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Our achievements over the years

in every business sphere

have developed FFC into

“The House of Excellence”

2005

Company Information

BOARD OF DIRECTORS

Lt Gen Syed Arif Hasan, 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 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 Istaqbal Mehdi
Brig Munawar Ahmed Rana, SI(M) (Retired)

CHIEF FINANCIAL OFFICER

Mr Abid Maqbool
Tel No: 92-51-9272336
Fax No: 92-51-9272337
E-mail: gmf_cfo@ffc.com.pk

COMPANY SECRETARY

Brig Muhammad Saleem Suleman, SI(M) (Retired)
Tel No. 92-51-9272327
Fax No. 92-51-9272519
E-mail: secretary@ffc.com.pk

REGISTERED OFFICE

93-Harley Street, Rawalpindi Cantt.
Website: www.ffc.com.pk
Tel No. 92-51-9272307-14
Fax No. 92-51-9272316
E-mail: ffcrwp@ffc.com.pk

PLANTSITES

Goth Machhi
Sadikabad
(Distt: Rahim Yar Khan)
Tel No. 92-68-5786420-9
Fax No. 92-68-5786401

Mirpur Mathelo
(Distt: Ghotki)
Tel No. 92-723-651021-24
Fax No. 92-723-651102

MARKETING DIVISION

Lahore Trade Centre,
11 Shahrah-e-Aiwan-e-Tijarat, Lahore
Tel No. 92-42-6365736
Fax No. 92-42-6366324

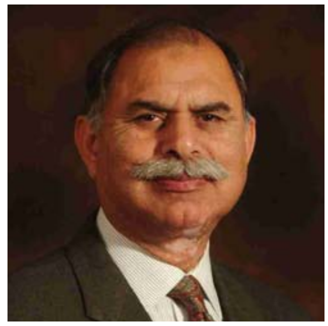
KARACHI OFFICE

B-35, KDA Scheme No. 1
Karachi
Tel No. 92-21-4390115-16
Fax No. 92-21-4390117 & 4390122

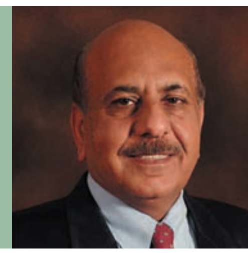
AUDITORS

M/s KPMG Taseer Hadi & Co.
Chartered Accountants

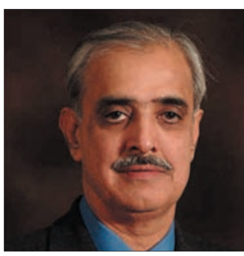

Lt Gen Syed Arif Hasan, HI(M) (Retired)
Chairman

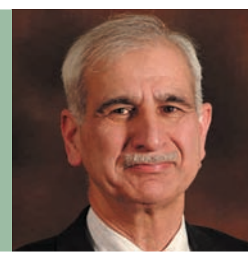

Lt Gen Mahmud Ahmed, HI(M) (Retired)
Chief Executive and Managing Director

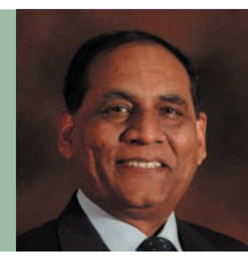

Dr Haldor Topsoe


Mr Qaiser Javed


Brig Arshad Shah, SI(M) (Retired)


Mr Tariq Iqbal Khan


Brig Aftab Ahmed, SI(M) (Retired)

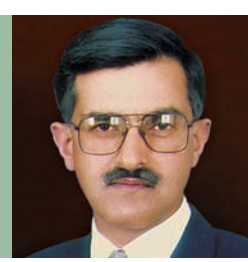

Brig Ghazanfar Ali, SI(M) (Retired)


Syed Zaheer Ali Shah

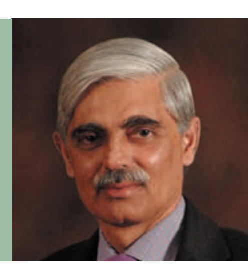

Mr Khawar Saeed


Dr Nadeem Inayat


Mr Istaqbal Mehdi


Brig Munawar Ahmed Rana, SI(M) (Retired)


Mr Abid Maqbool
Chief Financial Officer


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

2005

Committees of the Board of Directors and Management

BOD COMMITTEES

Audit Committee

Chairman
Mr Tariq Iqbal Khan
Members
Mr Qaiser Javed
Brig Aftab Ahmad, SI(M) (Retired)
Mr Khawar Saeed
Syed Zaheer Ali Shah

Human Resources Committee

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

System & Technology Committee

Chairman
Brig Aftab Ahmad, SI(M) (Retired)
Members
Brig Ghazanfar Ali, SI(M) (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)
Mr Abid Maqbool,
General Manager Finance/ Chief Financial Officer
Dr Muhammad Sadiq,
General Manager (Marketing)
Brig Muhammad Saleem Suleman, SI(M) (Retired),
General Manager Corporate Affairs/Company Secretary

Executive Committee

Chairman
Lt Gen Mahmud Ahmed, HI(M) (Retired),
(Chief Executive & Managing Director)
Members
Mr Abdul Waheed Sheikh,
General Manager (Technical & Operations)
Mr Abid Maqbool,
General Manager Finance / Chief Financial Officer
Dr Muhammad Sadiq,
General Manager (Marketing)
Mr Tahir Javed,
General Manager Plant, Goth Machhi
Syed Iqtidar Saeed,
General Manager Plant, Mirpur Mathelo
Brig Muhammad Saleem Suleman, SI(M) (Retired),
General Manager Corporate Affairs / Company Secretary

DIRECTORS' ATTENDANCE AT MEETINGS

Directors	Board of Directors	Audit Committee	Human Resources Committee	System & Technology Committee
Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired)	5	-	-	-
Lt Gen Mahmud Ahmed, HI(M) (Retired)	5	-	-	-
Dr Haldor Topsoe	-	-	-	-
Mr. Qaiser Javed	5	4	1	-
Mr. Tariq Iqbal Khan	2	4	-	-
Mr. Istaqbal Mehdi	2	-	-	-
Brig Arshad Shah, SI(M) (Retired)	4	-	1	-
Brig Aftab Ahmed, SI(M) (Retired)	4	2	-	2
Brig Ghazanfar Ali, SI(M) (Retired)	4	-	2	2
Syed Zaheer Ali Shah	1	-	-	-
Mr. Khawar Saeed	4	5	-	-
Dr. Nadeem Inayat	5	-	2	1
Brig Munawar Ahmed Rana, SI(M) (Retired)	3	-	-	-
Number of Meetings Held	**5**	**5**	**2**	**2**
* Retired from Directorship				
Mr. Zaigham Mahmood Rizvi	-	-	-	-
Mr. Nadir Rahman	2	1	-	-

2005

Notice of Annual General Meeting

Notice is hereby given that the 28th Annual General Meeting of the Shareholders of Fauji Fertilizer Company Limited will be held at Pearl Continental Hotel, Rawalpindi on Tuesday, February 28, 2006 at 1100 hours to transact the following business:-

ORDINARY BUSINESS

1. To confirm the minutes of Extraordinary General Meeting held on December 19, 2005.

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, 2005.

3. To appoint Auditors for the year 2006 and to fix their remuneration.

4. To approve payment of Final Dividend for the year ended December 31, 2005 as recommended by the Board of Directors.

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

By Order of the Board

Rawalpindi
February 06, 2006

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

NOTES

1. The share transfer books of the Company will remain closed from February 20, 2006 to February 28, 2006 (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 to prove 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.

Meeting the expectations of our stakeholders and our agrarian partners has been the hallmark of our success over the years.

2005

Operating Highlights

KEY INDICATORS		2000	2001	2002	2003	2004	2005	
Operating								
Gross margin	%	45.35	46.90	39.78	34.86	37.42	35.71	
Pre tax margin	%	41.07	41.68	28.83	23.44	29.02	28.31	
Net margin	%	25.92	26.74	18.31	14.95	19.04	19.22	
Performance								
Return on assets	%	27.06	35.74	17.18	18.11	23.08	25.36	
Total assets turnover		0.66	0.86	0.60	0.77	0.80	0.90	
Fixed assets turnover		4.40	7.85	1.76	2.27	2.29	2.77	
Inventory turnover	Days	4	12	19	16	11	8	
Debtors turnover	Days	26	25	25	28	29	15	
Return on equity	%	29.81	33.72	28.55	27.29	32.57	39.36	
Return on capital employed	%	27.50	32.94	18.66	19.56	26.41	36.49	
Retention (after interim cash)	%	41.79	39.96	33.23	30.67	19.28	21.05	
Retention (after prop cash & bonus)	%	22.39	31.95	24.88	18.43	(23.48)	(33.12)	
Leverage								
Debt: Equity		8:92	2:98	35:65	28:72	19:81	7:93	
Interest cover		13.58	19.14	8.24	10.47	17.36	23.13	
Liquidity								
Current		1.72	2.34	1.04	1.04	1.09	0.91	
Quick		1.48	1.90	0.79	0.76	0.87	0.69	
Valuation								
Earnings per share (pre tax)	Rs.	8.49	10.12	9.81	9.99	12.37	14.62	
Earnings per share (after tax)	Rs.	5.36	6.49	6.23	6.37	8.11	9.92	
Earnings growth	%	(14.35)	21.18	(4.09)	2.33	27.33	22.31	
Breakup value / (Net assets / share)	Rs.	34.58	37.04	41.96	44.92	41.68	25.21	
Dividend per share - Interim cash	Rs.	6.00	7.50	8.00	8.50	12.00	9.75	
Dividend per share - prop. cash final	Rs.	2.00	1.00	1.00	1.50	3.00	2.25	*
Bonus shares issued	%	–	–	–	–	15.00	40.00	
Proposed bonus issue	%	–	–	–	–	15.00	0.00	*
Total dividend incl. bonus	%	80.00	85.00	90.00	100.00	180.00	160.00	
Payout ratio - cash (after tax)	%	58.21	60.04	66.77	69.33	80.72	78.95	
Payout ratio incl. prop. cash	%	77.61	68.05	75.11	81.57	102.82	101.62	
Total payout - cash & bonus	%	77.61	68.05	75.11	81.57	123.48	133.12	
Price earning ratio		7.67	6.29	11.74	14.99	17.19	13.80	
Market price to breakup value		1.52	1.06	1.22	1.32	2.81	5.57	
Dividend yield	%	15.19	21.61	17.51	16.86	15.36	11.39	
Market value per share – Year end	Rs.	41.10	40.85	73.10	95.50	139.45	137.00	
Market value per share – High	Rs.	67.50	50.00	73.95	105.95	143.90	180.00	
Market value per share – Low	Rs.	36.50	28.40	38.85	69.15	95.75	118.00	
Market capitalization	(Rs. M)	10,542	10,478	18,750	24,495	41,134	67,606	

KEY INDICATORS

	2000	2001	2002	2003	2004	2005
			Rs. million			
Historical trends						
Trading results						
Turnover	10,201	11,982	16,787	21,035	21,027	25,481
Gross profit	4,600	5,620	6,678	7,333	7,869	9,098
Operating profit	3,757	4,598	5,220	5,482	6,103	6,727
Profit before tax	4,190	4,994	4,839	4,931	6,103	7,214
Profit after tax	2,644	3,204	3,073	3,145	4,004	4,897
Financial position						
Share capital	2,565	2,565	2,565	2,565	2,950	4,935
Shareholder's funds	8,869	9,502	10,763	11,523	12,295	12,441
Reserves	6,304	6,937	8,198	8,958	9,345	7,506
Property, plant & equipment	2,320	1,527	9,516	9,259	9,181	9,185
Net current assets	3,991	5,586	396	309	775	(1,162)
Long term assets	5,922	4,226	18,761	18,292	16,796	16,985
Long term liabilities	744	224	5,704	4,557	2,868	981
Deferred liabilities	299	86	2,690	2,522	2,407	2,401
Liquid funds (net)	7,531	7,363	4,554	3,393	6,355	5,801

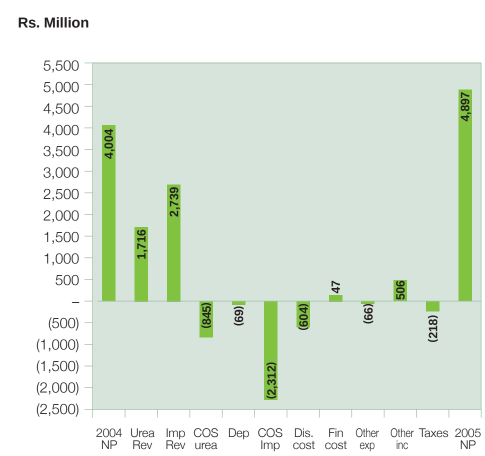
* Post Balance Sheet Event

2005

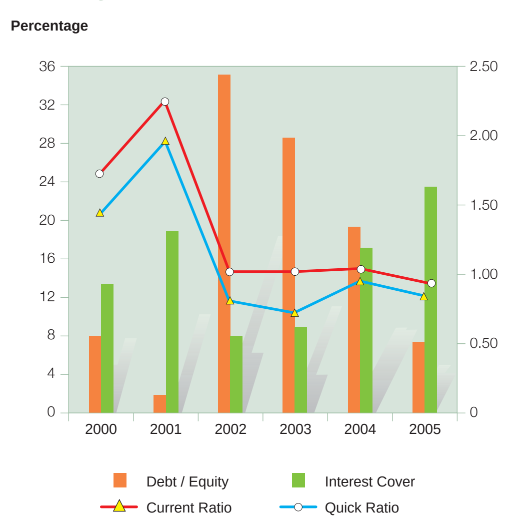
Operating Highlights

ASSETS & LIABILITIES

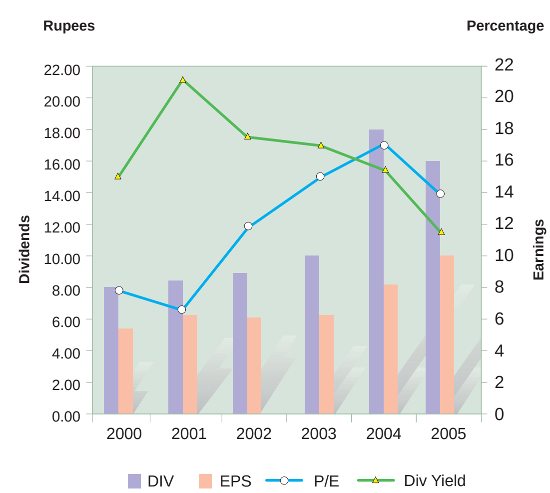
COMPARISON OF PROFIT 2005 vs 2004



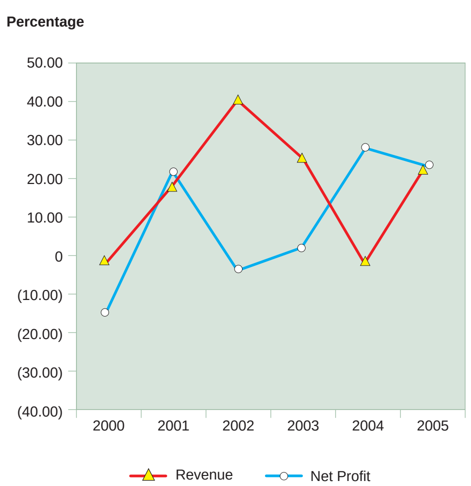
LEVERAGE & LIQUIDITY RATIOS



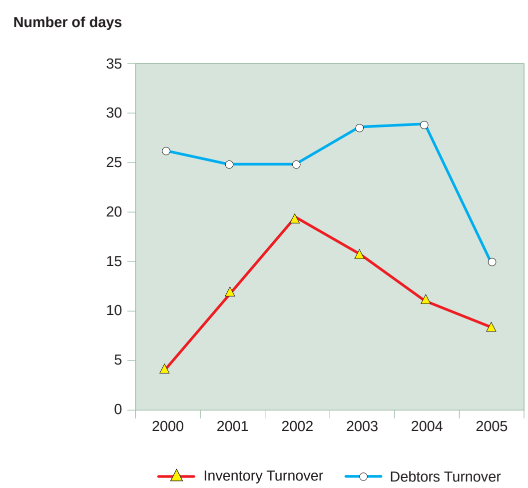
DIVIDENDS AND EARNINGS



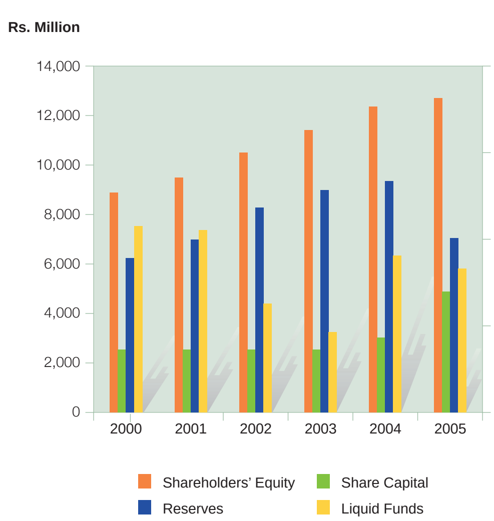
TURNOVER / NET PROFIT



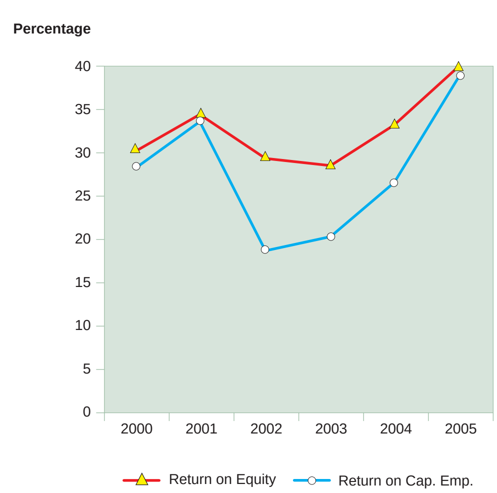
INVENTORY & DEBTORS TURNOVER



EQUITY / LIQUID FUNDS



RETURN ON EQUITY AND CAPITAL EMPLOYED



2005

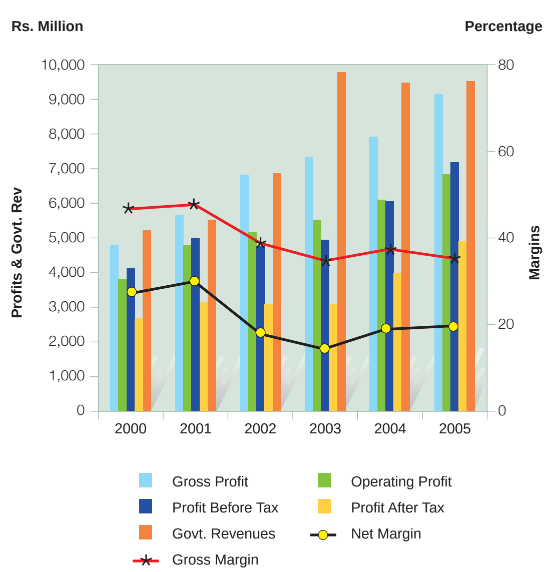
Directors' Report

On behalf of the Board, I welcome you to the 28th annual review of your Company's performance during the year ended December 31, 2005.

It pleases me to report yet another hallmark year in which we achieved continued progress in our drive for sustained earnings growth by executing key administrative and operational strategies.

Our profits were recorded at their highest since inception and we continued to maintain a strong financial position and healthy cash flow, in addition to maximizing returns to equity holders. The Board has annexed the necessary financial statements depicting this performance, duly audited, to this report along with consolidated financial statements of the Company and its subsidiary Fauji Fertilizer Bin Qasim Limited (FFBL) to present combined operational results from our investment in FFBL.

PROFITS, MARGINS GOVT. REVENUES



Year in brief:

- Highest 'Sona' urea production of 2,303 thousand tonnes
- Record total urea offtake of 2,555 thousand tonnes
- Highest ever sales revenue of Rs 25.48 billion
- Urea and phosphatic fertilizer market shares of 62% and 40% respectively (Including sales of FFBL's urea / DAP)
- Record gross and after tax earnings of Rs 9.1 billion and Rs 4.9 billion respectively
- Per share earnings of Rs 9.92 despite dilution due to increase in paid up capital
- Meritorious awards regarding presentation of financial statements for our 2004 Annual Report from ICAP & ICMAP joint committee, NCCA - Karachi and international award from SAFA.

MISSION STATEMENT

Fauji Fertilizer Company Limited is committed to play its leading role in industrial and agricultural advancement in Pakistan by providing quality fertilizers and allied services to its customers and given the passion to excel, take on fresh challenges, set new goals and take initiatives for development of profitable business ventures.

VISION STATEMENT

FFC's vision for the 21st Century remains focused on harmonizing the Company with fresh challenges and encompasses diversification and embarking on ventures within and beyond the territorial limits of the Country in collaboration with leading business partners.

CORPORATE STRATEGY

Our flexible and dynamic corporate strategy strives for enhancing customer satisfaction by adding value over the long run. We aim at creating value for the stakeholders by maintaining and improving our competitive position in the market. This is achieved by focusing on our 'sustainable competitive advantage' that is derived by continuously assembling and exploiting an appropriate combination of resources and capabilities in response to the changing market conditions. Our organizational culture is one of our most fundamental competitive advantages. We have built and preserve an innovation-adept culture, a culture that promotes transparency and accountability through honesty, integrity and diligence in our dealing with employees, customers, financial market, government, regulatory authorities, and all the other stakeholders. We consider diversification of our product line as a major factor behind corporate sustainability in the ever changing market scenario. Diversification in business line is also being considered. Our unique corporate strategy gets aligned with the resource allocation system and flows down to the operational levels, thus ensuring its implementation at all levels along with the achievement of the intended results.

