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Company Information

BOARD OF DIRECTORS

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

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
Brig Aftab Ahmed, SI(M) (Retired)
Brig Ghazanfar Ali, SI(M) (Retired)
Syed Zaheer Ali Shah
Mr Khawar Saeed
Dr Nadeem Inayat
Mr Nadir Rahman

SECRETARY

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

REGISTERED OFFICE

93-Harley Street, Rawalpindi Cantt.
Website: www.ffc.com.pk
E-mail: ffcrwp@ffc.com.pk

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

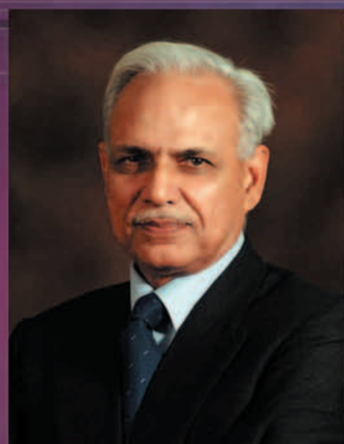
B-35, KDA Scheme No. 1
Karachi

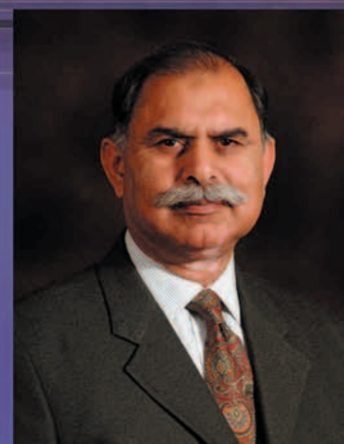
AUDITORS

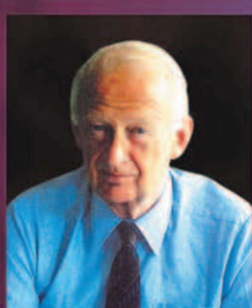
M/s Taseer Hadi Khalid & Co.
Chartered Accountants

We believe in timeliness, accuracy and transparency of our business reporting and remain accountable and accessible to our shareholders.

Board of Directors

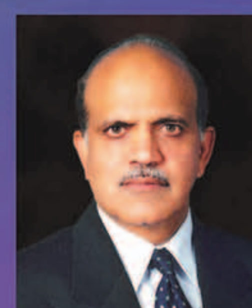

Lt Gen Syed Muhammad Amjad, HI, HI(M), (Retired)
Chairman

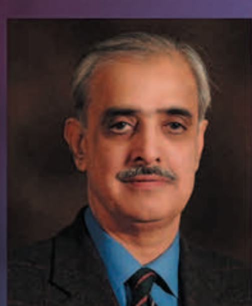

Lt Gen Mahmud Ahmed, HI(M) (Retired)
Chief Executive and Managing Director


Dr Haldor Topsoe

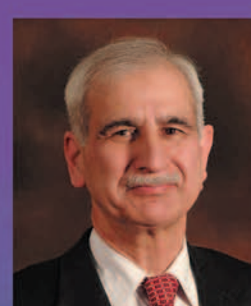

Mr Qaiser Javed


Brig Arshad Shah, SI(M) (Retired)


Mr Zaigham Mahmood Rizvi


Mr Tariq Iqbal Khan


Brig Aftab Ahmed, SI(M) (Retired)

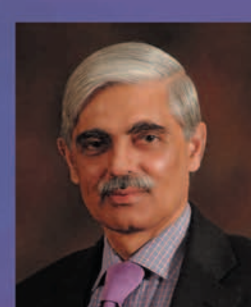

Brig Ghazanfar Ali, SI(M) (Retired)


Syed Zaheer Ali Shah


Mr Khawar Saeed


Dr Nadeem Inayat


Mr Nadir Rahman

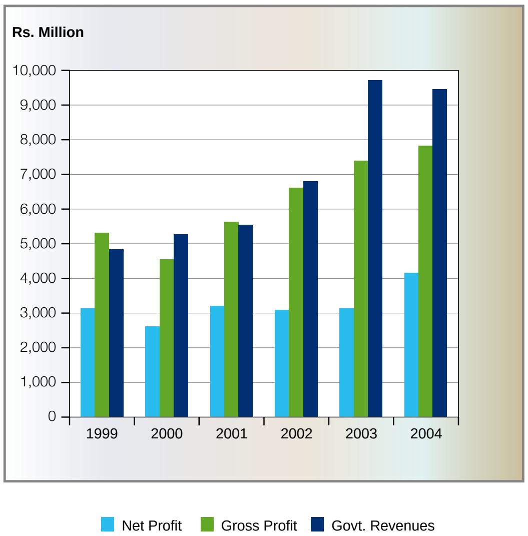

Brig Muhammad Saleem Suleman
SI(M) (Retired)
Company Secretary

Operating Highlights

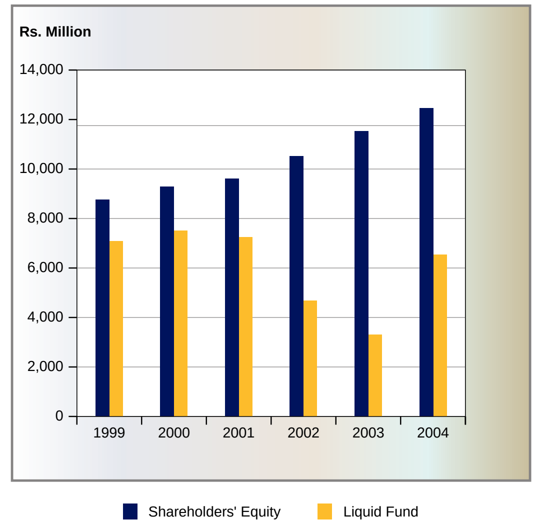
		1999	2000	2001	2002	2003	2004
KEY INDICATORS							
Operating							
Gross Margin	%	50.47	45.35	46.90	39.78	34.86	37.42
Pre Tax Margin	%	44.91	41.07	41.68	28.83	23.44	29.02
Net Margin	%	29.51	25.92	26.74	18.31	14.95	19.04
Performance							
Return on Assets	%	34.19	27.06	35.74	17.18	18.11	23.08
Assets Turnover		0.76	0.66	0.86	0.60	0.77	0.80
Fixed Assets Turnover		3.40	4.40	7.85	1.76	2.27	2.29
Inventory Turnover	Days	4	4	12	19	16	11
Return on Equity	%	36.05	29.81	33.72	28.55	27.29	32.57
Return on Capital Employed	%	31.28	27.50	32.94	18.66	19.56	26.41
Retention	%	33.53	22.39	31.95	24.89	18.43	@ 9.68
Leverage							
Debt: Equity		13:87	8:92	2:98	35:65	28:72	19:81
Leverage		11.71	13.58	19.14	8.24	10.47	17.36
Liquidity							
Current		2.14	1.72	2.34	1.04	1.04	1.08
Quick		1.76	1.48	1.90	0.79	0.76	0.86
Valuation							
Earning per share (pre tax)	Rs.	15.93	14.20	16.93	16.41	16.72	20.69
Earning per share (after tax)	Rs.	10.47	8.96	10.86	10.42	10.66	13.57
Earning growth	%	(17.87)	(14.36)	21.17	(4.00)	2.33	27.33
Breakup value	Rs.	33.38	34.58	37.04	41.96	44.92	41.68
Dividend payout	Rs.	8.00	8.00	8.50	9.00	10.00	★ 12.00
Payout ratio (after tax)	%	66.47	77.61	68.05	75.11	81.57	# 80.72
Price earning ratio		5.08	4.59	3.76	7.02	8.96	10.27
Market price to breakup Val.	Rs.	1.46	1.52	1.06	1.22	1.32	2.81
Dividend yield	%	16.46	15.19	21.61	17.51	16.86	10.24
Market Value per Share	Rs.	53.20	41.10	40.85	73.10	95.50	139.45
Market capitalization	(Rs. M)	13,646	10,542	10,478	18,750	24,495	41,134
Historical trends			**Rs. million**				
Trading results							
Turnover		10,463	10,201	11,982	16,787	21,035	21,027
Gross Profit		5,281	4,600	5,620	6,678	7,333	7,869
Profit before tax		4,699	4,190	4,994	4,839	4,931	6,103
Profit after tax		3,087	2,644	3,204	3,073	3,145	4,004
Financial position							
Shareholder's funds		8,563	8,869	9,502	10,763	11,523	12,295
Property, Plant & Equipment		3,078	2,320	1,527	9,516	9,259	9,181
Net current assets		3,866	3,991	5,586	396	309	673
Long Term Assets		6,476	5,922	4,226	18,761	18,292	16,897
Long term liabilities		1,305	744	224	5,704	4,557	2,868
Liquid funds (net)		6,966	7,531	7,363	4,554	3,393	6,356

@ Retention is before final cash and bonus dividends.
★ In addition, a Final Dividend of Rs. 3 per share was also declared by the Board on January 31, 2005.
P/E ratio is without the effect of Bonus Issue.

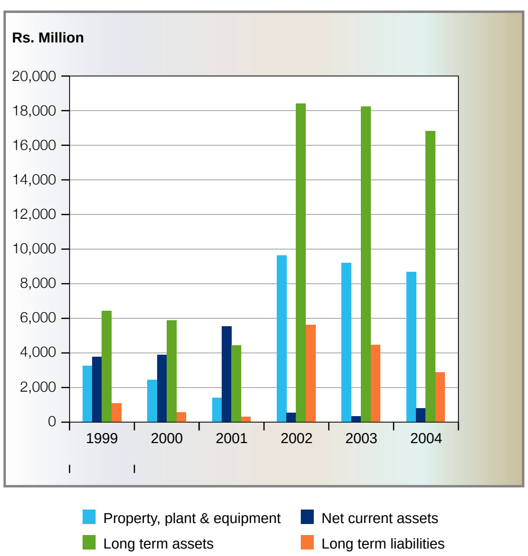
PROFITS vs GOVT. REVENUES



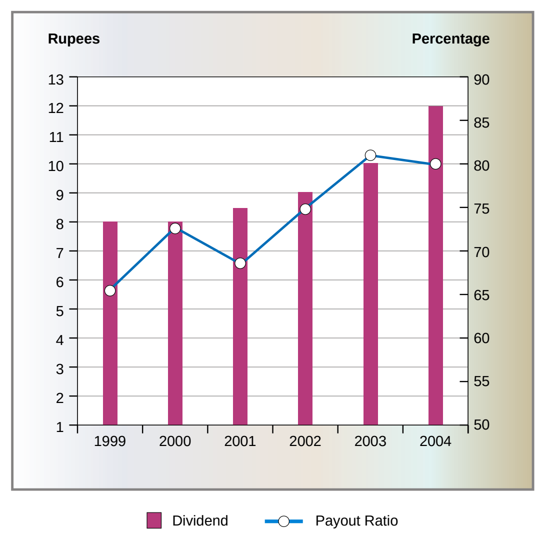
SHAREHOLDERS' EQUITY Liquid Funds



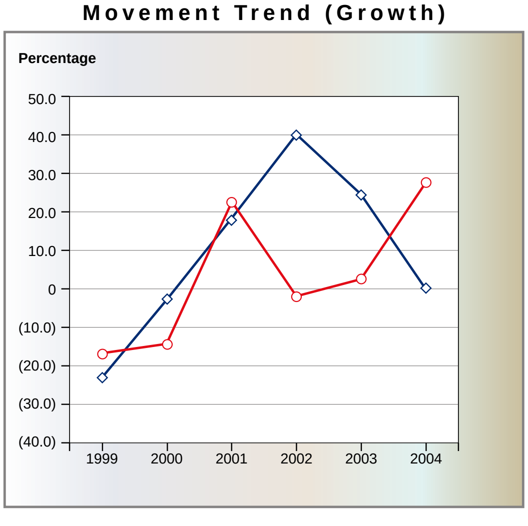
ASSETS & LIABILITIES



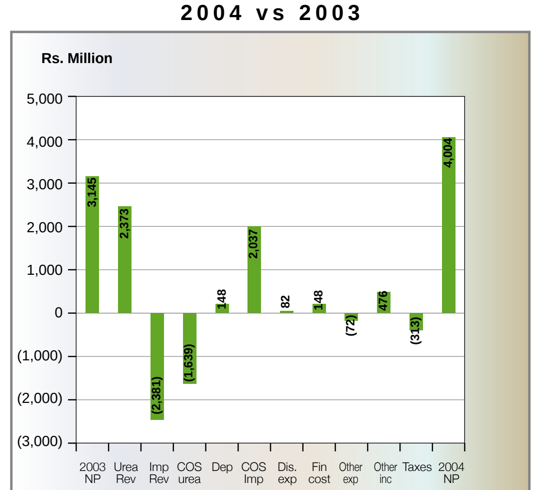
DIVIDEND AND PAYOUT RATIO



TURNOVER / NET PROFIT Movement Trend (Growth)



COMPARISON OF PROFIT 2004 vs 2003



Committees of the Board of Directors and Management

BOD COMMITTEES

Audit Committee
Chairman
Mr Tariq Iqbal Khan
Members
Mr Qaiser Javed
Mr Khawar Saeed
Syed Zaheer Ali Shah
Mr Nadir Rahman

Human Resources Committee
Chairman
Brig Arshad Shah, SI(M) (Retired)
Members
Mr Qaiser Javed
Brig Ghazanfar Ali (Retired)
Dr Nadeem Inayat

System & Technology Committee
Chairman
Mr Zaigham Mahmood Rizvi
Members
Brig Aftab Ahmad (Retired)
Brig Ghazanfar Ali (Retired)
Dr Nadeem Inayat

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)
□
General Manager (Marketing)
□
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)
□
General Manager (Marketing)
□
General Manager (Finance)
□
General Manager Plant (Goth Machhi)
Mr Tahir Javed,
General Manager Plant (Mirpur Mathelo)

DIRECTORS' ATTENDANCE AT MEETIINGS

Directors	Board of Directors	Audit Committee	Human Resources Committee	System & Technology Committee
Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired)	7	-	-	-
Lt Gen Mahmud Ahmed, HI(M) (Retired)	6	-	-	-
Dr Haldor Topsoe	0	-	-	-
Mr Qaiser Javed	6	5	1	-
Brig Arshad Shah, SI(M) (Retired)	6	3	2	-
Mr Zaigham Mahmood Rizvi	5	-	-	3
Mr Tariq Iqbal Khan	5	5	-	-
Brig Aftab Ahmad, SI(M) (Retired)	7	2	-	1
Brig Ghazanfar Ali, SI(M) (Retired)	7	-	1	3
Syed Zaheer Ali Shah	2	1	-	-
Mr Khawar Saeed	6	4	-	-
Mr Nadeem Inayat	5	2	2	2
Mr Nadir Rahman	2	2	-	-
Number of Meetings Held	**7**	**5**	**2**	**3**
* Retired from Directorship				
Mr Khalid Amin Qureshi	0	0	-	-
Mr Mohammad Farooq Saleem	0	0	-	-
Dr Salim Batla	2	-	-	1
Mr Hasan Aziz Bilgrami	2	-	-	-

Notice of Annual General Meeting

Notice is hereby given that the 27th Annual General Meeting of the Shareholders of Fauji Fertilizer Company Limited will be held at Pearl Continental Hotel, Rawalpindi on Monday, February 28, 2005 at 1100 hours to transact the following business:-

Ordinary Business

1. To confirm the minutes of Extraordinary General Meeting held on November 29, 2004.

2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and the Directors' Reports for the year ended December 31, 2004.

3. To appoint Auditors for the year 2005 and to fix their remuneration.

4. To approve payment of Final Dividend for the year ended December 31, 2004 as recommended by the Board of Directors.

Special Business

5. To consider and if thought fit, approve the following resolution as an ordinary resolution in respect of issue of bonus shares in the ratio of 15%, as recommended by the directors in their meeting held on January 31,

Resolution

"Resolved that a sum of Rs. 442,455,430/- (Rupees Four Hundred Forty Two Million Four Hundred Fifty Five Thousand and Four Hundred Thirty only) out of the Company's Reserve for the issue of bonus shares be capitalized and applied for the issue of 44,245,543 ordinary shares of Rs. 10/- each and allotted as fully paid bonus shares to those members of the Company whose names appear in the Register of Members of the Company on February 22, 2005 in the ratio of 15 shares for every 100 share held and that such new shares shall rank pari passu in all respect with the existing ordinary shares of the Company.

Further resolved that the members entitled to fraction of shares as a result of their holding being less than 20 ordinary shares or in excess of an exact multiple of 20 ordinary shares shall be given the sale proceeds of their fractional entitlements for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.

And Further resolved that for the purpose of giving effect to the foregoing, the Directors be and are hereby authorized to issue directions and take such actions as they deem fit to settle any question or any difficulties that may arise in the distribution of the said bonus shares or in the payment of the sale proceeds of the fractions."

6. To transact any other business with the permission of the Chair.

By Order of the Board

Rawalpindi
February 06, 2005

Brig Muhammad Saleem Suleman (Retired)
Company Secretary

NOTES:

1. The share transfer books of the Company will remain closed from February 22, 2005 to February 28, 2005 (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.

Statement under section 160(1) (b) of the companies ordinance, 1984

This statement set out the material facts concerning the Special Business, given in agenda item No.5 of the Notice, to be transacted at the Annual General Meeting of the Fauji Fertilizer Company Limited to be held at Pearl Continental Hotel, Rawalpindi on Monday, February 28, 2005.

1. Issue of Bonus Shares

The Directors are of the view that Company's financial position and its reserves justify the capitalization of free reserves amounting to Rs. 442,455,430/- for the issue of bonus shares in the ratio of 15 bonus shares for every 100 ordinary shares held. The Directors directly or indirectly, are not personally interested in this issue except to the extent of their shareholding in the Company.

Pursuant to rule 6 (iii) of the Companies (Issue of Capital) Rules 1996, the Auditors have certified that the free reserves and surpluses retained after the issue of the bonus shares will not be less than 25% of the

Directors' Report

To our Shareholders,

On behalf of the Board, I am pleased to welcome our shareholders to the 27th annual review of the results of operations of Fauji Fertilizer Company Limited for the year ended December

We regard 2004 as a memorable year in which we were able to attain new levels of performance and best ever results for the Company.

The Board has appended with this Report comprehensive financial indicators in the form of audited financial statements

consolidated financial statements of the Company and Fauji Fertilizer Bin Qasim Limited (FFBL), along with Auditors' Reports to the members.

OVERVIEW

Let me summarize the achievements which make 2004 an outstanding year

- Highest ever urea sales volume of 2,376 thousand tonnes including 85 thousand tonnes of imported urea.
- Record urea production of 2,174 thousand tonnes from all the three plants despite maintenance shutdowns and gas pressure limitations.
- Highest urea market share of 63%, including 580 thousand tonnes of "Sona" urea granular marketed on behalf of FFBL.
- Record urea sales revenue of Rs. 18 billion. Total fertilizers revenue stood at Rs. 21 billion.
- Highest ever gross and net profits of Rs. 8 billion and Rs. 4 billion respectively.
- Record per share earnings of Rs. 13.57 despite dilution due to increase in paid up share capital.
- Highest ever cash dividend of Rs. 15 per share.
- First ever bonus shares issue of 30%.
- First ever dividend of 10% from the subsidiary company.
- Top awards for our 2003 Annual Report from ICAP & ICMAP joint committee, NCCA – Karachi and internationally from SAFA (South Asian Federation of Accountants representing the SAARC countries).
- Tenth consecutive annual placement in "Top twenty five companies" on the Karachi Stock Exchange based on 2003 performance.
- Meritorious award from the Rawalpindi Chamber of Commerce and Industry for good

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.

COMPANY PERFORMANCE

I am pleased to report the highest ever after tax profit of Rs. 4.004 billion for the year 2004, increase of 27% over last year. The increase is due to higher urea sales, savings in distribution cost, lower finance cost and dividend received from FFBL.

Urea sales revenue recorded a growth of 20% over last year. As a result, per share earnings of the Company grew by Rs. 2.91 over earnings for the previous year, despite increase in the paid-up capital owing to bonus issue. The dilution effect of bonus shares on earnings for the year was

The Company announced the first ever bonus shares issue of 30% of which 15% was approved by the shareholders in their meeting held on August 31, 2004. The members further resolved to increase the authorized capital of the Company to Rs. 5 billion, as proposed by the Board, for future capitalization requirements.

The enclosed financial statements of the Company and the group have been prepared in accordance with the revised fourth schedule of the Companies Ordinance, 1984 and the Auditors have issued an unqualified audit report without any emphasis of

Cash Flow Management

The Company has an effective Cash Flow Management System in place whereby cash inflows and cash outflows are projected on regular basis. Working capital requirements of the Company are financed through internal cash generations and short term financing from external resources. New investments and growth opportunities are funded from a mix of Company's funds and medium to long term financings. Major portion of financing from external sources is arranged from reputable local and foreign banks at competitive pricing. The Company places funds for investment after thorough financial evaluation. The investment portfolio of the Company is fairly diversified, ranging from investments in Government bonds to mutual funds, which aims at tapping the positive developments in the financial sector.

Risk Mitigation

The Company is not exposed to any major concentration of credit risk; exposure is managed through application of credit limits to its customers in addition to obtaining guarantees and by dealing with variety of major banks and financial institutions.

Cash Flow Risk associated with floating rate financial instruments that originates from interest rate fluctuations is effectively mitigated by holding ‘prepayment options’ and establishing interest rate caps and floors.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Company's treasury aims at maintaining flexibility in funding by keeping committed credit

Our business strategy is articulated to deliver exclusive value to our customers and shareholders.

APPROPRIATION OF PROFIT

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

	Rupees "000"
Un-appropriated profit brought forward	197,753
Net profit after taxation	4,004,044
	4,201,797
Transfer from general reserve	1,150,000
	5,351,797
Appropriations	
Dividend on ordinary shares	
First interim Rs. 3.25	833,612
Second interim Rs. 4.75	1,218,356
Third interim Rs. 4.0	1,179,881
Transfer to reserve for issue of bonus shares	827,199
	4,059,048
Un-appropriated profit carried forward	1,292,749

DIVIDEND AND EARNINGS PER SHARE

Dividend Distribution

Fulfilling our mission to add value to shareholders wealth and profitable returns, the Board is pleased to declare highest ever dividends by recommending final cash dividend of Rs. 3 per share and 15% bonus shares for 2004, in addition to Rs. 12 per share in cash and 15% bonus issue declared earlier on interim results, from the available distributable profits of the Company. Owing to the increase in share capital, the dividend percentage stands diluted. On previous share capital, the percentage amounts to 192.75% including bonus shares, as compared to 100% paid last year.

