193,811	162,602
Provision for doubtful receivables		(2,232)	(2,232)
		191,579	160,370
		891,673	617,664

24.1 This represents tax paid by PSFL in excess of admitted tax liabilities net of adjustments of determined refunds. The Company intends to adjust the remaining amount after finalisation of pending re-assessments by the taxation authorities.

	Note	2011 (Rupees '000)	2010
24.2 Workers' Profit Participation Fund			
Balance at beginning of the year		11,021	51,058
Allocation for the year		(1,780,493)	(865,103)
Adjustment for prior years	24.2.1	–	199,097
Receipt from fund during the year		(16,224)	(49,031)
Payment to fund during the year		1,825,000	675,000
		39,304	11,021

24.2.1 This represents amount paid to WPPF in prior years' in excess of the Company's obligation.

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
25. SHORT TERM INVESTMENTS			
Term deposits with banks and financial institutions			
Available for sale	25.1		
Local currency (net of provision for doubtful recovery Rs 9,750 thousand (2010: Rs 9,750 thousand))		18,675,000	9,800,000
Foreign currency		1,028,608	1,074,621
		19,703,608	10,874,621
Investments at fair value through profit or loss – Held for trading			
Meezan Balanced Fund		91,000	75,000
National Investment Trust		467,511	567,150
Crosby Phoenix Fund / AMZ Plus Income Fund (Net of provision for doubtful recovery Rs 33,253 thousand (2010: Rs 33,253 thousand))		56,524	47,158
GoP Market Treasury Bills		1,331,939	–
Current maturity of long term investments			
Available for sale	16	143,898	456,652
		21,794,480	12,020,581

25.1 These represent investments having maturities ranging between 1 to 12 months and are being carried at cost as management expects there would be insignificant difference in the rate of returns on comparative investments. Term Deposits amounting to Rs1,450,000 thousand (2010: Rs Nil) are under lien of an islamic financial institution in respect of Istisna facility availed.

	2011 (Rupees '000)	2010
26. CASH AND BANK BALANCES		
At banks		
Deposit accounts		
Local currency	1,206,093	1,146,614
Foreign currency	85,232	20,720
	1,291,325	1,167,334
Drafts in hand and in transit	–	20,021
Cash in hand	2,449	1,708
	1,293,774	1,189,063

Balances with banks include Rs 180,825 thousand (2010: Rs 171,047 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 17,192 thousand (2010: Rs 17,192 thousand) under lien of a bank, against a guarantee issued on behalf of the Company.

Notes to the Financial Statements

for the year ended December 31, 2011

27. SALES

Sales include Rs 668,787 thousand (2010: Rs 4,503,757 thousand) in respect of sale of purchased fertilizers and are exclusive of trade allowances and sales tax of Rs Nil and Rs 7,431,849 thousand respectively (2010: Rs 1,053,250 thousand and Rs Nil respectively).

	Note	2011 (Rupees '000)	2010
28. COST OF SALES			
Raw materials consumed		6,931,091	8,018,574
Fuel and power		5,209,357	6,139,858
Chemicals and supplies		275,262	280,434
Salaries, wages and benefits		3,715,936	3,043,287
Training and employees welfare		505,877	467,625
Rent, rates and taxes	28.1	30,351	23,358
Insurance		171,097	151,477
Travel and conveyance	28.1	399,316	237,364
Repairs and maintenance (includes stores and spares consumed of Rs 626,314 thousand; (2010: Rs 640,622 thousand)	28.2	1,002,439	953,134
Depreciation	14.1	1,172,751	1,177,038
Communication and other expenses		890,597	1,131,485
Opening stock - work in process		28,075	37,186
Closing stock - work in process		(17,522)	(28,075)
Cost of goods manufactured		20,314,627	21,632,745
Opening stock of manufactured urea		105,609	73,353
Closing stock of manufactured urea		(7,538)	(105,609)
		98,071	(32,256)
Cost of sales - manufactured urea		20,412,698	21,600,489
Opening stock of purchased fertilizers		-	-
Purchase of fertilizers for resale	28.3	603,151	3,709,917
		603,151	3,709,917
Closing stock of purchased fertilizers		(144,090)	-
Cost of sales - purchased fertilizers		459,061	3,709,917
		20,871,759	25,310,406

28.1 These include operating lease rentals amounting to Rs 48,967 thousand (2010: Rs 58,472 thousand).

28.2 This includes provision for slow moving spares amounting to Rs 36,772 thousand (2010: Rs 32,958 thousand).

28.3 Cost of purchased fertilizer is net of subsidy of Rs Nil per bag (2010: Rs 500 per bag) on potassic and phosphatic fertilizers as notified by the Ministry of Food, Agriculture and Live Stock, Government of Pakistan.

Notes to the Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
29. DISTRIBUTION COST			
Product transportation		2,838,703	2,634,184
Salaries, wages and benefits		1,003,151	849,182
Training and employees welfare		52,516	43,899
Rent, rates and taxes	29.1	78,334	64,175
Technical services to farmers		8,556	7,786
Travel and conveyance	29.1	148,355	84,581
Sale promotion and advertising		52,633	39,427
Communication and other expenses		137,872	149,093
Warehousing expenses		35,104	54,782
Depreciation	14.1	16,927	17,364
		4,372,151	3,944,473

29.1 These include operating lease rentals amounting to Rs 82,698 thousand (2010: Rs 65,147 thousand).

	2011 (Rupees '000)	2010
30. FINANCE COST		
Mark-up on long term borrowings	704,652	778,447
Mark-up on short term borrowings	60,962	301,000
Bank and other charges	20,211	7,294
	785,825	1,086,741

31. OTHER EXPENSES		
Research and development	208,692	286,586
Workers' Profit Participation Fund	1,780,493	865,103
Adjustment in WPPF relating to prior year charge	–	(199,097)
Workers' Welfare Fund	663,321	326,197
Loss on disposal of property, plant and equipment	–	89,027
Auditors' remuneration		
Audit fee	1,360	1,234
Fee for half yearly review, audit of consolidated accounts and certifications for Government and related agencies	915	6,850
Out of pocket expenses	100	100
	2,654,881	1,376,000

Notes to the Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
32. OTHER INCOME		
Income from financial assets		
Income on loans, deposits and investments	1,702,517	509,281
(Loss) / gain on remeasurement of investments - Held for trading	(42,373)	19,138
Dividend income	89,702	56,743
Impairment on investment - Held for trading	-	(33,253)
Exchange gain	49,224	19,506
Income from subsidiary		
Commission on sale of FFBL products	21,911	23,626
Dividend from FFBL	4,752,330	2,518,735
Income from non-financial assets		
Gain on disposal of property, plant and equipment	13,422	-
Other income		
Scrap sales	37,992	16,133
Others	4,776	23,201
	6,629,501	3,153,110
33. PROVISION FOR TAXATION		
Current	10,734,000	5,098,000
Deferred	(60,000)	183,000
	10,674,000	5,281,000
33.1 Reconciliation of tax charge for the year		
Profit before taxation	33,166,053	16,309,849
	%	%
Applicable tax rate	35.00	35.00
Add: Tax effect of amounts that are not deductible for tax purposes	-	1.75
Tax effect of additional surcharge	1.36	-
Less: Tax effect of amounts taxed at lower rates	(3.65)	(3.95)
Tax effect of permanent differences	(0.53)	(0.42)
Average effective tax rate charged on income	32.18	32.38
33.2	During the year, the Company revised its income tax returns relating to tax years 2009 and 2010 under the provisions of the Income Tax Ordinance, 2001.	

Notes to the Financial Statements

for the year ended December 31, 2011

	2011	2010 (Restated)
34. EARNINGS PER SHARE		
Net profit after tax (Rupees '000)	22,492,053	11,028,849
Weighted average number of shares in issue during the year ('000)	848,159	848,159
Basic and diluted earnings per share (Rupees)	26.52	13.00

There is no dilutive effect on the basic earnings per share of the Company. Number of shares in issue and earnings per share for the year ended December 31, 2010 have been restated by taking into effect, the bonus shares issued during the period @ 25%.

35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these financial statements in respect of remuneration including benefits applicable to the chief executive, directors and executives of the Company are given below:

	2011		2010	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)		(Rupees '000)	
Managerial remuneration	5,695	914,732	5,355	775,315
Contribution to provident fund	374	57,480	340	48,736
Bonus and other awards	6,670	992,194	5,176	867,284
Others including gratuity	3,490	650,440	3,305	581,650
Total	16,229	2,614,846	14,176	2,272,985
No. of person(s)	1	472	1	412

The above were provided with medical facilities; the chief executive and certain executives were also provided with some furnishing items and vehicles in accordance with the Company's policy. Gratuity is payable to the chief executive in accordance with the terms of employment while contributions for executives in respect of gratuity and pension are based on actuarial valuations. Leave encashment of Rs Nil (2010: Rs Nil) and Rs 5,031 thousand (2010 Rs 5,451 thousand) were paid to the chief executive and executives respectively on separation, in accordance with the Company's policy.

In addition, 14 (2010: 15) directors were paid aggregate fee of Rs 1,700 thousand (2010: Rs 1,670 thousand).

Notes to the Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
36. CASH GENERATED FROM OPERATIONS		
Net profit before taxation	33,166,053	16,309,849
Adjustments for:		
Depreciation	1,189,678	1,194,402
Provision for slow moving spares	36,772	32,958
Provision for gratuity	115,634	84,634
Provision for pension	222,162	70,956
Provision for Worker's Profit Participation Fund	1,780,493	865,103
Provision for Worker's Welfare Fund	663,321	326,197
Finance cost	785,825	1,086,741
Income on loans, deposits and investments	(1,702,517)	(509,281)
(Gain) / loss on sale of property, plant and equipment	(13,422)	89,027
Exchange gain - net	(49,224)	(19,506)
Impairment in held for trading investments	-	33,253
Adjustment in WPPF relating to prior year charge	-	(199,097)
Loss / (gain) on re-measurement of investments - Held for trading	42,373	(19,138)
Dividend income	(4,842,032)	(2,575,478)
	(1,770,937)	460,771
	31,395,116	16,770,620
Changes in working capital		
(Increase) / decrease in current assets:		
Stores and spares	(44,023)	523,474
Stock in trade	(425,203)	(67,633)
Trade debts	271,287	(101,070)
Loans and advances	(95,313)	(206,050)
Deposits and prepayments	(3,664)	(12,535)
Other receivables	(23,912)	103,924
Increase / (decrease) in current liabilities:		
Trade and other payables	2,115,458	3,420,462
	1,794,630	3,660,572
Changes in long term loans and advances	(150,555)	(117,787)
Changes in long term deposits and prepayments	(333)	(2,732)
Changes in deferred liabilities	82,829	70,465
	33,121,687	20,381,138
36.1 Cash flows from operating activities (direct method)		
Cash receipts from customers - net	54,129,431	49,136,896
Cash paid to suppliers / service providers and employees - net	(21,007,744)	(28,755,758)
Payment to gratuity fund	(75,241)	(63,710)
Payment to pension fund	(109,220)	(77,446)
Payment to Workers' Welfare Fund	(329,070)	(261,143)
Payment to Workers' Profit Participation Fund - net	(1,808,776)	(625,969)
Finance cost paid	(843,967)	(1,096,102)
Income tax paid	(10,398,028)	(3,488,331)
	19,557,385	14,768,437

Notes to the Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,293,774	1,189,063
Short term running finance	(8,735,650)	(5,640,420)
Short term highly liquid investments	17,405,123	10,874,621
	<u>9,963,247</u>	<u>6,423,264</u>

38. FINANCIAL INSTRUMENTS

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

38.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from investments, loans and advances, deposits, trade debts, other receivables, short term investments and bank balances. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011	2010
	(Rupees '000)	
Long term investments	250,818	261,772
Loans and advances	953,367	733,303
Deposits	11,935	8,762
Trade debts - net of provision	86,669	357,956
Other receivables - net of provision	526,819	252,810
Short term investments - net of provision	21,794,480	12,020,581
Bank balances	1,291,325	1,187,355
	<u>24,915,413</u>	<u>14,822,539</u>

Geographically there is no concentration of credit risk.

The maximum exposure to credit risk for trade debts at the reporting date are with dealers within the country .

The Company's most significant amount receivable is from a bank which amounts to Rs 6,000,000 thousand (2010: Rs 2,700,000 thousand). This is included in total carrying amount of investments as at reporting date.

Trade debts are secured against letter of guarantee. The Company has placed funds in financial institutions with high credit ratings. The Company assesses the credit quality of the counter parties as satisfactory. The Company does not hold any collateral as security against any of its financial assets other than trade debts.

The Company limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have high credit rating. Management actively monitors credit ratings and given that the Company only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Notes to the Financial Statements

for the year ended December 31, 2011

Impairment losses

The aging of trade debts at the reporting date was:

	2011		2010	
	Gross	Impairment (Rupees '000)	Gross	Impairment
Not yet due	77,356	-	11,183	-
Past due 1-30 days	8,558	-	158,250	-
Past due 31-60 days	755	-	51,744	-
Past due 61-90 days	-	-	63,099	-
Over 90 days	1,758	1,758	75,438	1,758
	88,427	1,758	359,714	1,758

Based on past experience, the management believes that no impairment allowance is necessary in respect of trade debts.

The Company has recorded an impairment loss of Rs 9,750 thousand and Rs 33,253 thousand (2010: Rs 9,750 thousand and Rs 33,253 thousand) in respect of its investment in available-for-sale investments and held for trading investments.

38.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company uses different methods which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligation; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the Company maintain lines of credit as mentioned in note 12 to the financial statements.

The following are the contractual maturities of financial liabilities, including expected interest payments and excluding the impact of netting agreements:

2011	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to two years	Two to five years	Five years onwards	(Rupees '000)							
Long term borrowings	4,319,405	5,481,390	1,164,153	983,458	1,412,026	1,921,753	-								
Trade and other payables	5,512,778	5,512,778	5,512,778	-	-	-	-								
Short term borrowings	8,735,650	8,751,042	8,751,042	-	-	-	-								
	18,567,833	19,745,210	15,427,973	983,458	1,412,026	1,921,753	-								
2010	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to two years	Two to five years	Five years onwards	(Rupees '000)							
Long term borrowings	5,578,810	7,503,904	1,205,857	1,388,399	2,160,142	2,749,506	-								
Trade and other payables	3,162,027	3,162,027	3,162,027	-	-	-	-								
Short term borrowings	5,640,420	5,665,904	5,665,904	-	-	-	-								
	14,381,257	16,331,835	10,033,788	1,388,399	2,160,142	2,749,506	-								

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

38.2.1 The contractual cash flow relating to long and short term borrowings have been determined on the basis of expected mark-up rates. The mark-up rates have been disclosed in notes 7 and 12 to these financial statements.

Notes to the Financial Statements

for the year ended December 31, 2011

38.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Company is exposed to interest rate risk, currency risk and market price risk.

