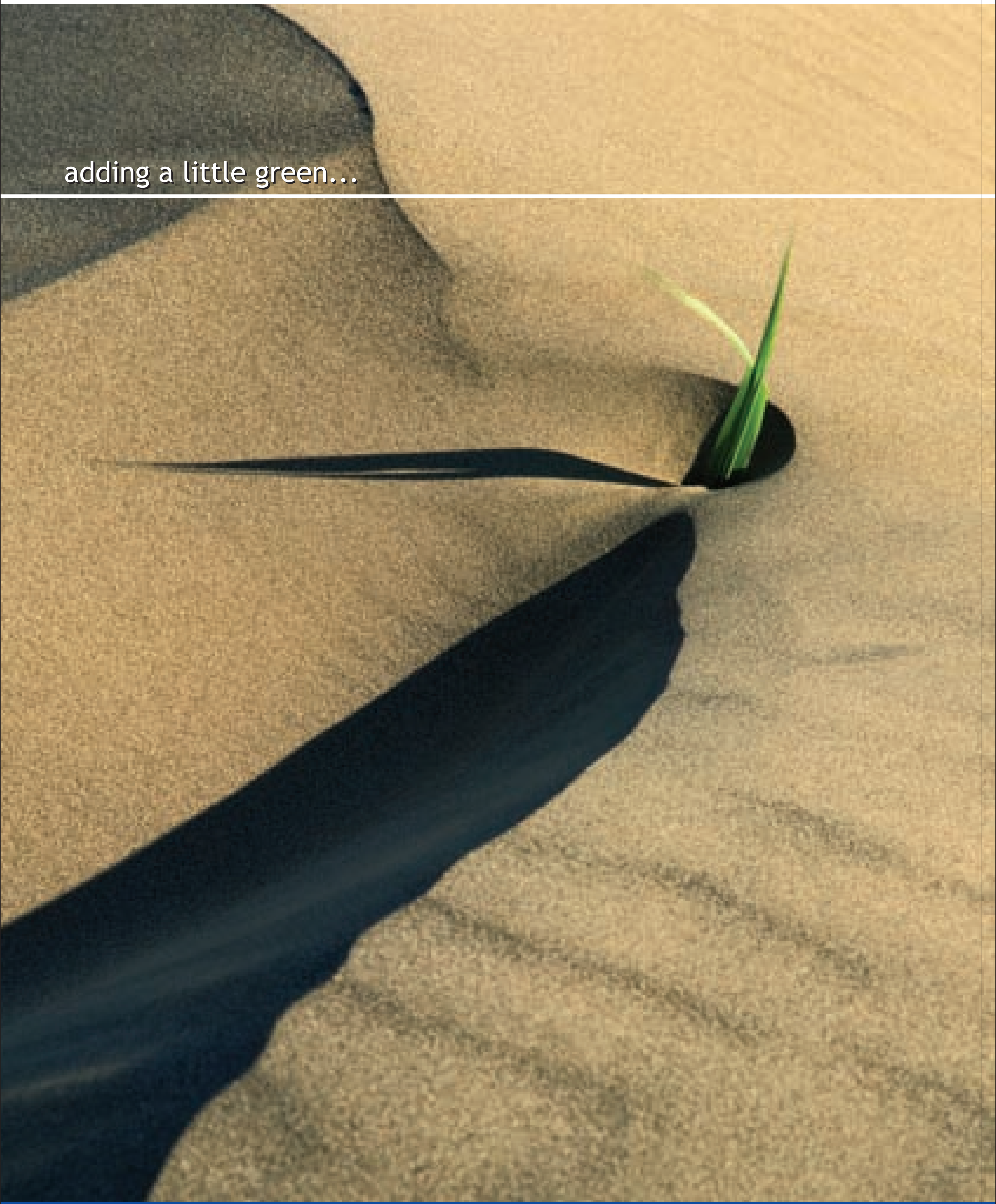
Annual Report

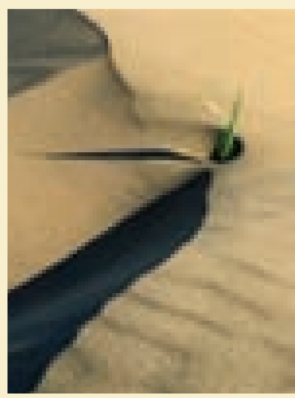
for the year ended December 31, 2006

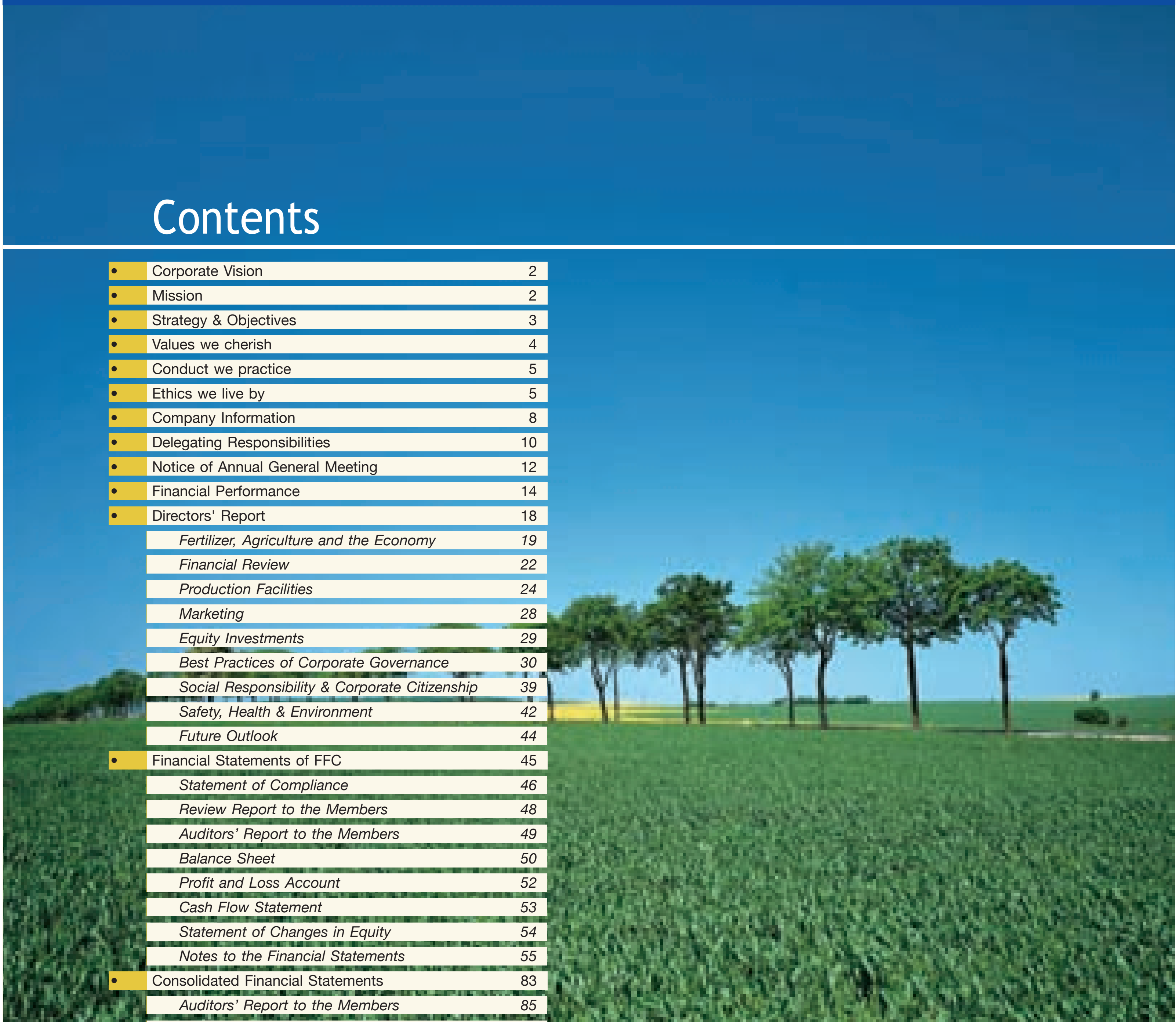
adding a little green...



FAUJI FERTILIZER COMPANY LIMITED

...to the soil, the great connector of our lives, the source and destination of all. The land gives birth to all that fuels and nourishes man, and to tap earth's potential has been the eternal quest of man. In pursuit of this age-old quest man has harvested billions of tons of food and resources from earth, each year earth loses its capacity to fulfill the needs of the growing demands of its inhabitants.
At FFC we strive for this sole purpose of helping our mother earth from losing out, together we work for our earth to make sure that we put in all our energies into this lone donor of mankind.





Contents

Corporate Vision

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.

Mission

FFC 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.

Strategy & Objectives

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 alongwith the achievement of the intended results.

Values we cherish...

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.

Conduct we practice...

- 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 any action, 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 favor, 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.

Ethics we live by...

- It is the policy of Fauji Fertilizer Company Limited to follow the highest business ethics and standards of conduct. It is the obligation of every one of us to act responsibly; that is, to be honest, trustworthy, conscientious, and dedicated to the highest standards of ethical business practices.
- The Company's reputation and its actions as a legal entity depend on the conduct of its Directors and employees. Each one of us must endeavour to act according to the highest ethical standards and to be aware of and abide by applicable laws.
- We all must ensure that our personal conduct is above reproach and complies with the highest standards of conduct and business ethics and have the obligation to ensure that the conduct of those who work around us complies with these Standards. The Company's Code of Business Ethics and Standards of Conduct will be enforced at all levels fairly and without prejudice.
- This code to which the Company is committed in maintaining the highest standards of conduct and ethical behavior is obligatory, both morally as well as legally and is equally applicable to all the Directors and employees of the Company who all have been provided with a personal copy.

FFC FAUJI FERTILIZER COMPANY LIMITED

(HEAD OFFICE)
Secretariat

Ref No. 5.8/S/FFC

November 30, 2006

All Employees

Subject: **Code of Business Ethics and Standards of Conduct**

Dear Sir,

1. One of FFC's competitive strengths has always been the established fact that being a good corporate citizen, we believe in principles and ethical corporate practices. As a market leader in the fertilizer industry, we must ensure our commitment to maintaining the fundamental principles of fairness, honesty and common sense in our dealings without any compromise, which are the heart of the Company's philosophy, values and corporate standards.

2. Strong business ethics should form the basis for all of our relationships with employees, customers, partners, competitors, suppliers and colleagues. Actions that fall short of, or even appear to fall short of, these standards can only undermine our business integrity, standards of excellence, and ultimately our success as a Company.

3. Preserving these values and business ethics is a responsibility that encompasses the entire Company. All of us must observe and abide by the principles laid down in the Company's Code of Business Ethics and Standards of Conduct in our day to day activities to enhance operational transparency. This code is based on a set of shared values and is intended to promote healthy corporate activity.

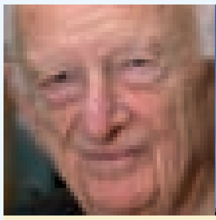
Best regards,

Lt Gen Munir Hafiez, HI(M) (Retired)
Chief Executive & Managing Director

93,HARLEY STREET, RAWALPINDI - PAKISTAN. P.O. BOX : 253, TELEX : 5[illegible] FFCPK,
Cable : FAUJIFERTZ, Tel : (051) 9272307-15, 9272318-19, 9272327 Fax : (051) 9272316, 9272316, 9272340
Website : http://www.ffc.com.pk E-mail : ffcrwp@ffc.com.pk


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


Lt Gen Munir Hafiez, HI(M) (Retired)
Chief Executive and Managing Director


Dr Haldor Topsoe


Mr Qaiser Javed


Mr. Tariq Iqbal Khan


Mr Khawar Saeed


Dr. Nadeem Inayat


Mr. Istaqbal Mehdi


Brig Arif Rasul Qureshi
SI(M) (Retired)


Maj Gen Muhammad Tahir
HI(M) (Retired)


Brig Rahat Khan
SI(M) (Retired)


Mr Kamal Afsar


Mr Tariq Bajwa


Mr Abid Maqbool
Chief Financial Officer


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

Board of Directors

Lt Gen Syed Arif Hasan, HI(M) (Retired)
Chairman
Lt Gen Munir Hafiez, HI(M) (Retired)
Chief Executive and Managing Director
Dr Haldor Topsoe
Mr Qaiser Javed
Mr Tariq Iqbal Khan
Mr Khawar Saeed
Dr Nadeem Inayat
Mr Istaqbal Mehdi
Brig Arif Rasul Qureshi, SI(M) (Retired)
Maj Gen Muhammad Tahir, HI(M) (Retired)
Brig Rahat Khan, SI(M) (Retired)
Mr Kamal Afsar
Mr Tariq Bajwa

Chief Financial Officer

Mr Abid Maqbool
Tel: 92-51-9272336
Fax: 92-51-9272337
E-mail: gmf_cfo@ffc.com.pk

Company Secretary

Brig Muhammad Saleem Suleman, SI(M) (Retired)
Tel: 92-51-9272327
Fax: 92-51-9272519
E-mail: secretary@ffc.com.pk

Registered Office

93-Harley Street, Rawalpindi Cantt.
Website: www.ffc.com.pk
Tel: 92-51-9272307-14
Fax: 92-51-9272316
E-mail: ffcrwp@ffc.com.pk

