# Annual Report
for the year ended December 31, 2007

## It is about solutions for a Greener Earth

FFC FAUJI FERTILIZER COMPANY LIMITED


# The Cover Concept

A green earth, a concern FFC stands for, a question FFC answers to. It is the main focus of our time and energy and we only look towards ourselves for it. For us, a tree is far more glorious than a tower. Every aspect of our business life is a vote for it because we recognize miracles of green each day we walk over the green fields. But is it our concern only? Our earth is what we all share, what we all have in common. By taking care of it collectively means we will have numerous solutions for its nourishment & protection. So let's understand the problem, let's work on it and find solutions for this lone donor of mankind and conserve for ourselves our love, our Earth.

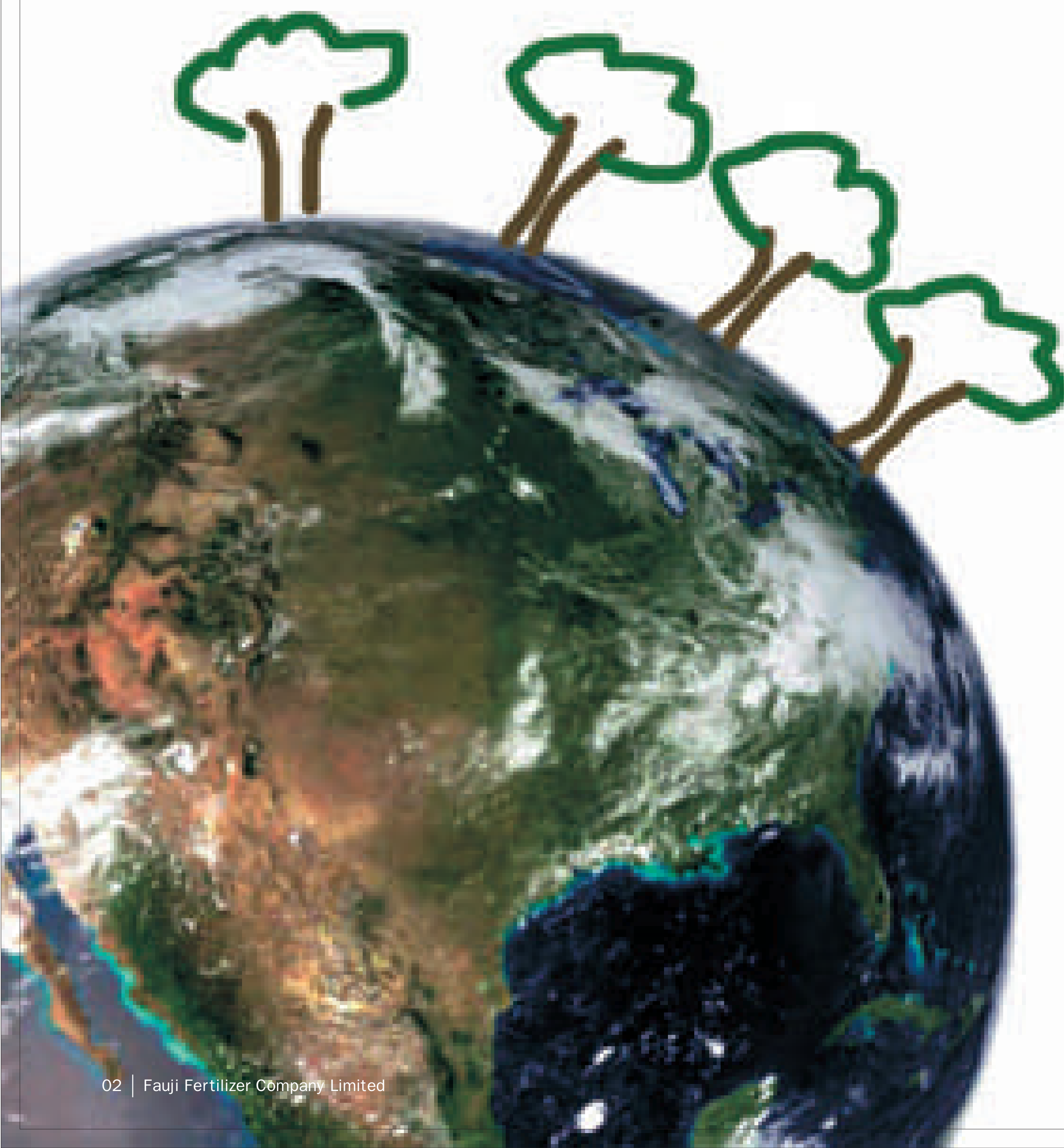
# Contents

## 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 Statement

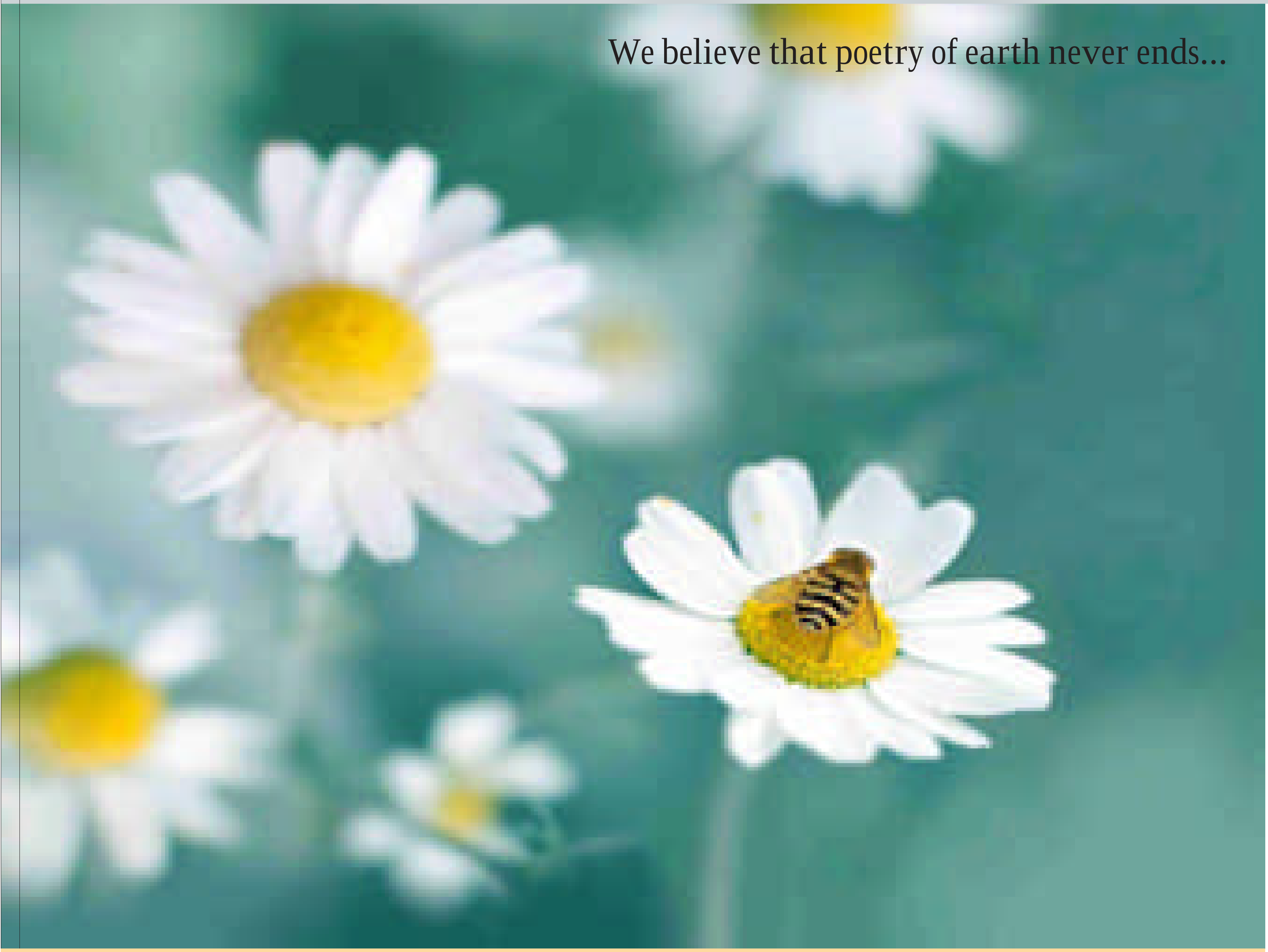