38.3.1 Currency risk

Exposure to Currency Risk

The Company is exposed to currency risk on bank balance and investments which are denominated in currency other than the functional currency of the Company. The Company's exposure to foreign currency risk is as follows:

	2011			2010		
	(Rupees '000)	(US Dollar '000)	(Euro '000)	(Rupees '000)	(US Dollar '000)	(Euro '000)
Bank balance	85,232	95	662	20,720	242	-
Investments (Term Deposit Receipts)	1,028,608	11,480	-	1,074,621	12,538	-

The following significant exchange rate applied during the year:

	Average rates		Balance sheet date rate	
	2011	2010	2011	2010
US Dollars	85.66	85.92	89.60	85.71
Euro	119.24	-	115.96	-

Sensitivity analysis

A 10% strengthening of the functional currency against USD and EURO at December 31 would have decreased profit and loss by Rs 111,384 thousand (2010: Rs 109,743 thousand). A 10% weakening of the functional currency against USD at 31 December would have had the equal but opposite effect of these amounts. The analysis assumes that all other variables remain constant.

38.3.2 Interest rate risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks and short term deposits with banks. At the balance sheet date the interest rate risk profile of the Company's interest bearing financial instruments is:

	Carrying Amount	
	2011	2010
	(Rupees '000)	
Fixed rate instruments		
Financial assets	23,423,175	13,313,022
Variable rate instruments		
Financial assets	123,712	130,093
Financial liabilities	13,055,055	11,219,230

Fair value sensitivity analysis for fixed rate instruments

The Company is not exposed to variations in profit and loss on its fixed rate financial instruments.

Notes to the Financial Statements

for the year ended December 31, 2011

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Profit or loss	
	100 basis points increase	100 basis points decrease
	(Rupees '000)	
December 31, 2011		
Cash flow sensitivity – Variable rate instruments	(52,153)	52,153
	<u>(52,153)</u>	<u>52,153</u>
December 31, 2010		
Cash flow sensitivity – Variable rate instruments	(81,364)	81,364
	<u>(81,364)</u>	<u>81,364</u>

Sensitivity analysis – price risk

For quoted investments classified as available for sale, a 1 percent increase in market price at reporting date would have increased equity by Rs 2,290 thousand after tax (2010: Rs 4,712 thousand); an equal change in the opposite direction would have decreased equity after tax by the same amount. For investments classified as held for trading, the impact on profit or loss would have been an increase or decrease by Rs 6,522 thousand after tax (2010: Rs 28,771 thousand). The analysis is performed on the same basis for 2010 and assumes that all other variables remain the same.

38.4 Fair values

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Note	December 31, 2011		December 31, 2010	
		Carrying amount	Fair value	Carrying amount	Fair value
		(Rupees '000)			
Assets carried at amortised cost					
Loans and advances	17 & 22	953,367	953,367	733,303	733,303
Deposits	18 & 23	11,935	11,935	8,762	8,762
Trade debts - net of provision	21	86,669	86,669	357,956	357,956
Other receivables	24	526,819	526,819	252,810	252,810
Cash and bank balances	26	1,293,774	1,293,774	1,189,063	1,189,063
		<u>2,872,564</u>	<u>2,872,564</u>	<u>2,541,894</u>	<u>2,541,894</u>
Assets carried at fair value					
Long term investments	16	250,818	250,818	261,772	261,772
Short term investments	25	21,794,480	21,794,480	12,020,581	12,020,581
		<u>22,045,298</u>	<u>22,045,298</u>	<u>12,282,353</u>	<u>12,282,353</u>
Liabilities carried at amortised cost					
Long term borrowings	7	4,319,405	4,319,405	5,578,810	5,578,810
Trade and other payables	9	5,512,778	5,512,778	3,162,027	3,162,027
Mark-up accrued	11	79,826	79,826	137,968	137,968
Short term borrowings	12	8,735,650	8,735,650	5,640,420	5,640,420
		<u>18,647,659</u>	<u>18,647,659</u>	<u>14,519,225</u>	<u>14,519,225</u>

Notes to the Financial Statements

for the year ended December 31, 2011

The basis for determining fair values is as follows:

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. For instruments carried at amortised cost, since the majority of the interest bearing investments are variable rate based instruments, there is no difference in carrying amount and the fair value. Further, for fixed rate instruments, since there is no significant difference in market rate and the rate of instrument and therefore most of the fixed rate instruments are short term in nature, fair value significantly approximates to carrying value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2 (Rupees '000)	Level 3
December 31, 2011			
Assets carried at fair value			
Available for sale investments	123,712	19,974,612	–
Investments - Held for trading	615,035	1,331,939	–
	738,747	21,306,551	–
December 31, 2010			
Assets carried at fair value			
Available for sale investments	130,093	11,462,952	–
Investments - Held for trading	689,308	–	–
	819,401	11,462,952	–

The carrying value of financial assets and liabilities reflected in financial statements approximate their respective fair values.

38.5 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Investment in fair value through profit and loss account – Held for trading

The fair value of held for trading investment is determined by reference to their quoted closing repurchase price at the reporting date.

Available for sale investments

The fair value of available for sale investment is determined by reference to their quoted closing repurchase price at the reporting date and where applicable it is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Investment in associate and subsidiary

The fair value of investment in listed associate and subsidiary is determined by reference to their quoted closing bid price at the reporting date. The fair value is determined for disclosure purposes.

Non-derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Notes to the Financial Statements

for the year ended December 31, 2011

38.6 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on equity, which the Company defines as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

39. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Fauji Foundation holds 44.35% (2010: 44.35%) shares of the Company at the year-end. Therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of the Company. The related parties also comprise of directors, major shareholders, key management personnel, entities over which the directors are able to exercise influence, entities under common directorship and employees' funds. Transactions with related parties and the balances outstanding at the year end are given below. Loans and advances to executives and remuneration of chief executive, directors and executives are disclosed in notes 17, 22 and 35 to the financial statements respectively.

	2011	2010
	(Rupees '000)	
Transactions with subsidiary companies		
Marketing of fertilizer on behalf of subsidiary company under sale on consignment basis	617,876	601,278
Commission on sale of subsidiary company's products	21,911	23,626
Services and materials provided	36,944	80,370
Services and materials received	1,104	870
Dividend income	4,752,330	2,518,735
Balance payable at the year end - unsecured	2,124,704	-
Balance receivable at the year end - unsecured	18,256	-
Long term investment	800,000	650,000
Company's assets are secured against guarantees given by the banks on behalf of FFCEL, refer note 16.4.2.		
Transactions with associated undertaking / companies due to common directorship		
Sale of fertilizer	-	1,298
Medical services	72	189
Office rent	4,166	3,809
Dividend paid	6,601,581	4,739,597
Purchase of gas as feed and fuel stock	10,741,818	12,832,710
Others (including donations)	109,786	121,978
Balance receivable at the year end - unsecured (included in note 24)	3,307	2,772
Balance payable at the year end - unsecured	-	550,892
Other related parties		
Payments to:		
Employees' Provident Fund Trust	235,829	209,911
Employees' Gratuity Fund Trust	75,241	63,710
Employees' Pension Fund Trust	109,220	77,446
Others:		
Transactions with Workers' Profit Participation Fund (WPPF)	28,283	40,037
Balances payable at the year-end	1,273,580	758,571
Balances receivable at the year-end, unsecured	39,304	11,021
Remuneration of key management personnel	17,929	15,846

Notes to the Financial Statements

for the year ended December 31, 2011

40. POST BALANCE SHEET EVENT

The Board of Directors in its meeting held on January 30, 2012 has proposed a final dividend of Rs 5.25 per share, bonus shares of 0.50 per share and a movement from unappropriated profit to general reserve of Rs 4,200 million.

41. GENERAL

41.1 Production capacity	2011	2010
	(Tonnes '000)	
Design capacity	2,048	2,048
Production	2,396	2,485

41.2 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 2,231,232 thousand and Rs 13,550,000 thousand (2010: Rs 40,000 thousand and Rs 14,490,000 thousand) respectively are available to the Company against lien on shipping / title documents and charge on assets of the Company alongwith Corporate Guarantee of the Company in a particular case.

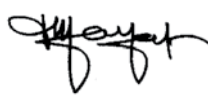
41.3 Donations aggregating Rs 178,151 thousand i.e, 0.79% of net profit after tax (2010: Rs 197,893 thousand i.e, 1.80% of net profit), included under cost of sales and distribution cost. Donations include Rs 70,000 thousand (2010: Rs 89,938 thousand) paid to the projects of Fauji Foundation, Fauji Towers Tipu Road Rawalpindi (associated undertaking). The following directors' interest in the projects of Fauji Foundation is limited to the extent of their involvement in Fauji Foundation as management personnel:

2011	2010
Lt Gen Muhammad Mustafa Khan, HI(M) (Retd)	Lt Gen Hamid Rab Nawaz, HI(M) (Retd)
Mr. Qaiser Javed	Mr. Qaiser Javed
Dr. Nadeem Inayat	Dr. Nadeem Inayat
Maj Gen Zahid Parvez, HI (M) (Retd)	Maj Gen Zahid Parvez, HI (M) (Retd)
Brig Agha Ali Hassan, SI (M) (Retd)	Brig Agha Ali Hassan, SI (M) (Retd)
Brig Dr Gulfam Alam, SI (M) (Retd)	Brig Rahat Khan, (Retd)

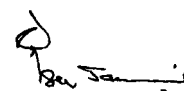
41.4 These financial statements have been authorised for issue by the Board of Directors of the Company on January 30, 2012.



Chairman



Chief Executive



Director

Consolidated Financial Statements

Fauji Fertilizer Company Limited

Auditors' Report to the Members of Fauji Fertilizer Company Limited

We have audited the annexed consolidated financial statements of Fauji Fertilizer Company Limited ("the Company") comprising consolidated balance sheet as at December 31, 2011, and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial 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.

In our opinion, the consolidated financial statements present fairly the financial position of Fauji Fertilizer Company Limited as at December 31, 2011, and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Islamabad
January 30, 2012

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner
Muhammad Rehan Chughtai

Consolidated Balance Sheet

as at December 31, 2011

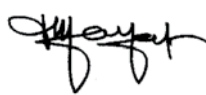
	Note	2011 (Rupees '000)	2010
EQUITY AND LIABILITIES			
ATTRIBUTABLE TO EQUITY HOLDERS			
OF FAUJI FERTILIZER COMPANY LIMITED			
Share capital	4	8,481,588	6,785,271
Capital reserves	5	972,682	973,083
Revenue reserves	6	16,308,762	9,522,587
		25,763,032	17,280,941
NON - CONTROLLING INTEREST		6,688,550	5,988,208
TOTAL EQUITY		32,451,582	23,269,149
NON - CURRENT LIABILITIES			
Long term borrowings	7	10,080,890	7,708,608
Deferred liabilities	8	7,504,401	7,671,871
		17,585,291	15,380,479
CURRENT LIABILITIES			
Trade and other payables	9	20,956,921	17,481,446
Interest and mark-up accrued	11	496,159	294,063
Short term borrowings	12	16,211,794	11,293,144
Current portion of long term:			
- Borrowings	7	1,615,655	1,967,877
- Murabaha	7.2	-	19,338
- Loans	7.3	648,201	648,201
Taxation - net		4,425,068	3,663,165
		44,353,798	35,367,234
		94,390,671	74,016,862
CONTINGENCIES AND COMMITMENTS	13		

The annexed notes 1 to 40 form an integral part of these consolidated financial statements.

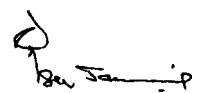
	Note	2011 (Rupees '000)	2010
ASSETS			
NON – CURRENT ASSETS			
Property, plant and equipment	14	37,161,882	30,971,029
Intangible asset	14	46,399	74,060
Goodwill	15	1,569,234	1,569,234
Equity accounted investments	16.1	5,503,123	4,859,358
Other long term investments	16.2	250,818	261,772
Long term loans and advances	17	605,883	455,328
Long term deposits and prepayments	18	90,487	97,351
		45,227,826	38,288,132
CURRENT ASSETS			
Stores, spares and loose tools	19	4,353,190	4,235,495
Stock in trade	20	4,043,916	1,482,387
Trade debts	21	733,185	1,187,941
Loans and advances	22	872,320	557,575
Deposits and prepayments	23	67,009	64,170
Other receivables	24	1,055,982	856,429
Short term investments	25	30,632,717	13,270,581
Cash and bank balances	26	7,404,526	14,074,152
		49,162,845	35,728,730
		94,390,671	74,016,862



Chairman



Chief Executive



Director

Consolidated Profit and Loss Account

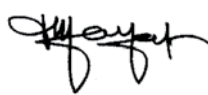
for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
Sales	27	111,111,913	88,154,698
Cost of sales	28	56,625,023	55,103,948
GROSS PROFIT		54,486,890	33,050,750
Administrative expenses and distribution cost	29	7,731,516	7,286,329
		46,755,374	25,764,421
Finance cost	30	1,824,471	2,001,355
Other expenses	31	3,831,447	2,086,563
		41,099,456	21,676,503
Other income	32	3,228,875	1,635,389
Share in profit of equity accounted investments	16.1	409,077	193,430
NET PROFIT BEFORE TAXATION		44,737,408	23,505,322
Provision for taxation	33	16,096,233	8,456,139
NET PROFIT AFTER TAXATION		28,641,175	15,049,183
ATTRIBUTABLE TO:			
Equity holders of Fauji Fertilizer Company Limited		23,351,868	11,859,670
Non-controlling interests		5,289,307	3,189,513
		28,641,175	15,049,183

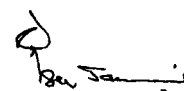
The annexed notes 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive



Director

Consolidated Statement of Comprehensive Income

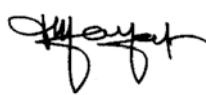
for the year ended December 31, 2011

	2011	2011
	(Rupees '000)	
Net profit after taxation	28,641,175	15,049,183
Other comprehensive income for the year		
Exchange difference on translating foreign investment	(597)	(20,301)
Surplus / (deficit) on remeasurement of investments available for sale to fair value	18,802	(15,460)
	18,205	(35,761)
Income tax relating to component of other comprehensive income	(2,990)	2,936
Other comprehensive income for the year - net of tax	15,215	(32,825)
Total comprehensive income for the year	28,656,390	15,016,358
ATTRIBUTABLE TO:		
Equity holders of Fauji Fertilizer Company Limited	23,367,279	11,833,494
Non-controlling interests	5,289,111	3,182,864
	28,656,390	15,016,358

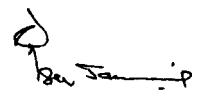
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Chairman



Chief Executive



Director

Consolidated Cash Flow Statement

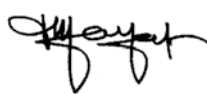
for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	49,367,836	33,563,894
Finance cost paid		(1,413,481)	(1,943,386)
Income tax paid		(15,645,446)	(7,748,746)
Payment to pension fund		(109,220)	(77,446)
Compensated absences paid		(110,263)	(112,774)
Payment to gratuity fund		(121,523)	(90,930)
Payment to Workers' Welfare Fund		(329,070)	(390,686)
Payment to Workers' Profit Participation Fund - net		(2,729,781)	(1,129,518)
		(20,458,784)	(11,493,486)
Net cash generated from operating activities		28,909,052	22,070,408
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(8,702,512)	(4,188,198)
Proceeds from sale of property, plant and equipment		20,169	91,696
Dividend received		1,003,657	205,452
Interest received		1,931,355	1,068,578
(Increase) / decrease in investments		(11,093,762)	2,387,250
Net cash used in investing activities		(16,841,093)	(435,222)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - disbursements		4,636,138	1,500,000
- repayments		(2,616,078)	(3,364,549)
Long term murabaha - repayments		(19,338)	(38,679)
Short term borrowings - net		2,168,762	1,626,238
Dividends paid		(19,150,348)	(13,258,877)
Net cash used in financing activities		(14,980,864)	(13,535,867)
Net (decrease)/ increase in cash and cash equivalents		(2,912,905)	8,099,319
Cash and cash equivalents at beginning of the year		19,131,867	11,013,641
Effect of exchange rate changes		23,893	18,907
Cash and cash equivalents at end of the year	35	16,242,855	19,131,867

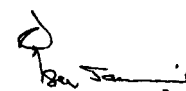
The annexed notes 1 to 40 form an integral part of these consolidated financial statements.