The changes in the Companies Ordinance, 1984

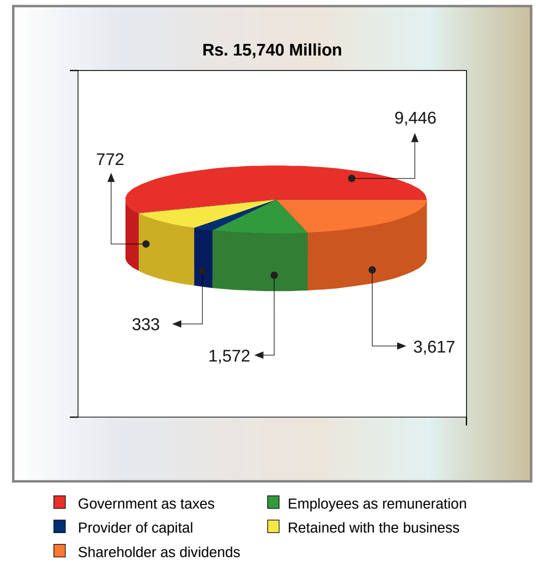
subsequent to the financial year end, including declaration of dividends, should be incorporated in the financial period in which it is declared. Therefore, the final dividend for the year 2004, announced on January 31, 2005 by the Board, shall be reflected in the financial statements for the year 2005. This change will have no impact on the payment of dividends to shareholders, which will continue as before.

Contribution to the National Exchequer

The Company's contribution to the National Exchequer by way of taxes, levies, excise duty, sales tax and gas surcharge amounted to Rs 9.446 billion during the year. The total contribution to the Exchequer since inception now exceeds Rs. 61 billion.

Company's contribution of Rs. 15.74 billion to the national economy by way of value addition in 2004 increased by 5% over last year, in addition to foreign exchange savings of 544 million dollars through import substitution on production of 2,174 thousand tonnes of urea fertilizer this year.

VALUE ADDITION AND DISTRIBUTION During 2004



AGRICULTURE AND ECONOMIC ENVIRONMENT

Economy

The Country's economy has exhibited impressive growth for the second consecutive year with real GDP growth of 6.4% during 2003-2004 against 5.1% growth in the previous period. Agriculture is the largest sector with current contribution of over 23 % to the GDP and accounts for about 42% of the total employed labour force. Out of nearly five thousand industrial establishments in the Country, about fifty eight percent are related to agriculture through food products, textile, leather, cotton yarn, chemicals, fertilizers, pesticides, agricultural machinery etc.

Agriculture Yields and Farmers' Awareness

In order to achieve increased agriculture productivity, the Country's basic need is realization of the full potential of our natural resources (such as fertile land, hardworking farmers, high yielding crop varieties), in combination with modern farming techniques, judicious regulation of irrigation water and adequate supply of indigenously manufactured fertilizers.

The Company devotes considerable resources and efforts to promote awareness regarding good farming techniques and methods among our farming community. This is done systematically through timely professional advice by holding regular seminars and meetings, prolific distribution of suitable literature and radio/TV transmissions in the regional languages.

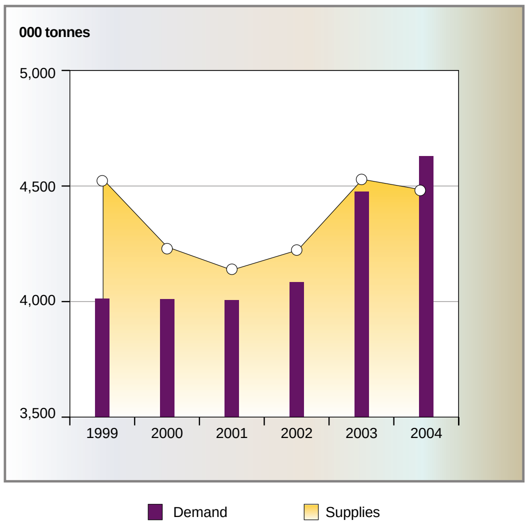
The Company continues to enhance the facility of providing farmers free farm advisory services through Farm Advisory Centers (FAC). These centres are manned by well qualified agronomists who extend free of cost and on the spot services to the farmers in the form of crop demonstrations, field days, farmers meetings, group discussions, farm visits and distribution of technical literature in regional languages on important crops.

We have recently increased our advisory centres from three to five by introducing two new advisory centres one each at D.I. Khan and Mirpur Khas. Farmers are provided free soil and water testing facility by our laboratories equipped with state of the art equipment and computerized recommendation systems. Our advisory centre at Jhang is the only private sector facility in the Country which provides free micro nutrient testing services to the farmers at their doorsteps.

Local seminars on production technology and current crop situation concerning rice/wheat sowing, cotton picking, sugarcane harvesting etc are widely held. Briefings about innovative packages of technique adopted is also carried out in situ on demo plots. Interactive discussions in which the farmers participate enthusiastically have attained popularity throughout the agrarian society. Among the vast variety of subjects covered by the seminars and meetings, our focus is on improving land management, cropping techniques, water availability, water conservation techniques, alternative irrigation methods, ways to increase area under cultivation, enhancement of crop yield, importance of soil/water analyses and balanced plant nutrition through judicious application of fertlizer.

FFC pursues an innovative education oriented advertising policy utilizing electronic/print media and roadside advertising. FFC has also conducted various international seminars on core agricultural issues which were attended by local and foreign luminaries.

INDUSTRY UREA MARKET
Supplies vs Demand



Urea Market

Fertilizer is one of the key inputs to agricultural production and is readily available in the Country from local producers at favourable rates as compared to the international prices. Prompted by high demand, the fertilizer sector registered a growth of 5% in urea offtake by selling 4,715 thousand tonnes of urea as compared to 4,485 thousand tonnes sold last year. The demand was fuelled by increased farmer incomes augmented by a bumper cotton crop, improved crop prices and increased liquidity through availability of cheaper credit.

However, the demand surpassed local production capacity due to which the government had to import 179 thousand tonnes of urea to meet the deficit. Industry urea output at 4,408 thousand tonnes was lower than last year by 3% due to annual maintenance turnarounds of six fertilizer units including FFC's Plants I and II (Goth Machhi).

It is estimated that the Country's total annual urea off-take during 2005 would be around 4,855 thousand tonnes against estimated domestic production of 4,508 thousand tonnes. Establishment of new urea production units is essential to reduce growing urea imports.

The Fertilizer Policy 2001 is under review by the Government aimed at introducing more incentives for the fertilizer industry to enhance domestic urea production. Additional investment to establish new fertilizer manufacturing units is a dire necessity to meet the ever growing demand. Timely decision of changes in the Fertilizer Policy would, therefore, play a pivotal role in meeting demand projections.

DAP Market

The DAP market also showed increase of over 9% with an off-take of 1,211 thousand tonnes during the year of which 31% was contributed by indigenously produced “Sona” DAP by FFBL, while 836 thousand tonnes were imported. The industry carried DAP inventory of 53 thousand tonnes at the end of 2004 compared to 48 thousand tonnes at close of 2003.

Finance Bill 2004 reduced the GST and withholding tax rates on DAP to control high DAP prices. The reduction in DAP sales price was, however, short lived as the prices moved up again due to increasing DAP prices in the international market and the deteriorating Rupee-Dollar parity.

Our success depends upon effective automation, streamlining and integration of technical procedures.

LISTING REGULATIONS AND CORPORATE GOVERNANCE

Compliance with listing regulations

There have been no material departures from the best practices of corporate governance, as detailed in the listing regulations. Appropriate accounting policies have been consistently applied, except change in policy for accounting for investment in associates, with which the Auditors have concurred. Applicable accounting standards were followed in preparation of financial statements of the Company and consolidated financial statements on a going concern basis for the financial year ended December 31, 2004, which present fairly the state of affairs, results of its operations, profits, cash flows and changes in equities of the Company and its subsidiary for the year under review.

Accounting estimates are based on reasonable and prudent judgments and there are no outstanding statutory payments on account of taxes, duties, levies and charges. Proper and adequate accounting records have been maintained by the Company in accordance with the Companies Ordinance, 1984. The Company's system of internal control is sound in design and has been effectively implemented and monitored for safeguarding the assets of the Company and for identifying, evaluating and managing any significant risks faced by the Company.

As advised by the Audit Committee, the Board is satisfied that the Company has been in full compliance with listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges throughout the year. Conformity with listing regulations has also been stated in other relevant parts of this report in addition to this

Corporate governance practices

Good governance has always been viewed as an inspiration by the Board in enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non-financial information and the Board endorses the practices contained in the code of corporate governance of the listing regulations in performance of the Board's duties and enforcement at all management and non-management levels.

We acknowledge our responsibility for the overall strategy, assets management and operations of the Company and for identifying and overcoming any challenges, business and macroeconomic risks faced by the Company and devising business ventures for sustained growth in long term profitability of the Company aimed at enhancing the shareholders

BOARD OF DIRECTORS

The Board comprises one executive and twelve non-executive directors of the Company who provide diverse competencies and contribute independent in-depth judgment to matters brought before the Board. The Chairman of the Board is from non-executive directors while the Chief Executive Officer is an executive director and also heads the Management of the Company in the capacity of Managing Director.

The Board encourages effective representation of independent non-executive directors and minority interests on the Board. Working or whole time directors, including the Chief Executive Officer, are less than seventy-five percent of the elected directors of the Company. Non-executive directors include four independent directors representing institutional equity interest who exercise outside judgment without being subservient to any apparent form of interference. These directors have been nominated by the institutions which they represent through a resolution of their Board of Directors.

No director of the Company is serving as a director of more than ten other listed companies except Mr. Tariq Iqbal Khan, representing NIT, who has been granted exemption by the Securities and Exchange Commission of Pakistan. All the directors are registered tax payers in Pakistan except Mr. Haldor Topsoe who is a non-resident. None of them have been convicted as a defaulter in payment of any loan nor are they or their spouses engaged in the business of stock brokerage. The Board has appended “Statement of Compliance with the Code of Corporate Governance” to this report, duly reviewed and certified by the Auditors.

Change of Directors

The Board joins me in acknowledging our appreciation for the participation and contributions towards the affairs of the Company by the outgoing directors Mr. M Farooq Saleem, Dr. Salim Batla, Mr. Hasan Aziz Bilgrami and Mr. Khalid Amin Qureshi during their respective terms.

We are also pleased to welcome Syed Zaheer Ali Shah, Mr. Khawar Saeed, Dr. Nadeem Inayat and Mr. Nadir Rahman as fellow Board members. We look forward to working in partnership with them to benefit from their vision and valued experiences which I am confident will go a long way in promoting the future growth and prosperity of the Company.

RESPONSIBILITIES, POWERS AND FUNCTIONS OF BOARD OF DIRECTORS

The roles and responsibilities of the Chairman and the Chief Executive Officer are distinct, clearly defined and formally documented and are carried out separately by the two offices. The Board exercises its powers to carry out its fiduciary duties with a sense of objective judgment and independence in the best interests of the Company and has circulated a 'Statement of Ethics and Business Practices' to establish a standard of conduct, as a model corporate citizen, for the Board and employees of the Company. Each year, the directors attend orientation courses on their duties and responsibilities to manage the affairs of the Company on behalf of shareholders; these courses are also attended by the Management of the Company.

The Board has also adopted mission and vision statements and an overall corporate strategy for the Company and formulated policies including risk management, procurement of goods and services, marketing, terms of credit and discount, acquisition and disposal of fixed assets and write-off of inventories, bad debts, loans and advances, investments and disinvestments of funds with maturity period exceeding six months, borrowings, donations, charities, delegation of financial powers, transactions with related parties, loans and advances, human resource management including succession planning, health, safety and environment, etc. Decisions on material transactions or significant matters are documented through resolutions passed at their meetings and circulated for approval.

The Board monitors the operations of the Management through three standing committees. Implementation of the decisions, policies and strategies along with maintenance of their record have been delegated to the Management under the supervision of the Chief Executive and Managing Director of the Company and is executed and controlled through management committees.

MEETINGS OF THE BOARD

The Chairman presides over meetings of the Board and encourages the participation and contribution of executive and non-executive directors. The directors meet at least once in each quarter. Additional meetings are called upon when required. In 2004, a total of seven meetings were held which were also attended by the Chief Financial Officer and the Company Secretary. The Chief Financial Officer and Company Secretary are employees of the Company and are not entitled to cast votes at the meetings. Written notices of meetings along with agenda and its details were circulated seven days in advance. Minutes of each meeting were recorded and circulated by the Company Secretary within thirty days.

Significant issues including approval of quarterly, half yearly and annual financial statements, annual business plans, budgets, forecasts, cash flow projections, performance monitoring, internal audit reports, external auditors' recommendations, agreements/contracts, amendment of laws, agreement with staff union's Collective Bargaining Agent (CBA), status of payment of debts and obligations and repayment of loans, findings and recommendations of board committees etc, were placed before the Board for information, consideration and decision to strengthen and formalize the corporate decision-making process.

Importance of safe business practices, healthy employees and a stimulating environment have primacy over all business

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REPORTING

The Board places a high priority on completeness, true and fair presentation and timely delivery of its periodic financial statements and other financial and non-financial information to the regulatory authorities, the shareholders and other stakeholders of the Company for assessing its performance and forming business decisions.

Accordingly, periodic financial statements were circulated to the directors duly endorsed by the Chief Executive Officer and the Chief Financial Officer for approval before publication. Quarterly un-audited financial statements along with Directors' Review, were published within one month while half yearly financial statements reviewed by the Auditors were circulated within two months of the end of the period. Annual financial statements including consolidated financial statements along with Auditors' reports and other statutory statements and information are being circulated within two months from the close of the financial year in compliance with the listing regulations.

All material information relating to the business and other affairs of the Company including announcement of interim and final results, as specified in the listing regulations, considered to affect the shares market price during the year were immediately disseminated to the stock exchanges. The Company also determined a closed period prior to each of the above decisions and announcements which was also duly communicated to all the stock exchanges.

The Company Secretary has furnished a Secretarial Compliance Certificate as part of annual return for the year 2003 with the Registrar of Companies to certify that the secretarial and corporate requirements of the Companies Ordinance, 1984 have been duly complied with.

Company's quarterly, half yearly and annual reports are also available on the Company's website www.ffc.com.pk. Subsequent to a change in the requirements of publishing quarterly financial statements, the Company resolved through a general meeting of its shareholders to transmit its quarterly financial statements through its website from September 2004 onwards. However, shareholders desirous of obtaining hard copies would be provided printed reports within one week of demand.

Excellence Awards

Our emphasis on timeliness, completeness and transparency of information continues to earn various awards.

It gives me a great pleasure to inform you that this year we have been adjudged first in the Manufacturing Sector for the “2003 Award of Excellence for Corporate Reporting” by the “South Asian Federation of Accountants (SAFA)”. In addition, our Annual Report 2003 was selected as the overall winner in the Annual Report competition 2003, and was also adjudged best in the chemical sector, jointly by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan. We are proud of the recognition of our corporate reporting in 2003, both at home and abroad, which is a singular honour for FFC, the only Pakistani Company to have ever received awards of excellence.

The Company has been able to further improve its standing by securing first position for best design, layout and graphics at the “Annual International Graphic Print Material Exhibition 2004”, organized by the National Council of Culture and Arts, Karachi.

The Company also continues to be the proud winner of the Karachi Stock Exchange “Top 25 Companies Award” for listed companies for the tenth consecutive year, and has further been able to achieve recognition of the Rawalpindi Chamber of Commerce and Industry for excellent and meritorious performance in 2003.

The Company’s achievements are indeed a reflection of our commitment to follow the listing regulations and best corporate practices and we are committed to maintain these honours.

Good governance has always been regarded as an inspiration and we are committed to

BOARD COMMITTEES

Audit Committee

The directors have established an Audit Committee comprising five members, including the Chairman, all of whom are non-executive directors of the Company. The Committee meets at least once every quarter of the year prior to approval of interim results of the Company by the Board of Directors. Additional meetings are held to review the business plans, projections of the Company and other matters as required or instructed by the Board. During the year, the Committee held five meetings and minutes of these meetings were circulated to all concerned.

The meetings were also attended by the chief financial officer, the head of internal audit and the external auditors at which issues relating to accounts and audit were discussed. During these meetings, the Committee held separate discussions with the internal and external auditors without the Management of the Company being

The terms of reference of the Audit Committee have been determined by the Board in compliance with the requirements of the Code of Corporate Governance contained in the listing regulations of the stock exchanges and include matters relating to safeguarding assets, monitoring internal audit function, appointment and remuneration of external auditors, monitoring compliance with applicable accounting standards /listing rules and other duties assigned by the Board.

Human Resources Committee

The Committee consists of four non-executive directors and held two meetings during the year. The role of the Human Resources Committee is to assist the Board of Directors in the evaluation and approval of the employee benefit plans, welfare projects and retirement emoluments. The Committee recommends any adjustments which are fair and required to attract/retain high calibre staff.

System and Technology Committee

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

MANAGEMENT

The Management has been entrusted with ensuring smooth operations of the Company and achieving the objectives of the strategies adopted by the Board and flow of quality and timely information between the Management and the Board to facilitate the decision making process.

The Management operates under authorized limits for procurement of goods and services and has been delegated financial powers for approving transactions. It is also responsible for preparation of budgets, projections etc., monitoring control and reporting deviations to the Board.

We aim to enhance
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standards through
development of
intellectual and
creative potential of
□□□□□□□□□□
resource.

Executive Committee

The Executive Committee comprises six members from the Management of the Company and is responsible for the management of the business and affairs of the Company as delegated by the Board and for dealings on the Board's behalf with matters of urgent nature when the Board of Directors is not in session and any other duty delegated by the Board. The Committee met on required basis during the year.

Business Strategy Committee

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

This Committee is also chaired by the Chief Executive and Managing Director of the Company and is composed of members of Management of the Company. The Committee met on required basis during the year.

INTERNAL AUDIT

The Board is responsible for effective implementation of a sound internal control system including compliance with control procedures, safeguarding of assets and risk management which is implemented at all levels within the Company and monitors the performance of the Internal Audit Department through the Audit Committee. The scope of the department has been defined by the Audit Committee and the department head has access to the Chairman of the Audit Committee. Internal audit reports were regularly furnished to the Audit Committee and also provided to the external auditors for their review.

Internal audit is an independent in-house function headed by a full-time employee of the Company.

EXTERNAL AUDITORS

The external auditors of the Company, Taseer Hadi Khalid and Company, Chartered Accountants have been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm is fully compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as adopted by the ICAP.

Neither the Chief Executive Officer, nor the Chief Financial Officer, Internal Auditor or any director of the Company were partners, employees or close relatives of partners or employees of the firm of the external auditors at any time during the last two years.

The auditors attended the general meetings of the Company during the year and have confirmed attendance of the 27th Annual General Meeting of the Company scheduled for February 28, 2005, at which audited financial statements of the Company and consolidated financial statements of the Company and FFBL, for the financial year 2004, shall be placed for consideration and approval of shareholders. The Auditors have also confirmed that neither their firm nor any of their partners, their spouses or minor children at any time during the year, held or traded in shares of the Company or its subsidiary.

Services provided in addition to audit during the year were non management in nature and were provided in accordance with the listing regulations, observing applicable IFAC guidelines.

The Auditors have completed their assignment for the financial year ended December 31, 2004 and shall retire on the conclusion of the 27th Annual General Meeting. Being eligible for reappointment under the listing regulations, they have offered their services as Auditors of the Company for the financial year 2005 on the same terms and conditions, and based on the Audit Committee's proposal, the Board recommends their reappointment for the ensuing year.

MARKETING

Ever since inception, the Company has been operating nationwide, being the leading fertilizer company marketing its products in all parts of the Country. The marketing network is divided into three sales zones, fourteen sales regions and sixty five sales districts, manned by professionals who market both prilled and granular "Sona" urea, di-ammonium phosphate (DAP), sulphate of potash (SOP) and triple super phosphate (TSP) through more than 3,600 well trained Company dealers all over Pakistan.

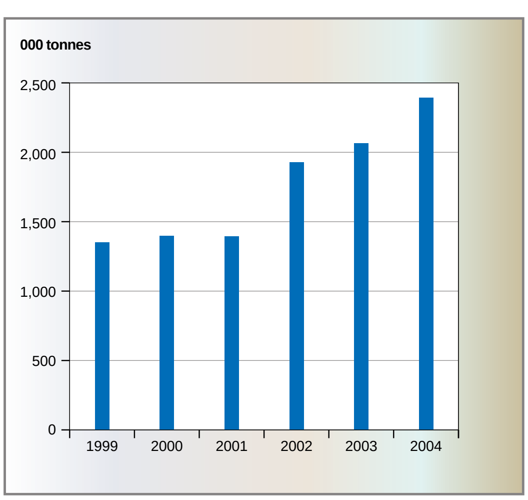
Owing to seasonality of fertilizer consumption, the Company has also developed a well planned network of 170 field warehouses in the Country with a capacity of 367 thousand tonnes to ensure that fertilizer supplies to the farmers remain uninterrupted especially during the peak consumption months. "Sona" urea prilled and "Sona" urea granular are also dispatched directly from plantsites to meet immediate demand and ensure prompt delivery.

The Company was able to achieve a record domestic urea sale of 2,376 thousand tonnes, which included 85 thousand tonnes of purchased urea and was 13% in excess of sales last year as compared to a 5 % growth registered by the Industry. The sale represented 105% of our production and we closed the year with only 5 thousand tonnes of urea out of 31 thousand tonnes carried by the industry.

Total urea offtake of 2,963 thousand tonnes, including 580 thousand tonnes of "Sona" - granular marketed on behalf of FFBL, surpassed last year's sales by 11% and we were able to improve our collective market share to a record 63% as compared to 59% achieved last year.

Fertilizer sales registered a record 3,491 thousand tonnes which included DAP sales of 516 thousand tonnes, of which 381 thousand tonnes represented indigenously produced "Sona" DAP by FFBL. Total fertilizer sales by FFC recorded a growth of 11 % over last year while DAP market participation of 43% was also attained.

UREA SALES



PLANTSITES

The year witnessed exceptional performance at every level. Plant operating efficiencies surpassed all previous records with large margins. Cost effective and professional solutions were adopted to address any major potential reliability threats.

Plants reliability improvement projects remained of prime importance and significant progress has been achieved by addressing major unreliable areas and chronic problems. System implementation through enforcement of FFC's operational, maintenance, plant monitoring, housekeeping and safety practices remained in the lime-light and deficiencies were overcome utilizing the gap analysis approach.

The Company continued with selective investments necessary to sustain profitability, improve operations and maintain its position as the leading fertilizer manufacturer in the Country.