2005

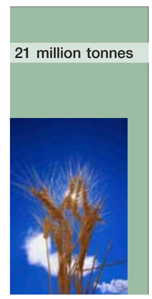
Agriculture and Fertilizer Environment

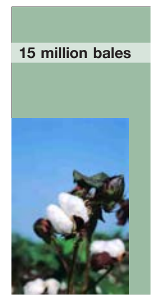
AGRICULTURAL SECTOR

Agriculture accounts for nearly 23% of Pakistan's GDP and contributes significantly to the Country's economy by employing about 68% of the rural population.

Country's economic expansion continued for the third consecutive year registering an annual growth rate of 8.4% in 2004-05 as against 6.4% last year, widely surpassing the targeted rate of 6.6% and exceeding the 8% mark for the fifth time in the Country's history. The growth is supported by enhanced performance of 15.4% in large-scale manufacturing, impressive recovery of 7.5% in agriculture and a strong 7.9% growth in the services sector.

Agriculture performance improved on account of bumper cotton and wheat crops of about 15 million bales and 21 million tonnes respectively. A 7.8% rise in cultivated area, use of improved quality pesticide and favourable weather condition are responsible for the rise in cotton production. The rise in support price, adequate and timely





supply of inputs including fertilizer, availability of certified □ the widespread and timely winter rains helped in achieving higher than targeted wheat production. Sugarcane production was down by 15.2 percent due to water shortage during Kharif season. Rice, another water intensive crop, grew by 2.9 percent over last year.

Demonstration plot, D.I. Khan

Testing Laboratory, FAC, Jhang

FERTILIZER INDUSTRY

The Country continues to face urea shortage which is expected to increase with the passage of time. Domestic urea production capacity requires enhancement to cater for growing domestic demand and obviate the need for import of urea at exorbitant cost to the national exchequer.

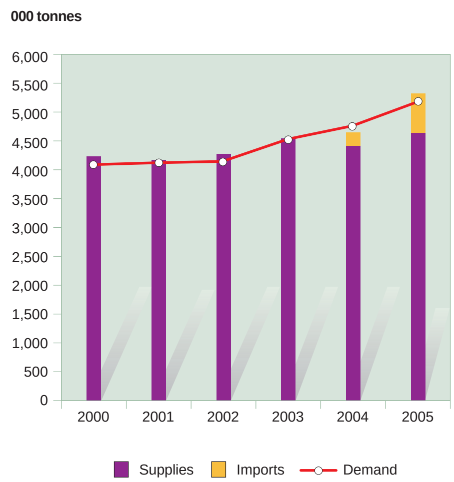
Fertilizer Industry plays a pivotal role in supporting the agriculture based economy of the Country in addition to providing sustenance to the textile, pesticide, banking and other sectors.

Continuation of a robust fertilizer demand for kharif season from end of 2004 is attributable to good commodity prices, stellar agricultural performance, increased farming credit and speculative buying by dealers anticipating short supplies during kharif.

Urea Market

The urea market exhibited trend of growth throughout the year as a result of favourable economic conditions. The year commenced with a low inventory of 26 thousand tonnes which was 85% lower than that of 2004. Attractive urea market prices and apprehension of uncertain imported urea supplies encouraged the dealers to build up inventories with them. All of this resulted in urea sales of 5,179 thousand tonnes during the year 2005 which

INDUSTRY UREA MARKET
SUPPLIES VS DEMAND



were 10% higher than 4,716 thousand tonnes sales for 2004. Industry urea production of 4,693 thousand tonnes for the year, which was 6% higher compared to the previous year, resulted from uninterrupted gas supply to all the urea plants. The increased urea requirement was much higher than local production and during the year, 561 thousand tonnes urea was imported by Government of Pakistan to fill this gap. The year ended with urea inventory of 72 thousand tonnes.

A significant shortfall now exists between local production and consumption, which will increase in the future. It is hoped that the Government will soon take appropriate policy decision to redress the situation.

Phosphatic Fertilizers Market

The industry phosphatic fertilizers (DAP, MAP and TSP) sales of 1,532 thousand tonnes during the year 2005 were 13% higher than 1,357 thousand tonnes sales for 2004. This was inspite of an upward revision in domestic prices resulting from an increase in international prices and local freight cost. Local DAP production of 452 thousand tonnes during the year was 19% higher as compared to 381 thousand tonnes production in 2004. To meet the local requirements 1,415 thousand tonnes phosphatic fertilizers (1,152 thousand tonnes DAP, 154 thousand tonnes MAP and 109 thousand tonnes TSP) were imported. Due to the high level of imports during the last quarter, the year ended with a huge phosphatic fertilizer inventory of 417 thousand tonnes; as compared to an inventory of 99 thousand tonnes at end December

Gas prices

The fertilizer sector is the second largest gas consumer in the Country after the energy sector, utilizing around 23% of annual gas production and continues to be affected by gas price revisions. Gas prices have been increased twice during the year consequent to rising international oil prices. Fuel stock prices increased by 8.25% in the first quarter of 2005 and 5.81% effective July 1, 2005. Feed stock price also soared by 12.5% effective July 1, 2005 pursuant to the Fertilizer Policy 2001. Thus, a highly volatile situation exists evident from fuel gas price increase yet again of 15.51% effective January 01, 2006.

Gas Transmission License

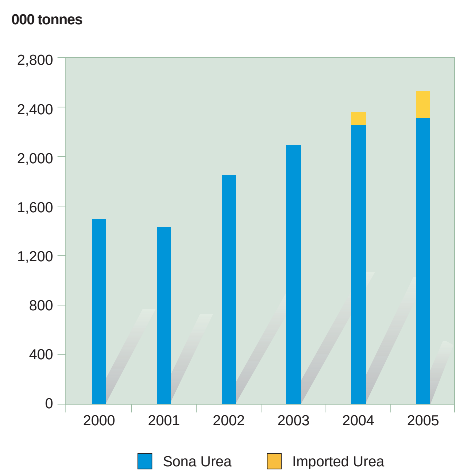
Consequent to promulgation of Oil and Gas Regulatory Authority (OGRA) Ordinance, FFC is required to obtain gas transmission license from OGRA for transportation of natural gas from Mari fields to FFC plant sites at Goth Machhi and Mirpur Mathelo. As a licensee, the Company is obligated to comply with license regulations, furnish annual reports and operating data on gas quantity transported.

Gas transportation by the Company is for its own use and no profit is made from gas transportation activity. The Company obtained the gas transmission license in April 2005 for a 30 years period, at no annual fee.

2005

Company Performance

UREA SALES



Lt Gen Mahmud Ahmed, HI(M) (Retired), Chief Executive and Managing Director inaugurating FAC, Mirpur Khas.

Dr Muhammad Sadiq, General Manager (Marketing) addressing FAC Mirpur Khas.

Chief Executive and Managing Director alongwith General Managers at 7th Annual Marketing Conference at Bhurban.

Practical demonstration of fertilization, FAC, D.I. Khan.

AGRICULTURAL SECTOR

Agriculture accounts for nearly 23% of Pakistan's GDP and contributes significantly to the Country's economy by employing about 68% of the rural population.

Country's economic expansion continued for the third consecutive year registering an annual growth rate of 8.4% in 2004-05 as against 6.4% last year, widely surpassing the targeted rate of 6.6% and exceeding the 8% mark for the fifth time in the Country's history. The growth is supported by enhanced performance of 15.4% in large-scale manufacturing, impressive recovery of 7.5% in agriculture and a strong 7.9% growth in the services sector.

Agriculture performance improved on account of bumper cotton and wheat crops of about 15 million bales and 21 million tonnes respectively. A 7.8% rise in cultivated area, use of improved quality pesticide and favourable weather condition are responsible for the rise in cotton production. The rise in support price, adequate and timely supply of inputs including fertilizer, availability of certified seed and above all, the widespread and timely winter rains helped in achieving higher than targeted wheat production. Sugarcane production was down by 15.2 percent due to water shortage during Kharif season. Rice, another water intensive crop, grew by 2.9 percent over last year.

FERTILIZER INDUSTRY

The Country continues to face urea shortage which is expected to increase with the passage of time. Domestic urea production capacity requires enhancement to cater for growing domestic demand and obviate the need for import of urea at exorbitant cost to the national exchequer.

Fertilizer Industry plays a pivotal role in supporting the agriculture based economy of the Country in addition to providing sustenance to the textile, pesticide, banking and other sectors.

Continuation of a robust fertilizer demand for kharif season from end of 2004 is attributable to good commodity

prices, stellar agricultural performance, increased farming credit and speculative buying by dealers anticipating short supplies during kharif.

Urea Market

The urea market exhibited trend of growth throughout the year as a result of favourable economic conditions. The year commenced with a low inventory of 26 thousand tonnes which was 85% lower than that of 2004. Attractive urea market prices and apprehension of uncertain imported urea supplies encouraged the dealers to build up inventories with them. All of this resulted in urea sales of 5,179 thousand tonnes during the year 2005 which were 10% higher than 4,716 thousand tonnes sales for 2004. Industry urea production of 4,693 thousand tonnes for the year, which was 6% higher compared to the previous year, resulted from uninterrupted gas supply to all the urea plants. The increased urea requirement was much higher than local production and during the year, 561 thousand tonnes urea was imported by Government of Pakistan to fill this gap. The year ended with urea inventory of 72 thousand tonnes.

A significant shortfall now exists between local production and consumption, which will increase in the future. It is hoped that the Government will soon take appropriate policy decision to redress the situation.

Phosphatic Fertilizers Market

The industry phosphatic fertilizers (DAP, MAP and TSP) sales of 1,532 thousand tonnes during the year 2005 were 13% higher than 1,357 thousand tonnes sales for 2004. This was inspite of an upward revision in domestic prices resulting from an increase in international prices and local freight cost. Local DAP production of 452 thousand tonnes during the year was 19% higher as compared to 381 thousand tonnes production in 2004. To meet the local requirements 1,415 thousand tonnes phosphatic fertilizers (1,152 thousand tonnes DAP, 154 thousand tonnes MAP and 109 thousand tonnes TSP) were imported. Due to the high level of imports during the last quarter, the year ended with a huge phosphatic fertilizer inventory of 417 thousand tonnes; as compared to an inventory of 99 thousand tonnes at end December

Gas prices

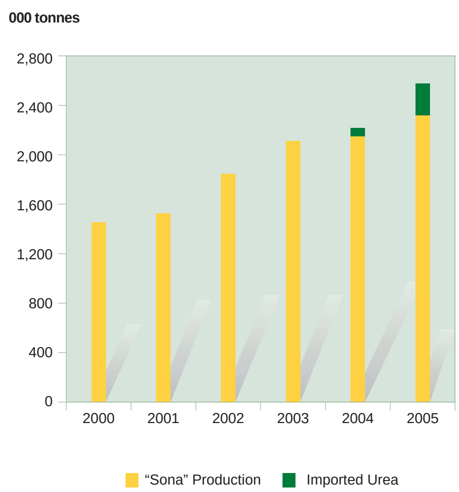
The fertilizer sector is the second largest gas consumer in the Country after the energy sector, utilizing around 23% of annual gas production and continues to be affected by gas price revisions. Gas prices have been increased twice during the year consequent to rising international oil prices. Fuel stock prices increased by 8.25% in the first quarter of 2005 and 5.81% effective July 1, 2005. Feed stock price also soared by 12.5% effective July 1, 2005 pursuant to the Fertilizer Policy 2001. Thus, a highly volatile situation exists evident from fuel gas price increase yet again of 15.51% effective January 01, 2006.

Gas Transmission License

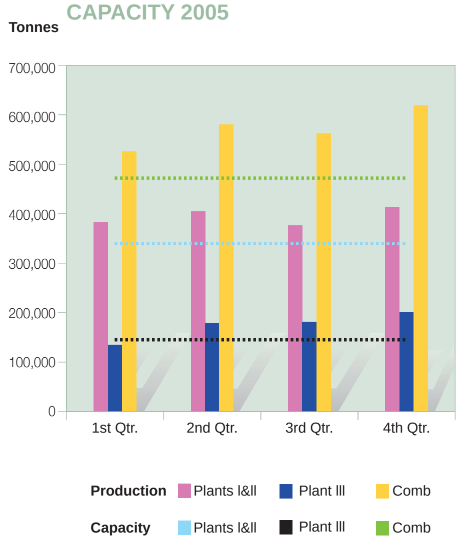
Consequent to promulgation of Oil and Gas Regulatory Authority (OGRA) Ordinance, FFC is required to obtain gas transmission license from OGRA for transportation of natural gas from Mari fields to FFC plant sites at Goth Machhi and Mirpur Mathelo. As a licensee, the Company

We are always building on our strengths by utilizing the available resources to their maximum and exploring synergies to effect cost saving.

UREA PRODUCTION & PURCHASES



PRODUCTION VS CAPACITY 2005



is obligated to comply with license regulations, furnish annual reports and operating data on gas quantity transported.

Gas transportation by the Company is for its own use and no profit is made from gas transportation activity. The Company obtained the gas transmission license in April 2005 for a 30 years period, at no annual fee.

MARKETING DIVISION

The Company achieved all time high total urea sales of 2,555 thousand tonnes which included 2,304 thousand tonnes of 'Sona' urea prilled and 251 thousand tonnes of purchased urea. In addition, 588 thousand tonnes of 'Sona' urea granular and 64 thousand tonnes of imported urea were sold on behalf of FFBL. The combined local urea sales of 3,207 thousand tonnes were 8% higher compared to the previous year and resulted in a market share of 62%.

Imported Di-Ammonium Phosphate (DAP) and Triple Super Phosphate (TSP) sales were 178 thousand tonnes and 430 thousand tonnes of DAP were sold on behalf of FFBL. Total phosphatic fertilizer sales were 608 thousand tonnes. This is an increase of 17% over last year as compared to an estimated increase of 13% for the industry. FFC achieved the highest market share of 40% in the industry, compared to 38% in 2004. During the year, 10 thousand tonnes of Sulphate of Potash (SOP) were also sold.

Concerted marketing efforts boosted all fertilizers revenues to a record Rs 25.48 billion out of which Rs 19.36 billion were contributed by 'Sona' urea sales and Rs 2.38 billion are attributable to marketing of imported urea. Urea revenues improved by Rs 3.34 billion over last year while total revenue recorded an improvement of 21% over 2004 results.

The Company continues to market urea, phosphatic, potassic and micronutrient fertilizers all over the Country

through an extensive dealer and field warehousing network. During the year, FFC successfully introduced the micronutrient Boron with the brand name 'Sona Boron' and 313 tonnes were sold. This was meant to support the Company's endeavours to promote balanced fertilizer use. The sales efforts are fully supported by effective Advertising & Sales Promotion and quality Technical Services are provided to farmers throughout the marketing area. This includes the unique concept of providing extension services through five Farm Advisory Centres being operated by the Company.

PLANT SITES

We created centers of excellence to leverage development,

Profitability

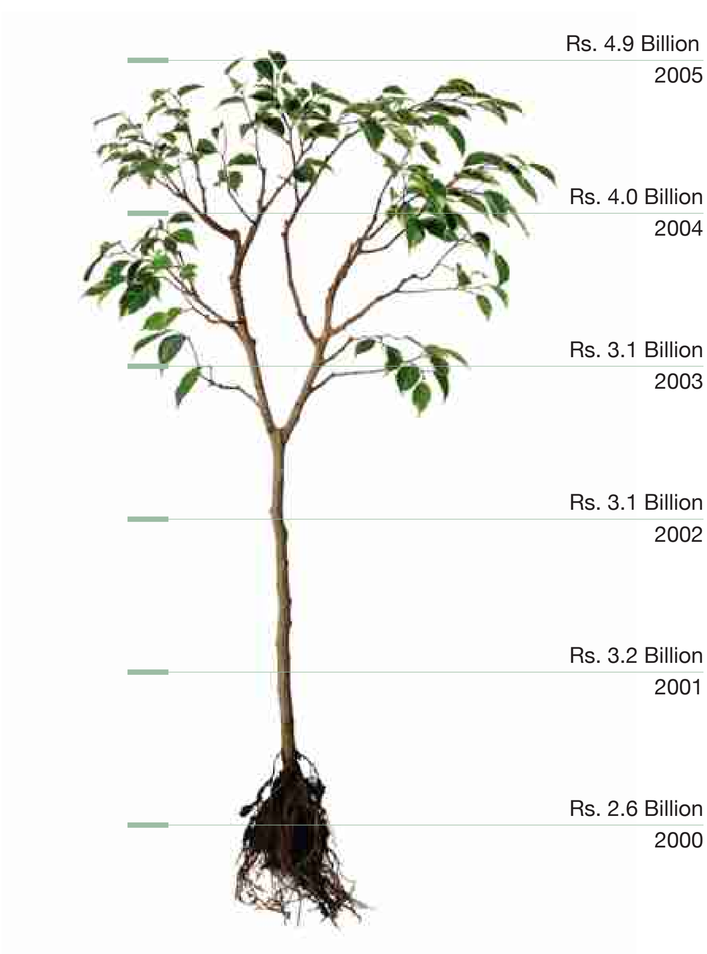
and formulated a system of shared services to cut costs and increase efficiency. The year proved exceptional not only in terms of output but also for overall efficiency, safety, and high onstream factor of plants. Operational safety and reliability of the plants and equipment were not compromised even at high load.

Total production of 2,303 thousand tonnes of 'Sona' urea registered during the year exceeded the previous best of 2,174 thousand tonnes attained in 2004 by a margin of 129 thousand Tonnes.

Plants I & II (Goth Machhi)

Ever highest aggregate annual urea production of 1,593 thousand tonnes was achieved by our Goth Machhi

Net Earnings Trend



Appropriation of Profit

The Company announced two bonus issues of 15% each and one issue of 10% during the year, duly approved by the shareholders in their general meetings. In addition, the Company also announced interim cash dividends of Rs 9.75 per share for 2005 out of available distributable profits of the Company.

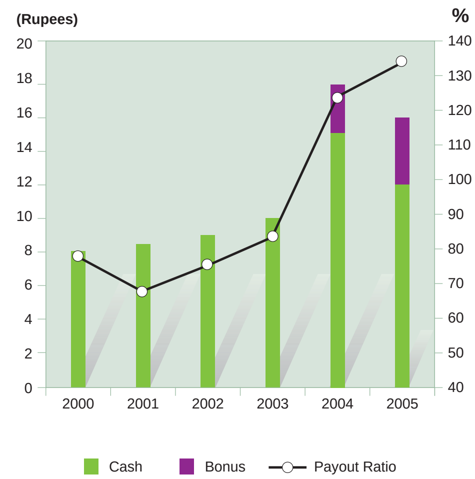
Rs 160 million were transferred from general reserves to cater for dividend distribution during the year. Total earnings for the year, along with reserves, of the Company are recommended by the Board to be finally appropriated as follows:

	Rupees "000"
Un-appropriated profit brought forward	1,292,749
Net profit after taxation	4,897,336
	6,190,085
Appropriations:	
Transfer from general reserve	160,000
Dividend on ordinary shares:	
Final Dividend 2004 Rs 3.00 per share	884,911
First interim 2005 Rs 2.50 per share	848,039
Second interim 2005 Rs 4.00 per share	1,560,393
Third interim 2005 Rs 3.25 per share	1,457,992
Transfer to reserve for issue of Bonus Shares	1,542,584
	6,293,919
Un-appropriated profit carried forward	**56,166**

Subsequent event

The Board has announced a final cash dividend of Rs 2.25 per share, subject to the approval of shareholders in their meeting scheduled for February 28, 2006 which shall be accounted for in the next period's financial statements. However, this will not impact the payment which will be effected as done last year.

DIVIDEND AND PAYOUT RATIO



Contribution to the National Exchequer

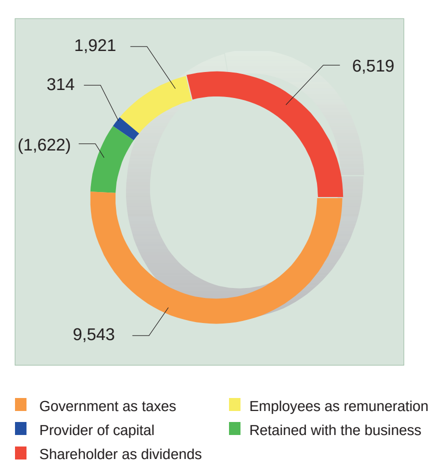
The Company contributed Rs 9.5 billion to the national exchequer during the year through taxes, levies, excise duty, sales tax and gas surcharge with aggregate contribution to-date crossing Rs 71 billion.

The Company also provided value addition to the tune of Rs 16.676 billion during the year which improved by 6% over last year, in addition to foreign exchange savings of 633 million US dollars through import substitution on production of 2,303 thousand tonnes of urea fertilizer this year.

Payments to providers of capital aggregated to Rs 314 million while employee remuneration and shareholders returns amounted to Rs 1,921 million and Rs 6,519 million respectively. Shareholders returns in the form of cash dividends and bonus issues during the year exceeded profitability and resulted in negative retention of Rs 1,622 million.

VALUE ADDITION AND DISTRIBUTION During 2005

Rs. 16,676 Million



2005

Equity Participation & Shareholding

Fauji Fertilizer Bin Qasim Limited (FFBL)

FFBL announced a total cash dividend of 20% during the year which rose by 10% over distribution for 2004 and is an indicator of improved progress of the company.