FFC is committed to play its leading role in industrial and agricultural advancement in Pakistan by providing quality fertilizers and allied services to its customers and given the passion to excel, take on fresh challenges, set new goals and take initiatives for development of profitable business ventures.



Our strategy takes us to our destination
And our imagination takes us beyond that

## 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 markets, 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.




It is the policy of FFC 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 standard 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.

## 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...

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.

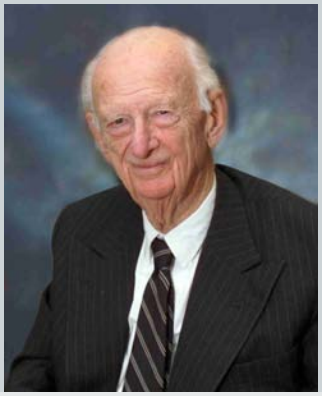
Compassion in our relationships with our employees and the communities affected by our business.

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.

# Company Information

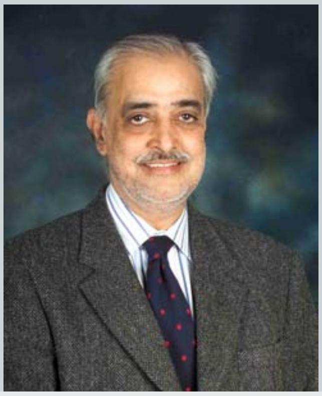
Lt Gen Syed Arif Hasan, HI(M) (Retired)
*Chairman*