Plantsites

Goth Machhi, Sadikabad (Distt: Rahim Yar Khan)
Tel: 92-685-786420-9
Fax: 92-685-786401

Mirpur Mathelo (Distt: Ghotki)
Tel: 92-7236-51021-24
Fax: 92-7236-51102

Marketing Division

Lahore Trade Centre,
11 Shahrah-e-Aiwan-e-Tijarat, Lahore
Tel: 92-42-6365736
Fax: 92-42-6366324

Karachi Office

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

Auditors

M/s KPMG Taseer Hadi & Co.
Chartered Accountants

Board of Directors Committees

Audit Committee
Chairman
Mr Tariq Iqbal Khan
Members
Mr Qaiser Javed
Mr Khawar Saeed
Mr Tariq Bajwa

Human Resources Committee
Chairman
Brig Arif Rasul Qureshi SI(M) (Retired)
Members
Mr Qaiser Javed
Dr Nadeem Inayat

System & Technology Committee
Chairman
Brig Rahat Khan SI(M) (Retired)
Members
Dr Nadeem Inayat
Brig Arif Rasul Qureshi SI(M) (Retired)

Projects Diversification Committee
Chairman
Mr Tariq Iqbal Khan
Members
Mr Qaiser Javed
Dr Nadeem Inayat
Brig Rahat Khan SI(M) (Retired)

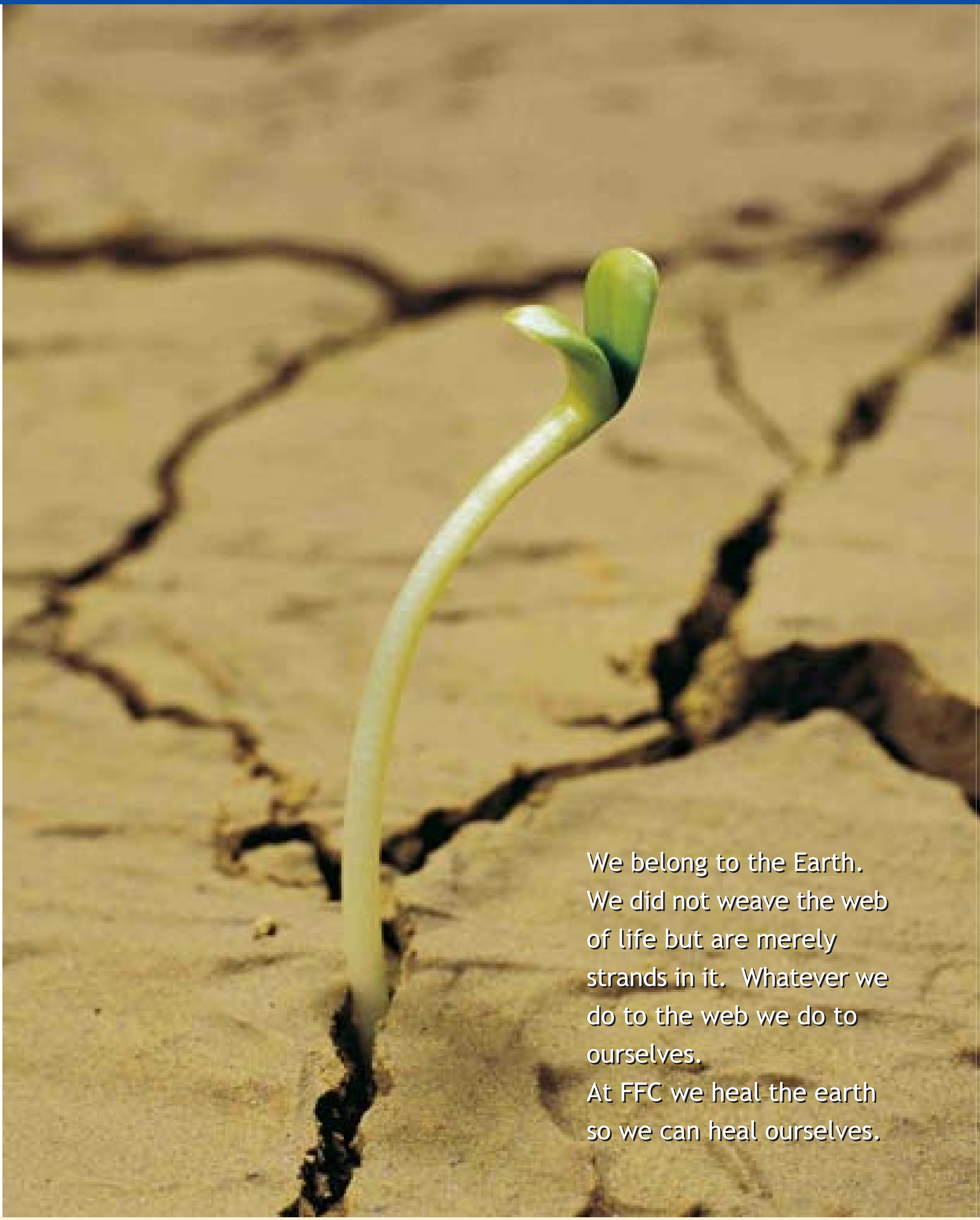
Management Committees

Business Strategy Committee
Chairman
Lt Gen Munir Hafiez HI(M) (Retired)
Chief Executive & Managing Director
Members
Mr Abdul Waheed Sheikh
General Manager (Technology & Operations)
Mr Abid Maqbool
General Manager Finance/
Chief Financial Officer
Mr Asad Sultan Chaudhry
General Manager Marketing
Brig Muhammad Saleem Suleman
SI(M) (Retired)
General Manager Corporate Affairs/
Company Secretary

Executive Committee
Chairman
Lt Gen Munir Hafiez HI(M) (Retired)
Chief Executive & Managing Director
Members
Mr Abdul Waheed Sheikh
General Manager (Technology & Operations)
Mr Abid Maqbool
General Manager Finance/
Chief Financial Officer
Mr Asad Sultan Chaudhry
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 Meeting

Directors	Board of Directors	Audit Committee	Human Resources Committee	System & Technology Committee	Projects Diversification Committee
Lt Gen Syed Arif Hasan HI(M) (Retired)	5	-	-	-	-
Lt Gen Munir Hafiez HI(M) (Retired)	4	-	-	-	-
Dr Haldor Topsoe	1	-	-	-	-
Mr. Qaiser Javed	5	5	1	-	1
Mr. Tariq Iqbal Khan	4	5	-	-	3
Mr. Istaqbal Mehdi	4	-	-	-	-
Mr. Khawar Saeed	4	4	-	-	-
Dr. Nadeem Inayat	5	-	4	1	1
Brig Arif Rasul Qureshi SI(M) (Retired)	3	-	2	2	-
Maj Gen Muhammad Tahir HI(M) (Retired)	2	-	-	-	-
Brig Rahat Khan SI(M) (Retired)	2	-	-	1	-
Mr. Kamal Afsar	1	-	-	-	-
Mr. Tariq Bajwa	1	1	-	-	-
Number of Meetings Held	**5**	**5**	**5**	**4**	**3**
Ex Directors					
Lt Gen Mahmud Ahmed HI(M) (Retired)	1	-	-	-	-
Brig Arshad Shah SI(M) (Retired)	3	-	4	-	-
Brig Aftab Ahmed SI(M) (Retired)	2	2	-	2	2
Brig Ghazanfar Ali SI(M) (Retired)	2	-	2	1	-
Syed Zaheer Ali Shah (Late)	1	1	-	-	-
Brig Munawar Ahmed Rana SI(M) (Retired)	3	-	-	-	-
Maj Gen Julian Peter (Retired)	1	-	-	-	-



We belong to the Earth.
We did not weave the web of life but are merely strands in it. Whatever we do to the web we do to ourselves.
At FFC we heal the earth so we can heal ourselves.

Notice of Annual General Meeting

Notice is hereby given that the 29th Annual General Meeting of the Shareholders of Fauji Fertilizer Company Limited will be held at Pearl Continental Hotel, Rawalpindi on Wednesday, February 28, 2007 at 1100 hours to transact the following business:-

Ordinary Business

1. To confirm the minutes of Extraordinary General Meeting held on September 07, 2006.

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, 2006.

3. To appoint Auditors for the year 2007 and to fix their remuneration.

4. To approve payment of Final Dividend for the year ended December 31, 2006 as recommended by the Board of Directors.

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

By Order of the Board

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

Rawalpindi
February 06, 2007

Notes:

1. The share transfer books of the Company will remain closed from February 22, 2007 to February 28, 2007 (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.

Building on our laurels year after year...

Our Annual Report 2005 has been appreciated yet again.

ICAP & ICMAP
Overall Award

ICAP & ICMAP
Sector Award

SAFA
Award

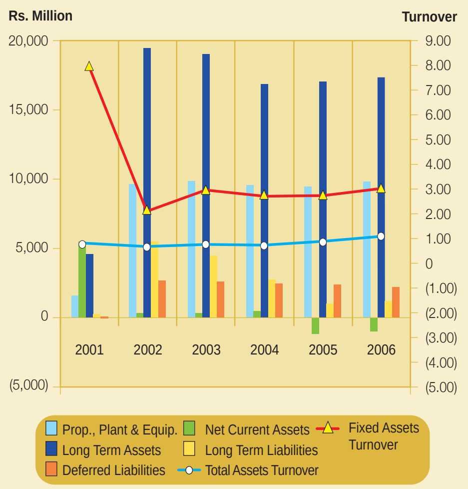
NCCA
Award

Financial Performance - *The vibrant green*

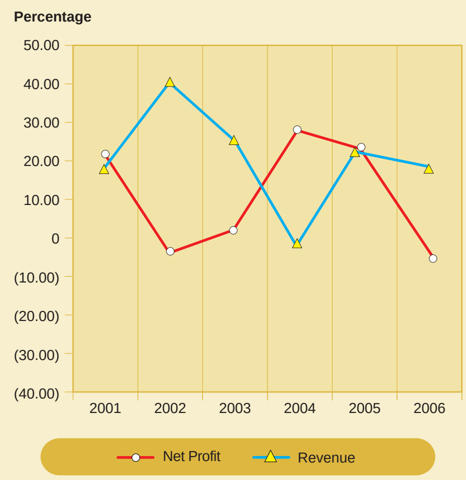
		2001	2002	2003	2004	2005	2006
KEY INDICATORS							
Operating							
Gross Margin	%	46.90	39.78	34.86	37.42	36.06	32.42
Pre Tax Margin	%	41.68	28.83	23.44	29.02	28.31	23.32
Net Margin	%	26.74	18.31	14.95	19.04	19.22	15.48
Performance							
Return on Assets	%	35.74	17.18	18.11	23.08	25.36	25.47
Total assets turnover		0.86	0.60	0.77	0.80	0.90	1.09
Fixed Assets Turnover		7.85	1.76	2.27	2.29	2.77	3.12
Inventory Turnover	Times	25.89	19.11	22.20	31.93	47.47	29.31
Debtors Turnover	Times	14.53	14.72	12.84	12.81	24.65	36.95
Inventory Turnover	Days	12	19	16	11	8	12
Debtors Turnover	Days	25	25	28	29	15	10
Return on Equity	%	33.72	28.55	27.29	32.57	39.36	35.78
Return on Capital Employed	%	32.94	18.66	19.56	26.41	36.49	32.76
Retention (after interim cash)	%	39.96	33.23	30.67	19.28	21.05	35.07
Retention (after prop cash & bonus)	%	31.95	24.88	18.43	(23.48)	(33.12)	(6.44)
Leverage							
Debt: Equity		2:98	35:65	28:72	19:81	7:93	8:92
Interest Cover		19.14	8.24	10.47	17.36	23.13	14.50
Liquidity							
Current		2.34	1.04	1.04	1.09	0.91	0.90
Quick		1.90	0.79	0.76	0.87	0.69	0.61
Valuation							
Earnings per share (pre tax)	Rs.	10.12	9.81	9.99	12.37	14.62	14.16
Earnings per share (after tax)	Rs.	6.49	6.23	6.37	8.11	9.92	9.39
Earnings growth	%	21.18	(4.09)	2.33	27.33	22.31	(5.33)
Breakup value/(Net assets/share)	Rs.	37.04	41.96	44.92	41.68	25.21	26.26
Dividend per share - Interim cash	Rs.	7.50	8.00	8.50	12.00	9.75	6.10
Dividend per share - Prop. Final	Rs.	1.00	1.00	1.50	3.00	2.25	3.90*
Bonus shares issued	%	-	-	-	15.00	40.00	-
Proposed bonus issue	%	-	-	-	15.00	-	- *
Total dividend incl. bonus	%	85.00	90.00	100.00	180.00	160.00	100.00