The consolidated sales revenue of the Group for 2005 improved to Rs 39.76 billion representing an increase of over 22% over last year and resulted in enhanced gross and after tax profits of Rs 13.68 billion and Rs 6.39 billion respectively, attributable to record operational results of both FFC & FFBL. FFBL produced a record 589 thousand tonnes of 'Sona' urea granular and 455 thousand tonnes of 'Sona' DAP. Per share earnings of the Group consequently was boosted to Rs 12.96 which improved by Rs 2.11 over last year's earnings of Rs 10.85 per share.

FFBL has planned Balancing, Modernization and Replacement projects for its ammonia & DAP plants for improved efficiency and capacity enhancement. These projects would enable the Group to further consolidate its market share for its core fertilizers and enhance returns to its shareholders.

Overseas Investment - PMP

The Company's offshore investment in Pakistan Maroc Phosphore S.A. (PMP) increased to Rs 367.49 million pursuant to the second and third equity calls by PMP. The investment now aggregates to MAD 53.13 million against a total commitment of MAD 100 million.

The balance of MAD 46.87 million equals approximately Rs 328 million and shall be remitted on further equity call by PMP. Direct FFC holding in PMP equity is 12.50% while another 12.72% is controlled through FFC's 50.88% investment in FFBL. FFC's total stake, therefore, amounts to 25.22%. Aggregate investment of the two companies in PMP amounted to Rs 1,102 million as at December □

Commercial operations are planned to commence by the middle of next year. Orders for water treatment and phosphoric acid plant have been placed and basic engineering of sulphuric acid plant has been completed. Overall, the project is on schedule and its progress is being monitored by the Board of Directors assisted by the Project Monitoring Committee.

PATTERN OF SHAREHOLDING

There were 9,760 Company shareholders as of December 31, 2005. Closely held shares (i.e. those held by the sponsors, investment companies, financial institutions, foreign investors and other corporate bodies) amounted to 85% of the total shares outstanding of which 6% were held by foreign shareholders.

	No. of Shares
National Investment Trust	47,095,842
Investment Corporation of Pakistan	2,851,343
Company Executives	524,364
Public Sector Companies and Corporations	18,641,763
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds	84,187,231
Shareholders holding ten percent or more voting interest - Fauji Foundation	218,842,864

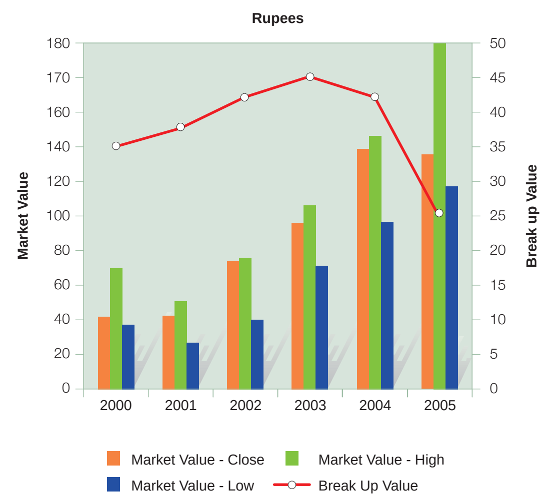
Categories of Shareholders

	No. of shareholders	No. of shares held	%age
Investment Companies	16	53,570,956	10.86
Insurance Companies	19	48,393,913	9.81
Joint Stock Companies	138	6,729,862	1.36
Financial Institutions	23	28,070,445	5.69
Modarabas	13	664,415	0.13
Foreign Investors	35	28,371,120	5.75
Leasing Companies	7	357,376	0.07
Mutual Funds	26	12,483,527	2.53
Charitable Trust & Others	95	240,591,060	48.75
Individuals	9,388	74,241,556	15.05
Total Shares	9,760	493,474,230	100.00

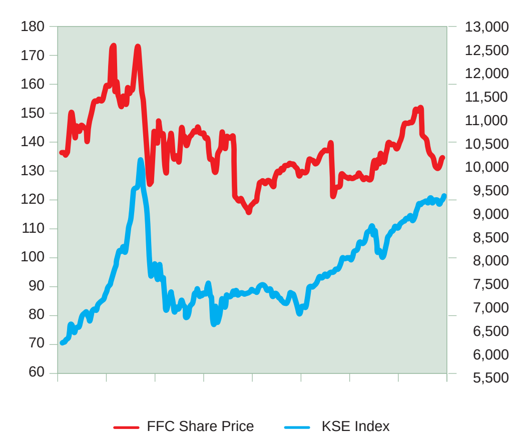
Shareholders value

Over a span of one and a half years, Company's issued capital increased by Rs 2.37 billion representing aggregate growth of 92.39% by way of bonus issue. Our year-end market capitalization increased to Rs 67.61 billion recording an increase of 65% over last year's Rs 41.1 billion and we were able to further strengthen our dominant position among companies with largest market capitalization.

MARKET & BREAK UP VALUES



FFC SHARE PRICE TRENDS vs KSE Index in 2005



2005

Good Governance & Listing Regulations

GOVERNANCE PRACTICES

The Board has established a framework of Good Governance policies which is a compilation of "Best Practices, Ethics and Accountability" in accordance with the Listing Regulations of Stock Exchanges, structured for systematic implementation of principles for direction and control of the Company operations and strategies. The objectives are enhancing performance, safeguarding the interests of stakeholders and promoting market confidence. These Practices, among others, include "Standard of Conduct for Directors / Employees", "Core Values" and, "Policy Statement of Ethics and Business Practices".

Good and proper corporate governance is considered indispensable by the Board to enhance corporate performance by establishing and maintaining a corporate culture that motivates directors, management and employees to maximize long term productivity. It provides the fundamental mechanism to monitor directors' and employees' behaviour and discretion with due diligence through transparency, compliance reporting, corporate accountability, accuracy, accessibility and stakeholders participation in certain fundamental decisions for the pursuit of corporate objectives while conforming to the laws and regulations.

Compliance with Listing Regulations

There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations. Appropriate accounting policies have been consistently applied and 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, 2005, 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.

The financial statements comply with the requirements of the Fourth Schedule to the Companies Ordinance, 1984 and applicable IAS notified by the SECP. Accounting estimates are based on reasonable and prudent judgment 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.

The Board has adopted the requirements of the Code of Corporate Governance in full, including the voluntary provisions. The Board has also issued a "Statement of Compliance with the Code of Corporate Governance" as required by the Code which also states adherence with the listing regulations, in addition to statements in other relevant parts of this report.

As advised by the Audit Committee, the Board is satisfied that the Company has been in full compliance with both mandatory and optional provisions of the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges throughout the year.

BOARD OF DIRECTORS

The Board of Directors is responsible for the overall governance and administration of the Company and encourages the shareholders to appoint the Directors and auditors to satisfy themselves that appropriate governance structure is in place.

The offices of the Chairman and the Chief Executive are held separately. The Board comprises twelve non-executive Directors including the Chairman while the Chief Executive represents executive directorship on the Board.

Board of Directors & General Managers

2005

Good Governance & Listing Regulations

The Board exercises the fiduciary powers conferred to it by the Code, the Companies Ordinance, 1984 and the Memorandum and Articles of Association of the Company, through Board meetings which are held in every quarter for reviewing and approving the adoption of Company financial statements in addition to review and adoption of Company business plans, recommendations of the Audit, Human Resources and System and Technology Committees in addition to setting the terms of reference of these committees. The Board held five meetings during the year which were presided over by the Chairman.

The responsibilities include establishing the Company's strategic objectives, providing leadership, supervising the management of the business and reporting to shareholders on their stewardship.

Change of Directors


Ex-Chairman FFC BoD and Chief Executive FFC

The Board bids farewell to Lt Gen Syed Muhammad Amjad HI, HI(M) (Retired) who retired on 27th December 2005. The Board places on record its appreciation for his invaluable contribution and leadership.

The Board also bids farewell to Mr. Zaigham Mahmood Rizvi and Mr. Nadir Rahman and appreciates their contribution towards the Company.

Mr. Istaqbal Mehdi and Brig Munawar Ahmed Rana, SI(M) (Retired) joined the Board during 2005.

BOARD COMMITTEES

Audit Committee

The Audit Committee’s role focuses on monitoring compliance with the best practices of the Code of Corporate Governance and relevant statutory requirements, changes in accounting policies and practices, compliance with applicable accounting standards and listing regulations.

It recommends to the Board of Directors the terms of appointment of external auditors by Company shareholders and reviews their recommendations related to audit. Other responsibilities include monitoring the internal audit function, safeguarding Company’s assets through appropriate internal control systems including financial and operational controls, accounting system and reporting structure, preliminary review of business plans and quarterly, half-yearly and annual results prior to approval and publication by the Board.

The committee comprises five members all of whom are non-executive Directors of the Company including its Chairman. The Committee met five times during the year and held separate meetings with the Chief Financial Officer, Head of Internal Audit and the External Auditors as required by the Code of Corporate Governance.

Internal Audit function

The Board has implemented a sound and effective internal control system including operational, financial and compliance controls to carry on the business of the Company in a controlled environment in an efficient manner to address the Company's basic objectives including overall administration, performance, profitability, safeguarding Company assets, proper accounting records and compliance with the laws and regulations, the ‘Standard of Conduct for Directors / Employees’, ‘Core Values’ and ‘Policy Statement of Ethics and Business Practices’.

Internal audit findings are regularly reviewed by the Audit Committee, suitably investigated, where necessary, action taken on the basis of recommendations contained in the internal audit reports. Their reports are also presented before the external auditors.

High moral standards and impeccable business ethics have been our guiding beacons.

The internal audit function is independent from the management and directors of the company and consists of suitably qualified and experienced persons conversant with Company policies and procedures.

External Auditors appointment

The Company auditors M/s Taseer Hadi Khalid & Company, Chartered Accountants have changed their name to KPMG Taseer Hadi & Company, Chartered Accountants. Their audit for the financial year ended December 31, 2005 has been completed and they shall retire on the conclusion of the 28th annual general meeting. The auditors have indicated their willingness to continue in office as auditors and the Board, on the proposal of the Audit Committee, recommends their reappointment as auditors for the next financial year on the same terms and conditions.

Human Resources Committee

The Committee's role is to assist the Board in the evaluation and approval of employee benefit plans including the appointment and remuneration of the Chief Financial Officer, the Company Secretary and the Head of Internal Audit in accordance with the Code of Corporate Governance, performance awards, 10 C bonus, incentives and recommends financial package for Central Bargaining Agent (CBA) agreement to the Board. The Committee also reviews and recommends compensation/benefits for the Chief Executive Officer/Managing Director in consultation with the Company Secretary. It also assists the Board in determining retirement emoluments including gratuity, pension etc based on actuarial reports, welfare projects, induction and succession planning and recommends any adjustments deemed fair and necessary to attract/retain high caliber staff.

The Committee comprises four members including the Chairman from the non-executive Directors of the Board. The Committee held two meetings during the year. Meetings are held on as required basis or when directed by the Board of Directors. General Manager (Human Resources) is the Secretary of the Committee who submits minutes of meetings duly signed by the Chairman to the Company Secretary for circulation to the Board.

System & Technology Committee

The Committee comprises three members including the Chairman from the non-executive Directors of the Board. The Committee held two meetings during 2005 to review change in system and procedures and to discuss proposals suggested by the management on technological innovations impacting production and marketing of fertilizers through plant up-gradation, Information Technology etc. with relevant cost benefit analysis.

Other responsibilities include keeping abreast with the continuous Improvements in technological advancements (CITA), its implementation in manufacturing, marketing and at administrative levels with periodic review and to promote awareness of all stakeholders on the need for investment in fertilizer/information technologies, review of proposals and recommendations to the Board of Directors.

2005

Good Governance & Listing Regulations

118th Board of Directors Meeting

Members of the Executive Committee

Diversification Committee

This Committee comprises four members and is responsible for exploring and evaluating new avenues for investment by the Company and presentations to the Board for approval.

In recent years, opportunities for quantum leaps in profits of corporates have arisen from acquisition and diversification. The Company's acquisition of PSFL is a case in point. During the year, the Committee held two meetings to review various proposals.

Management

The Company management is supervised by the Chief Executive and Managing Director of the Company to implement policies and monitor procedures adopted by the Board, carry out Board directives under delegated authorities to achieve Company objectives and provide feed back on the Board strategies.

The management ensures execution of smooth business operations including manufacturing and marketing of fertilizers, identification of potential operational, market and business risks, implementation of effective budgetary controls for preparation of annual business plans/ cash forecasts and reporting deviations thereof. Management is also responsible for implementation of internal controls including segregation of duties, financial and accounting controls for accuracy and completeness of accounting records, authorization, recording and accurate processing of transactions, compliance with statutory and other regulations and timely preparation of reliable financial information for circulation to the shareholders.

Business Strategy Committee

The identification and management of risks is entrusted to the Business Strategy Committee in addition to overseeing the treasury, operations and credit functions. The Committee is also responsible for staying abreast of developments and trends in the Industry to assist the Board in planning for future capital intensive investments and growth of the Company in addition to other duties delegated to it by the Board.

This Committee is composed of five members from the management of the Company and held meetings during the year under the chairmanship of the Chief Executive & Managing Director of the Company.

Executive Committee

Executive Committee is responsible for continuous review of Company operations, establishing adequacy of Company operational, administrative and control policies adopted by the Board and monitoring compliance thereof. The Committee is also responsible for receiving feedback from different operational functions, preparing comprehensive agendas and feasibilities for matters requiring Board's approval and for dealings on the Board's behalf with matters of an urgent nature when the Board of Directors is not in session in addition to other duties delegated by the Board.

This Committee is also chaired by the Chief Executive & Managing Director of the Company and is composed of seven members from management of the Company. The Committee held meetings as and when required during the year.

2005

Good Governance & Listing Regulations

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 for 2006 have been planned to be financed through internal cash generations and short term financings from external resources. Adequate provision for dividend payments have been made in the financial model for 2006 alongwith disbursements for operational needs, stores & spares, BMR and capital projects.

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. Investment of surplus funds alongwith strategic placements are made after thorough financial evaluation.

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.

Commitments

The Company placed orders for items of capital nature, procurement of fertilizers, stores and spares with international vendors during the year. Outstanding requisitions in respect of services and materials at the year end, for which the Company is committed to pay either through issuance of purchase orders or letters of credits in favour of the vendors, aggregated to Rs 981 million.

Company's commitment towards equity participation in PMP during the year was reduced to MAD 46.88 million, approximately equivalent to Pak Rupees 311.25 million, payable upon equity calls by PMP.

Committed lease rentals include payments for premises and vehicles. Schedule of payments required by the International Accounting Standards is stated in note 13 to the financial statements.

During the year the Company won a case pending in the Supreme Court on appeal filed by the Customs authorities for Rs 179 million in respect of import of duty free first charge Catalysts for the expansion unit.

CORPORATE ACCOUNTABILITY

I am extremely pleased to inform you that our corporate reporting has continued to achieve laurels for excellence in disclosures and presentation both in the Country and across the borders.

Our Annual Report for the year 2004 has been able to achieve the top position for the third consecutive year, in the annual report competition 2004 conducted by joint committee of the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan, in addition to being similarly adjudged the best in the Chemical and Fertilizer sector.

In addition, we have been able to maintain our international financial reporting repute by winning the top award for the second year in a row in the Manufacturing Sector of the South Asian Federation of Accountants (SAFA) Best Presented Accounts Award 2004.

The Company also continues to be the proud winner of the Karachi Stock Exchange (KSE) "Top 25 Companies Award" for listed companies for the eleventh consecutive year, and has further been able to achieve recognition of the Rawalpindi Chamber of Commerce for excellent and meritorious performance.

We have also been able to once again secure the top position for best design, layout and graphics at the "Annual International Graphic Print Material Exhibition 2004", organized by the National Council of Culture & Arts – Pakistan.

Mr. Abid Maqbool, GM Finance / CFO receiving the ICAP & ICMAP Best Corporate Report Award 2004 for the overall First Position.

GM Finance / CFO receiving the SAFA Best Presented Accounts Award 2004 for the First Position in Manufacturing Sector.

GM Finance / CFO receiving the ICAP & ICMAP Best Corporate Report Award 2004 for the First Position in the Chemical and Fertilizer Sector.

SAFA Award | ICAP & ICMAP Overall Award | ICAP & ICMAP Sector Award | NCCA Award | RCCI Award

EMPLOYEE RELATIONS, TRAINING & WELFARE

Corporate governance and social responsibility play important roles in the decisions that guide our Company. We value our employees and are committed to supporting their health and safety.

Personnel within the Company possess capabilities commensurate with their responsibilities. Our employees understand and value the Company objectives, the markets in which it operates and the risks it faces. Their determined endeavour towards meeting these requirements is the driving force for performance and success of the Company, which in turn ensures their job stability and satisfaction.

The Company regularly conducts in-house seminars/training courses at Plants and Marketing. Over a span of time, all management employees are sent on training courses within the Country and those with potential are sent abroad to enhance professional capabilities and broaden their perspectives.

The Company contributes towards employee provident fund, gratuity and pension, balances in respect of which aggregated to Rs 2,143 million at year end 2005, as against Rs 1,753 million at year end 2004.

SOCIAL RESPONSIBILITIES

A 20-bed welfare hospital has been completed for the neighbouring community of Mirpur Mathelo complex. Contract for the construction of coronary care unit at district hospital, Ghotki and a secondary school have also been awarded. The Company contributed over Rs 40 million to the President's Earthquake Relief Fund.

In addition, donations of relief goods and cash were also made by Company employees to victims of the devastating October earthquake.

Dr. Haldor Topsoe, personally donated US $ 160,000 towards the earthquake relief fund . The Board unanimously thanks Dr. Haldor Topsoe for his generous contribution.

Technical and Training Services

The Company provides various technical services and training courses facilities for other local and foreign companies. Local companies given technical and training services during the year included:

- OMV
- Unilever
- Ittehad Chemicals
- Pakistan Petroleum
- TNB Liberty Power
- Attock Refinery
- BHP Billiton
- Pakistan Refinery
- AES Lalpir
- ENI
- Packages

FFC personnel also participated in turnarounds of Gulf Petrochemical Industries, Bahrain and Samad Fertilizer, Saudi Arabia.

Our greatest asset is well

trained and highly motivated

2005

Safety, Health & Environment

The Company ensures provision of a secure and healthy work environment that protects and safeguards the rights of our employees which in turn ensures optimum levels of performance. A safe environment has primacy over all business requirements and is essential for a well-trained, disciplined and motivated work force. Our certification for international safety standard, OHSAS-18001 demonstrates our commitment to strict compliance with plant safety standards and reflects our corporate commitment to safe practices which is also endorsed by various awards of honour over the years from National Safety Council, U.S.A.

Safety audits based on DuPont approach and OSHA standards are conducted regularly at the plant sites. Promotion of safety culture through the following is ensured:

- training sessions on handling of safety equipment
- training on emergency plan
- safety-related rehearsals
- safety week observed at Mirpur Mathelo site
- a 'spot the hazard' competition
- exhibition of safety items
- fire fighting competition
- safety booklets for contractors issued containing emergency response information, safety talk material, and material safety datasheets for workforce.

Our Goth Machhi Complex achieved 2.85 million man-hours of safe operation while the Mirpur Mathelo complex accumulated 1.47 million man-hours of safe operation at the end of year. Award from National Safety Council, U.S.A. was also achieved for the Mirpur Mathelo complex. New fire truck and firehouse building were commissioned at Mirpur Mathelo that have enabled the Company to provide help to surrounding industries and local population in case of need.

The ISO-9002 quality standard certification confirms our commitment to performance standards – which is also reflected as excellent quality of our renowned brand “Sona”.

We are also conscious of our responsibility to preserve our natural resources and have implemented initiatives to protect the environment. This is reflected through our certification for international environment standards, ISO-14001:1996. Engineering of several environment-related projects has been completed for execution in year 2006. We are also continuously striving for development of green belts, tree plantation and a lush green ecosystem plant sites.

Developmental work in Mirpur Mathelo township continued. Milestones for year 2005 have been addition of BOQ, officer's mess, squash court, jogging track, construction of new and renovation of existing houses, addition of green strips, new cafeteria, and a shopping mall.

We have developed a framework of shared values and business goals that encourages creativity

Future Outlook & WTO Challenges

FUTURE OUTLOOK

A quality that clearly sets us apart is consistently delivering on our commitments, which is fully validated and endorsed by our business and agrarian partners. We have earned this reputation through organized and highly disciplined processes that guide every strategy.

The medium to long term projected demand supply gap situation together with commissioning of our BMR projects with enhanced urea production capacities would further consolidate our market presence and allow improved returns to the Company and its stakeholders. These strong industry dynamics provide the confidence to safely adopt the going concern assumption.

Consistent endeavours by our dedicated employees towards achieving excellence in all operational spheres provides us further assurance for positive growth of the Company.

However, the unpredictable climatic conditions, highly volatile gas prices and Govt policies are factors beyond the Company's control and therefore present profitability risks to the whole of the fertilizer sector.

WTO CHALLENGES

Competitive indigenous fertilizer pricing combined with brand preference provides us confidence for a secure future and ability to safely meet WTO challenges.

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

CONCLUSION

I am extremely thankful for the continued support of the Board of Directors whose strategies, vision and consistent efforts contributed significantly towards achieving excellence in all strategic and operational spheres, in an increasingly demanding corporate culture. Their leadership has been the driving force which navigated the Company through another successful year.

The Company is immensely proud of its human capital for demonstrating commitment and for consistently delivering outstanding performances resulting in a new level of profitability in FFC's success story.

