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# Company Information

## **BOARD OF DIRECTORS**

Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired)  
Chairman

Lt Gen Mahmud Ahmed, HI(M) (Retired)  
Chief Executive and Managing Director

Dr Haldor Topsoe

Mr Qaiser Javed

Brig Arshad Shah, SI(M) (Retired)

Mr Zaigham Mahmood Rizvi

Mr Tariq Iqbal Khan

Mr Mohammad Farooq Saleem

Dr Salim Batla

Brig Aftab Ahmed, SI(M) (Retired)

Brig Ghazanfar Ali, SI(M) (Retired)

Mr Hasan Aziz Bilgrami

Mr Khalid Amin Qureshi

## **SECRETARY**

Brig Muhammad Saleem Suleman, SI(M) (Retired)

## **REGISTERED OFFICE**

93-Harley Street, Rawalpindi Cantt.

## **PLANTSITES**

Goth Machhi, Sadikabad

(Distt : Rahim Yar Khan)

Mirpur Mathelo

(Distt: Ghotki)

## **MARKETING DIVISION**

Lahore Trade Centre,

11 Shahrah-e-Aiwan-e-Tijarat, Lahore

## **KARACHI OFFICE**

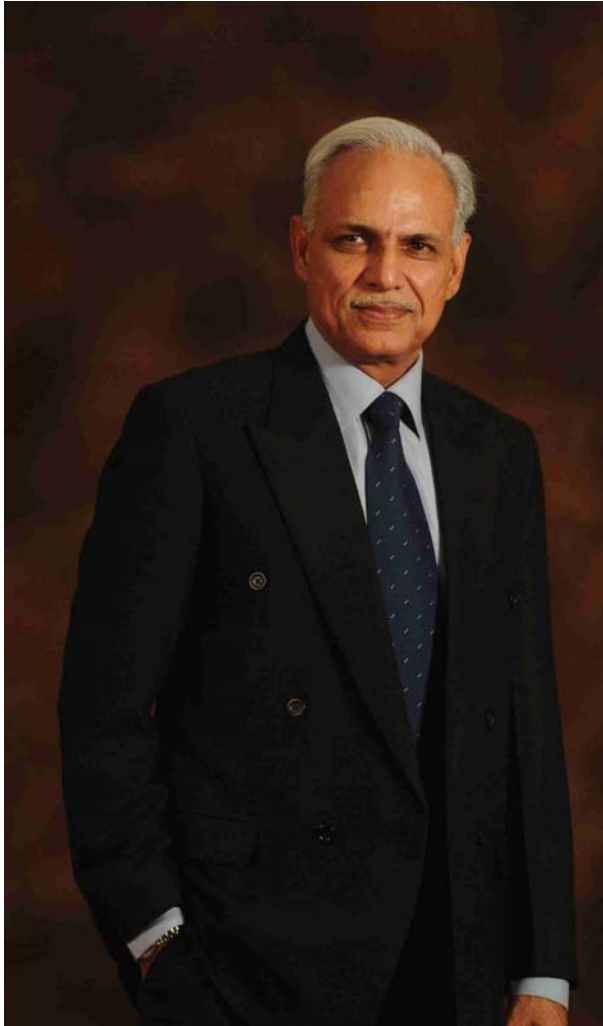
B-35, KDA Scheme No. 1

Karachi

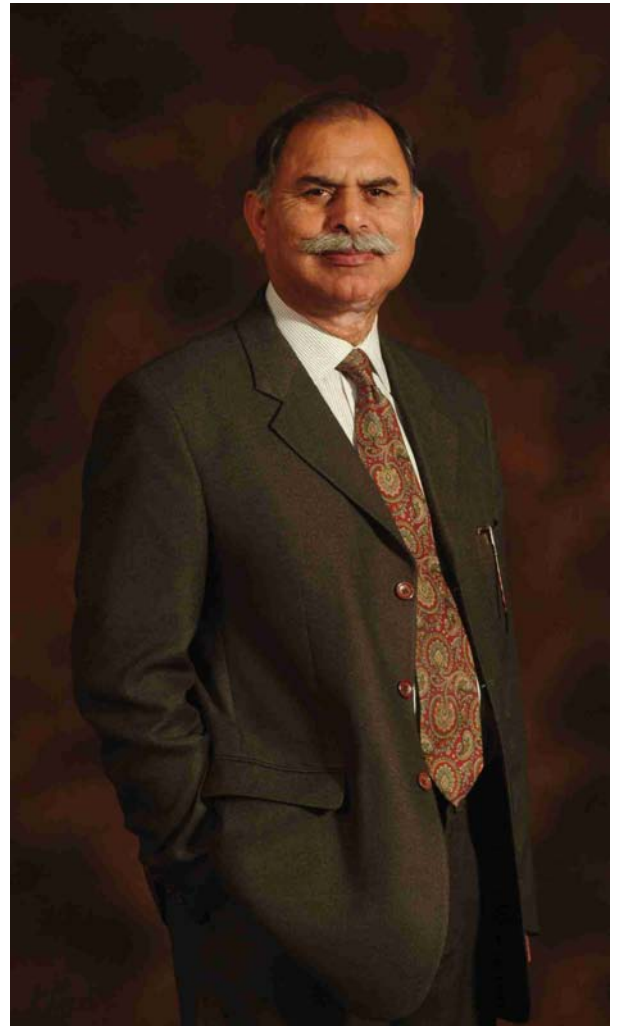
## **AUDITORS**

A.F. Ferguson & Co.,

Chartered Accountants



Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired)  
*Chairman*



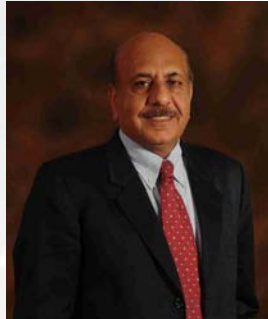
Lt Gen Mahmud Ahmed, HI(M) (Retired)  
*Chief Executive and Managing Director*



# Board of Directors



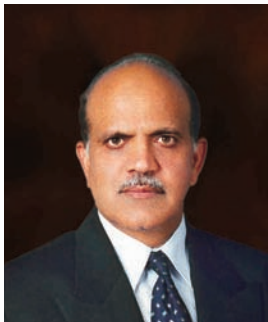
Dr Haldor Topsoe



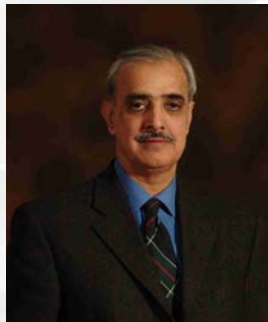
Mr Qaiser Javed



Brig Arshad Shah, SI(M) (Retired)



Mr Zaigham Mahmood Rizvi



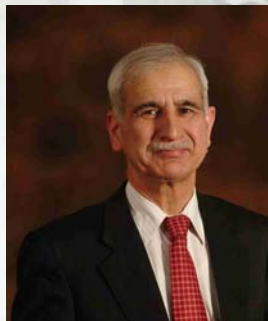
Mr Tariq Iqbal Khan



Mr Mohammad Farooq Saleem



Dr Salim Batla



Brig Aftab Ahmed, SI(M) (Retired)



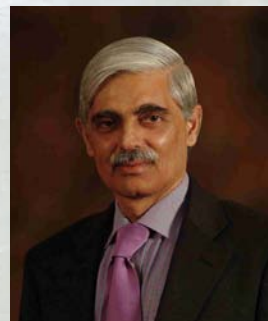
Brig Ghazanfar Ali, SI(M) (Retired)



Mr Hasan Aziz Bilgrami



Mr Khalid Amin Qureshi



Brig Muhammad Saleem Suleman,  
SI(M) (Retired)-Company Secretary

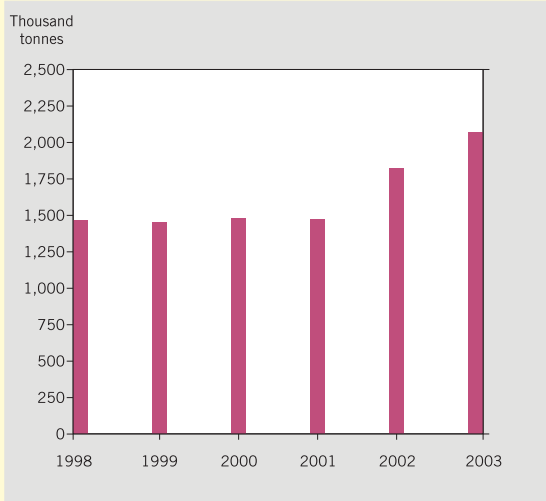


Creating competitive edge through innovative technologies remains a corporate objective of FFC.

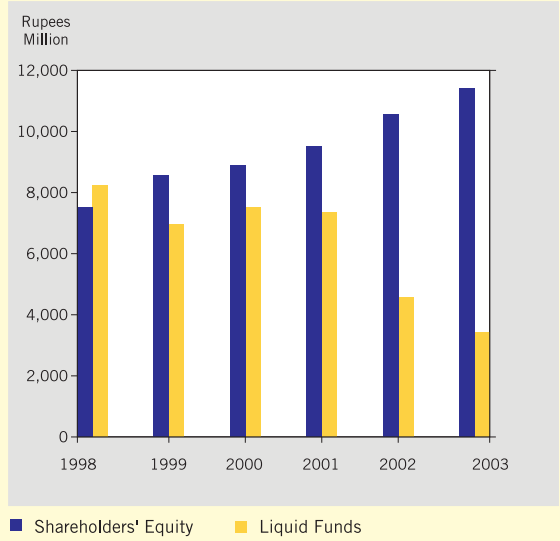
# Operating Highlights

|                                |         | 1998   | 1999    | 2000    | 2001   | 2002   | 2003   |
|--------------------------------|---------|--------|---------|---------|--------|--------|--------|
| <b>KEY INDICATORS</b>          |         |        |         |         |        |        |        |
| <b>Operating</b>               |         |        |         |         |        |        |        |
| Gross Margin                   | %       | 46.73  | 50.47   | 45.35   | 46.90  | 39.78  | 34.86  |
| Operating Margin               | %       | 38.47  | 37.88   | 33.56   | 36.07  | 27.11  | 26.06  |
| Pre Tax Margin                 | %       | 41.85  | 44.91   | 41.07   | 41.68  | 28.83  | 23.44  |
| Net Margin                     | %       | 27.72  | 29.51   | 25.92   | 26.74  | 18.31  | 14.95  |
| <b>Performance</b>             |         |        |         |         |        |        |        |
| Return on Assets               | %       | 37.58  | 34.19   | 27.06   | 35.74  | 17.18  | 18.11  |
| Assets Turnover                |         | 0.90   | 0.76    | 0.66    | 0.86   | 0.60   | 0.77   |
| Fixed Assets Turnover          |         | 3.55   | 3.40    | 4.40    | 7.85   | 1.76   | 2.30   |
| Inventory Turnover             | Days    | 7      | 4       | 4       | 12     | 19     | 17     |
| Return on Equity               | %       | 49.95  | 36.05   | 29.81   | 33.72  | 28.55  | 27.29  |
| Return on Capital Employed     | %       | 40.22  | 31.28   | 27.50   | 32.94  | 18.66  | 19.61  |
| Retention                      | %       | 38.60  | 33.53   | 22.39   | 31.95  | 24.89  | 18.40  |
| <b>Leverage</b>                |         |        |         |         |        |        |        |
| Debt:Equity                    |         | 19:81  | 13:87   | 8:92    | 2:98   | 35:65  | 28:72  |
| Leverage                       |         | 21.43  | 11.71   | 13.58   | 19.14  | 8.24   | 10.47  |
| <b>Liquidity</b>               |         |        |         |         |        |        |        |
| Current                        |         | 1.47   | 2.14    | 1.72    | 2.34   | 1.04   | 1.03   |
| Quick                          |         | 1.31   | 1.76    | 1.48    | 1.90   | 0.79   | 0.76   |
| <b>Valuation</b>               |         |        |         |         |        |        |        |
| Earnings per share (pre tax)   | Rs.     | 22.13  | 18.32   | 16.34   | 19.47  | 18.87  | 19.22  |
| Earnings per share (after tax) | Rs.     | 14.66  | 12.04   | 10.31   | 12.49  | 11.98  | 12.26  |
| Earnings growth                | %       | 11.57  | (17.87) | (14.36) | 21.17  | (4.00) | 2.34   |
| Breakup value                  | Rs.     | 29.35  | 33.38   | 34.58   | 37.04  | 41.96  | 44.92  |
| Dividend payout                | %       | 90     | 80      | 80      | 85     | 90     | 100    |
| Payout ratio (after tax)       | %       | 65.14  | 66.47   | 77.61   | 68.05  | 75.11  | 81.57  |
| Price earning ratio            | %       | 3.12   | 4.42    | 3.99    | 3.27   | 6.10   | 7.79   |
| Market price to breakup Value  |         | 2.08   | 1.46    | 1.52    | 1.06   | 1.22   | 1.32   |
| Dividend yield                 | %       | 14.72  | 16.46   | 15.19   | 21.61  | 17.51  | 16.86  |
| Market value per share         | Rs.     | 45.80  | 53.20   | 41.10   | 40.85  | 73.10  | 95.50  |
| Market capitalization          | (Rs. M) | 11,748 | 13,646  | 10,542  | 10,478 | 18,750 | 24,495 |
| <b>HISTORICAL TRENDS</b>       |         |        |         |         |        |        |        |
| Rs. million                    |         |        |         |         |        |        |        |
| <b>Trading results</b>         |         |        |         |         |        |        |        |
| Turnover                       |         | 13,562 | 10,463  | 10,201  | 11,982 | 16,787 | 21,035 |
| Gross profit                   |         | 6,338  | 5,281   | 4,600   | 5,620  | 6,678  | 7,333  |
| Operating profit               |         | 5,217  | 3,964   | 3,424   | 4,322  | 4,552  | 5,482  |
| Profit before tax              |         | 5,676  | 4,699   | 4,190   | 4,994  | 4,839  | 4,931  |
| Profit after tax               |         | 3,760  | 3,087   | 2,644   | 3,204  | 3,073  | 3,145  |
| <b>Financial position</b>      |         |        |         |         |        |        |        |
| Shareholders' funds            |         | 7,527  | 8,563   | 8,869   | 9,502  | 10,763 | 11,523 |
| Property, Plant & Equipment    |         | 3,734  | 3,073   | 2,307   | 1,511  | 9,378  | 8,996  |
| Net current assets             |         | 2,436  | 3,866   | 3,991   | 5,586  | 396    | 268    |
| Long term assets               |         | 7,501  | 6,476   | 5,922   | 4,226  | 18,761 | 18,292 |
| Long term liabilities          |         | 1,821  | 1,305   | 744     | 224    | 5,704  | 4,515  |
| Liquid funds (net)             |         | 8,264  | 6,966   | 7,531   | 7,363  | 4,554  | 3,393  |

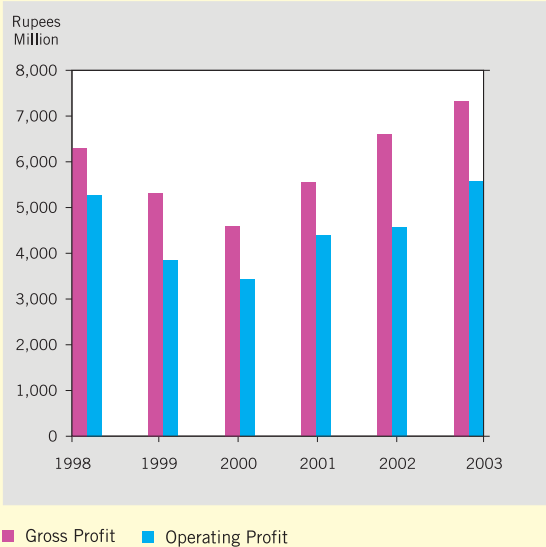
### UREA SALES



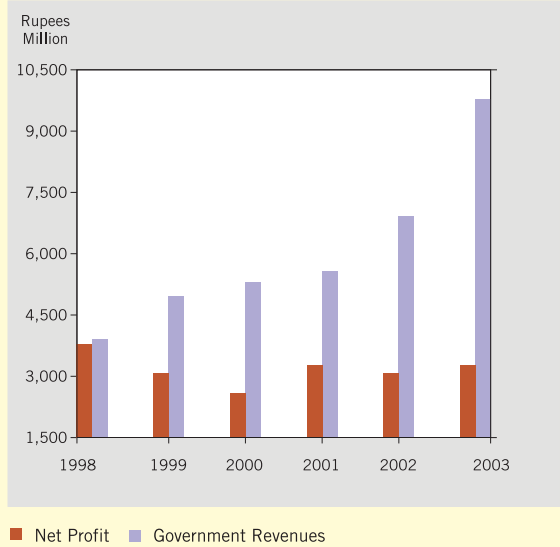
### SHAREHOLDERS' EQUITY / LIQUID FUNDS



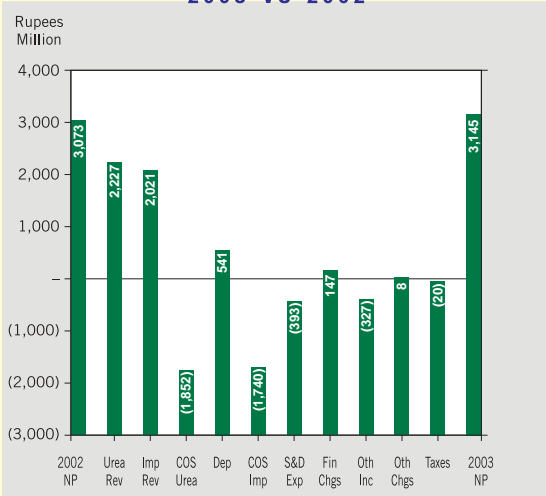
### GROSS AND OPERATING PROFITS



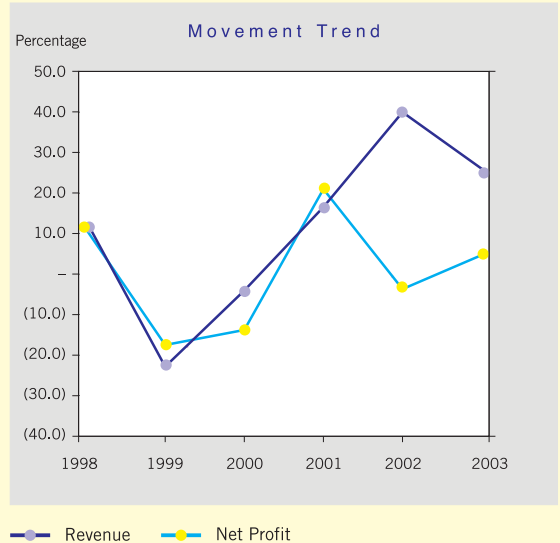
### NET PROFIT VS GOVT. REVENUES



### COMPARISON OF PROFITS 2003 VS 2002



### TURNOVER / NET PROFIT



# Committees of the Board of Directors and Management

## BOD COMMITTEES

### Audit Committee

#### Chairman

Mr Tariq Iqbal Khan

#### Members

Mr Qaiser Javed

Brig Arshad Shah, SI(M) (Retired)

Brig Aftab Ahmad, SI(M) (Retired)

Mr Mohammad Farooq Saleem

Mr Khalid Amin Qureshi

### Human Resources Committee

#### Chairman

Brig Arshad Shah, SI(M) (Retired)

#### Members

Mr Zaigham Mahmood Rizvi

Mr Qaiser Javed

Mr Hasan Aziz Bilgrami

### System & Technology Committee

#### Chairman

Mr Zaigham Mahmood Rizvi

#### Members

Dr Salim Batla

Mr Hasan Aziz Bilgrami

Brig Ghazanfar Ali, SI(M) (Retired)

## MANAGEMENT COMMITTEES

### Business Strategy Committee

#### Chairman

Lt Gen Mahmud Ahmed, HI(M) (Retired),  
(Chief Executive & Managing Director)

#### Members

Mr Abdul Waheed Sheikh,  
General Manager (Technical & Operations)

Dr Muhammad Sadiq,  
General Manager (Marketing)

Mr Abid Maqbool,  
General Manager (Finance)

## EXECUTIVE COMMITTEE

#### Chairman

Lt Gen Mahmud Ahmed, HI(M) (Retired),  
(Chief Executive & Managing Director)

#### Members

Mr Abdul Waheed Sheikh,  
General Manager (Technical & Operations)

Dr Muhammad Sadiq,  
General Manager (Marketing)

Mr Abid Maqbool,  
General Manager (Finance)

Mr Zafar Hadi,  
General Manager Plant (Goth Machhi)

Mr Tahir Javed,  
General Manager Plant (Mirpur Mathelo)

## DIRECTORS' ATTENDANCE AT MEETINGS

| Directors                                       | Board of Directors | Audit Committee | Human Resources Committee | System & Technology Committee |
|---|--------------------|-----------------|---------------------------|-------------------------------|
| Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired) | 6                  | -               | -                         | -                             |
| Lt Gen Mahmud Ahmed, HI(M) (Retired)            | 6                  | -               | -                         | -                             |
| Lt Gen Amjad Shuaib, HI (M) (Retired) *         | 1                  | -               | -                         | -                             |
| Dr Haldor Topsoe                                | 0                  | -               | -                         | -                             |
| Mr Qaiser Javed                                 | 7                  | 5               | 0                         | -                             |
| Brig Arshad Shah, SI(M) (Retired)               | 4                  | 2               | 1                         | -                             |
| Mr Zaigham Mahmood Rizvi                        | 2                  | -               | 0                         | 3                             |
| Mr Tariq Iqbal Khan                             | 6                  | 5               | -                         | -                             |
| Mr Mohammad Farooq Saleem                       | 6                  | 0               | -                         | -                             |
| Dr Salim Batla                                  | 6                  | -               | -                         | 1                             |
| Brig Aftab Ahmad, SI(M) (Retired)               | 6                  | 2               | -                         | -                             |
| Brig Ghazanfar Ali SI(M) (Retired)              | 3                  | -               | -                         | 1                             |
| Mr Hasan Aziz Bilgrami                          | 3                  | -               | 1                         | 2                             |
| Mr Khalid Amin Qureshi                          | 2                  | 1               | -                         | -                             |
| Brig Ghulam Hussain (Retired) *                 | 4                  | -               | -                         | 1                             |
| Brig Muhammad Akram Ali Khan (Retired) *        | 1                  | 1               | -                         | -                             |
| Mr Abdul Hafeez Chaudhry *                      | 3                  | 2               | -                         | -                             |
| Mr Istaqbal Mehdi *                             | 2                  | -               | -                         | -                             |
| <b>Number of Meetings Held</b>                  | <b>7</b>           | <b>5</b>        | <b>1</b>                  | <b>3</b>                      |

\* Retired from Directorship



# Notice of Annual General Meeting

Notice is hereby given that the 26th Annual General Meeting of the Shareholders of Fauji Fertilizer Company Limited will be held at Pearl Continental Hotel, Rawalpindi on Friday, February 27, 2004 at 1100 hours to transact the following business:

## ORDINARY BUSINESS

1. To confirm the minutes of 25th Annual General Meeting held on February 24, 2003 and Extraordinary General Meeting held on September 10, 2003.
2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and the Directors' Report for the year ended December 31, 2003.
3. To appoint Auditors for the year 2004 and to fix their remuneration.
4. To approve payment of Final Dividend for the year ended December 31, 2003 as recommended by the Board of Directors.
5. To transact any other business with the permission of the Chair.