* Post Balance Sheet Event

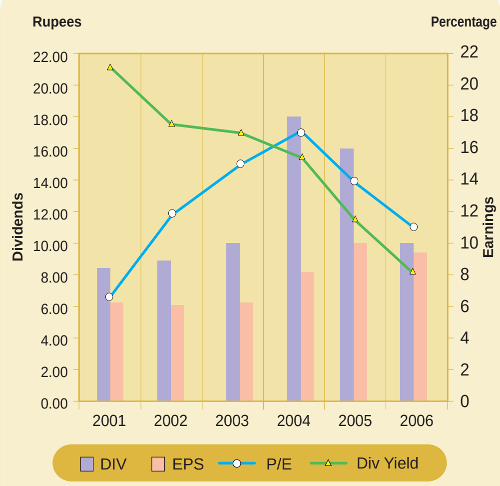
		2001	2002	2003	2004	2005	2006
KEY INDICATORS							
Valuation- Continued							
Payout ratio - Cash (after tax)	%	60.04	66.77	69.33	80.72	78.95	64.93
Payout ratio incl. prop. Cash	%	68.05	75.11	81.57	102.82	101.62	106.44
Total payout - cash & bonus	%	68.05	75.11	81.57	123.48	133.12	106.44
Price earning ratio		6.29	11.74	14.99	17.19	13.80	11.23
Market price to breakup Value		1.06	1.22	1.32	2.81	5.57	4.72
Dividend yield	%	21.61	17.51	16.86	15.36	11.39	8.07
Market value per share - Year end	Rs.	40.85	73.10	95.50	139.45	137.00	105.55
Market value per share - High	Rs.	50.00	73.95	105.95	143.90	180.00	144.90
Market value per share - Low	Rs.	28.40	38.85	69.15	95.75	118.00	105.50
Market capitalization	(Rs. M)	10,478	18,750	24,495	41,134	67,606	52,086
Historical trends				**Rs. million**			
Trading results							
Net Turnover		11,982	16,787	21,035	21,027	25,481	29,951
Gross profit		5,620	6,678	7,333	7,869	9,187	9,709
Operating profit		4,598	5,220	5,482	6,103	6,816	6,962
Profit before tax		4,994	4,839	4,931	6,103	7,214	6,985
Profit after tax		3,204	3,073	3,145	4,004	4,897	4,636
Financial position							
Share capital		2,565	2,565	2,565	2,950	4,935	4,935
Shareholder's funds		9,502	10,763	11,523	12,295	12,441	12,957
Reserves		6,937	8,198	8,958	9,345	7,506	8,022
Property, plant & equipment		1,527	9,516	9,259	9,181	9,185	9,608
Net current assets		5,586	396	309	775	(1,162)	(1,119)
Long term assets		4,226	18,761	18,292	16,796	16,985	17,666
Long term liabilities		224	5,704	4,557	2,868	981	1,194
Deferred liabilities		86	2,690	2,522	2,407	2,401	2,396
Liquid funds (net)		7,363	4,554	3,393	6,355	5,801	496



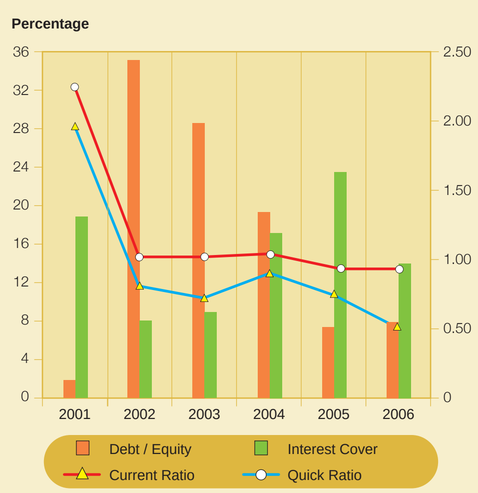
ASSETS & LIABILITIES



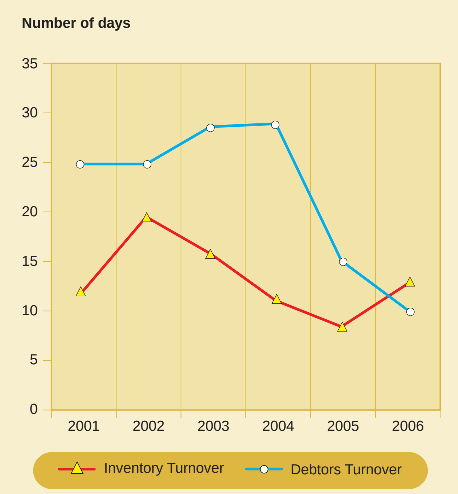
TURNOVER / NET PROFIT MOVEMENT TREND



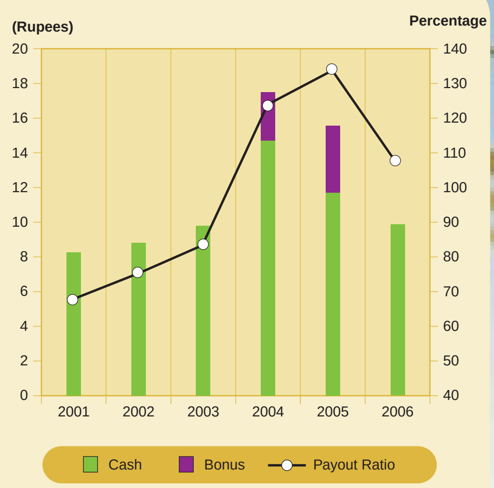
DIVIDENDS AND EARNINGS



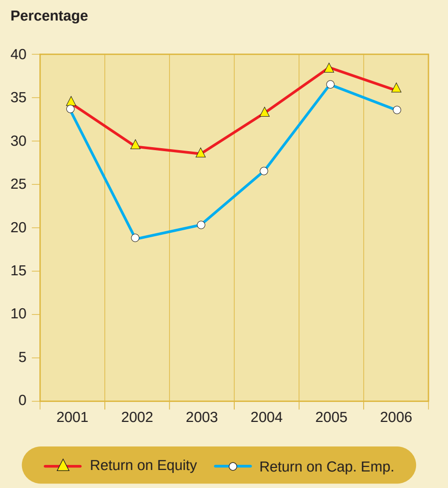
LEVERAGE & LIQUIDITY RATIOS



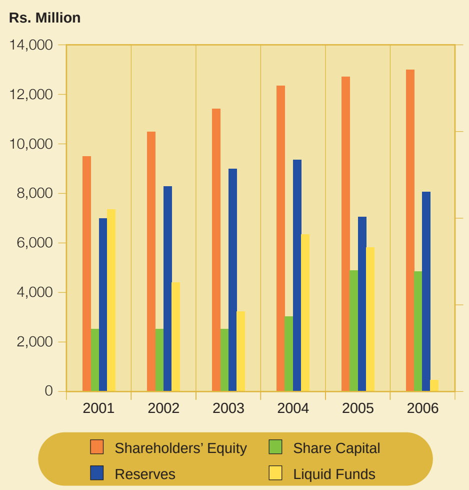
INVENTORY & DEBTORS TURNOVER



DIVIDEND AND PAYOUT RATIO

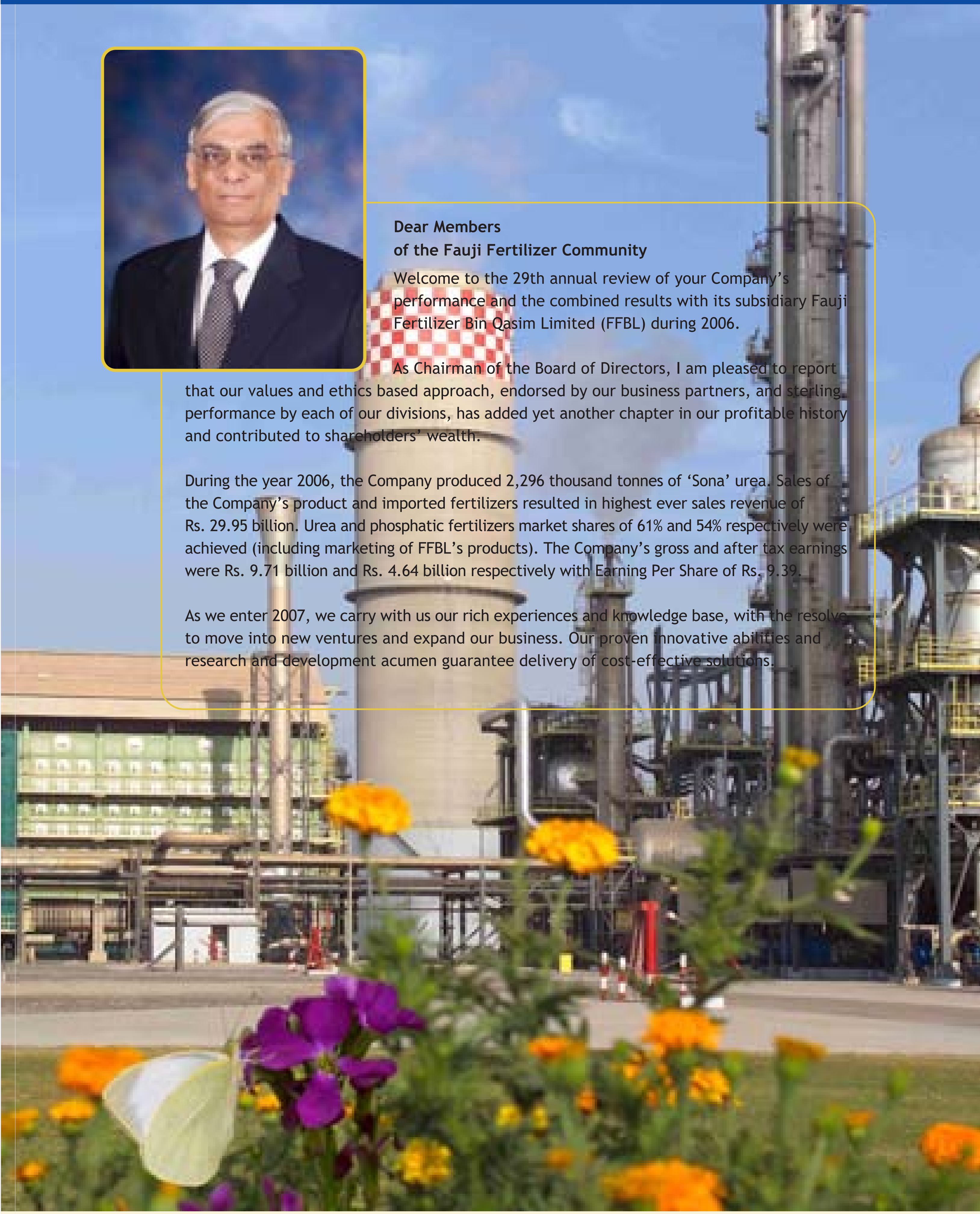


RETURN ON EQUITY AND CAPITAL EMPLOYED



EQUITY / LIQUID FUNDS

Directors' Report



Dear Members
of the Fauji Fertilizer Community

Welcome to the 29th annual review of your Company's performance and the combined results with its subsidiary Fauji Fertilizer Bin Qasim Limited (FFBL) during 2006.

As Chairman of the Board of Directors, I am pleased to report that our values and ethics based approach, endorsed by our business partners, and sterling performance by each of our divisions, has added yet another chapter in our profitable history and contributed to shareholders' wealth.

During the year 2006, the Company produced 2,296 thousand tonnes of 'Sona' urea. Sales of the Company's product and imported fertilizers resulted in highest ever sales revenue of Rs. 29.95 billion. Urea and phosphatic fertilizers market shares of 61% and 54% respectively were achieved (including marketing of FFBL's products). The Company's gross and after tax earnings were Rs. 9.71 billion and Rs. 4.64 billion respectively with Earning Per Share of Rs. 9.39.

As we enter 2007, we carry with us our rich experiences and knowledge base, with the resolve to move into new ventures and expand our business. Our proven innovative abilities and research and development acumen guarantee delivery of cost-effective solutions.

Fertilizer, Agriculture and the Economy

We need to surmount social barriers and focus on economic development. FFC has formulated governance practices and procedures important for the South Asian Region aimed at sustained economic growth.

National Economy

The upward momentum that Pakistan has sustained over the last four years continued for yet another year with economic growth of 6.6%, in the midst of an extraordinary surge in oil prices thus positioning itself as one of the fastest growing economies of the Asian region. This achievement was attributed to dynamism in industry, agriculture, services and the emergence of a new investment cycle with investment rate reaching a new high at 20% of GDP.

Real per capita GDP grew by 4.7% and per capita income in current dollar terms was up by 14.2%, reaching $ 847. The pace of job creation was brisk on the back of a sustained high economic growth. Real per capita income has grown at an average rate of 5.6% per annum during the last three years, and accordingly, the overall as well as rural and urban poverty have registered sharp decline.

Global Economic Environment

Global economic growth was recorded at around 4.8% which is expected to continue in the future. Pakistan benefited from this buoyant global economic environment, undeterred by the rising and volatile energy prices.

United States and China were the main drivers of global expansion. Real GDP of the United States grew by 3.5%, fueling global growth. Pace of growth in emerging Asian countries, especially China, India and Pakistan, has also contributed to strong global performance in the past few years and is set to continue with growth in Asian emerging market forecast to exceed 7% in 2007.
South Asia, particularly India and Pakistan, appear to have overtaken the ASEAN region in terms of their growth performance. Barring China, Hong Kong and Vietnam, all the other Asian economies have not matched these South Asian countries in terms of growth performance.