Plants I & II (Goth Machhi)

Operational performance of the Plants I and II (Goth Machhi) was excellent during the year with a total "Sona" urea production of 1,458 thousand tonnes. Plant I created a new record of daily urea production this year.

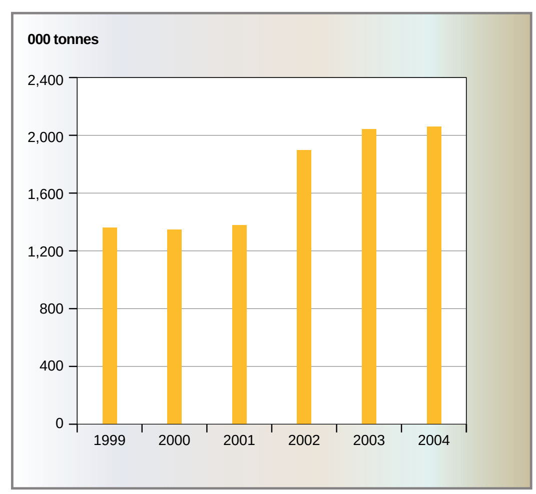
Annual maintenance turnarounds of both plants were carried out in the first quarter of 2004 and were executed safely and successfully within the stipulated time. Comprehensive inspections and major overhauls of equipment and machines were carried out in-house. Various modification jobs were also executed to improve operational efficiencies. With on-going efforts to improve plant reliability and performance, maintenance turnarounds are now scheduled on bi-annual basis.

The continuous decline in natural gas supply pressure from Mari Gas Field poses a new challenge with a direct impact on production. General water shortage in the Country with frequent canal closures and declining water flow in the rivers in the past few years has also put more strain on our water supply wells. Dedicated booster compressors have been planned to be commissioned in the first quarter of 2005 to boost gas supply pressure and further expansion of raw water resources and its optimization is currently underway to meet water requirements.

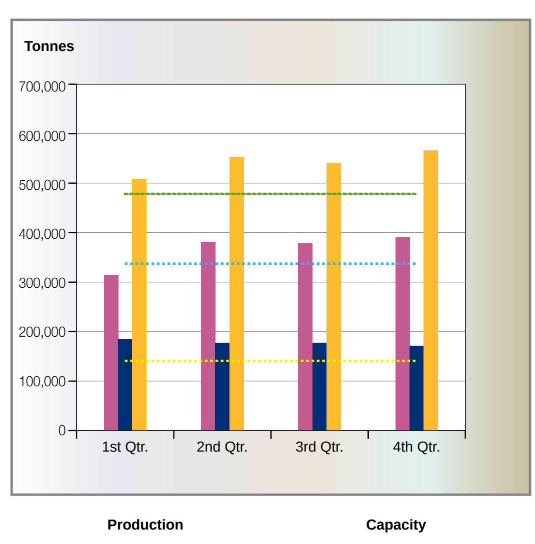
In our endeavor for self-reliance in areas of critical maintenance activities, refurbishment of old bimetallic stripper of Plant III (Mirpur Mathelo) was successfully completed in the fabrication shop which made this expensive equipment operational again at Plant I. Detailed engineering of Energy Revamp Project of Plant I Ammonia Unit is under process and commissioning is expected in 2006. This implementation would result in an energy saving of 0.3 Gcal/MeT ammonia. Utilization of the saved natural gas would also result in 18 thousand tonnes of additional urea production.

Evaluation of existing BFW heat exchanger E-211 was carried out for vibration and leakage estimation. The exchanger has completed its useful life and order has been placed for a new exchanger with modified design.

UREA PRODUCTION



PRODUCTION vs CAPACITY 2004



Plant III (Mirpur Mathelo)

Tapping the potential of our recently acquired Plant III (Mirpur Mathelo) has resulted in a noteworthy efficiency of 125% of name plate capacity with annual production of 716 thousand tonnes, 14% in excess of last year's output.

We are pleased to report that the Company was able to achieve the required "Sona urea" quality level for "FFC Urea" produced by the Plant III, which was formally declared as "Sona Urea" on March 03, 2004. We are confident that benefits will continue to accrue to the Company by providing value added quality products to our customers.

To fulfil our commitment with the GOP for enhanced urea production, annual maintenance turnaround of the plant was deferred to 2005 after careful technical review of efficiency maintained during the period to meet the increase in demand.

To meet its commitment to the Government, FFC has also planned de-bottlenecking of its Plant III for increasing nameplate production capacity to 725 thousand tonnes annually in a normal operating year.

Almost all the piping isometrics of Urea Hydrolyzer project have been approved and most of the piping/equipment erection work has been completed. The project is ready for commissioning after turnaround 2005 and will help reduce NH3 (Ammonia) contents of effluent water and provide additional urea production of 17 MTPD. Cooling tower packing replacement for another two cells shall be completed before the onset of next summer season and is expected to yield a saving of Rs. 12.50 million per annum through improved energy efficiency.

Information technology culture was successfully inculcated at the plant in order to reduce and simplify routine workload and to keep pace with modern technology. The landmarks are modern fiber optic network, new inventory management system and computer training of all employees.

Technical Training

Our Technical Training Center at Goth Machhi continues to extend customized training services to other companies including OMV Pakistan, Pakistan Petroleum Ltd., Pakistan Refinery Ltd. and Tullow Exploration Pakistan. Craft Certificate Courses were also conducted for local areas as part of extension of technical training to the local community. Besides fulfilling the plant requirements, services to surrounding oil and gas companies and maintenance engineering services to OMV were also extended at their sites as part of our professional commitment to the community.

INVESTMENT IN FFBL

Our investment in FFBL has commenced its pay back in the form of returns through dividends. FFBL has also announced its annual financial results and it is encouraging to note that through improved profitability, consolidated earnings of the Group have also increased over last year and we are hopeful that profit distributions would continue in the future.

During the year, FFBL made a right issue of 24.21 million shares. The increase in share capital diluted the Company's holding in FFBL to 50.88% as against 52.23% at the end of last year. However, we have continued to issue audited consolidated financial statements of the Company and FFBL in view of our sustained holding of over 50% in FFBL. FFBL has issued separate financial statements which have been audited by the same Auditors who have issued an independent opinion on these statements.

Sale of indigenous "Sona" DAP production by FFBL improved significantly over last year contributing tremendously to the group's profitability.

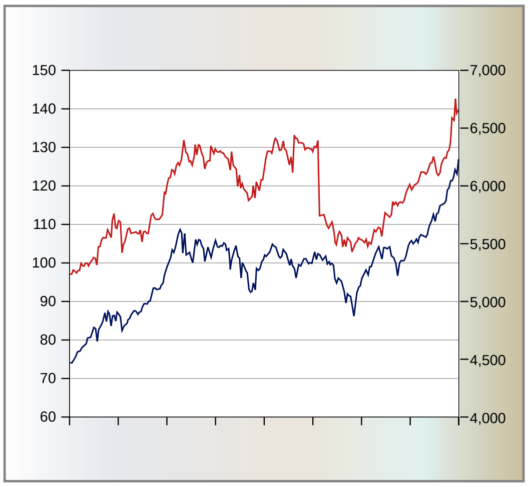
OVERSEAS INVESTMENT (PAKISTAN MAROC PHOSPHORE – SA)

In order to ensure continuous supply of phosphoric acid to FFBL, a project is being setup in Morocco called "Pakistan Maroc Phosphore – SA (PMP)". The project is being sponsored collectively by Fauji Foundation, FFCL and FFBL in collaboration with OCP, Morocco. Investment in PMP has been approved by the shareholders of the Company as proposed by the Board of Directors in the Extraordinary General Meeting held on November 29, 2004.

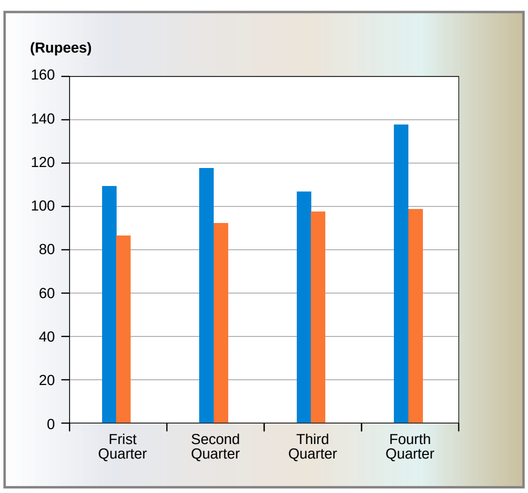
The Company has recently remitted the first tranche of Moroccan Dirhams (MAD) 25 million, equivalent to Rs. 179 million, on account of 12.5% investment share in PMP. Total investment amounts to MAD 100 million which shall be injected upon equity call by PMP.

The Company is restricted from disposing the investment outside the Fauji Group by the Shareholders Agreement for a five years period effective September 14, 2004. In case of any legal restrictions on future dividend distributions by PMP, the investment is convertible into an interest bearing loan.

FFC SHARE PRICE TRENDS
vs KSE Index in 2004



FFC SHARE PRICE



PATTERN OF SHAREHOLDING

There were 4,841 Company shareholders as of December 31, 2004. Closely held shares (i.e. those held by the sponsors, investment companies, financial institutions, foreign investors and other corporate bodies) amount to 89% of the total shares outstanding of which 3% were held by foreign shareholders.

Pattern of Shareholding	No. of Shares
National Investment Trust	29,616,765
Investment Corporation of Pakistan	1,709,245
Company Executives	306,665
Public Sector Companies and Corporations	8,742,796
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds	46,491,728
Shareholders holding ten percent or more voting interest - Fauji Foundation	130,811,580

Categories of Shareholding	No. of shareholders	No. of shares held	%age
Investment Companies	17	11,363,423	3.85
Insurance Companies	26	25,897,525	8.78
Joint Stock Companies	128	9,622,042	3.26
Financial Institutions	33	53,185,134	18.03
Modarabas	16	269,705	0.09
Foreign Investors	32	10,096,038	3.42
Leasing Companies	3	23,230	0.01
Charitable Trust & Others	103	153,286,225	51.97
Individuals	4,483	31,226,965	10.59
Total Shares	4,841	294,970,287	100.00

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.

Our market capitalization increased to Rs. 41.1 billion recording an increase of 67.92% over last year's amount of Rs. 24.5 billion and we were able to further strengthen our dominant position among companies with largest market capitalization.

Thorough research, ingenuity, skilful innovation stimulated by state of the art technology has resulted in efficient operational

EMPLOYEE RELATIONS AND SOCIAL WELFARE

We consider our human capital of 2,403 employees to be our most valuable asset since their commitment and efforts have contributed most towards the fortunes of the Company. Our association with each other over the years has developed into a family like relationship and we are committed to invest in their welfare.

We believe in providing a conducive environment for developing a focused, disciplined, trained and experienced work force through local and foreign training courses, for improved efficiencies which has always been a crucial factor in the achievement of exemplary performances.

The Company contributes towards provident fund and provides gratuity and pension to its employees in addition to remuneration and benefits. The Company also extends full medical facilities to all employees and their families along with merit scholarships awarded for higher education. This year, our educational facilities at Mirpur Mathelo have been brought at par with Goth Machhi and other good institutions through improvement in school system and induction of professional educators. Construction of modern housing facilities and renovation of old houses was carried out at Mirpur Mathelo for the benefit of our employees and to improve the township ambiance. Value of provident, gratuity and pension funds based on latest financial statements amounted to Rs. 1,753 million.

Social Responsibilities

We place great value on our social responsibilities and believe in nurturing a culture which boosts the prosperity and development of the society for a mutually beneficial relationship. This relationship is dependent upon many factors including the Company's reputation and the services we extend. Accordingly, construction of a 20 bed community hospital in Mirpur Mathelo is in advanced stages with the target to start services by March 2005. Plans are also being finalized for constructing a Coronary Care Unit (CCU) at District Hospital, Ghotki and a secondary school for which budgetary provisions have been included in capital expenditure plan 2005. The Company also continues to provide financial support to Hazrat Bilal Memorial Trust Hospital for smooth operations of the hospital.

Merit scholarships are also awarded to the children of the farming community for higher education for development of professional skills in the fields of engineering, agriculture, commerce and computer sciences in addition to contributions to the local community school at Ghotki as a service to the community in which we

Welfare

We share the sentiments towards the loss of hundreds of thousands of valuable lives in the recent Tsunami disaster and our employees have contributed towards the President of Pakistan's Relief Fund for the help of Tsunami victims.

Employees, along with their families, also participate in extending the Company's contributions to the neighbouring community through assistance in raising charitable funds by arranging meena bazaars and charity shows and adding personal contributions to help the needy and poor both in the employment of the Company and people living around the Company facilities.

We are proud of our heritage.
Efficiency, quality and hospitality are
ingrained in our culture.

SAFETY, HEALTH AND ENVIRONMENT

Importance of safe practices, health of employees and a highly conducive environment cannot be overemphasized; safety stewardship and safe operations are ingrained in our culture. The Company's plants operate under strict safety and environmental controls with immaculate monitoring.

The Company has obtained certification for its Plants I & II (Goth Machhi) for international environment standards, ISO-14001 and has further been certified for international quality standard, ISO 9001:2000 and international safety standard, OHSAS-18001. The Company has received various awards of honour over the years from National Safety Council, U.S.A. which are the products of strict compliance of plant safety standards and reflect our corporate commitment

Progress has been achieved this year in these critical areas including improved environment through rehabilitation of facilities. Development of green belts and tree plantation for a healthy and cleaner environment has been undertaken in and around our Mirpur Mathelo township. Township has been given a new look through extensive construction and renovation work, a beautiful lush green eco system and availability of clean water through introduction of state of the art polyethylene piping potable water system.

Personnel safety has primacy over all business requirements and we remain fully committed to maintaining the highest standards of health and safety. Regular safety audits ensure the compliance to safety and hygiene standards. The Company achieved the highest ever milestone of 23.46 million man-hours of safe operations without loss time injury at Goth Machhi in September 2004, which is reflective of our safe practices.

Completion of first one million safe man hours at Mirpur Mathelo and changeover to environmental friendly phosphate based cooling water system are the main landmarks. Promotion of safety culture through training sessions on safety equipment handling and emergency plan dry runs

Product quality is accorded a high priority and ISO-9002 certification for “Sona” confirms the excellent operational and maintenance skills of the employees and their level of performance.

FUTURE OUTLOOK AND WTO CHALLENGES

By the Grace of Allah since its establishment FFC has performed extremely well indeed. Short term outlook appears encouraging with significant projections for strong demand for our fertilizers.

In the long term, the Company is committed to achieve sustained levels of operations at demonstrated operating efficiencies through focus on our fundamental strengths, diversification and establishing projects beyond the territorial limits of the Country. Natural gas prices are a key factor in developing the future outlook along with farmer liquidity and favourable weather conditions which have a strong affect on the future earnings of the Company. The most important factor, however, is future fertilizer demand which at the current levels is surpassing the domestic supply. With passage of time, this deficit will increase further, necessitating increased urea import. This in turn demands enhancement of indigenous production.

Work plans and schedules are being finalized for proper execution of Plant III's turnaround 2005 within the planned time frame and the Management is confident that Phase-1 of de-bottlenecking for capacity enhancement of up to 125% shall be

The expansion would result in increased production to 725 thousand tonnes per annum and we foresee improved market share and profitability for the Company which would also leverage the shareholders

We will continue to capitalize on our intellectual prowess in enhancing creativity and involving employees in the development of the Company. We have entered 2005 with a resolve to further improve our performances and setting new levels of excellence for the Company and our stakeholders through consolidation and better management of our work force and capital.

The increasing demand for fertilizer, future dividend inflows from FFBL and our sound financial position give us the confidence to feel that the Company is geared for a bright future.

WTO Challenges

Our quality product with international certifications enables us to believe that we are well equipped to face the WTO challenges and "Sona" would continue to be the preferred brand in the Country.

The Management feels that WTO implications would not have a negative impact on the Company's overall operations.

We are resolved to attain new levels of excellence with continued professional commitment, dedication □□□□□□□□□□□□□

CONCLUSION

Our employees' consistent dedication, toil and commitment have brought outstanding achievements for the Company and the Board of Directors vision and expertise has contributed in strategies to add value and dynamism to the fortunes of the Company.

We proudly translate our acronym FFC also to mean "Farmer Friendly Culture". This is reflected in our marketing strategy and efficient function of the Farm Advisory Centres which provide free advice and services to our agrarian community at its doorstep. Growth is the essence of life; we believe that the Company's growth depends upon the growth of our agrarian partners – the hardworking farmers.

We look forward to presenting our achievements to the shareholders in the forthcoming general meeting. We are extremely thankful for the trust and faith reposed by them in the Board as well as the Management of the Company. Their support gives us confidence and encouragement in achieving the targets and strategies formulated by the Board and gives meaning to our efforts.

On behalf of the Board, I would also like to express profound gratitude to the GOP, to our valued customers/ business partners, Mari Gas Company Limited, dedicated employees and dynamic Management for their outstanding support, effort and leadership respectively which have enabled FFC to prosper and achieve exemplary results for the year 2004. We look forward to continued commitment of all stakeholders for future progress of the Company.

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

Rawalpindi:
January 31, 2005

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

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

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 and communicated to us vide NIT's letter No. NIT/CG-05/FFCL/01975 dated January 18, 2005.

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 NBFI 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 2004 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

9. The Board arranged One orientation course for its directors during the year 2004 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 Five 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 31, 2005
Place: Rawalpindi

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

Review Report to The Members on Statement of Compliance With Best Practices of Code of Corporate Governance

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

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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.

Dated: January 31, 2005
Islamabad

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS

Auditors' Report to The Members

We have audited the annexed balance sheet of Fauji Fertilizer Company Limited ("the Company") as at December 31, 2004 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

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 except for the changes as indicated in notes 3.7.2 and 3.15 with which we concur;

   (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, 2004 and of the profit, its cash flows and changes in equity for the year then ended;

(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

(e) the financial statements for the year ended December 31, 2003 were audited by another firm of accountants who have issued unqualified opinion thereon.

Dated: January 31, 2005 **TASEER HADI KHALID & CO.**
Islamabad **CHARTERED ACCOUNTANTS**

Balance Sheet

	Note	2004	2003
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital	4	2,949,703	2,564,959
Capital reserve	5	160,000	160,000
Reserve for issue of bonus shares		442,455	–
Revenue reserves	6	8,742,749	8,797,753
		12,294,907	11,522,712
NON CURRENT LIABILITIES	7	2,868,403	4,556,886
DEFERRED TAXATION	8	2,407,000	2,522,000
CURRENT LIABILITIES			
Trade and other payables	9	5,831,105	3,356,904
Interest and mark - up accrued	10	74,233	83,562
Short term borrowings	11	100,000	2,972,333
Current portion of long term:	7		
- Financing		2,184,088	1,447,011
- Loan		1,741	1,740
- Murabaha		83,333	41,667
Taxation		598,297	329,910
Proposed dividend		–	384,743
		8,872,797	8,617,870
CONTINGENCIES AND COMMITMENTS	12		
		26,443,107	27,219,468

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

As at December 31, 2004

	Note	2004	2003
		(Rupees '000)	
PROPERTY, PLANT AND EQUIPMENT	13	9,180,716	9,259,008
GOODWILL	14	1,778,464	1,883,079
LONG TERM INVESTMENTS	15	5,866,999	7,083,151
LONG TERM LOANS AND ADVANCES	16	67,328	63,920
LONG TERM DEPOSITS AND PREPAYMENTS	17	3,492	3,040
CURRENT ASSETS			
Stores, spares and loose tools	18	1,727,309	1,686,980
Stock in trade	19	219,180	681,297
Trade debts	20	1,407,736	1,876,381
Loans and advances	21	86,368	63,982
Deposits and prepayments	22	24,633	23,111
Other receivables	23	560,895	560,526
Short term investments	24	4,464,157	2,200,845
Cash and bank balances	25	1,055,830	1,834,148
		9,546,108	8,927,270
		26,443,107	27,219,468

Chairman

Chief Executive

Director

Profit and Loss Account
For the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
Sales	26	21,027,030	21,034,629
Cost of sales	27	13,157,653	13,701,319
GROSS PROFIT		7,869,377	7,333,310
Distribution cost	28	1,766,652	1,851,170
		6,102,725	5,482,140
Finance cost	29	372,949	520,838
Other operating expenses	30	560,494	488,206
		5,169,282	4,473,096
Other operating income	31	933,762	457,413
NET PROFIT BEFORE TAXATION		6,103,044	4,930,509
Provision for taxation	32	2,099,000	1,786,000
NET PROFIT AFTER TAXATION		4,004,044	3,144,509
Earnings per share - basic and diluted (Rupees)	33	13.57	10.66

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

Chairman   Chief Executive   Director

Cash Flow Statement

For the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	10,001,809	5,308,962
Finance cost paid		(410,332)	(548,999)
Income tax paid		(1,945,613)	(2,600,050)
Payment to gratuity fund		(43,681)	(25,932)
Payment to pension fund		(27,321)	(23,207)
Net cash from operating activities		7,574,862	2,110,774
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(627,157)	(468,209)
Proceeds from sale of property, plant and equipment		21,180	15,203
Interest received		356,643	471,520
Investment in FFBL		–	(750,000)
Advance against equity investment in foreign company		(179,300)	–
Decrease in other investments		1,023,625	132,341
Dividends received from FFBL		475,233	–
Net cash from / (used in) investing activities		1,070,224	(599,145)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - proceeds		600,000	1,705,910
- repayments		(1,453,859)	(1,881,057)
Long term loans - repayments		(1,740)	(1,740)
Long term murabaha - repayments		(83,333)	(83,333)
Short term borrowings		(2,872,333)	(416,564)
Dividends paid		(3,765,585)	(2,260,303)
Net cash used in financing activities		(7,576,850)	(2,937,087)
Net increase / (decrease) in cash and cash equivalents		1,068,236	(1,425,458)
Cash and cash equivalents at beginning of the year		3,039,894	4,465,580
Effect of exchange rate changes		200	(228)
Cash and cash equivalents at end of the year	36	4,108,330	3,039,894

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

Chairman | Chief Executive | Director

Statement of Changes in Equity
For the year ended December 31, 2004

	Share capital	Capital reserve	Reserve for issue of bonus shares	General reserve	Fair value adjustment	Unappropriated profit	Total
	(Rupees '000)						
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							
First interim Rs 3.00 per share	–	–	–	–	–	(769,488)	(769,488)
Second interim Rs 2.25 per share	–	–	–	–	–	(577,116)	(577,116)
Third interim Rs 3.25 per share	–	–	–	–	–	(833,612)	(833,612)
Final Rs 1.50 per share	–	–	–	–	–	(384,743)	(384,743)
Balance at December 31, 2003	2,564,959	160,000	–	8,600,000	–	197,753	11,522,712
Net profit for the year ended December 31, 2004	–	–	–	–	–	4,004,044	4,004,044
Transfer from general reserve	–	–	827,199	(1,150,000)	–	322,801	–
Dividends							
First interim Rs 3.25 per share	–	–	–	–	–	(833,612)	(833,612)
Second interim Rs 4.75 per share	–	–	–	–	–	(1,218,356)	(1,218,356)
Third interim Rs 4.00 per share	–	–	–	–	–	(1,179,881)	(1,179,881)
Bonus shares issued	384,744	–	(384,744)	–	–	–	–
Balance at December 31, 2004	2,949,703	160,000	442,455	7,450,000	–	1,292,749	12,294,907

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

Chairman | Chief Executive | Director

Notes to the Financial Statements
For the year ended December 31, 2004

1. STATUS AND NATURE OF BUSINESS

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

2. 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

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

3.2 Retirement benefits

a) The Company has the following plans for its employees:

Funded Gratuity Scheme

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

Funded Pension Scheme

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

Contributory Provident Fund

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

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 9.1 to the financial statements. All contributions are charged to profit and loss account for the year. Actuarial gains / losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

b) Compensated absences

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

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

Deferred tax 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.