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

Maj Gen Muhammad Tahir
*HI(M) (Retired)*

Brig Rahat Khan
*SI(M) (Retired)*

Mr Kamal Afsar

Mr Mohsin Raza

## Board of Directors

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

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

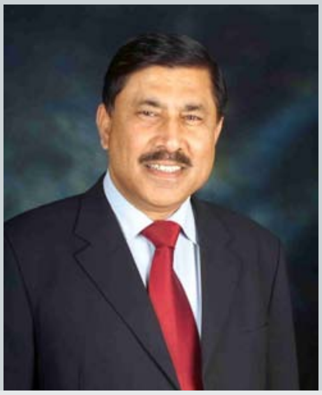
Dr Haldor Topsoe
Mr Qaiser Javed
Mr Tariq Iqbal Khan
Mr Khawar Saeed
Dr Nadeem Inayat
Mr Istaqbal Mehdi
Brig Arif Rasul Qureshi, SI(M) (Retired)
Maj Gen Muhammad Tahir, HI(M) (Retired)
Brig Rahat Khan, SI(M) (Retired)
Mr Kamal Afsar
Mr Mohsin Raza

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

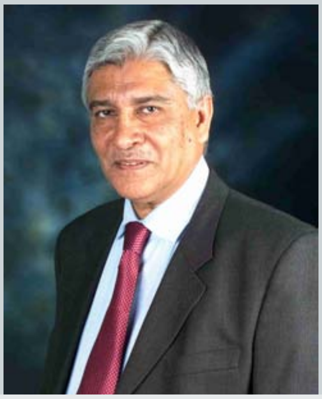
**Company Secretary**
Brig Khalid Kibriya (Retired)
Tel: 92-51-9272327
Fax: 92-51-9272519
E-mail: ffcrwp@ffc.com.pk

Dr. Nadeem Inayat

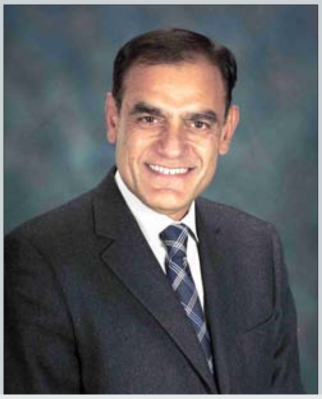
Mr Istaqbal Mehdi



Brig Arif Rasul Qureshi
*SI(M) (Retired)*



Mr Abid Maqbool
*Chief Financial Officer*



Brig Khalid Kibriya (Retired)
*Company Secretary*

**Registered Office**
93-Harley Street, Rawalpindi, Pakistan
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

## BOD 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 Abid Maqbool
*Chief Financial Officer*
Mr Asad Sultan Chaudhry
*General Manager Marketing*
Syed Iqtidar Saeed
*General Manager (Technology & Operations)*
Brig Khalid Kibriya (Retired)
*Company Secretary*

**Executive Committee**

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

*Members*
Mr Abid Maqbool
*Chief Financial Officer*
Mr Asad Sultan Chaudhry
*General Manager Marketing*
Syed Iqtidar Saeed
*General Manager (Technology & Operations)*
Mr Tahir Javed
*General Manager Plant, Goth Machhi*
Mr Naeem ur Rehman
*General Manager Plant(A), Mirpur Mathelo*
Mr. Saulat Hussain
*General Manager, Human Resource*
Brig Khalid Kibriya (Retired)
*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) | 6 | – | – | – | – |
| Lt Gen Munir Hafiez HI(M) (Retired) | 6 | – | – | – | – |
| Dr Haldor Topsoe | 1 | – | – | – | – |
| Mr. Qaiser Javed | 6 | 4 | 4 | – | 2 |
| Mr. Tariq Iqbal Khan | 6 | 5 | – | – | 3 |
| Mr. Istaqbal Mehdi | 3 | – | – | – | – |
| Mr. Khawar Saeed | 5 | 3 | – | – | – |
| Dr. Nadeem Inayat | 6 | – | 4 | 1 | 1 |
| Brig Arif Rasul Qureshi SI(M) (Retired) | 6 | – | 6 | 2 | – |
| Maj Gen Muhammad Tahir HI(M) (Retired) | 5 | – | – | – | – |
| Brig Rahat Khan SI(M) (Retired) | 5 | – | – | 3 | 1 |
| Mr. Kamal Afsar | 1 | – | – | – | – |
| Mr. Tariq Bajwa | 1 | 1 | – | – | – |
| **Number of Meetings Held** | **6** | **5** | **6** | **3** | **3** |

The success becomes visible when organization attracts talented people, develops its people and is able to retain high performers.

# Notice of Annual General Meeting


Notice is hereby given that the 30th Annual General Meeting of the shareholders of Fauji Fertilizer Company Limited will be held at Pearl Continental Hotel, Rawalpindi on Wednesday, February 27, 2008 at 1230 hours to transact the following business:-

**Ordinary Business**

1. To confirm the minutes of Extraordinary General Meeting held on August 13, 2007.
2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and the Directors' Reports thereon for the year ended December 31, 2007 together with the Audited Consolidated Accounts of FFC and subsidiary FFBL for the year ended December 31, 2007.
3. To appoint External Auditors for the year 2008 and to fix their remuneration.
4. To approve payment of Final Dividend for the year ended December 31, 2007 as recommended by the Board of Directors.

**Special Business**

5. To consider, and if thought fit, pass the following Special Resolution subject to any amendment as may be approved by the shareholders:

**Special Resolution**

"RESOLVED that Article 67 of the Articles of Association of the Company be and is hereby amended and reconstituted as under:-

**67** Every Director, other than the regularly paid Chief Executive or a full time working Director, shall be entitled to be paid remuneration for his services a fee as decided by the Board for attending Board / Committee meetings. Every Director (including each alternate Director) shall be entitled to be reimbursed expenses incurred in consequence of his attendance at meetings of the Directors."