Chairman



Chief Executive



Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2011

	Attributable to equity holders of Fauji Fertilizer Company Limited							Non-controlling interests	Total
	Share capital	Capital reserves			Revenue reserves				
		Capital reserve	Translation reserve	Statutory reserve	Surplus/(deficit) on remeasurement of available for sale investments to fair value	General reserve	Unappropriated profit		
Balance at January 01, 2010	6,785,271	276,184	704,115	6,436	6,970	3,739,471	2,580,220	5,237,334	19,336,001
Transfer to general reserve	-	-	-	-	-	500,000	(500,000)	-	-
Total comprehensive income for the year	-	-	-	-	-	-	11,859,670	3,189,513	15,049,183
Profit for the year after taxation	-	-	(13,652)	-	(12,524)	-	-	(6,649)	(32,825)
Other comprehensive income - net of tax	-	-	(13,652)	-	(12,524)	-	-	-	(26,176)
Total comprehensive income for the year - net of tax	-	-	(13,652)	-	(12,524)	-	11,859,670	3,182,864	15,016,358
Distribution to owners									
FFC dividends:									
Final dividend 2009: Rs 3.25 per share	-	-	-	-	-	-	(2,205,213)	-	(2,205,213)
First interim dividend 2010: Rs 4.00 per share	-	-	-	-	-	-	(2,714,108)	-	(2,714,108)
Second interim dividend 2010: Rs 3.50 per share	-	-	-	-	-	-	(2,374,845)	-	(2,374,845)
Third interim dividend 2010: Rs 2.00 per share	-	-	-	-	-	-	(1,357,054)	-	(1,357,054)
Dividends by FFBL to non-controlling interest holders:									
Final dividend 2009: Rs 2.25 per share	-	-	-	-	-	-	-	(1,032,472)	(1,032,472)
First interim dividend 2010: Rs 0.50 per share	-	-	-	-	-	-	-	(229,438)	(229,438)
Second interim dividend 2010: Rs 1.30 per share	-	-	-	-	-	-	-	(596,485)	(596,485)
Third interim dividend 2010: Rs 1.25 per share	-	-	-	-	-	-	-	(573,595)	(573,595)
Total transactions with owners	-	-	-	-	-	-	(8,651,220)	(2,431,990)	(11,083,210)
Balance at December 31, 2010	6,785,271	276,184	690,463	6,436	(5,554)	4,239,471	5,288,670	5,988,208	23,269,149
Balance at January 01, 2011	6,785,271	276,184	690,463	6,436	(5,554)	4,239,471	5,288,670	5,988,208	23,269,149
Transfer to general reserve	-	-	-	-	-	3,000,000	(3,000,000)	-	-
Total comprehensive income for the year	-	-	-	-	-	-	23,351,868	5,289,307	28,641,175
Profit for the year after taxation	-	-	(401)	-	15,812	-	-	(196)	15,215
Other comprehensive income - net of tax	-	-	(401)	-	15,812	-	-	-	15,215
Total comprehensive income for the year - net of tax	-	-	(401)	-	15,812	-	23,351,868	5,289,111	28,656,390
Distribution to owners									
FFC dividends:									
Issue of bonus shares	1,696,317	-	-	-	-	(1,696,317)	-	-	-
Final dividend 2010: Rs 3.50 per share	-	-	-	-	-	-	(2,374,845)	-	(2,374,845)
First interim dividend 2011: Rs 4.50 per share	-	-	-	-	-	-	(3,816,715)	-	(3,816,715)
Second interim dividend 2011: Rs 4.75 per share	-	-	-	-	-	-	(4,028,754)	-	(4,028,754)
Third interim dividend 2011: Rs 5.50 per share	-	-	-	-	-	-	(4,664,874)	-	(4,664,874)
Dividends by FFBL to non-controlling interest holders:									
Final dividend 2010: Rs 3.50 per share	-	-	-	-	-	-	-	(1,606,069)	(1,606,069)
First interim dividend 2011: Rs 1.25 per share	-	-	-	-	-	-	-	(573,596)	(573,596)
Second interim dividend 2011: Rs 2.25 per share	-	-	-	-	-	-	-	(1,032,473)	(1,032,473)
Third interim dividend 2011: Rs 3.00 per share	-	-	-	-	-	-	-	(1,376,631)	(1,376,631)
Total transactions with owners	1,696,317	-	-	-	-	(1,696,317)	(14,885,188)	(4,588,769)	(19,473,957)
Balance at December 31, 2011	8,481,588	276,184	690,062	6,436	10,258	5,543,154	10,755,350	6,688,550	32,451,582

The annexed notes 1 to 40 form an integral part of these consolidated financial statements.


Chairman


Chief Executive


Director

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

1. STATUS AND NATURE OF BUSINESS

Fauji Fertilizer Company Limited (FFC / parent company) and its subsidiary, Fauji Fertilizer Bin Qasim Limited (FFBL) are incorporated in Pakistan as public limited companies and their shares are quoted on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The registered offices of the companies are situated in Rawalpindi, Pakistan. FFC and FFBL are domiciled in Rawalpindi. The principal activity of FFC and FFBL is manufacturing, purchasing and marketing of fertilizers and chemicals including investment in chemical and other manufacturing operations.

FFC Energy Limited (FFCEL) (subsidiary) is a public limited company. The registered office of FFCEL is situated in Rawalpindi. FFCEL is currently setting up a 49.5 MW wind power energy project at Jhampir, Distt Thatta, Sindh.

FFC, FFBL and FFCEL are collectively referred to as ("the Group companies") in these financial statements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are carried at their fair values and staff retirement gratuity and pension which is carried at present value of defined benefit obligation net of fair value of plan assets and unrecognised actuarial losses.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Pak Rupees, which is the Group companies functional currency. All financial information presented in Pak Rupee have been rounded to the nearest thousand.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in respective policy notes.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of FFC and its subsidiary companies. FFC has 50.88% shareholding interest (2010: 50.88%) in FFBL. In FFCEL, FFC currently holds 100% shareholding interest ("the Group companies / FFC, FFBL and FFCEL").

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

Subsidiaries

Subsidiaries are those enterprises in which parent company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. The financial statements of the subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investment held by the parent company is eliminated against parent company's share in paid up capital of the subsidiaries.

Material intra-group balances and transactions have been eliminated.

Minority interests are that part of net results of the operations and of net assets of the subsidiaries attributable to interests which are not owned by the parent company. Minority interest are presented as a separate item in the consolidated financial statements.

Investments in associates and jointly control entities (equity accounted investees)

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group companies investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group companies share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group companies, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group companies share of losses exceeds their interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group companies have an obligation or have made payments on behalf of the investee.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group companies' interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Retirement benefits

FFC and FFBL operate the following retirement benefit schemes:

Funded gratuity scheme

Defined benefit funded gratuity for all eligible employees who complete qualifying period of service and age.

Funded Pension Scheme

FFC has defined benefit funded pension for eligible employees who complete qualifying period of service and age.

These funds are administered by trustees. Annual contributions to the gratuity and pension funds are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in note 10 to the consolidated financial statements. All contributions are charged to profit and loss account for the year. 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.

Calculation of gratuity and pension 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.

Contributory Provident Fund

Defined contributory provident fund for all eligible employees for which contributions are charged to profit and loss account.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

Compensated absences

The Group companies have the policy to provide for compensated absences of its employees in accordance with respective entitlement on cessation of service; related expected cost thereof has been included in the consolidated financial statements.

3.3 Taxation

Current

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Provision for current taxation is based on taxable income at the applicable rate of taxation after taking into account tax credits and tax rebates, if any.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits 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.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investment in jointly controlled entities to the extent that it is probable that they will not reverse in a foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The Group companies take into account the current income tax law and decisions taken by the taxation authorities. Instances where the Group companies view differ from the income tax department at the assessment stage and where the Group companies consider that their view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3.4 Property, plant and equipment and capital work in progress

Property, plant and equipment including those acquired on PSFL acquisition, are stated at cost less accumulated depreciation and impairment loss, if any, except for freehold land and capital work in progress, which are stated at cost less impairment, if any. Cost comprises acquisition and other directly attributable costs. Property, plant and equipment acquired on PSFL acquisition are stated at their cost to FFC, which represents their fair value on acquisition, less accumulated depreciation.

Depreciation is provided on the straight-line basis and charged to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 14. Depreciation on addition in property, plant and equipment is charged when the asset becomes available for use upto its disposal.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group companies and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit and loss account.

The Group companies review the useful life and residual value of property, plant and equipment on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge.

Intangible assets

Intangibles other than goodwill are stated at the cash price equivalent of the consideration given, i.e., cash and cash equivalent paid less accumulated amortization and impairment loss, if any. Intangibles with finite useful lives are amortised over the period of their useful lives. Amortisation is charged on a straight line basis over the estimated useful life and is included in the profit and loss account.

3.5 Impairment

The carrying amount of the Group companies' assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. For non-financial assets and available-for-sale financial assets that are debt securities, the reversal is recognised in profit and loss account. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in comprehensive income.

3.6 Goodwill

On acquisition of an entity, excess of the purchase consideration over the fair value of the identifiable assets and liabilities acquired is initially recognised as goodwill and thereafter tested for impairment annually. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

3.7 Investments

3.7.1 Investments available for sale

These are initially recognised at cost and at subsequent reporting dates measured at fair values. Gains or losses from changes in fair values are taken to statement of comprehensive income until disposal at which time these are recycled to profit and loss account.

3.7.2 Investments at fair value through profit or loss - Held for trading

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking, are classified as held for trading and designated as such upon initial recognition. These are stated at fair values with any resulting gains or losses recognised directly in the profit and loss account.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.7.3 Acquisition under common control

Acquisition under common control of the shareholder are initially recognised using a fair value accounting basis applying the requirements of IFRS 3 - "Business Combinations". All the acquisitions under common control are accounted for from the year in which the acquisition takes place without restating the Group companies (acquirer) comparative financial statements.

3.7.4 Loans and receivables

Investments are classified as loans and receivables which have fixed or determinable payments and are not quoted in an active market. These investments are measured at amortised cost using the effective interest method, less any impairment losses.

The Group companies recognise the regular way purchase or sale of financial assets using settlement date accounting.

3.8 Stores, spares and loose tools

These are valued at lower of weighted average cost and net realisable value less impairment. The Group companies review the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools. Impairment is also made for slow moving items.

3.9 Stock in trade

Stocks are valued at the lower of cost and net realisable value.

Cost is determined as follows:

Raw materials	at weighted average purchase cost and directly attributable expenses
Work in process and finished goods	at weighted average cost of purchase, raw materials and related manufacturing expenses

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group companies review the carrying amount of stock in trade and stores, spares and loose tools (note 3.8) on a regular basis and as appropriate, inventory is written down to its net realizable value or provision is made for obsolescence if there is any change in usage pattern and physical form of related inventory.

3.10 Foreign currencies

Transactions in foreign currencies are recorded in the books at the rates of exchange ruling on the date of the transaction. Assets and liabilities in foreign currencies at the year end are translated into rupees at the rates prevailing on the balance sheet date. Exchange differences are included in the income for the year.

Investment in foreign joint venture

The results and financial position of joint venture that have a functional currency different from Pak Rupees are translated into Pak Rupees as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet.
- income and expense are translated at the average exchange rates for the period.
- share capital is translated at historical exchange rate.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

All resulting exchange differences are recognised in other comprehensive income within statement of comprehensive income. The Group companies have been recognising such differences in translation reserve over the years. When a foreign investment is sold, in part or in full, the relevant amount in the translation reserve is transferred to profit and loss account as part of the profit or loss on sale.

3.11 Revenue recognition

Sales revenue is recognised when the goods are dispatched and significant risks and rewards of ownership are transferred to the customer. Revenue from sale of goods is measured at the fair value of consideration received or receivable, net of returns and trade discounts. Scrap sales and miscellaneous receipts are recognised on realised amounts.

3.12 Mark-up bearing borrowings

Mark-up bearing borrowings are recognised initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at their amortised cost less subsequent repayments.

3.13 Fertilizer subsidy for farmers

Subsidy on potassic and phosphatic fertilizers announced by the GoP for farmers is recognised in the profit and loss account by adjusting the amount of subsidy against the related cost of purchase / production on a systematic basis in the same period in which these costs are incurred.

3.14 Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Borrowing cost includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs. All other borrowing costs are charged to profit or loss.

3.15 Research and development costs

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

3.16 Provisions

Provisions are recognised when the Group companies have a present legal or constructive obligations as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.17 Dividend and reserve appropriation

Dividend is recognised as a liability in the period in which it is declared. Movement in reserves is recognised in the year in which it is approved.

3.18 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks on current, saving and deposit accounts, short term running finances and other short term highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change in value.

3.19 Operating leases

Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

3.20 Financial Instruments

Financial assets and financial liabilities are recognised when the Group companies become a party to the contractual provisions of the instrument and assets and liabilities are stated at fair value and amortised cost respectively. The Group companies derecognise the financial assets and liabilities when they cease to be a party to such contractual provisions of the instruments. The Group companies recognise the regular way purchase or sale of financial assets using settlement date accounting.

a) Trade and other payables

Liabilities for trade and other amounts payable are carried at amortised cost which approximates the fair value of the consideration to be paid in the future for goods and services received.

b) Trade and other receivables

Trade and other receivables are recognised and carried at amortised cost less an allowance for any uncollectible amounts. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

c) Off-setting of financial assets and liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Group companies have a legally enforceable right to set-off the recognised amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.21 Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of investments held for trading. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group companies right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, changes in the fair value of held for trading investments and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3.22 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 01, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 - Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Group.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

- IAS 27 - Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Group.
- IAS 28 - Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Group.
- IAS 19 - Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Group does not plan to adopt this change early and the extent of the impact has not been determined.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Group.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) - (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. This amendment may result in certain additional disclosures and presentational changes without any impact on the results of operations.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Group.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

		2011	2010
		(Rupees '000)	
4.	SHARE CAPITAL		
	ISSUED, SUBSCRIBED AND PAID UP CAPITAL		
	Numbers		
	December 31, 2011	December 31, 2010	
	256,495,902	256,495,902	Ordinary shares of Rs 10 each issued for consideration in cash
			2,564,959
	591,662,929	422,031,163	Ordinary shares of Rs 10 each issued as fully paid bonus shares
			5,916,629
	848,158,831	678,527,065	
			8,481,588
			6,785,271

AUTHORISED SHARE CAPITAL

This represents 1,500,000,000 (2010: 1,000,000,000) ordinary shares of Rs 10 each amounting to Rs 15,000,000 thousand (2010: Rs 10,000,000 thousand).

- 4.1 During the year, the parent Company issued 169,631,766 ordinary shares of Rs 10 each as fully paid bonus shares. Fauji Foundation held 44.35% (2010: 44.35%) ordinary shares of FFC at the year end.