We would also like to thank our shareholders, business partners, Mari Gas Company Limited, the Government of Pakistan and our extremely valued customers whose faith and support over the years has nurtured a mutually beneficial relationship which play a pivotal role in improving our product, services and contributions to the economy at large.

We will continue to work on implementation of strategies drawn up, monitoring results and making course corrections where required.

CHAIRMAN
Lt Gen Syed Arif Hasan
HI(M), Retired

Rawalpindi
January 31, 2006

We shall conduct our employment activities with the highest principles of honesty, integrity, truthfulness and honour. To this end, we are to avoid not only impropriety, but also the appearance of impropriety.

We shall not make, recommend, or cause to be taken contract, agreement, investment, expenditure or transaction known or believed to be in violation of any law, regulation or corporate policy.

We shall not use our respective positions in employment to force, induce, coerce, harass, intimidate, or in any manner influence any person, including subordinates, to provide any favour, gift or benefit, whether financial or otherwise, to ourselves or others.

In business dealings with suppliers, contractors, consultants, customers and government entities, we shall not provide or offer to provide, any gratuity, favour or other benefit and all such activities shall be conducted strictly on an arm's length business basis.

While representing the Company in dealings with third parties we shall not allow ourselves to be placed in a position in which an actual or apparent conflict of interest exists. All such activities shall be conducted strictly on an arm's length business basis.

All of us shall exercise great care in situations in which a preexisting personal relationship exists between an individual and any third party or Government employee or official of an agency with whom the Company has an existing or potential business relationship. Where there is any doubt as to the propriety of the relationship, the individual shall report the relationship to management so as to avoid even the appearance of impropriety.

We shall not engage in outside business activities, either directly or indirectly, with a customer, vendor, supplier or agent of the Company, or engage in business activities which are inconsistent with, or contrary to, the business activities of the Company.

We shall not use or disclose the Company's trade secret, proprietary or confidential information, or any other confidential information gained in the performance of Company duties as a means of making private profit, gain or benefit.

2005

Core Values

At **FFC** we seek uncompromising integrity through each individual's effort towards quality product for our customers and sizable contribution to the national exchequer.

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

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

Excellence in high-quality products and services to our customers.

Consistency in our word and deed.

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 moral behaviour.

2005

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/FFC-008/0 dated November 24, 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 2005 were filled up within 30 days of occurrence.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged One orientation course for its directors during the year 2005 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.

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, 2006
Place: Rawalpindi

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

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

We have reviewed the Statement of Compliance with the 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 as applicable to the Company for the year ended December 31, 2005.

Islamabad
January 31, 2006

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS

Auditors' Report to The Members of Fauji Fertilizer Company Limited

We have audited the annexed balance sheet of Fauji Fertilizer Company Limited ("the Company") as at December 31, 2005 and the related profit and loss account, cash flow statement, and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion -

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change referred to in note 3.7.4 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, 2005 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 Ordinance.

Islamabad
January 31, 2006

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS

Balance Sheet

	Note	2005	2004
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital	4	4,934,742	2,949,703
Capital reserve	5	160,000	160,000
Reserve for issue of bonus shares		–	442,455
Revenue reserves	6	7,346,166	8,742,749
		12,440,908	12,294,907
NON CURRENT LIABILITIES	7	981,078	2,868,403
DEFERRED TAXATION	8	2,401,000	2,407,000
CURRENT LIABILITIES			
Trade and other payables	9	6,737,803	5,831,105
Interest and mark - up accrued	11	81,644	74,233
Short term borrowings	12	2,504,963	100,000
Current portion of long term:	7		
- Financing		1,845,658	2,184,088
- Loan		–	1,741
- Murabaha		41,667	83,333
Taxation		1,414,418	598,297
		12,626,153	8,872,797
CONTINGENCIES AND COMMITMENTS	13		
		28,449,139	26,443,107

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

As at December 31, 2005

	Note	2005	2004
		(Rupees '000)	
PROPERTY, PLANT AND EQUIPMENT	14	9,184,727	9,180,716
GOODWILL	15	1,673,849	1,778,464
LONG TERM INVESTMENTS	16	6,058,006	5,765,699
LONG TERM LOANS AND ADVANCES	17	64,545	67,328
LONG TERM DEPOSITS AND PREPAYMENTS	18	3,435	3,492
CURRENT ASSETS			
Stores, spares and loose tools	19	2,154,318	1,727,309
Stock in trade	20	560,472	219,180
Trade debts	21	659,713	1,407,736
Loans and advances	22	116,810	86,368
Deposits and prepayments	23	26,097	24,633
Other receivables	24	579,802	560,895
Short term investments	25	6,195,252	4,565,457
Cash and bank balances	26	1,172,113	1,055,830
		11,464,577	9,647,408
		28,449,139	26,443,107

Chairman

Chief Executive

Director

Profit and Loss Account
For the year ended December 31, 2005

	Note	2005	2004
		(Rupees '000)	
Sales	27	25,481,121	21,027,030
Cost of sales	28	16,382,714	13,157,653
GROSS PROFIT		9,098,407	7,869,377
Distribution cost	29	2,371,208	1,766,652
		6,727,199	6,102,725
Finance cost	30	325,999	372,949
Other expenses	31	626,819	560,494
		5,774,381	5,169,282
Other income	32	1,439,955	933,762
NET PROFIT BEFORE TAXATION		7,214,336	6,103,044
Provision for taxation	33	2,317,000	2,099,000
NET PROFIT AFTER TAXATION		4,897,336	4,004,044
Earnings per share - basic and diluted (Rupees)	34	9.92	8.11

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

Chairman | Chief Executive | Director

Cash Flow Statement
For the year ended December 31, 2005

	Note	2005	2004
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	8,063,619	10,001,809
Finance cost paid		(311,601)	(410,332)
Income tax paid		(1,506,879)	(1,945,613)
Payment to gratuity fund		(35,825)	(43,681)
Payment to pension fund		(32,249)	(27,321)
Net cash from operating activities		6,177,065	7,574,862
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(787,074)	(627,157)
Proceeds from sale of property, plant and equipment		19,724	21,180
Interest received		390,219	356,643
Investment in Pakistan Maroc Phosphore S.A., Morocco		(188,187)	(179,300)
Decrease in other investments		1,226,305	1,023,625
Dividend received from FFBL		950,466	475,233
Net cash generated from investing activities		1,611,453	1,070,224
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - proceeds		–	600,000
- repayments		(2,225,755)	(1,453,859)
Long term loans - repayments		(1,741)	(1,740)
Long term murabaha - repayments		(41,666)	(83,333)
Increase / (decrease) in short term borrowings		2,400,908	(2,872,333)
Dividends paid		(4,854,691)	(3,765,585)
Net cash used in financing activities		(4,722,945)	(7,576,850)
Net increase in cash and cash equivalents		3,065,573	1,068,236
Cash and cash equivalents at beginning of the year		4,108,330	3,039,894
Effect of exchange rate changes		2,550	200
Cash and cash equivalents at end of the year	37	7,176,453	4,108,330

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

Chairman

Chief Executive

Director

2005

Statement of Changes in Equity
For the year ended December 31, 2005

	Share capital	Capital reserve	Reserve for issue of bonus shares	General reserve	Unappropriated profit	Total
			(Rupees '000)			
Balance at December 31, 2003	2,564,959	160,000	–	8,600,000	582,496	11,907,455
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						
Final dividend 2003: Rs 1.50 per share	–	–	–	–	(384,743)	(384,743)
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
Net profit for the year ended December 31, 2005	–	–	–	–	4,897,336	4,897,336
Transfer from general reserve	–	–	–	(160,000)	160,000	–
Dividends						
Final dividend 2004: Rs 3.00 per share	–	–	–	–	(884,911)	(884,911)
First interim 2005: Rs 2.50 per share	–	–	–	–	(848,039)	(848,039)
Second interim 2005: Rs 4.00 per share	–	–	–	–	(1,560,393)	(1,560,393)
Third interim 2005: Rs 3.25 per share	–	–	–	–	(1,457,992)	(1,457,992)
Transfer from un–appropriated profit	–	–	1,542,584	–	(1,542,584)	–
Bonus shares issued	1,985,039	–	(1,985,039)	–	–	–
Balance at December 31, 2005	4,934,742	160,000	–	7,290,000	56,166	12,440,908

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

Chairman | Chief Executive | Director

1. STATUS AND NATURE OF BUSINESS

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IAS) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention and basis of preparation

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, provision for doubtful receivables and slow moving inventory. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

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.
These funds are administered by trustees. Annual contributions to the gratuity and management staff pension funds are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in note 10 to the financial statements. All contributions are charged to profit and loss account for the year. Actuarial gains / losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

Contributory Provident Fund

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

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. Cost comprises acquisition and other directly attributable costs. Property, plant and equipment acquired on PSFL acquisition are stated at their cost to the Company, which represents their fair value on acquisition, less accumulated depreciation.

Depreciation is provided on a straight-line basis 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 to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognised as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognised in the profit and loss account.

3.7.2 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 the profit and loss account.

3.7.3 Investment in joint venture

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

3.7.4 Investments available for sale

Pursuant to the changes in IAS-39 "Financial Instruments: Recognition and Measurement", the Company now takes gains or losses on re-measurement of available for sale investment to equity. Previously, these investments were initially recognised at cost and at subsequent reporting dates were measured at their fair values. Gains or losses from changes in fair values were recognised in the profit and loss account. There is no effect of this change on the current and previous year's profit and loss account and retained earnings.

3.7.5 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.

3.7.6 Investments at fair value through profit or loss

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking, are classified as investments at fair value through profit or loss. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account. The fair value of such investments representing listed equity securities are determined on the basis of prevailing market prices.

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.

Notes to the Financial Statements
For the year ended December 31, 2005

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 includes applicable purchase cost and manufacturing expenses.

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 of 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. Monetary assets and liabilities in foreign currencies at each period 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.

3.11 Revenue recognition

Sales revenue is recognised 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 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 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.

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 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 date accounting.

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 re-measuring 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.

	2005	2004
	(Rupees '000)	

4. SHARE CAPITAL

ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2005	2004		2005 (Rupees '000)	2004 (Rupees '000)
256,495,902	256,495,902	Ordinary shares of Rs.10 each fully paid in cash	2,564,959	2,564,959
236,978,328	38,474,385	Ordinary shares of Rs.10 each issued as fully paid bonus shares.	2,369,783	384,744
493,474,230	294,970,287		4,934,742	2,949,703

AUTHORISED SHARE CAPITAL

This represents 500,000,000 (2004: 500,000,000) ordinary shares of Rs 10 each amounting to Rs. 5,000,000 thousand.

4.1 Fauji Foundation held 44.35% (2004: 44.35%) ordinary shares of the Company at the year end.

Notes to the Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(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 Rs 10 each in 1991.

5.2 Capital redemption reserve

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

		Note	2005	2004
			(Rupees '000)	
6.	**REVENUE RESERVES**			
	General reserve		7,290,000	7,450,000
	Unappropriated profit		56,166	1,292,749
			7,346,166	8,742,749
7.	**NON CURRENT LIABILITIES**			
	Long term financing - secured	7.1	981,078	2,826,736
	Long term murabaha - secured	7.2	–	41,667
			981,078	2,868,403
7.1	**Long term financing - secured**			
	Loans from banking companies	7.1.1		
	i) ABN Amro Bank - Syndicated	7.1.1.1	275,000	458,333
	ii) Muslim Commercial Bank Limited (MCB)	7.1.1.1	300,000	500,000
	iii) National Bank of Pakistan (NBP)	7.1.1.1	500,000	833,333
	iv) Habib Bank Limited (HBL -1)	7.1.1.1	468,750	656,250
	v) Habib Bank Limited (HBL - 2)	7.1.1.2	125,000	187,500
	vi) United Bank Limited (UBL -1)	7.1.1.2	125,000	187,500
	vii) United Bank Limited (UBL - 2)	7.1.1.2	100,000	100,000
	viii) United Bank Limited (UBL - 3)	7.1.1.2	500,000	500,000
	ix) Citibank N.A.	7.1.1.3	–	805,174
			2,393,750	4,228,090
	Other loans			
	Term Finance Certificates (TFCs)	7.1.2	432,986	782,734
	Government of Pakistan loan - 5th Danish Credit	7.1.3	–	1,741
			2,826,736	5,012,565
	Less: Current portion shown under current liabilities		1,845,658	2,185,829
			981,078	2,826,736

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	6 months' Treasury Bill rate+1.3	3	May 29, 2007
MCB	6 months' Treasury Bill rate+1.3	3	May 30, 2007
NBP	6 months' Treasury Bill rate+1.3	3	May 29, 2007
HBL - 1	6 months' Treasury Bill rate+1.3	5	May 30, 2008
HBL - 2	6 months' Treasury Bill rate+1.0	4	December 31, 2007
UBL - 1	6 months' Treasury Bill rate+1.0	4	December 31, 2007
UBL - 2	4.5	On maturity	November 02, 2006
UBL - 3	3.5	On maturity	May 31, 2006
Citibank N.A.	6 months' Treasury Bill rate+1.0	On maturity	April 03, 2005
5th Danish Credit	8.75	-	October 01, 2005

7.1.1.1 Finances (i) through (iv) 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. These loans have been obtained for the acquisition of PSFL.

7.1.1.2 Finances (v) through (viii) have been obtained to meet the permanent working capital requirements of the Company. Finances (v) and (vi) 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. Finances (vii) and (viii) are secured against lien on Pakistan Investment Bonds.

7.1.1.3 Loan (ix) represented US Dollar loan disbursed in Pak Rupees at the exchange rate prevailing on the date of disbursement and was secured against lien on Government of Pakistan Special US Dollar Bonds. The interest payable half yearly, as well as principal were to be repaid in equivalent amounts of presentation currency by applying the exchange rate prevailing on the respective repayment dates. This loan was obtained for the acquisition of PSFL. It was fully repaid during the year.

7.1.2 Term Finance Certificates (TFC's) represent private placement with 2 institutional investors (2004: 3 institutional investors) for a period of 5 years (2004: 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 balance amount of principal of TFCs at December 31, 2005 is to be repaid in 4 half-yearly installments in arrears. These 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.

7.1.3 **Government of Pakistan loan - secured**

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

This loan was disbursed in foreign currency and was repayable in local currency. Disbursements were determined for repayment in Rupees by translation at the rates of exchange prevailed on the respective dates of disbursement. Interest on loan also included the Government's exchange risk commission. This loan was secured by a mortgage in favour of the Government of Pakistan over the Company's fixed assets. The loan was fully repaid during the year.

		2005	2004
		(Rupees '000)	
7.2	**Long term murabaha - secured**		
	Faysal Bank Limited	41,667	125,000
	Less: Current portion shown under current liabilities	41,667	83,333
		–	41,667

The above murabaha financing carries mark-up at 4.5% p.a. Principal and mark-up are repayable in half yearly installments upto May 31, 2006. 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. The facility was obtained for the acquisition of PSFL.

		Note	2005	2004
			(Rupees '000)	
8.	**DEFERRED TAXATION**			
	The balance of deferred tax is in respect of the following major temporary differences:			
	Accelerated depreciation		2,445,504	2,516,000
	Provision for slow moving / surplus spares, doubtful debts, other receivables and short term investments		(44,504)	(109,000)
			2,401,000	2,407,000
9.	**TRADE AND OTHER PAYABLES**			
	Creditors		1,186,285	490,354
	Accrued liabilities		936,082	652,802
	Consignment account with Fauji Fertilizer Bin Qasim Limited - unsecured		267,744	305,034
	Other liabilities		15,994	14,131
	Sales tax payable		135,938	319,168
	Deposits		66,665	58,772
	Retention money		21,522	14,742
	Advances from customers		2,748,929	2,603,204
	Workers' Profit Participation Fund	9.1	386,728	327,845
	Workers' Welfare Fund		346,444	316,225
	Unclaimed dividend		625,472	728,828
			6,737,803	5,831,105
9.1	**Workers' Profit Participation Fund**			
	Balance at beginning of the year		327,845	265,499
	Interest on funds utilised in Company's business		–	369
	Allocation for the year		386,728	327,845
	Payment to the fund during the year		(327,845)	(265,868)
			386,728	327,845

10. RETIREMENT BENEFIT FUNDS

a) Movement in the asset recognised in the balance sheet:

	Funded gratuity	Funded pension	Total 2005	Total 2004
		(Rupees '000)		
Balance at beginning of the year	–	(929)	(929)	12,353
Expense for the year	35,825	33,178	69,003	57,720
Payments to funds during the year	(35,825)	(32,249)	(68,074)	(71,002)
Balance at end of the year	–	–	–	(929)

b) Reconciliation of the asset recognised in the balance sheet:

	Funded gratuity	Funded pension	Total 2005	Total 2004
		(Rupees '000)		
Present value of defined benefit obligation	579,589	591,310	1,170,899	979,712
Fair value of plan assets	(502,285)	(565,789)	(1,068,074)	(931,270)
Deficit	77,304	25,521	102,825	48,442
Unrecognised actuarial loss	(77,304)	(25,521)	(102,825)	(49,371)
Net asset	–	–	–	(929)

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 2005	Total 2004
		(Rupees '000)		
Current service cost	31,081	33,806	64,887	59,943
Interest cost	40,874	38,163	79,037	60,029
Expected return on plan assets	(36,520)	(38,791)	(75,311)	(62,541)
Amortization of loss	390	–	390	289
Expense for the year	35,825	33,178	69,003	57,720
Actual return on plan assets	45,874	79,646	125,520	114,854

d) Actuarial valuation of these plans was carried out as at December 31, 2005 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

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

e) "Salaries, wages and benefits" expense, stated in notes 28 and 29 include retirement benefits in respect of gratuity, provident fund, pension plans and compensated absences amounting to Rs. 33,821 thousand, Rs. 43,595 thousand, Rs 30,655 thousand and Rs 121,842 thousand respectively (2004: Rs 27,539 thousand, Rs 49,609 thousand, Rs 26,463 thousand and Rs 26,903 thousand respectively).

Notes to the Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
11.	**INTEREST AND MARK-UP ACCRUED**			
	On long term financing		62,826	71,515
	On murabaha financing		161	484
	On short term borrowings		18,657	2,234
			81,644	74,233
12.	**SHORT TERM BORROWINGS - SECURED**			
	From banking companies			
	Short term loan	12.1	500,000	100,000
	Short term import credit	12.2	1,544,963	–
	Short term running finance	12.3	460,000	–
			2,504,963	100,000

12.1 Short term loan

This represents short term loan facility available from a bank by partial conversion of Running Finance line amounting to Rs. 500,000 thousand (2004: Rs 100,000 thousand). This is secured by first pari passu charge on the current assets of the Company. This facility carries mark-up at the rate of Re 0.240 (2004: Re 0.110) per Rs 1,000 per day.

12.2 Short term import credit

Import credit facilities of Rs. 1,544,963 thousand (2004: Nil) have been arranged from various banks under mark-up arrangements at three months' LIBOR + 0.5% p.a. and six months' LIBOR + 0.5% per annum.

These facilities are secured by way of hypothecation of current and fixed assets of the Company.

12.3 Short term running finances

Short term running finance facilities available from various banks under mark-up arrangements amounting to Rs. 4,000,000 thousand (2004: Rs. 3,250,000 thousand) which represent the aggregate of sale prices of all mark-up agreements between the Company and the banks. These facilities have various maturity dates upto June 30, 2006.

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 range from one month KIBOR + 0.25% to 0.80% p.a. to three months' KIBOR + 0.50% p.a. (2004: one month KIBOR + 0.25% p.a. to three months' KIBOR + 0.25% p.a.).