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

**By Order of the Board**

**Brig Khalid Kibriya (Retired)**
Company Secretary

Rawalpindi
February 05, 2008

**NOTES:**

1. The share transfer books of the Company will remain closed from February 23, 2008 to February 29, 2008 (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 computerized national identity card (CNIC) to prove identity, and in case of proxy, a copy of shareholder's attested CNIC must be attached with the proxy form. Representatives of corporate members should bring the usual documents required for such purpose.

**CDC Account Holders** will also have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities Exchange Commission of Pakistan.

**A. For attending the Meeting:**

i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration detail is uploaded as per the regulations, shall authenticate identity by showing his/her original CNIC or original passport at the time of attending the Meeting.

ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless provided earlier) at the time of Meeting.

**B. For appointing proxies:**

i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration detail is uploaded as per the regulations, shall submit the proxy form as per the above requirement.

ii) The proxy form shall be witnessed by the person whose name, address and CNIC number shall be mentioned on the form.

iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his original CNIC or original passport at the time of Meeting.

v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (Unless it has been provided earlier) along with proxy form to the Company.

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

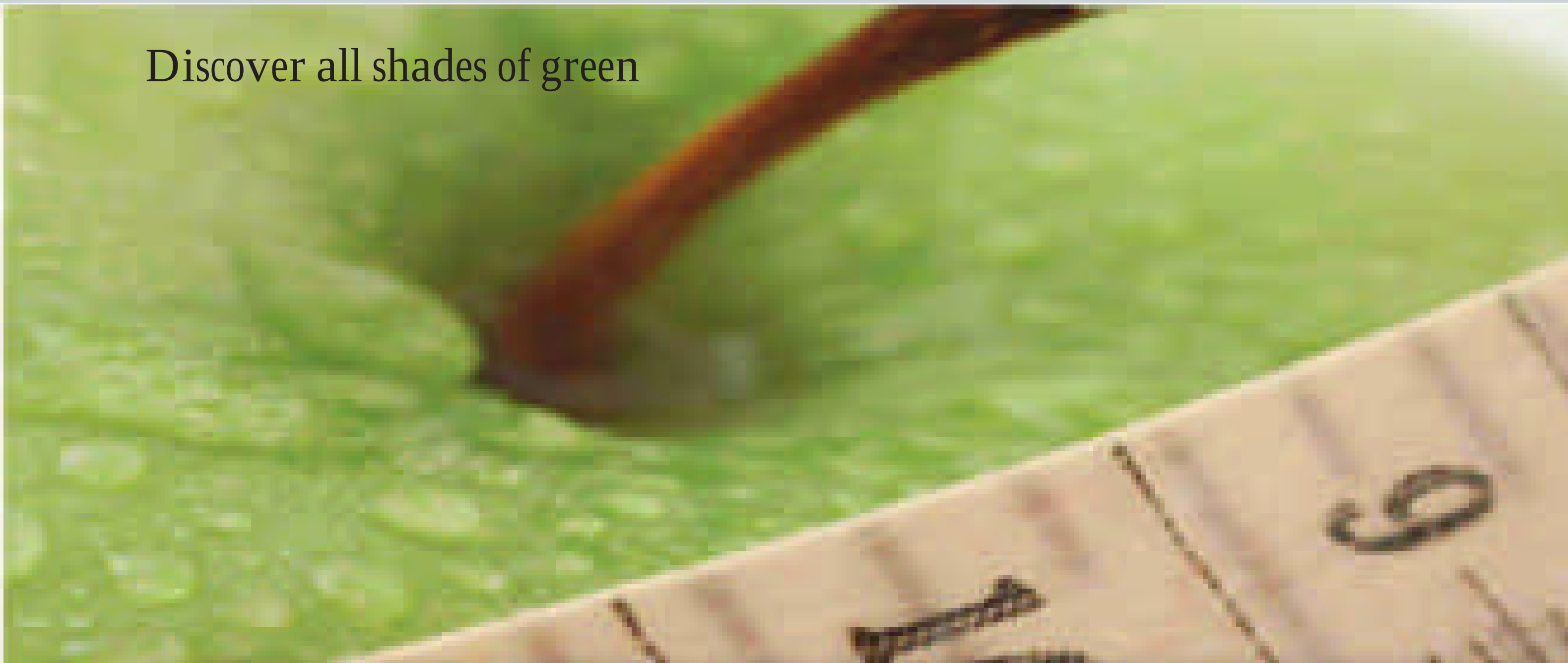
(i) This statement sets out the material facts concerning the special business given in agenda item No. 5 of the Notice, to be transacted at the 30th Annual General Meeting of Fauji Fertilizer Company Limited to be held at Pearl Continental Hotel, Rawalpindi on February 27, 2008.

(ii) The existing fee to Directors for attending the Board / Committee meetings was fixed in 1998 which is not as per current market benchmarks. Therefore, there is a need to revise the fee.