		2011	2010
		(Rupees '000)	
5.	CAPITAL RESERVES		
	Share premium	5.1	156,184
	Capital redemption reserve	5.2	120,000
	Statutory reserve		6,436
	Translation reserve		690,062
			972,682
			973,083

5.1 Share premium

This represents premium of Rs 5 per share received on public issue of 8,000,000 ordinary shares of Rs 10 each of FFC in 1991 and its share in share premium of FFBL received on public issue of 45,670,000 ordinary shares in 1996 at the rate of Rs 5 per share.

5.2 Capital redemption reserve

This represents reserve setup on redemption of preference shares of Rs 120,000 thousand in 1996.

		2011	2010
		(Rupees '000)	
6.	REVENUE RESERVES		
	Surplus / (deficit) on remeasurement of available for sale investments to fair value - net of tax	10,258	(5,554)
	General reserve	5,543,154	4,239,471
	Unappropriated profit	10,755,350	5,288,670
		16,308,762	9,522,587

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
7. LONG TERM BORROWINGS			
Long term financing - secured	7.1	6,839,888	3,819,405
Long term loan and deferred Government assistance	7.3	3,241,002	3,889,203
		10,080,890	7,708,608
7.1 Long term financing - secured			
Fauji Fertilizer Company Limited			
Loans from banking companies	7.1		
i) Habib Bank Limited (HBL - 1)	7.1.1	-	125,000
ii) United Bank Limited (UBL)	7.1.1	228,572	457,143
iii) Bank Al-Falah Limited (BAFL)	7.1.1	31,250	156,250
iv) Standard Chartered Bank (Pakistan) Limited (SCB)	7.1.1	150,000	250,000
v) National Bank of Pakistan (NBP - 1)	7.1.1	100,000	200,000
vi) Silk Bank Limited (SB - 1)	7.1.1	30,000	60,000
vii) Silk Bank Limited (SB - 2)	7.1.1	30,000	60,000
viii) National Bank of Pakistan (NBP - 2)	7.1.1	333,333	416,667
ix) Faysal Bank Limited (FBL)	7.1.1	240,000	320,000
x) Bank Islami Limited (BIL)	7.1.1	93,750	156,250
xi) Al-Baraka Islamic Bank Limited (AIBL)	7.1.1	175,000	225,000
xii) Dubai Islamic Bank (DIB)	7.1.1	210,000	270,000
xiii) Meezan Bank Limited (MBL - 1)	7.1.1	187,500	312,500
xiv) MCB Bank Limited (MCB)	7.1.1	210,000	270,000
xv) Habib Bank Limited (HBL - 2)	7.1.1	200,000	300,000
xvi) Habib Bank Limited (HBL - 3)	7.1.1	100,000	500,000
xvii) Meezan Bank Limited (MBL - 2)	7.1.1	1,000,000	-
xviii) Bank of Punjab (BOP)	7.1.1	500,000	1,000,000
xix) Allied Bank Limited (ABL)	7.1.1	500,000	500,000
		4,319,405	5,578,810
Fauji Fertilizer Bin Qasim Limited			
Loans from banking companies and financial institutions	7.1.2		
i) Habib Bank Limited (HBL)		-	64,899
ii) Standard Chartered Bank (Pakistan) Limited (SCB)		-	37,110
iii) MCB Bank Limited (MCB)		-	63,974
iv) Askari Bank Limited (AKBL)		-	14,287
v) Saudi Pak Industrial and Agricultural Investment Company (Private) Limited (SAPICO)		-	5,346
vi) Pak Kuwait Investment Company (Private) Limited (PKIC)		-	22,856
		-	208,472

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
FFC Energy Limited	7.2		
Loans from banking companies & financial institutions			
Long term financing - secured		4,400,000	-
Less: Transaction cost			
Initial transaction cost		(269,797)	-
Amortised during the year		5,935	-
		4,136,138	-
		8,455,543	5,787,282
Less: Current portion shown under current liabilities		1,615,655	1,967,877
		6,839,888	3,819,405

7.1.1 Terms and conditions of long term finances availed by FFC are given below:

	Lenders	Mark-up rate p.a. (%)	No of installments outstanding	Date of final repayment
i)	HBL - 1	6 months' KIBOR+1.45	-	Paid on November 30, 2011
ii)	UBL	6 months' KIBOR+1.50	2 half yearly	August 30, 2012
iii)	BAFL	6 months' KIBOR+1.50	1 quarterly	March 20, 2012
iv)	SCB	6 months' KIBOR+1.30	3 half yearly	March 29, 2013
v)	NBP - 1	6 months' KIBOR+1.40	2 half yearly	August 30, 2012
vi)	SB - 1	6 months' KIBOR+1.50	2 half yearly	September 27, 2012
vii)	SB - 2	6 months' KIBOR+1.50	2 half yearly	December 28, 2012
viii)	NBP - 2	6 months' KIBOR+1.00	8 half yearly	September 17, 2015
ix)	FBL	6 months' KIBOR+1.00	6 half yearly	September 26, 2014
x)	HBL-2	6 months' KIBOR+1.00	4 half yearly	September 29, 2013
xi)	BIL	6 months' KIBOR+1.00	3 half yearly	June 30, 2013
xii)	AIBL	6 months' KIBOR+1.00	7 half yearly	June 27, 2015
xiii)	DIB	6 months' KIBOR+1.00	7 half yearly	June 30, 2015
xiv)	MBL -1	6 months' KIBOR+0.96	3 half yearly	March 28, 2013
xv)	MCB	6 months' KIBOR+1.00	7 half yearly	June 30, 2015
xvi)	HBL - 3	6 months' KIBOR+0.30	1 periodic	February 28, 2012
xvii)	MBL -2	6 months' KIBOR+0.90	8 half yearly	December 31, 2015
xviii)	BOP	6 months' KIBOR+0.80	8 half yearly	December 31, 2015
xix)	ABL	6 months' KIBOR+0.80	8 half yearly	December 22, 2016

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

Finances (i) through (xix) have been obtained to meet the debottle - necking, equity investment and other capital expenditure requirements of the parent company. These finances, except finance (xvi) are secured by an equitable mortgage on the parent company's assets and hypothecation of all assets including plant, machinery, tools and spares, and all other moveable properties including stocks and book debts, ranking pari passu with each other with 25% margin. Finance (xvi) is secured against lien on Pakistan Investment Bonds (PIBs) having face value of Rs 100 million. Repayment dates of installments for this finance coincide with the maturity dates of PIBs.

7.1.2 FFBL has repaid the long term financing from banking companies and financial institutions in full. This financing was secured against first equitable mortgage charge created on all immovable properties of FFBL and by way of hypothecation of movable properties of FFBL.

7.2 FFC Energy Limited

This represents availed portion of a long term loan facility of Rs 11.02 billion from consortium of ten financial institutions. This facility carries mark up at six months KIBOR plus 295 basis points payable six monthly in arrears. This facility is repayable over a period of 10 years with a grace period of 2 years.

This facility is secured against

- First ranking exclusive assignment / mortgage over receivables under Energy Purchase Agreement.
- Lien over and set-off rights on project account.
- First ranking, hypothecation charge over all moveable assets of FFCEL.
- Exclusive mortgage over lease rights in immovable property on which project will be established.

The Common Term Agreement contains various covenants as to Security; Engineering, Procurement & Construction; Operations & Maintenance; Project Accounts; Insurance; Tax and Financial of the Project and Conditions Precedents (CPs) to each disbursement of loan. The major disbursement CPs includes that all representations and warranties to be true and correct; no event of default is subsisting; maintenance of debt to equity ratio etc.

	Note	2011 (Rupees '000)	2010
7.3. Long term loan and deferred Government assistance, unsecured			
Government of Pakistan (GoP) loan - FFBL		3,089,673	3,493,342
Less: Current portion shown under current liabilities		648,201	648,201
		2,441,472	2,845,141
Deferred Government assistance - FFBL		799,530	1,044,062
	7.3.1	3,241,002	3,889,203

7.3.1 This represents balance amount of GoP loan amounting in total of Rs 9,723,015 thousand which is repayable in equal installments in 16 years with 1 year grace at zero percent effective November 30, 2001. Final installment will be paid in June 2017. This loan in accordance with International Accounting Standard-39

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

“Financial Instruments: Recognition and Measurement” is stated at its fair value and the difference is recognised as Deferred Government assistance. Deferred Government assistance is being amortised to fully offset the financial charge on the loan at an imputed rate of 7%. The amount amortised and offset against financial charges during the year amounted to Rs 244,532 thousand.

Under the terms of restructuring with GoP, the excess cash, which may arise based on a pre-defined mechanism, shall be shared by FFBL with GoP through prepayment of GOP loan. Pursuant to the approval of Ministry of Finance (MoF) Government of Pakistan (GoP), the Company appointed consultants for examination of FFBL’s financial record relating to the Company’s determination of the amount of excess cash and prepayment to GoP. The draft report of consultants is under consideration and has been submitted to MoF for review and concurrence. Accordingly the Management believes that the excess cash will be paid once review of report and concurrence with methodology is finalised between the parties.

Loans from Export Credit Agencies (ECA), which were assumed by GoP, were initially secured by a guarantee issued by Habib Bank Limited (HBL) on behalf of a local syndicate of banks and financial institutions, which guarantee is secured by first equitable mortgage created on all immovable properties of FFBL and by way of hypothecation of movable properties of FFBL. The charge ranks pari passu with the charges to be created in favour of other foreign and local lenders. The local syndicate had requested FFBL to obtain an indemnity from GoP confirming that it is GoP’s absolute obligation to indemnify and keep related banks and financial institutions harmless from any possible exposure on this account. Accordingly, on December 16, 2002, GoP had conveyed its agreement by assuming ECA loan liabilities by absolving related banks and financial institutions of their liabilities for which they earlier issued guarantees to ECA. As a result, two ECA have released the guarantee of HBL and have returned the original documents.

Since two ECA have yet to release HBL from its responsibility as guarantor therefore, the above referred guarantee and related charge on assets of FFBL have not been vacated up to December 31, 2011. FFBL is making efforts to get this guarantee released.

	Note	2011 (Rupees '000)	2010
8. DEFERRED LIABILITIES			
Deferred taxation	8.1	6,597,331	6,905,456
Compensated leave absences	8.2	907,070	766,415
		<u>7,504,401</u>	<u>7,671,871</u>

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
8.1 DEFERRED TAXATION		
The balance of deferred tax is in respect of the following major temporary differences:		
Accelerated depreciation	6,759,403	7,071,372
Provision for slow moving spares, doubtful debts, other receivables and short term investments	(196,562)	(184,554)
Share of profit of associate	33,679	20,817
Remeasurement of investments available for sale	811	(2,179)
	<u>6,597,331</u>	<u>6,905,456</u>

At December 31, 2011, a deferred tax liability of Rs 390,634 thousand (2010: Rs 256,940 thousand) for temporary difference of Rs 1,116,097 thousand (Rs 734,115 thousand) related to investment in the joint venture was not recognised as the Group companies control the timing of reversal of temporary differences.

8.2 Actuarial valuation has not been carried out as the impact is considered to be immaterial. An amount of Rs 590,974 thousand was previously included in trade and other payables and has been reclassified to deferred liabilities for appropriate presentation.

	Note	2011	2010
		(Rupees '000)	
9. TRADE AND OTHER PAYABLES			
Creditors		7,325,419	4,111,645
Accrued liabilities		3,662,884	3,200,133
Other liabilities		921,493	288,154
Sales tax - net		1,004,552	62,646
Deposits		180,825	171,047
Retention money		92,056	71,935
Advances from customers		5,162,304	8,061,891
Workers' Profit Participation Fund	9.1	-	58,845
Workers' Welfare Fund		1,711,392	1,069,511
Gratuity fund	10	105,800	52,931
Pension fund		133,879	-
Unclaimed dividend		656,317	332,708
		<u>20,956,921</u>	<u>17,481,446</u>

9.1 Workers' Profit Participation Fund			
Balance at beginning of the year		58,845	1,244
Interest on funds utilised in Group companies' business		1,139	1,247
Allocation for the year		2,647,734	1,384,969
Adjustment for prior years	9.1.1	-	(199,097)
Receipt from fund during the year		16,224	49,031
Payment to fund during the year		(2,746,005)	(1,178,549)
		<u>(22,063)</u>	<u>58,845</u>

9.1.1 This represents amount paid by FFC to WPPF in prior years in excess of its obligation.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

10. RETIREMENT BENEFIT FUNDS	Funded gratuity	Funded pension	2011 Total	2010 Total
	(Rupees '000)			
a) Reconciliation of amounts recognised in the balance sheet is as follow:				
Present value of defined benefit obligation	1,610,464	1,838,728	3,449,192	2,680,092
Fair value of plan assets	(1,169,860)	(1,377,160)	(2,547,020)	(2,083,312)
Deficit	440,604	461,568	902,172	596,780
Non vested past service cost	-	-	-	(1,424)
Net actuarial losses not recognised	(334,804)	(327,689)	(662,493)	(542,425)
	<u>105,800</u>	<u>133,879</u>	<u>239,679</u>	<u>52,931</u>
b) The movement in the present value of defined benefit obligation is as follows:				
Present value of defined benefit obligation at beginning of the year	1,373,814	1,306,278	2,680,092	2,204,620
Current service cost	104,101	83,451	187,552	137,089
Interest cost	187,708	261,486	449,194	282,134
Benefits paid during the year	(68,139)	(37,852)	(105,991)	(83,024)
Past service cost	(1,424)	52,298	50,874	1,424
Actuarial loss	14,404	173,067	187,471	137,849
Present value of defined benefit obligation at end of the year	<u>1,610,464</u>	<u>1,838,728</u>	<u>3,449,192</u>	<u>2,680,092</u>
c) The movement in fair value of plan assets is as follows:				
Fair value of plan assets at beginning of the year	1,000,856	1,082,456	2,083,312	1,809,490
Expected return on plan assets	137,119	205,921	343,040	232,870
Contributions	121,523	109,220	230,743	168,376
Benefits paid on behalf of the fund	-	-	-	1,277
Benefits paid during the year	(68,139)	(37,852)	(105,991)	(83,024)
Actuarial (loss) / gain	(21,499)	17,415	(4,084)	(45,677)
Fair value of plan assets at end of the year	<u>1,169,860</u>	<u>1,377,160</u>	<u>2,547,020</u>	<u>2,083,312</u>
d) Plan assets comprise of:				
Investment in equity securities	374,380	492,042	866,422	234,043
Investment in debt securities	79,242	51,444	130,686	121,067
Term Deposit Receipts	455,990	590,085	1,046,075	912,077
Mutual funds	67,105	79,905	147,010	154,844
National Investment Trust Units	53,891	94,188	148,079	169,634
Deposits with banks	145,892	75,807	221,699	492,288
Others	(6,640)	(6,311)	(12,951)	(641)
	<u>1,169,860</u>	<u>1,377,160</u>	<u>2,547,020</u>	<u>2,083,312</u>
e) Actual return on plan assets	115,620	223,336	338,956	187,193
Contributions expected to be paid to the plan during the next financial year	185,990	103,580	289,570	289,293
f) The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the Group companies, at the beginning of the year, for returns over the entire life of the related obligations.				