			2005	2004
			(Rupees '000)	
13.	**CONTINGENCIES AND COMMITMENTS**			
	a)	**Contingencies**		
	i)	Guarantees issued by banks on behalf of the Company.	19,620	26,828
	ii)	Disputed demands for Income tax and levy of contribution to Workers' Welfare Fund related to former PSFL decided in favour of the Company by the Income Tax Appellate authorities, are currently in appeal by the department. The Company is confident that there are reasonable grounds for a favourable decision.	295,590	295,590
	iii)	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
	iv)	Claims against the Company and / or potential exposure not acknowledged as debt.	62,776	62,776
	b)	**Commitments in respect of:**		
	i)	Capital expenditure	473,243	461,006
	ii)	Purchase of fertilizer, stores, spares and other revenue items.	507,457	254,212
	iii)	Commitment for equity investment in Pakistan Maroc Phosphore S.A.- note 16.1, Moroccan Dirhams 46,875 thousand (2004: MAD 75,000 thousand), equivalent approx.	311,250	545,903
	iv)	Company's share of commitments in Pakistan Maroc Phosphore S.A. (PMP). PMP itself is committed to incur capital expenditure of MAD 1,199,000 Equivalent Pak Rs 7,963,000 thousand.	995,375	–
	v)	Rentals under lease agreements:		
		Premises - not later than one year	19,382	27,078
		- later than one year and not later than five years		
		2007	23,629	13,766
		2008	19,486	13,276
		2009	17,776	13,033
		2010	15,423	13,845
		- later than five years	3,842	3,578
		Vehicles - not later than one year	66,783	60,462
		- later than one year and not later than five years		
		2007	57,702	52,529
		2008	51,182	40,203
		2009	40,294	34,264
		2010	12,988	5,513
		- later than five years	3,628	–

Notes to the Financial Statements
For the year ended December 31, 2005

14. PROPERTY, PLANT & EQUIPMENT

	COST			DEPRECIATION			Written down	
	As at January 1, 2005	of Additions / (adjustments* / disposals)	As at December 31, 2005	As at January 1, 2005	For the year / (on disposals / adjustments*)	As at December 31, 2005	value as at December 31, 2005	Annual rate of depreciation % on cost
				(Rupees '000)				
Freehold land	174,634	2,268	176,902	–	–	–	176,902	–
Lease hold land	82,400	–	82,400	15,450	5,150	20,600	61,800	6 1/4
Buildings and structures on freehold land	1,682,972	185,125 (23,928) *	1,844,169	1,027,011	66,720 (4,383) *	1,089,348	754,821	5 to 10
Buildings and structures on leasehold land	42,150	–	42,150	40,431	108	40,539	1,611	5
Railway sidings	26,517	–	26,517	26,467	26	26,493	24	5
Plant and machinery	18,582,611	182,727 (6,357) *	18,758,981	11,014,928	465,187 (962) *	11,479,153	7,279,828	5
Catalysts	313,854	182,502 (117,701)	378,655	223,204	75,970 (117,701)	181,473	197,182	20 to 50
Furniture and fixtures	76,427	18,887 (1,665) (3,514) *	90,135	40,204	6,876 (1,423) (176) *	45,481	44,654	10 to 15
Office and electrical equipment	195,353	43,159 (7,851) 8,709 *	239,370	113,004	29,400 (6,254) 1,709 *	137,859	101,511	10 to 15
Vehicles	221,300	54,958 (25,346) (350) *	250,562	123,523	40,327 (24,496) (175) *	139,179	111,383	20
Maintenance and other equipment	578,419	64,127 (11,000) 11,815 *	643,361	458,616	78,594 (10,663) 932 *	527,479	115,882	15 to 33 1/3
Library books	7,403	1,537	8,940	6,267	1,109	7,376	1,564	30
	21,984,040	735,290 (163,563) (13,625) *	22,542,142	13,089,105	769,467 (160,537) (3,055) *	13,694,980	8,847,162	
Capital work in progress – note 14.4	285,781	514,851 (463,067) *	337,565	–	–	–	337,565	–
2005	22,269,821	609,886	22,879,707	13,089,105	605,875	13,694,980	9,184,727	
	21,569,391	481,634 (66,985)	21,984,040	12,450,642	700,474 (62,011)	13,089,105	8,894,935	
Capital work in progress – note 14.4	140,259	448,406 (302,884) *	285,781	–		–	285,781	–
2004	21,709,650	560,171	22,269,821	12,450,642	638,463	13,089,105	9,180,716	

14.1 Cost of property, plant and equipment has been shown net of Government grant of Rs 68,164 thousand (2004: Rs 68,164 thousand).

	Note	2005	2004
		(Rupees '000)	
14.2 Depreciation charge has been allocated as follows:			
Cost of sales	28	752,132	683,860
Distribution cost	29	12,426	11,535
Charged to FFBL under Inter Company Services Agreement		4,909	5,079
		769,467	700,474

14.3 Details of property, plant and equipment sold :

Description	Cost	Book value	Sale proceeds
Vehicles		(Rupees '000)	
By tender to outsiders			
Mr M. Ijaz	400	200	487
Mr Abid Ansar	250	125	382
Mr Abid Ansar	600	300	376
Mr Abid Ansar	450	225	651
Furniture and fixtures, office and electrical equipment, maintenance and other equipment			
By Company policy to employee			
Mr Khaliq ur Rehman	332	127	149
By insurance claim			
EFU Insurance Company	1,236	1,048	1,085
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand	160,295	1,001	16,594
	163,563	3,026	19,724

	2005	2004
	(Rupees '000)	
14.4 CAPITAL WORK IN PROGRESS		
Civil works	161,207	220,187
Plant, machinery and equipment	176,358	65,594
	337,565	285,781

Notes to the Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
15.	**GOODWILL**			
	Balance at beginning of the year		1,778,464	1,883,079
	Less: Amortisation for the year	31	(104,615)	(104,615)
			1,673,849	1,778,464
16.	**LONG TERM INVESTMENTS**			
	Pakistan Maroc Phosphore S.A., Morocco	16.1	367,487	179,300
	Investment in subsidiary - at cost	16.2		
	Fauji Fertilizer Bin Qasim Limited (FFBL)		4,752,330	4,752,330
	Investments available for sale	16.3		
	Certificates of investment		279,998	246,525
	Government of Pakistan Special US Dollar Bonds		–	969,486
	National Savings Certificates		–	500,000
			279,998	1,716,011
	Investments held to maturity	16.4		
	Pakistan Investment Bonds (PIBs)		600,000	700,000
	Term Finance Certificates		99,980	20,355
			699,980	720,355
			6,099,795	7,367,996
	Less: Current portion shown under short term investments	25		
	Investments available for sale			
	Certificates of investment		41,749	12,456
	Government of Pakistan Special US Dollar Bonds		–	969,486
	National Savings Certificates		–	500,000
			41,749	1,481,942
	Investments held to maturity			
	Pakistan Investment Bonds		–	100,000
	Term Finance Certificates		40	20,355
			40	120,355
			41,789	1,602,297
			6,058,006	5,765,699

16.1 Pakistan Maroc Phosphore S.A., Morocco

The Company has committed 12.5% total equity participation in Pakistan Maroc Phosphore S.A. (PMP), amounting to Moroccan Dirhams (MAD) 100,000 thousand, out of which, MAD 53,125 thousand equivalent to Rs 367,487 thousand have been remitted upto December 31, 2005 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.

16.2 Investment in subsidiary - at cost

Investment in subsidiary represents 475,233 thousand (2004: 475,233 thousand) fully paid ordinary shares of Rs 10 each representing 50.88% of FFBL share capital as at December 31, 2005 (2004: 50.88%). The market value of the Company's investment as at December 31, 2005 was Rs 18,130,139 thousand (2004: Rs 14,542,129 thousand), whereas value based on net assets as per audited financial statements as at December 31, 2005 was Rs 3,931,768 thousand (2004: Rs 3,635,888 thousand).

16.3 Investments available for sale

The Company has placements in certificates of investment of a financial institution for periods ranging from one and a half to five years at profit rates ranging from 6% to 15% per annum.

Government of Pakistan Special US Dollar Bonds were issued for a period of three years. Profit was payable on these bonds at a rate of 2% above six months' LIBOR. These were fully encashed during the year.

National Saving Certificates were issued for 5 years. Monthly profit was payable on these certificates at the rate of 14% per annum. These were fully encashed during the year.

Investments available for sale include Rs. Nil (2004: Rs. 1,345,568 thousand) under lien of financial institutions against long term loans for PSFL acquisition and short term loans.

16.4 Investments held to maturity

PIBs have been issued for 10 years (2004: 5 to 10 years). Half-yearly profit is payable on these bonds at rates ranging from 11% to 14% per annum. These include Rs 600,000 thousand (2004: Rs 700,000 thousand) under lien of a bank against loan for PSFL acquisition. Fair value of these PIBs as at December 31, 2005 is Rs 689,142 thousand (2004: Rs 864,164 thousand).

Investment in TFC represents 20,000 certificates of Rs 5,000 each of Askari Commercial Bank Limited. Half yearly profit is payable on these TFCs at the rate of six months' KIBOR + 1.5% per annum. Fair value of the outstanding TFCs as at December 31, 2005 is Rs. 101,980 thousand.

Investment in TFC also represented 500 certificates of Rs. 100,000 each of Orix Leasing Limited. Half yearly profit payable on these TFCs was 14% per annum. Fair value of these TFCs as at December 31, 2004 was Rs. 20,827 thousand. These TFCs were fully redeemed during the year.

Notes to the Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
17.	**LONG TERM LOANS AND ADVANCES**			
	Loans and advances, considered good, to:			
	Executives		73,698	65,266
	Other employees		40,760	41,449
			114,458	106,715
	Less: Amount due within twelve months, shown under current loans and advances	22	49,913	39,387
			64,545	67,328

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

	Opening balance as at January 1, 2005	Disbursements	Repayments	Closing balance as at December 31, 2005
	(Rupees '000)			
Executives	65,266	72,828	64,396	73,698
Other employees	41,449	20,165	20,854	40,760
	106,715	92,993	85,250	114,458
2004	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 (2004: 4% 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 73,698 thousand (2004: Rs 65,266 thousand).

		2005	2004
		(Rupees '000)	
18.	**LONG TERM DEPOSITS AND PREPAYMENTS**		
	Deposits	2,113	2,452
	Prepayments	1,322	1,040
		3,435	3,492
19.	**STORES, SPARES AND LOOSE TOOLS**		
	Stores	91,835	77,123
	Spares	1,947,888	1,818,916
	Provision for slow moving and surplus items	(108,924)	(295,713)
		1,838,964	1,523,203
	Loose tools	106	107
	Items in transit	223,413	126,876
		2,154,318	1,727,309

	Note	2005	2004
		(Rupees '000)	
20. STOCK IN TRADE			
Raw materials		35,080	29,908
Work in process		18,028	10,192
Finished goods:			
Manufactured urea		19,386	22,384
Purchased fertilizers		487,978	156,696
		560,472	219,180
21. TRADE DEBTS			
Considered good	21.1	659,713	1,407,736
Considered doubtful		1,979	1,979
		661,692	1,409,715
Provision for doubtful debts		(1,979)	(1,979)
		659,713	1,407,736

21.1 This includes unsecured balance of Rs Nil (2004: Rs 160 thousand) due from Fauji Foundation, an associated undertaking. The maximum amount outstanding at the end of any month during the year was Rs 465 thousand (2004: Rs 16,844 thousand).

	Note	2005	2004
		(Rupees '000)	
22. LOANS AND ADVANCES			
Current portion of long term loans and advances		49,913	39,387
Advances to suppliers, considered good		66,897	46,981
		116,810	86,368
23. DEPOSITS AND PREPAYMENTS			
Deposits		1,229	1,422
Prepayments		24,868	23,211
		26,097	24,633
24. OTHER RECEIVABLES			
Accrued income on investments and bank deposits		74,315	48,927
Advance tax	24.1	476,489	476,489
Receivable from retirement benefit fund, considered good	10	–	929
Other receivables – considered good		28,998	34,550
– considered doubtful		2,232	2,232
		31,230	36,782
Provision for doubtful receivables		(2,232)	(2,232)
		28,998	34,550
		579,802	560,895

24.1 This represents tax paid by PSFL in excess of admitted tax liabilities prior to its acquisition by the Company. The Company intends to adjust this amount after finalisation of pending re-assessments by the taxation authorities.

Notes to the Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
25.	**SHORT TERM INVESTMENTS**			
	Term deposits with banks and financial institutions			
	Presentation currency			
	Available for sale (net of provision for doubtful recovery Rs 13,000 thousand)		500,000	2,550,000
	Held to maturity		4,650,000	–
	Foreign currency			
	Held to maturity		905,963	311,860
	Investment at fair value through profit or loss			
	Meezan Balanced Fund (10,000 thousand certificates of Rs 10 each)	25.1	97,500	101,300
	Current maturity of long term investments			
	Available for sale		41,749	1,481,942
	Held to maturity		40	120,355
			6,195,252	4,565,457

25.1 Pursuant to the changes in IAS-39 "Financial Instruments: Recognition and Measurement" and using the transitional provision given therein, the Company has during the year taken its investment in Meezan Balanced Fund from investments available for sale to investment at fair value through profit or loss.

		2005	2004
		(Rupees '000)	
26.	**CASH AND BANK BALANCES**		
	At banks:		
	Deposit accounts		
	Local currency	1,008,459	499,333
	Foreign currency	31,867	–
	Current accounts		
	Local currency (includes drafts under collection)	168	397,939
	Foreign currency	–	14,898
		1,040,494	912,170
	Drafts in hand and in transit	130,109	142,153
	Cash in hand	1,510	1,507
		1,172,113	1,055,830

Balances with banks include Rs 66,665 thousand (2004: Rs 58,772 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 15,000 thousand (2004: Rs 15,000 thousand) under lien of the bank, against a guarantee issued by the bank on behalf of the Company.

27. SALES

Sales include Rs 6,118,167 thousand (2004: Rs 3,379,630 thousand) in respect of sale of purchased fertilizers and are exclusive of trade allowances and sales tax of Rs 292,297 thousand and Rs 2,431,251 thousand respectively (2004: Rs 335,257 thousand and Rs 2,484,103 thousand respectively).

		Note	2005	2004
			(Rupees '000)	
28.	**COST OF SALES**			
	Raw materials consumed		4,656,524	3,996,766
	Fuel and power		2,896,648	2,444,552
	Chemicals and supplies		143,456	114,750
	Salaries, wages and benefits		1,553,742	1,263,122
	Rent, rates and taxes		11,273	8,594
	Insurance		91,469	93,175
	Technical services		15,750	14,364
	Travel and conveyance		100,547	82,089
	Repairs and maintenance (includes stores and spares consumed of Rs 423,407 thousand; 2004: Rs 362,832 thousand)	28.1	389,587	579,603
	Depreciation	14.2	752,132	683,860
	Communication, establishment and other expenses		461,058	342,150
	Opening stock - work in process		10,192	21,410
	Closing stock - work in process		(18,028)	(10,192)
	Cost of goods manufactured		11,064,350	9,634,243
	Opening stock of manufactured urea		22,384	542,435
	Closing stock of manufactured urea		(19,386)	(22,384)
			2,998	520,051
	Cost of sales - own manufactured urea		11,067,348	10,154,294
	Opening stock of purchased fertilizers		156,696	102,702
	Purchase of fertilizers for resale		5,646,648	3,057,353
			5,803,344	3,160,055
	Closing stock of purchased fertilizers		(487,978)	(156,696)
	Cost of sales - purchased fertilizers		5,315,366	3,003,359
			16,382,714	13,157,653

28.1 This includes provision for slow moving and surplus spares amounting to Rs (170,292 thousand) (2004: Rs 92,487 thousand).

Notes to the Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
29.	**DISTRIBUTION COST**			
	Product transportation		1,797,694	1,234,997
	Salaries, wages and benefits		367,517	309,092
	Rent, rates and taxes		45,803	49,381
	Insurance		450	2,813
	Technical services to farmers		3,610	3,050
	Travel and conveyance		58,569	48,210
	Sale promotion and advertising		28,170	37,865
	Communication, establishment and other expenses		40,105	21,888
	Warehousing expenses		16,864	47,821
	Depreciation	14.2	12,426	11,535
			2,371,208	1,766,652
30.	**FINANCE COST**			
	Interest and related charges on long term financing, loans and murabaha		281,655	290,061
	Interest on Workers' Profit Participation Fund	9.1	–	369
	Mark up on short term borrowings		37,357	54,951
	Exchange loss on loans		4,891	24,461
	Bank charges		2,096	3,107
			325,999	372,949
31.	**OTHER EXPENSES**			
	Amortisation of goodwill		104,615	104,615
	Workers' Profit Participation Fund		386,728	327,845
	Workers' Welfare Fund		133,504	126,021
	Auditors' remuneration			
	Audit fee		1,020	1,020
	Fee for half yearly review, audit of consolidated accounts and certifications for Government and related agencies		852	893
	Out of pocket expenses		100	100
			626,819	560,494
32.	**OTHER INCOME**			
	Income from financial assets			
	Income on loans, deposits and investments		400,245	316,356
	Income on tax-exempt investments		15,362	45,534
	(Loss) / gain on re-measurement of investments at fair value through profit or loss	25	(3,800)	1,300
	Gain on sale of NIT units		2,021	–
	Exchange gain on financial instruments		7,130	15,381
	Income from subsidiary			
	Commission on sale of FFBL products		21,625	19,655
	Dividend from FFBL		950,466	475,233
	Income from non-financial assets			
	Gain on sale of property, plant and equipment		16,698	16,206
	Other income			
	Old liabilities written back		374	29,326
	Scrap sales		16,432	6,635
	Others		13,402	8,136
			1,439,955	933,762

		2005	2004
		(Rupees '000)	

33. TAXATION

		2005	2004
Provision for taxation	-current year	2,323,000	2,184,000
	-prior year	–	30,000
Deferred		(6,000)	(115,000)
		2,317,000	2,099,000

33.1 Reconciliation of tax charge for the year

		2005 %	2004 %
Applicable tax rate		35.00	35.00
Add:	Tax effect of amounts that are not deductible for tax purpose	1.40	1.51
	Tax effect of amounts relating to prior years	–	0.49
Less:	Tax effect of amounts exempt from tax	(0.09)	(0.26)
	Tax effect of amounts taxed at lower rates	(3.99)	(2.34)
	Tax effect of rebates and tax credit	(0.20)	(0.01)
	Average effective tax rate charged on income	32.12	34.39

34. EARNINGS PER SHARE

	2005	2004
Net profit after tax (Rupees '000)	4,897,336	4,004,044
Weighted average number of shares in issue during the year	493,474	493,474
Basic and diluted earnings per share (Rupees)	9.92	8.11

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

Number of shares in issue during the year 2004 have been restated for the effect of bonus shares issued during 2005.

35. 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:

	2005		2004	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	2,151	385,334	2,021	308,026
Contribution to provident fund	142	20,081	129	15,872
Bonus and other awards	–	17,839	110	28,035
Good performance award	–	106,250	–	70,710
Others	1,299	110,360	1,269	73,140
Total	3,592	639,864	3,529	495,783
No. of person(s)	1	238	1	198

The above were provided with medical facilities; the chief executive and certain executives were also provided with some furnishing items and vehicles in accordance with the Company's policy. Gratuity is payable to the chief executive in accordance with the terms of employment while contributions for executives in respect of gratuity and pension are based on acturial valuations. Leave encashment of Rs 2,007 thousand (2004: Rs 4,420 thousand) was paid to the executives on separation, in accordance with the Company's policy.

In addition, 12 (2004: 15) directors were paid aggregate fee of Rs 126 thousand (2004: Rs 186 thousand).

Notes to the Financial Statements
For the year ended December 31, 2005

	2005	2004
	(Rupees '000)	
36. CASH GENERATED FROM OPERATIONS		
Net profit before taxation	7,214,336	6,103,044
Adjustments for:		
Depreciation	764,558	695,395
Amortisation of goodwill	104,615	104,615
(Reversal) / provision for slow moving and surplus spares	(186,789)	92,487
Provision for gratuity	34,231	29,022
Provision for pension	30,655	28,698
Finance cost	319,012	372,949
Income on loans, deposits and investments	(415,607)	(361,890)
Property, plant and equipment written off	10,570	–
Gain on sale of property, plant and equipment	(16,698)	(16,206)
Exchange (gain) / loss	(3,075)	9,080
Loss / (gain) on re-measurement of investments at fair value through profit or loss	3,800	(1,300)
Dividend from FFBL	(950,466)	(475,233)
Old liabilities written back	(374)	(14,771)
	(305,568)	462,846
	6,908,768	6,565,890
Changes in working capital		
(Increase) / decrease in current assets:		
Stores and spares	(240,220)	(132,816)
Stock in trade	(341,292)	462,117
Trade debts	748,023	468,725
Loans and advances	(30,442)	(22,386)
Deposits and prepayments	(1,464)	(1,522)
Other receivables	5,552	7,711
Increase / (decrease) in current liabilities:		
Trade and other payables	1,011,854	2,657,950
	1,152,011	3,439,779
Changes in long term loans and advances	2,783	(3,408)
Changes in long term deposits and prepayments	57	(452)
	8,063,619	10,001,809
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,172,113	1,055,830
Short term highly liquid investments	6,004,340	3,052,500
	7,176,453	4,108,330

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

38.1 Financial assets and liabilities

	Interest rates	Interest / mark–up bearing: Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub–total	Non–interest / mark–up bearing: Maturity upto one year	Maturity after one year	Sub–total	2005 Total	2004 Total
		(Rupees `000)											
Financial assets													
Investments													
– Local currency	5% – 11.50%	5,191,789	88,786	115,635	33,948	100,040	599,780	6,129,978	–	–	–	6,129,978	4,118,180
– Foreign currency	0.75% – 4.50%	905,963	–	–	–	–	–	905,963	–	–	–	905,963	1,281,346
Loans and advances	4%	11,192	11,043	10,656	9,965	9,209	20,205	72,270	42,188	–	42,188	114,458	153,696
Trade debts		–	–	–	–	–	–	–	659,713	–	659,713	659,713	1,407,736
Deposits		–	–	–	–	–	–	–	1,229	2,113	3,342	3,342	3,874
Accrued income on investments and bank deposits		–	–	–	–	–	–	–	74,307	–	74,307	74,307	48,927
Other receivables		–	–	–	–	–	–	–	31,230	–	31,230	31,230	37,711
Cash and bank balances													
– Local currency	0.5% – 10%	1,008,459	–	–	–	–	–	1,008,459	131,787	–	131,787	1,140,246	1,040,932
– Foreign currency	0% – 3.3%	31,867	–	–	–	–	–	31,867	–	–	–	31,867	14,898
		7,149,270	99,829	126,291	43,913	109,249	619,985	8,148,537	940,454	2,113	942,567	9,091,104	8,107,300
Financial liabilities													
Recognised													
Long term financing													
– Local currency	3.5%–11%	1,845,660	887,327	93,750	–	–	–	2,826,737	–	–	–	2,826,737	4,205,650
– Foreign currency		–	–	–	–	–	–	–	–	–	–	–	805,174
Long term loan		–	–	–	–	–	–	–	–	–	–	–	1,741
Long term murabaha	4.5%	41,667	–	–	–	–	–	41,667	–	–	–	41,667	125,000
Short term borrowings	4.49%–9.40%	2,504,963	–	–	–	–	–	2,504,963	–	–	–	2,504,963	100,000
Trade and other payables		386,728	–	–	–	–	–	386,728	3,506,492	–	3,506,492	3,893,220	2,885,895
Interest and mark–up accrued		–	–	–	–	–	–	–	81,644	–	81,644	81,644	74,233
		4,779,018	887,327	93,750	–	–	–	5,760,095	3,588,136	–	3,588,136	9,348,231	8,197,693
Unrecognised													
Guarantees		–	–	–	–	–	–	–	19,620	–	19,620	19,620	26,828
Letters of credit		–	–	–	–	–	–	–	507,457	–	507,457	507,457	254,212
Contingencies		–	–	–	–	–	–	–	424,366	–	424,366	424,366	603,366
Commitments		–	–	–	–	–	–	–	1,866,158	245,950	2,112,108	2,112,108	1,362,544
		–	–	–	–	–	–	–	2,817,601	245,950	3,063,551	3,063,551	2,246,950
		4,779,018	887,327	93,750	–	–	–	5,760,095	6,405,737	245,950	6,651,687	12,411,782	10,444,643

38.2 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 937,831 thousand (2004: Rs 1,296,244 thousand) and Rs 1,544,963 thousand (2004: Rs 805,174 thousand) respectively at the year end.