Rawalpindi  
January 31, 2004

**Brig Muhammad Saleem Suleman (Retired)**  
Company Secretary

## NOTES

1. The share transfer books of the Company will remain closed from February 23, 2004 to February 29, 2004 (both days inclusive).
2. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a person/representative as proxy to attend and vote in place of the member at the Meeting. Proxies in order to be effective must be received at the Company's Registered Office, 93-Harley Street, Rawalpindi not later than 48 hours before the time of holding the Meeting.
3. Any individual Beneficial Owner of CDC, entitled to vote at this meeting, must bring his/her original NIC with him/her to prove his/her identity, and in case of proxy, a copy of shareholder's attested NIC must be attached with the proxy form. Representatives of corporate members should bring the usual documents required for such purpose.



# Directors' Report



## HIGHLIGHTS

The Board of Directors of Fauji Fertilizer Company Limited is very pleased to present 26th Annual Report and audited financial statements setting out detailed financial results of the Company along-with consolidated financial statements of the group including FFC and Fauji Fertilizer Bin Qasim Limited (FFBL) for the financial year ended December 31, 2003.

It gives me great pleasure to announce another year of record results and consistent growth. The operating and financial decisions undertaken during the year allowed the Company to maintain the financial strength and flexibility necessary to operate in a capital intensive, cyclical business.

Let me summarize the key achievements which contributed to our success in 2003:

- Production from all three plants of the Company at 2,150 thousand tonnes was 17% higher than last year's production and represented an achievement of 113% of designed capacity of 1,904 thousand tonnes. 98% of this production was sold in 2003.
- Urea sales at 2,683 thousand tonnes, including marketing of 575 thousand tonnes of FFBL's Sona (G), exceeded sales last year by 12%.
- Urea market participation was 59% in 2003 compared to 54% achieved last year.
- DAP sales at 475 thousand tonnes, including marketing of 71 thousand tonnes of FFBL's DAP, was up by 66% compared to sales last year.
- Sales revenue at Rs. 21.035 billion was 25% higher than revenue earned last year. This result was achieved despite greater competition in the Industry.
- The Company's gross profit at Rs. 7.333 billion increased by 10% compared to last year.
- Net profit after tax at Rs. 3.145 billion was marginally higher by 2% compared to the earnings in 2002.
- The earning per share was Rs. 12.26 in 2003 compared to Rs. 11.98 last year.

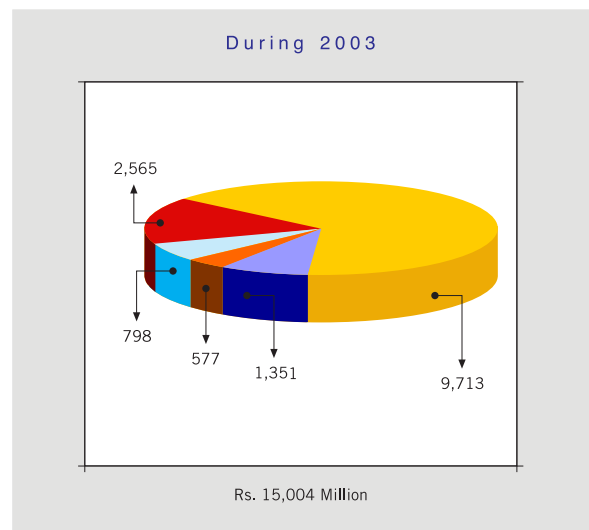


## VALUE ADDITION AND DISTRIBUTION

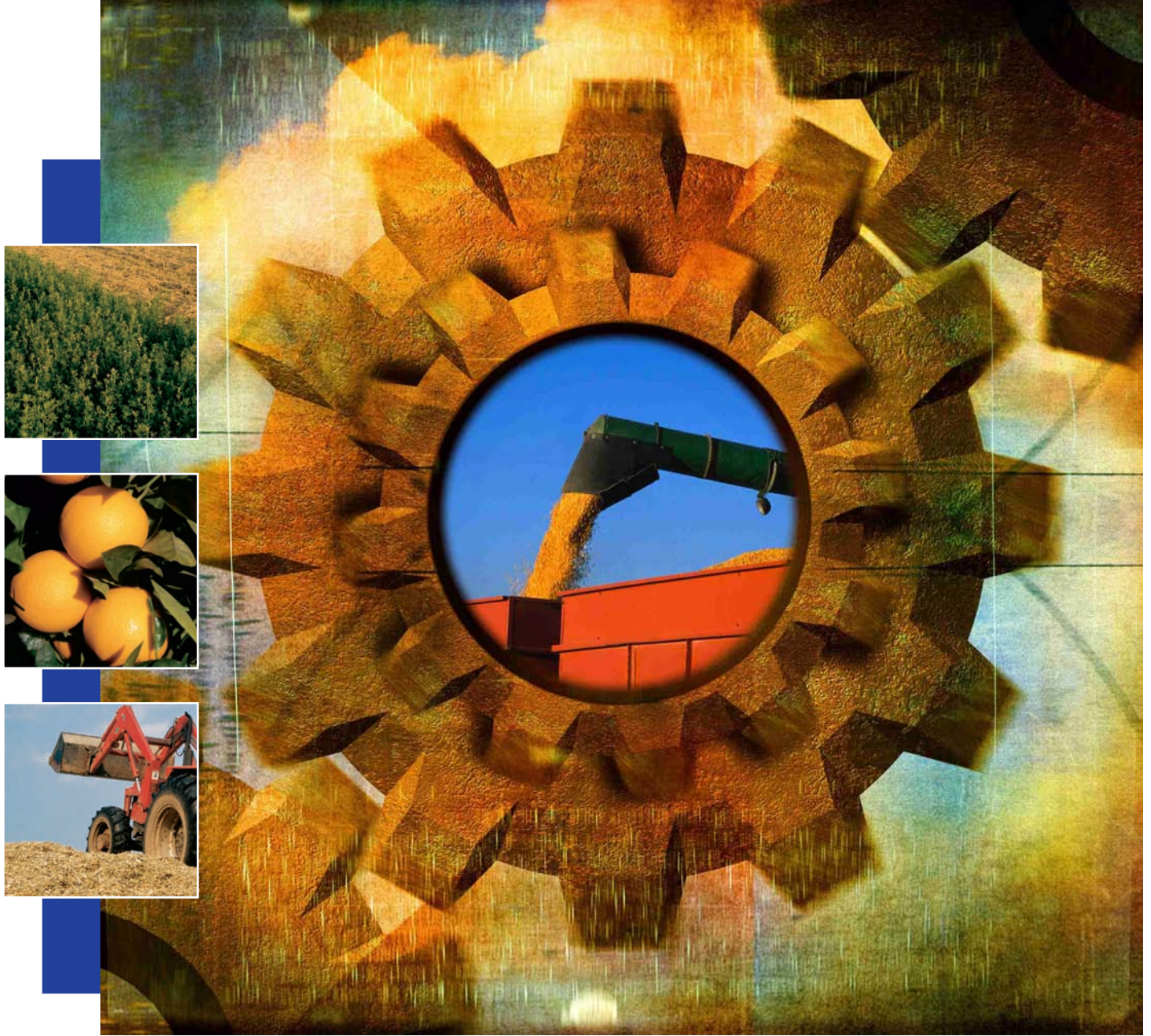
### Contribution to National Exchequer

Company's contribution to the national exchequer at Rs. 9,713 million is the highest ever, in the form of taxes, levies, excise duty, sales tax and surcharge on gas. This is an increase of Rs. 2,830 million over last year and was more than triple the net of tax earnings for the year 2003.

Company's contribution to the national economy by way of value addition this year amounted to Rs. 15 billion, an increase of 25% over last year. This is in addition to savings of 258 million dollars in foreign exchange through import substitution on production of 2,150 thousand tonnes of urea fertilizer this year.



- Government as taxes
- Employees as remuneration
- Providers of capital
- Retained with the business
- Shareholder as dividends



## BUSINESS ENVIRONMENT

### Agriculture

After two consecutive years of negative growth, the agriculture sector finally posted a strong recovery in financial year 2003. The area under cultivation did not change but there was an improvement in productivity. Among the major crops, rice led the recovery, followed by sugarcane, wheat, maize and gram in that order. As against this, cotton and other crops declined due to heavy rains, especially in Sindh province. Minor crops with around 15 percent share in agriculture posted a marginal growth percent during FY03.

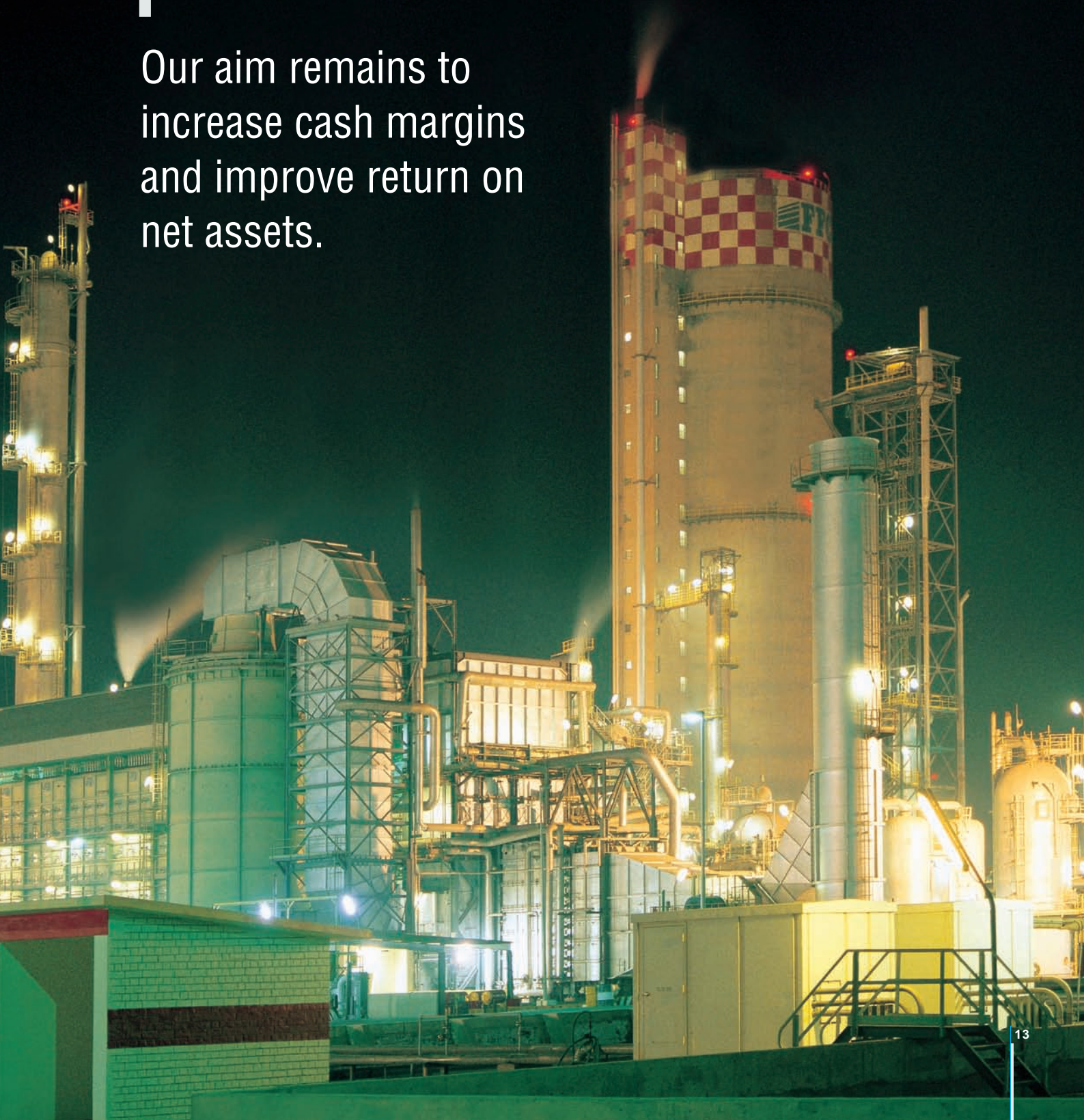
Although there was an improvement in the yield, there still remains sufficient scope for further growth. The situation is considerably worse for crops such as maize and sugarcane, where the yields are significantly below international average.

One of the major hindrances in the growth of minor crops is inadequate focus on research and development. Wider nitrogen phosphate consumption ratio is also adversely impacting the crop productivity, adding to the problem of unbalanced application of various fertilizers in the Country.

The wholesale price of majority of important crops was higher than that in the preceding years. Since the four cash crops are cultivated all over the Country, the benefit of price rise was widely distributed.



Our aim remains to increase cash margins and improve return on net assets.



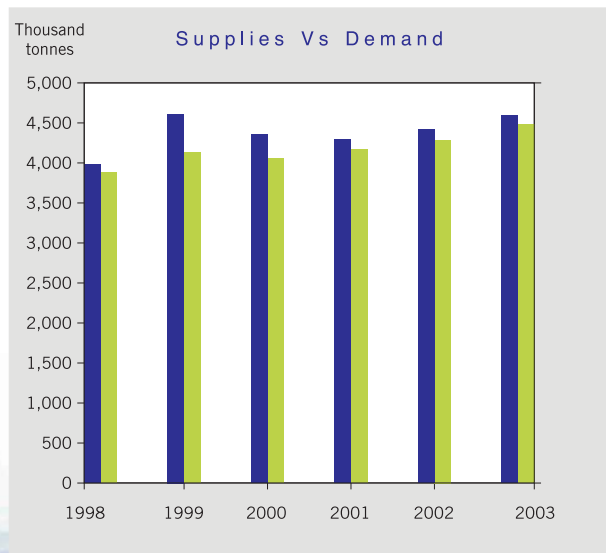


### Urea Industry

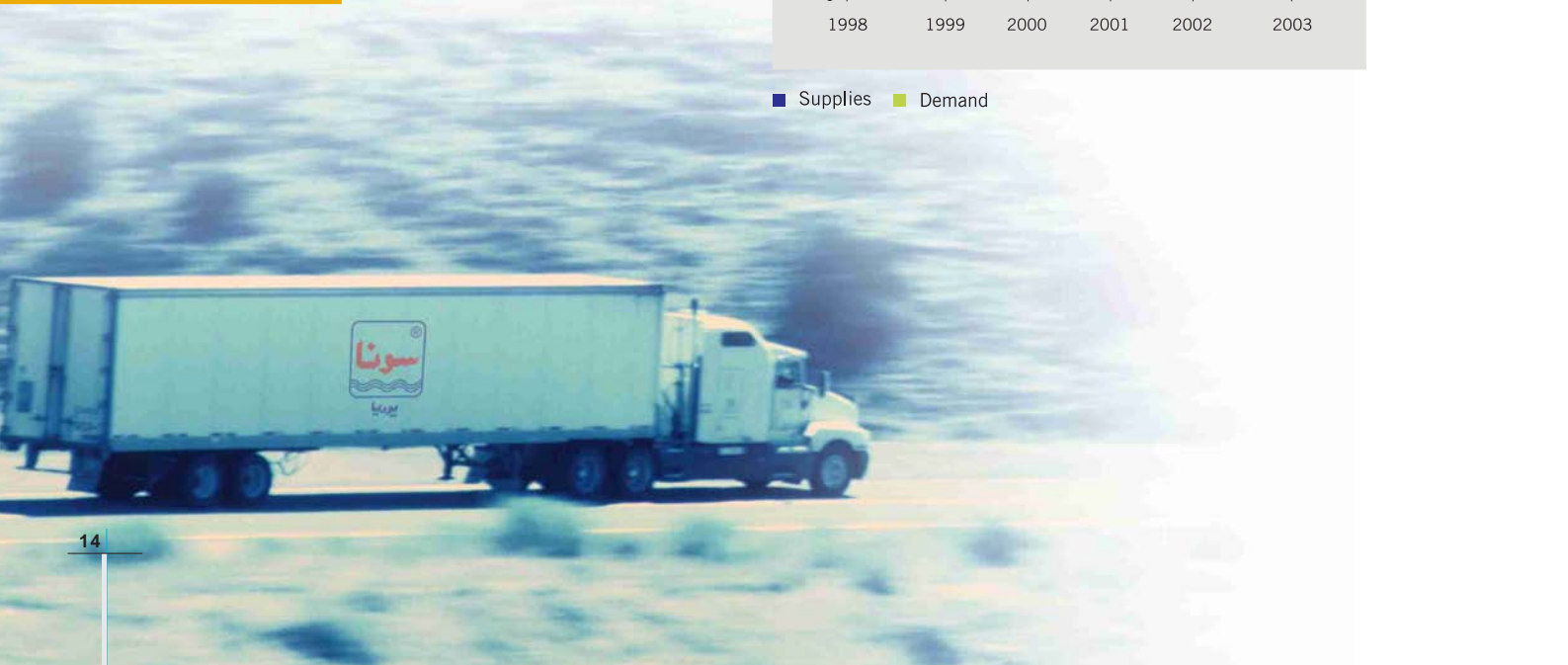
The year 2003 started with a balanced urea supply demand situation. The opening inventory at 173 thousand tonnes was 50% lower than the opening inventory of 2002. Industry urea production during the year 2003 was 4,523 thousand tonnes, 6% higher than the production in 2002.

For a variety of reasons the off-take remained sluggish till May 2003; however, the latter half of the year witnessed increase in sales ending with a net growth of 2.7% in the urea market. The closing inventory at end December 2003 of 178 thousand tonnes was almost the same as at end December 2002. This inventory could have been lesser if the GOP had allowed export. It is also appropriate to mention here that the entire impact of 7.5% feed gas price and 2% fuel gas price increases effective July 2003 has been borne by the Company.