3.4 Property, plant and equipment and capital work in progress

Property, plant and equipment including those acquired on PSFL acquisition, are stated at cost less accumulated depreciation except freehold land and capital work in progress, which are stated at cost. Property, plant and equipment acquired on PSFL acquisition are stated at their cost to the Company, which represents their fair value on acquisition, less accumulated depreciation.

Depreciation is provided on a straight-line basis to write off the cost 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 profit and loss account 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 profit and loss account currently.

Initial fill of catalysts in the ammonia plant is capitalised with plant and machinery whereas costs of subsequent replacements of such catalysts are included in property, plant and equipment and depreciated on a straight line basis over their estimated useful lives.

3.5 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. If any such indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversal of impairment losses are recognized in the profit and loss account. Reversal of impairment loss is restricted to the original cost of the asset.

3.6 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 with reversal of related deferred tax liability.

3.7 Investments

3.7.1 Investment in subsidiary

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

3.7.2 Investment in associates

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

Previously, the investments in associates were based on fair value method. Under the fair value method, such investments were initially recognised at cost and carried at fair value at the balance sheet date. Fair values of investments were determined on the basis of market value at the balance sheet date. Adjustment arising from remeasurement of investments to fair value was reflected through statement of changes in equity and was taken to profit and loss account on disposal of investments or when the investments were determined to be impaired. The policy has been changed to bring it in line with the Group's policy. This change in policy has no effect on the current or accumulated profits.

3.7.3 Investments available for sale

Investments available for sale are initially recognised at cost and at subsequent reporting dates are measured at their fair values. 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 the profit and loss account.

3.7.4 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.

3.8 Stores, spares and loose tools

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.

3.9 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

Net realisable value signifies the estimated selling price in the ordinary course of business less net estimated cost of completion and selling expenses.

3.10 Foreign currencies

Transactions in foreign currencies are recorded in the books at the rates of exchange prevailing 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 profit and loss account for the year.

Notes to the Financial Statements
For the year ended December 31, 2004

3.11 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 the subsidiary company products is recognised when such products are sold on its behalf. Dividend income is recognized when the right to receive the dividend is established.

3.12 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.

3.13 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.

3.14 Basis of allocation of common expenses

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

3.15 Dividend appropriation

Dividend is recognized as a liability in the period in which it is declared. Upto previous year, dividends proposed after the balance sheet date but before the financial statements were authorised for issue were recorded as a liability. The change has been necessitated by revision in the 4th Schedule to the Companies Ordinance, 1984. Proforma information required under International Accounting Standard 8: "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" is presented in note 38 to the financial statements.

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

3.17 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.

3.18 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 either on a net basis or realise the asset and settle the liability simultaneously.

3.19 Financial instruments

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

a) **Trade and other payables**
Liabilities for trade and other payables 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 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.

3.20 Operating leases

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

4. SHARE CAPITAL

ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2004	2003		2004 (Rupees '000)	2003 (Rupees '000)
256,495,902	256,495,902	Ordinary shares of Rs.10 each fully paid in cash	2,564,959	2,564,959
38,474,385	–	Ordinary shares of Rs.10 each issued as fully paid bonus shares.	384,744	–
294,970,287	256,495,902		2,949,703	2,564,959

AUTHORISED SHARE CAPITAL

This represents 500,000,000 (2003: 300,000,000) ordinary shares of Rs 10 each.

4.1 Fauji Foundation held 44.35% (2003: 44.35%) ordinary shares of the Company at the year end.

		Note	2004	2003
			(Rupees '000)	
5.	**CAPITAL RESERVE**			
	Share premium	5.1	40,000	40,000
	Capital redemption reserve	5.2	120,000	120,000
			160,000	160,000

5.1 Share premium

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

5.2 Capital redemption reserve

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

		Note	2004	2003
			(Rupees '000)	
6.	**REVENUE RESERVES**			
	General reserve		7,450,000	8,600,000
	Unappropriated profit		1,292,749	197,753
			8,742,749	8,797,753
7.	**NON CURRENT LIABILITIES**			
	Long term financing - secured	7.1	2,826,736	4,388,479
	Long term murabaha - secured	7.2	41,667	166,666
	Government of Pakistan loan - secured	7.3	–	1,741
			2,868,403	4,556,886
7.1	**Long term financing - secured**			
	Finances utilised under mark-up arrangements from banking companies and financial institutions	7.1.1		
	ABN Amro Bank - Syndicated (ABN)		458,333	550,000
	Muslim Commercial Bank Limited (MCB)		500,000	600,000
	National Bank of Pakistan (NBP)		833,333	1,000,000
	Habib Bank Limited (HBL- 1)		656,250	750,000
	Habib Bank Limited (HBL- 2)		187,500	250,000
	United Bank Limited (UBL)		187,500	250,000
			2,822,916	3,400,000
	Loans from banking companies	7.1.2		
	United Bank Limited (UBL -1)		500,000	–
	United Bank Limited (UBL -2)		100,000	–
			600,000	–
	Loans for PSFL acquisition- From banking companies			
	a) Citibank N.A	7.1.3	805,174	985,910
	b) ABN Amro Bank N.V.		–	500,000
			805,174	1,485,910
	Term Finance Certificates (TFCs)	7.1.4	782,734	949,580
			5,010,824	5,835,490
	Less: Current portion shown under current liabilities		2,184,088	1,447,011
			2,826,736	4,388,479

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

Lender	**Mark-up rate p.a. (%)**	**No of half-yearly instalments outstanding**	**Date of final repayment**
ABN 1	6 months Treasury Bill rate + 1.3	5	May 30, 2007
MCB	6 months Treasury Bill rate + 1.3	5	May 30, 2007
NBP	6 months Treasury Bill rate + 1.3	5	May 30, 2007
HBL - 1	6 months Treasury Bill rate + 1.3	7	May 30, 2008
HBL - 2	6 months Treasury Bill rate + 1.0	6	January 1, 2008
UBL	6 months Treasury Bill rate + 1.0	6	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.

7.1.2 Terms and conditions of long term loans from banking companies are given below:

Lender	**Annual interest rate (%)**	**Repayment due**	**Date of final repayment**
UBL - 1	3.50	On maturity	May 31, 2006
UBL - 2	4.50	On maturity	November 02, 2006

UBL - 1

This loan is secured against Pakistan Investment Bonds having face value of Rs. 500,000 thousand registered with the UBL's SGL account with the State Bank of Pakistan and ranking charge over plant and machinery amounting to Rs. 167 million.

UBL - 2

This loan is secured against Pakistan Investment Bonds having face value of Rs. 100,000 thousand registered with the UBL's SGL account with the State Bank of Pakistan.

7.1.3 Citibank N.A

This medium term loan was obtained for acquisition of PSFL. This 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. This loan carries interest at six months LIBOR + 3.1% p.a. Principal and interest are payable in half yearly instalments. The final repayment date is April 03, 2005.

7.1.4 Term Finance Certificates represent private placement with 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.

		2004	2003
		(Rupees '000)	
7.2	**Long term murabaha - secured**		
	Faysal Bank Limited (FBL)	125,000	208,333
	Less: Current portion shown under current liabilities	83,333	41,667
		41,667	166,666

The above murabaha financing carries mark-up at 4.5% p.a. Principal and mark-up are repayable in half yearly instalments upto May 31, 2007. This is secured by a registered charge on all present and future fixed and current moveable assets of the Company ranking pari passu with long term loans.

		2004	2003
		(Rupees '000)	
7.3	**Government of Pakistan loan - secured**		
	Government of Pakistan loan - 5th Danish credit	1,741	3,481
	Less: Current portion shown under current liabilities	1,741	1,740
		–	1,741

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. This loan carries interest at 8.75% p.a. Principal and interest are payable in half yearly instalments. The final repayment date is October 01, 2005.

		Note	2004	2003
			(Rupees '000)	
8.	**DEFERRED TAXATION**			
	The balance of deferred tax is in respect of the following major temporary differences:			
	Accelerated depreciation		(42,000)	(108,000)
	Provision for slow moving / surplus spares, doubtful debts, other receivables and short term investments		(109,000)	(79,000)
	Measurement to fair value of PSFL acquired fixed assets		2,558,000	2,709,000
			2,407,000	2,522,000
9.	**TRADE AND OTHER PAYABLES**			
	Creditors		490,354	249,474
	Accrued liabilities		652,802	550,680
	Payable to retirement benefits funds	9.1	–	14,659
	Consignment account with FFBL		305,034	183,685
	Other liabilities		14,131	12,780
	Sales tax payable		319,168	323,431
	Deposits		58,772	54,751
	Retention money		14,742	12,443
	Advances from customers		2,603,204	444,550
	Workers' Profit Participation Fund	9.2	327,845	265,499
	Workers' Welfare Fund		316,225	367,131
	Unclaimed dividend		728,828	44,209
	Dividend payable		–	833,612
			5,831,105	3,356,904

9.1 Payable to retirement benefits funds

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

	Funded gratuity	Funded pension	Total 2004	Total 2003
		(Rupees '000)		
Balance at beginning of the year	14,659	(2,306)	12,353	16,118
Expense for the year	29,022	28,698	57,720	43,220
Payments to Funds during the year	(43,681)	(27,321)	(71,002)	(46,985)
Balance at end of the year	–	(929)	(929)	12,353
	(note 9)	(note 23)		

b) Reconciliation of the (asset) / liability recognised in the balance sheet:

	Funded gratuity	Funded pension	Total 2004	Total 2003
		(Rupees '000)		
Present value of defined benefit obligation	514,777	464,935	979,712	872,736
Fair value of plan assets	(458,174)	(473,096)	(931,270)	(774,982)
Deficit / (surplus)	56,603	(8,161)	48,442	97,754
Unrecognised actuarial (loss) / gain	(56,603)	7,232	(49,371)	(85,401)
Net (asset) / liability	–	(929)	(929)	12,353

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

	Funded gratuity	Funded pension	Total 2004	Total 2003
		(Rupees '000)		
Current service cost	29,103	30,840	59,943	40,793
Interest cost	29,278	30,751	60,029	60,565
Expected return on plan assets	(29,359)	(33,182)	(62,541)	(58,138)
Amortization of loss	–	289	289	–
Expense for the year	29,022	28,698	57,720	43,220
Actual return on plan assets	53,888	60,966	114,854	76,623

d) Actuarial valuation of these plans was carried out as at December 31, 2004 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

		2004		2003	
		Gratuity	Pension	Gratuity	Pension
Discount factor	per annum	8%	7%	7%	7%
Expected rate of increase in salary level	per annum	13-14%	14%	11-12%	12%
Expected rate of return on plan assets	per annum	8%	8%	8%	8%

e) **"Salaries, wages and benefits" expense,** stated in notes 27 and 28 include retirement benefits of Rs 130,512 thousand (2003: Rs 109,598 thousand) in respect of gratuity, provident fund and pension plans and compensated absences.

Notes to the Financial Statements
For the year ended December 31, 2004

		Note	2004	2003
			(Rupees '000)	
9.2	**Workers' Profit Participation Fund**			
	Balance at beginning of the year		265,499	290,115
	Interest on funds utilised in Company's business		369	–
	Allocation for the year		327,845	265,499
	Payment to the Fund during the year		(265,868)	(290,115)
			327,845	265,499
10.	**INTEREST AND MARK-UP ACCRUED**			
	On long term financing		56,830	62,619
	On loans		14,685	1,325
	On murabaha financing		484	807
	On short term borrowings		2,234	18,811
			74,233	83,562
11.	**SHORT TERM BORROWINGS - SECURED**			
	Short term loans	11.1	100,000	600,000
	Short term import credit	11.2	–	2,372,333
			100,000	2,972,333

11.1 Short term loans

Short term loan facility available from a bank under mark-up arrangement amounted to Rs 100,000 thousand (2003: Rs 600,000 thousand), which is secured by lien on Pakistan Investment Bonds. This facility carries mark-up at the rate of Re 0.110 (2003: Re 0.071) per Rs 1,000 per day.

11.2 Short term import credit

This represents import credit facilities of Rs 2,372,333 thousand from various banks under mark-up arrangements at six months LIBOR+ 1.0%-1.10% and six months Treasury Bill+1.05% per annum in 2003.

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

11.3 Short term running finances

Short term running finance facilities available from banks under mark-up arrangements amounting to Rs. 3,250,000 thousand (2003: Rs. 3,250,000 thousand) which represent the aggregate of sale price of all mark-up agreements between the Company and the banks. These facilities have various maturity dates upto October 27, 2005.

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 three months KIBOR+0.25% and one month KIBOR+0.25% (2003: six months Treasury Bill rate + 1.25 %).

Notes to the Financial Statements
For the year ended December 31, 2004

			2004	2003
			(Rupees '000)	
12.	**CONTINGENCIES AND COMMITMENTS**			
a)	**Contingencies**			
i)	Guarantees issued by banks on behalf of the Company.		26,828	15,659
ii)	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
iii)	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
iv)	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.		66,000	96,000
v)	Claims against the Company and / or potential exposure not acknowledged as debt.		62,776	48,345
b)	**Commitments in respect of:**			
i)	Capital expenditure-contracted		461,006	507,886
ii)	Purchase of fertilizer, stores, spares and other revenue items.		254,212	182,266
iii)	Commitment for equity investment in Pakistan Maroc Phosphore S.A. - note 15.2, Moroccan Dirhams 75,000 thousand, equivalent approx.		545,903	–
iv)	Rentals under lease agreements:			
	Premises	- not later than one year	27,078	48,285
		- later than one year and not later than five years		
		2006	19,059	16,499
		2007	13,766	12,600
		2008	13,276	12,574
		2009	13,033	12,984
		- later than five years	17,423	29,868
	Vehicles	- not later than one year	60,462	40,930
		- later than one year and not later than five years		
		2006	59,029	44,712
		2007	52,529	43,140
		2008	40,203	33,889
		2009	34,264	22,477
		- later than five years	5,513	10,761

13. PROPERTY, PLANT & EQUIPMENT

	COST			DEPRECIATION			Written down	
	As at January 1, 2004	Additions / transfers / (disposals)	As at December 31, 2004	As at January 1, 2004	For the year / (on disposals)	As at December 31, 2004	value as at December 31, 2004	Annual rate of depreciation % on cost
				(Rupees '000)				
Freehold land	172,430	2,204	174,634	–	–	–	174,634	–
Lease hold land	82,400	–	82,400	10,300	5,150	15,450	66,950	6 1/4
Buildings and structures on freehold land	1,573,624	109,348	1,682,972	974,858	52,153	1,027,011	655,961	5 to 10
Buildings and structures on leasehold land	42,150	–	42,150	40,323	108	40,431	1,719	5
Railway siding	26,517	–	26,517	26,441	26	26,467	50	5
Plant and machinery	18,463,503	119,116	18,582,611	10,554,902	460,034	11,014,928	7,567,683	5
		(8)			(8)			
Catalysts	282,615	31,239	313,854	160,144	63,060	223,204	90,650	20 to 50
Furniture and fixtures	60,116	17,651	76,427	35,946	5,379	40,204	36,223	10 to 15
		(1,340)			(1,121)			
Office and electrical equipment	155,591	51,633	195,353	102,861	21,173	113,004	82,349	10 to 15
		(11,871)			(11,030)			
Vehicles	188,585	67,267	221,300	120,676	33,595	123,523	97,777	20
		(34,552)			(30,748)			
Maintenance and other equipment	515,367	82,218	578,419	418,722	58,984	458,616	119,803	15 to 33 1/3
		(19,166)			(19,090)			
Library books	6,493	958	7,403	5,469	812	6,267	1,136	30
		(48)			(14)			
	21,569,391	481,634	21,984,040	12,450,642	700,474	13,089,105	8,894,935	
		(66,985)			(62,011)			
Capital work in progress – note 13.4	140,259	448,406	285,781	–	–	–	285,781	–
		(302,883)						
2004	21,709,650	560,172	22,269,821	12,450,642	638,463	13,089,105	9,180,716	
	21,428,738	440,926	21,569,391	11,899,675	847,018	12,450,642	9,118,749	
		(300,273)			(296,051)			
Capital work in progress – note 13.4	138,313	287,844	140,259	–	–	–	140,259	–
		(285,898)						
2003	21,567,051	142,599	21,709,650	11,899,675	550,967	12,450,642	9,259,008	

13.1 Cost of property, plant and equipment has been shown net of Government grant of Rs 68,164 thousand (2003: Rs 68,164 thousand).

Notes to the Financial Statements
For the year ended December 31, 2004

		Note	2004	2003
			(Rupees '000)	
13.2	**Depreciation charge has been allocated as follows:**			
	Cost of sales	27	683,860	829,866
	Distribution cost	28	11,535	13,656
	Charged to FFBL under Inter Company Services Agreement		5,079	3,496
			700,474	847,018

13.3 Details of property, plant and equipment sold :

Description	Cost	Book value	Sale proceeds
		(Rupees '000)	
Vehicles			
By Company policy to employees			
Dr S.H.R Zaidi	996	199	442
Mr Taqi Ahmed Khan	734	147	300
Mr Muhammad Shuaib	863	173	354
Mrs Sadia Malik	734	147	300
Mr Tahir Jawed	892	178	365
Mr Ahsan Ali Zafar	540	108	261
Mr Sikandar Ali	175	123	142
Brig Umair Ahmed (Retd)	825	578	535
Mr Qaseem Arsal	450	315	315
By tender to outsiders			
Mr Lal Muhammad	650	455	518
Mr Sohail Ahmed	300	211	290
Mr M. Hanif	225	158	140
Mr M. Nazir	300	210	438
Mr M. Nasir Khan	250	175	234
Mr Shams - ul - Kamar	100	70	146
Khawaja Mohammad Tariq	600	420	687
Mr Muhammad Arif	200	140	178
Furniture and fixtures, office and electrical equipment and maintenance and other equipment			
By Company policy to employee			
Mr Aziz -ur-Rehman	148	74	74
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand	58,003	1,093	15,461
	66,985	4,974	21,180

		Note	2004	2003
			(Rupees '000)	
13.4	**CAPITAL WORK IN PROGRESS**			
	Civil works		220,187	61,010
	Plant, machinery and equipment		65,594	79,249
			285,781	140,259
14.	**GOODWILL**			
	Balance at beginning of the year		1,883,079	1,987,694
	Less: Amortisation for the year	30	104,615	104,615
			1,778,464	1,883,079
15.	**LONG TERM INVESTMENTS**			
	Investment in subsidiary at cost	15.1		
	Fauji Fertilizer Bin Qasim Limited (FFBL)		4,752,330	4,572,225
	Reversal of fair value adjustment due to restatement of investment at cost		–	180,105
			4,752,330	4,752,330
	Advance against equity investment in foreign company	15.2		
	Pakistan Maroc Phosphore S.A., Morocco			
	Advance against issue of shares		179,300	–
	Investments available for sale	15.3		
	Certificates of investment		246,525	250,218
	Government of Pakistan Special US Dollar Bonds		969,486	1,138,202
	National Savings Certificates		500,000	1,000,000
	Others		101,300	–
			1,817,311	2,388,420
	Investments held to maturity	15.4		
	Pakistan Investment Bonds		700,000	700,000
	Term Finance Certificates		20,355	148,380
			720,355	848,380
			7,469,296	7,989,130
	Less: Current portion shown under short term investments	24		
	Investments available for sale			
	Certificates of investment		12,456	76,746
	Government of Pakistan Special US Dollar Bonds		969,486	201,208
	National Savings Certificates		500,000	500,000
			1,481,942	777,954
	Investments held to maturity			
	Pakistan Investment Bonds		100,000	–
	Term Finance Certificates		20,355	128,025
			120,355	128,025
			1,602,297	905,979
			5,866,999	7,083,151

15.1 Investment in subsidiary - quoted

Investment in subsidiary represents 475,233 thousand (2003: 475,233 thousand) fully paid ordinary shares of Rs 10 each representing 50.88% of FFBL share capital as at December 31, 2004 (2003: 52.23%). The dilution in holding is due to the right shares issued by FFBL during the year. The market value of the Company's investment as at December 31, 2004 was Rs 14,542,129 thousand (2003: Rs 8,364,101 thousand), whereas value based on net assets as per audited financial statements as at December 31, 2004 was Rs 3,635,888 thousand (2003: Rs 3,137,756 thousand).

15.2 Advance against equity investment in foreign company

The Company has committed 12.5% total equity participation in Pakistan Maroc Phosphore S.A. (PMP), amounting to Moroccan Dirhams (MAD) 100,000 thousand. First tranche of MAD 25,000 thousand equivalent to Rs 179,300 thousand has been remitted while the balance shall be paid upon further equity call by PMP.

According to the Shareholders' agreement, the Company cannot sell the shares of PMP outside Fauji Group (consisting of the Company, Fauji Foundation and FFBL) for a period of five years effective September 14, 2004. Further, if any legal restriction is laid on dividends by PMP, the same will be converted to interest bearing loan.

15.3 Investments available for sale

The Company has placements in certificates of investments of banks and financial institutions for periods ranging from one and a half to five years at profit rates ranging from 6% to 15% per annum (2003: 11%

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 months LIBOR.

National Savings Certificates have been issued for a period of 5 years. Monthly profit is payable on these certificates at 14% per annum (2003: 14% to 16% per annum).