Agronomy

Agriculture performance affects the Country's growth and the livelihood of about 66% of Country's total rural population. Agriculture employs 45% of total work force, including female agricultural labour force, which is on the rise owing to enhanced agricultural growth rates and the combined efforts of various NGOs.

Agriculture recorded a 2.5% growth as compared to a target of 4.2% and 6.7% growth last year. Performance was affected by adverse weather conditions, with major crops including cotton/ sugarcane and forestry registering declines of 3.6% and 5.7% respectively. Agriculture contributed 8.4% to overall GDP growth of 6.6%. Major private sector investment was witnessed at 15.3% while agricultural machinery imports rose by 109.2%.

The strategies being adopted by the Government for development of the Agricultural sector include enhancement in water availability through construction of dams/reservoirs and construction/extension of new irrigation canals. Improvement of existing irrigation system, implementation of the National Drainage Strategy in an environmentally safe manner. On-farm Water Management and Flood Control Program will also contribute to the development process.

The Government also enhanced agricultural credit allocation through various banks and financial institutions to Rs. 130 billion from Rs. 85 billion last year, with an increase of 53% to assist farmers in the procurement of important farm inputs including fertilizers, seeds, pesticides, machinery, equipment etc. through various forms of farming credit. Agriculture credit disbursement at Rs. 91.16 billion during July-March, 2005-06 was higher by 23.5% as compared to Rs. 73.81 billion over the corresponding period last year.

Fertilizer, Agriculture and the Economy

Fertilizer Industry

Fertilizer is a basic agricultural input and its timely availability is crucial for agricultural output. In addition, the fertilizer sector provides support to the leather, textile, pesticide, financial and other sectors of the Country's economy. Nitrogenous fertilizer production contributed about 4.5% to the overall growth of 9% related to large-scale manufacturing during the year.
Fertilizer off-take has been increasing in the recent past and is anticipated to increase further in the medium term. As a result, fertilizer has become one of eight main categories of imports of the Country, at exorbitant cost to the national exchequer.

Domestic urea production capacity, therefore, needs enhancement to meet demand and curtail expensive imports. To achieve this, the Government offered gas supply to attract new investment in the sector for increasing fertilizer production capacities. Pak-Arab Fertilizers and Pak-American Fertilizer were privatized to render these concerns economically more viable.

Fertilizer off-take is highly dependent on unpredictable climatic conditions, availability of water, and government policies. Fertilizer industry is also the second largest consumer of natural gas with consumption of around 22.5% of total gas output and is, therefore, directly affected by gas pricing structure, which in the recent past has been highly volatile owing to rise in international oil prices.

Urea Market

The urea market posted a modest growth of 1% over last year with off-take of 5,236 thousand tonnes as compared to 5,179 thousand tonnes during 2005.
Industry urea production of 4,803 thousand tonnes during the year improved by 2% over last year's production of 4,693 thousand tonnes. 625 thousand tonnes were imported during the year by the Trading Corporation of Pakistan. The low increase in off-take coupled with imports, which were in excess of requirement, resulted in an oversupplied situation. The year, therefore, ended with closing inventory of 243 thousand tonnes, higher by 238% compared to 72 thousand tonnes at the end of December 2005.

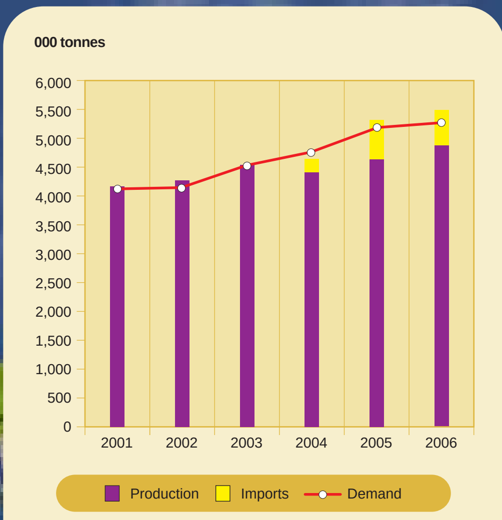
Di - Ammonium Phosphate (DAP) - Market

The industry carried 292 thousand tonnes of DAP at the beginning of the year. 846 thousand tonnes were imported during 2006 while 450 thousand tonnes, at almost last year's level, were supplied by FFBL.

DAP market during the year was recorded at 1,517 thousand tonnes, comprising imported stock and indigenous production, which improved by 11% over last year's sales of 1,367 thousand tonnes.

News of subsidized Phosphatic and Potassic Fertilizers adversely affected off-take during the third quarter resulting in 56% decline compared to corresponding period of last year. Official announcement of Rs. 250 per bag subsidy on these fertilizers for the farmers at the beginning of October 2006 boosted sales in the last quarter resulting in closing inventory of 111 thousand tonnes, 62% lower as compared to last year.

Our products give earth the energy to fill up our lives with green. At FFC we make sure that we give earth our trust, our zeal, our faith as much as we can to keep it fertile.



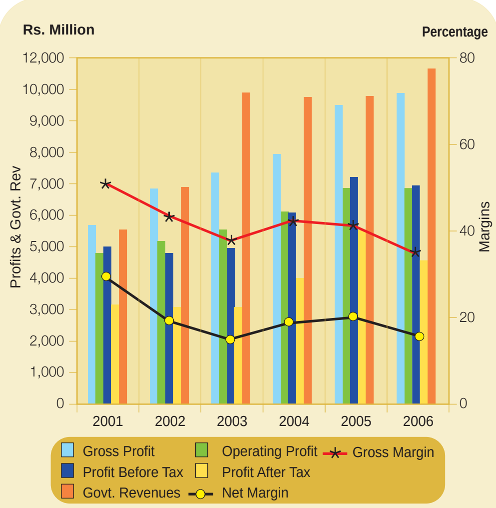
INDUSTRY UREA MARKET SUPPLIES VS DEMAND

Financial Review

Mr Abid Maqbool
Chief Financial Officer

Sustained financial results enable profitability growth and provide for superior shareholders' value. Financial measures reflect decisions, performance and achievements, which for 2006, resulted from outstanding productivity, impressive marketing performance, organized investment plan and the success of our highly flexible business enterprise as disclosed in our Annual Financial Statements.

Sales revenue was recorded at Rs. 29.95 billion, 18% higher than last year's achievement. The efforts of our marketing force were complemented by robust demand and a favourable pricing environment. Urea revenue was registered at a record Rs. 23.62 billion which increased by 9% over last year and included imported urea revenue of Rs. 2.50 billion. Phosphatic fertilizers contributed highest ever revenue of Rs. 6.33 billion to total Company revenue, with a growth of 69% over last year.



PROFITS, MARGINS
GOVT. REVENUES

Appropriation of Profit

	Rupees "000"
Un-appropriated profit brought forward	(43,834)
Transfer from general reserve	1,200,000
	1,156,166
Final Dividend 2005 Rs. 2.25 per share	**1,110,317**
	45,849
Net Profit after taxation 2006	**4,636,144**
	4,681,993
Dividend on ordinary shares:	
First interim 2006 Rs. 2.25 per share	1,110,317
Second interim 2006 Rs. 2.00 per share	986,948
Third interim Rs. 2006 Rs.1.85 per share	912,927
	3,010,192
Un-appropriated profit carried forward	**1,671,801**

The Company lodged subsidy claims of Rs. 1,568 million with the Government for stocks and imports of DAP & SOP with corresponding adjustment in the cost of purchase of these fertilizers.

Gas prices escalated twice during the year. The 15.5% increase in fuel gas price effective January 1, 2006 was followed by 9.94% enhancement in prices of both fuel and feed gas effective July 1, 2006.

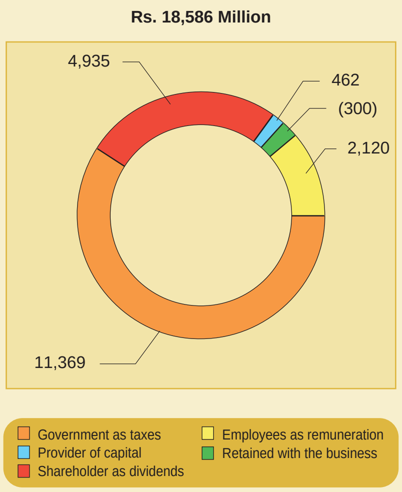
Despite inflated gas prices, we managed an improvement of 6% in gross profit this year, driven by productivity improvements and increased revenue. Other income amounted to Rs. 1.28 billion including dividend income of Rs. 832 million from FFBL. After tax margin was 15.50% of sales revenue while the Per Share Earning was recorded at Rs. 9.39.

Post Balance Sheet Announcement

The Board of Directors is pleased to announce final dividend of Rs. 3.9 per share (39%), for the year ended December 31, 2006, in addition to interim dividends of Rs. 6.10 per share (61%), aggregating to Rs 10 per share (100%), subject to the approval of the members of the Company in their meeting scheduled for February 28, 2007.

Contribution to the National Exchequer

The Company has contributed Rs. 82.39 billion to-date towards the national exchequer through taxes, levies, excise duty, sales tax and gas surcharge, with Rs. 11.37 billion as contribution for the year.



VALUE ADDITION AND DISTRIBUTION During 2006

The Company contributed foreign exchange savings of US $ 631 million through import substitution on production of 2,296 thousand tonnes of urea fertilizer this year and also provided value addition of Rs. 18.586 billion with 11% improvement over last year.

Shareholders' income through cash dividends amounted to Rs. 4,935 million. Payments to providers of capital aggregated to Rs. 462 million while employees' remuneration & benefits amounted to Rs. 2,120 million.

Commitments

The Company was financially committed to pay a total of Rs. 847 million at the end of 2006, for procurement of fixed assets, fertilizer imports, stores & spares and other revenue items, for which requests were placed during the year through purchase orders or letters of credit in favour of local and international contractors/vendors.

Commitment towards equity participation in Pakistan Maroc Phosphore (PMP) was discharged during the year. Committed lease rentals include payments for premises and vehicles scheduled during 2007 to 2011, and beyond, stated in Note No. 13 of the financial statements.

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 2007 have been planned to be financed through internal cash generations and short term financing from external sources.

Adequate provision for dividend payments, disbursements for operational needs, stores & spares, BMR and capital projects are made in the Business Plan.

The investment portfolio of the Company is fairly diversified, ranging from investments in Government bonds to mutual funds, which aim at tapping the positive developments in the financial sector. Investment of surplus funds alongwith strategic placements are made after thorough financial evaluation.

Risk Mitigation

Credit Risk

All the financial assets of the Company, except cash in hand, are subject to credit risk. The Company believes that it is not exposed to 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.

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.

Interest Rate Risk

Variable rates of long term financing, except Term Finance Certificates (TFCs), are 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.

Foreign Exchange Risk

Foreign exchange risk exposure is restricted to foreign currency investments, bank balances and short term financing. Since both the foreign currency assets and liabilities are denominated in US Dollars, 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.

Plants I & II (Goth Machhi)

The Plants delivered stellar performance during the year with aggregate "Sona" urea output of 1,570 thousand tonnes despite maintenance turnarounds of both plants. Plant I delivered 809 thousand tonnes operating at 116% of design while Plant II produced 761 thousand tonnes of urea at 120% of designed capacity.
New monthly urea production records of 74 thousand tonnes and 68 thousand tonnes were achieved for Plant-I and Plant-II respectively in January 2006. In addition, highest ever daily urea production of 2.5 thousand tonnes was also achieved by Plant-I in November 2006.

Maintenance turnarounds of Plant-I and Plant-II were executed in September and March, respectively. All the jobs pertaining to reliability and efficiency improvement were executed safely and within the stipulated time resulting in better energy utilization and increased production for both the plants.

Plant-I turnaround included replacement of first stage buckets of TG-702 rotor, first time inspection by FFC engineers, without foreign expertise, of Generator rotor and achievement of significant improvement in capacity margin and fuel efficiency. In-situ rigging of the carbamate condenser, E-105 tube bundle of 43 tons was also performed involving heavy prefabrication / welding job scope, which saved hiring cost of a high capacity crane from external sources.

Natural gas line lowering was performed at 26 km from plant site to accommodate crossing of the Rainee Canal with minimum production loss. Old relay based system at bagging section of Plant-I was upgraded to PLC based system. New BFW preheater of enhanced capacity was installed and vapour belts were provided at process gas outlet nozzles to improve reliability. Badly corroded carbon steel urea vent stack [30" dia & 105 m high] at Urea-II was replaced with stainless steel material to improve its reliability, involving heavy rigging activity.

Rehabilitated bimetallic stripper removed from Plant-I was installed at Plant II during turnaround with cost savings estimated at around Rs. 185 million. This was the third stripper rehabilitation job; bringing in new challenges due to changed geometry of tube sheet, tube to tube sheet joint and shell.

Plant III (Mirpur Mathelo)

Highest ever daily urea production of 2.2 thousand tonnes was achieved in January 2006 through technical excellence, dedication and coordinated team work. Total output by the plant was recorded at 726 thousand tonnes, the highest ever, which represented 126% of design and improved by 2 % over last year's production.

New record for Primary Reformer, F-201 continuous operation for 370 days was achieved. Outdated control systems at Utilities were replaced with state-of-the-art DCS control to improve plant reliability / monitoring and for accurate and timely diagnosis of problems and to optimize plant operation.