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Funded gratuity	Funded pension	2011 Total	2010 Total
(Rupees '000)				
g) Movement in liability recognised in the balance sheet:				
Opening liability	52,931	-	52,931	20,413
Expense for the year	174,392	243,099	417,491	202,171
Payment on behalf of the fund	-	-	-	(1,277)
Payments to the fund during the year	(121,523)	(109,220)	(230,743)	(168,376)
Closing liability	105,800	133,879	239,679	52,931

h) Amount recognised in the profit and loss account is as follows:				
Current service cost	102,677	83,451	186,128	137,089
Interest cost	187,708	261,486	449,194	280,948
Expected return on plan assets	(137,119)	(205,921)	(343,040)	(232,870)
Vested past service cost	-	52,298	52,298	3,892
Actuarial losses recognised	21,126	51,785	72,911	13,112
	174,392	243,099	417,491	202,171

	2011	2010	2009	2008	2007
(Rupees '000)					
i) Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of gratuity fund for the current year and previous four years is as follows:					
Present value of defined benefit obligation	1,610,464	1,373,814	1,109,569	984,021	831,875
Fair value of plan assets	(1,169,860)	(1,000,856)	(851,007)	(678,079)	(712,744)
Deficit	440,604	372,958	258,562	305,942	119,131
Experience adjustments					
- on obligations	(14,404)	(96,346)	(8,016)	(46,783)	(49,543)
- on plan assets	(21,499)	2,780	43,444	(130,744)	20,504

	2011	2010	2009	2008	2007
(Rupees '000)					
j) Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of pension fund for the current year and previous four years is as follows:					
Present value of defined benefit obligation	1,838,728	1,306,278	1,095,051	928,899	816,872
Fair value of plan assets	(1,377,160)	(1,082,456)	(958,483)	(735,717)	(781,717)
Deficit	461,568	223,822	136,568	193,182	35,155
Experience adjustments					
- on obligations	(173,067)	(41,503)	(17,283)	(72,385)	3,510
- on plan assets	17,415	(48,457)	63,868	16,750	42,491

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011		2010	
	Funded gratuity	Funded pension	Funded gratuity	Funded pension
k) Principal actuarial assumptions used in the actuarial valuations are as follows:				
Discount rate	12.50 % - 13%	14%	14%	14%
Expected rate of salary growth	12 % - 13%	14%	13%-14%	14%
Expected rate of return on plan assets	12.50 % - 13%	14%	14%	14%

- l) "Salaries, wages and benefits" expense, stated in notes 28 and 29 include retirement benefits in respect of gratuity, provident fund, pension plans and compensated absences amounting to Rs 174,392 thousand, Rs 159,396 thousand, Rs 243,099 thousand and Rs 250,918 thousand respectively (2010: Rs 124,782 thousand, Rs 128,612 thousand, Rs 77,446 thousand and Rs 192,838 thousand respectively).

	Note	2011 (Rupees '000)	2010
11. INTEREST AND MARK-UP ACCRUED			
On long term borrowings			
- from banking companies and financial institutions		276,378	119,203
On murabaha financing		-	623
On short term borrowings		219,781	174,237
		<u>496,159</u>	<u>294,063</u>

12. SHORT TERM BORROWINGS – SECURED

From banking companies			
	Note	2011	2010
Short term running finance	12.1	<u>16,211,794</u>	<u>11,293,144</u>

12.1 Short term running finance

Short term running finance and istisna facilities are available to FFC from various banking companies under mark-up / profit arrangements amounting to Rs 11.54 billion (2010 Rs 11.49 billion) which represent the aggregate of sale prices of all mark-up / profit agreements between FFC and respective banks. The facilities have various maturity dates upto June 30, 2012.

These facilities are secured by first pari passu and ranking hypothecation charges on assets of the FFC. Istisna facility of Rs 1.3 billion from an islamic financial institution is secured against lien over Term Deposits. The mark-up rates range between one month KIBOR + 0.1% to 1% and three months KIBOR + 0.3% per annum (2010: one month KIBOR + 0.1% to 0.8% and three months KIBOR + 0.50% per annum).

FFBL has arranged short term facilities from various banks on mark-up basis with limits aggregating Rs 19,735,000 thousand (2010: Rs 19,450,000 thousand). These facilities carry mark-up ranging from 12.04% to 14.23% per annum (2010: 11.62% to 13.03% per annum) and are secured by hypothecation charge over stocks and current assets of FFBL and lien on bank deposits. The purchase prices are repayable on various dates by FFBL.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
13. CONTINGENCIES AND COMMITMENTS		
a) Contingencies:		
i) Guarantees issued by banks on behalf of the Group companies.	158,681	52,896
ii) Disputed demand for income tax and levy of contribution to Workers' Welfare Fund related to former PSFL decided in favour of FFC by the Income Tax Appellate Authorities, are currently in appeal by the department. FFC is confident that there are reasonable grounds for a favourable decision.	178,590	178,590
iii) Income tax demands, not acknowledged as debt, have been challenged by FFBL and are currently in appeal; FFBL expects favourable outcome of appeal.	-	96,390
iv) Claims against FFC and / or potential exposure not acknowledged as debt.	50,696	50,696
v) Indemnity bonds and undertakings given to the custom authorities for the machinery imported by FFBL for installation at plantsite.	119,650	119,650
vi) Group's share of contingencies in Fauji Cement Company Limited as at September 30, 2011.	121,496	206,784
vii) FFBL's share of contingent liabilities of Foundation Wind Energy - I Limited as at September 30, 2011.	7,595	-
viii) FFBL's share of contingent liabilities of Foundation Wind Energy - II (Private) Limited as at September 30, 2011.	7,595	-
b) Commitments in respect of:		
i) Capital expenditure (including commitments relating to FFCEL)	17,468,405	11,633,786
ii) Purchase of raw material, fertilizer, stores, spares and other revenue items.	4,226,170	1,564,881
iii) FFBL's share of commitments of Foundation Wind Energy-I Limited as at September 30, 2011.	1,627,214	-
iv) FFBL's share of commitments of Foundation Wind Energy-II (Private) Limited as at September 30, 2011.	1,779,887	-
v) Group's share of commitments of PMP as at September 30, 2011.	13,176	24,020
vi) FFBL's share of commitments for investment in wind power projects.	4,764,715	5,000,000
vii) Rentals under lease agreements:		
Premises - not later than one year	80,499	14,689
- later than one year and not later than:		
two years	48,841	17,935
three years	23,894	4,603
four years	23,733	725
five years	23,740	791
Vehicles - not later than one year	31,831	32,311
- later than one year and not later than:		
two years	66,940	20,027
three years	26,644	16,033
four years	17,892	21,206
five years	9,856	9,552

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Leasehold land	Buildings and structures on freehold land	Buildings and structures on leasehold land	Railway siding	Plant and machinery	Catalysts	Office and electrical equipment	Furniture and fixtures	Vehicles	Maintenance and other equipment	Library books	Capital work in progress (note 14.3)	Sub-total	Intangibles	Total
(Rupees '000)																
COST																
Balance as at January 01, 2010	348,386	392,100	2,678,038	1,591,468	26,517	45,788,950	912,986	376,929	173,839	459,282	1,187,235	18,387	2,030,555	55,984,672	-	55,984,672
Additions during the year	304,845	-	213,982	211,388	-	968,852	281,607	66,629	21,899	132,402	236,887	1,994	2,981,818	5,232,053	-	5,232,053
Disposals	-	-	(2,463)	-	-	(300,240)	-	(7,880)	(7,968)	(30,145)	(34,826)	(546)	-	(384,068)	-	(384,068)
Transfers / adjustments	-	-	-	-	-	64,558	(151,918)	4,770	63	(6,266)	68,261	-	(1,295,255)	(1,315,787)	987,47	(1,217,040)
Balance as at December 31, 2010	653,231	392,100	2,889,557	1,612,806	26,517	46,522,120	1,042,675	440,448	187,833	555,273	1,457,557	19,835	3,717,118	59,516,870	987,47	59,615,617
Balance as at January 01, 2011	653,231	392,100	2,889,557	1,612,806	26,517	46,522,120	1,042,675	440,448	187,833	555,273	1,457,557	19,835	3,717,118	59,516,870	987,47	59,615,617
Additions during the year	1,580	-	185,190	84,464	-	1,699,296	62,310	58,276	13,696	888,25	110,384	485	914,675	11,451,260	9,458	11,460,718
Disposals	-	-	(418)	(90)	-	(3,502)	(144,652)	(9,870)	(2,246)	(4,352)	(14,465)	(10)	-	(218,781)	-	(218,781)
Transfers / adjustments	-	-	-	-	-	120,885	-	-	-	-	-	-	(2,880,926)	(2,760,041)	-	(2,760,041)
Balance as at December 31, 2011	654,811	392,100	3,074,329	1,696,980	26,517	48,338,799	960,333	488,854	199,283	600,570	1,553,476	20,310	9,982,946	67,989,308	1,082,205	68,097,513
DEPRECIATION																
Balance as at January 01, 2010	-	133,327	1,426,609	477,799	26,517	22,488,914	456,245	226,623	76,231	284,781	830,050	13,901	-	26,410,997	-	26,410,997
Charge for the year	-	18,963	116,613	46,647	-	1,839,923	171,259	43,671	15,567	784,37	158,586	2,602	-	2,492,268	24,687	2,516,955
Depreciation on disposals	-	-	(2,463)	-	-	(141,088)	-	(7,322)	(7,845)	(23,180)	(23,062)	(546)	-	(205,506)	-	(205,506)
Transfers / adjustments	-	-	-	-	-	-	(151,918)	(417)	-	-	417	-	-	(151,918)	-	(151,918)
Balance as at December 31, 2010	-	152,290	1,540,759	524,446	26,517	24,157,749	475,586	262,555	83,953	340,038	965,991	15,957	-	28,545,841	24,687	28,570,528
Balance as at January 01, 2011	-	152,290	1,540,759	524,446	26,517	24,157,749	475,586	262,555	83,953	340,038	965,991	15,957	-	28,545,841	24,687	28,570,528
Charge for the year	-	18,711	125,064	47,820	-	1,817,802	171,255	44,941	15,984	830,19	166,002	2,079	-	2,492,677	37,119	2,529,796
Depreciation on disposals	-	-	(221)	(12)	-	(2,633)	(144,652)	(9,523)	(2,223)	(37,686)	(14,132)	(10)	-	(211,092)	-	(211,092)
Balance as at December 31, 2011	-	171,001	1,665,602	572,254	26,517	25,972,918	502,189	297,973	97,714	385,371	1,117,861	18,026	-	30,827,426	61,806	30,889,232
Written down value																
- as at December 31, 2010	653,231	239,810	1,348,798	1,088,160	-	22,364,371	567,089	177,893	103,880	215,235	491,566	3,878	3,717,118	30,971,029	74,080	31,045,089
- as at December 31, 2011	654,811	221,099	1,408,727	1,124,726	-	22,365,881	458,144	190,881	101,569	215,199	435,615	2,284	9,982,946	37,161,882	46,399	37,208,281
Rate of depreciation in %	-	6 1/4	5 to 10	5	5	5	20	15	10	20	15 - 33.33	30	-	-	33	-

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
14.1	Depreciation charge has been allocated as follows:		
Cost of sales	28	2,484,751	2,469,561
Distribution cost	29	45,045	47,394
		<u>2,529,796</u>	<u>2,516,955</u>

14.2 Details of property, plant and equipment disposed off:

Description	Method of disposal	Cost (Rupees '000)	Book value	Sale proceeds
Building	write-off	250	142	-
Submersible Drainage Pump	write-off	168	55	-
Property, plant and equipment	write-off	2,000	850	-

Vehicles

As per Group companies' policy to employees

Maj. (R) Shoukat Beg		1,354	903	1,111
Mr. Muhammad Nauman Younas		994	62	256
Mr. Shabbir Ahmed Memon		929	372	137
Mr. Ashfaq Ahmed		952	325	137
Mr. Danyal Ahuja		915	181	137
Mr. Usman Ibrahim		1,095	753	944
Mr. Kashif Jamil		1,020	277	227
Mr. Muhammad Asif Nakhuda		1,286	371	190
Mr. Syed Ali Noman Raza		1,407	463	310
Mr. Muhammad Shahid		1,020	288	227
Mr. Zulfiqar Haider Naqvi		1,336	677	196
Mr. Muhammad Irfan Anwar		1,029	194	233
Mr. Naveed Hisam		1,020	151	227
Mr. Bilal Qamar		929	113	137
Mr. Shahid Majeed		900	186	132
Mr. Muhammad Saeed Uppal		1,404	527	486

Aggregate of items of property, plant and equipment

with individual book values not exceeding Rs 50 thousand	198,773	799	15,082
2011	<u>218,781</u>	<u>7,689</u>	<u>20,169</u>
2010	<u>384,068</u>	<u>178,562</u>	<u>91,696</u>

	2011 (Rupees '000)	2010
14.3	Capital Work in Progress	
Civil works including mobilisation advance	1,520,262	1,028,220
Plant and machinery including advances to suppliers	8,195,256	2,498,700
Intangible assets under development	267,428	190,198
	<u>9,982,946</u>	<u>3,717,118</u>

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

15. GOODWILL

This represents excess of the amount paid by FFC over fair value of net assets of PSFL on its acquisition. The recoverable amount of goodwill was tested for impairment by allocating the amount of goodwill to respective assets on which it arose, based on value in use in accordance with IAS-36 - "Impairment of Assets". The value in use calculations are based on cashflow projections. These are then extrapolated for a period of 5 years using a steady long term expected demand growth of 2% and terminal value determined based on long term earning multiples. The cash flows are discounted using applicable discount rate. Based on this calculation no impairment is required to be accounted for against the carrying amount of goodwill.

	Note	2011 (Rupees '000)	2010
16. LONG TERM INVESTMENTS			
Equity accounted investments	16.1	5,503,123	4,859,358
Other long term investments	16.2	250,818	261,772
		<u>5,753,941</u>	<u>5,121,130</u>
16.1 Equity accounted investments			
Investment in associated company - under equity method			
Fauji Cement Company Limited (FCCL)	16.1.1		
Cost of investment		1,800,000	1,800,000
Post acquisition profits brought forward		208,170	191,898
Share of profit for the year		49,026	16,272
Balance as at December 31, 2011		2,057,196	2,008,170
Foundation Wind Energy-I Limited	16.1.4		
Advance for issue of shares		131,160	-
share of loss		(11,751)	-
		119,409	-
Foundation Wind Energy-II (Private) Limited	16.1.4		
Advance for issue of shares		104,125	-
share of loss		(10,779)	-
		93,346	-
Investment in joint venture - under equity method			
Pakistan Maroc Phosphore S.A. Morocco (PMP)	16.1.2		
Cost of investment		2,117,075	2,117,075
Post acquisition loss brought forward		(292,594)	(420,001)
Share of profit for the year		382,581	177,158
Dividends received		-	(49,751)
Gain on translation of net assets		1,026,110	1,026,707
Balance as at December 31, 2011		<u>3,233,172</u>	<u>2,851,188</u>
		<u>5,503,123</u>	<u>4,859,358</u>

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
16.2 Other long term investments			
Investments available for sale	16.2.1		
Certificates of Investment		108,961	94,556
Pakistan Investment Bonds		162,043	493,775
Term Finance Certificates		123,712	130,093
Arabian Sea Country Club Limited (ASCCL) (300,000 shares of Rs 10 each)		3,000	3,000
Less: Impairment in value of investment		(3,000)	(3,000)
		-	-
		394,716	718,424
Less: Current portion shown under short term investments	25		
Investments available for sale			
Certificates of investment		22,507	43,086
Pakistan Investment Bonds		104,706	396,929
Term Finance Certificates		16,685	16,637
		143,898	456,652
		250,818	261,772

16.1.1 Investment in associated company - under equity method

FFC and FFBL have investment in FCCL. Fair value of investment in FCCL as at December 31, 2011 was Rs 371,250 thousand (2010: Rs 564,750 thousand). FFC and FFBL collectively hold 8.15% interest in FCCL which is less than 20%, however it is concluded that the Group companies have significant influence due to their representation on the Board of Directors of FCCL.