### INDUSTRY UREA MARKET



■ Supplies ■ Demand



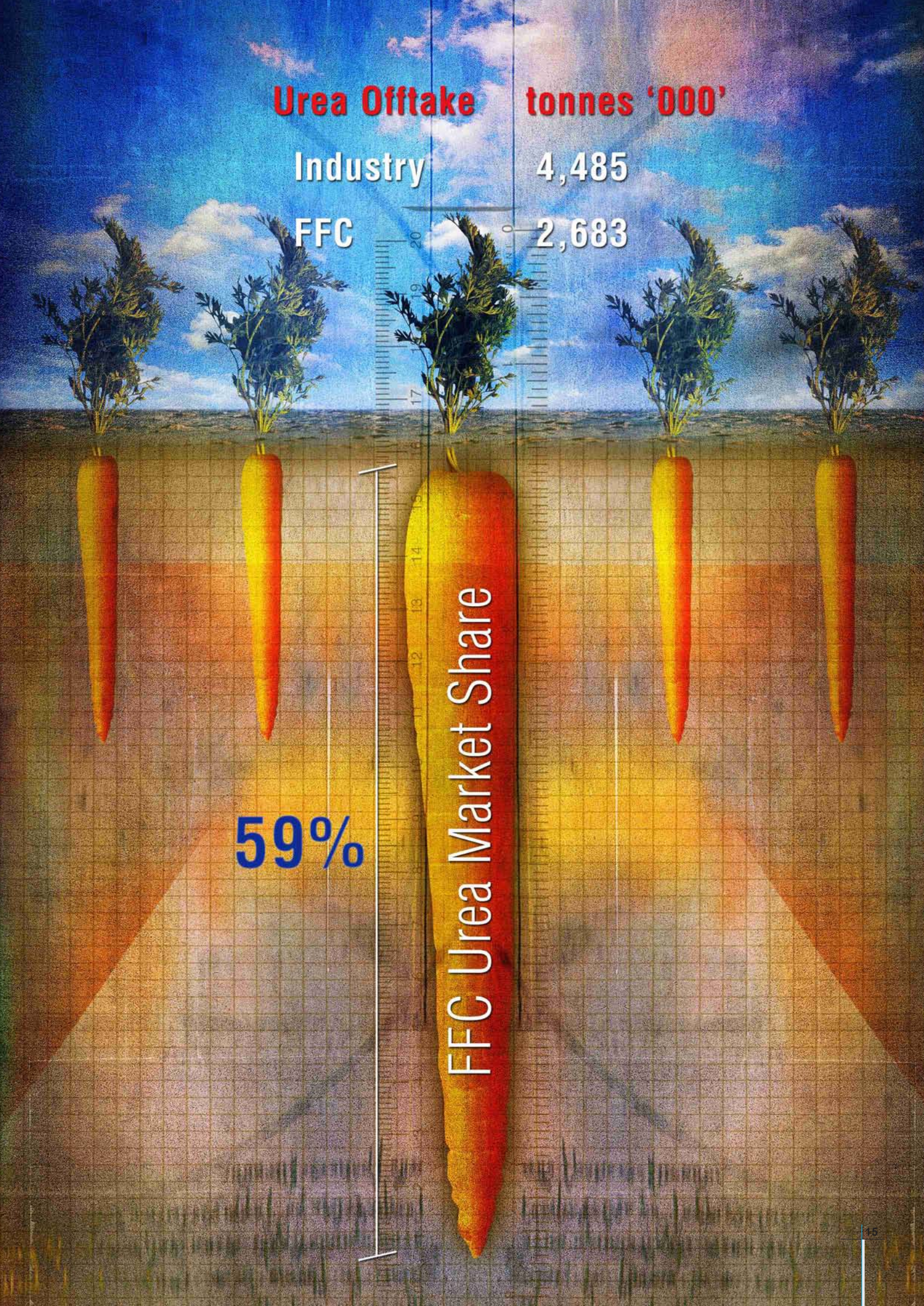
**Urea Offtake      tonnes '000'**

**Industry      4,485**

**FFC      2,683**

**59%**

**FFC Urea Market Share**





## **DAP Industry**

The 2003 opening industry inventory of DAP was 149 thousand tonnes, 27% lower than last year. A total of 947 thousand tonnes DAP was imported during the year 2003. FFBL's DAP plant restarted its production in September 2003 and produced 73 thousand tonnes by end December 2003. The revival of FFBL's plant will ensure timely availability of indigenously produced DAP and would thus arrest the recent downfall in the phosphate consumption in the Country.

The international prices of DAP increased sharply in the last quarter of the year which had a dampening impact on DAP imports, and to some extent on DAP sales. DAP prices were reduced in December as a result of reduction in GST by GOP which is now being charged on a lower deemed price. DAP industry sales during the year 2003 at 1,119 thousand tonnes showed improvement by 3% over sales in 2002.

At end December 2003 the closing inventory of 45 thousand tonnes was 70% lower than the closing inventory of 2002.

## **Farming and water availability**

The purchasing power of the farmers is steadily improving which augers well for the fertilizer industry as well as the agricultural economy of the Country. The Company has taken all possible measures to ensure provision of fertilizer at the doorsteps of the farmers especially in the far-flung areas of the Country.

El-Nino and La Nina factors have upset the system of rains in the subcontinent and as a result Pakistan has been facing drought conditions for the last six years. The impact of climatic change on the economy, particularly agricultural activity, has been highly disturbing since water availability reduced to below 90 MAF. The availability at canal head was, according to Economic Survey of Pakistan, less than 84 MAF and availability from tube-wells also went down since the ground water sources were not adequately charged. By the grace of Allah Almighty, El-Nino spell is over at least for few years. Water availability was quite sufficient in 2003 which is expected to improve further during 2004, impacting favourably on the agricultural economy with a consequential improvement in the fertilizer off-take which is likely to increase by 3-4% in 2004.



### MISSION STATEMENT

FFC's mission is to sustain its role as the leader in industrial and agricultural advancement of Pakistan by setting and achieving new and higher goals, and taking initiatives. The Company is committed to ensuring safe and conducive work environment, providing high quality products and allied services to its customers and profitable returns to its shareholders.

### VISION STATEMENT

FFC is focused on harmonizing its capabilities and maximizing its potential. FFC's vision for the future envisages diversification and undertaking ventures at home and abroad in collaboration with leading international partners.

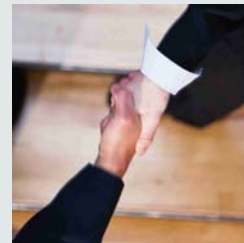
### CORPORATE GOVERNANCE

Since many years the Board of Directors of FFC has pursued the goal of high standards of corporate governance. The Directors represent independent and diverse perspectives on the Board to provide proper overview of the Company's affairs.

The Board of Directors and its committees have reviewed the Company's existing governance policies and practices which are in full compliance with listing rules and regulations.

The Board is responsible for the overall direction, strategy, performance and management of the Company and comprises 1 executive director and 12 non-executive directors, including one nominee from the minority shareholders. Throughout the financial year the offices of Chairman and Chief Executive have been held separately; both have distinct and defined responsibilities as expressly delegated by the Board of Directors. Authority for implementing the Board's policies is delegated to the Managing Director within certain limits authorised by the Board.

The Board is ultimately responsible for the Company's internal control systems and for reviewing its effectiveness. It meets at least 4 times a year and more frequently if required. A comprehensive and effective system is in place to achieve the desired business objectives, and provide reasonable assurance against material misstatement or loss. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.



Consistent performance and growth in difficult market conditions makes FFC one of the best businesses.



## Board Committees

The Audit Committee, System & Technology Committee and Human Resources Committee are the standing committees of the Board of Directors.

The Audit Committee is responsible for reviewing reports of the Company's financial results, business plans, audits, internal controls, and adherence to its Business Conduct Guidelines. The Committee recommends to the Board of Directors the appointment of the Company's auditors and reviews their procedures for ensuring their independence with respect to the services performed for the Company. The FFC Board of Directors has adopted a written charter for the Audit Committee. The Audit Committee is composed of outside directors who are not officers or employees of the Company. The Committee held 5 meetings in 2003.

The System & Technology Committee comprises four non-executive directors and is responsible to provide assistance to the Board on matters relating to safety, environmental issues, technological problems and operational risks. All capital intensive technical projects are reviewed by the System & Technology Committee before final approval of the Board. The Committee held 3 meetings in 2003.

The Human Resources Committee has responsibility for administering and approving all elements of compensation and welfare for the staff and management positions. All housing and employees' welfare projects are reviewed by this Committee. Members of this Committee are outside Directors who are not officers or employees of FFC and are not eligible to participate in any of the plans or programs that the Committee administers. The Committee held 1 meeting in 2003.

## Change of FFC's CEO/MD and Directors

The Board places on record its appreciation for the leadership and invaluable services rendered by Lt Gen Amjad Shuaib (Retired), the outgoing Managing Director, who has contributed immensely to the fortunes of the Company during his three year term. The Board also acknowledges the contribution of the retiring Directors, Brig Ghulam Hussain (Retired), Brig Muhammad Akram Ali Khan (Retired), Mr Abdul Hafeez Chaudhry and Mr Istaqbal Mehdi.

I am pleased to welcome Lt Gen Mahmud Ahmed (Retired) who has joined as the new Managing Director and also take the opportunity to welcome Brig Aftab Ahmad (Retired), Brig Ghazanfar Ali (Retired), Mr Hasan Aziz Bilgrami and Mr Khalid Amin Qureshi as fellow Board members.

A man in a blue shirt and tie is looking at a document in a server room. The room is filled with server racks and equipment, illuminated with a blue light. The man is standing in the foreground, slightly out of focus, while the server racks are in the background. The overall atmosphere is professional and technical.

We aim to increase  
and sustain our  
corporate value  
through growth and  
innovation.



Mr Abid Maqbool  
GM Finance

### Management

The Company has in place appropriate policies and procedures, adequate organizational structure for planning, executing, controlling and monitoring business operations in order to achieve objectives. Responsibilities and delegation of authority are documented.

All the operating divisions are responsible for identification and evaluation of key risks applicable to their areas of business. Risks are assessed on a continual basis and may be associated with a variety of internal or external factors including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements which are reviewed periodically by the Executive Committee.

Operating divisions prepare annual budgets and long term strategic plans; performance against plan is actively monitored at the Board and divisional level supported by regular forecasts. Forecasts and results are consolidated and presented to the Board on a regular basis.

Control procedures have been designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets. Measures taken include physical controls, segregation of duties, reviews by management and internal audit, and external audit to the extent necessary to arrive at their audit opinion.

Temporary cash surpluses are invested in the money market until they are required. The Company invests cash in treasury bills, certificates of deposit, financial derivatives, or in low risk high yielding investments. FFC does not have any significant level of exposure to foreign currencies.

The CEO and CFO provide quarterly and annual certifications of financial reports filed with the SECP and oversee on a quarterly basis an evaluation of the Company's disclosure controls and procedures.


The Company has a Code of Business Conduct and Ethics. Ethics are of supreme importance to FFC and every employee is committed to the highest ethical standards in conducting the business of the Company with integrity. This commitment is central to the values that make FFC the market leader in the fertilizer industry.

### Management committees

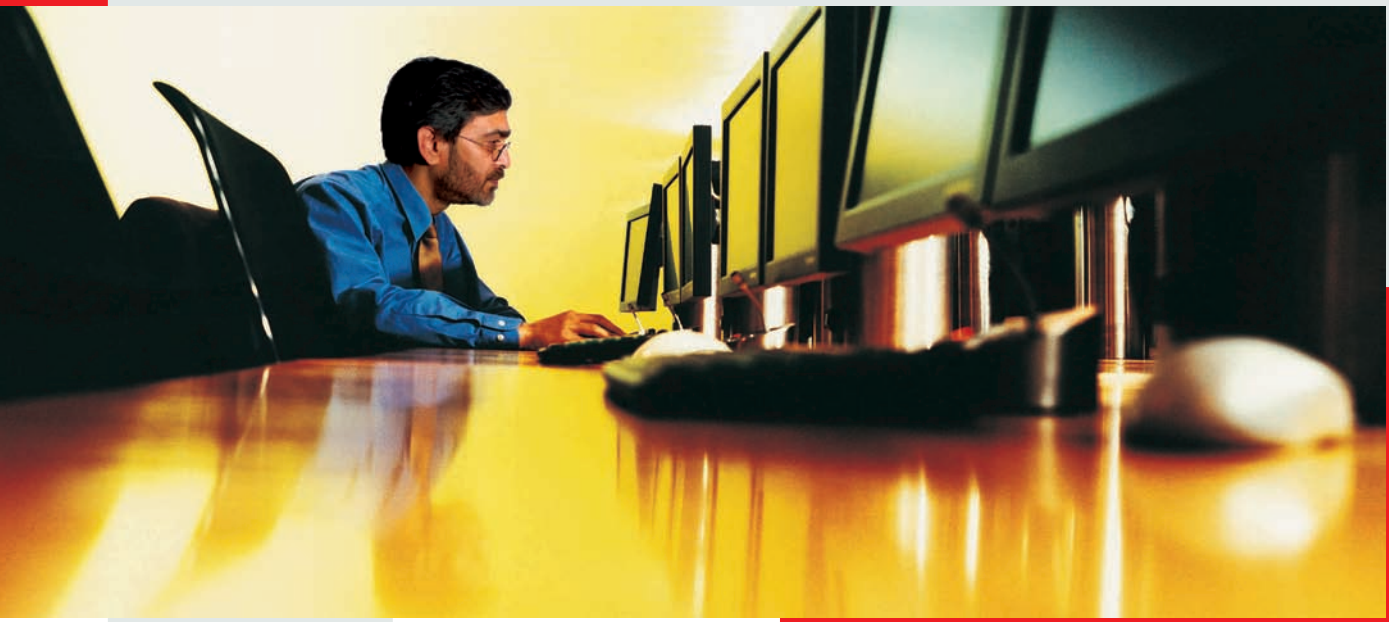
Business Strategy Committee reviews the strategy for the Company as delegated to it by the Board. The Committee is responsible for staying abreast of developments and trends in the Industry which assist the Committee in planning for future capital intensive investments and growth of the Company.

The Executive Committee is responsible for dealing on the Board's behalf with matters of urgent nature between Board meetings and with any other duty delegated by the Board.



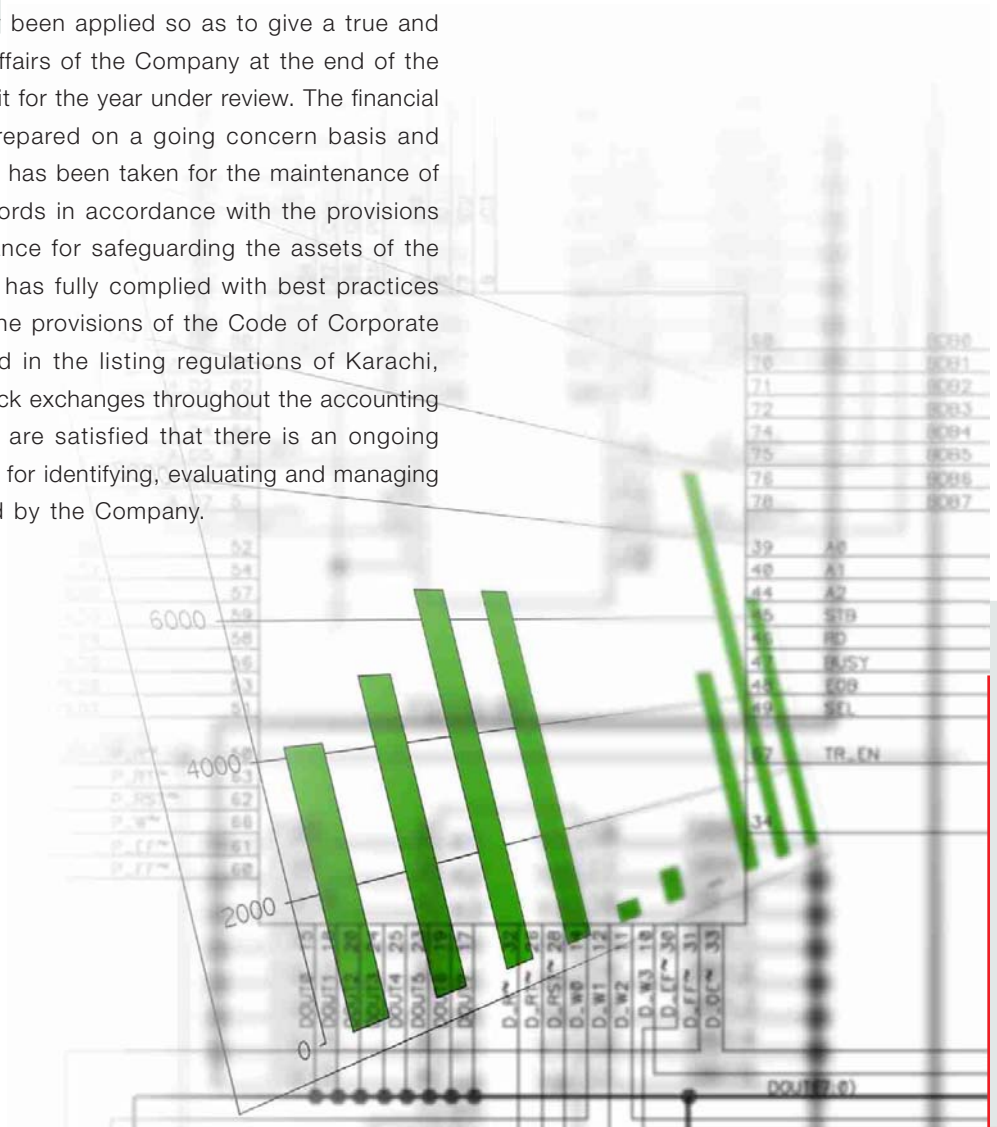
The image is a composite of three distinct scenes. The top portion shows a large industrial plant with numerous towers and pipes situated along a riverbank, with mountains in the background. The middle portion is a close-up of a person's hand holding a large, dark, textured mass of soil. The bottom portion shows a group of people, including a woman in a headscarf and a child, looking towards the camera.

We respect the communities in which we work, recognizing their diversity and environment through responsible business practices.



### Compliance with listing regulations

The applicable accounting standards have been followed in the preparation of the annual financial statements and the accounting policies have consistently been applied so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and the profit for the year under review. The financial statements have been prepared on a going concern basis and proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Ordinance for safeguarding the assets of the Company. The Company has fully complied with best practices on Transfer Pricing and the provisions of the Code of Corporate Governance as contained in the listing regulations of Karachi, Lahore and Islamabad stock exchanges throughout the accounting period and the Directors are satisfied that there is an ongoing process of internal control for identifying, evaluating and managing the significant risks faced by the Company.





## EXCELLENCE AWARDS

It gives me a great pleasure to inform you that the Annual Report 2002 of the Company was awarded first prize in the Chemical & Fertilizer Sector and was also ranked number one for the overall first position amongst over 300 participating companies by the joint committee of Institute of Chartered Accountants of Pakistan/Institute of Cost & Management Accountants of Pakistan and the Securities and Exchange Commission of Pakistan. FFC has previously won sector awards.

These awards represent a milestone achievement in corporate excellence which demonstrates our commitment to prompt sharing of information with our shareholders and highest professional standards of fiscal and corporate reporting.

The Company website [www.ffc.com.pk](http://www.ffc.com.pk) provides information on the Company for all shareholders and the general public.

The Company's Annual Report for 2002 was also awarded 2nd prize for best design, layout and graphics at the "Annual International Graphic Print Material Exhibition 2003", organized by National Council of Culture and Arts, Karachi.

For the ninth consecutive year, FFC continues to be the proud winner of Karachi Stock Exchange (KSE) "Top 25 Companies Award" securing 3rd position, based on excellent performance, endorsing the Company's efforts to rank as the leader in the fertilizer industry.



Managing Director receiving the Top 25 Companies Award from the Prime Minister

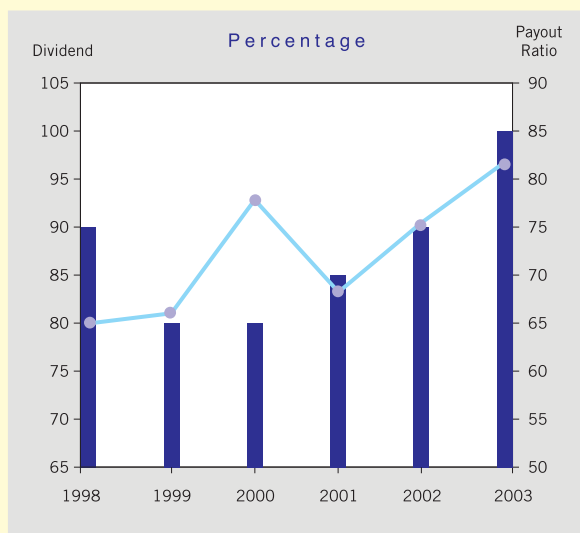


Mr Abid Maqbool, GM Finance receiving the Best Corporate Report Award 2002 for the First Position in Chemical & Fertilizer Sector.



Syed Shahid Hussain, Sr. Finance Manager receiving the Best Corporate Report Award 2002 for the overall First Position.