Product quality remained within specifications despite operation at highest capacity factor throughout the year with low product moisture content as compared to previous year. Plant shutdown was averted on numerous occasions through online corrective actions.

Maintenance turnaround involved replacement of carbamate condenser, E-105B, up-rating of lube oil coolers, E-433A/B for effective cooling of lube oil and decrease in oil temperature of K-431 which has also contributed in resolving compressor's 1st stage high vibration problem. In addition, horn type liquid distributor of Urea Stripper E-101 was replaced with modified Thoric type liquid distributor to control splashing phenomena resulting in cost saving of Rs 5 million.

Plant site carried out the challenging task of inspection & maintenance of Ammonia storages, hazardous due to spherical geometry and size, which in the last twenty five years had been carried out only once before its acquisition by the Company. The project included complete removal of old damaged insulation followed by

Production Facilities

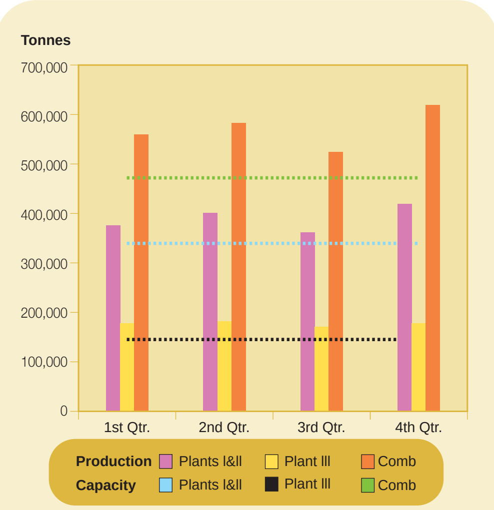
Mr Abdul Waheed Sheikh
General Manager Technology & Operations

sand blasting and application of rust preventive primer, thorough inspection of the sphere and identification of corroded areas, and use of superior quality polyurethane spray type insulation at lower cost as compared to conventional insulation.

Repeated leakages in Benfield section overhead condensers E-305A/B necessitated replacement due to chlorides contamination. A more economical technique of tube sleeving instead of complete replacement was implemented successfully for the first time.

Balancing, Modernization & Replacement (BMR)

In order to be proactive, we need to capitalize on our Research and Development capabilities and develop our knowledge through education and commitment.
The Company carries out regular reliability, efficiency and capacity enhancement evaluations besides inspections of critical equipment to identify short and long term actions.



PRODUCTION VS CAPACITY 2006

Plants I & II (Goth Machhi)

Energy revamp project at Plant-I was successfully and safely implemented during Turnaround 2006 resulting in energy conservation estimated at over Rs 50 million per annum. The project included commissioning of Benfield Lo-Heat process and replacement of Waste Heat Boiler, E-208B internals [bypass liner and cone] with improved material suitable for new operating conditions with low Steam-toCarbon ratio and modification of Waste Heat Boilers B-601/2 fuel gas circuits to optimize utilization of additional purge gas.

Commercial proposal by Snamprogetti, Italy for Debottlenecking of Plants I & II is also under review for plant load increase up to 150% and 125% of original design respectively.

Plant II Debottlenecking study report on aMDEA section has been finalized with licensor, BASF, for 115% and 120% plant load and contract is under review especially for performance guarantees & liabilities.

FFC operates gas booster compressors at plant site Goth Machhi battery limit to enhance naturally flowing supply pressure of the continuously depleting natural gas reservoir. By end 2007/early 2008, pressure will drop below the minimum requirement and to sustain the current level of plant productivity and cater for future plant capacity enhancement, natural gas pressure boosting is in progress through installation of new compressors in close proximity to MGCL site, with commissioning target of 1st quarter 2008 for phase-I and 2010 for phase-II.

In our commitment towards self-reliance in areas of critical maintenance activities, a first of its kind breakthrough "In-situ balancing" of the TG-702 generator rotor was accomplished. Successful execution of this critical job is an outstanding example of teamwork, professional pursuance and resolve and has instilled tremendous confidence regarding our technical capabilities.

Plant III (Mirpur Mathelo)

Basic Engineering Design Package of Plant III Debottlenecking project has been approved in consultation with the licensor M/s Snamprogetti, Italy. Work on detailed engineering and ordering of equipment/ material is in progress to improve plant profitability through capacity enhancement and reliability improvement.

Conversion of Urea reactor's two vent holes into weep holes was carried out indigenously and efficiently to monitor leakage between old liner and carbon steel shell for reliability improvement.

Study is in progress for possible up-gradation of Auxiliary Boilers, B-601 / 602 Inspection to meet future high load requirement in consultation with Babcock Borsig.

Natural gas line battery limit orifice was removed based on natural gas profile survey during turnaround and pressure recovery of 0.6 kg/cm2, equivalent to 1% of plant load was achieved.

Synthesis compressor 1st stage intercooler, E-432A tube bundle was replaced with high capacity bundle designed/ fabricated at the plant site and tube material was changed from CS to SS.

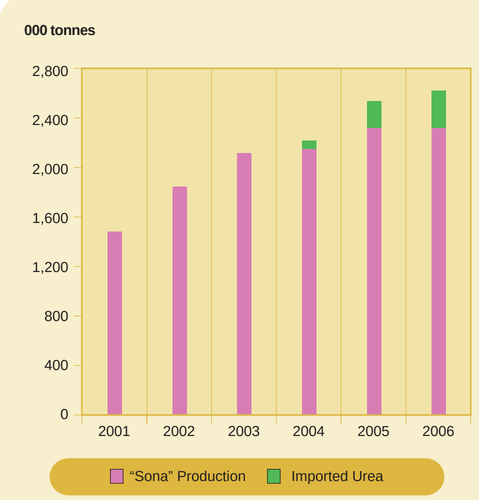
Infrastructure for Wide Area Network (WAN) at plant site has also been completed to provide real time significant management information.

New Ammonia & Urea Plant at Mirpur Mathelo

FFC submitted 'Statement of Qualifications' to GOP for allocation of 100 MMSCFD natural gas for setting up a new urea plant. After pre-qualification for bidding along with three other companies, discussions were held with SNGPL on the proposed gas sale/purchase agreement. After thorough review, it was decided by the Board not to participate in the bidding process.

Mr Tahir Javed
General Manager Plant, Goth Machhi

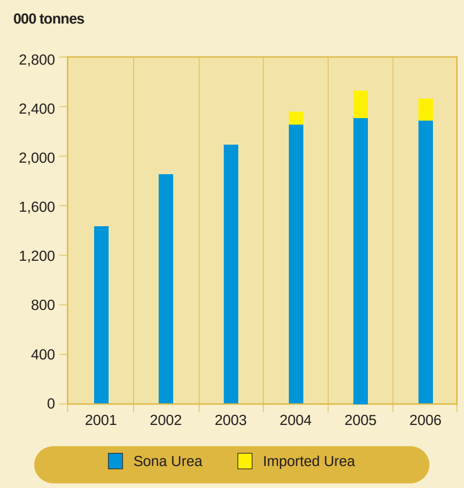
Syed Iqtidar Saeed
General Manager Plant, Mirpur Mathelo



UREA PRODUCTION & PURCHASES

Marketing

Mr Asad Sultan Chaudhry
General Manager Marketing



UREA SALES

Lt Gen Munir Hafiez (Retired) - Chief Executive & Managing Director Addressing Annual Marketing Conference 2006

Demonstration Plot developed by the Marketing Division

We support our customers' success by creating exceptional value and providing quality products through an elaborate marketing network consisting of numerous dealers and warehouses throughout the Country.

The Company achieved landmark all products sales during the year of 4,055 thousand tonnes, 6% improvement over last year. Highest ever urea sales of 3,210 thousand tonnes was recorded which improved by 4 thousand tonnes over last year. Record DAP sales of 824 thousand tonnes increased by 44% over sales for last year.

The Company captured urea market share of 61% with sales of 2,293 thousand tonnes of "Sona" urea prilled, 596 thousand tonnes of "Sona" urea granular on behalf of FFBL, 249 thousand tonnes of imported urea and 73 thousand tonnes of import allocation to FFBL. FFC carried an inventory of 5 thousand tonnes of urea at the end of 2005 while closing inventory for 2006 amounted to 77 thousand tonnes, including 70 thousand tonnes of imported urea which exceeded last year's closing stock by 69 thousand tonnes due to excessive imports by TCP during 2006.

The Company sold 352 thousand tonnes of imported DAP while 472 thousand tonnes of "Sona" DAP were marketed on behalf of FFBL. The Company resultantly improved its DAP market share to a record 54% as compared to 40% for 2005, with inventory of only 1 thousand tonnes at the close of 2006.

The Company also earned around US $ 416 thousand as dispatch money during handling of DAP vessels at the Karachi Port. In addition, the Company created a world record by discharging, in a single day, over 11 thousand tonnes of imported DAP through grabs and bagging plant on MV. IKAN ACAPULCO.

Equity investments

Fauji Fertilizer Bin Qasim Limited (FFBL)

Dividend income from FFBL for 2006 amounted to Rs. 832 million consisting of 5% final dividend for 2005 and 12.5% interim dividends for 2006, 2.50% lower than last year's distribution. The Company has announced Final Dividend of 12.5% for 2006.

Net sales revenue of the Group for the year was recorded at Rs. 44.68 billion which registered an impressive growth of 12% over last year. Consolidated claim for DAP & SOP subsidy was Rs. 2.89 billion which was set off/adjusted against the cost of purchase/production by FFC and FFBL respectively.

Gross profit remained unaffected by the claim for subsidy and was registered at Rs. 14.42 billion, improvement of 5% over last year. Net profit after tax at Rs. 6.25 billion reduced by 2% as compared to last year.

Output of 'Sona' urea granular and 'Sona' DAP by FFBL was logged at a record 601 thousand tonnes and 450 thousand tonnes respectively.

Balancing, Modernization, Revamping and Expansion (BMRE) of the Ammonia and DAP plants is progressing as per schedule. Ammonia project for capacity enhancement to 123% would be completed by mid 2007. BMRE Phase-II is progressing as per schedule and all major contracts and purchase orders are in place. Basic engineering for DAP plant expansion to 151% has been completed while detailed engineering is in progress. Project Contract has been issued to M/S JACOBS Engineering, USA for completion by December 2007, in line with PMP's (Morocco) production.

Overseas Investment – PMP

Final instalment of Company's commitment of MAD 100 million towards equity participation in Pakistan Maroc Phosphore (PMP) was remitted in the third quarter. The investment now aggregates to Rs. 706 million representing 12.5% equity contribution in PMP.

FFC's controls a consolidated holding of 25.22% in PMP through 12.72% additional control by virtue of FFC's 50.88% ownership of FFBL. Group investment in PMP as at December 31, 2006 amounted to Rs. 2,117 million through injection of final equity instalment by FFBL.

The project is being monitored effectively by the Board of Directors and Project Monitoring Committee with regular reviews of progress and scheduled commencement of commercial production by the end of 2007.

Detailed engineering of phosphoric acid and sulphuric acid plants has been completed. Approximately 90% of the budgeted amount has been committed against the orders and is planned for completion within the overall budget of MAD 2,030 Million.

Best Practices of Corporate Governance

Compliance with Code of Corporate Governance

The Board has adopted the Code of Corporate Governance, implemented through Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges of Pakistan, and as advised by the Audit Committee, the Board is satisfied that in addition to issuance of a "Statement of Compliance with the Code of Corporate Governance", the Company has been in full compliance, without any material departures, with both mandatory and optional provisions of the Code, Company's statement of ethics and values and the international best practices of Governance throughout the year. Affirmations as to adherence have also been received from the members of the Board, the management and all employees of the Company.

The Company has made all endeavors to ensure equitable treatment of shareholders. The Board has implemented a sound system of internal control and carries out regular reviews of the control system through the Audit Committee to ensure proper implementation for achievement of operational, compliance and financial reporting objectives, safeguarding the assets of the Company and identifying, evaluating and managing any significant risks faced by the Company.

The Audit Committee has confirmed that 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, 2006, 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/IFRS 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.

All trading in Company's shares by Directors, CEO & executives of the company or their spouses directly or indirectly were immediately notified in writing to the Company Secretary alongwith written record of the price, number of shares, form of share certificates and nature of transaction within the stipulated time. All holdings in the Company shares, are also intimated on annual basis to the Company Secretary and have been disclosed in the Pattern of Shareholdings. All such transactions were notified by the Company Secretary to the Board in the subsequent Board meeting.

The Chief Executive & Managing Director and the Chief Financial Officer have reviewed the financial statements of the Company, consolidated financial statements and the Directors' Report. They acknowledge their responsibility for true and fair presentation of the financial statements, compliance with regulations and applicable accounting standards and establishment and maintenance of internal controls and systems of the Company.