The recoverable amount of the investment in Fauji Cement Company Limited was tested for impairment based on value in use, in accordance with IAS - 36 "Impairment of Assets". The value in use calculations are based on cash flow projections. These are then extrapolated for a period of 5 years using a steady long term expected demand growth of 3% and terminal value determined based on long term earning multiples. The cash flows are discounted using applicable discount rate. Based on this calculation, no impairment is required to be accounted for against the carrying amount of investment.

FFC and FFBL are committed not to dispose off their investment in FCCL so long as the loan extended to FCCL by The Royal Bank of Scotland Limited remains outstanding or without prior consent of FCCL.

16.1.2 Investment in joint venture - under equity method

Cost of investment represents equivalent to Moroccan Dirhams 300,000 thousand representing 37.50% interest in PMP, a joint venture between FFC, FFBL, Fauji Foundation and Officie Cherifien Des Phosphates, Morocco. The principal activity of PMP is to manufacture and market phosphoric acid, fertilizer and other related products in Morocco and abroad.

According to the shareholders' agreement, if any legal restrictions are laid on dividends by Pakistan Maroc Phosphor S.A., the investment will be converted to interest bearing loan. The Group has also committed not to pledge shares of PMP without prior consent of PMPs' lenders.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

16.1.3 Summary financial information for equity accounted investees as per their financial statements, not adjusted for the percentage ownership of the Group companies:

	September 2011	September 2010	September 2011	September 2010	September 2011	September 2010	September 2011	September 2010
	PMP (Joint venture)		FCCL (Associate)		Foundation Wind Energy-I (Associate)		Foundation Wind Energy-II (Associate)	
Non - current assets	13,819,766	15,334,867	27,808,729	25,409,061	14,406	-	31,946	-
Non - current liabilities	(7,335,342)	(17,930,158)	(12,246,697)	(23,794,477)	-	-	(100,090)	-
Current assets	14,646,899	12,598,897	4,575,385	2,297,921	131,837	-	136,844	-
Current liabilities	(12,510,466)	(10,003,607)	(6,648,437)	(3,912,505)	(6,184)	-	(7,345)	-
Revenue for the period	24,215,172	17,473,341	4,119,151	2,890,334	1,040	-	1,579	-
Expenses for the period	(23,949,274)	(16,629,304)	(3,840,804)	(2,727,893)	(34,617)	-	(32,376)	-
Profit / (loss) for the period	265,898	844,037	278,347	162,441	(33,577)	-	(30,797)	-

Financial statements for the period ended September 30, 2011 have been used for accounting under equity method as these were the latest financial statements approved by the Board of Directors of FCCL, PMP, Foundation Wind Energy-I and Foundation Wind Energy-II.

16.1.4 Foundation Wind Energy - I Limited (formerly Beacon Energy Limited) and Foundation Wind Energy - II (Private) Limited (formerly Green Power (Private) Limited) are in a process of setting up 49.5 MW wind power plant each. Total estimated cost for each plant is US\$ 130 million. Pursuant to Share Holders Agreement dated March 08, 2011 FFBL will eventually hold 35% shareholding in Foundation Wind Energy-I and Foundation Wind Energy-II. The projects are expected to commence commercial production in 2013.

16.2.1 Investments available for sale

Certificates of Investment (COI)

These represent placements in certificates of investment of a financial institution for periods ranging from one to five years at profit rates ranging from 8.1% to 14.18% per annum (2010: 8.1% to 14.18% per annum).

Pakistan Investment Bonds (PIBs)

PIBs with 3, 5, 7 and 10 years tenure were purchased and are due to mature within a period of 4 years. Profit is receivable on half yearly basis with coupon rates ranging from 8% to 11.75% per annum (2010: 11% to 14% per annum). These PIBs have face value of Rs 164 million and PIBs with face value of Rs 100 million are under lien of a bank against loan for capital expenditure requirements.

Term Finance Certificates (TFCs)

These include 4,992 and 20,000 certificates of Rs 5,000 each of Pakistan Mobile Communications Limited and Engro Chemicals Pakistan Limited respectively. Profit is receivable on half yearly basis at the rate of six months' KIBOR + 2.85% and 1.55% per annum respectively.

ASCCL

As per audited accounts of ASCCL for the year ended June 30, 2011, the break-up value of an ordinary share was Rs 7.90 (June 30, 2010: Rs 11.14).

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
17. LONG TERM LOANS AND ADVANCES - SECURED			
Loans and advances – considered good, to:			
Executives		625,590	534,782
Other employees		199,709	147,954
		825,299	682,736
Less: Amount due within twelve months, shown under current loans and advances	22	219,416	227,408
		605,883	455,328

17.1 Reconciliation of carrying amount of loans and advances to executives and other employees:

	Opening balance as at January 01, 2011	Disbursements	Repayments	Closing balance as at December 31, 2011
	(Rupees '000)			
Executives	534,782	251,093	160,285	625,590
Other employees	147,954	114,658	62,903	199,709
2011	682,736	365,751	223,188	825,299
2010	417,065	423,474	157,803	682,736

These represent secured house building loans, house rent advances and advances pursuant to agreement with employees which are repayable within one to ten years. House building loans carry mark-up at 5% per annum.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs 625,590 thousand (2010: Rs 534,782 thousand).

	2011 (Rupees '000)	2010
18. LONG TERM DEPOSITS AND PREPAYMENTS		
Deposits	84,461	83,850
Prepayments	6,026	13,501
	90,487	97,351
19. STORES, SPARES AND LOOSE TOOLS		
Stores	478,192	490,619
Spares	4,223,277	4,085,630
Provision for slow moving items	(462,050)	(428,112)
	3,761,227	3,657,518
Loose tools	279	279
Items in transit	113,492	87,079
	4,353,190	4,235,495

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
20. STOCK IN TRADE			
Raw and packing materials		514,553	1,070,614
Work in process		58,478	57,568
Finished goods - manufactured fertilizers		344,756	354,205
- purchased fertilizers		144,090	-
Stocks in transit		2,982,039	-
		<u>4,043,916</u>	<u>1,482,387</u>
21. TRADE DEBTS			
Considered good			
Secured		733,156	1,176,758
Unsecured		-	11,183
		<u>733,156</u>	<u>1,187,941</u>
Due from Fauji Foundation, an associated undertaking - unsecured, considered good		29	-
Considered doubtful		1,758	1,758
		<u>734,943</u>	<u>1,189,699</u>
Provision for doubtful debts		(1,758)	(1,758)
		<u>733,185</u>	<u>1,187,941</u>
22. LOANS AND ADVANCES			
Loans & advances - unsecured, considered good to:			
Executives		119,518	46,980
Other employees		38,694	27,546
		<u>158,212</u>	<u>74,526</u>
Advances to suppliers and contractors			
Considered good		494,692	255,641
Considered doubtful		45	45
		<u>494,737</u>	<u>255,686</u>
Provision for doubtful advances		(45)	(45)
		<u>494,692</u>	<u>255,641</u>
Current portion of long term loans and advances	17	219,416	227,408
		<u>872,320</u>	<u>557,575</u>
23. DEPOSITS AND PREPAYMENTS			
Deposits		5,678	2,516
Prepayments		61,331	61,654
		<u>67,009</u>	<u>64,170</u>

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
24. OTHER RECEIVABLES			
Accrued income on investments and bank deposits		328,728	107,140
Advance tax	24.1	322,368	322,368
Sale tax refundable - net		108,958	108,943
Workers' Profit Participation Fund	9.1	22,063	-
Other receivables - considered good		273,865	317,978
- considered doubtful		55,714	55,714
		329,579	373,692
Provision for doubtful receivables		(55,714)	(55,714)
		273,865	317,978
		1,055,982	856,429

24.1 This represents tax paid by PSFL in excess of admitted tax liabilities net of adjustments of determined refunds. FFC intends to adjust the remaining amount after finalisation of pending re-assessments by the taxation authorities.

	Note	2011 (Rupees '000)	2010
25. SHORT TERM INVESTMENTS			
Term deposits with banks and financial institutions			
Available for sale	25.1		
Local currency (net of provision for doubtful recovery Rs 9,750 thousand)		18,675,000	9,800,000
(2010: Rs 9,750 thousand)			
Foreign currency		1,028,608	1,074,621
		19,703,608	10,874,621
Investments at fair value through profit or loss - Held for trading			
Fixed income / money market funds (net of provision for doubtful recovery Rs 33,253 thousand)			
(2010: Rs 33,253 thousand)		9,535,211	689,308
Loans and receivables at amortised cost			
Term deposits with banks and financial institutions		1,250,000	1,250,000
Current maturity of long term investments			
Available for sale	16.2	143,898	456,652
		30,632,717	13,270,581

25.1 These represent investments having maturities ranging between 1 to 12 months and are being carried at cost as management expects there would be insignificant difference in the rate of returns on comparative investments. Term deposits amounting to Rs 1,450,000 thousand (2010: Rs Nil) are under lien of an islamic financial institution in respect of Istisna facility availed.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
26. CASH AND BANK BALANCES		
At banks		
Deposit accounts		
Local currency	6,911,357	10,530,959
Foreign currency	86,839	22,324
Current accounts		
Local currency	403,406	3,498,940
	7,401,602	14,052,223
Drafts in hand and in transit	-	20,021
Cash in hand	2,924	1,908
	7,404,526	14,074,152

Balances with banks include Rs 180,825 thousand (2010: Rs 171,047 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 17,192 thousand (2010: Rs 17,192 thousand) under lien of a bank, against a guarantee issued on behalf of FFC. In addition Rs 126,541 thousand (2010: Rs 208,060 thousand) held under lien by the commercial banks against credit facilities of FFBL.

	2011	2010
	(Rupees '000)	
27. SALES		
Gross Sales Revenue	126,448,933	89,682,744
Less:		
Sales Tax	15,325,673	-
Trade Discounts	11,347	1,528,046
	15,337,020	1,528,046
	111,111,913	88,154,698

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
28. COST OF SALES			
Raw materials consumed		36,478,419	31,655,000
Fuel and power		7,257,452	8,478,880
Chemicals and supplies		469,182	441,999
Salaries, wages and benefits		5,228,185	4,359,503
Training and employees welfare		505,877	467,625
Rent, rates and taxes	28.1	57,132	48,474
Insurance		274,844	230,677
Travel and conveyance	28.1	538,164	312,285
Repairs and maintenance	28.2	1,854,994	1,854,773
Depreciation	14.1	2,484,751	2,469,561
Communication and other expenses		1,008,423	1,200,421
Opening stock - work in process		57,568	42,326
Closing stock - work in process		(58,478)	(57,568)
Cost of goods manufactured		56,156,513	51,503,956
Add: Opening stock of manufactured fertilizers		354,205	244,279
Less: Closing stock of manufactured fertilizers		(344,756)	(354,204)
		9,449	(109,925)
Cost of sales - manufactured fertilizers		56,165,962	51,394,031
Opening stock of purchased fertilizers		-	-
Purchase of fertilizers for resale	28.3	603,151	3,709,917
		603,151	3,709,917
Closing stock of purchased fertilizers		(144,090)	-
Cost of sales - purchased fertilizers		459,061	3,709,917
		56,625,023	55,103,948

28.1 These include operating lease rentals amounting to Rs 48,967 thousand (2010: Rs 58,472 thousand).

28.2 This includes provision for slow moving spares amounting to Rs 36,772 thousand (2010: Rs 32,958 thousand).

28.3 Cost of purchased fertilizer of FFC is net of subsidy of Rs Nil per bag (2010: Rs 500 per bag) on potassic and phosphatic fertilizers as notified by the Ministry of Food, Agriculture and Live Stock, Government of Pakistan.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Note	2011 (Rupees '000)	2010
29. ADMINISTRATIVE EXPENSES AND DISTRIBUTION COST			
Product transportation		4,746,907	4,548,162
Salaries, wages and benefits		1,490,699	1,368,001
Rent, rates and taxes	29.1	110,291	103,276
Insurance		-	8,214
Technical services		12,483	13,540
Travel and conveyance	29.1	190,256	134,267
Sale promotion and advertising		71,824	61,039
Communication and other expenses		215,636	187,736
Warehousing expenses		64,633	82,456
Depreciation	14.1	45,045	47,394
Administrative expenses	29.2	783,742	732,244
		7,731,516	7,286,329

29.1 These include operating lease rentals amounting to Rs 82,698 thousand (2010: Rs 65,147 thousand).

29.2 Administrative expenses

This represents administrative and general expenses of FFBL and FFCEL breakup of which is as follows:

	2011 (Rupees '000)	2010
Salaries, wages and benefits	503,278	361,124
Travel and conveyance	131,645	82,363
Utilities	5,061	4,777
Printing and stationery	8,976	10,230
Repairs and maintenance	13,595	19,190
Communication, advertisement and other expenses	54,418	49,093
Rent, rates and taxes	9,984	8,255
Listing fee	738	389
Donations	6,499	130,960
Legal and professional	18,458	18,540
Feasibility study	-	21,588
Miscellaneous	31,090	25,735
	783,742	732,244

30. FINANCE COST

Mark-up on long term financing and murabaha	708,521	827,558
Mark-up on short term borrowings	872,440	1,134,890
Exchange loss - net	208,894	21,558
Interest on Workers' Profit Participation Fund	1,139	1,247
Bank charges	33,477	16,102
	1,824,471	2,001,355

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
31. OTHER EXPENSES		
Research and development	208,692	286,586
Workers' Profit Participation Fund	2,647,734	1,384,969
Adjustment in WPPF relating to prior year charge	-	(199,097)
Workers' Welfare Fund	970,951	517,865
Loss on disposal of property, plant and equipment	-	86,866
Auditors' remuneration		
Audit fee	2,788	2,184
Fee for half yearly review, audit of consolidated accounts, certifications and other services	1,132	7,040
Out of pocket expenses	150	150
	3,831,447	2,086,563
32. OTHER INCOME		
Income from financial assets		
Income on loans, deposits and investments	2,152,943	991,326
(Loss) / gain on remeasurement of investments at fair value		
through profit or loss - Held for trading	(26,358)	19,138
Dividend income	1,003,657	205,452
Gain on sale of investments	33,049	370,281
Impairment of investment - Held for trading	-	(33,253)
	3,163,291	1,552,944
Income from non-financial assets		
Gain on sale of property, plant and equipment	12,480	-
Other income		
Scrap sales	48,328	53,124
Others	4,776	29,321
	53,104	82,445
	3,228,875	1,635,389
33. PROVISION FOR TAXATION		
Current	16,407,348	8,508,500
Deferred	(311,115)	(52,361)
	16,096,233	8,456,139

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
33.1 Reconciliation of tax charge for the year		
Profit before taxation	44,737,408	23,505,322
	%	%
Applicable tax rate	35.00	35.00
Add: Tax effect of amounts that are not deductible for tax purposes	0.27	0.26
Tax effect of additional surcharge	1.01	
Less: Tax effect of amounts taxed at lower rates	-	(0.06)
Tax effect of permanent differences	(0.30)	0.78
Average effective tax rate charged on income	35.98	35.98

33.2 During the year, FFC revised its income tax returns relating to tax years 2009 and 2010 under the provisions of the Income Tax Ordinance, 2001.