## DIVIDEND AND PAYOUT RATIO

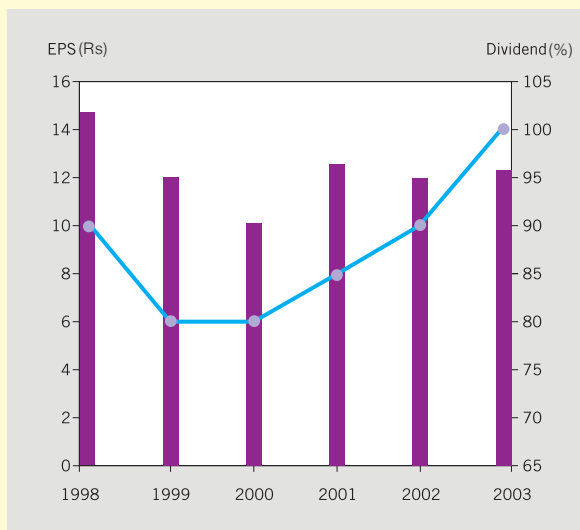


Percentage

■ Dividend

● Payout Ratio

## DIVIDEND AND EARNINGS PER SHARE



■ Earning per Share

● Dividend

## APPROPRIATION OF PROFIT

The net profit for the year is recommended to be appropriated as follows:

Net profit after taxation

Rupees  
"000"

3,144,509

Un-appropriated profit brought forward

218,203

3,362,712

Appropriations:

Transfer to general reserve

600,000

Dividend on ordinary shares

First interim @ 30%

769,488

Second interim @ 22.5%

577,116

Third interim @ 32.5%

833,612

Proposed final @ 15%

384,743

2,564,959

3,164,959

Un-appropriated profit carried forward

197,753

## Dividends

FFC's overall target is to provide shareholders with good growth in value and a rising dividend. In keeping with the expectations of the shareholders, the Board is pleased to recommend a final dividend of 15%, over and above the interim dividend declaration of 85%, subject to the approval of the shareholders in the Annual General Meeting. The cumulative dividend distribution for the year 2003 at 100% amounts to Rs. 2.565 billion and represents a payout of 82% of the net profit after tax for the period as opposed to 75% last year.

100% distribution of dividend in the Silver Jubilee year is yet another distinction achieved by the Company.





First truck of Sona DAP being dispatched from FFBL on resumption of production.

## MARKETING

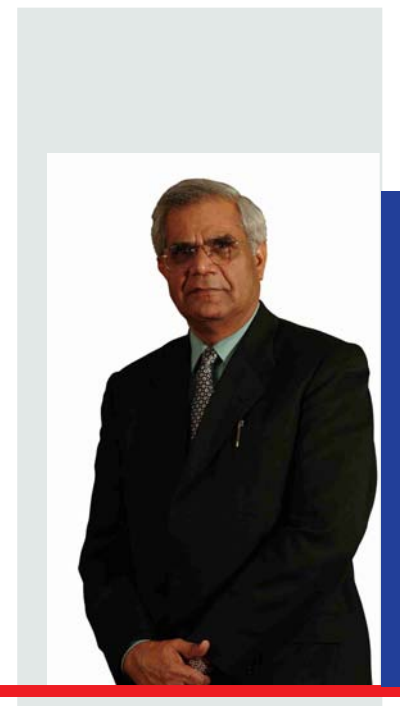
The operational performance of the Company was very strong during the year, with sales considerably higher than planned targets at sustained margins. The Company sold 2,683 thousand tonnes of urea fertilizer this year and our market share including sales of FFBL granular urea was the highest ever, rising to 59% during the year as compared to 54% last year. DAP sales also registered an increase of 66% over last year and the Company set an all-time record of marketing 3,169 thousand tonnes fertilizers (highest ever in the domestic market), surpassing the previous record of 2,681 thousand tonnes, registered last year.

The Company has continued to provide value equations by providing better quality fertilizer at better price. We aim to sell and market over 3.2 million tonnes of urea / phosphatic fertilizers during the year 2004 and maintain the lead in market share. The Company provides effective advisory services through three Farm Advisory Centres, one of which has been added during 2003. The Company also plans to establish two additional Farm Advisory Centres during 2004 to provide technical advice and agronomical support to our farming community at their door steps which would help boost the crop yield and add to their prosperity. FFC is committed to foster farming community and remain their first choice.

## INVESTMENT IN FFBL

The GOP in association with FFBL's sponsors (FFC and FF) had agreed to inject a total of Rs. 10 billion into the company in equal proportion. The sponsors have already fulfilled their part of the agreement by injecting Rs. 5 billion in the company against which shares have been issued at par value by FFBL this year. As a result the total holding of the Company in FFBL has increased from 49.42% to 52.23% and status of FFBL has changed from an associated company to a subsidiary.

Consequent to FFBL becoming a subsidiary, consolidated financial statements of FFC and FFBL have been prepared and are enclosed along with this report. Prospects of merger of both companies are being studied and a decision in this regard will be taken shortly.



Dr Muhammad Sadiq  
GM Marketing



Mr Abdul Waheed Sheikh  
GM Technical & Operations

## PLANTS PERFORMANCE

The President of Pakistan, General Pervez Musharraf during his visit to plantsites Goth Machhi and Mirpur Mathelo in October 2003 appreciated the professional standards of operations and safety maintained by the Company and the facilities provided to the employees.

### Plantsite Goth Machhi

The Company continued with selective investments necessary to sustain its profitability and improve plant operations. This is consistent with our long-term policy of maintaining our position as the leading fertilizer manufacturer in the Country.

To overcome the continuous declining trend of natural gas pressure at Mari Gas Field, which has a direct impact on plant production, one natural gas booster compressor at plantsite Goth Machhi will soon be taken into service. Strategy for the second compressor operation in near future has also been finalized.

Another long-term project of tube-well facilities expansion was commissioned successfully, to replenish shortfall of raw water availability.

In our endeavour for self-reliance in areas of critical maintenance activities, the fabrication shop setup last year at Goth Machhi has successfully rehabilitated the old titanium stripper of FFC-MM. The facility was extended for welding quality improvement. Presently, refurbishment of old bimetallic stripper of FFC-MM is in progress, which will rejuvenate this expensive equipment.

As part of the expansion of Technical Training Centre activities, our marketing efforts were boosted to impart customized training to other companies. Three batches from OMV Pakistan were trained and more are expected next year. Various in-house courses, including advance management course on “Corporate Governance” for senior management, were also conducted.

An International Seminar on Ammonia and Urea Technology was organised by FFC and held at PC Bhurban on September 1-2, 2003. The two days seminar was spread over six technical sessions in which papers on technological advancement and operational experience were presented by speakers from various organizations in Pakistan and abroad.



Mr Tahir Javed  
GM Plant (Mirpur Mathelo)

Mr Zafar Hadi  
GM Plant (Goth Machhi)



### Plantsite Mirpur Mathelo

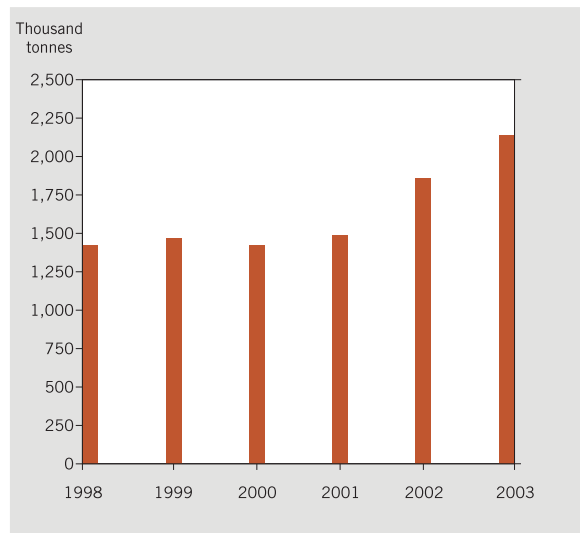
FFC Urea plant Mirpur Mathelo operations were formally inaugurated by the President of Pakistan, General Pervez Musharraf on October 24, 2003 who expressed his appreciation of the development that has taken place in just over a year after PSFL take over by FFC in June 2002.

The year 2003 represents the first full year of operation post acquisition and is regarded as the most successful year in FFC-III's history in all areas relating to plant operations, reliability improvement, service/capacity factor enhancement, maintenance/upkeep and personal/social developments. Most of the projects initiated by the FFC team after acquisition in June 2003 have either been completed or are in the advanced stages of completion.

Our Mirpur Mathelo plant created an all time record by producing 627 thousand tonnes of FFC Urea during the year with an achievement of 2% above the plan at an operating efficiency of 111.40% of the designed capacity against planned efficiency of 107.80%.



### UREA PRODUCTION



Ever highest monthly ammonia & urea production of 37,271 tonnes and 62,500 tonnes respectively were achieved within a short span of just over a year of acquisition during the month of October at 120% & 116% of designed capacities. Ever highest daily production of 2,070 tonnes of urea and 1,219 tonnes of ammonia were also achieved on 23rd of October and 17th of December respectively.

Quality of "FFC Urea" has been improved to bring it in line with FFC standards through modifications and repairs under-taken in urea plant vacuum section during turnaround.

First major annual turnaround was undertaken during the year after acquisition to review and assess the condition of the plant in detail and to bring it to the reputed level of Goth Machhi plants. Comprehensive inspection and repair of equipments and machines was carried out during the turnaround. Total jobs handled for plant capacity and energy were 1,099, which is a record for FFC.



Our people have contributed significantly to delivering a strong performance across the Company.



## Safety, health and environment

Safety and environmental stewardship are high priorities at FFC's production facilities. Regular safety audits protect our employees and the communities surrounding our facilities. We have introduced various elements of best practice risk management.

We care for the safety of our employees through safety training, procedures, regular maintenance of assets and the development of relevant competence.

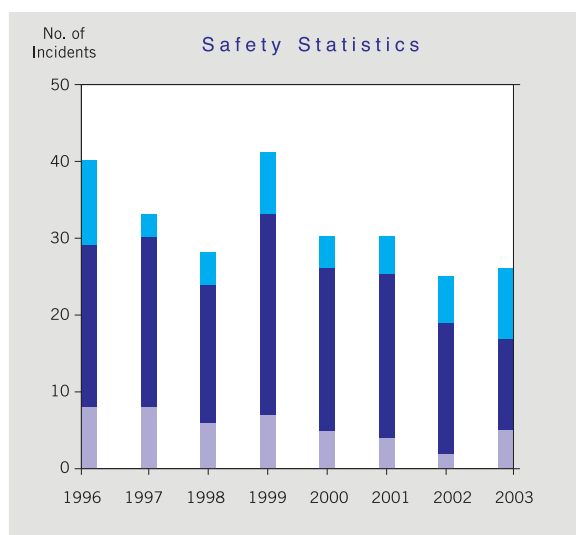
In our wider objectives, we have a commitment to deliver social, environmental and heritage benefits. Risk based assessments in accordance with our Environmental Code of Practice are applied to all works undertaken.

FFC has become the first Company among fertilizer producers in Pakistan, to obtain certification for international safety standards, OHSAS-18001 and has further been certified for ISO 9001:2000 for the next three years.

Our plants at Goth Machhi achieved the ever-highest milestone of 21.6 million man-hours of safe operation without loss time injury in 2003, which is highly reflective of our safe practices, while our Mirpur Mathelo plant completed 0.67 million man hours of safe operations during the year and has also attained membership of National Safety Council USA.

Safe operation committees and sub committees have also been constituted at our Mirpur Mathelo plantsite for implementing FFC safety program and safety awareness training program which continued throughout the year with emphasis on turnaround safety, work permit procedure and usage of safety equipment.

### FFC GOTH MACHHI



No Lost Time Injury  
 Incident since June 14, 1995

- Minor Injuries
- Near-misses
- Fires

Safety and clean environment is a way of life with us; FFC has become the first Company among fertilizer producers in Pakistan to obtain certification for international safety standards





#### EMPLOYEE RELATIONS AND SOCIAL WELFARE

During 2003 relations between employees and management remained excellent and conducive which was a critical factor in the achievement of exemplary performance by the Company. The Company continues to extend full medical facilities to its employees and their families at all locations. Educational facilities are also available to the children of all Plantsite employees.

The Company has instituted Pension, Gratuity and Provident Fund schemes for the benefit of its employees and dependants on retirement or death. The fair value of assets based on last audited accounts of the respective Funds amounted to Rs. 1,414 million.

The Government school for children of adjacent localities, situated near Goth Machhi Plant, also continues to receive financial support from the Company.

The Company has planned to set-up a 20 bed hospital for the welfare of the people of areas adjoining the newly acquired facilities at Mirpur Mathelo, which is under construction and is expected to be operational by the end of next year.



## PATTERN OF SHAREHOLDING

There were 4,030 Company shareholders as of December 31, 2003. Closely held shares (i.e. those held by the sponsors, investment companies, financial institutions, foreign investors and other corporate bodies) amount to 92% of the total shares outstanding of which 3% were held by the foreign shareholders.

| <u>Pattern of Shareholding</u>  | <u>No. of Shares</u> |
|---|----------------------|
| National Investment Trust   | 29,529,209           |
| Investment Corporation of Pakistan  | 3,254,700            |
| Company Executives  | 344,300              |
| Public Sector Companies and Corporations  | 6,461,623            |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds | 52,537,735           |
| Shareholders holding ten percent or more voting interest - Fauji Foundation   | 113,749,200          |

| <u>Categories of Shareholding</u> | <u>No. of share-holders</u> | <u>No. of shares held</u> | <u>%age</u> |
|-----------------------------------|-----------------------------|---------------------------|-------------|
| Investment Companies              | 13                          | 33,046,008                | 12.88       |
| Insurance Companies               | 25                          | 19,123,700                | 7.46        |
| Joint Stock Companies             | 102                         | 7,666,404                 | 2.99        |
| Financial Institutions            | 58                          | 43,865,528                | 17.1        |
| Modarabas                         | 20                          | 307,600                   | 0.12        |
| Foreign Investors                 | 30                          | 8,826,872                 | 3.44        |
| Leasing Companies                 | 9                           | 243,900                   | 0.09        |
| Charitable Trust & Others         | 62                          | 123,441,250               | 48.13       |
| Individuals                       | 3,711                       | 19,974,640                | 7.79        |
| <b>Total Shares</b>               | <b>4,030</b>                | <b>256,495,902</b>        | <b>100</b>  |

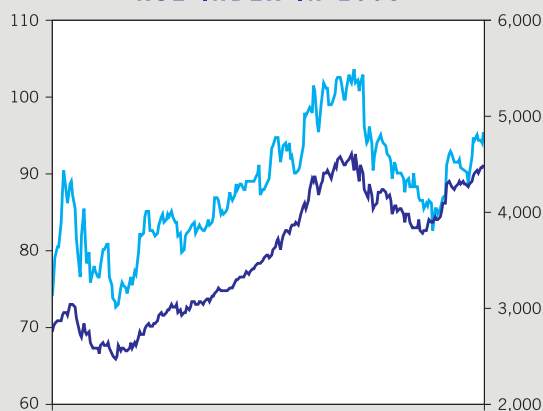
Ordinary shares of the Company are listed on the Karachi, Lahore and Islamabad Stock Exchanges which continue to be the driving force in maintaining the upward trend in the index.

FFC's dominant position as one of the companies with the largest market capitalization stood at Rs. 24.5 billion, accounting for increase of 31% as opposed to Rs. 18.7 billion a year ago.

## FFC SHARE PRICE TRENDS

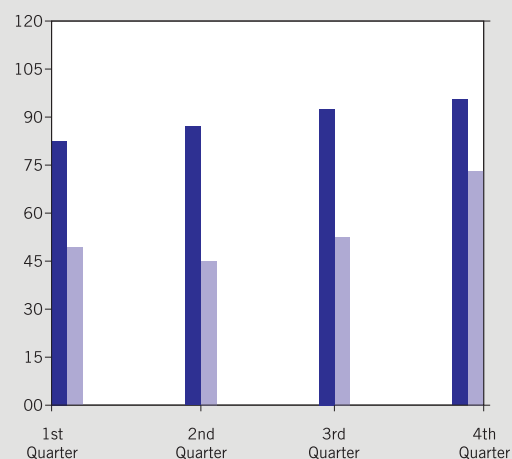
VS

### KSE INDEX IN 2003



■ FFC Share Price ■ KSE Index

## FFC SHARE PRICE



■ 2003 closing quarterly share price

■ 2002 closing quarterly share price



## AUDITORS

The existing auditors, A. F. Ferguson & Co., Chartered Accountants have completed their assignment for the year 2003 and retire at the conclusion of the 26th Annual General Meeting. Under the provisions of the Code of Corporate Governance listed companies are required to change their auditors after every five years. Accordingly, the Board has recommended appointment of Taseer Hadi Khalid & Co., Chartered Accountants, as auditors for year 2004.

## CORPORATE OFFICE

The Company is building a 12-storey head office at Rawalpindi. The foundation stone of the building was laid on December 29, 2003 by the Founding Managing Director, Maj Gen Rao Farman Ali Khan (Retired), who played a visionary role in transforming the Company into the leading fertilizer producer in the Country.

Shifting of offices at a central location will result in improved operational efficiency and better coordination among Company's various disciplines and bring a tangible change in the working conditions, besides enhancing corporate outlook and image of the Company.

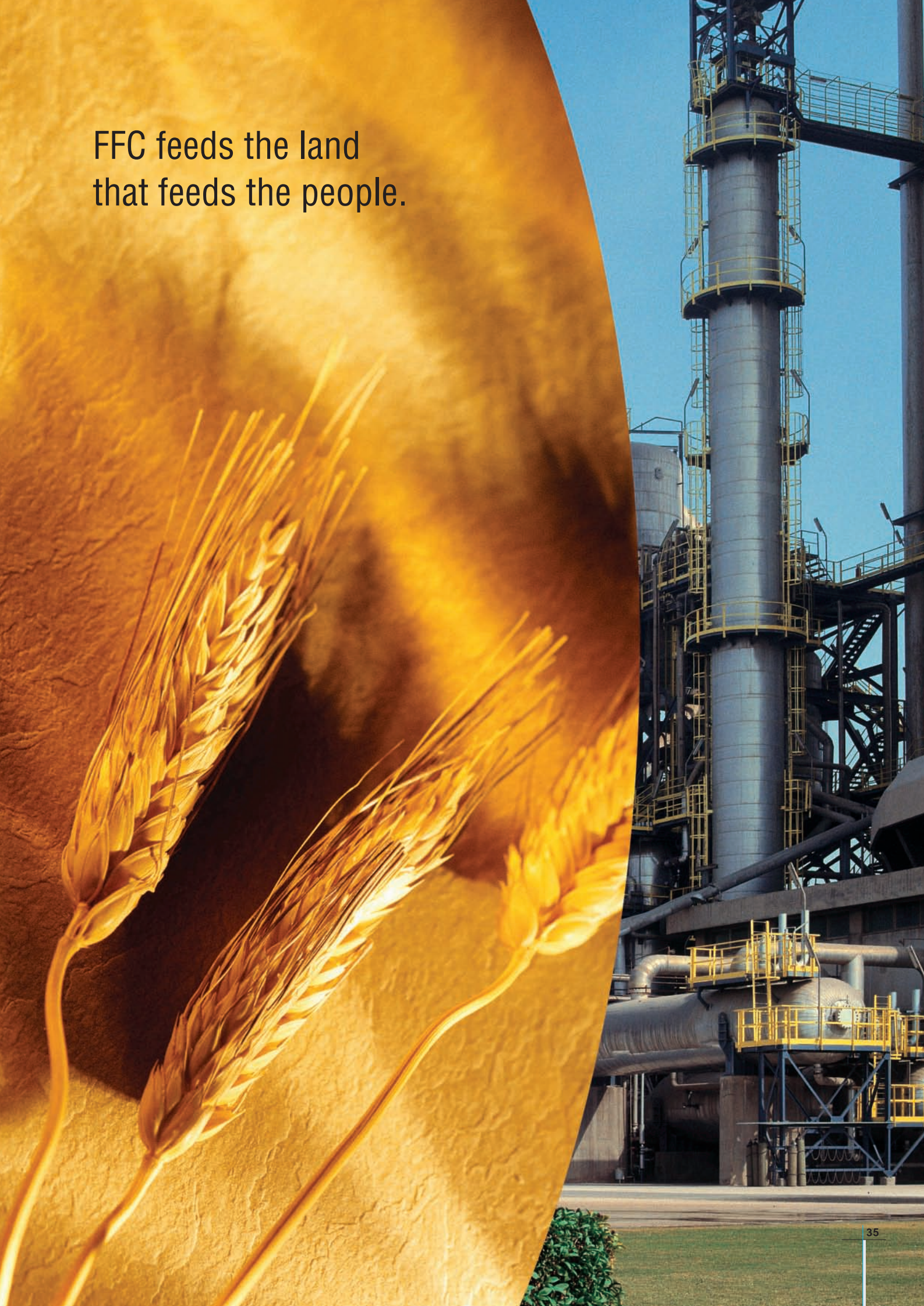
The new head office will have floor space of 256,000 Sft and is expected to be completed by 2006.

## OBITUARY

A few days after laying the foundation stone of the head office building, Maj Gen Rao Farman Ali Khan (Retired) breathed his last on January 19, 2004 due to protracted illness. May God bless him and rest his soul in eternal peace - Ameen.



FFC feeds the land  
that feeds the people.





## FUTURE OUTLOOK

FFC is a leading chemical fertilizer Company with highest market participation in the Country. We aim to sustain and increase our corporate value through growth and innovation. We offer our customers a range of high quality products and our distinctive approach to integration enables us to achieve cost leadership and gives us a decisive competitive advantage. We conduct our business in accordance with the principles of sustainable development.