# Financial Performance

| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | |
|---|---|---|---|---|---|---|---|---|
| **KEY INDICATORS** | | | | | | | | |
| **Operating** | | | | | | | | |
| Gross Margin | % | 39.78 | 34.86 | 37.42 | 36.06 | 32.42 | 35.59 | |
| Pre Tax Margin | % | 28.83 | 23.44 | 29.02 | 28.31 | 23.32 | 27.49 | |
| Net Margin | % | 18.31 | 14.95 | 19.04 | 19.22 | 15.48 | 18.86 | |
| **Performance** | | | | | | | | |
| Return on Assets | % | 17.18 | 18.11 | 23.08 | 25.36 | 25.47 | 26.73 | |
| Total Assets Turnover | | 0.60 | 0.77 | 0.80 | 0.90 | 1.09 | 0.97 | |
| Fixed Assets Turnover | | 1.76 | 2.27 | 2.29 | 2.77 | 3.12 | 2.74 | |
| Inventory Turnover | Times | 19.11 | 22.20 | 31.93 | 47.47 | 29.31 | 25.54 | |
| Debtors Turnover | Times | 14.72 | 12.84 | 12.81 | 24.65 | 36.95 | 21.18 | |
| Inventory Turnover | Days | 19 | 16 | 11 | 8 | 12 | 14 | |
| Debtors Turnover | Days | 25 | 28 | 29 | 15 | 10 | 17 | |
| Return on Equity | % | 28.55 | 27.29 | 32.57 | 39.36 | 35.78 | 42.11 | |
| Return on Capital Employed | % | 18.66 | 19.56 | 26.41 | 36.49 | 32.76 | 34.81 | |
| Retention (after interim cash) | % | 33.23 | 30.67 | 19.28 | 21.05 | 35.07 | 30.96 | |
| Retention (after prop cash & bonus) | % | 24.88 | 18.43 | (23.48) | (33.12) | (6.44) | (1.25) | |
| **Leverage** | | | | | | | | |
| Debt: Equity | | 35:65 | 28:72 | 19:81 | 7:93 | 8:92 | 17:83 | |
| Interest Cover | | 8.24 | 10.47 | 17.36 | 23.13 | 14.94 | 12.22 | |
| **Liquidity** | | | | | | | | |
| Current | | 1.04 | 1.04 | 1.09 | 0.91 | 0.90 | 0.94 | |
| Quick | | 0.79 | 0.76 | 0.87 | 0.69 | 0.61 | 0.68 | |
| **Valuation** | | | | | | | | |
| Earnings per share (pre tax) | Rs. | 9.81 | 9.99 | 12.37 | 14.62 | 14.16 | 15.84 | |
| Earnings per share (after tax) | Rs. | 6.23 | 6.37 | 8.11 | 9.92 | 9.39 | 10.86 | |
| Earnings growth | % | (4.09) | 2.33 | 27.33 | 22.31 | (5.33) | 15.63 | |
| Breakup value/(Net assets/share) | Rs. | 41.96 | 44.92 | 41.68 | 25.21 | 26.26 | 25.80 | |
| Dividend per share – Interim cash | Rs. | 8.00 | 8.50 | 12.00 | 9.75 | 6.10 | 7.50 | |
| Dividend per share – Prop. Final | Rs. | 1.00 | 1.50 | 3.00 | 2.25 | 3.90 | 3.50 | * |
| Bonus shares issued | % | – | – | 15.00 | 40.00 | – | – | |
| Proposed bonus issue | % | – | – | 15.00 | – | – | – | * |
| Total dividend incl. bonus | % | 90.00 | 100.00 | 180.00 | 160.00 | 100.00 | 110.00 | |