34. CASH GENERATED FROM OPERATIONS

Net profit before taxation	44,737,408	23,505,322
Adjustments for:		
Depreciation	2,529,796	2,516,955
Provision for slow moving spares	33,938	32,958
(Gain)/ loss on disposal of property, plant and equipment	(12,480)	86,866
Finance cost	1,615,577	1,979,797
Provision for Workers' Profit Participation Fund	2,647,734	1,384,969
Provision for Workers' Welfare Fund	970,951	517,865
Adjustment in WPPF relating to prior year charge	-	(199,097)
Income on loans, deposits and investments	(2,152,943)	(991,326)
Provision for gratuity	174,392	124,725
Provision for compensated absences	250,918	246,615
Provision for pension	243,099	77,446
Exchange loss - net	208,894	21,558
Dividend income	(1,003,657)	(205,452)
Loss / (gain) on remeasurement of investments - Held for trading	26,358	(19,138)
Gain on sale of investments	(33,049)	(370,281)
Share in profit of associate and joint venture	(409,077)	(193,430)
Impairment in investment held for trading	-	33,253
	5,090,451	5,044,283
	49,827,859	28,549,605

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	2011	2010
	(Rupees '000)	
Changes in working capital		
(Increase) / decrease in current assets:		
Stores and spares	(83,757)	479,611
Stock in trade	(2,561,529)	(111,287)
Trade debts	454,756	(454,327)
Loans and advances	(314,745)	(209,059)
Deposits and prepayments	(4,450)	(21,710)
Other receivables	44,098	26,785
Increase /(decrease) in current liabilities:		
Trade and other payables	2,149,295	5,424,561
	(316,332)	5,134,574
Changes in long term loans and advances	(150,555)	(117,787)
Changes in long term deposits and prepayments	6,864	(2,498)
	<u>49,367,836</u>	<u>33,563,894</u>
35. CASH AND CASH EQUIVALENTS		
Cash and bank balances	7,404,526	14,074,152
Short term borrowings	(9,816,794)	(7,066,906)
Short term highly liquid investments	18,655,123	12,124,621
	<u>16,242,855</u>	<u>19,131,867</u>

36. FINANCIAL INSTRUMENTS

The Group companies have exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group companies risk Management framework. The Board is also responsible for developing and monitoring the Group companies risk Management policies.

The Group companies risk Management policies are established to identify and analyse the risks faced by the companies, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions and the Group companies activities. The Group companies, through their training and Management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how Management monitors compliance with the Group companies risk Management policies and procedures, and reviews the adequacy of the risk Management framework in relation to the risks faced by the Group companies. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk Management controls and procedures, the results of which are reported to the Audit Committee.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

36.1 Credit risk

Credit risk is the risk of financial loss to the Group companies if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from investments, loans and advances, deposits, trade debts, other receivables, short term investments and bank balances. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011	2010
	(Rupees '000)	
Long term investments	250,818	261,772
Loans and advances	983,511	757,262
Deposits	90,139	86,366
Trade debts - net of provision	733,185	1,187,941
Other receivables - net of provision	624,656	425,118
Short term investments	30,632,717	13,270,581
Bank balances	7,401,602	14,072,244
	<u>40,716,628</u>	<u>30,061,284</u>

Geographically there is no concentration of credit risk.

The maximum exposure to credit risk for trade debts at the reporting date are with dealers within the country .

The most significant amount receivable is from a bank which amounts to Rs 6,000,000 thousands (2010: Rs 2,700,000 thousands). This is included in total carrying amount of investments as at reporting date.

Trade debts are secured against letter of guarantee. The Group companies have placed funds in financial institutions with high credit ratings. The Group companies assess the credit quality of the counterparties as satisfactory. The Group companies do not hold any collateral as security against any of their financial assets other than trade debts.

The Group companies limit their exposure to credit risk by investing only in liquid securities and only with counter parties that have high credit rating. Management actively monitors credit ratings and given that the Group companies only have invested in securities with high credit ratings, Management does not expect any counterparty to fail to meet its obligations.

Impairment losses

The aging of trade debts at the reporting date was:

	2011		2010	
	Gross	Impairment	Gross	Impairment
	(Rupees '000)			
Not yet due	723,872	-	11,183	-
Past due 1-30 days	8,558	-	321,458	-
Past due 31-60 days	755	-	51,744	-
Past due 61-90 days	-	-	729,876	-
Over 90 days	1,758	1,758	75,438	1,758
	<u>734,943</u>	<u>1,758</u>	<u>1,189,699</u>	<u>1,758</u>

Based on past experience, the management believes that no impairment allowance is necessary in respect of trade debts.

The Group companies have recorded an impairment loss of Rs 12,750 thousand and Rs 33,253 thousand (2010: Rs 12,750 thousand and Rs 33,253) in respect of its available-for-sale and held for trading investments respectively.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

36.2 Liquidity risk

Liquidity risk is the risk that the Group companies will not be able to meet their financial obligations as they fall due. The Group companies approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group companies reputation. The Group companies use different methods which assists them in monitoring cash flow requirements and optimising their cash return on investments. Typically the Group companies ensure that they have sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligation; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group companies maintain lines of credit as mentioned in note 12 to the financial statements.

The following are the contractual maturities of financial liabilities, including expected interest payments and excluding the impact of netting agreements:

2011	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to two years	Two to five years	Five years onwards
	(Rupees '000)						
Long term borrowings	12,556,690	19,286,520	2,352,735	1,315,505	2,837,004	6,291,304	6,489,972
Trade and other payables	13,078,673	13,078,673	13,078,673	-	-	-	-
Short term borrowings							
including mark-up	16,416,183	16,431,575	16,431,575	-	-	-	-
	<u>42,051,546</u>	<u>48,796,768</u>	<u>31,862,983</u>	<u>1,315,505</u>	<u>2,837,004</u>	<u>6,291,304</u>	<u>6,489,972</u>
2010	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to two years	Two to five years	Five years onwards
	(Rupees '000)						
Long term borrowings	10,344,024	12,276,460	2,089,210	1,388,399	2,808,343	4,694,106	1,296,402
Trade and other payables	8,287,398	6,202,787	6,202,787	-	-	-	-
Short term borrowings							
including mark-up	11,441,897	11,467,381	11,467,381	-	-	-	-
	<u>30,073,319</u>	<u>29,946,628</u>	<u>19,759,378</u>	<u>1,388,399</u>	<u>2,808,343</u>	<u>4,694,106</u>	<u>1,296,402</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

36.2.1 The contractual cash flow relating to long and short term borrowings have been determined on the basis of expected mark-up rates. The mark-up rates have been disclosed in notes 7 and 12 to these financial statements.

36.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Group companies incur financial liabilities to manage their market risk. All such activities are carried out with the approval of the Board. The Group companies are exposed to interest rate risk and currency risk.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

36.3.1 Currency risk

Exposure to Currency Risk

The Group companies are exposed to currency risk on creditors, bank balance and investment in Term Deposit Receipts which are denominated in currency other than the functional currency of the Group companies. The Group companies exposure to foreign currency risk is as follows:

	2011				2010	
	(Rupees '000)	(US Dollar '000)	(Rupees '000)	(Euros '000)	(Rupees '000)	(US Dollar '000)
Bank balance	10,089	113	76,750	662	22,324	261
Investments (Term Deposit Receipts)	1,028,608	11,480	-	-	1,074,621	12,538
Creditors	(6,053,541)	(67,562)	-	-	(3,417,020)	(39,853)
Short term loan	-	-	-	-	(1,179,426)	(13,756)
	(5,014,844)	(55,969)	76,750	662	(3,499,501)	(40,810)

The following significant exchange rate applied during the year:

	Average rates		Balance sheet date rate	
	2011	2010	2011	2010
US Dollars	85.92	85.92	89.60	85.71
Euro	119.24	-	115.96	-

Sensitivity analysis

US Dollars

A 10% strengthening of the functional currency against USD at December 31 would have decreased profit and loss by Rs 501,461 thousand (2010: Rs 348,107 thousand). A 10% weakening of the functional currency against USD at December 31 would have had the equal but opposite effect of these amounts. The analysis assumes that all other variables remain constant.

Euros

A 10% strengthening of the functional currency against Euro at December 31 would have increased profit and loss by Rs 7,695 thousand (2010: Nil). A 10% weakening of the functional currency against Euro at December 31 would have had the equal but opposite effect of these amounts. The analysis assumes that all other variables remain constant.

36.3.2 Interest rate risk

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks and short term deposits with banks. At the balance sheet date the interest rate risk profile of the Group companies interest bearing financial instruments is:

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Carrying Amount	
	2011	2010
	(Rupees '000)	
Fixed rate instruments		
Financial assets	24,503,863	14,612,587
Financial liabilities	(6,395,000)	(4,226,238)
	<u>18,108,863</u>	<u>10,386,349</u>
Variable rate instruments		
Financial assets	5,104,194	9,351,003
Financial liabilities	(14,136,199)	(12,873,526)
	<u>(9,032,005)</u>	<u>(3,522,523)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group companies do not hold any fixed rate financial asset or liability at fair value through profit and loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Profit or loss	
	100 basis points increase	100 basis points decrease
	(Rupees '000)	
December 31, 2011		
Cash flow sensitivity – Variable rate instruments	(53,205)	53,205
	<u>(53,205)</u>	<u>53,205</u>
December 31, 2010		
Cash flow sensitivity – Variable rate instruments	(93,075)	(93,075)
	<u>(93,075)</u>	<u>(93,075)</u>

Sensitivity analysis – price risk

For quoted investments classified as available for sale, a 1% increase in market price at reporting date would have increased equity by Rs 2,290 thousand after tax (2010: Rs 4,712 thousand); an equal change in the opposite direction would have decreased equity after tax by the same amount. For such investments classified as held for trading, the impact on profit or loss would have been an increase or decrease by Rs 82,404 thousand after tax (2010: Rs 28,771 thousand). The analysis is performed on the same basis for 2010 and assumes that all other variables remain the same.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

36.4 Fair values

Fair value versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Note	December 31, 2011		December 31, 2010	
		Carrying amount	Fair value	Carrying amount	Fair value
(Rupees '000)					
Assets carried at amortised cost					
Loans and advances	17 & 22	983,511	983,511	757,262	757,262
Deposits	18 & 23	90,139	90,139	86,366	86,366
Trade debts - net of provision	21	733,185	733,185	1,187,941	1,187,941
Other receivables	24	624,656	624,656	425,118	425,118
Investment carried at amortised cost	25	1,250,000	1,250,000	1,250,000	1,250,000
Cash and bank balances	26	7,404,526	7,404,526	14,074,152	14,072,244
		<u>11,086,017</u>	<u>11,086,017</u>	<u>17,780,839</u>	<u>17,778,931</u>
Assets carried at fair value					
Long term investments	16	250,818	250,818	261,772	718,424
Short term investments	25	29,238,819	29,238,819	12,020,581	11,563,929
		<u>29,489,637</u>	<u>29,489,637</u>	<u>12,282,353</u>	<u>12,282,353</u>
Liabilities carried at amortised cost					
Long term borrowings	7	12,556,690	12,556,690	10,344,024	10,344,024
Trade and other payables	9	13,078,673	13,078,673	9,957,598	9,957,598
Short term borrowings	12	16,416,183	16,416,183	11,293,144	11,293,144
		<u>42,051,546</u>	<u>42,051,546</u>	<u>31,594,766</u>	<u>31,594,766</u>

The basis for determining fair values is as follows:

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. For instruments carried at amortised cost, since majority of the interest bearing instruments are variable rate based instruments, there is no change in carrying amount and the fair value. Further for fixed rate instruments, since there is no significant difference in market rate and the rate of instrument, fair value significantly approximates to carrying value. The interest rates used to determine fair value of GoP loan is 15% (2010: 14%). Since originally the loan is zero interest based, there is no difference in the carrying amount of the loan and fair value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

	Level 1	Level 2 (Rupees '000)	Level 3
December 31, 2011			
Assets carried at fair value			
Investments at fair value through profit and loss account -			
held for trading	8,173,272	1,331,939	-
Available for sale investments	123,712	19,974,612	-
	<u>8,296,984</u>	<u>21,306,551</u>	<u>-</u>
December 31, 2010			
Assets carried at fair value			
Investments at fair value through profit and loss account -			
held for trading	689,308	-	-
Available for sale investments	130,093	11,462,952	-
	<u>819,401</u>	<u>11,462,952</u>	<u>-</u>

The carrying value of financial assets and liabilities reflected in financial statements approximate their respective fair values.

36.5 Determination of fair values

A number of Group companies accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Investment in fair value through profit and loss account - Held for trading

The fair value of held for trading investment is determined by reference to their quoted closing repurchase price at the reporting date.

Available for sale investments

The fair value of available for investment is determined by reference to their quoted closing repurchase price at the reporting date and where applicable it is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Investment in associate

The fair value of investment in associate is determined by reference to its quoted closing bid price at the reporting date. The fair value is determined for disclosure purposes.

Non-derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

No-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

36.6 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on equity, which Group companies define as net profit after taxation divided by total shareholders' equity. The Board of Directors also monitors the level of dividend to ordinary shareholders. There were no changes to the Group companies approach to capital management during the year and the Group companies are not subject to externally imposed capital requirements.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

37. REMUNERATION OF CHIEF EXECUTIVES, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in these consolidated financial statements for the year in respect of remuneration including benefits applicable to the chief executives, directors and executives of the Group companies are given below:

	2011		2010	
	Chief Executives	Executives	Chief Executives	Executives
	(Rupees '000)		(Rupees '000)	
Managerial remuneration	12,692	1,461,415	13,039	1,165,842
Contribution to provident fund	688	84,921	721	67,762
Bonus and other awards	10,164	1,478,709	8,747	1,181,505
Others including gratuity	7,933	840,717	6,986	709,500
Total	31,477	3,865,762	29,493	3,124,609
No. of persons	2	710	2	584

The above were provided with medical facilities; the chief executives and certain executives were also provided with some furnishing items, vehicles and other benefits in accordance with the Group companies' policy. Gratuity is payable to chief executives in accordance with the terms of employment while contributions for executives in respect of gratuity and pension are based on actuarial valuations. Leave encashment of Rs Nil (2010: Rs Nil) and Rs 7,770 thousand (2010 Rs: 7,169 thousand) were paid to the chief executives and executives respectively on separation, in accordance with the Group companies' policies.

In addition, 14, 12 and 7 (2010: 15, 12 and 7) directors of FFC, FFBL and FFCEL were paid aggregate fees of Rs 1,700 thousand, Rs 550 thousand and Rs 260 thousand (2010: Rs 1,670 thousand, Rs 770 thousand and Rs 320 thousand) respectively.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Fauji Foundation holds 44.35% (2010: 44.35%) shares of FFC at the year end. Therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of FFC. Related parties also comprise of directors, major shareholders, key management personnel, entities under common directorship, entities over which the directors are able to exercise influence and employees' funds. Transactions with related parties and the balances outstanding at the year end are given below. Loans and advances to executives and remuneration of chief executives, directors and executives are disclosed in notes 17, 22 and 37 to the financial statements respectively.