Foreign currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. Currently, the Company's foreign exchange risk exposure is restricted to foreign currency investments, bank balances and short term 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. Foreign exchange risk on these financial assets / liabilities is limited and it is further mitigated by making short term placements / obtaining short term financing that give Company's treasury the flexibility to readjust its portfolio.

c) Interest / Mark-up rate risk

Financial assets and liabilities include balances of Rs 99,980 thousand (2004: Rs 989,841 thousand) and Rs 4,231,699 thousand (2004: Rs 4,410,824 thousand) respectively, which are subject to interest rate risk. 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.

38.3 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.

39. RELATED PARTY TRANSACTIONS

Fauji Foundation holds 44.35% (2004: 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, major shareholders, 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 35 to the financial statements.

	2005	2004
	(Rupees '000)	
Transactions with related parties during the year are as follows:		
Fauji Foundation		
Office rent	2,800	2,431
Sale of fertilizer	420	4,374
Medical services	27	42
Payment for shares of Pakistan Maroc Phosphore S.A.	–	179,300
Balance receivable at the year - end, unsecured	36	196
Bonus shares issued	880,313	170,624
Dividends	2,107,092	1,433,240
Fauji Fertilizer Bin Qasim Limited (FFBL)		
Marketing of fertilizer on behalf of FFBL under sale on consignment basis	202,872	201,234
Commission on sale of FFBL products	21,625	19,655
Services and materials provided	2,980	17,108
Services and materials received	2,457	1,864
Reimbursement of expenses incurred by FFBL in relation to equity injection in PMP	–	680
Dividend income	950,466	475,233
Balance payable at the year - end, unsecured	267,744	305,034
Mari Gas Company Limited		
Purchase of gas as feed and fuel stock	6,928,493	5,884,410
Balance payable at the year - end, unsecured	348,511	290,945
Haldor Topsoe A/s, Denmark		
Technical services received	15,750	14,364
Pakistan Maroc Phosphore S.A.		
Advance against issue of shares	188,187	179,300
Payment to:		
Employees' Provident Fund Trust	112,282	99,217
Employees' Gratuity Fund Trust	35,825	43,681
Employees' Pension Fund Trust	32,249	27,321

Notes to the Financial Statements
For the year ended December 31, 2005

40. POST BALANCE SHEET EVENT

The Board of Directors in their meeting held on January 31, 2006 have proposed a final dividend of Rs 2.25 per share.

		2005	2004
		(Tonnes '000)	
41.	**GENERAL**		
41.1	**Production capacity**		
	Design capacity	1,904	1,904
	Production	2,303	2,174

41.2 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 228,900 thousand and Rs 3,325,000 thousand (2004: Rs 20,000 thousand and Rs 2,575,000 thousand) respectively are available to the Company under first charge by way of equitable mortgage on all fixed assets of the Company.

41.3 Donations aggregating Rs 42,134 thousand (2004: Rs 2,085 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.

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

41.5 These financial statements have been authorised for issue by the Board of Directors of the Company on January 31, 2006.

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, 2005 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, 2005 and the results of their operations for the year then ended.

Islamabad
January 31, 2006

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS

2005

Consolidated Balance Sheet

	Note	2005	2004
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital	3	4,934,742	2,949,703
Capital reserve	4	276,184	276,184
Reserve for issue of bonus shares		–	442,455
Revenue reserves	5	6,407,444	7,508,753
		11,618,370	11,177,095
MINORITY INTEREST		3,793,197	3,508,218
		15,411,567	14,685,313
NON CURRENT LIABILITIES	6	10,167,878	13,164,024
DEFERRED TAXATION	7	3,723,283	2,407,000
CURRENT LIABILITIES			
Trade and other payables	8	9,380,596	7,729,769
Interest and mark-up accrued	10	175,992	101,769
Short term borrowings	11	4,741,612	1,276,625
Current portion of:			
- Long term financing	6.1	2,262,603	2,601,032
- Long term murabaha	6.2	80,346	122,012
- Long term loans	6.3	648,201	649,942
- Liabilities against assets subject to finance lease	6.4	4,015	6,467
Taxation		1,414,418	598,297
		18,707,783	13,085,913
CONTINGENCIES AND COMMITMENTS	12		
		48,010,511	43,342,250

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

As at December 31, 2005

	Note	2005	2004
		(Rupees '000)	
PROPERTY, PLANT AND EQUIPMENT	13	23,747,830	23,720,065
GOODWILL	14	1,673,849	1,778,464
LONG TERM INVESTMENTS	15	2,039,951	1,371,969
LONG TERM LOANS AND ADVANCES	16	64,545	67,328
LONG TERM DEPOSITS AND PREPAYMENTS	17	20,830	22,010
DEFERRED TAX ASSET		–	143,527
CURRENT ASSETS			
Stores, spares and loose tools	18	2,731,400	2,247,710
Stock in trade	19	1,583,429	471,432
Trade debts	20	774,794	1,838,982
Loans and advances	21	154,626	293,759
Deposits and prepayments	22	29,403	26,975
Other receivables	23	890,874	660,129
Short term investments	24	6,195,252	4,565,457
Cash and bank balances	25	8,103,728	6,134,443
		20,463,506	16,238,887
		48,010,511	43,342,250

Chairman

Chief Executive

Director

Consolidated Profit and Loss Account
For the year ended December 31, 2005

	Note	2005	2004
		(Rupees '000)	
Sales	26	39,757,510	32,509,095
Cost of sales	27	26,074,950	21,362,763
GROSS PROFIT		13,682,560	11,146,332
Administrative expenses and distribution cost	28	3,744,096	2,788,791
		9,938,464	8,357,541
Finance cost	29	585,816	457,766
Other expenses	30	796,565	674,178
		8,556,083	7,225,597
Other income	31	1,621,987	1,246,562
NET PROFIT BEFORE TAXATION		10,178,070	8,472,159
Provision for taxation	32	3,782,811	3,116,161
NET PROFIT AFTER TAXATION		6,395,259	5,355,998
ATTRIBUTABLE TO			
Equity holders of Fauji Fertilizer Company Limited		5,192,610	4,459,157
Minority interest		1,202,649	896,841
		6,395,259	5,355,998
Earnings per share - basic and diluted (Rupees)	33	12.96	10.85

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

Chairman

Chief Executive

Director

Consolidated Cash Flow Statement
For the year ended December 31, 2005

	Note	2005	2004
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	12,590,803	13,553,791
Payments for :			
Finance cost paid		(504,606)	(470,107)
Income tax paid		(1,636,184)	(1,988,746)
Payment to pension fund		(32,249)	(27,321)
Payment to gratuity fund		(43,462)	(50,353)
Compensation from Government of Pakistan–net		–	51,799
		(2,216,501)	(2,484,728)
Net cash from operating activities		10,374,302	11,069,063
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(1,753,073)	(915,092)
Proceeds from sale of property, plant and equipment		25,383	24,757
Interest received		753,844	431,598
Investment in Pakistan Maroc Phosphore S.A., Morocco		(563,862)	(537,900)
Long term deposits		1,123	–
Decrease in investments		1,226,305	1,023,625
Net cash (used in) / generated from investing activities		(310,280)	26,988
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital – rights issue		–	242,086
Long term financing – proceeds		–	600,000
– repayments		(2,642,699)	(1,662,333)
Long term loans – repayments		(1,741)	(1,740)
Long term murabaha – repayments		(80,344)	(102,672)
Short term borrowings		2,400,908	(2,872,333)
Finance lease paid		(7,448)	(9,624)
Dividends paid		(5,874,147)	(3,800,810)
Net cash used in financing activities		(6,205,471)	(7,607,426)
Net increase in cash and cash equivalents		3,858,551	3,488,625
Cash and cash equivalents at beginning of the year		8,010,318	4,521,493
Effect of exchange rate changes		2,550	200
Cash and cash equivalents at the end of the year	35	11,871,419	8,010,318

The annexed notes 1 to 41 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, 2005

	Attributable to equity holders of Fauji Fertilizer Company Limited					Minority interest	Total
	Share capital	Capital reserve	Reserve for issue of bonus shares	General reserve	Unappropriated loss		
	(Rupees '000)						
Balance at December 31, 2003	2,564,959	279,267	–	8,600,000	(1,151,430)	2,869,903	13,162,699
Issue of share capital	–	–	–	–	–	242,086	242,086
Net profit for the year ended December 31, 2004	–	–	–	–	4,459,157	896,841	5,355,998
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	–	–
FFBL dividend	–	–	–	–	–	(458,878)	(458,878)
Dividends							
Final dividend 2003: Rs 1.50 per share	–	–	–	–	(384,743)	–	(384,743)
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 share issued	384,744	–	(384,744)	–	–	–	–
Balance at December 31, 2004	2,949,703	276,184	442,455	7,450,000	58,753	3,508,218	14,685,313
Net profit for the year ended December 31, 2005	–	–	–	–	5,192,610	1,202,649	6,395,259
Transfer from general reserve	–	–	–	(160,000)	160,000	–	–
FFBL dividend	–	–	–	–	–	(917,670)	(917,670)
Dividends							
Final 2004: Rs 3.00 per share	–	–	–	–	(884,911)	–	(884,911)
First interim 2005: Rs 2.50 per share	–	–	–	–	(848,039)	–	(848,039)
Second interim 2005: Rs 4.00 per share	–	–	–	–	(1,560,393)	–	(1,560,393)
Third interim 2005: Rs 3.25 per share	–	–	–	–	(1,457,992)	–	(1,457,992)
Transfer from unappropriated profit	–	–	1,542,584	–	(1,542,584)	–	–
Bonus shares issued	1,985,039	–	(1,985,039)	–	–	–	–
Balance at December 31, 2005	4,934,742	276,184	–	7,290,000	(882,556)	3,793,197	15,411,567

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

Chairman | Chief Executive | Director

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 operations.

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of FFC and its subsidiary, FFBL with 50.88% holding (2004: 50.88%) ("the Group companies").

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 Statement of compliance

These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IASs) 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 and basis of preparation

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, provision for doubtful receivables and slow moving inventory. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

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 9 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. Cost comprises acquisition and other directly attributable costs. Property, plant and equipment acquired on PSFL acquisition are stated at their cost to FFC, which represents their fair value on acquisition, less accumulated depreciation.

Depreciation is provided on the straight-line basis 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 the lease term.

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 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.

2.8 Investments

2.8.1 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.

2.8.2 Investment in joint venture

Joint ventures are those entities over whose activities the Group has joint control established by the contractual arrangement. The Group recognizes its interest in joint venture using equity method under which the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of joint venture after the date of joint control. The method is applied from the date that joint control commences until the date that joint control ceases.

2.8.3 Investments available for sale

Pursuant to changes in IAS-39 “Financial Instruments: Recognition and Measurement", the Group now takes gains or losses on remeasurement of available for sale investment to equity. Previously, these investments were initially recognized at cost and at subsequent reporting dates were measured at their fair values. Gains or losses from changes in fair values were recognised in the profit and loss account. There is no effect of this change on the current and previous year's profit and loss account and retained earnings.

2.8.4 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.

2.8.5 Investments at fair value through profit or loss

Investments which are acquired principally for the purpose of selling in the near term or the investments that are part of a portfolio of financial instruments exhibiting short term profit taking are classified as investments at fair value through profit or loss. These are stated at fair values with any resulting gains or losses recognized directly in the profit and loss account. The fair value of such investments representing listed equity securities are determined on the basis of prevailing market prices.

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 realizable value.

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 includes applicable purchase cost and manufacturing expenses.

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. Monetary assets and liabilities in foreign currencies at each period 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.

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.

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 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

2005	2004		2005 (Rupees '000)	2004 (Rupees '000)
256,495,902	256,495,902	Ordinary shares of Rs.10 each fully paid in cash	2,564,959	2,564,959
236,978,328	38,474,385	Ordinary shares of Rs.10 each issued as fully paid bonus shares.	2,369,783	384,744
493,474,230	294,970,287		4,934,742	2,949,703

AUTHORISED SHARE CAPITAL

This represents 500,000,000 (2004: 500,000,000) ordinary shares of Rs 10 each.

3.1 Fauji Foundation held 44.35% (2004: 44.35%) ordinary shares of the FFC at the year end.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
4.	**CAPITAL RESERVE**			
	Share premium	4.1	156,184	156,184
	Capital redemption reserve	4.2	120,000	120,000
			276,184	276,184

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.

4.2 Capital redemption reserve

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

		Note	2005	2004
			(Rupees '000)	
5.	**REVENUE RESERVES**			
	General reserve		7,290,000	7,450,000
	Unappropriated (loss) / profit		(882,556)	58,753
			6,407,444	7,508,753
6.	**NON CURRENT LIABILITIES**			
	Long term financing - secured	6.1	2,857,325	5,119,928
	Long term murabaha - secured	6.2	174,051	254,397
	Long term loan - Government of Pakistan loan	6.3	7,130,208	7,778,409
	Liabilities against assets subject to finance lease	6.4	6,294	11,290
			10,167,878	13,164,024
6.1	**Long term financing – secured**			
	Fauji Fertilizer Company Limited			
	Loans from banking companies	6.1.1		
	(i) ABN Amro Bank – Syndicated (ABN)	6.1.1.1	275,000	458,333
	(ii) Muslim Commercial Bank Limited (MCB)	6.1.1.1	300,000	500,000
	(iii) National Bank of Pakistan (NBP)	6.1.1.1	500,000	833,333
	(iv) Habib Bank Limited (HBL - 1)	6.1.1.1	468,750	656,250
	(v) Habib Bank Limited (HBL - 2)	6.1.1.2	125,000	187,500
	(vi) United Bank Limited (UBL - 1)	6.1.1.2	125,000	187,500
	(vii) United Bank Limited (UBL - 2)	6.1.1.2	100,000	100,000
	(viii) United Bank Limited (UBL - 3)	6.1.1.2	500,000	500,000
	(ix) Citibank N.A	6.1.1.3	–	805,174
			2,393,750	4,228,090
	Other loans			
	Term Finance Certificates (TFC's)	6.1.2	432,987	782,734
	Fauji Fertilizer Bin Qasim Limited	6.1.3		
	From banking companies and financial institutions			
	Habib Bank Limited (HBL)		713,875	843,672
	Standard Chartered Bank (SCB)		408,210	482,429
	Muslim Commercial Bank Limited (MCB)		703,727	831,678
	Askari Commercial Bank Limited (ACBL)		157,143	185,714
	Saudi Pak Industrial and Agricultural Investment Company (Pvt) Limited (SAPICO)		58,808	69,500
			2,041,763	2,412,993
	From associated undertaking			
	Pak Kuwait Investment Company (Pvt) Limited (PKIC), an associated undertaking		251,428	297,143
			5,119,928	7,720,960
	Less: Current portion shown under current liabilities		2,262,603	2,601,032
			2,857,325	5,119,928

6.1.1 Terms and conditions of long term finances availed by FFC 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	3	May 29, 2007
MCB	6 months' Treasury Bill rate+1.3	3	May 30, 2007
NBP	6 months' Treasury Bill rate+1.3	3	May 29, 2007
HBL - 1	6 months' Treasury Bill rate+1.3	5	May 30, 2008
HBL - 2	6 months' Treasury Bill rate+1.0	4	December 31, 2007
UBL - 1	6 months' Treasury Bill rate+1.0	4	December 31, 2007
UBL - 2	4.5	on maturity	November 02, 2006
UBL - 3	3.5	on maturity	May 31, 2006

6.1.1.1 Finances (i) through (iv) 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. These loans have been obtained for the acquisition of PSFL.

6.1.1.2 Finances (v) through (viii) have been obtained to meet the permanent working capital requirements of FFC. Finances (v) and (vi) 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. Finances (vii) and (viii) are secured against lien on Pakistan Investment Bonds.

6.1.1.3 Loan (ix) represented US Dollar loan disbursed in Pak Rupees at the exchange rate prevailing on the date of disbursement and was secured against lien on Government of Pakistan Special US Dollar Bonds. The interest, payable half-yearly, as well as principal were to be repaid in equivalent amounts of local currency by applying the exchange rate prevailing on the respective payment dates. This loan was obtained for the acquisition of PSFL.

6.1.2 Term Finance Certificates (TFC's) represent private placement with 2 institutional investors (2004: 3 institutional investors) for a period of 5 years (2004: 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 balance amount of principal of TFCs as at December 31, 2005 is to be repaid in 4 half-yearly instalments in arrears. These 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.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2005

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

Lender	Purchase price	Marked-up price	Mark-up rate	No of quarterly instalments outstanding	Repayment commenced from
	(Rupees '000)				
HBL	908,571	1,690,772	12 months' Treasury bill rate	22	July 2004
SCB	519,539	966,819	12 months' Treasury bill rate	22	July 2004
MCB	895,653	1,666,735	12 months' Treasury bill rate	22	July 2004
ACBL	200,000	372,183	12 months' Treasury bill rate	22	July 2004
SAPICO	74,847	139,283	12 months' Treasury bill rate	22	July 2004
PKIC	320,000	595,493	12 months' Treasury bill rate	22	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 aggregating Rs 5,431,285 thousand of FFBL. These charges rank pari passu with the charges already created or to be created in favour of other foreign and local lenders.

		Note	2005	2004
			(Rupees '000)	
6.2	**Long term murabaha - secured**			
	Faysal Bank Limited (FFC)	6.2.1	41,667	125,000
	Faysal Bank Limited (FFBL)	6.2.2	212,730	251,409
			254,397	376,409
	Less: Current portion shown under current liabilities		80,346	122,012
			174,051	254,397

6.2.1 This facility carries mark-up at 4.5% p.a. Principal and mark-up are repayable in half yearly instalments upto 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 is secured by first equitable mortgage charge created on all immovable properties of FFBL and by way of hypothecation of movable properties aggregating Rs 503,840 thousand of FFBL. The charge ranks pari passu with the charges already created or to be created in favour of other foreign and local lenders.

			2005	2004
			(Rupees '000)	
6.3	**Long term loans - Government of Pakistan loan**			
	Secured			
	Government of Pakistan loan 5th Danish credit - FFC	6.3.1	–	1,741
	Unsecured			
	Government of Pakistan (GOP) loan - FFBL	6.3.2	5,148,455	5,417,435
	Deferred Government assistance - FFBL	6.3.2	2,629,954	3,009,175
			7,778,409	8,426,610
	Less: Current portion shown under current liabilities		648,201	649,942
			7,130,208	7,778,409

6.3.1 This loan represented 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 secured by a mortgage in favour of the Government of Pakistan over the Company's fixed assets.

6.3.2 This represents balance amount of GOP loan amounting to Rs 9,723,011 thousand which is repayable in 16 years with 1 year grace at zero percent 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 379.221 thousand (2004: Rs 396.816 thousand)

Under the terms of restructuring with GOP, the excess cash, which may arise based on a pre-defined mechanism, shall be shared by FFBL with GOP through prepayment of GOP loan. Pending clarifications and certain interpretations required for determining excess cash, this loan has been accounted for on the basis of existing repayment schedule.

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, 2005. FFBL is making efforts in getting this guarantee released.