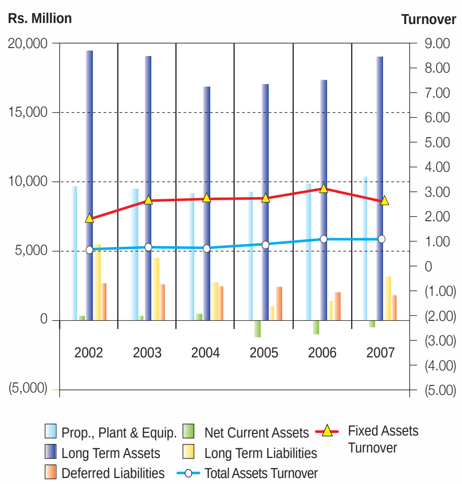
# Discover all shades of green



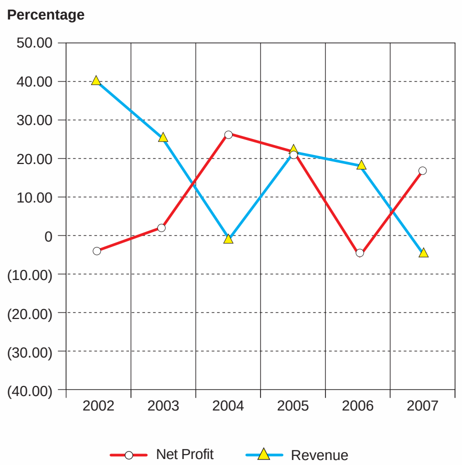
| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| **KEY INDICATORS** | | | | | | | |
| **Valuation- Continued** | | | | | | | |
| Payout ratio - Cash (after tax) | % | 66.77 | 69.33 | 80.72 | 78.95 | 64.93 | 69.04 |
| Payout ratio incl. prop. Cash | % | 75.11 | 81.57 | 102.82 | 101.62 | 106.44 | 101.25 |
| Total payout - cash & bonus | % | 75.11 | 81.57 | 123.48 | 133.12 | 106.44 | 101.25 |
| Price earning ratio | | 11.74 | 14.99 | 17.19 | 13.80 | 11.23 | 10.93 |
| Market price to breakup Value | | 1.22 | 1.32 | 2.81 | 5.57 | 4.72 | 4.52 |
| Dividend yield/Effective dividend rate | % | 17.51 | 16.86 | 15.36 | 11.39 | 8.07 | 9.43 |
| Market value per share - Year end | Rs. | 73.10 | 95.50 | 139.45 | 137.00 | 105.55 | 118.75 |
| Market value per share - High | Rs. | 73.95 | 105.95 | 143.90 | 180.00 | 144.90 | 131.90 |
| Market value per share - Low | Rs. | 38.85 | 69.15 | 95.75 | 118.00 | 105.50 | 103.00 |
| Market capitalization | (Rs. M) | 18,750 | 24,495 | 41,134 | 67,606 | 52,086 | 58,600 |
| **Historical trends** | | | | Rs. million | | | |
| Trading results | | | | | | | |
| Net Turnover | | 16,787 | 21,035 | 21,027 | 25,481 | 29,951 | 28,429 |
| Gross profit | | 6,678 | 7,333 | 7,869 | 9,187 | 9,709 | 10,117 |
| Operating profit | | 5,220 | 5,482 | 6,103 | 6,816 | 6,962 | 7,699 |
| Profit before tax | | 4,839 | 4,931 | 6,103 | 7,214 | 6,985 | 7,815 |
| Profit after tax | | 3,073 | 3,145 | 4,004 | 4,897 | 4,636 | 5,361 |
| **Financial position** | | | | | | | |
| Share capital | | 2,565 | 2,565 | 2,950 | 4,935 | 4,935 | 4,935 |
| Shareholder's funds | | 10,763 | 11,523 | 12,295 | 12,441 | 12,957 | 12,730 |
| Reserves | | 8,198 | 8,958 | 9,345 | 7,506 | 8,022 | 7,795 |
| Property, plant & equipment | | 9,516 | 9,259 | 9,181 | 9,185 | 9,608 | 10,390 |
| Net current assets | | 396 | 309 | 775 | (1,162) | (1,119) | (665) |
| Long term assets | | 18,761 | 18,292 | 16,796 | 16,985 | 17,666 | 18,430 |
| Long term liabilities | | 5,704 | 4,557 | 2,868 | 981 | 1,194 | 2,671 |
| Deferred liabilities | | 2,690 | 2,522 | 2,407 | 2,401 | 2,396 | 2,364 |
| Liquid funds (net) | | 4,554 | 3,393 | 6,355 | 5,801 | 496 | 2,103 |