As a Company, FFC is totally focused on growth. Over the last several years we have made significant investments in areas that can help us achieve our goal to be a top-tier growth Company over the long term. Acquisition of PSFL has been a step towards that direction. The Company has reviewed a number of opportunities to acquire promising advanced projects and is looking into the possibility of investment in collaboration with a consortium of investors formed under the lead of Fauji Foundation. In order to meet the future expansion projects and for balanced distribution of dividends an amount of Rs. 600 million is proposed to be transferred to the general reserve this year.

Liquidation of long term foreign exchange loans obtained for the Expansion Unit and restructuring of PSFL acquisition financing agreements, concluded during the period would result in substantial saving of financial cost in the coming periods. Urea demand is also expected to improve in the coming months in view of improved water availability, better climatic conditions and cheaper credit availability.

These factors would have a positive effect on future profitability of the Company, provided gas prices remain stable.

The Directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and that it is, therefore, appropriate to adopt the going concern basis in preparing the financial statements. In forming this view the Directors have reviewed the Annual Business Plan for the year ending 31 December 2004 and strategic plan projections for subsequent years and are satisfied that the Company is in a sound financial position.

Quality performance is ingrained in our people and our culture. We try to be the best at everything we do.



## CONCLUSION

The roles and responsibilities of the Board of Directors are becoming evermore demanding. It is my personal pleasure to thank the Directors for their commitment and invaluable contribution.

FFC's performance this year is another addition to the Company's advance in all spheres of its activities that validates our corporate and management strategies. The significant strides taken by FFC in year 2003 have only been possible through the concerted and enthusiastic efforts of all management and staff. Quality is ingrained in our people and culture and we try to be the best at everything we do. We are proud of our team and their tremendous effort.

The Board joins me in congratulating CEO/MD FFC and his management team and all staff members for taking the Company's performance to new heights.

Satisfaction of our customers is absolutely essential for us to emerge as a stronger Company; we are determined to serve and maintain long-term relationships with them. We want to thank them for their support to the Company and seek their continued patronage.

I would also like to thank our suppliers, bankers and shareholders for their continued support, which is a key to the success of the Company.

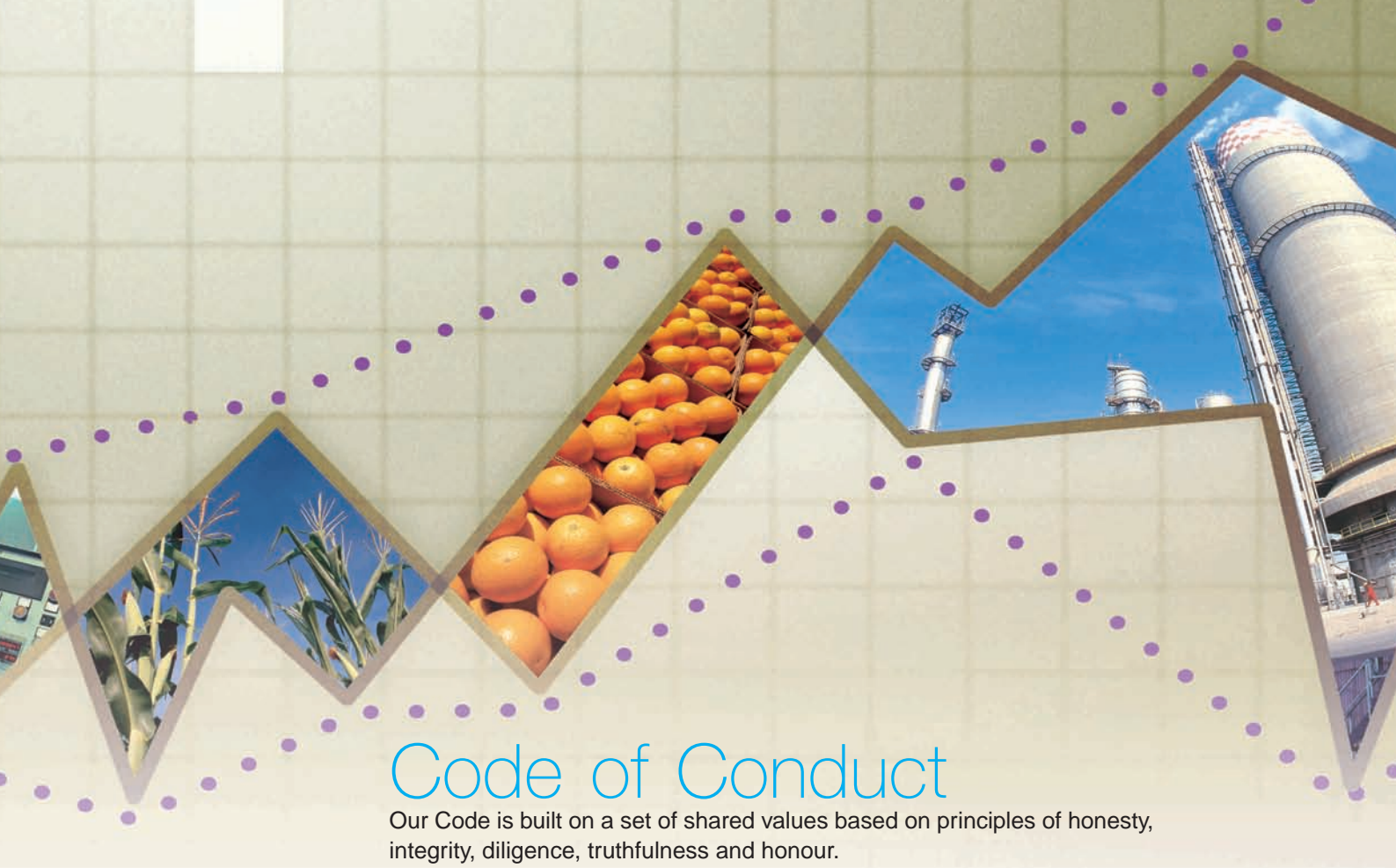
FFC is cultivating its future with a sharpened focus on delivering greater customer and shareholder value. With products essential for life, FFC feeds the land that feeds the people. We are proud that our primary business is dependable and, over the long term, plays a critical role in improving the general health and well-being of the nation.



Lt Gen Syed Muhammad Amjad HI, HI(M), (Retired)  
Chairman

Rawalpindi  
January 30, 2004





## Code of Conduct

Our Code is built on a set of shared values based on principles of honesty, integrity, diligence, truthfulness and honour.

## Core Values

At FFC we seek uncompromising integrity through what each individual can contribute—to our customers, our fellow employees, our Company and our Country.

Our business success is dependent on trusting relationships. Our reputation is founded on the personal integrity of the Company's personnel and our commitment to our principles of:

**honesty** in communicating within the Company and with our business partners, suppliers and customers, while at the same time protecting the Company's confidential information and trade secrets

**excellence** in our products and services, by striving to provide high-quality products and services to our customers

**responsibility** for our words and actions

**compassion** in our relationships with our employees and the communities affected by our business

**fairness** to our fellow employees, stakeholders, business partners, customers and suppliers through adherence to all applicable laws, regulations and policies, and a high standard of behaviour

**respect** for our fellow employees, stakeholders, business partners, customers and suppliers while showing willingness to solicit their opinions and value their feedback

A wide-angle photograph of a lush green wheat field stretching to the horizon. The sky is filled with large, dramatic clouds, some illuminated from below by a low sun, creating a warm, golden glow. The foreground shows the detailed texture of the wheat stalks.

The Company is  
poised for sustained  
growth and prosperity  
in the years to come.





While we celebrate the achievements  
of the last 25 years, our eyes are  
set on the goals we wish to attain in the  
first quarter of the Twenty First Century.

## 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 5 independent non-executive directors, 1 executive director and 1 director representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, except Mr. Tariq Iqbal Khan for whom relaxation has been obtained by NIT vide SECP letter No, SECP/ICAP/EM/36/2000/377 dated June 12, 2003 till June 30, 2004, including this Company.
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 2003 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 2003 to apprise them of their duties and responsibilities.
10. Officers having positions of CFO, Company Secretary and Head of Internal Audit were appointed prior to the implementation of the Code of Corporate Governance. Terms of appointment, including remuneration in case of future appointments on these positions will be approved by the Board.

## Statement of Compliance With the Code of Corporate Governance

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 Six 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 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. We confirm that all other material principles contained in the Code have been complied with.

Dated: January 30, 2004  
Place: Rawalpindi



Lt Gen Mahmud Ahmed, HI(M) (Retired)  
Chief Executive & Managing Director

## Review Report to The Members on Statement of Compliance With Code of Corporate Governance and Transfer Pricing

We have reviewed the Statement of Compliance with best practices contained in the Code of Corporate Governance and Transfer Pricing regulations prepared by the Board of Directors of Fauji Fertilizer Company Limited, to comply with the Listing Regulations of the Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance and Transfer Pricing 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 Transfer Pricing regulations 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 and Transfer Pricing regulations.

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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance and Transfer Pricing regulations as applicable to the Company for the year ended December 31, 2003.

Dated: January 30, 2004  
Islamabad



A.F. Ferguson & Co.  
Chartered Accountants

## Auditors' Report to The Members

We have audited the annexed balance sheet of Fauji Fertilizer Company Limited as at December 31, 2003 and the related profit and loss account, 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 above said 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with 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, 2003 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 the Central Zakat Fund established under section 7 of that Ordinance.

Dated: January 30, 2004  
Islamabad

  
A.F. Ferguson & Co.  
Chartered Accountants

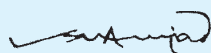
## Balance Sheet

|   | Note | 2003<br>(Rupees '000) | 2002       |
|---|------|-----------------------|------------|
| <b>SHARE CAPITAL AND RESERVES</b>         |      |                       |            |
| Share capital                             |      |                       |            |
| Authorised                                | 3    | 3,000,000             | 3,000,000  |
| Issued, subscribed and fully paid         | 3    | 2,564,959             | 2,564,959  |
| Capital reserve                           | 4    | 160,000               | 160,000    |
| Revenue reserves                          | 5    | 8,797,753             | 8,038,098  |
|   |      | 11,522,712            | 10,763,057 |
| REDEEMABLE CAPITAL                        | 6    | 3,730,650             | 4,420,014  |
| LONG TERM LOANS                           | 7    | 784,570               | 1,283,481  |
| DEFERRED TAXATION                         | 8    | 2,522,000             | 2,690,000  |
| <b>CURRENT LIABILITIES AND PROVISIONS</b> |      |                       |            |
| Current maturity                          |      |                       |            |
| Redeemable capital                        | 6    | 827,263               | 379,946    |
| Long term loans                           | 7    | 704,821               | 538,045    |
| Short term finances                       | 9    | 2,972,333             | 3,388,897  |
| Creditors, accrued and other liabilities  | 10   | 2,606,854             | 2,829,008  |
| Taxation                                  |      | 329,910               | 975,960    |
| Dividend payable                          |      | 833,612               | 641,240    |
| Proposed dividend                         |      | 384,743               | 256,496    |
|   |      | 8,659,536             | 9,009,592  |
| CONTINGENCIES AND COMMITMENTS             | 11   | –                     | –          |
|   |      | 27,219,468            | 28,166,144 |

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

## As at December 31, 2003

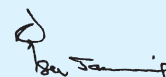
|   | Note | 2003<br>(Rupees '000) | 2002       |
|---|------|-----------------------|------------|
| <b>FIXED CAPITAL EXPENDITURE</b>                                |      |                       |            |
| Fixed assets  | 12   | 8,996,278             | 9,378,161  |
| Capital work in progress  | 13   | 140,259               | 138,313    |
|   |      | 9,136,537             | 9,516,474  |
| GOODWILL  | 14   | 1,883,079             | 1,987,694  |
| LONG TERM INVESTMENTS   | 15   | 7,083,151             | 7,077,892  |
| LONG TERM LOANS AND ADVANCES                                    | 16   | 63,920                | 50,137     |
| LONG TERM DEPOSITS, PREPAYMENTS<br>AND DEFERRED COSTS           | 17   | 125,511               | 128,495    |
| <b>CURRENT ASSETS</b>   |      |                       |            |
| Stores and spares   | 18   | 1,686,980             | 1,618,373  |
| Stock in trade  | 19   | 681,297               | 630,808    |
| Trade debts   | 20   | 1,876,381             | 1,400,893  |
| Loans, advances, deposits,<br>prepayments and other receivables | 21   | 647,619               | 1,068,419  |
| Short term investments  | 22   | 2,200,845             | 2,792,279  |
| Cash and bank balances  | 23   | 1,834,148             | 1,894,680  |
|   |      | 8,927,270             | 9,405,452  |
|   |      | 27,219,468            | 28,166,144 |



Chairman



Chief Executive



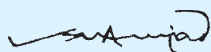
Director

## Profit and Loss Account

For the year ended December 31, 2003

|                                       | Note | 2003<br>(Rupees '000) | 2002       |
|---------------------------------------|------|-----------------------|------------|
| Sales                                 | 24   | 21,034,629            | 16,786,699 |
| Cost of goods sold                    | 25   | 13,701,319            | 10,109,117 |
| GROSS PROFIT                          |      | 7,333,310             | 6,677,582  |
| Selling and distribution expenses     | 26   | 1,851,170             | 1,457,797  |
| PROFIT FROM OPERATIONS                |      | 5,482,140             | 5,219,785  |
| Financial charges                     | 27   | 520,838               | 668,213    |
|                                       |      | 4,961,302             | 4,551,572  |
| Other Income                          | 28   | 457,413               | 783,922    |
|                                       |      | 5,418,715             | 5,335,494  |
| Other charges                         | 29   | 488,206               | 496,073    |
| NET PROFIT BEFORE TAXATION            |      | 4,930,509             | 4,839,421  |
| Provision for taxation                | 30   | 1,786,000             | 1,766,000  |
| NET PROFIT AFTER TAXATION             |      | 3,144,509             | 3,073,421  |
| Unappropriated profit brought forward |      | 218,203               | 253,246    |
| Profit available for appropriation    |      | 3,362,712             | 3,326,667  |
| APPROPRIATIONS:                       |      |                       |            |
| Transfer to general reserve           |      | 600,000               | 800,000    |
| Dividends:                            |      |                       |            |
| First interim @ 30% (2002: 25%)       |      | 769,488               | 641,240    |
| Second interim @ 22.5% (2002: 30%)    |      | 577,116               | 769,488    |
| Third interim @ 32.5% (2002: 25%)     |      | 833,612               | 641,240    |
| Proposed final @ 15% (2002: 10%)      |      | 384,743               | 256,496    |
|                                       |      | 2,564,959             | 2,308,464  |
|                                       |      | 3,164,959             | 3,108,464  |
| UNAPPROPRIATED PROFIT CARRIED FORWARD |      | 197,753               | 218,203    |
|                                       |      |                       |            |
|                                       |      | (Rupees)              |            |
| Earnings per share                    | 31   | 12.26                 | 11.98      |

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



Chairman



Chief Executive



Director

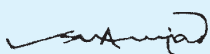


## Cash Flow Statement

For the year ended December 31, 2003

|  | Note | 2003<br>(Rupees '000) | 2002        |
|--|------|-----------------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |      |                       |             |
| Cash generated from operations                           | 33   | 5,177,554             | 7,006,070   |
| Payments for:  |      |                       |             |
| Financial charges  |      | (548,999)             | (565,571)   |
| Income tax   |      | (2,600,050)           | (1,715,123) |
| Net cash provided by operating activities                |      | 2,028,505             | 4,725,376   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>              |      |                       |             |
| Acquisition of PakSaudi Fertilizers Limited (PSFL)       |      | –                     | (8,237,731) |
| Fixed capital expenditure                                |      | (385,940)             | (363,917)   |
| Sale proceeds of fixed assets                            |      | 15,203                | 9,032       |
| Income received on loans, deposits and investments       |      | 471,520               | 825,614     |
| Decrease/(increase) in investments                       |      | 132,341               | (625,615)   |
| Investment in Fauji Fertilizer Bin Qasim Limited (FFBL)  |      | (750,000)             | –           |
| Revolving credit facility to FFBL                        |      | –                     | 750,000     |
| Net cash used in investing activities                    |      | (516,876)             | (7,642,617) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>              |      |                       |             |
| Redeemable capital - disbursements                       |      | 1,500,000             | 4,800,000   |
| - repayments   |      | (1,742,047)           | (40)        |
| Long term loans - disbursements                          |      | 205,910               | 1,280,000   |
| - repayments   |      | (224,083)             | (499,455)   |
| Short term finances                                      |      | (416,564)             | 1,499,486   |
| Dividends paid   |      | (2,260,303)           | (2,174,011) |
| Net cash (used in) / available from financing activities |      | (2,937,087)           | 4,905,980   |
| Net (decrease) / increase in cash and cash equivalents   |      | (1,425,458)           | 1,988,739   |
| Cash and cash equivalents at beginning of the year       |      | 4,465,580             | 2,270,358   |
| Cash and cash equivalents acquired on PSFL acquisition   |      | –                     | 207,271     |
| Effect of exchange rate changes                          |      | (228)                 | (788)       |
| Cash and cash equivalents at end of the year             | 34   | 3,039,894             | 4,465,580   |

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



Chairman



Chief Executive



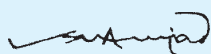
Director

## Statement of Changes in Equity

For the year ended December 31, 2003

|   | Share capital | Capital reserve | General reserve | Fair value adjustment | Unappropriated profit | Total       |
|---|---------------|-----------------|-----------------|-----------------------|-----------------------|-------------|
|   | (Rupees '000) |                 |                 |                       |                       |             |
| Balance at December 31, 2001  | 2,564,959     | 160,000         | 7,200,000       | (676,573)             | 253,246               | 9,501,632   |
| Unrealised gain on remeasurement of Foreign Exchange Risk Insurance contracts as at January 1, 2002 | -             | -               | -               | -                     | 1,075,270             | 1,075,270   |
| Unrealised loss on remeasurement of foreign currency loans and interest, as at January 1, 2002      | -             | -               | -               | -                     | (1,075,270)           | (1,075,270) |
| Net profit for the year ended December 31, 2002   | -             | -               | -               | -                     | 3,073,421             | 3,073,421   |
| Adjustment arising from remeasurement to fair value of investment in associated company             | -             | -               | -               | 496,468               | -                     | 496,468     |
| Transfer to general reserve   | -             | -               | 800,000         | -                     | (800,000)             | -           |
| Dividends   | -             | -               | -               | -                     | (2,308,464)           | (2,308,464) |
| Balance at December 31, 2002  | 2,564,959     | 160,000         | 8,000,000       | (180,105)             | 218,203               | 10,763,057  |
| Net profit for the year ended December 31, 2003   | -             | -               | -               | -                     | 3,144,509             | 3,144,509   |
| Reversal of fair value adjustment due to restatement of investment in subsidiary at cost            | -             | -               | -               | 180,105               | -                     | 180,105     |
| Transfer to general reserve   | -             | -               | 600,000         | -                     | (600,000)             | -           |
| Dividends   | -             | -               | -               | -                     | (2,564,959)           | (2,564,959) |
| Balance at December 31, 2003  | 2,564,959     | 160,000         | 8,600,000       | -                     | 197,753               | 11,522,712  |

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



Chairman



Chief Executive



Director

# Notes to the Financial Statements

For the year ended December 31, 2003

## 1. STATUS AND NATURE OF BUSINESS

- 1.1 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 stock exchanges in Pakistan. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers, including investment in other fertilizer manufacturing operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### 2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that identifiable assets and liabilities of PakSaudi Fertilizers Limited (PSFL) have been measured at their fair value on acquisition and investments available for sale are measured at their fair value.

### 2.3 Retirement benefits

The Company has the following plans for its employees:

- a) Defined benefit funded gratuity for all employees who complete qualifying period of service and age. Obligations of unfunded gratuity related to PSFL employees were transferred during the year to defined benefit funded gratuity fund.
- b) Defined contributory provident fund for all employees for which contributions are charged to income.
- c) Defined benefit funded pension for management 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 10.1 to the accounts. All contributions are charged to income for the year. The Actuarial gains/losses in excess of corridor (10% of higher of fair value of assets or present value of obligation) are recognised over the remaining service life of the employees.

The Company has the policy to encash accumulated 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.

### 2.4 Taxation

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

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements

## Notes to the Financial Statements

For the year ended December 31, 2003

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 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.

### 2.5 Fixed capital expenditure

Fixed assets, except freehold land and fixed assets acquired on PSFL amalgamation, are stated at cost less accumulated depreciation. Freehold land and capital work in progress are stated at cost. Fixed assets acquired on PSFL amalgamation are stated at their fair value on acquisition less accumulated depreciation.

Depreciation is provided on the straight-line method to write off the cost / fair value of an asset over its estimated useful life without taking into account any residual value. Full year's depreciation is charged on normal additions, while no depreciation is charged on items deleted during the year.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of assets, if any, are included in income currently.

### 2.6 Goodwill

On acquisition of an entity, difference between the purchase consideration and the fair value of the identifiable assets and liabilities acquired, is initially recognised as goodwill and amortised on a straight line basis over the estimated useful life of the acquired depreciable assets.