6.4 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2005			2004		
	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	4,489	474	4,015	7,520	1,053	6,467
Later than one year but not later than five years	6,553	259	6,294	12,098	808	11,290
	11,042	733	10,309	19,618	1,861	17,757

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 2,966 thousand (2004: Rs 4,050 thousand) and has intention to exercise the option.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2005

		Note	2005	2004
			(Rupees '000)	
7.	**DEFERRED TAXATION**			
	The balance of deferred tax is in respect of the following major temporary differences:			
	Accelerated depreciation		3,791,633	2,516,000
	Provision for slow moving / surplus spares, doubtful debts, other receivables and short term investments		(64,742)	(109,000)
	Liabilities against assets subject to finance lease		(3,608)	–
			3,723,283	2,407,000
8.	**TRADE AND OTHER PAYABLES**			
	Creditors		2,802,220	1,158,616
	Accrued liabilities		1,266,624	896,268
	Other liabilities		43,898	86,471
	Sales tax payable		135,938	366,048
	Deposits		66,665	58,772
	Retention money		21,522	14,742
	Advances from customers		3,353,929	3,339,235
	Workers' Profit Participation Fund	8.1	395,934	340,912
	Workers' Welfare Fund		346,444	316,225
	Unclaimed dividend		947,422	1,152,480
			9,380,596	7,729,769
8.1	**Workers' Profit Participation Fund**			
	Balance at beginning of the year		340,912	284,728
	Interest on funds utilised in Group companies' business		100	463
	Allocation for the year		555,934	440,911
	Payment to the Fund during the year		(501,012)	(385,190)
			395,934	340,912

9. RETIREMENT BENEFIT FUNDS

a) Movement in the asset recognised in the balance sheet :

	Funded gratuity	Funded pension	Total 2005	Total 2004
		(Rupees '000)		
Balance at beginning of the year	–	(929)	(929)	12,353
Expense for the year	43,462	33,178	76,640	64,392
Payments to funds during the year	(43,462)	(32,249)	(75,711)	(77,674)
Balance at end of the year	–	–	–	(929)

b) Reconciliation of the asset recognised in the balance sheet :

	Funded gratuity	Funded pension	Total 2005	Total 2004
		(Rupees '000)		
Present value of defined benefit obligation	631,102	591,310	1,222,412	1,016,288
Fair value of plan assets	(540,975)	(565,789)	(1,106,764)	(963,076)
Deficit	90,127	25,521	115,648	53,212
Unrecognised actuarial loss	(87,713)	(25,521)	(113,234)	(50,520)
Unrecognised transitional liability	(2,414)	–	(2,414)	(3,621)
Net asset	–	–	–	(929)

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 2005	Total 2004
		(Rupees '000)		
Current service cost	37,082	33,806	70,888	65,543
Interest cost	44,166	38,163	82,329	62,269
Expected return on plan assets	(39,383)	(38,791)	(78,174)	(64,916)
Amortization of loss	390	–	390	289
Recognised transitional liability	1,207	–	1,207	1,207
Expense for the year	43,462	33,178	76,640	64,392
Actual return on plan assets	45,874	79,646	125,520	116,192

d) Actuarial valuation of these plans was carried out as at December 31, 2005 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

		Gratuity	Pension
Discount factor	per annum	9-10%	9%
Expected rate of increase in salary level	per annum	10-12%	12%
Expected rate of return on plan assets	per annum	9-10%	9%

e) **"Salaries, wages and benefits"** expense, stated in note 27 and 28 include retirement benefits in respect of gratuity, provident fund, pension plans and compensated absences amounting to Rs 43,052 thousand, Rs 53,399 thousand, Rs 33,178 thousand and Rs 140,734 thousand respectively (2004: Rs 34,210 thousand, Rs 57,767 thousand, Rs 26,463 thousand and Rs 34,984 thousand).

		Note	2005	2004
			(Rupees '000)	
10.	**INTEREST AND MARK-UP ACCRUED**			
	On long term financing			
	From banking companies and financial institutions		108,066	90,636
	From PKIC, an associated undertaking		5,571	2,355
	On murabaha financing		4,875	2,476
	On short term borrowings		57,480	6,302
			175,992	101,769
11.	**SHORT TERM BORROWINGS - SECURED**			
	Short term loans	11.1	500,000	100,000
	Short term import credit	11.2	1,544,963	–
	Short term running finances	11.3	2,696,649	1,176,625
			4,741,612	1,276,625

11.1 Short term loans

This represents short term loan facility available from a bank by partial conversion of Running Finance line amounting to Rs. 500,000 thousand (2004: Rs 100,000 thousand). This is secured by first pari passu charge on the current assets of the FFC. This facility carries mark-up at the rate of Re 0.240 (2004: Re 0.110) per Rs 1,000 per day.

11.2 Short term import credit

This represents import credit facilities of Rs 1,544,963 thousand (2004: Nil) arranged by FFC from various banks under mark-up arrangements at three months LIBOR+ 0.5% p.a and six months LIBOR+0.5% per annum. These are secured by way of hypothecation of current and fixed assets of FFC.

11.3 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 (2004: Rs. 2,300,000 thousand). These facilities carry mark-up ranging from 4.52% to 9.7% per annum (2004: 3.75% to 5.69% per annum) at the year end and are secured by hypothecation charge amounting to Rs 2,637,980 thousand over stocks and current assets of FFBL. The purchase prices are repayable on various dates by FFBL.

Short term running finance facilities are available to FFC from various banks under mark-up arrangements amounted to Rs. 4,000,000 thousand (2004: Rs. 3,250,000 thousand) which represent the aggregate of sale prices of all mark-up agreements between FFC and the banks. These facilities have various maturity dates upto June 30, 2006.

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 range from one month KIBOR + 0.25% - 0.80% p.a. to three months' KIBOR + 0.50% p.a. (2004: one month KIBOR + 0.25% p.a. to three months' KIBOR + 0.25% p.a.).

			2005	2004
			(Rupees '000)	
12.	**CONTINGENCIES AND COMMITMENTS**			
	a)	**Contingencies**		
	i)	Guarantees issued by banks on behalf of the Group companies.	41,176	45,736
	ii)	Disputed demands 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
	iii)	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.	57,147	115,745
	iv)	Claims against the Group companies and / or potential exposure not acknowledged as debt.	74,772	83,350
	v)	Indemnity bonds and undertakings given to the customs authorities for the machinery imported by FFBL for installation at plant site	119,650	119,650
	b)	**Commitments in respect of:**		
	i)	Capital expenditure.		
		Contracted	1,201,404	762,977
		Non–contracted	1,612,982	3,046,658
	ii)	Purchase of fertilizer, stores, spares and other revenue items.	1,151,064	624,075
	iii)	Commitment for equity investment in Pakistan Maroc Phosphore S.A.– note 14, Moroccan Dirhams 140,625 (2004: MAD 225,000) thousand, equivalent approx.	933,750	1,637,708
	iv)	Group's share of commitments in Pakistan Maroc Phosphore S.A., including minority interest. PMP itself is committed to incur capital expenditure of MAD 1,199,000 thousand Equivalent Pak Rs 7,963,000 thousand.	2,986,125	–
	v)	Rentals under lease agreements:		
		Premises – not later than one year	19,382	27,078
		– later than one year and not later than five years		
		2007	23,629	13,766
		2008	19,486	13,276
		2009	17,776	13,033
		2010	15,423	13,845
		– later than five years	3,842	3,578
		Vehicles – not later than one year	66,783	60,462
		– later than one year and not later than five years		
		2007	57,702	52,529
		2008	51,182	40,203
		2009	40,294	34,264
		2010	12,988	5,513
		– later than five years	3,628	–

13. PROPERTY, PLANT AND EQUIPMENT

	COST			DEPRECIATION			Written down	
	As at January 1, 2005	of additions / (disposals) / transfer * / adjustments**	As at December 31, 2005	As at January 1, 2005	For the year / (on disposals) / transfer * / adjustments **	As at December 31, 2005	value as at December 31, 2005	Annual rate of depreciation % on cost
				(Rupees '000)				
Freehold land	174,634	122,268	296,902	–	–	–	296,902	–
Lease hold land	295,639	–	295,639	65,321	9,785	75,106	220,533	2 to 6 1/4
Buildings and structures on freehold land	1,682,972	185,125	1,844,169	1,027,011	66,720	1,089,348	754,821	5 to 10
		(23,928) **			(4,383) **			
Buildings and structures on leasehold land	1,503,573	3,692	1,507,265	259,408	44,061	303,469	1,203,796	5
Railway siding	26,517	–	26,517	26,467	26	26,493	24	5
Plant and machinery	35,774,467	210,268	35,978,378	15,250,463	1,328,214	16,577,715	19,400,663	5
		(6,357) **			(962) **			
Catalysts	336,703	212,355	431,357	227,990	84,598	194,887	236,470	20 to 50
		(117,701)			(117,701)			
Furniture and fixtures	83,927	19,388	98,109	45,487	7,639	51,503	46,606	10 to 15
		(1,692)			(1,447)			
		(3,514) **			(176) **			
Office and electrical equipment	243,422	48,129	292,068	155,684	33,619	184,576	107,492	10 to 15
		(8,192)			(6,436)			
		8,709 **			1,709 **			
Vehicles	261,757	66,097	299,696	152,271	45,906	170,469	129,227	20
		(35,041)			(31,546)			
		7,233 *			4,013 *			
		(350) **			(175) **			
Maintenance and other equipment	607,141	69,771	677,727	484,374	83,021	557,665	120,062	15 to 33 1/3
		(11,000)			(10,662)			
		11,815 **			932 **			
Library books	8,445	2,008	10,453	7,159	1,361	8,520	1,933	30
	40,999,197	939,101	41,758,280	17,701,635	1,704,950	19,239,751	22,518,529	
		(173,626)			(167,792)			
		7,233 *			4,013 *			
		(13,625) **			(3,055) **			
Assets subject to finance lease vehicles	27,003	–	19,770	12,695	3,954	12,636	7,134	20
	–	(7,233) *	–	–	(4,013) *	–	–	
	27,003	(7,233)	19,770	12,695	(59)	12,636	7,134	
	41,026,200	939,101	41,778,050	17,714,330	1,708,904	19,252,387	22,525,663	
		(173,626)			(167,792)			
		(13,625) **			(3,055) **			
Capital work in progress - note 13.4	408,195	1,277,039	1,222,167	–	–	–	1,222,167	–
		(463,067) **						
2005	41,434,395	1,565,822	43,000,217	17,714,330	1,538,057	19,252,387	23,747,830	
	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 13.4	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	

13.1 Cost of property, plant and equipment has been shown net of Government grant of Rs 68,164 thousand (2004: Rs 68,164 thousand).

	Note	2005	2004
		(Rupees '000)	
13.2 Depreciation charge has been allocated as follows:			
Cost of sales	27	1,677,284	1,604,638
Administrative expenses and distribution cost	28	31,620	25,935
		1,708,904	1,630,573

13.3 Details of property, plant and equipment sold

Description	Cost	Book value	Sale proceeds
		(Rupees '000)	
Vehicles			
By Group Companies' policy to employees			
Maj Gen Qamar ul Zaman (Retd)	1,079	433	137
Syed Naveed Abbas	794	635	674
Brig Nur-ul-Hassan	999	599	100
By tender to outsiders			
Mr M. Ijaz	400	200	487
Mr Abid Ansar	250	125	382
Mr Abid Ansar	600	300	376
Mr Abid Ansar	450	225	651
Mr Noman Siddiqui	1,633	980	1,740
Furniture and fixtures, office and electrical equipment, maintenance and other equipment			
By parent Company's policy to employee			
Mr Khaliq ur Rehman	332	127	149
By insurance claim			
EFU Insurance Company	1,236	1,048	1,085
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand	165,853	1,162	19,602
	173,626	5,834	25,383

		Note	2005	2004
			(Rupees '000)	
13.4	**CAPITAL WORK IN PROGRESS**			
	Advances to suppliers		19,914	117,061
	Civil works		1,025,895	222,380
	Plant, machinery and equipment		176,358	68,754
			1,222,167	408,195
14.	**GOODWILL**			
	Balance at beginning of the year		1,778,464	1,883,079
	Less: Amortisation for the year		(104,615)	(104,615)
			1,673,849	1,778,464
15.	**LONG TERM INVESTMENTS**			
	Pakistan Maroc Phosphore S.A., Morocco	15.1	1,101,762	537,900
	Investments available for sale	15.2		
	Certificates of investment		279,998	246,525
	Government of Pakistan Special US Dollar Bonds		–	969,486
	National Savings Certificates		–	500,000
	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)
			–	–
			279,998	1,716,011
	Investments held to maturity	15.3		
	Pakistan Investment Bonds (PIBs)		600,000	700,000
	Term Finance Certificates		99,980	20,355
			699,980	720,355
			2,081,740	2,974,266
	Less: Current portion shown under short term investments	24		
	Investments available for sale			
	Certificates of investment		41,749	12,456
	Government of Pakistan Special US Dollar Bonds		–	969,486
	National Savings Certificates		–	500,000
			41,749	1,481,942
	Investments held to maturity			
	Pakistan Investment Bonds		–	100,000
	Term Finance Certificates		40	20,355
			40	120,355
			41,789	1,602,297
			2,039,951	1,371,969

15.1 Pakistan Maroc Phosphore S.A., Morocco

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, out of which, MAD 159,375 thousand equivalent to Rs 1,101,762 thousand have been remitted upto December 31, 2005 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.

The following items represent the Group's including minority interest in the assets, liabilities, revenue and expenses of PMP:

	2005 (Rupees '000)
Non - current assets	196,710
Current assets	937,680
Current liabilities	(77,103)
Net assets	1,057,287
Income	10,323
Expenses	(11,286)

Adjustment for the Group's share in net assets of PMP was not considered since the amount was immaterial.

15.2 Investments available for sale

These represent certificates of investments 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.

Government of Pakistan Special US Dollar Bonds were issued for a period of three years. Profit was payable on these bonds at a rate of 2% above six months LIBOR. These were fully encashed during the year.

National Savings Certificates were issued for a period of 5 years. Monthly profit was payable on these certificates at 14% per annum. These were fully encashed during the year.

Investments available for sale include Rs Nil (2004: Rs 1,345,568 thousand) under lien of financial institutions against long term loans for PSFL acquisition and short term loans.

15.3 Investment held to maturity

PIBs have been issued for 10 years (2004: 5 to 10 years). Half-yearly profit is payable on these bonds at rates ranging from 11% to 14% per annum. These include Rs 600,000 thousand (2004: Rs 700,000 thousand) under lien of a bank against loan for PSFL acquisition. Fair value of these PIBs as at December 31, 2005 was Rs 689,142 thousand (2004: Rs 864,164 thousand).

Investment in TFC represents 20,000 certificates of Rs 5,000 each of Askari Commercial Bank Limited. Half yearly profit is payable on these TFCs at six months KIBOR + 1.50% p.a. Fair value of outstanding TFC's as at December 31, 2005 was Rs 101,980 thousand.

Investment in TFCs also represented 500 certificates of Rs 100,000 each of Orix Leasing Limited. Half yearly profit payable on these TFCs was 14% per annum. Fair value of these TFCs as at December 31, 2004 was Rs 20,827 thousand. These TFCs were fully redeemed during the year.

	Note	2005	2004
		(Rupees '000)	
16. LONG TERM LOANS AND ADVANCES			
Loans and advances - considered good, to:			
Executives		73,698	65,266
Other employees		40,760	41,449
		114,458	106,715
Less: Amount due within twelve months, shown under current assets	21	49,913	39,387
		64,545	67,328

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

	Opening balance as at January 1, 2005	Disbursements	Repayments	Closing balance as at December 31, 2005
	(Rupees '000)			
Executives	65,266	72,828	64,396	73,698
Other employees	41,449	20,165	20,854	40,760
	106,715	92,993	85,250	114,458
2004	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 (2004: 4% 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 73,698 thousand (2004: Rs 65,266 thousand).

	2005	2004
	(Rupees '000)	
17. LONG TERM DEPOSITS, PREPAYMENTS AND DEFERRED COSTS		
Security deposits	17,321	17,760
Prepayments	1,322	1,040
Lease key money	2,966	4,050
	21,609	22,850
Less : Current portion	(779)	(840)
	20,830	22,010

		Note	2005	2004
			(Rupees '000)	
18.	**STORES, SPARES AND LOOSE TOOLS**			
	Stores		126,349	134,446
	Spares		2,443,915	2,226,988
	Provision for slow moving and surplus items		(113,221)	(295,713)
			2,330,694	1,931,275
	Loose tools		106	107
	Items in transit		274,251	181,882
			2,731,400	2,247,710
19.	**STOCK IN TRADE**			
	Raw materials		654,594	233,524
	Work in process		19,532	14,674
	Finished goods:			
	Manufactured fertilizers		418,110	61,787
	Purchased fertilizers		491,193	161,447
			1,583,429	471,432
20.	**TRADE DEBTS**			
	Considered good		774,772	1,838,398
	Due from Fauji Foundation, an associated undertaking - unsecured, considered good	20.1	22	584
	Considered doubtful		1,979	1,979
			776,773	1,840,961
	Provision for doubtful debts		(1,979)	(1,979)
			774,794	1,838,982

20.1 Maximum amount outstanding at the end of any month during the year was Rs 1,466 thousand (2004: Rs 19,916 thousand).

		Note	2005	2004
21.	**LOANS AND ADVANCES**		(Rupees '000)	
	Advances to:			
	Executives, unsecured - considered good	21.1	378	573
	Executives, unsecured - considered doubtful		–	51
			378	624
	Provision for doubtful advances		–	(51)
			378	573
	Other employees - considered good		3,318	1,941
	Other employees - considered doubtful		–	95
			3,318	2,036
	Provision for doubtful advances		–	(95)
			3,318	1,941
	Advances to suppliers and contractors			
	Considered good		101,017	251,858
	Considered doubtful		45	1,982
			101,062	253,840
	Provision for doubtful advances		(45)	(1,982)
			101,017	251,858
	Current portion of long term loans and advances		49,913	39,387
			154,626	293,759

21.1 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 440 thousand (2004: Rs 625 thousand).

		Note	2005	2004
			(Rupees '000)	
22.	**DEPOSITS AND PREPAYMENTS**			
	Deposits (including current portion)		2,630	2,279
	Prepayments		26,773	24,696
			29,403	26,975
23.	**OTHER RECEIVABLES**			
	Accrued income on investments and bank deposits		159,860	72,660
	Advance tax	23.1	476,489	545,209
	Sale tax refundable		157,005	–
	Receivable from retirement benefit fund, considered good	9	–	929
	Other receivables – considered good	23.2	96,242	40,053
	– considered doubtful		55,714	55,714
			151,956	95,767
	Provision for doubtful receivables		(55,714)	(55,714)
			96,242	40,053
	Insurance claims		1,278	1,278
			890,874	660,129

23.1 This represents tax paid by PSFL in excess of admitted tax liabilities prior to its acquisition by FFC. FFC intends to adjust this amount after finalisation of pending re–assessments by the taxation authorities.

23.2 This includes unsecured balance Rs. 716 thousand (2004: Rs 680 thousand) 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 716 thousand (2004: Rs 680 thousand). This also includes Rs 51,800 thousand receivable from GOP on account of compensation of Rs 700,000 thousand which was due in June 2005 net of agreed GOP loan repayment of Rs. 648,201 thousand (refer note 31.1 for details).

		2005	2004
		(Rupees '000)	
24.	**SHORT TERM INVESTMENTS**		
	Term deposits with banks and financial institutions		
	Presentation currency		
	Available for sale (net of provision for doubtful recovery Rs 13,000 thousand; 2004: Rs 13,000 thousand)	500,000	2,550,000
	Held to maturity	4,650,000	–
	Foreign currency		
	Held to maturity	905,963	311,860
	Investments at fair value through profit or loss		
	Meezan Balanced Fund (10,000 thousand certificates of Rs 10 each)	97,500	101,300
	Current maturity of long term investments		
	Available for sale	41,749	1,481,942
	Held to maturity	40	120,355
		6,195,252	4,565,457

24.1 Pursuant to the changes in IAS-39 " Financial Instruments: Recognition and Measurement" and using the transitional provision given therein, the Group has during the year taken its investment in Meezan Balanced Fund from investments available for sale to investment at fair value through profit or loss.

	2005	2004
	(Rupees '000)	
25. CASH AND BANK BALANCES		
At banks:		
Deposit accounts		
Local currency	7,616,746	5,554,086
Foreign currency	31,867	–
Current accounts		
Local currency (includes drafts under collection)	323,496	421,799
Foreign currency	–	14,898
	7,972,109	5,990,783
Drafts in hand and in transit	130,109	142,153
Cash in hand	1,510	1,507
	8,103,728	6,134,443

Balances with banks include Rs 66,665 thousand (2004: Rs 58,772 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 90,089 thousand (2004: Rs 57,035 thousand) under lien of the bank, against a guarantee issued by the bank on behalf of the Group companies. FFBL deposit accounts include Rs 1,315,479 thousand (2004: Rs 695,317 thousand) which are under pledge with commercial banks against letters of credit.

26. SALES

Sales include Rs 6,734,478 thousand (2004: Rs 3,567,278 thousand) in respect of sale of purchased fertilizers and are exclusive of commission, trade allowances and sales tax of Rs 408,478 thousand and Rs 3,315,913 thousand respectively (2004: Rs 455,944 thousand and Rs 3,414,103 thousand).

	Note	2005	2004
		(Rupees '000)	
27. COST OF SALES			
Raw materials consumed		11,548,925	9,565,912
Fuel and power		3,879,317	3,331,185
Chemicals and supplies		207,292	187,846
Salaries, wages and benefits		1,886,392	1,501,472
Rent, rates and taxes		31,754	28,586
Insurance		135,807	136,794
Technical services		15,750	14,364
Travel and conveyance		128,970	104,749
Repairs and maintenance (includes stores and spares consumed of Rs.579,313 thousand; 2004: Rs 465,514 thousand)	27.1	600,801	770,797
Amortization of intangible assets - process license fee		–	23,686
Depreciation		1,677,284	1,604,638
Communication, establishment and other expenses		498,628	368,422
Provision / (reversal of provision) for doubtful advances		45	(340)
Opening stock - work in process		14,674	27,875
Closing stock - work in process		(19,532)	(14,674)
Cost of goods manufactured		20,606,107	17,651,312
Opening stock of manufactured fertilizers		61,787	610,870
Closing stock of manufactured fertilizers		(418,110)	(61,787)
		(356,323)	549,083
Cost of sales - own manufactured fertilizers		20,249,784	18,200,395
Opening stock of purchased fertilizers		161,447	102,702
Purchase of fertilizers for resale		6,154,912	3,221,113
		6,316,359	3,323,815
Closing stock of purchased fertilizers		(491,193)	(161,447)
Cost of sales - purchased fertilizers		5,825,166	3,162,368
		26,074,950	21,362,763

27.1 This includes provision for slow moving and surplus spares amounting to Rs (165,995 thousand) (2004: Rs 92,487 thousand).