Other investments represent 10,000 thousand certificates of Rs 10 each in Shariah compliant closed end mutual fund. The fair value at the year end was Rs. 10.13 per certificate based on net asset value of the fund. Un-realised gain on re-measurement of these certificates to fair value amounting to Rs. 1,300 thousand is included in the profit and loss account.

Investments available for sale include Rs 1,345,568 thousand (2003: Rs 2,124,416 thousand) under lien of financial institutions against long term loans for PSFL acquisition and short term loans.

15.4 Investments 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 700,000 thousand (2003: Rs 500,000 thousand) under lien of a bank against loan for PSFL acquisition. Fair value of these PIBs as at December 31, 2004 was Rs 703,970 thousand (2003: Rs 964,825 thousand).

Investment in TFC represents 500 certificates of Rs 100,000 each of Orix Leasing Limited. Half yearly profit is payable on these TFCs at 14% per annum (2003: 14% per annum). Fair value of TFCs of Orix Leasing Limited is Rs 20,827 thousand (2003: Rs 53,461 thousand).

		Note	2004	2003
			(Rupees '000)	
16.	**LONG TERM LOANS AND ADVANCES**			
	Loans and advances, considered good, to:			
	Executives		65,266	39,712
	Other employees		41,449	55,535
			106,715	95,247
	Less: Amount due within twelve months, shown under current loans and advances	21	39,387	31,327
			67,328	63,920

16.1 Reconciliation of carrying amount of loans to executives and other employees:

	Opening balance as at January 1, 2004	Disbursements	Repayments	Closing balance as at December 31, 2004
		(Rupees '000)		
Executives	39,712	69,934	44,380	65,266
Other employees	55,535	40,386	54,472	41,449
	95,247	110,320	98,852	106,715

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 at 4% per annum (2003: 4% to 6% per annum) was charged on loans for house building during the year.

The maximum amount of advances to executives outstanding at the end of any month during the year was Rs 65,266 thousand (2003: Rs 58,680 thousand).

		2004	2003
		(Rupees '000)	
17.	**LONG TERM DEPOSITS AND PREPAYMENTS**		
	Deposits	2,452	1,872
	Prepayments	1,040	1,168
		3,492	3,040
18.	**STORES, SPARES AND LOOSE TOOLS**		
	Stores	77,123	65,442
	Spares	1,818,916	1,683,775
	Provision for slow moving and surplus items	(295,713)	(203,226)
		1,523,203	1,480,549
	Loose tools	107	305
	Items in transit	126,876	140,684
		1,727,309	1,686,980

		Note	2004	2003
			(Rupees '000)	
19.	**STOCK IN TRADE**			
	Raw materials		29,908	14,749
	Work in process		10,192	21,410
	Finished goods:			
	Manufactured urea		22,384	542,436
	Purchased fertilizers		156,696	102,702
			219,180	681,297
20.	**TRADE DEBTS**			
	Considered good	20.1	1,407,736	1,876,381
	Considered doubtful		1,979	2,059
			1,409,715	1,878,440
	Provision for doubtful debts		(1,979)	(2,059)
			1,407,736	1,876,381

20.1 This includes Rs 160 thousand (2003: Rs 18,162 thousand) due from Fauji Foundation, an associated undertaking. The maximum amount outstanding at the end of any month during the year was Rs 16,844 thousand (2003: Rs 20,276 thousand).

		Note	2004	2003
			(Rupees '000)	
21.	**LOANS AND ADVANCES**			
	Current portion of long term loans and advances		39,387	31,327
	Advances to suppliers - considered good		46,981	32,655
			86,368	63,982
22.	**DEPOSITS AND PREPAYMENTS**			
	Deposits		1,422	2,750
	Prepayments		23,211	20,361
			24,633	23,111
23.	**OTHER RECEIVABLES**			
	Accrued income on investments and bank deposits		48,927	43,680
	Income tax recoverable		476,489	476,489
	Receivable from retirement benefit fund - considered good	9.1	929	2,306
	Other receivables - considered good		34,550	38,051
	- considered doubtful		2,232	6,442
			36,782	44,493
	Provision for doubtful receivables		(2,232)	(6,442)
			34,550	38,051
			560,895	560,526

Notes to the Financial Statements

For the year ended December 31, 2004

		2004	2003
		(Rupees '000)	
24.	**SHORT TERM INVESTMENTS**		
	Term deposits with banks and financial institutions		
	Local currency		
	Available for sale (net of provision for doubtful recovery (Rs 13,000 thousand; 2003: Rs 13,000 thousand)	2,550,000	1,200,000
	Foreign currency		
	Held to maturity	311,860	94,866
	Current maturity of long term investments		
	Available for sale	1,481,942	777,954
	Held to maturity	120,355	128,025
		4,464,157	2,200,845
25.	**CASH AND BANK BALANCES**		
	At banks:		
	Deposit accounts		
	Local currency	499,333	810,813
	Foreign currency	–	297
	Current accounts		
	Local currency (includes drafts under collection)	397,939	(20,934)
	Foreign currency	14,898	15,321
		912,170	805,497
	Drafts in hand and in transit	142,153	1,027,324
	Cash in hand	1,507	1,327
		1,055,830	1,834,148

Balances with banks include Rs 58,772 thousand (2003: Rs 54,751 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 15,000 thousand (2003: Rs 15,000 thousand) under lien of the bank, against a guarantee issued by the bank on behalf of the Company.

26. SALES

Sales include Rs 3,379,630 thousand (2003: Rs 5,760,207 thousand) in respect of sale of purchased fertilizers and are exclusive of trade allowances and sales tax of Rs. 335,257 thousand and Rs 2,484,103 thousand respectively (2003: Rs 469,650 thousand and Rs 2,942,963 thousand respectively).

		Note	2004	2003
			(Rupees '000)	
27.	**COST OF SALES**			
	Raw materials consumed		3,996,766	3,448,489
	Fuel and power		2,444,552	2,304,140
	Chemicals and supplies		114,750	105,663
	Salaries, wages and benefits		1,263,122	1,058,258
	Rent, rates and taxes		8,594	8,461
	Insurance		93,175	84,060
	Technical services		14,364	13,920
	Travel and conveyance		82,089	68,740
	Repairs and maintenance (includes stores and spares consumed of Rs 362,832 thousand; 2003: Rs 421,453 thousand)		487,116	547,321
	Depreciation	13.2	683,860	829,866
	Communication, establishment and other expenses		342,150	327,029
	Provision for slow moving and surplus spares		92,487	51,501
	Opening stock - work in process		21,410	12,312
	Closing stock - work in process		(10,192)	(21,410)
	Cost of goods manufactured		9,634,243	8,838,350
	Add: Opening stock of manufactured urea		542,435	365,250
	Less: Closing stock of manufactured urea		(22,384)	(542,436)
			520,051	(177,186)
	Cost of sales - own manufactured urea		10,154,294	8,661,164
	Opening stock of purchased fertilizers		102,702	223,821
	Purchase of fertilizers for resale		3,057,353	4,919,036
			3,160,055	5,142,857
	Less: Closing stock of purchased fertilizers		(156,696)	(102,702)
	Cost of sales - purchased fertilizers		3,003,359	5,040,155
			13,157,653	13,701,319
28.	**DISTRIBUTION COST**			
	Product transportation		1,234,997	1,324,020
	Salaries, wages and benefits		309,092	293,225
	Rent, rates and taxes		49,381	52,501
	Insurance		2,813	1,042
	Technical services to farmers		3,050	2,461
	Travel and conveyance		48,210	41,892
	Sale promotion and advertising		37,865	45,412
	Communication, establishment and other expenses		21,888	25,517
	Warehousing expenses		47,821	51,444
	Depreciation	13.2	11,535	13,656
			1,766,652	1,851,170

		2004	2003
		(Rupees '000)	
29.	**FINANCE COST**		
	Interest and related charges on long term financing, loans and murabaha	290,061	426,163
	Interest on Workers' Profit Participation Fund	369	–
	Mark up on short term finances	54,951	128,876
	Exchange loss / (gain) on loans	24,461	(37,171)
	Bank charges	3,107	2,970
		372,949	520,838
30.	**OTHER OPERATING EXPENSES**		
	Amortisation of goodwill	104,615	104,615
	Workers' Profit Participation Fund	327,845	265,499
	Workers' Welfare Fund	126,021	113,965
	Auditors' remuneration		
	Audit fee	1,020	1,020
	Fee for tax and other advisory services, half yearly review, audit of consolidated financial statements and funds and certifications for Government and related agencies	893	3,007
	Out of pocket expenses	100	100
		560,494	488,206
31.	**OTHER OPERATING INCOME**		
	Income from financial assets		
	Income on loans, deposits and investments	316,356	362,990
	Income on tax-exempt investments	45,534	36,629
	Gain on re-measurement of investments available for sale to fair value	1,300	–
	Exchange gain / (loss) on financial instruments	15,381	(19,013)
	Income from subsidiary		
	Commission on sale of FFBL products	19,655	12,919
	Dividend from FFBL	475,233	–
	Income from non-financial assets		
	Gain on sale of property, plant and equipment	16,206	10,981
	Other income		
	Old liabilities written back	14,771	13,216
	Others	29,326	39,691
		933,762	457,413
32.	**TAXATION**		
	Provision for taxation - current year	2,184,000	1,954,000
	- prior year	30,000	–
	Deferred	(115,000)	(168,000)
		2,099,000	1,786,000

		2004	2003
		%	%
32.1	**Reconciliation of tax charge for the year**		
	Applicable tax rate	35.00	35.00
	Add: Tax effect of amounts that are not deductible for tax purpose	1.51	1.58
	Tax effect of amounts relating to prior years'	0.49	–
	Less: Tax effect of amounts exempt from tax	(0.26)	(0.35)
	Tax effect of amounts taxed at lower rates	(2.34)	–
	Tax effect of rebates and tax credit	(0.01)	(0.01)
	Average effective tax rate charged on income	34.39	36.22

		2004	2003
		(Rupees '000)	
33.	**EARNINGS PER SHARE**		
	Net profit after tax (Rupees '000)	4,004,044	3,144,509
	Weighted average number of shares in issue during the year	294,970	294,970
	Basic and diluted earnings per share (Rupees)	13.57	10.66

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

Number of shares in issue during the year 2003 have been restated for the effect of bonus shares issued during the year 2004.

34. 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:

	2004		2003	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	2,021	308,026	1,831	233,114
Retirement benefits	623	42,907	964	29,055
Utilities and upkeep	609	19,256	572	15,248
Travel assistance	660	44,032	676	33,377
Bonus and other awards	110	28,035	100	30,853
Good performance award	–	14,142	–	42,501
Others	–	9,852	–	8,548
Total	4,023	466,250	4,143	392,696
No. of person(s)	1	198	1	155

The above were provided with medical facilities; the chief executive and certain executives were also provided with certain household equipment and use of vehicle in accordance with the Company's policy. Leave encashment of Rs Nil (2003: Rs 638 thousand) to chief executive and Rs 4,420 thousand (2003: Rs 3,755 thousand) to the executives was paid on separation, in accordance with the Company's policy.

In addition, 15 (2003: 15) directors were paid aggregate fee of Rs 186 thousand (2003: Rs. 138 thousand).

Notes to the Financial Statements
For the year ended December 31, 2004

		2004	2003
		(Rupees '000)	
35.	**CASH GENERATED FROM OPERATIONS**		
	Net profit before taxation	6,103,044	4,930,509
	Adjustments for:		
	Depreciation	695,395	843,522
	Amortisation of goodwill	104,615	104,615
	Provision for slow moving and surplus spares	92,487	51,501
	Provision for gratuity	29,022	25,932
	Provision for pension	28,698	23,207
	Finance cost	372,949	520,838
	Income on loans, deposits and investments	(361,890)	(399,619)
	Gain on sale of property, plant and equipment	(16,206)	(10,981)
	Exchange gain	9,080	(18,158)
	Gain on re-measurement of available for sale investments to fair value	(1,300)	–
	Dividend from FFBL	(475,233)	–
	Old liabilities written back	(14,771)	(13,216)
		462,846	1,127,641
		6,565,890	6,058,150
	Changes in working capital		
	(Increase) / decrease in current assets:		
	Stores and spares	(132,816)	(120,108)
	Stock in trade	462,117	(50,489)
	Trade debts	468,725	(475,488)
	Loans and advances	(22,386)	(3,849)
	Deposits and prepayments	(1,522)	(855)
	Other receivables	7,711	32,854
	Increase / (decrease) in current liabilities:		
	Trade and other payables	2,657,950	(117,360)
		3,439,779	(735,295)
	Changes in long term loans and advances	(3,408)	(13,783)
	Changes in long term deposits and prepayments	(452)	(110)
		10,001,809	5,308,962
36.	**CASH AND CASH EQUIVALENTS**		
	Cash and bank balances	1,055,830	1,834,148
	Short term highly liquid investments	3,052,500	1,205,746
		4,108,330	3,039,894

Notes to the Financial Statements
For the year ended December 31, 2004

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

37.1 Financial assets and liabilities

	Effective interest rates	Interest / Mark–up bearing: Maturity upto one year	Interest / Mark–up bearing: Maturity after one year	Interest / Mark–up bearing: Sub–total	Non–interest / Mark–up bearing: Maturity upto one year	Non–interest / Mark–up bearing: Maturity after one year	Non–interest / Mark–up bearing: Sub–total	2004 Total	2003 Total
		(Rupees '000)							
Financial assets									
Investments									
– Local currency	4% – 16%	3,182,811	935,369	4,118,180	–	–	–	4,118,180	3,298,598
– Foreign currency	0.8% – 4.8%	1,281,346	–	1,281,346	–	–	–	1,281,346	1,233,068
Loans and advances	4%	10,950	65,941	76,891	75,418	1,387	76,805	153,696	95,247
Trade debts		–	–	–	1,407,736	–	1,407,736	1,407,736	1,876,381
Deposits		–	–	–	1,422	2,452	3,874	3,874	4,622
Accrued income on investments and bank deposits		–	–	–	48,927	–	48,927	48,927	43,680
Other receivables		–	–	–	37,711	–	37,711	37,711	34,429
Cash and bank balances									
		499,333	–	499,333	541,599	–	541,599	1,040,932	1,818,530
– Foreign currency		–	–	–	14,898	–	14,898	14,898	15,618
		4,974,440	1,001,310	5,975,750	2,127,711	3,839	2,131,550	8,107,300	8,420,173
Financial liabilities									
Recognised									
Long term financing									
	3.5%–11%	1,463,988	2,741,662	4,205,650	–	–	–	4,205,650	4,853,061
– Foreign currency	5.90%	805,174	–	805,174	–	–	–	805,174	982,429
Long term loan	8.75%	1,741	–	1,741	–	–	–	1,741	3,481
Long term murabaha	4.5%	83,333	41,667	125,000	–	–	–	125,000	208,333
Short term borrowings	4%	100,000	–	100,000	–	–	–	100,000	2,972,333
Trade and other payables	90%	327,845	–	327,845	2,558,050	–	2,558,050	2,885,895	1,956,292
Interest and mark–up accrued		–	–	–	74,233	–	74,233	74,233	83,562
Proposed dividend		–	–	–	–	–	–	–	384,743
		2,782,081	2,783,329	5,565,410	2,632,283	–	2,632,283	8,197,693	11,444,234
Unrecognised									
Guarantees		–	–	–	26,828	–	26,828	26,828	15,659
Letters of credit		–	–	–	254,212	–	254,212	254,212	182,266
Contingencies		–	–	–	603,366	–	603,366	603,366	618,935
Commitments		–	–	–	1,094,449	268,095	1,362,544	1,362,544	836,605
		–	–	–	1,978,855	268,095	2,246,950	2,246,950	1,653,465
		2,782,081	2,783,329	5,565,410	4,611,138	268,095	4,879,233	10,444,643	13,097,699

37.2 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

Financial assets and liabilities exposed to foreign exchange rate risk amount to Rs 984,384 thousand (2003:Rs 1,248,686 thousand) and Rs 805,174 thousand (2003: Rs 985,910 thousand) respectively at the year end.

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. Currently, the Company's foreign exchange risk exposure is restricted to foreign currency investments and financing. As both foreign currency assets and liabilities are denominated in US Dollar, the Company's exposure emanating from any fluctuations in the Pak Rupee / US Dollar parity gets hedged to a large extent.

c) Interest / Mark–up rate risk

Financial assets and liabilities include balances of Rs 1,689,841 thousand (2003: Rs 1,986,582 thousand) and Rs 4,410,824 thousand (2003: Rs 8,335,490 thousand) respectively, which are subject to interest rate risk. The Company has long term Rupee and foreign currency based loans at variable and fixed rates. Applicable interest rates for financial assets and liabilities have been indicated in respective notes.

Variable rate long term financing except Term Finance Certificates (TFCs) is hedged against interest rate risk by holding "prepayment option", which can be exercised upon any adverse movement in the underlying interest rates. TFCs are hedged against the interest rate risk by instituting interest rate caps and floors.

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Company's treasury aims at maintaining flexibility in funding by keeping committed credit lines.

37.3 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 investments held to maturity which are carried at amortised cost.

38. RE–STATED PROFORMA INFORMATION
STATEMENT OF RETAINED EARNINGS

	Actual		Proforma	
	2004	2003	Restated 2004	Restated 2003
	(Rupees `000)			
Opening balance as at January, 1 as previously reported	197,753	218,203	197,753	218,203
Change in accounting policy Proposed final dividend 2003: Rs 1.50 (2002: Rs 1.00) per share			384,744	256,496
Opening balance as at January, 1 restated	197,753	218,203	582,497	474,699
Profit for the year	–	–	–	–
Transfer from / (to) general reserve	700,000	(600,000)	700,000	(600,000)
Transfer to reserve for issue of	(384,744)	–	(384,744)	–
Dividends	(3,231,849)	(2,564,959)	(3,616,593)	(2,436,712)
Closing balance as at December 31,	(2,718,840)	(2,946,756)	(2,718,840)	(2,562,013)

39. RELATED PARTY TRANSACTIONS

Fauji Foundation holds 44.35% (2003: 44.35%) shares of the Company at the year-end. Therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of the Company. The related parties comprise of directors, key management personnel, entities over which the directors are able to exercise influence and employees' funds. Amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of chief executive, directors and executives is disclosed in note 34 to the financial statements.

	2004	2003
	(Rupees '000)	
Transactions with related parties during the year are as follows:		
Fauji Foundation		
Office rent	2,431	2,401
Reimbursement of expenses on behalf of the Company	874	600
Sale of fertilizer	4,374	28,341
Medical services	42	674
Payment for shares of Pakistan Maroc Phosphore S.A.	179,300	–
Fauji Fertilizer Bin Qasim Limited (FFBL)		
Marketing of fertilizer on behalf of FFBL under sale on consignment basis	201,234	134,287
Commission on sale of FFBL products	19,655	12,919
Services and materials provided	17,108	8,293
Services and materials received	1,864	414
Equity injection in FFBL	–	750,000
Reimbursement of expenses incurred by FFBL in relation to equity investment in foreign company	680	–
Remittance of collections from FFBL debtors	12,720,771	6,149,745
Mari Gas Company Limited		
Purchase of gas as feed and fuel stock	5,884,410	5,313,857
Haldor Topsoe A/s, Denmark		
Technical services received	14,364	13,920
Pakistan Maroc Phosphore S.A.		
Advance against issue of shares	179,300	–
Payment to:		
Employees' Provident Fund Trust	99,217	88,741
Employees' Gratuity Fund Trust	43,681	25,932
Employees' Pension Fund Trust	27,321	21,053

		2004	2003
		(Tonnes '000)	
40.	**GENERAL**		
40.1	**Production capacity**		
	Design capacity	1,904	1,904
	Production	2,174	2,149
40.2	**Number of employees**	(Number)	
	Number of employees at year end	2,403	2,204

40.3 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 20,000 thousand and Rs 2,575,000 thousand (2003: Rs 23,750 thousand and Rs 2,275,000 thousand) respectively are available to the Company under first charge by way of equitable mortgage on all fixed assets of the Company.

40.4 Donations aggregating Rs 2,085 thousand (2003: Rs 1,651 thousand), included under cost of sales do not include any amount paid to any person or organisation in which the chief executive, directors or their spouses had any interest.

40.5 The Board of Directors in their meeting held on January 31, 2005 have proposed a final dividend of Rs. 3 per share in addition to interim dividend of Rs 12 per share already distributed and incorporated in the financial statements. The final dividend shall be recorded as liability in the financial statements for the next financial year as required by International Accounting Standard 10: "Events after the Balance

40.6 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

40.7 Due to revision of the 4th schedule to the Companies Ordinance,1984 by the Securities and Exchange Commission of Pakistan vide SRO. 589(1)/2004 dated July 5, 2004, previous year's figures have been rearranged and / or reclassified, wherever necessary, for the purpose of comparison.

40.8 These financial statements have been authorised for issue by the Board of Directors of the Company on January 31, 2005.

Chairman | Chief Executive | Director

Auditors' Report to The Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Fauji Fertilizer Company Limited and its subsidiary company as at December 31, 2004 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof for the year then ended. We have also expressed separate opinions on the financial statements of Fauji Fertilizer Company Limited and its subsidiary company. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Fauji Fertilizer Company Limited and its subsidiary company as at December 31, 2004 and the results of their operations for the year then ended.

The consolidated financial statements for the year ended December 31, 2003 were audited by another firm of accountants who have issued unqualified opinion thereon.

Dated: January 31, 2005
Islamabad

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS

Consolidated Balance Sheet

	Note	2004	2003
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital	3	2,949,703	2,564,959
Capital reserve	4	276,184	279,267
Reserve for issue of bonus shares		442,455	–
Revenue reserves	5	7,508,753	7,063,827
		11,177,095	9,908,053
MINORITY INTEREST		3,508,218	2,869,903
NON CURRENT LIABILITIES	6	13,164,024	16,078,822
DEFERRED TAXATION	7	2,407,000	2,522,000
CURRENT LIABILITIES			
Trade and other payables	8	7,729,769	4,095,714
Interest and mark-up accrued	9	101,769	86,056
Short term borrowings	10	1,276,625	3,109,466
Current portion of:	6		
- Long term financing		2,601,032	1,551,247
- Long term murabaha		122,012	51,337
- Long term loans		649,942	649,942
- Liabilities against assets subject to finance lease		6,467	7,506
Taxation		598,297	329,910
Proposed dividend		–	384,743
		13,085,913	10,265,921
CONTINGENCIES AND COMMITMENTS	11		
		43,342,250	41,644,699

The annexed notes 1 to 42 form an integral part of these consolidated financial statements.