Fundamental Tenets of Good Governance

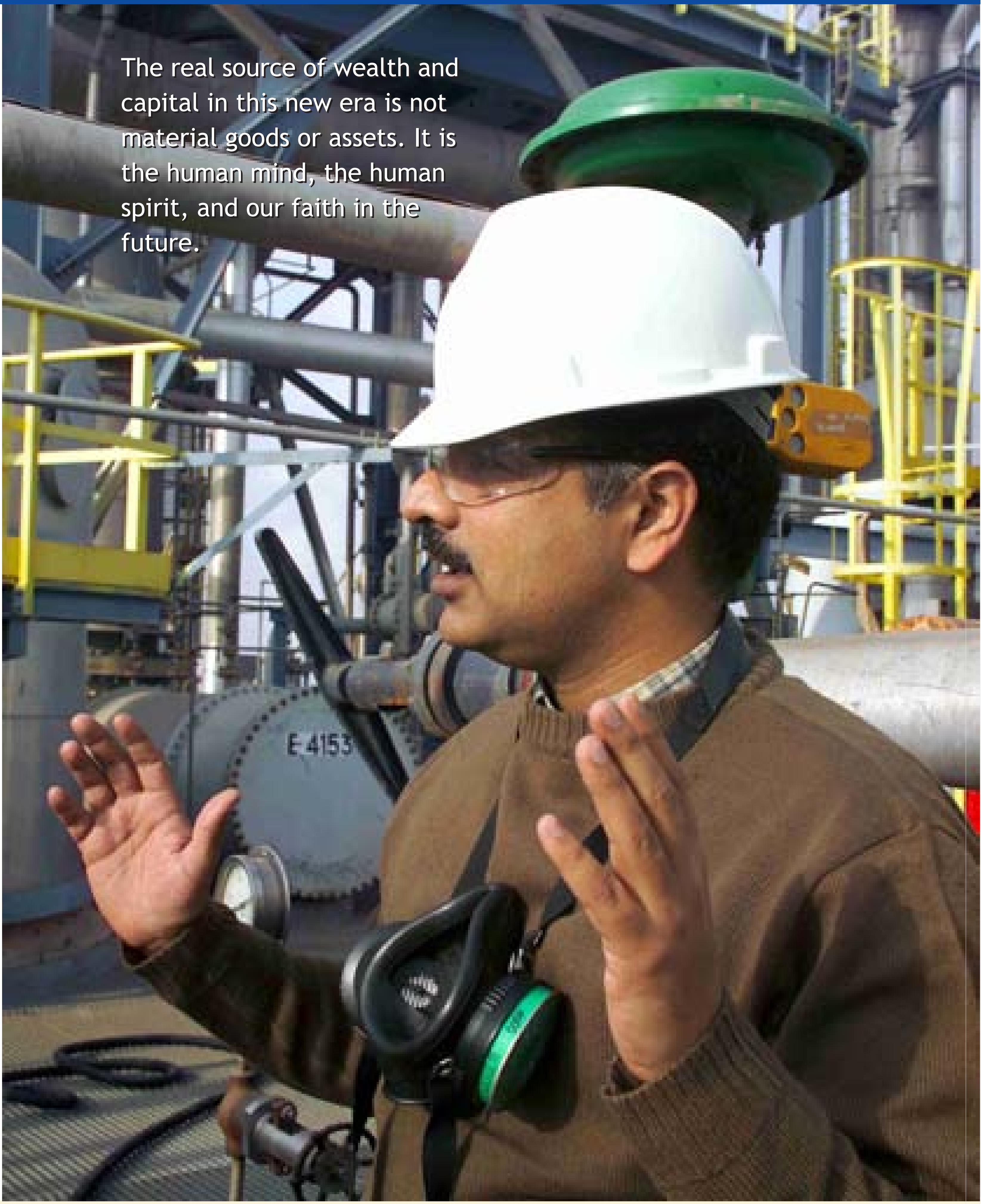
Board of Directors primary responsibilities include safeguarding the rights of shareholders and the enhancement of business prosperity over time and, therefore, the Board fully recognizes the importance of good governance in achieving these objectives through integrity, transparency, accountability, effective Board leadership, management's key role in governance and the roles of the internal and external Auditors as agents of the Board & shareholders.

The Board has established effective structures and processes on fundamental tenets of Code of Corporate Governance of Pakistan and international best practices of Governance including those relating to business environment in the South Asian region. This caters for the evolution of governance structures in evolving the best practices on corporate governance in response to the ever-changing commercial environments in the Region. The Governance Frameworks have been designed to achieve long term objectives of the Company. These Practices include "Core Values", "Standard of Conduct for Directors", "Standard of Conduct for employees", and, "Policy Statement of Ethics and Business Practices" which have been updated to ensure that they remain relevant and appropriate over time. These standards are applicable to the Board members, management and all employees of the Company at all times.

Over time, the Company has undertaken diagnostic self-assessment of Company risks relating to conformity with rules and organizational objectives, with high standards of values and ethical conduct. Confidence and trust form the core of all business between individuals and entities and affects an organization's reputation, and ultimately its financial performance. Ethics, therefore, is a driver of business growth.

Values are important beliefs that shape attitudes and motivate actions, and are, therefore, used as principles within which employees are required to make decisions. Our objective is to develop as a values-based organization through a values-driven culture, to promote an environment that encourages employees to "do the right thing the right way".

The real source of wealth and capital in this new era is not material goods or assets. It is the human mind, the human spirit, and our faith in the future.

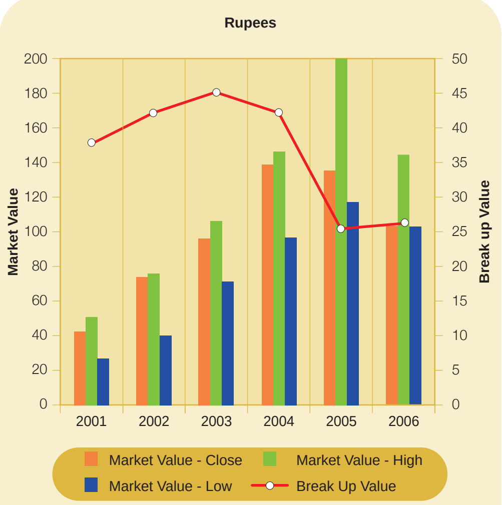


Best Practices of Corporate Governance

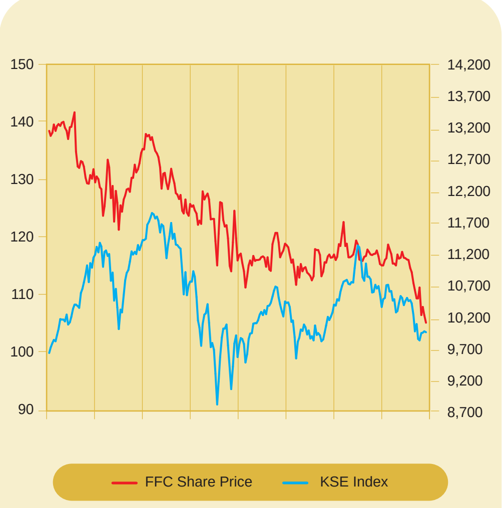
Investor Relations

The Board has designed effective strategies for promotion of communication with the shareholders and to encourage their informed and effective participation in general meetings for election of Directors, appointment of Auditors and other matters. Notices of General Meetings containing the Agenda and relevant information including voting, proxies procedures, separate resolutions for items requiring shareholders approval etc, are dispatched to the shareholders through mail in addition to their publication in leading English and Urdu Newspapers atleast 21 calendar days before the meeting.

Members of the Audit and other Committees in addition to External Auditors where relevant, are requested to attend the general meetings to answer queries of shareholders and other stakeholders.



MARKET & BREAK UP VALUES



FFC SHARE PRICE TRENDS vs KSE Index in 2006

Pattern of Shareholding

The Company shares are listed on the Karachi, Lahore and Islamabad Stock Exchanges of Pakistan. There were 10,304 Company shareholders as of December 31, 2006. Closely held shares (i.e. those held by the sponsors, investment companies, financial institutions, foreign investors and other corporate bodies) amounted to 87% of the total shares outstanding of which 6% were held by foreign shareholders. A total of 227.25 million Company shares were traded on the Stock Market during the year.

	No. of Shares
National Investment Trust	45,731,747
Investment Corporation of Pakistan	961
Company Executives	59,040
Public Sector Companies and Corporations	18,641,763
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds	99,640,958
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	26	47,683,116	9.66
Insurance Companies	22	49,402,418	10.01
Joint Stock Companies	167	6,316,888	1.28
Financial Institutions	30	27,242,028	5.52
Modarabas	24	501,692	0.10
Foreign Investors	49	30,632,281	6.21
Leasing Companies	5	380,973	0.08
Mutual Funds	34	27,919,699	5.66
Charitable Trusts & Others	115	240,663,545	48.77
Individuals	9832	62,731,590	12.71
Total	10,304	493,474,230	100.00

Shareholders Value

Company's stock market capitalization continued to lead the Fertilizer Industry with a significant capitalization of Rs. 52.09 billion at the end of 2006, demonstrating our dominant position and the strength of our shareholders' value in the Industry.

Corporate Accountability

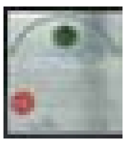
The Company relentlessly pursues excellence in all of its operations and undertakings, and we owe our success to our substantial and effective corporate governance practices and structures including honesty, transparency and accountability through timeliness, enhanced disclosure and reliability of financial reporting.

Review of Company's financial position, progress and prospects alongwith quarterly, half yearly and annual reports of the Company duly endorsed by the Chief Executive Officer and the Chief Financial Officer, notices and announcement of dividends, considered to affect the shares market price were transmitted to Company stakeholders and regulators within the time required by the Code of Corporate Governance, the Companies Ordinance 1984, the International Accounting Standards (IAS) and pronouncements of the Institute of Chartered Accountants of Pakistan, in addition to their publication on Company website.

The Company determined a closed period prior to each Board meeting and the Company Secretary has furnished a Secretarial Compliance Certificate as part of Annual Return for the year 2006 with the Registrar of Companies to certify that the secretarial and corporate requirements of the Companies Ordinance, 1984 have been duly complied with.

Recognition for Good Governance

I am immensely pleased to inform you that our dedication and commitment to the best practices of governance has enabled us to continue our legacy of meritorious and excellence awards.



The Company has been ranked amongst the "Top Twenty Five Companies" on the Karachi Stock Exchange for the twelfth consecutive year.

Our Annual Report for 2005 has been adjudged as the overall winner in the Annual Report competition 2005, jointly by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan.

In addition, the Report has also secured the top position in the Chemical & Fertilizers sector of the competition. Both the awards have been conferred on the Company for the fourth successive year demonstrating the precision with which the Company carries out the Board's governance policies of honesty and accountability through transparency.

Our Annual Report 2005 also enabled us to achieve laurels for the Country in the SAARC region by winning an award for the Best Presented Accounts in the Manufacturing Sector from the "South Asian Federation of Accountants (SAFA)" for the third consecutive year.

The Annual Report has also been selected among the best for design, layout and graphics at the "Annual International Graphic Print Material Exhibition 2005", organized by the National Council of Culture and Arts, Karachi for the fourth year in a row.

Excellence Awards

Brig Muhammad Saleem Suleman (Retired) - GM (CA)/ Company Secretary receiving KSE Top 25 Companies Award 2006

Mr Muhammmad Munir Malik - GM (T & P) receiving ICAP/ICMAP Best Corporate Report Award 2005 for 1st Position in Chemical & Fertilizer Sector

Mr Muhammmad Shuaib - General Manager (FR & PO) receiving SAFA Best Corporate Report Award 2005 in the Manufacturing Sector

Brig M. Saleem Suleman (Rtd) -GM (CA)/ Company Secretary receiving ICAP/ICMAP overall Best Corporate Report Award 2005

Best Practices of Corporate Governance

Board of Directors Meeting

The Board & Its Structure

The Board's focus is on facilitating the effective exercise of shareholders rights through efficient discharge of duties imposed on it by law, the Memorandum and Articles of Association of the Company and the listing regulations, and adding value in the context of achievement of the Company's business objectives on a sustained basis. The Board has been structured to have in-depth and proper understanding of their duties together with competence to deal with the current and emerging issues of the business and exercise independent judgment.

The Board has implemented a process of performance evaluation of the management and the Company to ensure its sustained success through delegation of duties to the Audit, Human Resources and System & Technology Committees. The Board oversees the financial and corporate reporting framework, compliance with all relevant laws, regulations and codes of conduct, approval of annual business plans, cash flow projections and long term plans, budgets along with variance analyses, details of related party transactions, significant internal audit issues, sale of material investments and assets and transactions of extraordinary nature through duties delegated to the Audit Committee.

Five Board meetings were held during the year, supervised by the Chairman for efficient organization, conduct, participation and contribution of the Directors during the meetings and the Board ensures the availability of members with sufficient financial acumen and knowledge to be able to offer guidance on matters of finance.

The Board comprises thirteen members and encourages a balance of Directors representing different interests on the Board. The Board has laid down effective foundation for the supervision and management of the Company through clear division of responsibilities of the Chairman of the Board and the Chief Executive Officer who also holds Managing Directorship of the Company.
The Board conducts induction training for new members and carries out regular orientation programs to update their skills and knowledge. The program includes information on nature of Company's business, overall objectives, critical success factors, risk profile, internal controls and governance structures, the responsibilities of the Board, Board committees and management, ethics and compliance framework, significant laws & regulations affecting the company & its environment.