** Post Balance Sheet Event*


## Assets & Liabilities

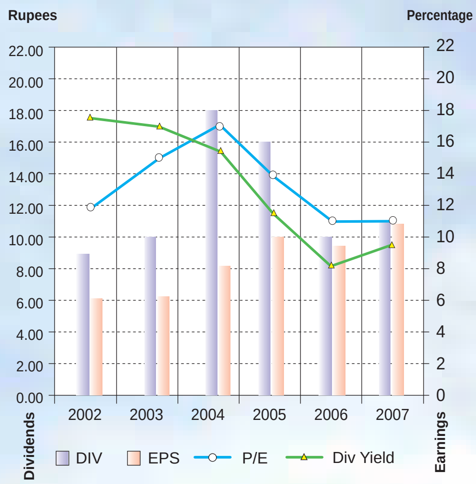



## Turnover / Net Profit Movement Trend

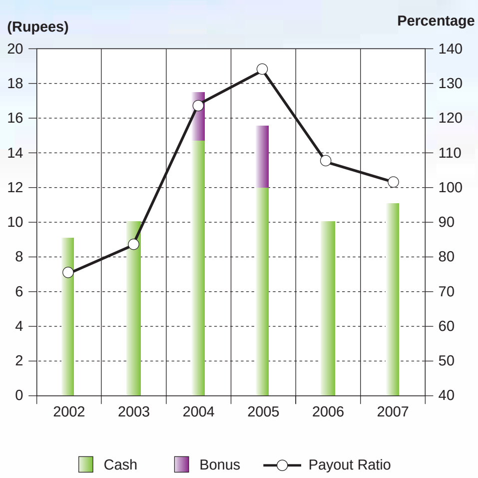


## Return On Equity And Capital Employed


## Dividends And Earnings

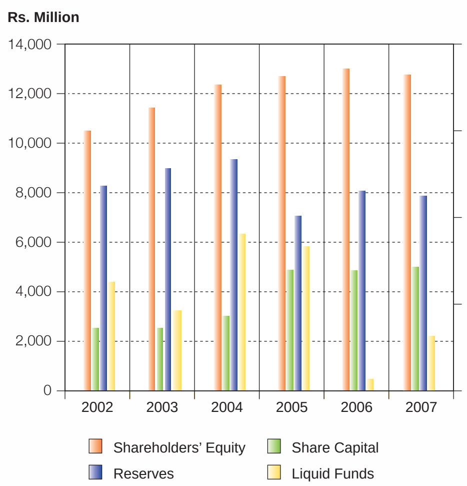



## Dividends And Payout Ratios

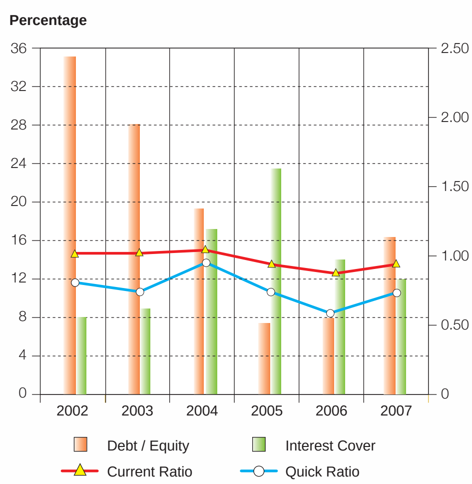



## Inventory & Debtors Turnover


## Equity / Liquid Funds




## Leverage & Liquidity Ratios



*Dear Stake Holders,*

## Welcome to the thirtieth annual review of the Company.

Lt Gen Syed Arif Hasan HI(M) (Retired) Chairman and
Lt Gen Munir Hafiez HI(M) (Retired) Chief Executive & Managing Director

As we commemorate three decades of our dynamic existence, I am pleased to report best ever fiscal performance for 2007.

The success we have seen over the years is the product of the Board's vision and commitment towards prosperity, supplemented with persistence of our employees and the unwavering brand loyalty of thousands of our agrarian partners.

We have come a long way in framing business practices and technology which have not only earned us the reputation as the market leader of a quality product but has also won us the recognition of being a model corporate citizen, with rich dividend payouts. We are proud of our contributions towards the agricultural sector and the farming community.

The Board is focused on exploring new avenues for diversified growth and we are confident that our state of the art facilities together with substantial market presence would ensure sustained growth for the Company and its shareholders in the times to come.

**Key Performance Indicators**

| | 2007 | 2006 |
|---|---|---|
| | (Qty '000' Tonnes) | |
| 'Sona' Urea Production | 2,320 | 2,296 |
| 'Sona' Urea Sales | 2,298 | 2,293 |
| Total Urea Sales | 2,376 | 2,541 |
| DAP Sales | 211 | 352 |

(Rs. in Millions)

| | 2007 | 2006 |
|---|---|---|
| All Fertilizers Sales Revenue | 28,429 | 29,951 |

| | (Rs. in Millions) | | |
|---|---|---|---|
| | 2007 | Previous Best | |
| | | Amount | Year |
| 'Sona' Urea Revenue | 22,161 | 21,125 | 2006 |
| Gross Profit | 10,117 | 9,709 | 2006 |
| Profit after Tax | 5,361 | 4,897 | 2005 |
| Cash Dividend* | 5,428 | 4,977 | 2005 |
| Dividend Income from FFBL | 1,307 | 950 | 2005 |
| Contribution to National Exchequer | 11,979 | 11,370 | 2006 |
| EPS - Rupees | 10.86 | 9.92 | 2005 |

* Relating to subject year but accounted for in the next year in compliance with IAS.


Lt Gen Munir Hafiez (Retired) Chief Executive and Managing Director at Demonstration plot developed by Marketing Group, FFC

# The Agronomy

**PAKISTANI ECONOMY**

Pakistan's economic growth has been notably resilient with the longest spell in years, accelerating to 7% in 2006-07 on the back of impressive performance in agriculture, manufacturing and services. Average real GDP has grown at an average rate of 7% per annum during 2003-07 and over 7.5% in the last four years (2004-07). Compared to other emerging economies in Asia, it is the fastest growing economy in the region along with China, India, and Vietnam.

Per capita income in current dollar terms soared by 11% to $ 925. Overall investment reached a new height of 23% of GDP and private investment remained buoyant despite a stringent monetary policy. Due to steady deceleration in core nonfood non-energy inflation from an average of 7.7% last year to 6% this year, the overall budget deficit target of 4.2% of GDP and revenue collection target of the Federal Board of Revenue were achieved. Public debt declined from 56.9% to 53.4% of GDP and external debt and liabilities declined from 29.4% to 27.1%.

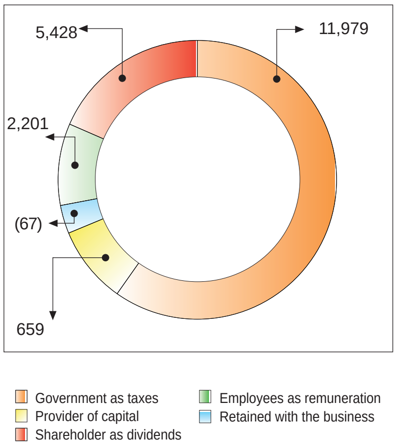
**Value Addition & Distribution By FFC**

FFC contributed value addition of Rs. 20.199 billion during 2007 with 9 % improvement over last year, in addition to savings in foreign exchange by US $ 807 million through import substitution by production of 2,320 thousand tonnes of urea.

Shareholders' returns in the form of cash dividends stood at Rs. 5,428 million while payments to providers of capital and employees' remuneration & benefits totalled Rs. 659 million and Rs. 2,201 million respectively. Additionally, Rs. 11.979 billion were remitted to the National Exchequer through taxes, levies, excise duty, sales tax and gas surcharge with aggregate contribution to-date of Rs. 94.365 billion to the Treasury.