	2011	2010
	(Rupees '000)	
Transactions with associated undertaking / companies		
due to common directorship		
Long term investment	235,285	-
Sale of fertilizer	2,840	3,767
Rent charged to Group companies	5,277	4,839
Dividend paid	8,216,594	5,595,554
Repayment of principal portion of long term finance	19,338	38,679
Financial charges	328	4,169
Medical services	72	189
Purchase of gas as feed and fuel stock	10,741,818	12,832,710
Others (including donations)	109,786	121,978
Loan balance payable at the year end - secured	-	19,338
Balance payable - unsecured	-	550,892
Balance receivable - unsecured (included in note 24)	-	2,772
Transactions with joint venture company		
Raw material purchased	28,064,300	19,342,767
Expenses incurred on behalf of joint venture company	34,373	27,808
Balance payable - secured	5,947,347	3,347,622
Balance receivable - unsecured	28,569	21,376
Other related parties		
Payments to:		
Employees' Provident Fund Trust	273,691	240,663
Employees' Gratuity Fund Trust	121,523	92,207
Employees' Pension Fund Trust	109,220	77,446
Others:		
Transactions with Workers' Profit Participation Fund (WPPF)	(80,908)	57,601
Balance payable at the year end - unsecured	1,929,008	1,181,287
Remuneration to key management personnel	33,987	32,253

Notes to the Consolidated Financial Statements

for the year ended December 31, 2011

39. POST BALANCE SHEET EVENT

The Board of Directors of FFC in its meeting held on January 30, 2012 has proposed a final dividend of Rs 5.25 per share, bonus shares of 0.50 per share and a movement from unappropriated profit to general reserve of Rs 4,200 million. Dividend of Rs 3.50 per share has been proposed by the Board of Directors of FFBL on January 26, 2012.

40. GENERAL

	2011	2010
	(Tonnes '000)	
40.1 Production capacity		
Design capacity		
Urea	2,599	2,599
DAP	650	650
Production		
Urea	2,829	3,009
DAP	662	660

40.2 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 2,231,232 thousand and Rs 13,550,000 thousand (2010: Rs 40,000 thousand and Rs 14,490,000 thousand) respectively are available to Group companies against lien on shipping / title documents and charge on assets of the parent company along with Corporate Guarantee of the parent company in a particular case.

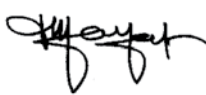
40.3 Donations aggregating Rs 184,650 thousand i.e. 0.64% of net profit (2010: Rs 328,853 thousand i.e. 2.18% of net profit), included under cost of sales and distribution cost. Donation include Rs 70,000 thousand (2010: Rs 180,326) paid to the projects of Fauji Foundation, Fauji Towers Tipu Road Rawalpindi (associated undertaking). The following directors' interest in the donee is limited to the extent of their involvement in Fauji Foundation as management personnel:

2011	2010
Lt Gen Muhammad Mustafa Khan, HI (M) (Retd)	Lt Gen Hamid Rab Nawaz, HI (M) (Retd)
Mr. Qaiser Javed	Mr. Qaiser Javed
Dr. Nadeem Inayat	Dr. Nadeem Inayat
Maj Gen Zahid Parvez, HI (M) (Retd)	Maj Gen Zahid Parvez, HI (M) (Retd)
Brig Agha Ali Hassan, SI (M) (Retd)	Brig Agha Ali Hassan, SI (M) (Retd)
Brig Dr Gulfam Alam, SI (M) (Retd)	Brig Rahat Khan, SI (M) (Retd)
	Brig Liaqat Ali (Retd)
	Brig Jawaid Rashid (Retd)
	Brig Pervez Sarwar Khan, SI (M) (Retd)

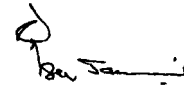
40.4 These consolidated financial statements have been authorised for issue by the Board of Directors of FFC on January 30, 2012.



Chairman



Chief Executive



Director

Pattern of Shareholding

as at December 31, 2011

Number of Shareholders	Shareholding		Shares Held	Percentage
	From	To		
1379	1	100	64,074	0.0076
2017	101	500	587,703	0.0693
1438	501	1000	1,150,880	0.1357
3583	1001	5000	8,682,745	1.0237
1098	5001	10000	8,091,175	0.954
446	10001	15000	5,555,515	0.655
297	15001	20000	5,239,957	0.6178
183	20001	25000	4,175,975	0.4924
143	25001	30000	3,935,404	0.464
133	30001	35000	4,347,271	0.5126
68	35001	40000	2,584,553	0.3047
66	40001	45000	2,816,500	0.3321
79	45001	50000	3,829,894	0.4516
37	50001	55000	1,935,071	0.2282
33	55001	60000	1,896,739	0.2236
37	60001	65000	2,316,583	0.2731
18	65001	70000	1,225,452	0.1445
23	70001	75000	1,683,155	0.1984
20	75001	80000	1,549,296	0.1827
24	80001	85000	1,980,045	0.2335
18	85001	90000	1,572,649	0.1854
9	90001	95000	826,493	0.0974
25	95001	100000	2,475,391	0.2919
7	100001	105000	717,617	0.0846
15	105001	110000	1,618,286	0.1908
8	110001	115000	905,970	0.1068
15	115001	120000	1,763,661	0.2079
17	120001	125000	2,106,648	0.2484
4	125001	130000	504,938	0.0595
13	130001	135000	1,717,943	0.2026
3	135001	140000	415,451	0.049
5	140001	145000	707,272	0.0834
8	145001	150000	1,185,525	0.1398
5	150001	155000	761,686	0.0898
9	155001	160000	1,422,901	0.1678
3	160001	165000	483,484	0.057
7	165001	170000	1,167,639	0.1377
8	170001	175000	1,386,291	0.1634

Pattern of Shareholding

as at December 31, 2011

Number of Shareholders	Shareholding From	To	Shares Held	Percentage
4	175001	180000	714,007	0.0842
1	180001	185000	185,000	0.0218
6	185001	190000	1,127,145	0.1329
3	190001	195000	579,868	0.0684
16	195001	200000	3,183,031	0.3753
6	200001	205000	1,218,234	0.1436
3	205001	210000	620,155	0.0731
3	210001	215000	640,124	0.0755
3	215001	220000	652,596	0.0769
4	220001	225000	892,466	0.1052
1	225001	230000	230,000	0.0271
2	230001	235000	466,881	0.055
2	235001	240000	476,641	0.0562
1	240001	245000	240,465	0.0284
9	245001	250000	2,236,837	0.2637
1	250001	255000	253,358	0.0299
1	255001	260000	257,789	0.0304
2	260001	265000	529,990	0.0625
3	265001	270000	803,500	0.0947
2	275001	280000	557,758	0.0658
2	280001	285000	565,153	0.0666
1	285001	290000	289,247	0.0341
2	290001	295000	585,240	0.069
5	295001	300000	1,494,188	0.1762
3	300001	305000	904,034	0.1066
1	305001	310000	306,658	0.0362
1	310001	315000	312,500	0.0368
1	315001	320000	316,350	0.0373
6	320001	325000	1,935,093	0.2282
4	325001	330000	1,313,607	0.1549
3	330001	335000	995,783	0.1174
3	340001	345000	1,029,295	0.1214
2	345001	350000	697,421	0.0822
2	350001	355000	704,060	0.083
1	355001	360000	356,875	0.0421
4	360001	365000	1,451,504	0.1711
1	365001	370000	366,492	0.0432

Pattern of Shareholding

as at December 31, 2011

Number of Shareholders	Shareholding		Shares Held	Percentage
	From	To		
2	370001	375000	748,237	0.0882
2	375001	380000	758,576	0.0894
2	380001	385000	766,250	0.0903
1	385001	390000	388,483	0.0458
3	395001	400000	1,199,335	0.1414
1	400001	405000	400,513	0.0472
2	405001	410000	813,067	0.0959
1	420001	425000	425,000	0.0501
2	430001	435000	863,431	0.1018
1	435001	440000	437,261	0.0516
1	440001	445000	443,750	0.0523
1	445001	450000	448,795	0.0529
1	450001	455000	454,337	0.0536
1	465001	470000	470,000	0.0554
1	475001	480000	475,893	0.0561
1	480001	485000	485,000	0.0572
1	485001	490000	485,395	0.0572
3	495001	500000	1,500,000	0.1769
1	500001	505000	501,500	0.0591
2	505001	510000	1,014,281	0.1196
1	515001	520000	520,000	0.0613
2	530001	535000	1,065,177	0.1256
1	540001	545000	544,885	0.0642
2	545001	550000	1,100,000	0.1297
1	550001	555000	554,253	0.0653
1	570001	575000	571,501	0.0674
1	590001	595000	594,281	0.0701
2	595001	600000	1,198,442	0.1413
1	600001	605000	602,890	0.0711
1	605001	610000	610,000	0.0719
2	610001	615000	1,224,238	0.1443
1	615001	620000	617,550	0.0728
1	630001	635000	632,706	0.0746
1	650001	655000	653,245	0.077
1	660001	665000	663,317	0.0782
1	675001	680000	679,558	0.0801
1	680001	685000	680,487	0.0802

Pattern of Shareholding

as at December 31, 2011

Number of Shareholders	From	Shareholding To	Shares Held	Percentage
2	695001	700000	1,400,000	0.1651
1	710001	715000	712,733	0.084
1	740001	745000	740,693	0.0873
1	755001	760000	758,566	0.0894
1	760001	765000	761,599	0.0898
1	765001	770000	767,452	0.0905
1	780001	785000	783,000	0.0923
1	785001	790000	788,243	0.0929
1	790001	795000	793,750	0.0936
1	795001	800000	800,000	0.0943
1	820001	825000	823,940	0.0971
1	845001	850000	850,000	0.1002
1	855001	860000	856,625	0.101
1	880001	885000	884,101	0.1042
1	920001	925000	924,820	0.109
1	935001	940000	938,284	0.1106
2	965001	970000	1,934,720	0.2281
1	975001	980000	978,116	0.1153
1	980001	985000	983,000	0.1159
1	990001	995000	994,789	0.1173
3	995001	1000000	3,000,000	0.3537
1	1010001	1015000	1,012,938	0.1194
1	1040001	1045000	1,043,057	0.123
1	1045001	1050000	1,050,000	0.1238
1	1055001	1060000	1,056,460	0.1246
1	1065001	1070000	1,066,399	0.1257
1	1080001	1085000	1,082,000	0.1276
1	1085001	1090000	1,089,921	0.1285
2	1095001	1100000	2,195,794	0.2589
1	1105001	1110000	1,107,762	0.1306
1	1135001	1140000	1,139,969	0.1344
1	1155001	1160000	1,160,000	0.1368
1	1220001	1225000	1,221,983	0.1441
1	1295001	1300000	1,300,000	0.1533
1	1345001	1350000	1,350,000	0.1592
1	1445001	1450000	1,447,026	0.1706
1	1475001	1480000	1,479,693	0.1745

Pattern of Shareholding

as at December 31, 2011

Number of Shareholders	Shareholding		Shares Held	Percentage
	From	To		
2	1485001	1490000	2,976,299	0.3509
1	1500001	1505000	1,503,906	0.1773
1	1630001	1635000	1,633,261	0.1926
1	1650001	1655000	1,652,036	0.1948
1	1945001	1950000	1,945,985	0.2294
1	1975001	1980000	1,977,299	0.2331
1	2010001	2015000	2,011,552	0.2372
1	2070001	2075000	2,071,865	0.2443
1	2165001	2170000	2,167,678	0.2556
1	2590001	2595000	2,595,000	0.306
1	2600001	2605000	2,604,037	0.307
1	2760001	2765000	2,763,199	0.3258
1	2970001	2975000	2,973,400	0.3506
1	3005001	3010000	3,008,000	0.3547
1	3045001	3050000	3,047,225	0.3593
1	3065001	3070000	3,065,661	0.3614
1	3080001	3085000	3,084,221	0.3636
1	3360001	3365000	3,360,066	0.3962
1	3520001	3525000	3,522,475	0.4153
1	3675001	3680000	3,676,236	0.4334
1	4020001	4025000	4,020,152	0.474
1	4465001	4470000	4,465,058	0.5264
1	4900001	4905000	4,900,633	0.5778
1	5710001	5715000	5,713,868	0.6737
1	5960001	5965000	5,963,942	0.7032
1	6340001	6345000	6,340,121	0.7475
1	8510001	8515000	8,514,292	1.0039
1	8880001	8885000	8,883,462	1.0474
1	10195001	10200000	10,200,000	1.2026
1	16855001	16860000	16,859,760	1.9878
1	27240001	27245000	27,241,010	3.2118
1	28690001	28695000	28,691,734	3.3828
1	32615001	32620000	32,619,268	3.8459
1	74220001	74225000	74,223,716	8.7512
1	86340001	86345000	86,344,275	10.1802
1	289790001	289795000	289,791,895	34.1672
11,546			848,158,831	100.00

Pattern of Shareholding

as at December 31, 2011

Serial No.	Categories of Shareholders	No of Shareholders	No of Shares held	Percentage %
1	NIT & ICP	3	33,157,292	3.91
2	Bank, DFI & NBF	28	55,688,427	6.57
3	Insurance Companies	18	88,623,210	10.45
4	Modarabas & Mutual Funds	78	21,727,811	2.56
5	Foreign Investors	81	61,008,502	7.19
6	Charitable Trust & Others	161	407,940,978	48.10
7	Others	192	54,117,160	6.38
8	Individuals	10985	125,895,451	14.84
	Total Shares	11546	848,158,831	100.00

No of Shares

NIT & ICP

National Investment Trust	33,156,792
Investment Corporation of Pakistan	500

Executives

CE & MD - Lt Gen Malik Arif Hayat, HI (M) (Retired)	30,000
Other Executives	1,141,938

Public Sector Companies and Corporations 41,943,276

Banks, Development Finance Institutions, Non-Banking

Finance Institutions, Insurance Companies, Modarabas, Mutual Funds 166,039,448

Shareholders holding ten percent or more voting interest

Fauji Foundation 376,136,170

Financial Calendar

The Company follows the period of January 01 to December 31 as the financial year.

Financial Results will be announced as per the following tentative schedule:

Annual General Meeting	March 07, 2012
1 st Quarter ending March 31, 2012	Last Week of April, 2012
2 nd Quarter ending June 30, 2012	Last Week of July, 2012
3 rd Quarter ending September 30, 2012	Last Week of October, 2012
Year ending December 31, 2012	Last Week of January, 2013

Form of Proxy

34th Annual General Meeting

I/We _____
of _____
being a member(s) of Fauji Fertilizer Company Limited hold _____
Ordinary Shares hereby appoint Mr / Mrs / Miss _____
of _____ or failing him / her _____
of _____ as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at
the 34th Annual General Meeting of the Company to be held on Wednesday March 07, 2012 and / or any adjournment thereof.

As witness my/our hand/seal this _____ day of _____ March 2012.

Signed by _____

in the presence of _____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on
Five Rupees
Revenue Stamp

The Signature should
agree with the
specimen registered
with the Company

IMPORTANT:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, 93 - Harley Street, Rawalpindi not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
3. For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met.

- (i) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- (ii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- (iii) In case of a corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier alongwith proxy form to the Company).



AFFIX
CORRECT
POSTAGE

Company Secretary
FAUJI FERTILIZER COMPANY LIMITED
93 – Harley Street,
Rawalpindi.