As at December 31, 2004

	Note	2004	2003
		(Rupees '000)	
PROPERTY, PLANT AND EQUIPMENT	12	23,720,065	24,437,864
INTANGIBLE ASSETS	13	1,778,464	1,906,765
LONG TERM INVESTMENTS	14	1,473,269	2,330,821
LONG TERM LOANS AND ADVANCES	15	67,328	63,920
LONG TERM DEPOSITS AND PREPAYMENTS	16	22,010	28,250
DEFERRED TAX ASSET	17	143,527	1,160,688
CURRENT ASSETS			
Stores, spares and loose tools	18	2,247,710	2,142,895
Stock in trade	19	471,432	890,808
Trade debts	20	1,838,982	2,268,758
Loans and advances	21	293,759	75,868
Deposits and prepayments	22	26,975	25,701
Other receivables	23	660,129	658,636
Short term investments	24	4,464,157	2,200,845
Cash and bank balances	25	6,134,443	3,452,880
		16,137,587	11,716,391
		43,342,250	41,644,699

Chairman

Chief Executive

Director

Consolidated Profit and Loss Account
For the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
Sales	26	32,509,095	26,214,063
Cost of sales	27	21,362,763	17,704,185
GROSS PROFIT		11,146,332	8,509,878
Administrative expenses and distribution cost	28	2,788,791	2,516,186
		8,357,541	5,993,692
Finance cost	29	457,766	677,543
Other operating expenses	30	674,178	508,176
		7,225,597	4,807,973
Other operating income	31	546,562	487,895
NET PROFIT BEFORE TAXATION		7,772,159	5,295,868
Provision for taxation	32	2,871,161	1,405,496
NET PROFIT AFTER TAXATION AND ORDINARY ACTIVITIES		4,900,998	3,890,372
Extraordinary item			
- Compensation received from Government of Pakistan (GOP) - net		455,000	455,000
NET PROFIT AFTER EXTRAORDINARY ITEM		5,355,998	4,345,372
Minority interest in profit of consolidated subsidiary		896,841	573,652
NET PROFIT AFTER TAXATION AND MINORITY INTEREST		4,459,157	3,771,720
Earnings per share - basic and diluted (Rupees)	34	15.12	12.79

The annexed notes 1 to 42 form an integral part of these consolidated financial statements.

Chairman | Chief Executive | Director

Consolidated Cash Flow Statement
For the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	13,553,791	7,317,433
Payments for :			
Finance cost paid		(470,107)	(731,392)
Income tax paid		(1,988,746)	(2,622,167)
Payment to pension fund		(27,321)	(23,207)
Payment to gratuity fund		(50,353)	(52,968)
		(2,536,527)	(3,429,734)
Extraordinary item- compensation from Government of Pakistan-net		51,799	51,799
Net cash from operating activities		11,069,063	3,939,498
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(915,092)	(676,508)
Proceeds from sale of property, plant and equipment		24,757	20,047
Interest received		431,598	500,363
Advance against equity investment in foreign company		(537,900)	–
Decrease in investments		1,023,625	132,341
Net cash from / (used in) investing activities		26,988	(23,757)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital		242,086	250,000
Long term financing - proceeds		600,000	1,705,910
- repayments		(1,662,333)	(2,485,817)
Long term loans - repayments		(1,740)	(135,324)
Long term murabaha - repayments		(102,672)	(83,333)
Short term borrowings		(2,872,333)	(416,564)
Finance lease paid		(9,624)	(8,514)
Dividends paid		(3,800,810)	(2,260,303)
Net cash used in financing activities		(7,607,426)	(3,433,945)
Net increase in cash and cash equivalents		3,488,625	481,796
Cash and cash equivalents at beginning of the year		4,521,493	4,039,925
Effect of exchange rate changes		200	(228)
Cash and cash equivalents at end of the year	36	8,010,318	4,521,493

The annexed notes 1 to 42 form an integral part of these consolidated financial statements.

Chairman

Chief Executive

Director

Consolidated Statement of Changes in Equity
For the year ended December 31, 2004

	Share capital	Capital reserve	Reserve for issue of bonus shares	General reserve	Fair value adjustment	Unappropriated profit	Total
	(Rupees '000)						
Balance at December 31, 2002	2,564,959	160,000	–	8,000,000	(180,105)	218,203	10,763,057
Share of subsidiary as at January 1, 2003	–	119,267	–	–	–	(2,361,137)	(2,241,870)
Net profit for the year ended December 31, 2003	–	–	–	–	–	3,771,720	3,771,720
Elimination of adjustment arising from remeasurement to fair value of investment in associated company on consolidation	–	–	–	–	180,105	–	180,105
Transfer to general reserve	–	–	–	600,000	–	(600,000)	–
Dividends							
First interim Rs 3.00 per share	–	–	–	–	–	(769,488)	(769,488)
Second interim Rs 2.25 per share	–	–	–	–	–	(577,116)	(577,116)
Third interim Rs 3.25 per share	–	–	–	–	–	(833,612)	(833,612)
Final Rs 1.50 per share	–	–	–	–	–	(384,743)	(384,743)
Balance at December 31, 2003	2,564,959	279,267	–	8,600,000	–	(1,536,173)	9,908,053
Net profit for the year ended December 31, 2004	–	–	–	–	–	4,459,157	4,459,157
Adjustment of dilution in holding of FFBL shares	–	(3,083)	–	–	–	44,817	41,734
Transfer from general reserve	–	–	827,199	(1,150,000)	–	322,801	–
Dividends							
First interim Rs 3.25 per share	–	–	–	–	–	(833,612)	(833,612)
Second interim Rs 4.75 per share	–	–	–	–	–	(1,218,356)	(1,218,356)
Third interim Rs 4.00 per share	–	–	–	–	–	(1,179,881)	(1,179,881)
Bonus shares issued	384,744	–	(384,744)	–	–	–	–
Balance at December 31, 2004	2,949,703	276,184	442,455	7,450,000	–	58,753	11,177,095

The annexed notes 1 to 42 form an integral part of these consolidated financial statements.

Chairman

Chief Executive

Director

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

1. STATUS AND NATURE OF BUSINESS

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

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of FFC and its subsidiary, FFBL with 50.88% holding (2003: 52.23%) ("the Group companies"). The dilution in FFC's holding in FFBL is due to the right shares issued during the year.

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

The assets and liabilities of subsidiary company have been consolidated on a line by line basis and the carrying value of investments held by the parent company is eliminated against the subsidiary shareholders' equity in the consolidated financial statements.

Material intra-group balances and transactions have been eliminated.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and statement of compliance

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

2.3 Retirement benefits

FFC and FFBL operate the following retirement benefit schemes:

Funded gratuity scheme

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

Contributory Provident Fund

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

Funded Pension Scheme

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

These funds are administered by trustees. Annual contributions to the gratuity and management staff pension funds are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in note 8 to the consolidated financial statements. All contributions are charged to profit and loss account for the year. The actuarial gains / losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognized over the average remaining service life of the employees. Transitional liability in respect of FFBL is being recognized on a straight line basis over a period of five years.

Compensated absences

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

2.4 Taxation

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits, tax rebates and exemptions available, if any, or minimum tax on turnover, whichever is higher.

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 consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized 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 utilized.

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 Property, plant and equipment and capital work in progress

Owned assets

Property, plant and equipment including those acquired on PSFL acquisition, are stated at cost less accumulated depreciation except freehold land and capital work in progress, which are stated at cost. Property, plant and equipment acquired on PSFL acquisition are stated at their cost to FFC, which represents their fair value on acquisition, less accumulated depreciation.

Depreciation is provided on the straight-line basis to write off the cost 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 profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal of property, plant and equipment, if any, are included in profit and loss account currently.

Initial fill of catalysts in the ammonia plant is capitalized with plant and machinery whereas costs of subsequent replacements of such catalysts are included in property, plant and equipment and depreciated on a straight line basis over their estimated useful lives.

Assets subject to finance lease

Leased property, plant and equipment in terms of which FFBL assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets are stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses, if any.

Rental obligations of leased assets, net of finance charges not due are included in liabilities against assets subject to finance lease.

Each lease payment is allocated between the liability and finance charge so as to achieve a constant rate on the balance outstanding. Finance charge on leased assets is charged to profit and loss account over

Depreciation on assets subject to finance lease is recognized in the same manner as for owned assets.

FFBL accounts for lease obligations by recording the asset and corresponding liability there against determined on the basis of discounted value of total minimum lease payments. Finance charge is recognized in the profit and loss account using the effective mark-up rate method.

2.6 Impairment

The carrying amount of the Group companies' assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. If any such indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversal of impairment losses are recognized in the profit and loss account. Reversal of impairment loss is restricted to the original cost of the asset.

2.7 Intangible assets

a) Goodwill

On acquisition of an entity, difference between the purchase consideration and the fair value of the identifiable assets and liabilities acquired, is initially recognized as goodwill and amortized on a straight line basis over the estimated useful life of the acquired depreciable assets with reversal of related deferred tax liability.

b) Process license fee

Process license fee is stated at cost less accumulated amortization. Amortization is charged to profit and loss account over a period of five years.

2.8 Investments

Investment in associates

Investments in associates where significant influence can be established are accounted for under the equity method. In case of investments accounted for under equity method, the method is applied from the date when control / significant influence commence until the date when that control / significant influence ceases. When the associates' share of losses exceed the carrying amount of investment in associates, the carrying amount is reduced to nil and the recognition of further losses is discontinued except to the extent that the parent company has incurred obligation in respect of the associate.

Investments available for sale

Investments available for sale are initially recognized at cost and at subsequent reporting dates are measured at their fair values. For investments traded in active market, fair value is determined by reference to quoted market price and the investments for which a quoted market price is not available, are measured at cost, subject to a review for impairment at each balance sheet date. 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 recognized in the profit and loss account.

Investments held to maturity

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

2.9 Stores, spares and loose tools

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 Group companies' requirement, a provision is made for excess of book value over estimated

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

2.10 Stock in trade

Stocks are valued at the lower of cost and net realizable 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 Finished goods	at weighted average cost of purchases and applicable manufacturing expenses

Net realizable value signifies the estimated selling price in the ordinary course of business less net estimated cost of completion and selling expenses.

2.11 Rates of exchange

Transactions in foreign currencies are recorded in the books at the rates of exchange prevailing 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 profit and loss account for the year.

2.12 Revenue recognition

Sales revenue is recognized at the time of dispatch 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 recognized on realized amounts. Dividend income is recognized when the right to receive the dividend is established.

2.13 Government compensation

FFBL recognizes Government compensation received in lieu of the fertilizer policy, 1989 as income subject to compliance with the related conditions.

2.14 Borrowing costs

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

2.15 Provisions

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

2.16 Dividend appropriation

Dividend is recognized as a liability in the period in which it is declared. Upto previous year, dividends proposed after the balance sheet date but before the consolidated financial statements were authorised for issue were recorded as a liability. The change has been necessitated by revision in the 4th Schedule to the Companies Ordinance, 1984. Proforma information required under International Accounting Standard 8: "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" is presented in note 38 to the consolidated financial statements.

2.17 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at their nominal values. For the purpose of cash flow statement, cash and cash equivalents comprise 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 which are subject to insignificant risk of change in value and short term running finances of FFBL.

2.18 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 Group companies to do so.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

2.19 Offsetting

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

2.20 Operating leases

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

2.21 Financial instruments

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

a) Trade and other payables

Liabilities for trade and other amounts payable are carried at 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 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

ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2004	2003		2004 (Rupees '000)	2003 (Rupees '000)
256,495,902	256,495,902	Ordinary shares of Rs.10 each fully paid in cash	2,564,959	2,564,959
38,474,385	–	Ordinary shares of Rs.10 each issued as fully paid bonus shares.	384,744	–
294,970,287	256,495,902		2,949,703	2,564,959

AUTHORISED SHARE CAPITAL

This represents 500,000,000 (2003: 300,000,000) ordinary shares of Rs 10 each.

3.1 Fauji Foundation held 44.35% (2003: 44.35%) ordinary shares of the FFC at the year end.

	Note	2004 (Rupees '000)	2003 (Rupees '000)
4. CAPITAL RESERVE			
Share premium	4.1	156,184	159,267
Capital redemption reserve	4.2	120,000	120,000
		276,184	279,267

4.1 Share premium

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

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

4.2 Capital redemption reserve

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

		Note	2004	2003
			(Rupees '000)	
5.	**REVENUE RESERVES**			
	General reserve		7,450,000	8,600,000
	Unappropriated profit / (loss)		58,753	(1,536,173)
			7,508,753	7,063,827
6.	**NON CURRENT LIABILITIES**			
	Long term financing - secured	6.1	5,119,928	7,202,853
	Long term murabaha - secured	6.2	254,397	427,744
	Long term loans- Government of Pakistan loan, secured	6.3	7,778,409	8,428,350
	Liabilities against assets subject to finance lease	6.4	11,290	19,875
			13,164,024	16,078,822
6.1	**Long term financing - secured**			
	Fauji Fertilizer Company Limited			
	Finances utilized under mark-up arrangements from banking companies and financial institutions	6.1.1		
	ABN Amro Bank - Syndicated (ABN)		458,333	550,000
	Muslim Commercial Bank Limited (MCB)		500,000	600,000
	National Bank of Pakistan (NBP)		833,333	1,000,000
	Habib Bank Limited (HBL- 1)		656,250	750,000
	Habib Bank Limited (HBL- 2)		187,500	250,000
	United Bank Limited (UBL)		187,500	250,000
			2,822,916	3,400,000
	Loans from banking companies	6.1.2		
	United Bank Limited (UBL-1)		500,000	–
	United Bank Limited (UBL-2)		100,000	–
			600,000	–
	Loans for PSFL acquisition-From banking companies			
	a) Citibank N.A	6.1.3	805,174	985,910
	b) ABN Amro Bank N.V.		–	500,000
			805,174	1,485,910
	Term Finance Certificates (TFC's)	6.1.4	782,734	949,580
	Fauji Fertilizer Bin Qasim Limited	6.1.5		
	From banking companies and financial institutions			
	Habib Bank Limited (HBL)		843,672	908,571
	Standard Chartered Bank (SCB)		482,429	519,539
	Muslim Commercial Bank Limited (MCB)		831,678	895,653
	Askari Commercial Bank Limited (ACBL)		185,714	200,000
	Saudi Pak Industrial and Agricultural Investment Company (Pvt) Limited (SAPICO)		69,500	74,847
			2,412,993	2,598,610
	From associated undertaking			
	Pak Kuwait Investment Company (Pvt) Limited (PKIC), an associated undertaking		297,143	320,000
			7,720,960	8,754,100
	Less: Current portion shown under current liabilities		2,601,032	1,551,247
			5,119,928	7,202,853

6.1.1 Terms and conditions of long term finances are given below:

Lender	Mark-up rate p.a. (%)	No of half-yearly instalments outstanding	Date of final repayment
ABN	6 months Treasury Bill rate + 1.3	5	May 30, 2007
MCB	6 months Treasury Bill rate + 1.3	5	May 30, 2007
NBP	6 months Treasury Bill rate + 1.3	5	May 30, 2007
HBL - 1	6 months Treasury Bill rate + 1.3	7	May 30, 2008
HBL - 2	6 months Treasury Bill rate + 1.0	6	January 1, 2008
UBL	6 months Treasury Bill rate + 1.0	6	January 1, 2008

All the above finances are secured by an equitable mortgage on the assets of FFC 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.

6.1.2 Terms and conditions of long term loans from banking companies are given below:

Lender	Annual interest rate (%)	Repayment due	Date of final repayment
UBL - 1	3.50	On maturity	May 31, 2006
UBL - 2	4.50	On maturity	November 02, 2006

UBL - 1

This loan is secured against Pakistan Investment Bonds having face value of Rs 500,000 thousand registered with the UBL's SGL accounts with the State Bank of Pakistan and ranking charge over plant and machinery amounting to Rs 167 million.

UBL - 2

This loan is secured against Pakistan Investment Bonds having face value of Rs 100,000 thousand registered with the UBL's SGL accounts with the State Bank of Pakistan.

6.1.3 Citibank N.A

This medium term loan was obtained for acquisition of PSFL. This 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. This loan carries interest at six months LIBOR + 3.1% p.a. Principal and interest are payable in half yearly instalments. The final repayment date is April 03, 2005.

6.1.4 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 years 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.

6.1.5 Terms and conditions of long term finances availed by FFBL are given below:

Lender	Mark-up rate p.a (%)	No of quarterly instalments outstanding	Repayment commenced from
HBL	12 months Treasury Bill rate	26	July 2004
SCB	12 months Treasury Bill rate	26	July 2004
MCB	12 months Treasury Bill rate	26	July 2004
ACBL	12 months Treasury Bill rate	26	July 2004
SAPICO	12 months Treasury Bill rate	26	July 2004
PKIC	12 months Treasury Bill rate	26	July 2004

These finances are secured by first equitable mortgage charge created on all immovable properties of FFBL and by way of hypothecation of movable properties of FFBL. These charges ranks pari passu with the charges already created or to be created in favour of other foreign and local lenders.

	Note	2004 (Rupees '000)	2003 (Rupees '000)
6.2 Long term murabaha - secured			
Faysal Bank Limited (FFC)	6.2.1	125,000	208,333
Faysal Bank Limited (FFBL)	6.2.2	251,409	270,748
		376,409	479,081
Less: Current portion shown under current liabilities		122,012	51,337
		254,397	427,744

6.2.1 This facility carries mark-up at 4.5% p.a. Principal and mark-up are repayable in half yearly instalments up to May 31, 2006. This is secured by a registered charge on all present and future, fixed and current moveable assets of FFC ranking pari passu with long term loans.

6.2.2 This facility carries mark-up at 12 months Treasury bill rate. Principal and mark-up are payable on a quarterly basis. The repayment of murabaha has commenced from July 2004. The facility is secured by first equitable mortgage charge created on all immovable properties of FFBL and by way of hypothecation of movable properties of FFBL. The charge ranks pari passu with the charges already created or to be created in favour of other foreign and local lenders.

	2004 (Rupees '000)	2003 (Rupees '000)
6.3 Government of Pakistan loan		
Secured		
Government of Pakistan loan		
5th Danish credit - FFC	1,741	3,481
Unsecured		
Government of Pakistan (GOP) loan - FFBL	5,417,435	5,668,820
Deferred Government assistance - FFBL	3,009,175	3,405,991
	8,426,610	9,074,811
Less: Current portion shown under current liabilities	649,942	649,942
	7,778,409	8,428,350

6.3.1 Government of Pakistan loans and deferred Government assistance

FFC

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 FFC's fixed assets. This loan carries interest rate at 8.75%. Principal and interest are repayable in half yearly instalments. The final repayment date of the loan is October 01, 2005.

FFBL

GOP loan of Rs 9,723,011 thousand is repayable in 16 years with 1 year grace at zero percent interest rate effective November 30, 2001. Final instalment will be paid in June 2017. This loan in accordance with International Accounting Standard-39 "Financial Instruments: Recognition and Measurement" is stated at its fair value and the difference is recognised as deferred Government assistance. Deferred Government assistance is being amortised to fully offset the financial charge on the loan at an imputed market rate of 7%. The amount amortised and offset against financial charges during the year amounted to Rs 396.816

Under the terms of restructuring with GOP, the excess cash, which may arise based on a pre-defined mechanism, shall be shared by FFBL with GOP through prepayment of GOP loan.

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

Since two ECA have yet to release HBL from their responsibility as guarantor therefore, the above referred guarantee and related charge on assets of FFBL have not been vacated upto December 31, 2004. FFBL is making efforts in getting this guarantee released.

6.4 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2004			2003		
	Minimum lease payments	Financial charges for future periods	Principal out standing	Minimum lease payments	Financial charges for future periods	Principal out-standing
			(Rupees '000)			
Not later than one year	7,520	1,053	6,467	9,488	1,982	7,506
Later than one year but not later than five years	12,098	808	11,290	21,948	2,073	19,875
	19,618	1,861	17,757	31,436	4,055	27,381

Lease rentals include finance charge ranging between 8% to 20% per annum, which have been used as discounting factor and are payable on monthly and quarterly basis. FFBL has an option to purchase the assets upon completion of lease period by adjusting the security deposits amounting to Rs 4,050 thousand (2003: Rs 5,619 thousand) and intends to exercise the option.

7. DEFERRED TAXATION

The balance of deferred tax is in respect of the following major temporary differences:

	Note	2004	2003
		(Rupees '000)	
Accelerated depreciation		(42,000)	(108,000)
Provision for slow moving / surplus spares, doubtful debts, other receivables and short term investments		(109,000)	(79,000)
Measurement to fair value of PSFL acquired fixed assets		2,558,000	2,709,000
		2,407,000	2,522,000

8. TRADE AND OTHER PAYABLES

	Note	2004	2003
Creditors		1,158,616	832,974
Accrued liabilities		896,268	725,527
Payable to retirement benefits funds	8.1	–	14,659
Other liabilities	8.2	86,471	19,169
Sales tax payable		366,048	323,431
Deposits		58,772	54,751
Retention money		14,742	12,443
Advances from customers		3,339,235	583,080
Workers' Profit Participation Fund	8.3	340,912	284,728
Workers' Welfare Fund		316,225	367,131
Unclaimed dividend		1,152,480	44,209
Dividend payable		–	833,612
		7,729,769	4,095,714

8.1 Payable to retirement benefits funds

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

	Funded gratuity	Funded pension	Total 2004	Total 2003
		(Rupees '000)		
Balance at beginning of the year	14,659	(2,306)	12,353	35,118
Expense for the year	35,694	28,698	64,392	51,256
Payments to funds during the year	(50,353)	(27,321)	(77,674)	(74,021)
Balance at end of the year	–	(929)	(929)	12,353
	(note 8)	(note 23)		

b) Reconciliation of the (asset) / liability recognised in the balance sheet:

	Funded gratuity	Funded pension	Total 2004	Total 2003
		(Rupees '000)		
Present value of defined benefit obligation	551,353	464,935	1,016,288	904,736
Fair value of plan assets	(489,980)	(473,096)	(963,076)	(801,549)
Deficit / (surplus)	61,373	(8,161)	53,212	103,187
Unrecognised actuarial (loss) / gain	(57,752)	7,232	(50,520)	(86,006)
Unrecognised transitional liability	(3,621)	–	(3,621)	(4,828)
Net (asset) / liability	–	(929)	(929)	12,353

c) **The following amounts have been charged to the profit and loss account during the current year in respect**

	Funded gratuity	Funded pension	Total 2004	Total 2003
	(Rupees '000)			
Current service cost	34,703	30,840	65,543	46,328
Interest cost	31,518	30,751	62,269	62,568
Expected return on plan assets	(31,734)	(33,182)	(64,916)	(58,847)
Amortization of loss	–	289	289	–
Recognised transitional liability	1,207	–	1,207	1,207
Expense for the year	35,694	28,698	64,392	51,256
Actual return on plan assets	55,226	60,966	116,192	76,623

d) **Actuarial valuation of these plans was carried out as at December 31, 2004 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:**

		2004 Gratuity	2004 Pension	2003 Gratuity	2003 Pension
Discount factor	per annum	8-9%	7%	7%	7%
Expected rate of increase in salary level	per annum	9-14%	14%	7-12%	12%
Expected rate of return on plan assets	per annum	8-9%	8%	8-8.94%	8%

e) **"Salaries, wages and benefits" expense,** stated in notes 27 and 28 include retirement benefits of Rs 153,423 thousand (2003: Rs 133,141 thousand) in respect of gratuity, provident fund, pension plans and compensated absences.