### 2.7 Investments

#### Investment in subsidiary

Investment in subsidiary is initially recorded at cost. At subsequent reporting dates, the recoverable amount is estimated in order to determine the extent of impairment loss, if any and carrying amount of investment is adjusted accordingly. Impairment loss is recognised as an expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of investment. A reversal of impairment loss is recognised in income.

During the year, the Company acquired 75 million additional shares of Fauji Fertilizer Bin Qasim Limited (FFBL) (formerly FFC-Jordan Fertilizer Company Limited) at par value of Rs 10 per share. As a result of this acquisition, the total holding of the Company in FFBL has been increased from 49.42% to 52.23% and status of FFBL has been changed from an associated company to a subsidiary company.

#### Investment in associated company

Investment in associated company is based on fair value method. Under the fair value method, such investments are initially recognised at cost and carried at their fair value at the balance sheet date. Fair value of investment is determined on the basis of its market value at the balance sheet date. Adjustment arising from remeasurement of investment to fair value is reflected through the statement of changes in equity and is taken to the profit and loss account on disposal of investment or when the investment is determined to be impaired.

# Notes to the Financial Statements

For the year ended December 31, 2003

## **Investments available for sale**

Investments available for sale are initially measured at cost and at subsequent reporting dates are measured at their fair value. Gains or losses from changes in fair values, including the component of the change that relates to changes in foreign exchange rates in respect of investments in foreign currency, are recognised in income.

## **Investments held to maturity**

Investments with fixed or determinable payments and fixed maturity, which the Company has the positive intent and ability to hold to maturity, are carried at amortised cost using the effective interest rate method less impairment losses, if so determined.

## **2.8 Deferred costs**

Initial fill of the catalysts in the ammonia plant is capitalised with plant and machinery whereas costs of subsequent replacement of such catalysts are deferred and amortised in equal instalments over their estimated useful lives.

## **2.9 Stores and spares**

These are valued at weighted average cost except for items in transit which are valued at invoice price and related expenses incurred upto the balance sheet date. For items which are slow moving and/or identified as surplus to the Company's requirement, a provision is made for excess of book value over estimated realisable value.

## **2.10 Stock in trade**

Stocks are valued at the lower of cost and net realisable value except for stock in transit which is valued at invoice price and related expenses incurred upto the balance sheet date.

Cost is determined as follows:

|                   |   |
|-------------------|---|
| Raw materials     | at weighted average cost                  |
| Work in process ) | at weighted average cost of purchases and |
| Finished goods )  | applicable manufacturing expenses         |

## **2.11 Rates of exchange**

Transactions in foreign currencies are recorded in the books at the rates of exchange ruling on the date of 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.

## **2.12 Revenue recognition**

Sales revenue is recognised at the time of despatch of goods to customers. Return on bank deposits and investments and interest on loans are accounted for on a time proportion basis using the applicable rate of return/ interest. Scrap sales and miscellaneous receipts are recognised on realised amounts. Commission on sale of subsidiary company's products is recognised when such products are sold on its behalf.

## **2.13 Borrowing costs**

Borrowing costs incurred upto the date of commencement of commercial production are capitalised. All other borrowing costs are recognised as an expense in the period in which these are incurred.

## **2.14 Provisions**

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

# Notes to the Financial Statements

For the year ended December 31, 2003

## 2.15 Basis of allocation of common expenses

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

## 2.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprises cash in hand, cash with banks on current, saving and deposit accounts, 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.

## 2.17 Related party transactions

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the Company to do so.

## 2.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to setoff the recognised amounts and the Company intends to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 2.19 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.

### a) Trade and other payables

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

### b) Trade and other receivables

Trade receivables and other receivables are recognised and carried at original invoice amount/cost less an allowance for any uncollectible amounts.

### c) Derivative financial instruments

Any gain or loss from remeasuring the hedging instrument at fair value is recognised in the profit and loss account.

### d) Cash and bank balances

Cash in hand and at banks are carried at cost.

## 3. SHARE CAPITAL

### AUTHORISED

This represents 300,000,000 (2002: 300,000,000) ordinary shares of Rs 10 each.

### ISSUED, SUBSCRIBED AND FULLY PAID IN CASH

This represents 256,495,902 (2002: 256,495,902) ordinary shares of Rs 10 each.

## Notes to the Financial Statements

For the year ended December 31, 2003

### 4. CAPITAL RESERVE

|                                       | 2003           | 2002           |
|---------------------------------------|----------------|----------------|
|                                       | (Rupees '000)  |                |
| Share premium - note 4.1              | 40,000         | 40,000         |
| Capital redemption reserve - note 4.2 | 120,000        | 120,000        |
|                                       | <u>160,000</u> | <u>160,000</u> |

#### 4.1 Share premium

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

#### 4.2 Capital redemption reserve

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

### 5. REVENUE RESERVES

|  | 2003             | 2002             |
|--|------------------|------------------|
|  | (Rupees '000)    |                  |
| General reserve  | 8,600,000        | 8,000,000        |
| Adjustment arising from remeasurement to fair value of investment in an associated company | –                | (180,105)        |
| Unappropriated profit  | 197,753          | 218,203          |
|  | <u>8,797,753</u> | <u>8,038,098</u> |

### 6. REDEEMABLE CAPITAL - Secured (non participatory)

Long term finances utilised under mark-up arrangements - note 6.1

|   |                  |                  |
|---|------------------|------------------|
| i) ABN Amro Bank - Syndicated 1 (ABN 1)               | 550,000          | 1,245,000        |
| ii) Muslim Commercial Bank Limited (MCB)              | 600,000          | 600,000          |
| iii) Faysal Bank Limited (FBL)                        | 208,333          | 250,000          |
| iv) National Bank of Pakistan (NBP)                   | 1,000,000        | 750,000          |
| v) Habib Bank Limited (HBL- 1)                        | 750,000          | –                |
| vi) Habib Bank Limited (HBL- 2)                       | 250,000          | –                |
| vii) United Bank Limited (UBL)                        | 250,000          | –                |
| viii) Askari Commercial Bank Limited (ACBL)           | –                | 300,000          |
| ix) Pak Libya Holding Company (Pvt.) Limited (PLHCL)  | –                | 50,000           |
| x) ABN Amro Bank - Syndicated 2 (ABN 2)               | –                | 655,000          |
|   | <u>3,608,333</u> | <u>3,850,000</u> |
| Term Finance Certificates (TFCs) - note 6.2           | 949,580          | 949,960          |
|   | <u>4,557,913</u> | <u>4,799,960</u> |
| Less: Current portion shown under current liabilities | 827,263          | 379,946          |
|   | <u>3,730,650</u> | <u>4,420,014</u> |

## Notes to the Financial Statements

For the year ended December 31, 2003

- 6.1** Long term finances were rescheduled in May 2003. Consequently, all the finances under ABN-1 except for balances due to ABN Amro Bank and Bank Alfalah Limited and finances under ABN-2 were prepaid alongwith bilateral facilities from Askari Commercial Bank Limited and Pak Libya Holding Company (Pvt.) Limited, while the mark-up on other finances was re-negotiated in favour of the Company. Terms and conditions of these finances are given below:

| Lender | Mark-up rate p.a. (%)            | No of half-yearly instalments outstanding | Date of final repayment |
|--------|----------------------------------|---|-------------------------|
| ABN 1  | 6 month Treasury Bill rate + 1.3 | 6   | May 29, 2007            |
| MCB    | 6 month Treasury Bill rate + 1.3 | 6   | May 30, 2007            |
| FBL    | 4.5                              | 5   | May 31, 2006            |
| NBP    | 6 month Treasury Bill rate+1.3   | 6   | May 29, 2007            |
| HBL-1  | 6 month Treasury Bill rate+1.3   | 8   | May 30, 2008            |
| HBL-2  | 6 month Treasury Bill rate+1.0   | 8   | January 1, 2008         |
| UBL    | 6 month Treasury Bill rate+1.0   | 8   | January 1, 2008         |

All the above finances are secured by an equitable mortgage on the assets of the Company and hypothecation of all assets including plant, machinery, tools and spares, and all other moveable properties situated at Goth Machhi including stocks and book debts ranking pari passu with each other and with long term loans.

- 6.2** Term Finance Certificates represent private placement to 3 institutional investors for periods ranging from 3 to 5 years. The annual rate of profit is State Bank of Pakistan discount rate plus 1.5% with a floor of 11% and cap of 16%. The principal amount of TFCs for 3 and 5 year tenure is to be repaid in 3 and 6 half-yearly instalments in arrears after a grace period of 18 months and 24 months respectively.

### 7. LONG TERM LOANS - Secured

|   | Balance outstanding |           | Annual interest rate % | Half-yearly equal instalments outstanding | Date of final repayment |
|---|---------------------|-----------|------------------------|---|-------------------------|
|   | 2003                | 2002      |                        |   |                         |
|   | (Rupees '000)       |           |                        |   |                         |
| Government of Pakistan loan - note 7.1                              |                     |           |                        |   |                         |
| 5th Danish credit   | 3,481               | 5,222     | 8.75                   | 4   | October 1, 2005         |
| Loans for plant expansion unit - note 7.2                           |                     |           |                        |   |                         |
| a) Asian Development Bank   |                     |           |                        |   |                         |
| 1003-PAK(PS)  | –                   | 98,702    | ADB rate +1.30         | –   | January 15, 2003        |
| b) American Express Bank Limited                                    |                     |           |                        |   |                         |
| Buyer's Credit  | –                   | 437,602   | 8.30                   | –   | March 28, 2003          |
|   | –                   | 536,304   |                        |   |                         |
| Loans for PSFL acquisition - note 7.3                               |                     |           |                        |   |                         |
| c) Citibank N.A   | 985,910             | 780,000   | 6 month LIBOR + 3.10   | On maturity                               | April 03, 2005          |
| d) ABN Amro Bank N.V.   | 500,000             | 500,000   | 3.00                   | On maturity                               | May 31, 2004            |
|   | 1,489,391           | 1,821,526 |                        |   |                         |
| Less: Amount payable within twelve months shown as current maturity | 704,821             | 538,045   |                        |   |                         |
|   | 784,570             | 1,283,481 |                        |   |                         |



# Notes to the Financial Statements

For the year ended December 31, 2003

## 7.1 Government of Pakistan loan

This loan represents the onlent proceeds of credit obtained by the Government of Pakistan from an international agency.

This loan was disbursed in foreign currency and is repayable in local currency. Disbursements have been determined for repayment in Rupees by translation at the rates of exchange prevailing on the respective dates of disbursement. Interest on loan also includes the Government's exchange risk commission. The loan is to be secured by a mortgage in favour of the Government of Pakistan over the Company's fixed assets.

## 7.2 Loans for plant expansion unit

These loans disbursed in foreign currency have been repaid during the year.

## 7.3 Loans for PSFL acquisition

These medium term loans have been obtained for acquisition of PSFL. Loan (c) represents US Dollar loan disbursed in Pak Rupees at the exchange rate prevailing on the date of disbursement and is secured against lien on Government of Pakistan Special US Dollar Bonds. The interest, payable half-yearly, as well as principal are to be repaid in equivalent amounts of local currency by applying the exchange rate prevailing on the respective payment dates. Loan (d) is secured against lien on Pakistan Investment Bonds.

## 8. DEFERRED TAXATION

The net balance for deferred taxation is in respect of following temporary differences:

|  | 2003             | 2002             |
|--|------------------|------------------|
|  | (Rupees '000)    |                  |
| Accelerated depreciation   | (108,000)        | (109,000)        |
| Provision for slow moving/surplus spares, doubtful debts, other receivables and short term investments | (79,000)         | (61,000)         |
| Measurement to fair value of PSFL acquired fixed assets  | 2,709,000        | 2,860,000        |
|  | <u>2,522,000</u> | <u>2,690,000</u> |
| <b>9. SHORT TERM FINANCES - Secured</b>  |                  |                  |
| Short term loan - note 9.1   | 600,000          | 1,355,000        |
| Short term running finance - note 9.2  | -                | 797,314          |
| Short term import credit - note 9.3  | 2,372,333        | 1,236,583        |
|  | <u>2,972,333</u> | <u>3,388,897</u> |

## 9.1 Short term loan

Short term loan facility available from a bank under mark-up arrangement amounted to Rs 600,000 thousand (2002: Rs 1,355,000 thousand), which is secured by pledge/lien on National Savings Certificates and hypothecation charge on assets of the Company. This facility carries mark-up at the rate of Re 0.071 (2002: Re 0.151 to Re 0.288) per Rs 1,000 per day.

## 9.2 Short term running finance

Short term running finance facilities available from various banks under mark-up arrangements amounted to Rs 3,250,000 thousand (2002: Rs 1,700,000 thousand) which represented the aggregate of sale prices of all mark-up agreements between the Company and the banks. These facilities are available upto June 30, 2004.

## Notes to the Financial Statements

For the year ended December 31, 2003

These facilities are secured by hypothecation of present and future current assets and fixed assets of the Company ranking pari passu in all respects with the first charge holders. The rates of mark-up are six month Treasury Bill +1.25 % per annum (2002: Re 0.219 to Re 0.322 per Rs 1,000 per day).

### 9.3 Short term import credit

Import credit facilities of Rs 2,372,333 thousand (2002: Rs 1,375,997 thousand) have been arranged from various banks under mark-up arrangements at six month LIBOR+1% to 1.10% and six month Treasury Bill+1.05% (2002: six month LIBOR+1.60% to 1.75%) per annum.

These facilities are secured against a second charge by way of hypothecation of present and future current assets and fixed assets of the Company.

| 10. CREDITORS, ACCRUED AND OTHER LIABILITIES       | 2003             | 2002             |
|--|------------------|------------------|
|  | (Rupees '000)    |                  |
| Creditors  | 249,474          | 555,671          |
| Accrued liabilities                                | 550,680          | 551,228          |
| Payable to retirement benefits funds - note 10.1   | 14,659           | 16,118           |
| Consignment account with FFBL                      | 183,685          | 336,809          |
| Other liabilities                                  | 12,780           | 15,093           |
| Sales tax payable                                  | 323,431          | 295,274          |
| Interest and related charges on redeemable capital | 51,602           | 109,002          |
| Interest and related charges accrued on loans      | 31,960           | 46,679           |
| Deposits   | 54,751           | 55,512           |
| Retention money                                    | 12,443           | 11,346           |
| Advances from customers                            | 444,550          | 139,191          |
| Workers' profit participation fund - note 10.2     | 265,499          | 290,115          |
| Workers' welfare fund                              | 367,131          | 346,798          |
| Unclaimed dividend                                 | 44,209           | 60,172           |
|  | <u>2,606,854</u> | <u>2,829,008</u> |

### 10.1 Payable to retirement benefits funds

#### a) Movement in the asset / (liability) recognised in the balance sheet

|                                      | Funded gratuity | Un-funded gratuity | Funded pension | Total 2003    | Total 2002    |
|--------------------------------------|-----------------|--------------------|----------------|---------------|---------------|
|                                      | (Rupees '000)   |                    |                |               |               |
| Balance at the beginning of the year | 2,555           | 13,431             | 132            | 16,118        | –             |
| Expense for the year                 | 23,549          | 1,056              | 18,615         | 43,220        | 55,932        |
| Inter-transfer*                      | 14,487          | (14,487)           | –              | –             | –             |
| Payments to funds during the year    | (25,932)        | –                  | (21,053)       | (46,985)      | (39,814)      |
| Balance at the end of the year       | <u>14,659</u>   | <u>–</u>           | <u>(2,306)</u> | <u>12,353</u> | <u>16,118</u> |
|                                      | (note 10)       |                    | (note 21)      |               | (note 10)     |

\* Inter-transfer represents transfer of unfunded gratuity obligation related to former PSFL employees.

## Notes to the Financial Statements

For the year ended December 31, 2003

### b) Reconciliation of the liability recognised in the balance sheet

|   | Funded<br>gratuity | Funded<br>pension<br>(Rupees '000) | Total<br>2003 | Total<br>2002 |
|---|--------------------|------------------------------------|---------------|---------------|
| Present value of defined benefit obligation | 421,903            | 450,833                            | 872,736       | 667,119       |
| Fair value of plan assets                   | (370,679)          | (404,303)                          | (774,982)     | (625,350)     |
| Deficit                                     | 51,224             | 46,530                             | 97,754        | 41,769        |
| Unrecognised actuarial loss                 | (36,565)           | (48,836)                           | (85,401)      | (25,651)      |
| Net liability / (asset)                     | 14,659             | (2,306)                            | 12,353        | 16,118        |

### c) The following amounts have been charged to the profit and loss account during the current year in respect of these schemes

|   | Funded<br>gratuity | Funded<br>pension<br>(Rupees '000) | Total<br>2003 | Total<br>2002 |
|---|--------------------|------------------------------------|---------------|---------------|
| Current service cost                      | 22,071             | 18,722                             | 40,793        | 38,397        |
| Interest cost                             | 30,669             | 29,896                             | 60,565        | 52,235        |
| Expected return on plan assets            | (28,135)           | (30,003)                           | (58,138)      | (46,761)      |
| Actuarial loss recognised during the year | –                  | –                                  | –             | 734           |
| Transition obligation                     | –                  | –                                  | –             | 11,327        |
| Expense for the year                      | 24,605             | 18,615                             | 43,220        | 55,932        |
| Actual return on plan assets              | 32,388             | 44,235                             | 76,623        | 84,100        |

### d) Actuarial valuation of these plans was carried out as at December 31, 2003 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

|   |           | 2003     |         | 2002     |         |
|---|-----------|----------|---------|----------|---------|
|   |           | Gratuity | Pension | Gratuity | Pension |
| Discount factor                           | per annum | 7%       | 7%      | 9%       | 9%      |
| Expected rate of increase in salary level | per annum | 11-12%   | 12%     | 9%       | 9%      |
| Expected rate of return on plan assets    | per annum | 8%       | 8%      | 9%       | 9%      |

### e) "Salaries, wages and benefits" expense, stated in note 25 and 26 include retirement benefits of Rs 65,228 thousand (2002: Rs 82,484 thousand) in respect of gratuity, provident fund and pension plans and compensated absences.