Change of CEO/MD and the Directors

The Board unanimously places on record its appreciation for the vision and dedicated leadership of Lt. Gen. Mahmud Ahmed, HI(M) (Retired), who retired from the post of Chief Executive and Managing Director of the Company in March 2006.

The Board is grieved by the sudden demise of Syed Zaheer Ali Shah. It bids farewell to Maj. Gen. Julian Peter (Retired), Brig. Arshad Shah, SI(M) (Retired), Brig. Aftab Ahmed, SI(M) (Retired), Brig. Ghazanfar Ali, SI(M) (Retired), Brig. Munawar Ahmed Rana, SI(M) (Retired) and places on record its appreciation for their immense contribution towards the Company's progress.

On behalf of the Board and my own behalf, I am pleased to welcome Lt. Gen. Munir Hafiez, HI(M) (Retired) as the new Chief Executive and Managing Director of the Company and also welcome Brig. Arif Rasul Qureshi, SI(M) (Retired), Maj. Gen. Muhammad Tahir, HI(M) (Retired), Brig. Rahat Khan, SI(M) (Retired), Mr. Kamal Afsar and Mr. Tariq Bajwa as new Directors of the Company.

BOARD COMMITTEES

Audit Committee

The Board has established formal and transparent arrangements for application of the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's External Auditors through the Audit Committee.

The Audit Committee charter includes access to management and to the External and Internal Auditors without management present and the right to seek explanations and additional information. The responsibilities include review of management letters and other communications received from the External Auditors, discussion of major observations arising from interim and final audits and any matter that the Auditors may wish to highlight.

The Committee also assists the Board in reviewing, approving and monitoring effective compliance with the Company's mission, vision, corporate strategy & objectives, core values and standard of conduct, operational, financial and risk management policies, maintaining a proficient system of internal control to safeguard the shareholders investment and Company's assets, instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the External Auditors or to any other external body. The Committee supervises the Company's financial reporting process, including review of quarterly, half-yearly and annual financial statements prior to Boards' approval and publication, focusing on all relevant areas of material nature, review of publications, monitoring compliance with the best practices of corporate governance.

The Committee comprises four members including the Chairman all of whom are non-executive Directors of the Company with sufficient financial literacy and accounting and financial management expertise. 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 & Internal Control

The Internal Audit Charter is defined by the Audit Committee which includes its scope, powers and responsibilities. The Audit Committee supervises the internal audit function including the maintenance of a sound system of internal control and ensuring appropriate evaluation of internal control system using a recognized internal control framework, its structure, staffing, reporting relationships and frequency and independence.

The Audit Committee carries out regular reviews of the effectiveness and adequacy of the Company's system of internal control for safeguarding the Company assets. The review covers evaluations of the findings contained in the Internal Audit Reports, financial, operational and compliance controls, risk management and adequacy and effectiveness of the internal control system.

The Head of Internal Audit functionally reports to the Audit Committee and administratively to the Chief Executive. The Audit Committee also ensures appropriate coordination between the External and Internal Auditors including review of internal audit reports by the External Auditors, to ensure their efficiency and contribution to the Company's objectives, including reliable financial reporting and compliance with laws and regulations.

Best Practices of Corporate Governance

Statutory Auditors

The appointment and remuneration of the External Auditors form part of the Audit Committee's Terms of Reference.

Statutory Audit for the Company for the financial year ended December 31, 2006 has been concluded and the Auditors have issued their Audit Reports on the Company financial statements, consolidated financial statements and the "Statement of Compliance with The Code of Corporate Governance". The Auditors, KPMG Taseer Hadi & Company, Chartered Accountants, shall retire on the conclusion of the 29th Annual General Meeting.
The Auditors have confirmed compliance with the Guidelines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by the Institute of Chartered Accountants of Pakistan (ICAP), and have indicated their willingness to continue in office as Auditors and on the recommendation of the Audit Committee, the Board proposes their reappointment as Auditors for the financial year ending December 31, 2007.

Human Resources Committee

The HR Committee has been delegated the role to assist the Board of Directors in its oversight of the evaluation and approval of employee benefit plans, welfare projects, Good Performance Awards, 10 C Bonuses, Maintenance Of Industrial Peace Incentives (MOIPI) and financial packages as per the Collective Bargaining Agent (CBA) agreements, Long Terms Service Awards Policy, Safety Awards for safe plant operations and recommend actions deemed fair and necessary to attract and retain talented staff.

The Committee held five meetings during 2006 on as required/directed basis and comprises three members including the Chairman from the non-executive Directors of the Board.

Retirement Benefit Plans

The Company has instituted retirement benefit plans including gratuity, pension, and provident funds based on actuarial reports, assumptions and funding recommendations which were valued at Rs. 2,571 million with an increase of Rs. 428 million over last year.

System & Technology Committee

The Committee acts as an agent of the Board of Directors to review and assess the systems and procedures and to recommend management proposals on technological innovations impacting production and marketing of fertilizers through plant up-gradation, technology improvements etc. with relevant cost benefit analysis.

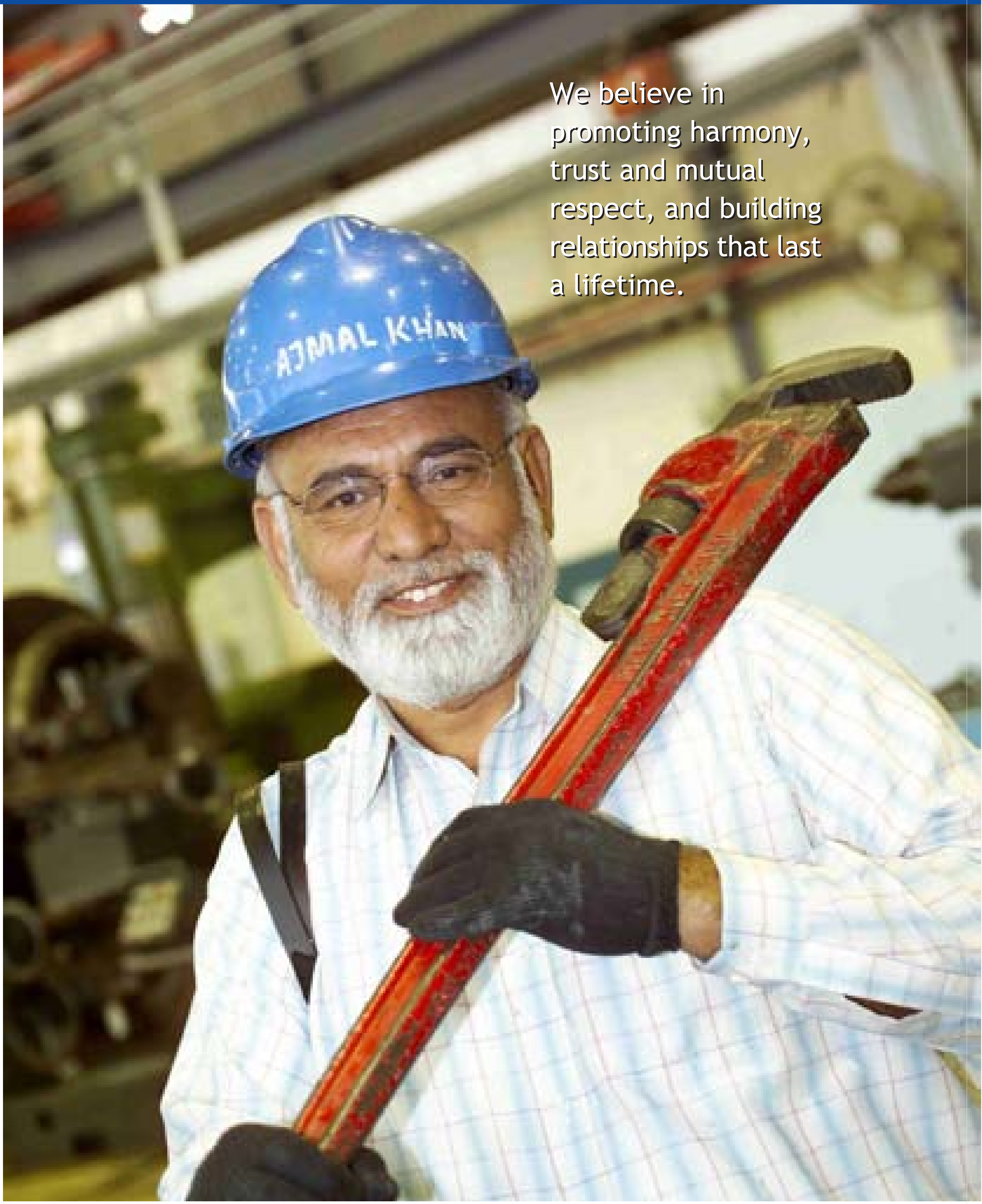
Other responsibilities include keeping abreast with the Continuous Improvements in Technological Advancements (CITA), its implementation in manufacturing, marketing and at administrative levels with periodic review and to promote awareness of all stakeholders on the need for investment in fertilizer/information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

The Committee comprises three members including the Chairman from the non-executive Directors of the Board and held four meetings during the year.

Projects Diversification Committee

This Committee constitutes members from the Directors which meets on required/directed basis to discharge its responsibilities for evaluating and discussing feasibilities for potential projects and new avenues for diversified investment of Company resources through acquisition or expansion, with attractive return and satisfactory growth and success potential, and presents its findings for the Board's review and approval.

We believe in promoting harmony, trust and mutual respect, and building relationships that last a lifetime.



Best Practices of Corporate Governance

Management And Its Committees

The management team of the Company is supervised, controlled and directed by the Chief Executive & Managing Director of the Company who acts as the head of a family assisted by Heads of Departments/Divisions under delegated authorities to implement policies, procedures and controls, providing feedback and carrying out the tasks, achieving objectives and strategies of the Board.

The Chief Executive has been assigned the leadership in promoting integrity, objectivity, accountability, openness and creating an environment where compliance is expected, valued and ensuring commitment to the organization's policies, principles, values and ethics through their conduct.

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.

Executive Committee

This Committee conducts its business under the Chairmanship of the Chief Executive & Managing Director and is composed of seven members from management of the Company.

The Committee is entrusted with the tasks to review Company operations on an ongoing basis, 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 and preparing comprehensive feasibilities.

Business Strategy Committee

This Committee is Chaired by the Chief Executive & Managing Director and includes five members from the Management of the Company including the CE & MD. Meetings are held on requirement basis for identification and management of risks and overseeing the treasury, operations and credit functions.

The Committee is also responsible for staying abreast of developments and trends in the Industry and planning for future capital intensive investments and growth of the Company.

We honour and respect all who choose to work for us, our society and the communities in which we operate.

As a matter of principle, FFC does not use any child labor or forced labor. Human rights, labor standards and the environment are key issues which have universal importance for us as reflected in our conduct.

Operations by the Sona Welfare Hospital administered through the Mirpur Mathelo plantsite commenced during the year which treats around 1,200 patients per month. Construction of a Coronary Care Unit at District Hospital, Ghotki and Sona Public School is also under progress for the neighbouring community. The Company also continues to provide financial support to Hazrat Bilal Trust Hospital at Goth Machhi for smooth operations of the Hospital. Aggregate donations by the Company amounted to Rs. 28.5 million, representing 0.61 % of our net profit for the year, and which in addition to the above social contributions included contributions to various welfare Institutions and societies and sporting bodies to promote healthy activities.

The Company continued its endeavours towards promotion of farmer income and quality of life, development of the society at large and sustained economic growth of the Country. Various special farmers meetings and group discussions on profitable crop cultivation, balanced fertilizer use and increased acreage were held by the Marketing Division of the Company. In addition, numerous demo plots, experiments and field days were organized. Hundreds of farms were visited, numerous soil/water tests were performed and Farm Advisory Services were extended. These services were provided free of cost to the farmers by our five Farm Advisory Centres and Technical Services Officers. Total cost incurred by the Company in provision of these services amounted to Rs. 4.1 million.

Social Responsibility & Corporate Citizenship

Lt Gen Munir Hafiez (Retired) - Chief Executive & Managing Director addressing the 2nd International Seminar on Ammonia and Urea Technology

2nd International Seminar on Ammonia and Urea Technology in progress

Technical and Training Services

The Technology Division of the Company organized 2nd FFC International Seminar for the Fertilizer industry on Ammonia and Urea Technology cosponsored by Haldor Topsoe A/S, Denmark and Snamprogetti, Italy to promote Company image and demonstrate its commitment toward contribution to the society and the economy at large.

The seminar included new developments in technology. Ammonia/urea licensors including Haldor Topsoe, Snamprogetti, and Stamicarbon highlighted developments in catalysts and materials of construction for urea equipment along with new philosophies for bigger ammonia/urea plants. Operators from Pakistan, Indonesia, China, India, Bahrain and Egypt shared their experiences regarding various problems and the approach used to solve those problems.

Our Technical Training Center continued to extend customized training services to other companies including OMV Pakistan Ltd and Bosicor Pak Ltd. Two new courses on "Networking Concepts and Use" were also introduced and conducted for the first time for clients. In addition, services to other companies including Pak Arab Fertilizers were provided as part of our professional commitment.