8.2 This includes Rs 17.729 thousand (2003: Rs 17.729 thousand) payable to Fauji Foundation, an associated undertaking.

	2004	2003
	(Rupees '000)	
8.3 Workers' Profit Participation Fund		
Balance at beginning of the year	284,728	298,106
Interest on funds utilised in Group Company's business	463	101
Allocation for the year	440,911	284,728
Payment to the Fund during the year	(385,190)	(298,207)
	340,912	284,728
9. INTEREST AND MARK-UP ACCRUED		
On long term financing		
From banking companies and financial institutions	75,951	62,619
From PKIC, an associated undertaking	2,355	–
On loans	14,685	1,325
On murabaha financing	2,476	807
On short term borrowings	6,302	21,305
	101,769	86,056

		Note	2004	2003
			(Rupees '000)	
10.	**SHORT TERM BORROWINGS - SECURED**			
	Short term loans	10.1	100,000	600,000
	Short term running finances	10.2	1,176,625	137,133
	Short term import credit	10.3	–	2,372,333
			1,276,625	3,109,466

10.1 Short term loans

Short term loan facility available from a bank under mark-up arrangement amounted to Rs 100,000 thousand (2003: Rs 600,000 thousand), which is secured by lien on Pakistan Investment Bonds. This facility carries mark-up at the rate of Re 0.110 (2003: Re 0.071) per Rs 1,000 per day.

10.2 Short term running finances

This represents short term facilities arranged by FFBL from various banks on mark-up basis aggregating Rs 2,300,000 thousand (2003: Rs 2,300,000 thousand). These facilities carry mark-up ranging from 3.75% to 5.69% per annum (2003: 3.05% to 3.35% per annum) at the year end and are secured by hypothecation of stocks and current assets of FFBL. The purchase prices are repayable on various

Short term running finance facilities are available to FFC from various banks under mark-up arrangements amounting to Rs 3,250,000 thousand (2003: Rs 3,250,000 thousand) which represent the aggregate of sale prices of all mark-up arrangements between FFC and the banks. These facilities have various maturity dates up to October 27, 2005. These facilities are secured by hypothecation of present and future current assets and fixed assets of FFC ranking pari passu in all respects with the first charge holders. The rates of mark-up are three months KIBOR+0.25% and one month KIBOR+0.25% per annum (2003:six months Treasury Bill rate+1.25%).

10.3 Short term import credit

This represents import credit facilities of Rs 2,372,333 thousand arranged by FFC from various banks under mark-up arrangements at six months LIBOR+ 1.0%-1.10% (2003: six months Treasury Bill+1.05% per annum). These are secured against a second charge by way of hypothecation of present and future current assets and fixed assets of FFC.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

			2004	2003
			(Rupees '000)	
11.	**CONTINGENCIES AND COMMITMENTS**			
	a)	**Contingencies**		
	i)	Guarantees issued by banks on behalf of the Group companies.	45,736	35,966
	ii)	Demand in respect of import of duty-free first charge catalysts for the expansion unit, which matter has been decided in favour of FFC 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
	iii)	Disputed demand for Income tax and levy of contribution to Workers Welfare Fund related to former PSFL decided in favour of FFC by the Income Tax Appellate authorities, are currently in appeal by the department. FFC is confident that there are reasonable grounds for a favourable decision.	295,590	295,590
	iv)	Income tax demands, not acknowledged as debt, have been challenged by the Group Companies and are currently in appeal; the Group Companies expect favourable outcome of appeal.	115,745	96,000
	v)	Claims against the Group Companies and/or potential exposure not acknowledged as debt.	83,350	61,708
	vi)	Indemnity bonds and undertakings given to the Customs authorities for the machinery imported by FFBL for installation at plant site	119,650	3,455,024
	b)	**Commitments in respect of:**		
	i)	Capital expenditure		
		contracted	762,977	642,970
		Non-contracted	3,046,658	–
	ii)	Purchase of fertilizer, stores, spares and other revenue items.	624,075	710,668
	iii)	Commitment for equity investment in Pakistan Maroc Phosphore S.A. - note 14, Moroccan Dirhams 225,000 thousand, equivalent approx.	1,637,708	–
	iv)	Rentals under lease agreements:		
		Premises - not later than one year	27,078	48,285
		- later than one year and not later than five years		
		2006	19,059	16,499
		2007	13,766	12,600
		2008	13,276	12,574
		2009	13,033	12,984
		- later than five years	17,423	29,868
		Vehicles - not later than one year	60,462	40,930
		- later than one year and not later than five years		
		2006	59,029	44,712
		2007	52,529	43,140
		2008	40,203	33,889
		2009	34,264	22,477
		- later than five years	5,513	10,761

12. PROPERTY, PLANT AND EQUIPMENT

	COST			DEPRECIATION			Written down	
	As at January 1, 2004	Additions / (disposals) / transfer * / adjustments**	As at December 31, 2004	As at January 1, 2004	For the year / (on disposals) / transfer * / adjustments **	As at December 31, 2004	value as at December 31, 2004	Annual rate of depreciation % on cost
				(Rupees '000)				
Freehold land	172,430	2,204	174,634	–	–	–	174,634	–
Lease hold land	295,639	–	295,639	55,536	9,785	65,321	230,318	6 1/4
Buildings and structures on freehold land	1,573,624	109,348	1,682,972	974,858	52,153	1,027,011	655,961	5 to 10
Buildings and structures on leasehold land	1,502,274	1,299	1,503,573	215,457	43,951	259,408	1,244,165	5
Railway siding	26,517	–	26,517	26,441	26	26,467	50	5
Plant and machinery	35,512,762	255,725	35,774,467	13,927,290	1,321,804	15,250,463	20,524,004	5
		5,988 *			1,377 *			
		(8)			(8)			
Catalysts	284,662	52,041	336,703	160,553	67,437	227,990	108,713	20 to 50
Furniture and fixtures	67,522	17,820	83,927	40,585	6,094	45,487	38,440	10 to 15
		(1,415)			(1,192)			
Office and electrical equipment	203,580	53,091	243,422	143,127	24,729	155,684	87,738	10 to 15
		(13,249)			(12,172)			
Vehicles	213,318	79,642	261,757	143,737	36,986	152,271	109,486	20
		(38,078)			(33,086)			
		6,875 *			4,634 *			
Maintenance and other equipment	540,710	85,597	607,141	441,914	61,550	484,374	122,767	15 to 33 1/3
		(19,166)			(19,090)			
Library books	7,358	1,135	8,445	6,250	923	7,159	1,286	30
		(48)			(14)			
	40,400,396	657,902	40,999,197	16,135,748	1,625,438	17,701,635	23,297,562	
		(71,964)			(65,562)			
		12,863 *			6,011 *			
Assets subject to finance lease								
Plant and machinery	5,988	(5,988) *	–	1,377	(1,377) *	–	–	5
Vehicles	34,832	–	27,003	12,575	5,135	12,695	14,308	20
		(954)			(381)			
		(6,875) *			(4,634) *			
	40,820	(13,817)	27,003	13,952	(1,257)	12,695	14,308	
	40,441,216	657,902	41,026,200	16,149,700	1,630,573	17,714,330	23,311,870	
		(72,918)			(65,943)			
Capital work in progress - note 12.4	146,348	677,004	408,195				408,195	
		(415,157) *						
2004	40,587,564	846,831	41,434,395	16,149,700	1,564,630	17,714,330	23,720,065	
	40,036,843	712,420	40,441,216	14,687,244	1,765,916	16,149,700	24,291,516	
		(307,995)			(303,437)			
		(52) **			(23) **			
Capital work in progress - note 12.4	190,540	341,124	146,348				146,348	
		(385,316)						
2003	40,227,383	360,181	40,587,564	14,687,244	1,462,456	16,149,700	24,437,864	

12.1 Cost of property, plant and equipment has been shown net of Government grant of Rs 68,164 thousand (2003: Rs 68,164 thousand).

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

		Note	2004	2003
			(Rupees '000)	
12.2	**Depreciation charge has been allocated as follows:**			
	Cost of sales	27	1,604,638	1,741,483
	Administrative expenses and distribution cost	28	25,935	24,410
			1,630,573	1,765,893

12.3 Details of property, plant and equipment sold

Description	Cost	Book value	Sale proceeds
		(Rupees '000)	
Vehicles			
By Group Companies policy to employees			
Dr S.H.R Zaidi	996	199	442
Mr Taqi Ahmed Khan	734	147	300
Mr Muhammad Shuaib	863	173	354
Mrs Sadia Malik	734	147	300
Mr Tahir Jawed	892	178	365
Mr Ahsan Ali Zafar	540	108	261
Mr Sikandar Ali	175	123	142
Brig Umair Ahmed (Retd.)	825	578	535
Mr Qaseem Arsal	450	315	315
Brig Mateen Mohajir (Retd.)	954	573	577
Mr Usman Iqbal Hashmi	849	509	694
Mr Asif Wajid	849	679	865
By tender to outsiders			
Mr Lal Mohammad	650	455	518
Mr Sohail Ahmed	300	211	290
Mr M Hanif	225	158	140
Mr M Nazir	300	210	438
Mr M Nasir Khan	250	175	234
Mr Shams-ul-Kamar	100	70	146
Khawaja Mohammad Tariq	600	420	687
Mr Muhammad Arif	200	140	178
Furniture and fixtures, office and electrical equipment and maintenance and other equipment			
By parent Company's policy to employee			
Mr Aziz -ur-Rehman	148	74	74
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand	61,284	1,333	16,902
	72,918	6,975	24,757

		Note	2004	2003
			(Rupees '000)	
12.4	**CAPITAL WORK IN PROGRESS**			
	Advances to suppliers		117,061	–
	Civil works		222,380	61,392
	Plant, machinery and equipment		68,754	84,956
			408,195	146,348
13.	**INTANGIBLE ASSETS**			
	Goodwill	13.1	1,778,464	1,883,079
	Process license fee	13.2	–	23,686
			1,778,464	1,906,765
13.1	**Goodwill**			
	Balance at beginning of the year		1,883,079	1,987,694
	Less: Amortisation for the year		104,615	104,615
			1,778,464	1,883,079
13.2	**Process licence fee**			
	Process license fee		118,422	118,422
	Less: Amortisation			
	Opening balance		94,736	71,052
	Charge for the year		23,686	23,684
			118,422	94,736
			–	23,686
14.	**LONG TERM INVESTMENTS**			
	Advance against equity investment in foreign company			
	Pakistan Maroc Phosphore S.A.			
	Advance against issue of shares	14.1	537,900	–
	Investments available for sale	14.2		
	Certificates of investment		246,525	250,218
	Government of Pakistan Special US Dollar Bonds		969,486	1,138,202
	National Savings Certificates		500,000	1,000,000
	Others		101,300	–
	Arabian Sea Country Club Limited (300,000 shares of Rs 10 each)		3,000	3,000
	Less: Impairment in value of investment		(3,000)	(3,000)
			–	–
			1,817,311	2,388,420
	Investments held to maturity	14.3		
	Pakistan Investment Bonds		700,00	700,000
	Term Finance Certificates		20,355	148,380
			720,355	848,380
			3,075,566	3,236,800
	Less: Current portion shown under current assets	24		
	Investments available for sale			
	Certificates of investment		12,456	76,746
	Government of Pakistan Special US Dollar Bonds		969,486	201,208
	National Savings Certificates		500,000	500,000
			1,481,942	777,954
	Investments held to maturity			
	Pakistan Investment Bonds		100,000	–
	Term Finance Certificates		20,355	128,025
			120,355	128,025
			1,602,297	905,979
			1,473,269	2,330,821

14.1 Advance against equity investment in foreign company

The Group companies have committed 37.5% total equity participation in Pakistan Maroc Phosphore S.A. (PMP), amounting to Moroccan Dirhams (MAD) 300,000 thousand. First tranche of MAD 75,000 thousand equivalent to Rs 537,900 thousand has been remitted while the balance shall be paid upon further equity call by PMP.

According to the Shareholders' agreement, the Group companies cannot sell the shares of PMP, outside Fauji Group (consisting of FFC, FFBL and Fauji Foundation) for a period of five years effective September 14, 2004. Further, if any legal restriction is laid on dividends by PMP, the same will be converted to interest bearing loan.

14.2 Investments available for sale

Term deposits are placed with banks and financial institutions for periods ranging from one and a half to five years at profit rates ranging from 6% to 15% per annum (2003: 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 months LIBOR.

National Savings Certificates have been issued for a period of 5 years. Monthly profit is payable on these certificates at 14% per annum.

Other investments represent 10,000 thousand certificates of Rs 10 each in Shariah compliant closed end mutual fund. The fair value at the year end was Rs 10.13 per certificate based on net asset value of the fund. Un-realised gain on re-measurement of these certificates to fair value amounting to Rs 1,300 thousand is included in the profit and loss account. Other investments also include investment of FFBL in 300,000 ordinary shares of Rs 10 each of Arabian Sea Country Club Limited (ASCCL) which has fully impaired. As per audited accounts of ASCCL for the year ended June 30, 2004, the break-up value of an ordinary share was Rs 5.89 (June 30, 2003: Rs 5.94).

Investments available for sale include Rs 1,345,568 thousand (2003: Rs 2,124,416 thousand) under lien of financial institutions against long term loans for PSFL acquisition and short term loans.

14.3 Investments 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 700,000 thousand (2003: Rs 500,000 thousand) under lien of a bank against loan for PSFL acquisition. Fair value of these PIBs as at December 31, 2004 was Rs 703,970 thousand (2003: Rs 964,825 thousand).

Investment in TFC represents 500 certificates of Rs 100,000 each of Orix Leasing Limited. Half yearly profit is payable on these TFCs at 14% per annum (2003: 14% per annum). Fair value of TFCs of Orix Leasing Limited is Rs 20,827 thousand (2003: Rs 53,461 thousand) at the year-end.

		Note	2004	2003
			(Rupees '000)	
15.	**LONG TERM LOANS AND ADVANCES**			
	Loans and advances - considered good, to:			
	Executives		65,266	39,712
	Other employees		41,449	55,535
			106,715	95,247
	Less: Amount due within twelve months, shown under current assets	21	39,387	31,327
			67,328	63,920

15.1 Reconciliation of carrying amount of loans to executives and other employees:

	Opening balance as at January 1, 2004	Disbursements	Repayments	Closing balance as at December 31, 2004
		(Rupees '000)		
Executives	39,712	69,934	44,380	65,266
Other employees	55,535	40,386	54,472	41,449
	95,247	110,320	98,852	106,715

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 at 4% per annum (2003: 4% to 6% per annum) was charged on loans for house building during the year.

The maximum amount of advances to executives outstanding at the end of any month during the year was Rs 65,266 thousand (2003: Rs 58,680 thousand).

		2004	2003
		(Rupees '000)	
16.	**LONG TERM DEPOSITS, PREPAYMENTS AND DEFERRED COSTS**		
	Security deposits	17,760	17,232
	Prepayments	1,040	1,168
	Lease key money	4,050	5,619
	Deferred costs	–	5,240
		22,850	29,259
	Less : Current portion	(840)	(1,009)
		22,010	28,250
17.	**DEFERRED TAX ASSET**		
	The net balance of deferred taxation is in respect of the following major temporary differences:		
	Accelerated depreciation	117,850	1,058,560
	Unabsorbed business losses	–	100,000
	Provision against doubtful advances / receivables	19,463	835
	Liabilities against assets subject to finance lease	6,214	9,583
	Intangible assets	–	(8,290)
		143,527	1,160,688

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		Note	2004	2003
			(Rupees '000)	
18.	**STORES, SPARES AND LOOSE TOOLS**			
	Stores		134,446	137,681
	Spares		2,226,988	2,033,567
	Provision for slow moving and surplus items		(295,713)	(203,226)
			1,931,275	1,830,341
	Loose tools		107	590
	Items in transit		181,882	174,283
			2,247,710	2,142,895
19.	**STOCK IN TRADE**			
	Raw materials		233,524	149,361
	Work in process		14,674	27,875
	Finished goods:			
	Manufactured fertilizers		61,787	610,870
	Purchased fertilizers		161,447	102,702
			471,432	890,808
20.	**TRADE DEBTS**			
	Considered good		1,838,398	2,248,877
	Due from Fauji Foundation, an associated undertaking - considered good	20.1	584	19,881
	Considered doubtful		1,979	2,059
			1,840,961	2,270,817
	Provision for doubtful debts		(1,979)	(2,059)
			1,838,982	2,268,758

20.1 Maximum amount outstanding at the end of any month during the year was Rs 3,232 thousand (2003: Rs 23,518 thousand).

		Note	2004	2003
			(Rupees '000)	
21.	**LOANS AND ADVANCES**			
	Advances to:			
	Chief executive	21.1	–	68
	Executives - considered good	21.2	573	65
	Executives - considered doubtful		51	51
			624	116
	Provision for doubtful advances		(51)	(51)
			573	65
	Other - considered good		1,941	549
	Other - considered doubtful		95	96
			2,036	645
	Provision for doubtful advances		(95)	(96)
			1,941	549
	Advances to suppliers			
	Considered good		251,858	43,859
	Considered doubtful		1,982	2,321
			253,840	46,180
	Provision for doubtful advances		(1,982)	(2,321)
			251,858	43,859
	Current portion of long term loans and advances		39,387	31,327
			293,759	75,868

21.1 FFBL paid interest free house rent on behalf of the Chief Executive. Maximum amount outstanding on this account at the end of any month during the year was Rs 51 thousand (2003 : Rs 255 thousand).

21.2 This represents interest free house rent paid by FFBL on behalf of Executives. Maximum amount outstanding on this account at the end of any month during the year was Rs 625 thousand (2003: Rs 116 thousand).

	Note	2004	2003
		(Rupees '000)	
22. DEPOSITS AND PREPAYMENTS			
Deposits (including current portion)		2,279	3,935
Prepayments		24,696	21,766
		26,975	25,701
23. OTHER RECEIVABLES			
Accrued income on investments and bank deposits		72,660	49,984
Income tax recoverable-net		545,209	502,076
Sales tax refundable		–	14,884
Receivable from retirement benefit fund - considered good	8.1	929	2,306
Other receivables - considered good	23.1	40,053	87,932
- considered doubtful		55,714	53,629
		95,767	141,561
Provision for doubtful receivables		(55,714)	(53,629)
		40,053	87,932
Insurance claims		1,278	1,454
		660,129	658,636

23.1 This includes Rs 680 thousand (2003: Nil) receivable from Fauji Foundation on account of expenses incurred on its behalf. The maximum amount due on this account at the end of any month during the year was Rs 680 thousand (2003: Rs Nil).

	2004	2003
	(Rupees '000)	
24. SHORT TERM INVESTMENTS		
Term deposits with banks and financial institutions		
Local currency		
Available for sale (net of provision for doubtful recovery Rs 13,000 thousand; 2003: Rs 13,000 thousand)	2,550,000	1,200,000
Foreign currency		
Held to maturity	311,860	94,866
Current maturity of long term investments		
Available for sale	1,481,942	777,954
Held to maturity	120,355	128,025
	4,464,157	2,200,845

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		2004	2003
		(Rupees '000)	
25.	**CASH AND BANK BALANCES**		
	At banks:		
	Deposit accounts		
	Local currency	5,554,086	2,417,814
	Foreign currency	–	297
	Current accounts		
	Local currency (includes drafts under collection)	421,799	(16,229)
	Foreign currency	14,898	22,347
		5,990,783	2,424,229
	Drafts in hand and in transit	142,153	1,027,324
	Cash in hand	1,507	1,327
		6,134,443	3,452,880

Balances with banks include Rs 58,772 thousand (2003: Rs 54,751 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 57,035 thousand (2003: Rs 37,439 thousand) under lien of the bank, against a guarantee issued by the bank on behalf of the Group companies. FFBL deposit accounts include Rs 695,317 thousand (2003: Rs 349,481 thousand) which are under pledge with commercial banks against letters of credit.

26. SALES

Sales include Rs 3,567,278 thousand (2003: Rs 5,760,207 thousand) in respect of sale of purchased fertilizers and are exclusive of commission, trade allowances and sales tax of Rs 455,944 thousand and Rs 3,414,103 thousand respectively (2003: Rs 601,574 thousand and Rs 3,645,589 thousand).