Notes to the Consolidated Financial Statements
For the year ended December 31, 2005

		2005	2004
		(Rupees '000)	
28.	**ADMINISTRATIVE EXPENSES AND DISTRIBUTION COST**		
	Product transportation	2,842,133	1,969,715
	Salaries, wages and benefits	496,057	420,572
	Rent, rates and taxes	65,689	68,705
	Insurance	450	2,813
	Technical services	4,853	4,237
	Travel and conveyance	83,079	67,299
	Sale promotion and advertising	39,652	52,604
	Communication, establishment and other expenses	51,239	30,883
	Warehousing expenses	29,139	64,730
	Depreciation	31,620	25,935
	Administrative expenses	100,185	81,298
		3,744,096	2,788,791
29.	**FINANCE COST**		
	Interest and related charges on long term financing, loans and murabaha	446,663	355,703
	Mark up on long term financing from PKIC, an associated undertaking	18,402	7,321
	Mark up on short term borrowings	111,202	63,660
	Exchange loss	5,199	24,755
	Interest on Workers' Profit Participation Fund	100	463
	Finance charges on leased property, plant and equipment	1,051	1,880
	Bank charges	3,199	3,984
		585,816	457,766
30.	**OTHER EXPENSES**		
	Amortisation of goodwill	104,615	104,615
	Workers' Profit Participation Fund	555,934	440,911
	Workers' Welfare Fund	133,504	126,019
	Auditors' remuneration		
	Audit fee	1,420	1,420
	Fee for half yearly review, audit of consolidated accounts and certifications for Government and related agencies	952	993
	Out of pocket expenses	140	220
		796,565	674,178

		Note	2005	2004
			(Rupees '000)	
31.	**OTHER INCOME**			
	Income from financial assets			
	Income on loans, deposits and investments		825,578	408,739
	Income on tax - exempt investments		15,362	45,534
	(Loss) / gain on remeasurement of investments at fair value through profit or loss		(3,800)	1,300
	Gain on sale of NIT units		2,021	–
	Exchange gain on financial instruments		7,130	15,381
	Income on payments made on behalf of Fauji Foundation - a related party		105	–
	Income from non - financial assets			
	Gain on sale of property, plant and equipment		19,549	17,782
	Other income			
	Compensation from GOP	31.1	700,000	700,000
	Old liabilities written back		374	14,771
	Scrap sales		42,266	–
	Others		13,402	43,055
			1,621,987	1,246,562

31.1 GOP had committed to pay Rs 5 billion over a period of seven years in lieu of non-implementation of Fertilizer Policy, 1989. On this account, amounts aggregating Rs 2.4 billion have been received from GOP up to December 31, 2005. GOP Compensation of Rs 700 million which was receivable in June 2005 is yet to be received. However, this has been accrued in the books of account of the Group subject to netting off the agreed GOP loan repayment of Rs 648.201 million for the year 2005. Balance of Rs 1.9 billion will be received in one instalment of Rs 700 million during the year 2006 and two installments of Rs 600 million each during the years 2007 and 2008, subject to netting off the agreed GOP loan repayments of Rs 648.201 million to be made by the Group each year.

Effective January 1, 2005, certain amendments have been made in the International Accounting Standards. Related to the Group, a significant change is the elimination of the concept of extraordinary item from IAS-8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The revised Standard prohibits disclosure of an extraordinary item in the financial statements. In case of the Group, GOP compensation was disclosed as an extraordinary item below profit after tax in the financial statements in prior years, which has now been grouped under other income in profit and loss account as a result of this change.

Notes to the Consolidated Financial Statements
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		2005	2004
		(Rupees '000)	
32.	**PROVISION FOR TAXATION**		
	Current - for the year	2,323,000	2,429,000
	- for prior year	–	30,000
	Deferred - for the year	1,459,811	657,161
		3,782,811	3,116,161
32.1	**Reconciliation of tax charge for the year**		
	Profit before taxation	10,178,070	8,472,159
		%	**%**
	Applicable tax rate	35.00	35.00
	Add: Tax effect of amounts that are not		–
	deductible for tax purpose	17.59	15.76
	Tax effect of amounts relating to prior years'	–	0.36
	Tax effect of intra group transactions	0.47	0.28
	Less: Tax effect of amounts exempt from tax	(0.06)	(0.19)
	Tax effect of business losses - FFBL	–	(0.98)
	Tax effect of unabsorbed depreciation - FFBL	(15.66)	(13.44)
	Tax effect of amounts taxed at lower rates	(0.03)	–
	Tax effect of rebates, tax credit and minimum tax on turnover due to brought forward losses	(0.14)	(0.01)
	Average effective tax rate charged on income	37.17	36.78

		2005	2004
33.	**EARNINGS PER SHARE**		
	Net profit after tax (Rupees '000)	6,395,259	5,355,998
	Weighted average number of shares in issue during the year.	493,474	493,474
	Basic and diluted earnings per share (Rupees)	12.96	10.85

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

Number of shares in issue during the year 2004 have been restated for the effect of bonus shares issued during the year 2005.

	2005	2004
	(Rupees '000)	
34. CASH GENERATED FROM OPERATIONS		
Net profit before taxation	10,178,070	8,472,159
Adjustments for:		
Depreciation	1,708,904	1,630,573
Amortisation of goodwill and intangible asset	104,615	133,541
Provision for slow moving and surplus spares	(182,492)	92,487
Provision / (reversal of provision) for doubtful advances	45	(340)
Finance cost	578,829	457,766
Compensation from GOP	(700,000)	(700,000)
Income on loans, deposits and investments	(841,045)	(454,273)
Gain on sale of property, plant and equipment	(19,549)	(17,782)
Property, plant and equipment written off	10,570	–
Provision for gratuity	43,462	35,694
Provision for pension	33,178	28,698
Exchange (gain) / loss	(3,075)	9,080
Loss / (gain) on remeasurement of investment at fair value through profit or loss	3,800	(1,300)
Old liabilities written back	(374)	(14,771)
	736,868	1,199,373
	10,914,938	9,671,532
Changes in working capital		
(Increase) / decrease in current assets:		
Stores and spares	(301,200)	(197,300)
Stock in trade	(1,111,997)	419,376
Trade debts	1,064,188	429,856
Loans and advances	139,088	(217,552)
Deposits and prepayments	(2,430)	(1,272)
Other receivables	43,342	(316,012)
Increase in current liabilities:		
Trade and other payables	1,842,034	3,767,571
	1,673,025	3,884,667
Changes in long term loans and advances	2,783	(3,408)
Changes in long term deposits and prepayments	57	1,000
	12,590,803	13,553,791

35. CASH AND CASH EQUIVALENTS

	2005	2004
Cash and bank balances	8,103,728	6,134,443
Short term running finances	(2,236,649)	(1,176,625)
Short term highly liquid investments	6,004,340	3,052,500
	11,871,419	8,010,318

Notes to the Consolidated Financial Statements
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36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

36.1 Financial assets and liabilities

	Interest rates	Interest / mark–up bearing							Non–interest / mark–up bearing				
		Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub–total	Maturity upto one year	Maturity after one year	Sub–total	2005 Total	2004 Total
		(Rupees `000)											
Financial assets													
Investments													
- Local currency	5% – 11.5%	5,191,789	88,786	115,635	33,948	100,040	599,780	6,129,978	–	–	–	6,129,978	4,118,180
- Foreign currency	0.75% – 4.5%	905,963	–	–	–	–	–	905,963	–	–	–	905,963	1,281,346
Loans and advances	4%	11,192	11,043	10,656	9,965	9,209	20,205	72,270	45,884	–	45,884	118,154	155,732
Trade debts		–	–	–	–	–	–	–	774,794	–	774,794	774,794	1,838,982
Deposits		–	–	–	–	–	–	–	20,025	2,113	22,138	22,138	23,249
Accrued income on investments and deposits		–	–	–	–	–	–	–	159,852	–	159,852	159,852	72,660
Other receivables		–	–	–	–	–	–	–	367,506	–	367,506	367,506	359,984
Cash and bank balances													
- Local currency	0.5% – 10%	7,616,746	–	–	–	–	–	7,616,746	455,115	–	455,115	8,071,861	6,119,545
- Foreign currency	0% – 3.3%	31,867	–	–	–	–	–	31,867	–	–	–	31,867	14,898
		13,757,557	99,829	126,291	43,913	109,249	619,985	14,756,824	1,823,176	2,113	1,825,289	16,582,113	13,984,576
Financial liabilities													
Recognised													
Long term financing													
- Local currency	3.5% – 11%	2,262,604	1,304,271	510,694	416,944	416,944	208,472	5,119,929	–	–	–	5,119,929	6,915,786
- Foreign currency		–	–	–	–	–	–	–	–	–	–	–	805,174
Long term loan		–	–	–	–	–	–	–	7,778,409	–	7,778,409	7,778,409	8,428,351
Long term murabaha	4.5% – 6.85%	80,346	38,679	38,679	38,679	38,679	19,335	254,397	–	–	–	254,397	376,409
Short term finances	4.49% – 9.4%	4,741,612	–	–	–	–	–	4,741,612	–	–	–	4,741,612	1,276,625
Liabilities against assets subject to finance lease	9%	4,015	2,765	3,529	–	–	–	10,309	–	–	–	10,309	17,757
Trade and other payables	10.4%	395,934	–	–	–	–	–	395,934	5,798,281	–	5,798,281	6,194,215	4,313,230
Mark-up accrued		94,348	–	–	–	–	–	94,348	81,644	–	81,644	175,992	101,769
		7,578,859	1,345,715	552,902	455,623	455,623	227,807	10,616,529	13,658,334	–	13,658,334	24,274,863	22,235,101
Unrecognised													
Guarantees		–	–	–	–	–	–	–	19,620	–	19,620	19,620	26,828
Letters of credit		–	–	–	–	–	–	–	507,457	–	507,457	507,457	254,212
Contingencies		–	–	–	–	–	–	–	634,715	–	634,715	634,715	812,043
Commitments		–	–	–	–	–	–	–	7,464,408	245,950	7,710,358	7,710,358	6,172,841
		–	–	–	–	–	–	–	8,626,200	245,950	8,872,150	8,872,150	7,265,924
		7,578,859	1,345,715	552,902	455,623	455,623	227,807	10,616,529	22,284,534	245,950	22,530,484	33,147,013	29,501,025

36.2 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 believes that it is not exposed to major concentration of credit risk. To manage exposure to credit risk, the Group 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 937,831 thousand (2004: Rs 984,384 thousand) and Rs 1,544,963 thousand (2004: Rs 805,174 thousand) respectively at the year end.

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

c) Interest rate risk

Financial assets and liabilities include balances of Rs 6,238,463 thousand and Rs 8,974,270 thousand respectively, which are subject to interest rate risk. The Group 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.

36.3 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.

37. REMUNERATION OF CHIEF EXECUTIVES, DIRECTORS AND EXECUTIVES

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

	2005		2004	
	Chief Executives	Executives	Chief Executives	Executives
	(Rupees `000)			
Managerial remuneration	4,663	455,946	4,693	342,875
Contribution to provident fund	263	23,374	266	17,523
Bonus and other awards	–	28,136	110	31,559
Good performance award	–	106,250	120	72,094
Others	2,300	121,614	2,035	77,222
Total	7,226	735,320	7,224	541,273
No. of persons	2	284	2	221

The above were provided with medical facilities; the Chief executives and certain executives were also provided with some furnishing items and vehicles in accordance with the Group companies' policy. Gratuity is payable to the chief executives in accordance with the terms of employment while contributions for executives in respect of gratuity and pension are based on acturial valuations. Leave encashment of Rs Nil (2004: Rs 685 thousand) to Chief executives and Rs 3,488 thousand (2004: Rs 4,611 thousand) to the executives was paid on separation, in accordance with the Company's policy.

In addition, 21 (2004: 24) directors were paid aggregate fee of Rs 150 thousand (2004: Rs 226 thousand).

38. RELATED PARTY TRANSACTIONS

Fauji Foundation holds 44.35% (2004: 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. In addition, Pak Kuwait Investment Company (Pvt) Limited (PKIC), Actis (formerly CDC Holdings Sendirian Berhad, Malaysia) and Pak Maroc Phosphore S.A., Morocco are also related parties of the Group due to common directorship. The related parties comprise of directors, key management personnel, entities over which the directors are able to exercise influence, major suppliers 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 37 to the consolidated financial statements. Associated undertakings of the Group with whom such transactions have taken place are given below.

	2005	2004
	(Rupees '000)	
Fauji Foundation		
Office rent	3,504	3,071
Right shares issued	–	3,713
Receipt on account of payment made to PMP on FF's behalf	187,813	358,600
Payment for shares of PMP	–	179,300
Expenses related to long term investment incurred on FF's behalf	–	680
Reimbursement of expenses	–	874
Sale of fertilizer	1,708	7,259
Medical services	27	42
Income on payments made on behalf of FF	105	–
Bonus shares issued	880,313	170,624
Dividends	2,413,945	1,586,666
Payable balance at the year end - unsecured	702	908
Mari Gas Company Limited		
Purchase of gas as feed and fuel	6,928,493	5,884,410
Balance payable at the year end - unsecured	348,511	290,945
Haldor Topsoe A/s, Denmark		
Technical services received	15,750	14,364
Actis (formerly CDC Holdings Sendirian Berhad)		
Right shares issued	–	24,015
Dividends	138,826	83,424
Pak Kuwait Investment Company (Pvt) Limited		
Repayment of principal portion of loan	45,714	22,858
Financial charges paid	18,402	7,321
Right shares issued	–	5,350
Dividends	4,122	–
Balance of loan at the year end - unsecured	251,429	297,143
Maroc Phosphore S.A., Morocco		
Purchase of raw materials	5,607,024	3,445,394
Payable balance at the year end - unsecured	1,077,141	361,545
Pakistan Maroc Phosphore S.A.		
Advance against issue of shares	563,862	537,900
Balance at the year end	1,101,761	537,900
Payment to:		
Employees' Provident Fund Trusts	122,094	107,375
Employees' Gratuity Fund Trusts	43,462	50,353
Employees' Pension Fund Trust	32,249	27,321

Notes to the Consolidated Financial Statements
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39. POST BALANCE SHEET EVENT

The Board of Directors of FFC in their meeting held on January 31, 2006 have proposed a final dividend of Rs 2.25 per share while a dividend of Re 0.50 per share has been proposed by the Board of Directors of FFBL on January 26, 2006.

40. MAJOR CONTRACTS

FFBL has the following major agreements:

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

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

	2005	2004
	(Tonnes '000)	
41. GENERAL		
41.1 Production capacity		
Design capacity		
Urea	2,455	2,455
DAP	445	445
Production		
Urea	2,892	2,748
DAP	454	381

41.2 Facilities of letters of guarantee and letters of credit

Facilities of letters of guarantee and letters of credit amounting to Rs 228,900 thousand and Rs 3,325,000 thousand (2004: Rs 20,000 thousand and Rs 2,575,000 thousand) respectively are available to FFC under first charge by way of equitable mortgage on all fixed assets of FFC.

41.3 Donations aggregating Rs 60,349 thousand (2004: Rs 2,085 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.

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

41.5 These consolidated financial statements have been authorised for issue by the Board of Directors of FFC on January 31, 2006.

Chairman | Chief Executive | Director

2005

Pattern of Shareholding
As at December 31, 2005

Number of Shareholders	Shareholding		Total Number of Shares
	From	To	
805	1	100	35,479
1345	101	500	337,725
2027	501	1000	1,621,669
3230	1001	5000	7,307,958
928	5001	10000	6,449,219
429	10001	15000	5,175,106
224	15001	20000	3,944,494
113	20001	25000	2,517,856
85	25001	30000	2,321,102
63	30001	35000	2,043,787
52	35001	40000	1,949,291
33	40001	45000	1,396,378
31	45001	50000	1,459,971
21	50001	55000	1,108,456
18	55001	60000	1,028,390
26	60001	65000	1,609,020
21	65001	70000	1,405,390
15	70001	75000	1,076,279
14	75001	80000	1,077,606
13	80001	85000	1,074,056
9	85001	90000	791,287
5	90001	95000	464,724
10	95001	100000	977,979
3	100001	105000	308,525
12	105001	110000	1,302,661
10	110001	115000	1,115,280
13	115001	120000	1,515,578
3	120001	125000	367,810
5	125001	130000	639,864
7	130001	135000	927,312
5	135001	140000	683,554
3	140001	145000	431,077
7	145001	150000	1,030,782
4	150001	155000	614,248
3	155001	160000	471,810
6	160001	165000	984,253
9	165001	170000	1,503,343
4	170001	175000	687,793
5	175001	180000	883,645
2	180001	185000	366,769
2	185001	190000	375,771
1	190001	195000	190,502
3	195001	200000	595,546
1	200001	205000	202,008
4	205001	210000	832,015
1	210001	215000	210,100
7	215001	220000	1,535,658
1	220001	225000	221,375
3	225001	230000	687,377
2	235001	240000	472,930
1	240001	245000	241,668
3	245001	250000	739,277
3	250001	255000	760,249
3	255001	260000	771,793
3	260001	265000	785,539
1	270001	275000	274,347
2	275001	280000	555,652
2	280001	285000	565,225
1	285001	290000	289,113
2	290001	295000	585,460
2	305001	310000	614,125
1	310001	315000	314,921
2	315001	320000	635,627
1	320001	325000	322,461
2	330001	335000	667,286

Pattern of Shareholding
As at December 31, 2005

Number of Shareholders	Shareholding From	Shareholding To	Total Number of Shares
1	335001	340000	335,281
1	340001	345000	343,124
1	350001	355000	354,007
2	355001	360000	711,842
1	380001	385000	384,781
1	385001	390000	386,052
1	390001	395000	392,425
1	395001	400000	395,380
2	415001	420000	836,480
1	420001	425000	424,520
1	430001	435000	431,643
1	435001	440000	439,719
2	455001	460000	911,096
2	460001	465000	922,316
1	465001	470000	467,648
1	490001	495000	495,000
1	495001	500000	495,161
3	505001	510000	1,517,527
1	530001	535000	533,500
1	555001	560000	556,270
1	560001	565000	562,281
1	575001	580000	577,500
1	585001	590000	585,822
1	605001	610000	605,946
1	615001	620000	617,868
1	625001	630000	626,645
3	630001	635000	1,897,227
1	640001	645000	644,517
1	645001	650000	645,359
2	650001	655000	1,304,224
1	670001	675000	670,166
1	690001	695000	691,724
1	745001	750000	745,890
1	825001	830000	825,444
1	830001	835000	832,088
1	835001	840000	837,524
1	845001	850000	848,186
1	860001	865000	861,850
1	875001	880000	879,890
2	925001	930000	1,856,647
1	935001	940000	938,699
1	945001	950000	945,556
1	955001	960000	955,640
1	960001	965000	961,952
1	1005001	1010000	1,009,087
1	1015001	1020000	1,019,682
1	1045001	1050000	1,045,448
1	1065001	1070000	1,069,213
1	1100001	1105000	1,100,188
1	1135001	1140000	1,138,355
1	1210001	1215000	1,214,662
1	1225001	1230000	1,228,535
1	1240001	1245000	1,243,368
1	1270001	1275000	1,274,585
1	1355001	1360000	1,357,121
1	1455001	1460000	1,455,821
1	1700001	1705000	1,703,183
1	1945001	1950000	1,948,654
1	1950001	1955000	1,954,948
1	2015001	2020000	2,017,367
1	2075001	2080000	2,079,317
1	2130001	2135000	2,133,264
1	2220001	2225000	2,222,266
1	2330001	2335000	2,333,509
1	2500001	2505000	2,504,241

2005

Pattern of Shareholding
As at December 31, 2005

Number of Shareholders	Shareholding From	Shareholding To	Total Number of Shares
1	2670001	2675000	2,671,680
1	2750001	2755000	2,751,727
1	2850001	2855000	2,850,793
1	3085001	3090000	3,088,870
1	3465001	3470000	3,469,931
1	3975001	3980000	3,976,244
1	6360001	6365000	6,360,084
1	6510001	6515000	6,514,486
1	6800001	6805000	6,800,159
1	13215001	13220000	13,216,694
1	38090001	38095000	38,093,523
1	45075001	45080000	45,078,393
1	218840001	218845000	218,842,864
9,760			493,474,230

Serial No.	Categories of Shareholders	No of share-holders	No of Shares held	Percentage %
1.	Investment Companies	16	53,570,956	10.86
2.	Insurance Companies	19	48,393,913	9.81
3.	Joint Stock Companies	138	6,729,862	1.36
4.	Financial Institutions	23	28,070,445	5.69
5.	Modarabas	13	664,415	0.13
6.	Foreign Investors	35	28,371,120	5.75
7.	Leasing Companies	7	357,376	0.07
8.	Mutual Funds	26	12,483,527	2.53
9.	Charitable Trust & Others	95	240,591,060	48.75
10.	Individuals	9,388	74,241,556	15.05
	Total	**9,760**	**493,474,230**	**100.00**

NIT & ICP (namewise details)	**No of Shares**
National Investment Trust	47,095,842
Investment Corporation of Pakistan	2,851,343
Executives	524,364
Public Sector Companies and Corporations	18,641,763
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds	84,187,231
Shareholders holding ten percent or more voting interest	
Fauji Foundation	218,842,864

Form of Proxy
28th Annual General Meeting

I/We ____

of ____

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

Ordinary Shares hereby appoint Mr / Mrs / Miss ______________________

of ______________ or failing him / her ______________________

of ______________ as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Twenty Eighth Annual General Meeting of the Company to be held on February 28, 2006 and / or any adjournment thereof.

As witness my / our hand seal this ______________ day of ______________ 2006.

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).

AFFIX
CORRECT
POSTAGE

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