Employee Relations, Training & Welfare

The values which drive our business are based on an environment that embraces dignity, change, ideas, respect for the individual, and equal opportunity to succeed. Our commitment to our values and ethics has enabled us to attract and retain talent. Human capital plays a vital role in making or breaking the organization. Our employees possess skills, technical expertise, business knowledge and personality traits which have immensely strengthened our knowledge base.

Human capital management is the job of every individual in the Company and we have structured a culture to ensure an environment of compatibility and team spirit. Our policies focus on optimizing the lifetime value of our human asset by acquiring, developing, motivating, rewarding and more importantly, retaining the employee and we are committed to nurturing their welfare, health and safety, fostering a sense of belonging in each employee.

The Company pursues a policy of adequately trained, skilled and updated staff and conducted various in-house seminars/training courses at its Plantsites and Marketing Division in addition to nominating management employees on merit, for several local and international courses to enhance professional competence, awareness and perspectives. This helps employees and managers at operational sites to assume more control over new developments and challenging issues. The effectiveness of training, education and communication programs is reviewed regularly.

Adherence to the spirit and intent of the Companies Code of Ethics and Conduct is a pre-condition of continued employment and growth in the Company. The code has been translated into Urdu to ensure understanding at all levels of employment.

Developmental work of Mirpur Mathelo township is in progress including construction of new BOQ's, C-type bungalows and renovation of various types of old residential facilities.

A good company delivers excellent products and services, and a great company also strives to make the world a better place.

Safety, Health & Environment

We work efficiently, without compromising the health and safety of our employees for production or profit, in a manner that protects and promotes their well-being and maintains a safe workplace and environment.

Our employees are trained for their own safety, well being of their fellow workers and their environment and they endorse the Company's Health, Safety and Environment Policies and procedures to be followed. The policies are prominently displayed at all of our offices, plants and work sites and employees are required to promptly report any safety concerns, violations or incidents.

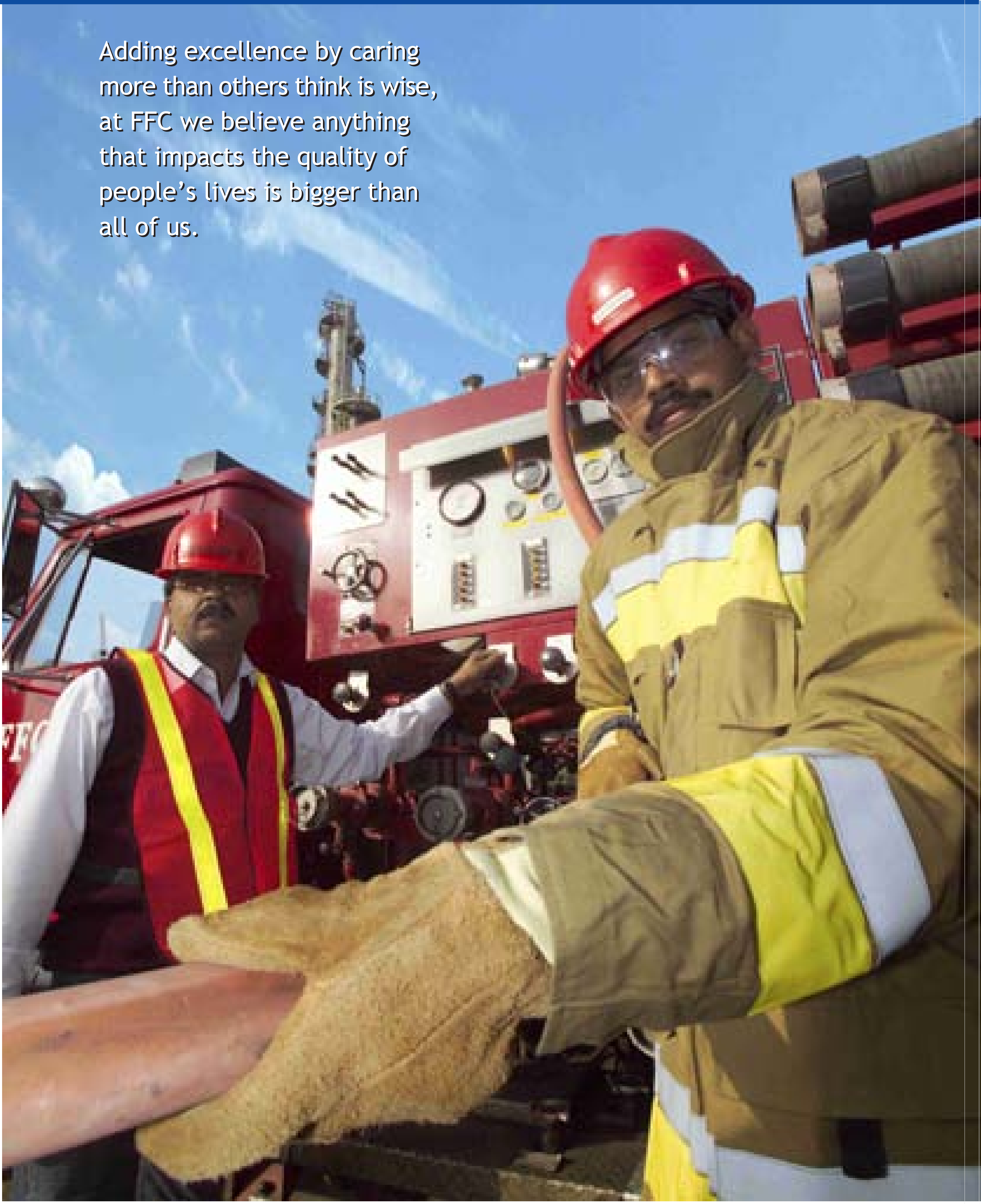
The Company has developed green strips and grassy plots at the Mirpur Mathelo plant site and township to provide pollution free lush green surroundings despite arid and hostile climatic conditions and saline soil.

Engineering of major environmental projects is underway at Mirpur Mathelo for commissioning in year 2007 related to ammonia process condensate recovery, rain water handling system, lime sludge disposal facilities and township waste water disposal system. In addition, Plantsite Goth Machhi attained qualification for the latest revision of Environmental Management System ISO-14001:2004 certification, which exhibits our concerns for the environment.

Promotion of safety culture is carried out through training sessions on safe equipment handling & emergency plan/dry run. Plantsite Mirpur Mathelo observed a safety week which included 'Spot the hazard' competition, fire fighting competition and exhibition of safety items.

Plantsite Goth Machhi successfully accomplished surveillance audit of our Quality and Occupational Health & Safety Management Systems certifications [ISO-9001: 2000 & OHSAS-18001:1999] by Bureau Veritas Certifications (BVC) during the year. The plant also conducts regular safety audits based on DuPont approach and OSHA standards and the Company has secured various security awards over the years. Goth Machhi Complex accumulated 5.44 million man-hours of safe operations while the Mirpur Mathelo complex has operated for 2 million man-hours of continuous safe operations till the end of 2006.

Adding excellence by caring more than others think is wise, at FFC we believe anything that impacts the quality of people's lives is bigger than all of us.



Future Outlook

Our abilities to forecast the future depend on our acquisition and application of knowledge through research. The ability to respond and effectively re-align strategies according to the paradigm shifts in the business is a quality underlying a dynamic and prosperous organization. Good governance practices are conducive to vibrant economic growth and we plan on developing our knowledge and technologies through our Research and Development capabilities.

Supportive Government policies, favourable climatic conditions and gas pricing play a vital role in the development of the industry, the farmer and ultimately the economy at large. The Company is seasoned enough to encounter unpredictable situations without materially altering course.

The Company plans execution of Plant III debottlenecking during turnaround 2007 within the planned time frame and commissioning of Distributed Control System (DCS) for Ammonia & Urea and Natural Gas Booster Compressor, K-211

Moving onto New Ground

The Company is in the process of evaluating a Wind Power Project at Jhampir - Nooriabad, Distt. Thatta, with electricity generation capacity of 50 Mega Watts, to be supplied to National Transmission & Despatch Company (NTDC). Terms of reference for project consultancy services and proposals on technical & commercial aspects submitted by four consultants are under review.

Going Concern Operations

Favourable demand and shortage of supplies in the Country has attracted entrance of new market players in addition to enhancement in current capacities by existing producers. However, brand preference by our agrarian partners gives us a tangible edge over our competitors. Consolidation of our resources and enhancement in Company urea production capacities and efficiencies through BMR, and investment in diversified projects will ensure the Company's growth. These factors guarantee the future prosperity of the Company and its ability to continue as a going concern.

WTO Challenges

Our innovative approach, resilience and response to challenges lead us to believe that WTO implications would not have a negative impact on the Company's overall operations. Our belief is based on the dire need to increase agricultural output due to population increase and, consequently, robust demand for our product.

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

Conclusion

I am extremely grateful to our shareholders, customers, dealers, suppliers, contractors, bankers and other business partners for their enduring relationship and their continued support towards the prosperity of the Company.

We are proud of our work force and appreciate their commitment, diligence and perseverance. We are grateful for their contribution to the results achieved by the Company during the year.

The Board places on record its appreciation for the supportive policies of the Government of Pakistan, and Mari Gas Company Ltd. for a trusting and faithful business partnership vital to the Companies success.

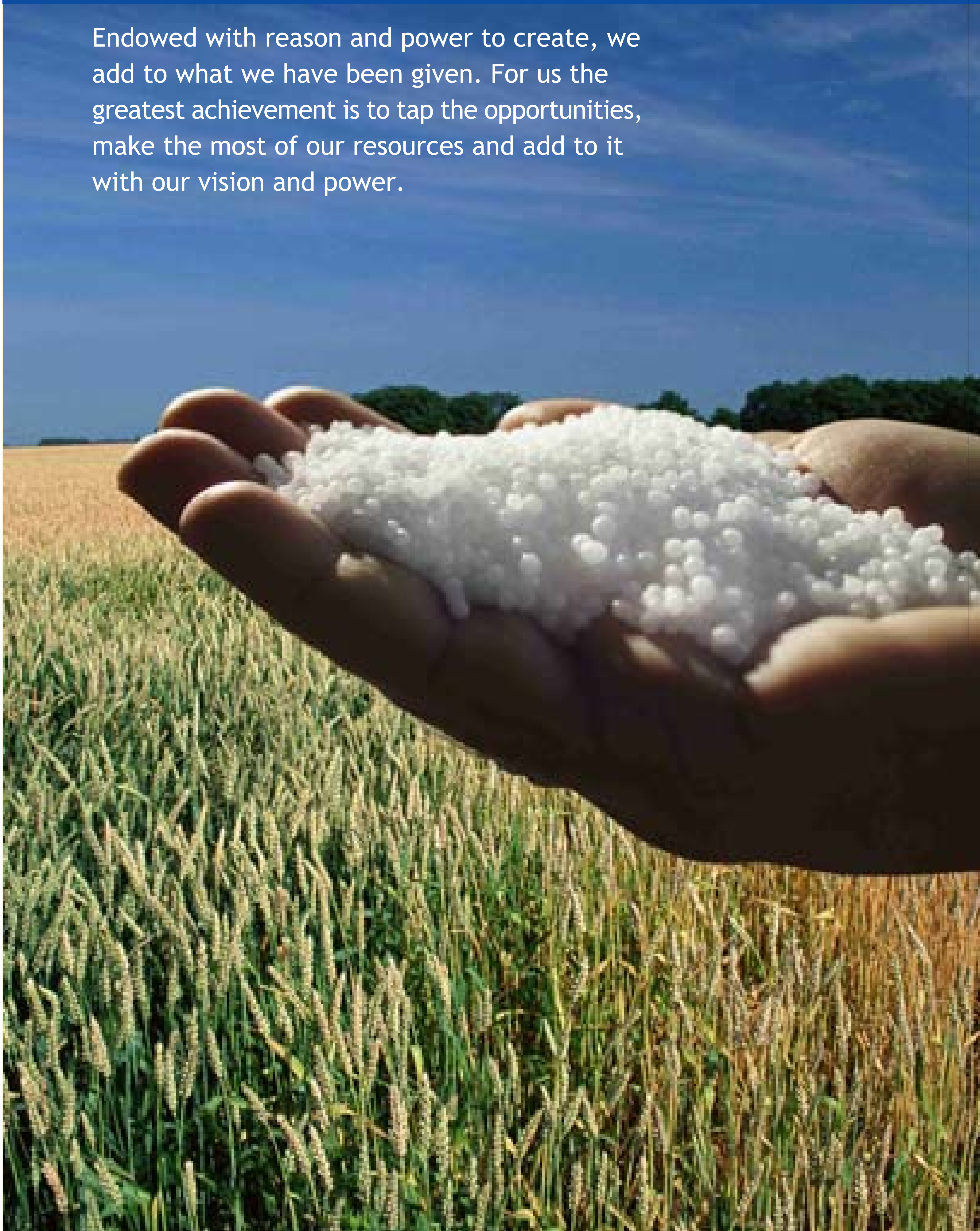
In the end, I would like to thank my fellow Board members for their untiring efforts in directing the Company's course through favourable and unfavourable business conditions. This has enabled the Company to grow into a mature and capable organization.

Chairman

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

Rawalpindi
January 26, 2007

Endowed with reason and power to create, we add to what we have been given. For us the greatest achievement is to tap the opportunities, make the most of our resources and add to it with our vision and power.



FFC
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