## Notes to the Financial Statements

For the year ended December 31, 2003

|   | 2003          | 2002      |
|---|---------------|-----------|
|   | (Rupees '000) |           |
| <b>10.2 Workers' profit participation fund</b>  |               |           |
| Balance at the beginning of the year  | 290,115       | 301,521   |
| Interest on funds utilised in Company's business  | –             | 254       |
| Allocation for the year   | 265,499       | 261,307   |
| Payment to the Fund during the year   | (290,115)     | (272,967) |
|   | 265,499       | 290,115   |
| <b>11. CONTINGENCIES AND COMMITMENTS</b>  |               |           |
| <b>a) Contingencies</b>   |               |           |
| <b>i)</b> Guarantees issued by banks on behalf of the Company.  | 15,659        | 14,020    |
| <b>ii)</b> Demand in respect of import of duty-free first charge catalysts for the expansion unit, which matter has been decided in favour of the Company by the High Court of Sindh. This issue is currently pending in the Supreme Court on appeal filed by the Customs authorities.  | 179,000       | 179,000   |
| <b>iii)</b> Disputed demand 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. | 295,590       | 295,590   |
| <b>iv)</b> Income tax demands, not acknowledged as debt, have been challenged by the Company and are currently in appeal; the Company expects favourable outcome of appeal.   | 310,000       | –         |
| <b>v)</b> Claims against the Company and/or potential exposure not acknowledged as debt.  | 48,345        | 42,175    |
| <b>b) Commitments in respect of:</b>  |               |           |
| <b>i)</b> Capital expenditure.  | 507,886       | 401,111   |
| <b>ii)</b> Purchase of fertilizer, stores, spares and other revenue items.  | 182,266       | 188,309   |
| <b>iii)</b> Equity investment in FFBL as one of the co-sponsors.  | –             | 750,000   |

## Notes to the Financial Statements

For the year ended December 31, 2003

|  | 2003          | 2002   |
|--|---------------|--------|
|  | (Rupees '000) |        |
| <b>iv) Rentals under lease agreements:</b>             |               |        |
| Premises - not later than one year                     | 48,285        | 29,540 |
| - later than one year and<br>not later than five years |               |        |
| 2005   | 16,499        | 11,652 |
| 2006   | 12,600        | 10,822 |
| 2007   | 12,574        | 12,039 |
| 2008   | 12,984        | 12,445 |
| - later than five years                                | 29,868        | -      |
| Vehicles - not later than one year                     | 40,930        | 20,849 |
| - later than one year and<br>not later than five years |               |        |
| 2005   | 44,712        | 24,938 |
| 2006   | 43,140        | 23,222 |
| 2007   | 33,889        | 13,421 |
| 2008   | 22,477        | 2,576  |
| - later than five years                                | 10,761        | -      |

## Notes to the Financial Statements

For the year ended December 31, 2003

### 12. FIXED ASSETS

#### 12.1 The following is a statement of operating assets

|   | C O S T                     |                           |                               | D E P R E C I A T I O N     |                                 |                               | Written down<br>value as at<br>December 31,<br>2003 | Annual rate of<br>depreciation<br>% on cost |
|---|-----------------------------|---------------------------|-------------------------------|-----------------------------|---------------------------------|-------------------------------|---|---|
|   | As at<br>January 1,<br>2003 | Additions/<br>(disposals) | As at<br>December 31,<br>2003 | As at<br>January 1,<br>2003 | For the year/<br>(on disposals) | As at<br>December 31,<br>2003 |   |   |
| Freehold land   | 163,492                     | 8,938                     | 172,430                       | -                           | -                               | -                             | 172,430   | -   |
| Leasehold land  | 82,400                      | -                         | 82,400                        | 5,150                       | 5,150                           | 10,300                        | 72,100  | 6 1/4                                       |
| Buildings and structures<br>on freehold land            | 1,523,565                   | 50,059                    | 1,573,624                     | 909,155                     | 65,703                          | 974,858                       | 598,766   | 5 to 10                                     |
| Buildings and structures<br>on leasehold land           | 42,150                      | -                         | 42,150                        | 40,215                      | 108                             | 40,323                        | 1,827   | 5   |
| Railway siding  | 26,517                      | -                         | 26,517                        | 26,415                      | 26                              | 26,441                        | 76  | 5   |
| Plant and machinery                                     | 18,287,890                  | 175,613                   | 18,463,503                    | 9,953,817                   | 601,085                         | 10,554,902                    | 7,908,601   | 5   |
| Furniture, fixtures,<br>office and electrical equipment | 177,831                     | 42,239<br>(4,364)         | 215,706                       | 121,986                     | 19,134<br>(2,314)               | 138,806                       | 76,900  | 10 to 15                                    |
| Vehicles  | 180,926                     | 45,637<br>(37,978)        | 188,585                       | 129,740                     | 26,805<br>(35,869)              | 120,676                       | 67,909  | 20  |
| Maintenance and other equipment                         | 456,432                     | 60,413<br>(1,478)         | 515,367                       | 377,253                     | 42,884<br>(1,415)               | 418,722                       | 96,645  | 15 to 33 1/3                                |
| Library books   | 5,398                       | 1,095                     | 6,493                         | 4,709                       | 760                             | 5,469                         | 1,024   | 30  |
| 2003  | 20,946,601                  | 383,994<br>(43,820)       | 21,286,775                    | 11,568,440                  | 761,655<br>(39,598)             | 12,290,497                    | 8,996,278   |   |
| 2002  | 11,797,291                  | 9,171,599<br>(22,289)     | 20,946,601                    | 10,285,981                  | 1,302,169<br>(19,710)           | 11,568,440                    | 9,378,161   |   |

**12.2** Cost of fixed assets has been shown net of Government grant of Rs 68,164 thousand (2002: Rs 68,164 thousand).

**12.3** Additions include Rs Nil (2002: Rs 8,928,656 thousand) representing fair value of PSFL assets acquired.

**12.4** The Company has changed its annual depreciation rate for plant and machinery from 10% to 5% effective January 1, 2003 due to change in estimate of useful life as determined by independent valuers. Had the rate of depreciation not been changed, the profit for the year ended December 31, 2003 would have been lower by Rs 454,031 thousand.

## Notes to the Financial Statements

For the year ended December 31, 2003

### 12.5 DETAILS OF FIXED ASSETS SOLD

| Description                      | Cost  | Book value<br>(Rupees '000) | Sale proceeds |
|----------------------------------|-------|-----------------------------|---------------|
| VEHICLES                         |       |                             |               |
| By Company policy to executives  |       |                             |               |
| Mr. A.A. Baqi                    | 515   | –                           | 191           |
| Mr. Abdul Hameed Lodhi           | 507   | –                           | 166           |
| Mr. Afzaal A. Shamsi             | 676   | –                           | 307           |
| Lt. Col. Amangir Khan (Retired)  | 746   | 298                         | 350           |
| Lt. Gen. Amjad Shuaib (Retired)  | 1,112 | 445                         | 278           |
| Mr. Anjum Baig                   | 386   | –                           | 101           |
| Mr. Arif Jamal                   | 501   | –                           | 216           |
| Mr. Asif Hayat Khan Niazi        | 678   | 136                         | 290           |
| Mr. Asif Kamal                   | 600   | –                           | 196           |
| Mr. Asif Mohy-ud-Din             | 600   | –                           | 196           |
| Mr. Aurangzeb                    | 596   | 119                         | 212           |
| Mr. Aziz -ur-Rehman Mian         | 671   | 134                         | 275           |
| Mr. Bashir Azher                 | 386   | –                           | 101           |
| Mr. Farzand Ali                  | 662   | –                           | 198           |
| Dr. I.I.Kazami                   | 501   | –                           | 216           |
| Mr. Israr-ul-Haq                 | 617   | 123                         | 229           |
| Mr. Khalil Ahmed Khan            | 571   | –                           | 220           |
| Mr. Liaquat Ali Khan             | 386   | –                           | 101           |
| Lt. Col. Mahmud Ahmed (Retired)  | 599   | –                           | 60            |
| Mr. Majid Hanif                  | 501   | –                           | 216           |
| Mr. Masroor Ali                  | 501   | –                           | 216           |
| Mian Sahib Dino                  | 642   | –                           | 186           |
| Mr. Moazzam Ali Babar            | 600   | –                           | 196           |
| Mr. Muazzam Sultan Mir           | 758   | –                           | 127           |
| Mr. Muhammad Ajmal               | 621   | –                           | 214           |
| Ch. Muhammad Anwar               | 501   | –                           | 216           |
| Mr. Muhammad Asaf Jah            | 501   | –                           | 131           |
| Mr. Muhammad Ijaz Butt           | 665   | –                           | 174           |
| Mr. Muhammad Jamil               | 555   | –                           | 270           |
| Mr. Muhammad Jamil Ashraf        | 642   | –                           | 192           |
| Mr. Muhammad Munir Malik         | 612   | –                           | 200           |
| Mr. Muhammad Sabir               | 636   | –                           | 208           |
| Brig. Muhammad Shabbir (Retired) | 868   | 174                         | 217           |
| Mr. Muhammad Shakil              | 501   | –                           | 216           |
| Mr. Muhammad Tayyab              | 597   | –                           | 204           |
| Mr. Najib Afzal                  | 501   | –                           | 131           |
| Mr. Naoman Yousaf                | 636   | –                           | 209           |
| Mr. Naveed Ahmed                 | 386   | –                           | 101           |
| Mr. Obaid Ullah Khakwani         | 501   | –                           | 216           |
| Mr. Pervez Fateh                 | 386   | –                           | 101           |
| Captain Pervez Ishaq (Retired)   | 515   | –                           | 135           |

## Notes to the Financial Statements

For the year ended December 31, 2003

| Description                                 | Cost | Book value<br>(Rupees '000) | Sale proceeds |
|---|------|-----------------------------|---------------|
| By Company policy to executives             |      |                             |               |
| Rao Muhammad Iqbal Khan                     | 636  | –                           | 208           |
| Mr. Riaz Shakir                             | 386  | –                           | 101           |
| Syed Muhammad Iqbal Bukhari                 | 600  | –                           | 196           |
| Mr. Saeed A. Abbasi                         | 501  | –                           | 131           |
| Mr. Saghir Hussain Jafri                    | 665  | –                           | 200           |
| Mr. Sajjad Ur Rehman                        | 662  | –                           | 197           |
| Mr. Saleem Shahid                           | 597  | –                           | 197           |
| Mr. Shafaat Ali Khan                        | 621  | –                           | 203           |
| Mr. Shahid Hassan                           | 501  | –                           | 216           |
| Dr. Shaukat Majeed                          | 676  | –                           | 307           |
| Syed Arshad Farid Hasnu                     | 605  | –                           | 198           |
| Syed Eijaz Murtaza Bukhari                  | 621  | –                           | 203           |
| Syed Shahid Hussain                         | 621  | –                           | 203           |
| Captain Syed Shahid Hussain Rizvi (Retired) | 605  | –                           | 198           |
| Mr. Tanveer Hassan                          | 386  | –                           | 101           |
| Mr. Tanveer Waqar                           | 501  | –                           | 131           |
| Brig. Umair Ahmed (Retired)                 | 863  | 173                         | 216           |
| Mr. Waqar Ahmed                             | 501  | –                           | 216           |
| Mr. Waseem Zafar                            | 665  | –                           | 200           |
| Lt. Col. Zafar Ali (Retired)                | 707  | 283                         | 177           |
| Mr. Zafar Manzoor                           | 501  | –                           | 216           |
| Mr. Zaheer Anwar                            | 386  | –                           | 101           |
| Lt. Col. Zia Ur Rehman Lodhi (Retired)      | 635  | –                           | 85            |
| By tender to Company employee               |      |                             |               |
| Mr. Mamrez Khan                             | 27   | –                           | 22            |
| By tender to outsider                       |      |                             |               |
| Mr. Pir ur Rehman                           | 329  | –                           | 272           |
| By Insurance claim                          |      |                             |               |
| EFU Insurance Company                       | 250  | 225                         | 105           |



## Notes to the Financial Statements

For the year ended December 31, 2003

| Description   | Cost  | Book value<br>(Rupees '000) | Sale proceeds |
|---|-------|-----------------------------|---------------|
| <b>FURNITURE, FIXTURES, OFFICE AND ELECTRICAL EQUIPMENT</b> |       |                             |               |
| By Company policy to executives                             |       |                             |               |
| Mr. Abdul Momin   | 98    | 30                          | 30            |
| Mr. Abid Maqbool  | 101   | 37                          | 37            |
| Mr. Aijaz Butt  | 15    | 8                           | 8             |
| Lt. Col. Amangir Khan (Retired)                             | 95    | 29                          | 29            |
| Lt. Gen. Amjad Shuaib (Retired)                             | 308   | 184                         | 184           |
| Mr. Asad Sultan Ch.   | 9     | 4                           | 4             |
| Mr. Azhar Hussain Shirazi                                   | 23    | 2                           | 2             |
| Syed Ejaz Murtaza Bokhari                                   | 31    | 3                           | 3             |
| Mr. Farooq Ansari   | 12    | 3                           | 3             |
| Mr. Fazil Ahad Khan   | 20    | 8                           | 8             |
| Col. Ghulam Sarwar (Retired)                                | 43    | 16                          | 16            |
| Mr. Iftikhar Hussain  | 37    | 9                           | 9             |
| Lt. Col. Javed Akber (Retired)                              | 31    | 18                          | 18            |
| Mr. Khalid Mahmood  | 60    | 12                          | 12            |
| Mr. Khaliq Ur Rehman  | 54    | 10                          | 10            |
| Lt. Col. Mahmud Ahmed (Retired)                             | 88    | 76                          | 76            |
| Mr. Muhammad Munir Malik                                    | 9     | 4                           | 4             |
| Mr. Muhammad Sabir  | 33    | 8                           | 8             |
| Dr. Muhammad Sadiq  | 101   | 20                          | 20            |
| Mr. Muhammad Shuaib   | 55    | 7                           | 7             |
| Mr. Muhammad Tariq  | 24    | 6                           | 6             |
| Mr. Riaz Ahmed  | 26    | 3                           | 3             |
| Mr. Riaz Mahmood  | 25    | 6                           | 6             |
| Mrs. Sadia Malik  | 2     | 2                           | 2             |
| Mr. Saleem Shahid   | 38    | 13                          | 13            |
| Mr. Saulat Hussain  | 74    | 23                          | 23            |
| Mr. Shafaat Ali Khan  | 26    | 3                           | 3             |
| Mr. Sohail Afzal Kayani                                     | 27    | 3                           | 3             |
| Syed Shahid Hussain   | 92    | 24                          | 24            |
| Mr. Waqar Abbas   | 26    | 6                           | 6             |
| Lt. Col. Zafar Ali (Retired)                                | 20    | 10                          | 10            |
| Mr. Zia Mahmood Minhas                                      | 20    | 8                           | 8             |
| Major Zia Ullah Raja (Retired)                              | 42    | 10                          | 10            |
| Lt. Col. Zia-ur-Rehman Lodhi (Retired)                      | 20    | 18                          | 18            |
| By Company policy to six executives                         |       |                             |               |
| Items having Nil book value                                 | 185   | —                           | —             |
| By tender to outsider                                       |       |                             |               |
| Mr. Muhammad Sharif   | 607   | 8                           | 8             |
| By Insurance Claim  |       |                             |               |
| EFU Insurance Company                                       | 1,632 | 1,482                       | 1,514         |

## Notes to the Financial Statements

For the year ended December 31, 2003

|   | 2003             | 2002             |
|---|------------------|------------------|
|   | (Rupees '000)    |                  |
| <b>13. CAPITAL WORK IN PROGRESS</b>   |                  |                  |
| Civil works   | 61,010           | 11,615           |
| Plant, machinery and equipment  | 79,249           | 126,698          |
|   | <u>140,259</u>   | <u>138,313</u>   |
| <b>14. GOODWILL</b>   |                  |                  |
| Balance at beginning of the year  | 1,987,694        | –                |
| Purchase consideration for acquisition of PSFL (paid in cash)   | –                | 8,237,731        |
| Less: Fair value of identifiable assets and liabilities of PSFL acquired, excluding deferred tax impact                                       | –                | <u>9,147,422</u> |
|   |                  | <u>(909,691)</u> |
| Less: Deferred tax liability related to taxable temporary differences between carrying value of fixed assets and the tax base of these assets | –                | 3,002,000        |
| Goodwill  | –                | 2,092,309        |
| Less: Amortisation for the year - note 29   | 104,615          | 104,615          |
|   | <u>1,883,079</u> | <u>1,987,694</u> |

Goodwill amount is amortised on a straight line basis over the estimated useful life of the acquired depreciable assets, with reversal of related deferred tax liability.

|   | 2003             | 2002             |
|---|------------------|------------------|
|   | (Rupees '000)    |                  |
| <b>15. LONG TERM INVESTMENTS</b>  |                  |                  |
| Investment in subsidiary - note 15.1<br>Fauji Fertilizer Bin Qasim Limited (FFBL) | 4,572,225        | 4,002,330        |
| Adjustment arising from remeasurement to fair value                               | –                | (180,105)        |
| Reversal of fair value adjustment due to restatement of investment at cost        | 180,105          | –                |
|   | <u>4,752,330</u> | <u>3,822,225</u> |
| Investments available for sale - note 15.2  |                  |                  |
| Term deposits   | 250,218          | 250,225          |
| Government of Pakistan Special US Dollar Bonds                                    | 1,138,202        | 1,155,572        |
| National Savings Certificates   | 1,000,000        | 1,000,000        |
|   | <u>2,388,420</u> | <u>2,405,797</u> |
| Investments held to maturity - note 15.3  |                  |                  |
| Pakistan Investment Bonds   | 700,000          | 700,000          |
| Term Finance Certificates   | 148,380          | 149,930          |
|   | <u>848,380</u>   | <u>849,930</u>   |
|   | <u>7,989,130</u> | <u>7,077,952</u> |
| Less:   |                  |                  |
| Maturing within twelve months shown under current assets - note 22                |                  |                  |
| Term deposits   | 76,746           | –                |
| Government of Pakistan Special US Dollar Bonds                                    | 201,208          | –                |
| National Savings Certificates   | 500,000          | –                |
| Term Finance Certificates   | 128,025          | 60               |
|   | <u>905,979</u>   | <u>60</u>        |
|   | <u>7,083,151</u> | <u>7,077,892</u> |

## Notes to the Financial Statements

For the year ended December 31, 2003

### 15.1 Investment in subsidiary - Quoted

Investment in subsidiary represents 475,233 thousand (2002: 400,233 thousand) fully paid ordinary shares of Rs 10 each representing 52.23% of FFBL share capital as at December 31, 2003 (2002: 49.42%). The market value of the Company's investment as at December 31, 2003 was Rs 8,364,101 thousand (2002: Rs 3,822,225 thousand), whereas value based on net assets as per audited accounts as at December 31, 2003 was Rs 3,137,756 thousand (2002: Rs 1,881,276 thousand).

### 15.2 Investments available for sale

Term deposits are placed with banks and financial institutions for periods ranging from two to five years at profit rates ranging from 11% to 15% per annum.

Government of Pakistan Special US Dollar Bonds have been issued for a period of three years. Profit is payable on these bonds at a rate of 2% above six month LIBOR.

National Savings Certificates have been issued for 5 years. Monthly profit is payable on these certificates at the rates ranging from 14% to 16% per annum.

Investments available for sale include Rs 2,124,416 thousand (2002: Rs 2,184,621 thousand) under lien of financial institutions against long term loans for PSFL acquisition and short term loans.

### 15.3 Investments held to maturity

Based on the intentions and ability to hold till maturity, investment in Pakistan Investment Bonds (PIB) and Term Finance Certificates (TFC), have been re-classified as investment held to maturity.

PIBs have been issued for 5 to 10 years. Half-yearly profit is payable on these bonds at rates ranging from 11% to 14% per annum. These include Rs 500,000 thousand (2002: Rs 700,000 thousand) under lien of a bank against loan for PSFL acquisition. Fair value of these PIBs as at December 31, 2003 was Rs 964,825 thousand (2002: Rs 1,062,308 thousand).

Investment in TFC represents 1,000 certificates of Rs 100,000 each of Pak Arab Refinery Company Limited and 500 certificates of Rs 100,000 each of Orix Leasing Limited. Half yearly profit is payable on these TFCs ranging from 13% to 14% per annum. Fair value of TFCs of Pak Arab Refinery Company Limited and Orix Leasing Limited was Rs 108,643 thousand and Rs 53,461 thousand (2002: Rs 111,361 thousand and Rs 55,971 thousand) respectively.

## Notes to the Financial Statements

For the year ended December 31, 2003

|   | 2003          | 2002          |
|---|---------------|---------------|
|   | (Rupees '000) |               |
| <b>16. LONG TERM LOANS AND ADVANCES</b>                                     |               |               |
| Loans and advances, considered good, to:                                    |               |               |
| Chief executive   | –             | 97            |
| Executives  | 80,105        | 60,900        |
| Other employees   | 15,142        | 15,532        |
|   | <u>95,247</u> | <u>76,529</u> |
| Less: Amount due within twelve months, shown under current assets - note 21 | 31,327        | 26,392        |
|   | <u>63,920</u> | <u>50,137</u> |

These represent secured loans for house building, house rent advances and advances pursuant to agreement with workers which are repayable within one to ten years. Mark-up ranging between 4% to 6% per annum was charged on loans for house building during the year. Loans amounting to Rs 34,768 thousand (2002: Rs 18,171 thousand) were outstanding for more than three years.

Advance to the Chief executive was in respect of house rent advance paid on his behalf and the maximum amount outstanding at the end of any month during the year was Rs 65 thousand (2002: Rs 390 thousand).