		2004	2003
		(Rupees '000)	
27.	**COST OF SALES**		
	Raw materials consumed	9,565,912	5,047,717
	Fuel and power	3,331,185	3,138,540
	Chemicals and supplies	187,846	185,112
	Salaries, wages and benefits	1,501,472	1,258,018
	Rent, rates and taxes	28,586	27,386
	Insurance	136,794	119,485
	Technical services	14,364	13,920
	Travel and conveyance	104,749	92,501
	Repairs and maintenance (includes stores and spares consumed Rs 465,514 thousand; 2003: Rs 536,128 thousand)	678,310	739,255
	Amortization of intangible assets-process license fee	23,686	23,684
	Depreciation	1,604,638	1,741,483
	Communication, establishment and other expenses	368,422	360,841
	Provision for slow moving and surplus spares	92,487	51,501
	(Reversal of provision)/provision for doubtful advances	(340)	147
	Opening stock - work in process	27,875	22,722
	Closing stock - work in process	(14,674)	(27,875)
	Cost of goods manufactured	17,651,312	12,794,437
	Add: Opening stock of manufactured fertilizers	610,870	480,463
	Less: Closing stock of manufactured fertilizers	(61,787)	(610,870)
		549,083	(130,407)
	Cost of sales - own manufactured fertilizers	18,200,395	12,664,030
	Opening stock of purchased fertilizers	102,702	223,821
	Purchase of fertilizers for resale	3,221,113	4,919,036
		3,323,815	5,142,857
	Closing stock of purchased fertilizers	(161,447)	(102,702)
	Cost of sales - purchased fertilizers	3,162,368	5,040,155
		21,362,763	17,704,185
28.	**ADMINISTRATIVE EXPENSES AND DISTRIBUTION COST**		
	Product transportation	1,969,715	1,776,781
	Salaries, wages and benefits	420,572	362,485
	Rent, rates and taxes	68,705	64,988
	Insurance	2,813	1,042
	Technical services	4,237	3,091
	Travel and conveyance	67,299	52,558
	Sale promotion and advertising	52,604	57,038
	Communication, establishment and other expenses	30,883	33,951
	Warehousing expenses	64,730	62,365
	Depreciation	25,935	24,410
	Administrative expenses	81,298	77,477
		2,788,791	2,516,186

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

		2004	2003
		(Rupees '000)	
29.	**FINANCE COST**		
	Interest and related charges on long term financing, loans and murabaha [includes Rs Nil (2003: Rs 4,118 thousand) to CDC Holdings Sendirian Berhad (CDCH), an associated undertaing]	355,703	537,966
	Mark up on long term financing from PKIC, an associated undertaking	7,321	9,218
	Mark up on short term finances	63,660	143,863
	Exchange loss / (gain)	24,755	(29,586)
	Interest on Workers' Profit Participation Fund	463	101
	Finance charges on leased property, plant and equipment	1,880	2,469
	Guarantee fee to banking company	–	325
	Guarantee fee to CDCH	–	9,804
	Bank charges	3,984	3,383
		457,766	677,543
30.	**OTHER OPERATING EXPENSES**		
	Amortisation of goodwill	104,615	104,615
	Workers' Profit Participation Fund	440,911	284,728
	Workers' Welfare Fund	126,019	113,965
	Auditors' remuneration		
	Audit fee	1,420	1,420
	Fee for tax and other advisory services, half yearly review, audit of consolidated accounts and funds and certifications for Government and related agencies	993	3,242
	Out of pocket expenses	220	206
		674,178	508,176
31.	**OTHER OPERATING INCOME**		
	Income from financial assets		
	Income on loans, deposits and investments	408,739	392,993
	Income on tax-exempt investments	45,534	36,629
	Gain on remeasurement of investments available for sale to fair value	1,300	–
	Exchange gain / (loss) on financial instruments	15,381	(19,013)
	Income from non-financial assets		
	Gain on sale of property, plant and equipment	17,782	15,489
	Other income		
	Old liabilities written back	14,771	13,216
	Others	43,055	48,581
		546,562	487,895

	2004	2003
	(Rupees '000)	
32. PROVISION FOR TAXATION		
Current - for the year	2,184,000	1,979,833
- for prior year	30,000	–
Deferred - for the year	657,161	(574,337)
	2,871,161	1,405,496
32.1 Reconciliation of tax charge for the year		
Profit before taxation	7,772,159	5,295,868
Compensation received from GOP	700,000	700,000
	8,472,159	5,995,868
	%	%
Applicable tax rate	35.00	35.00
Add: Tax effect of amounts that are not	–	–
deductible for tax purpose	12.87	(2.48)
Tax effect of amounts relating to prior years'	0.36	
Tax effect of intra group transactions	0.28	
Less: Tax effect of amounts exempt from tax	(0.19)	(0.21)
Tax effect of business losses-FFBL	(0.98)	(9.29)
Tax effect of unabsorbed depreciation-FFBL	(13.44)	–
Tax effect of rebates, tax credit and minimum tax on turnover due to brought forward losses	(0.01)	0.42
Average effective tax rate charged on income	33.89	23.44

33. COMPENSATION RECEIVED FROM GOVERNMENT OF PAKISTAN - NET OF TAX

GOP had committed to pay Rs 5,000,000 thousand over a period of seven years in lieu of non-implementation of Fertilizer Policy, 1989. On this account, amounts aggregating Rs 2,400,000 thousand have been received from GOP up to December 31, 2004. Balance of Rs 2,600,000 thousand will be received in two instalments of Rs 700,000 thousand each during the years 2005 and 2006 and two instalments of Rs 600,000 thousand each during the years 2007 and 2008, subject to netting off the agreed GOP loan repayments of Rs 648,200 thousand to be made by FFBL each year. Tax amounting to Rs 245,000 thousand on Rs 700,000 thousand (2003: Rs 245,000 thousand on Rs 700,000 thousand) has been recognised in the profit and loss account during the year.

	2004	2003
34. EARNINGS PER SHARE		
Net profit after tax (Rupees '000)	4,459,157	3,771,720
Weighted average number of shares in issue during the year.	294,970	294,970
Basic and diluted earnings per share (Rupees)	15.12	12.79

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

Number of shares in issue during the year 2003 have been restated for the effect of bonus shares issued during the year 2004.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

	2004	2003
	(Rupees '000)	
35. CASH GENERATED FROM OPERATIONS		
Net profit before taxation	7,772,159	5,295,868
Adjustments for:		
Depreciation	1,630,573	1,765,916
Amortisation of goodwill, intangible asset and deferred costs	133,541	133,539
Provision for slow moving and surplus spares	92,487	51,501
(Reversal of provision)/ provision for doubtful advances	(340)	147
Finance cost	457,766	677,543
Income on loans, deposits and investments	(454,273)	(429,622)
Gain on sale of property, plant and equipment	(17,782)	(15,489)
Adjustment to property, plant and equipment	–	52
Provision for gratuity	35,694	33,968
Provision for pension	28,698	23,207
Exchange gain	9,080	(18,158)
Gain on remeasurement of investment available for sale to fair value	(1,300)	–
Old liabilities written back	(14,771)	(13,216)
	1,899,373	2,209,388
	9,671,532	7,505,256
Changes in working capital		
(Increase) / decrease in current assets:		
Stores and spares	(197,300)	(111,009)
Stock in trade	419,376	(129,326)
Trade debts	429,856	(222,898)
Loans and advances	(217,552)	2,217
Deposits and prepayments	(1,272)	(2,260)
Other receivables	(316,012)	(108,938)
Increase in current liabilities:		
Trade and other payables	3,767,571	399,282
	3,884,667	(172,932)
Changes in long term loans and advances	(3,408)	(13,783)
Changes in long term deposits and prepayments	1,000	(1,108)
	13,553,791	7,317,433
36. CASH AND CASH EQUIVALENTS		
Cash and bank balances	6,134,443	3,452,880
Short term borrowings	(1,176,625)	(137,133)
Short term highly liquid investments	3,052,500	1,205,746
	8,010,318	4,521,493

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

37.1 Financial assets and liabilities

	Effective interest rates	Interest / Mark–up bearing: Maturity upto one year	Interest / Mark–up bearing: Maturity after one year	Interest / Mark–up bearing: Sub–total	Non–interest / Mark–up bearing: Maturity upto one year	Non–interest / Mark–up bearing: Maturity after one year	Non–interest / Mark–up bearing: Sub–total	2004 Total	2003 Total
					(Rupees '000)				
Financial assets									
Investments									
– Local currency	4% to 16%	3,182,811	935,369	4,118,180	–	–	–	4,118,180	3,298,598
– Foreign currency	0.8% to 4.8%	1,281,346	–	1,281,346	–	–	–	1,281,346	1,233,068
Loans and advances	4%	10,950	65,941	76,891	77,454	1,387	78,841	155,732	95,892
Trade debts		–	–	–	1,838,982	–	1,838,982	1,838,982	2,268,758
Deposits		–	–	–	1,422	20,970	22,392	22,392	29,832
Accrued income on investments and deposits		–	–	–	72,660	–	72,660	72,660	49,984
Other receivables		–	–	–	359,984	–	359,984	359,984	276,249
Cash and bank balances									
– Local currency		5,554,086	–	5,554,086	565,459	–	565,459	6,119,545	3,437,262
– Foreign currency		–	–	–	14,898	–	14,898	14,898	15,618
		10,029,193	1,001,310	11,030,503	2,930,859	22,357	2,953,216	13,983,719	10,705,261
Financial liabilities									
Recognised									
Long term financing									
– Local currency	2.36% to 11%	1,880,932	5,034,854	6,915,786	–	–	–	6,915,786	7,771,671
– Foreign currency	5.9%	805,174	–	805,174	–	–	–	805,174	982,429
Long term loans	8.75%	1,741	–	1,741	648,201	7,778,409	8,426,610	8,428,351	9,078,292
Long term murabaha	2.36% to 4.5%	122,012	254,397	376,409	–	–	–	376,409	479,081
Liabilities against assets subject to finance lease	8.33%	6,467	11,290	17,757	–	–	–	17,757	27,381
Short term finances	2.92% to 4%	1,276,625	–	1,276,625	–	–	–	1,276,625	3,109,466
Trade and other payables	10% to 90%	349,008	–	349,008	3,777,944	–	3,777,944	4,126,952	2,093,425
Proposed dividend		–	–	–	–	–	–	–	384,743
Mark – up accrued		–	–	–	101,769	–	101,769	101,769	86,056
		4,441,959	5,300,541	9,742,500	4,527,914	7,778,409	12,306,323	22,048,823	24,012,544
Unrecognised									
Guarantees		–	–	–	26,828	–	26,828	26,828	15,659
Letters of credit		–	–	–	254,212	–	254,212	254,212	182,266
Contingencies		–	–	–	812,243	–	812,243	812,243	4,145,939
Commitments		–	–	–	4,986,454	1,186,387	6,172,841	6,172,841	1,500,091
		–	–	–	6,079,737	1,186,387	7,266,124	7,266,124	5,843,955
		4,441,959	5,300,541	9,742,500	10,607,651	8,964,796	19,572,447	29,314,947	29,856,499

37.2 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 Group companies believe that they are not exposed to major concentration of credit risk. To manage exposure to credit risk, the Group companies apply 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 Group companies' foreign currency risk exposure is restricted to foreign currency investments and financing. As both foreign currency assets and liabilities are denominated in US Dollars, the Group companies' exposure emanating from any fluctuation in the Pak Rupee / US Dollar parity gets hedged to a large extent.

c) Interest rate risk

The Group companies have long term Rupee and foreign currency based loans at variable and fixed rates. Applicable interest rates for financial assets and liabilities have been indicated in respective notes. Variable rate long term financing except Term Finance Certificates (TFCs) is hedged against interest rate risk by holding "pre-payment option", which can be exercised upon any adverse movement in the underlying interest rates. TFCs are hedged against the interest rate risk by instituting interest rate caps and floors.

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Group companies' treasuries aim at maintaining flexibility in funding by keeping committed credit lines.

37.3 Fair value of financial assets and liabilities

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

38. RE–STATED PROFORMA INFORMATION
STATEMENT OF RETAINED EARNINGS

	Actual		Proforma	
	2004	2003	Restated 2004	Restated 2003
	(Rupees `000)			
Opening balance as at January 1, as previously reported	(1,536,173)	(2,142,934)	(1,536,173)	(2,142,934)
Change in accounting policy–Proposed final dividend 2003: Rs 1.5 (2002: Rs 1.0) per share	–	–	384,743	256,496
Opening balance as at January 1, restated	(1,536,173)	(2,142,934)	(1,151,430)	(1,886,438)
Profit for the year	4,459,157	3,771,720	4,459,157	3,771,720
Adjustment of dilution in holding of FFBL shares	44,817	–	44,817	–
Transfer from/ (to) general reserve	700,000	(600,000)	700,000	(600,000)
Transfer to reserve for issue of bonus shares	(384,744)	–	(384,744)	–
Dividends	(3,231,849)	(2,564,959)	(3,616,592)	(2,436,712)
Closing balance as at December 31,	51,208	(1,536,173)	51,208	(1,151,430)

39. 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 Group companies are given below:

	2004		2003	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees `000)			
Managerial remuneration	4,693	342,875	4,660	260,908
Retirement benefits	1,391	49,767	2,354	37,063
Utilities and upkeep	609	19,256	572	15,248
Travel assistance	1,284	46,523	1,924	35,157
Bonus and other awards	110	31,559	100	30,853
Good performance award	120	15,526	–	42,501
Others	142	11,443	78	10,023
Total	8,349	516,949	9,688	431,753
No. of persons	2	221	2	175

The above were provided with medical facilities; the chief executive and certain executives were also provided with certain household equipment and use of vehicles in accordance with the Group companies' policy. Leave encashment of Rs 685 thousand (2003: Rs 638 thousand) to chief executive and Rs 4,611 thousand (2003: Rs 4,954 thousand) to the executives was paid on separation, in accordance with the Group companies' policy.

In addition, 24 (2003: 24) directors were paid aggregate fee of Rs 226 thousand (2003: Rs 162 thousand).

Notes to the Consolidated Financial Statements
For the year ended December 31, 2004

40. RELATED PARTY TRANSACTIONS

Fauji Foundation holds 44.35% (2003: 44.35%) shares of FFC at the year end. Therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of FFC and its subsidiary (FFBL). The related parties comprise of directors, key management personnel, entities over which the directors are able to exercise influence and employees' funds. Amounts due from and due to these undertakings are shown under receivables and payables. The remuneration of chief executive, directors and executives is disclosed in note 39 to the consolidated financial statements. Associated undertakings of the Group with whom such transactions have taken place are given below:

	2004	2003
	(Rupees '000)	
Fauji Foundation		
Office rent	3,071	3,015
Right shares issued	3,713	–
Equity injection in FFBL	–	250,000
Receipt on account of payment made to Pakistan Maroc Phosphore S.A., on FF's behalf	358,600	–
Payment for shares of Pakistan Maroc Phosphore S.A.	179,300	–
Expenses related to long term investment incurred on FF's behalf	680	–
Reimbursement of expenses on behalf of the Company	874	600
Sale of fertilizer	7,259	35,253
Medical services	42	674
Mari Gas Company Limited		
Purchase of gas as feed and fuel	5,884,410	5,313,857
Haldor Topsoe A/s, Denmark		
Technical services received	14,364	13,920
CDC Holdings Sendirian Berhad		
Repayment of principal portion of loan	–	93,679
Financial charges and guarantee commission paid	–	13,922
Right shares issued	24,015	–
Pak Kuwait Investment Company (Pvt) Limited		
Repayment of principal portion of loan	22,858	–
Financial charges paid	7,321	9,218
Right shares issued	5,350	–
Maroc Phosphore S.A., Morocco		
Purchase of raw materials	3,445,394	–
Jordan Phosphate Mines Company Limited		
Financial charges paid	–	34,671
Pakistan Maroc Phosphore S.A.		
Advance against issue of shares	537,900	–
Payment to:		
Employees' Provident Fund Trusts	107,375	103,055
Employees' Gratuity Fund Trusts	50,353	52,968
Employees' Pension Fund Trust	27,321	21,053

41. MAJOR CONTRACTS

FFBL has the following major agreements:

41.1 Gas supply agreement with Sui Southern Gas Company Limited. Feed gas is supplied to FFBL at subsidized rates under the Government policies.

41.2 Phosphoric acid supply agreement with Maroc Phosphore S.A., Morocco.

		2004	2003
		(Tonnes '000)	
42.	**GENERAL**		
42.1	**Production capacity**		
	Design capacity		
	Urea	2,455	2,455
	DAP	445	445
	Production		
	Urea	2,748	2,709
	DAP	381	73
42.2	**Number of employees**	(Number)	
	Number of employees at year end	3,162	2,992

42.3 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 20,000 thousand and Rs 2,575,000 thousand (2003: Rs 23,750 thousand and Rs 2,275,000 thousand) respectively are available to FFC under first charge by way of equitable mortgage on all fixed assets of FFC.

42.4 Donations aggregating Rs 2,085 thousand (2003: Rs 1,651 thousand), included under cost of sales do not include any amount paid to any person or organisation in which the chief executive, directors or their spouses had any interest.

42.5 The Board of Directors of FFC in their meeting held on January 31, 2005 have proposed a final dividend of Rs 3 per share in addition to interim dividend of Rs 12 per share already distributed and incorporated in the consolidated financial statements. The final dividend shall be recorded as liability in the consolidated financial statements for the next financial year as required by International Accounting Standard 10: "Events after the Balance Sheet Date".

42.6 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

42.7 Due to revision of the 4th schedule to the Companies Ordinance,1984 by the Securities and Exchange Commission of Pakistan vide SRO. 589(1)/2004 dated July 5, 2004, previous years' figures have been arranged and / or reclassified, wherever necessary, for the purpose of comparison.

42.8 These consolidated financial statements have been authorised for issue by the Board of Directors of FFC on January 31, 2005.

Chairman   Chief Executive   Director

Pattern of Shareholding
As at December 31, 2004

Number of Shareholders	Shareholding From	To	Total Number of Shares
205	1	100	11,744
715	101	500	197,946
1417	501	1,000	909,347
1421	1,001	5,000	3,199,867
416	5,001	10,000	2,926,742
191	10,001	15,000	2,311,430
80	15,001	20,000	1,416,635
55	20,001	25,000	1,262,240
40	25,001	30,000	1,134,889
21	30,001	35,000	696,485
12	35,001	40,000	448,707
17	40,001	45,000	718,430
21	45,001	50,000	1,004,040
11	50,001	55,000	571,090
20	55,001	60,000	1,160,050
13	60,001	65,000	814,445
8	65,001	70,000	547,550
14	70,001	75,000	1,019,100
4	75,001	80,000	309,460
7	80,001	85,000	573,705
5	85,001	90,000	439,586
5	90,001	95,000	464,035
7	95,001	100,000	692,850
4	100,001	105,000	410,560
5	110,001	115,000	572,000
1	115,001	120,000	115,920
2	120,001	125,000	241,500
2	125,001	130,000	258,150
3	135,001	140,000	411,705
2	140,001	145,000	287,530
2	145,001	150,000	295,700
2	150,001	155,000	305,095
1	155,001	160,000	158,010
4	160,001	165,000	654,565
2	165,001	170,000	336,889
2	170,001	175,000	342,975
2	175,001	180,000	354,660
1	180,001	185,000	184,000
2	185,001	190,000	378,235
1	190,001	195,000	192,825
4	195,001	200,000	797,775
1	200,001	205,000	201,750
2	210,001	215,000	425,500
1	215,001	220,000	217,925
2	225,001	230,000	460,000
2	230,001	235,000	465,220
1	235,001	240,000	239,500
1	240,001	245,000	244,000
3	245,001	250,000	748,310
1	250,001	255,000	254,285
1	265,001	270,000	265,890
2	275,001	280,000	551,310
1	280,001	285,000	281,105
1	295,001	300,000	300,000
1	310,001	315,000	315,000
1	315,001	320,000	316,250
2	320,001	325,000	645,785
1	325,001	330,000	327,405
1	330,001	335,000	331,125
2	345,001	350,000	698,495

Pattern of Shareholding
As at December 31, 2004

Number of Shareholders	Shareholding		Total Number of Shares
	From	To	
2	350,001	355,000	703,832
2	355,001	360,000	715,430
2	360,001	365,000	724,000
1	370,001	375,000	373,800
2	380,001	385,000	766,695
1	395,001	400,000	400,000
1	405,001	410,000	409,015
1	450,001	455,000	454,250
1	470,001	475,000	472,650
1	500,001	505,000	500,625
1	515,001	520,000	518,100
1	525,001	530,000	530,000
1	530,001	535,000	533,000
1	540,001	545,000	544,410
1	555,001	560,000	559,500
1	560,001	565,000	563,500
4	570,001	575,000	2,295,745
1	575,001	580,000	577,875
1	590,001	595,000	593,600
3	600,001	605,000	1,807,925
1	615,001	620,000	619,830
1	645,001	650,000	647,155
1	665,001	670,000	667,785
1	685,001	690,000	690,000
1	695,001	700,000	700,000
1	715,001	720,000	718,865
1	720,001	725,000	722,400
1	745,001	750,000	749,685
2	800,001	805,000	1,600,580
1	810,001	815,000	811,210
1	870,001	875,000	871,355
1	880,001	885,000	883,700
1	910,001	915,000	912,565
1	1,025,001	1,030,000	1,029,510
1	1,095,001	1,100,000	1,098,770
1	1,165,001	1,170,000	1,168,556
1	1,175,001	1,180,000	1,176,700
1	1,305,001	1,310,000	1,309,544
1	1,345,001	1,350,000	1,349,095
1	1,705,001	1,710,000	1,708,670
1	1,740,001	1,745,000	1,741,950
1	1,840,001	1,845,000	1,842,325
1	2,000,001	2,005,000	2,001,115
1	2,070,001	2,075,000	2,074,125
1	2,075,001	2,080,000	2,079,050
1	2,425,001	2,430,000	2,428,800
1	2,430,001	2,435,000	2,433,700
1	2,890,001	2,895,000	2,890,345
1	3,650,001	3,655,000	3,652,738
1	3,690,001	3,695,000	3,692,995
1	3,810,001	3,815,000	3,813,815
1	4,390,001	4,395,000	4,390,502
1	5,495,001	5,500,000	5,500,000
1	8,665,001	8,670,000	8,667,633
1	18,505,001	18,510,000	18,506,955
1	28,545,001	28,550,000	28,545,410
1	130,810,001	130,815,000	130,811,580
4841			**294,970,287**

Pattern of Shareholding

As at December 31, 2004

Serial No.	Categories of Shareholders	No of share-holders	No of Shares held	Percentage %
1.	Investment Companies	17	11,363,423	3.85
2.	Insurance Companies	26	25,897,525	8.78
3.	Joint Stock Companies	128	9,622,042	3.26
4.	Financial Institutions	33	53,185,134	18.03
5.	Modarabas	16	269,705	0.09
6.	Foreign Investors	32	10,096,038	3.42
7.	Leasing Companies	3	23,230	0.01
8.	Charitable Trust & Others	103	153,286,225	51.97
9.	Individuals	4483	31,226,965	10.59
	Total	**4,841**	**294,970,287**	**100.00**

	No of Shares
NIT & ICP (namewise details)	
National Investment Trust	29,616,765
Investment Corporation of Pakistan	1,709,245
Executives	306,665
Public Sector Companies and Corporations	8,742,796
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds	46,491,728
Shareholders holding ten percent or more voting interest	
Fauji Foundation	130,811,580

Form of Proxy
27th Annual General Meeting

I/We ____

of ____

being a member(s) of Fauji Fertilizer Company Limited hold ____________________

Ordinary Shares hereby appoint Mr/Mrs/Miss ____________________

____________________ or failing him/her ____________________

of ____________________ as my/our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Twenty Seventh Annual General Meeting of the Company to be held on February 28, 2005 and / or any adjournment thereof.

As witness my / our hand seal this ____________________ day of ____________________ 2005.

Signed by ____

in the presence of ____

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

Signature on
Five Rupees
Revenue Stamp

The Signature should agree with the specimen registered with the Company

Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, 93-Harley Street, Rawalpindi not less than 48 hours before the time of holding the meeting.

2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

3. For CDC Account Holders/Corporate Entities

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

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