The maximum amount of advances to executives outstanding at the end of any month during the year was Rs 83,299 thousand (2002: Rs 65,793 thousand).

|   | 2003             | 2002             |
|---|------------------|------------------|
|   | (Rupees '000)    |                  |
| <b>17. LONG TERM DEPOSITS, PREPAYMENTS AND DEFERRED COSTS</b> |                  |                  |
| Deposits  | 1,872            | 2,102            |
| Prepayments   | 1,168            | 828              |
| Deferred costs:   |                  |                  |
| Catalysts   | 207,834          | 226,469          |
| Less: Amortisation  | 85,363           | 100,904          |
|   | <u>122,471</u>   | <u>125,565</u>   |
|   | <u>125,511</u>   | <u>128,495</u>   |
| <b>18. STORES AND SPARES</b>                                  |                  |                  |
| Stores  | 65,442           | 112,509          |
| Spares  | 1,683,775        | 1,572,830        |
| Provision for slow moving and surplus items                   | (203,226)        | (151,725)        |
|   | <u>1,480,549</u> | <u>1,421,105</u> |
| Loose tools   | 305              | 164              |
| Items in transit  | 140,684          | 84,595           |
|   | <u>1,686,980</u> | <u>1,618,373</u> |

## Notes to the Financial Statements

For the year ended December 31, 2003

|                              | 2003             | 2002             |
|------------------------------|------------------|------------------|
|                              | (Rupees '000)    |                  |
| <b>19. STOCK IN TRADE</b>    |                  |                  |
| Raw materials                | 14,749           | 29,425           |
| Work in process              | 21,410           | 12,312           |
| Finished goods:              |                  |                  |
| Manufactured urea            | 542,436          | 365,250          |
| Purchased fertilizers        | 102,702          | 223,821          |
|                              | <u>681,297</u>   | <u>630,808</u>   |
| <b>20. TRADE DEBTS</b>       |                  |                  |
| Considered good - secured    | 1,586,799        | 1,343,529        |
| - unsecured - note 20.1      | 289,582          | 57,364           |
| Considered doubtful          | 2,059            | 2,188            |
|                              | <u>1,878,440</u> | <u>1,403,081</u> |
| Provision for doubtful debts | (2,059)          | (2,188)          |
|                              | <u>1,876,381</u> | <u>1,400,893</u> |

**20.1** This includes Rs. 18,162 thousand (2002: Rs. 1,189 thousand) due from Fauji Foundation, an associated undertaking. The maximum amount outstanding at the end of any month during the year was Rs 20,276 thousand (2002: Rs 34,465 thousand).

|   | 2003           | 2002             |
|---|----------------|------------------|
|   | (Rupees '000)  |                  |
| <b>21. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>                                     |                |                  |
| Current portion of long term loans and advances   | 31,327         | 26,392           |
| Advances to suppliers, considered good  | 32,655         | 33,741           |
| Deposits  | 2,750          | 1,784            |
| Prepayments   | 20,361         | 20,472           |
| Accrued income on investments and bank deposits   | 43,680         | 115,581          |
| Foreign Exchange Risk Insurance (FERI) Contract   | -              | 320,749          |
| Income Tax recoverable  | 476,489        | 476,489          |
| Receivable from retirement benefit fund - note 10.1   | 2,306          | -                |
| Other receivables (net of provision for doubtful receivables of Rs 6,442 thousand; 2002: Rs 6,442 thousand) | 38,051         | 73,211           |
|   | <u>647,619</u> | <u>1,068,419</u> |

## Notes to the Financial Statements

For the year ended December 31, 2003

|   | 2003             | 2002             |
|---|------------------|------------------|
|   | (Rupees '000)    |                  |
| <b>22. SHORT TERM INVESTMENTS</b>   |                  |                  |
| Term deposits with banks and financial institutions                                   |                  |                  |
| Local currency  |                  |                  |
| (net of provision for doubtful recovery Rs 13,000 thousand; 2002: Rs 13,000 thousand) | 1,200,000        | 2,691,001        |
| Foreign currency  | 94,866           | 101,218          |
| Current maturity of long term investments   | 905,979          | 60               |
|   | <b>2,200,845</b> | <b>2,792,279</b> |
| <b>23. CASH AND BANK BALANCES</b>   |                  |                  |
| At banks:   |                  |                  |
| Deposit accounts  |                  |                  |
| Local currency  | 810,813          | 1,002,873        |
| Foreign currency  | 297              | 458              |
| Current accounts  |                  |                  |
| Local currency  | (20,934)         | (929)            |
| (includes drafts under collection)  |                  |                  |
| Foreign currency  | 15,321           | 14,789           |
|   | <b>805,497</b>   | <b>1,017,191</b> |
| Drafts in hand and in transit   | 1,027,324        | 876,217          |
| Cash in hand  | 1,327            | 1,272            |
|   | <b>1,834,148</b> | <b>1,894,680</b> |

Balances with banks include Rs 54,751 thousand (2002: Rs 55,512 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 15,000 thousand (2002: Rs Nil) under lien of the bank against a guarantee issued by the bank on behalf of the Company.

### 24. SALES

Sales include Rs 5,760,207 thousand (2002: Rs 3,739,693 thousand) in respect of sale of purchased fertilizers and are exclusive of commission, trade allowances and sales tax of Rs 178,618 thousand, Rs 291,032 thousand and Rs 2,942,963 thousand respectively (2002: Rs 104,447 thousand, Rs 353,784 thousand and Rs 2,282,330 thousand).

### 25. COST OF GOODS SOLD

|  | 2003              | 2002              |
|--|-------------------|-------------------|
|  | (Rupees '000)     |                   |
| Raw materials consumed   | 3,448,489         | 2,150,221         |
| Fuel and power   | 2,304,140         | 1,791,388         |
| Chemicals and supplies   | 105,663           | 80,860            |
| Salaries, wages and benefits   | 1,058,258         | 871,473           |
| Rent, rates and taxes  | 8,461             | 6,952             |
| Insurance  | 84,060            | 74,077            |
| Technical services   | 13,920            | 10,919            |
| Travel and conveyance  | 68,740            | 43,818            |
| Repairs and maintenance (includes stores and spares consumed Rs 421,453 thousand; 2002: Rs 235,823 thousand) | 547,321           | 275,994           |
| Amortisation of deferred costs   | 85,363            | 100,904           |
| Depreciation   | 744,503           | 1,286,200         |
| Communication, establishment and other expenses  | 327,029           | 214,554           |
| Provision for slow moving and surplus spares   | 51,501            | 18,685            |
| Opening stock - work in process  | 12,312            | 15,668            |
| Closing stock - work in process  | (21,410)          | (12,312)          |
| Cost of goods manufactured   | <b>8,838,350</b>  | <b>6,929,401</b>  |
| Opening stock - manufactured urea  | 365,250           | 244,821           |
| - purchased fertilizers  | 223,821           | 224,354           |
| Purchase of fertilizers for resale   | 4,919,036         | 3,299,612         |
|  | <b>14,346,457</b> | <b>10,698,188</b> |
| Closing stock - manufactured urea  | (542,436)         | (365,250)         |
| - purchased fertilizers  | (102,702)         | (223,821)         |
|  | <b>13,701,319</b> | <b>10,109,117</b> |

## Notes to the Financial Statements

For the year ended December 31, 2003

|  | 2003             | 2002             |
|--|------------------|------------------|
|  | (Rupees '000)    |                  |
| <b>26. SELLING AND DISTRIBUTION EXPENSES</b>   |                  |                  |
| Product transportation   | 1,324,020        | 1,026,000        |
| Salaries, wages and benefits   | 293,225          | 227,781          |
| Rent, rates and taxes  | 52,501           | 35,814           |
| Insurance  | 1,042            | 2,256            |
| Technical services to farmers  | 2,461            | 1,902            |
| Travel and conveyance  | 41,892           | 31,827           |
| Sale promotion and advertising   | 45,412           | 48,668           |
| Communication, establishment and other expenses  | 25,517           | 33,084           |
| Warehousing expenses   | 51,444           | 37,772           |
| Depreciation<br>(net of Rs 3,496 thousand charged to FFBL; 2002:<br>Rs 3,276 thousand)   | 13,656           | 12,693           |
|  | <b>1,851,170</b> | <b>1,457,797</b> |
| <b>27. FINANCIAL CHARGES</b>   |                  |                  |
| Interest and related charges on redeemable capital<br>and long term loans  | 426,163          | 579,535          |
| Interest on workers' profit participation fund   | –                | 254              |
| Mark up on short term finances   | 128,876          | 77,674           |
| Exchange (gain)/loss on loans  | (37,171)         | 8,913            |
| Unrealised gain on remeasurement of<br>long term loans and interest  | –                | (47,115)         |
| Unrealised loss on remeasurement of FERI contract  | –                | 47,115           |
| Bank charges   | 2,970            | 1,837            |
|  | <b>520,838</b>   | <b>668,213</b>   |
| <b>28. OTHER INCOME</b>  |                  |                  |
| Income on loans, deposits and investments  | 362,990          | 663,915          |
| Income on tax-exempt investments   | 36,629           | 45,356           |
| Mark up on revolving credit facility to FFBL   | –                | 48,541           |
| Commission on sale of FFBL products  | 12,919           | 11,738           |
| Gain on sale of fixed assets   | 10,981           | 6,453            |
| Exchange loss on financial instruments   | (19,013)         | (8,799)          |
| Old liabilities written back   | 13,216           | 2,742            |
| Others   | 39,691           | 13,976           |
|  | <b>457,413</b>   | <b>783,922</b>   |
| <b>29. OTHER CHARGES</b>   |                  |                  |
| Amortisation of goodwill   | 104,615          | 104,615          |
| Workers' profit participation fund   | 265,499          | 261,307          |
| Workers' welfare fund  | 113,965          | 125,414          |
| Auditors' remuneration   |                  |                  |
| Audit fee  | 1,020            | 1,000            |
| Fee for tax and other advisory services, half yearly review,<br>audit of consolidated accounts and funds and certifications for<br>Government and related agencies | 3,007            | 3,637            |
| Out of pocket expenses   | 100              | 100              |
|  | <b>488,206</b>   | <b>496,073</b>   |

## Notes to the Financial Statements

For the year ended December 31, 2003

|  | 2003             | 2002             |
|--|------------------|------------------|
|  | (Rupees '000)    |                  |
| <b>30. PROVISION FOR TAXATION</b>                                  |                  |                  |
| Current - for the year   | 1,954,000        | 2,164,000        |
| Deferred - for the year  | (168,000)        | (398,000)        |
|  | <u>1,786,000</u> | <u>1,766,000</u> |
| <b>30.1 Reconciliation of tax charge for the year</b>              | <b>%</b>         | <b>%</b>         |
| Applicable tax rate  | 35.00            | 35.00            |
| Add: Tax effect of amounts that are not deductible for tax purpose | 1.58             | 1.92             |
| Less: Tax effect of amounts exempt from tax                        | (0.35)           | (0.32)           |
| Tax effect of rebates and tax credit                               | (0.01)           | (0.11)           |
| Average effective tax rate charged on income                       | <u>36.22</u>     | <u>36.49</u>     |
| <b>31. EARNINGS PER SHARE</b>                                      |                  |                  |
| Net profit after tax   | 3,144,509        | 3,073,421        |
| Weighted average number of shares in issue during the year.        | 256,496          | 256,496          |
| Basic earnings per share - (Rupees)                                | <u>12.26</u>     | <u>11.98</u>     |

There is no dilutive effect on the basic earnings per share of the Company.

### 32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the accounts for the year for remuneration including benefits applicable to the chief executive, directors and executives of the Company are given below:

|                         | 2003            |                | 2002            |                |
|-------------------------|-----------------|----------------|-----------------|----------------|
|                         | Chief Executive | Executives     | Chief Executive | Executives     |
|                         | (Rupees '000)   |                | (Rupees '000)   |                |
| Managerial remuneration | 1,931           | 718,063        | 1,684           | 569,446        |
| Retirement benefits     | 964             | 75,402         | 71              | 64,671         |
| Utilities and upkeep    | 572             | 31,796         | 373             | 25,927         |
| Travel assistance       | 676             | 77,912         | –               | 50,774         |
| Others                  | –               | 62,158         | –               | 52,391         |
| Total                   | <u>4,143</u>    | <u>965,331</u> | <u>2,128</u>    | <u>763,209</u> |
| No. of persons          | 1               | 985            | 1               | 879            |

The above were provided with medical facilities; the chief executive and certain executives were also provided with certain household equipment and use of Company's vehicle in accordance with the Company's policy. Leave encashment of Rs 638 thousand (2002: Rs Nil) to chief executive and Rs 16,054 thousand (2002: Rs 12,363 thousand) to the executives was paid on separation, in accordance with the Company's policy.

In addition, 15 (2002: 14) directors were paid aggregate fee of Rs 138 thousand (2002: Rs 152 thousand).



## Notes to the Financial Statements

For the year ended December 31, 2003

|   | 2003             | 2002             |
|---|------------------|------------------|
|   | (Rupees '000)    |                  |
| <b>33. CASH GENERATED FROM OPERATIONS</b>   |                  |                  |
| Profit before taxation  | 4,930,509        | 4,839,421        |
| Adjustments for non cash charges and other items                                      |                  |                  |
| Depreciation<br>(net of Rs 3,496 thousand charged to FFBL<br>2002: Rs 3,276 thousand) | 758,159          | 1,298,893        |
| Amortisation of goodwill  | 104,615          | 104,615          |
| Amortisation of deferred costs  | 85,363           | 100,904          |
| Provision for slow moving and surplus spares  | 51,501           | 18,685           |
| Financial charges   | 520,838          | 668,213          |
| Income on loans, deposits and investments   | (399,619)        | (757,812)        |
| Gain on sale of fixed assets  | (10,981)         | (6,453)          |
| Exchange (gain)/loss  | (18,158)         | 8,799            |
| Old liabilities written back  | (13,216)         | (2,742)          |
|   | <u>1,078,502</u> | <u>1,433,102</u> |
|   | 6,009,011        | 6,272,523        |
| Changes in working capital  |                  |                  |
| (Increase)/decrease in current assets:  |                  |                  |
| Stores and spares   | (120,108)        | 40,146           |
| Stock in trade  | (50,489)         | 72,554           |
| Trade debts   | (475,488)        | (256,921)        |
| Loans, advances, deposits, prepayments<br>and other receivables                       | 28,150           | (4,138)          |
| (Decrease)/increase in current liabilities:   |                  |                  |
| Creditors, accrued and other liabilities<br>(excluding accrued financial charges)     | (117,360)        | 871,392          |
|   | (735,295)        | 723,033          |
| Changes in long term loans and advances   | (13,783)         | 10,694           |
| Changes in long term deposits, prepayments<br>and deferred costs                      | (82,379)         | (180)            |
|   | <u>5,177,554</u> | <u>7,006,070</u> |
| <b>34. CASH AND CASH EQUIVALENTS</b>  |                  |                  |
| Cash and bank balances  | 1,834,148        | 1,894,680        |
| Short term highly liquid investments  | 1,205,746        | 2,570,900        |
|   | <u>3,039,894</u> | <u>4,465,580</u> |

# Notes to the Financial Statements

For the year ended December 31, 2003

## 35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 35.1 Financial assets and liabilities

|   | Interest/Mark-up bearing     |                               |                  | Non-interest/Mark-up bearing |                               |                  | 2003<br>Total     | 2002<br>Total     |
|---|------------------------------|-------------------------------|------------------|------------------------------|-------------------------------|------------------|-------------------|-------------------|
|   | Maturity<br>upto<br>one year | Maturity<br>after<br>one year | Sub-total        | Maturity<br>upto<br>one year | Maturity<br>after<br>one year | Sub-total        |                   |                   |
|   | (Rupees '000)                |                               |                  |                              |                               |                  |                   |                   |
| <b>Financial assets</b>                       |                              |                               |                  |                              |                               |                  |                   |                   |
| <b>Investments</b>                            |                              |                               |                  |                              |                               |                  |                   |                   |
| - Local currency                              | 1,904,771                    | 1,393,827                     | 3,298,598        | -                            | -                             | -                | 3,298,598         | 4,791,156         |
| - Foreign currency                            | 296,074                      | 936,994                       | 1,233,068        | -                            | -                             | -                | 1,233,068         | 1,256,790         |
| Loans and advances                            | 9,440                        | 60,553                        | 69,993           | 21,887                       | 3,367                         | 25,254           | 95,247            | 76,529            |
| Trade debts                                   | -                            | -                             | -                | 1,876,381                    | -                             | 1,876,381        | 1,876,381         | 1,400,893         |
| Deposits                                      | -                            | -                             | -                | 2,750                        | 1,872                         | 4,622            | 4,622             | 3,886             |
| Accrued income on investments<br>and deposits | -                            | -                             | -                | 43,680                       | -                             | 43,680           | 43,680            | 115,581           |
| Foreign Exchange Risk Insurance Contract      | -                            | -                             | -                | -                            | -                             | -                | -                 | 320,749           |
| Other receivables                             | -                            | -                             | -                | 34,429                       | -                             | 34,429           | 34,429            | 50,111            |
| Cash and bank balances                        |                              |                               |                  |                              |                               |                  |                   |                   |
| - Local currency                              | 810,813                      | -                             | 810,813          | 1,007,717                    | -                             | 1,007,717        | 1,818,530         | 1,879,433         |
| - Foreign currency                            | 297                          | -                             | 297              | 15,321                       | -                             | 15,321           | 15,618            | 15,247            |
|   | <u>3,021,395</u>             | <u>2,391,374</u>              | <u>5,412,769</u> | <u>3,002,165</u>             | <u>5,239</u>                  | <u>3,007,404</u> | <u>8,420,173</u>  | <u>9,910,375</u>  |
| <b>Financial liabilities</b>                  |                              |                               |                  |                              |                               |                  |                   |                   |
| <b>Recognised</b>                             |                              |                               |                  |                              |                               |                  |                   |                   |
| Redeemable Capital                            | 827,263                      | 3,730,650                     | 4,557,913        | -                            | -                             | -                | 4,557,913         | 4,799,960         |
| Long term loans                               | 704,821                      | 784,570                       | 1,489,391        | -                            | -                             | -                | 1,489,391         | 1,821,526         |
| Short term finances                           | 2,972,333                    | -                             | 2,972,333        | -                            | -                             | -                | 2,972,333         | 3,388,897         |
| Creditors, accrued and other liabilities      | -                            | -                             | -                | 1,206,242                    | -                             | 1,206,242        | 1,206,242         | 2,181,236         |
| Dividend payable                              | -                            | -                             | -                | 833,612                      | -                             | 833,612          | 833,612           | 641,240           |
| Proposed dividend                             | -                            | -                             | -                | 384,743                      | -                             | 384,743          | 384,743           | 256,496           |
|   | <u>4,504,417</u>             | <u>4,515,220</u>              | <u>9,019,637</u> | <u>2,424,597</u>             | <u>-</u>                      | <u>2,424,597</u> | <u>11,444,234</u> | <u>13,089,355</u> |
| <b>Unrecognised</b>                           |                              |                               |                  |                              |                               |                  |                   |                   |
| Guarantees                                    | -                            | -                             | -                | 15,659                       | -                             | 15,659           | 15,659            | 14,020            |
| Letters of credit                             | -                            | -                             | -                | 182,266                      | -                             | 182,266          | 182,266           | 188,309           |
| Contingencies                                 | -                            | -                             | -                | 832,935                      | -                             | 832,935          | 832,935           | 516,765           |
| Commitments                                   | -                            | -                             | -                | 597,101                      | 239,504                       | 836,605          | 836,605           | 1,352,296         |
|   | <u>-</u>                     | <u>-</u>                      | <u>-</u>         | <u>1,627,961</u>             | <u>239,504</u>                | <u>1,867,465</u> | <u>1,867,465</u>  | <u>2,071,390</u>  |
|   | <u>4,504,417</u>             | <u>4,515,220</u>              | <u>9,019,637</u> | <u>4,052,558</u>             | <u>239,504</u>                | <u>4,292,062</u> | <u>13,311,699</u> | <u>15,160,745</u> |

# Notes to the Financial Statements

For the year ended December 31, 2003

## 35.2 Risk management

### a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. All the financial assets except cash in hand, are subject to credit risk. The Company believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Company applies credit limits to its customers besides obtaining guarantees and by dealing with variety of major banks and financial institutions.

### b) Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transaction with foreign undertakings. Currently, the Company's foreign currency risk exposure is restricted to foreign currency investments and bank placements.

### c) Interest rate risk

Financial assets and liabilities include balances of Rs 5,412,769 thousand (2002: Rs 7,051,277 thousand) and Rs 9,019,637 thousand (2002: Rs 10,010,383 thousand) respectively, which are subject to interest rate risk. Applicable interest rates for financial assets and liabilities have been indicated in respective notes.

## 35.3 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except investment held to maturity which is carried at amortised cost.

## 36. GENERAL

### 36.1 Production capacity

Design capacity

Production

### 36.2 Number of employees

Number of employees at year end

| 2003<br>(Tonnes '000) | 2002  |
|-----------------------|-------|
| 1,904                 | 1,617 |
| 2,149                 | 1,841 |
| (Number)              |       |
| 2,204                 | 1,769 |

### 36.3 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 23,750 thousand and Rs 2,275,000 thousand (2002: Rs 20,000 thousand and Rs 1,525,000 thousand) respectively are available to the Company under first charge by way of equitable mortgage on all fixed assets of the Company.

## Notes to the Financial Statements

For the year ended December 31, 2003

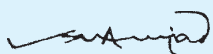
### 36.4 Transactions with associated undertakings / subsidiary / related parties at arm's length basis

|  | 2003          | 2002      |
|--|---------------|-----------|
|  | (Rupees '000) |           |
| <b>a) With associated undertakings on comparable uncontrolled pricing method</b> |               |           |
| Fauji Foundation   |               |           |
| Office rent  | 2,401         | 2,217     |
| Sale of fertilizer   | 28,341        | 49,331    |
| Medical services   | 674           | 145       |
| Purchase of bags   | –             | 603       |
| Fauji Cement Company Limited   |               |           |
| Share registrar services   | –             | 360       |
| <b>b) With subsidiary on cost plus method</b>                                    |               |           |
| Fauji Fertilizer Bin Qasim Limited (FFBL)  |               |           |
| Marketing of fertilizer on behalf of FFBL under sale on consignment basis        | 134,287       | 105,440   |
| Commission on sale of FFBL products  | 12,919        | 11,738    |
| Services and materials provided  | 8,293         | 6,326     |
| Services and materials received  | 414           | 17,983    |
| Mark-up charged on revolving credit facility                                     | –             | 48,541    |
| <b>c) With related parties on comparable uncontrolled pricing method</b>         |               |           |
| Mari Gas Company Limited   |               |           |
| Purchase of gas as feed and fuel stock   | 5,313,857     | 3,605,834 |
| Haldor Topsoe A/s, Denmark   |               |           |
| Technical services received  | 13,920        | 10,913    |

**36.5** Donations aggregating Rs 1,651 thousand (2002: Rs 966 thousand), included under cost of goods sold do not include any amount paid to any person or organisation in which the chief executive, directors or their spouses had any interest.

**37.** Corresponding figures have been rearranged, where necessary, for the purpose of comparison.

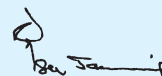
**38.** These financial statements have been authorised for issue by the Board of Directors of the Company on January 30, 2004.



Chairman



Chief Executive



Director