**Value Addition And Distribution During 2007**

**Rs. 20,199 Million**



23.5 Mill. Tonnes

13 Mill. Bales

## GLOBAL ECONOMY

The global economy witnessed a broadly shared growth and economic expansion period unmatched since the early 1970s and expanded by 5.4% at low inflation levels. Euro zone managed a strong recovery of 2.6%, up from 1.4% the previous year. Advanced economies grew by 3.1% while emerging and developing economies grew by an astonishing 7.9%.

Asia led the way to development with 9.4% growth. All the countries in South Asia registered strong economic expansion and poverty reduction. Pakistan too has benefited from the benign international economic environment.

## AGRARIAN PERFORMANCE

The sector recorded a modest recovery, growing by 5% in 2006-07 as compared to 1.6% last year. Major crops witnessed strong recovery with growth of 7.6% against a decline of 4.1% last year. Wheat production rose by 10.5% to 23.5 million tonnes, the highest ever recorded wheat production, owing to balanced fertilizer usage, availability of water during Rabi season, higher availability of agricultural credit and introduction of three new high yielding varieties of wheat. Sugarcane production improved by 22.6% to 54.8 million tonnes, which is the second highest crop yield in the Country's history.

Cotton production at 13 million bales remained at last year's level. Rice and maize registered declines of 2% and 4.5% respectively. Gram pulse exhibited an impressive growth of 75.4% to 0.842 million tonnes compared to 0.48 million tonnes last year.

Agriculture continues to be the single largest sector of the national economy and has been designated as a dominant driving force for economic growth and poverty reduction. National economic policies revolve around agriculture since it is the main source of livelihood for 66% of the Country's population, employing 43.4% of the total work force and accounting for 20.9% of the GDP.

### Key Agricultural Input

Fertilizers supplement natural soil nutrients with chemical nutrients. Balanced and efficient fertilizer usage is imperative for increasing yields and improved crop quality which in turn caters for the rapidly growing population of Pakistan.

Urea and DAP sales have shown average annual growths of 2.4% and 5.5% respectively over the period 2003-2007. The increase in fertilizer usage can be attributed to diverse factors such as various incentives offered by the Government to promote balanced use of fertilizer, introduction of high yielding crop varieties, reclamation of land and expansion in cultivated areas, public sector support through subsidies, credit facilities and support prices. Agricultural credit disbursement rose substantially from Rs. 130 billion in fiscal year 2005-2006 to Rs 160 billion in 2006-2007. Government also launched several awareness campaigns through electronic and print media on improved farming technology, cultural practices and inputs' usage for major crops.

## Urea Fertilizer

The Industry commenced the year 2007 with a significant urea carryover stock of 233 thousand tonnes, which was thrice the volume of opening inventory of 2006. Urea production for the year at 4,755 thousand tonnes declined by 1% against last year's production, while 55 thousand tonnes were imported initially despite an over supplied situation and low demand. Urea sales picked up in the third quarter of the year, recording highest ever urea offtake. An additional 150 thousand tonnes of urea imports have been arranged by the Government for Rabi 2007-08 to bridge the demand supply gap. The Industry concluded the year with an aggregate offtake of 4,917 thousand tonnes. Total urea sales however, registered a drop of 6% as compared to offtake of 2006.

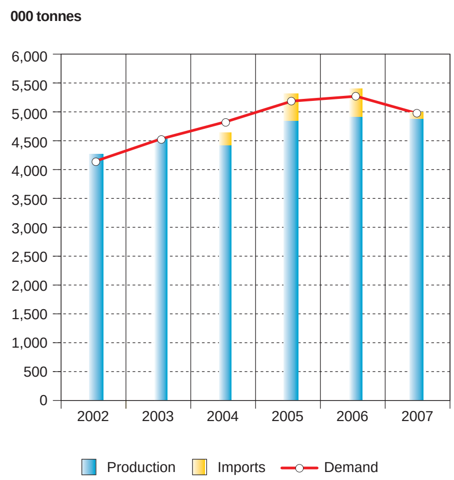
## DAP – (Di Ammonium Phosphate)

The Government announced farmer subsidy of Rs. 250 per bag in September 2006, on phosphatic and potassic fertilizers, for promoting balanced fertilizer usage. The relief was enhanced to Rs. 400 / bag in March 2007 which was later increased to Rs. 470 / bag following the steep increase in international prices of DAP from US$ 250 fob per tonne at end December 2006 to US$ 620 fob per tonne toward year end 2007.

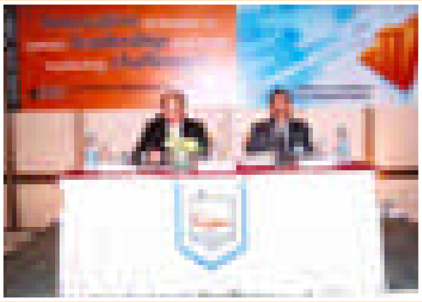
Indigenous DAP production by Company's subsidiary FFBL was recorded at 357 thousand tonnes which decreased by 21% as compared to last year due to FFBL DAP Plant revamp shutdown while 1,200 thousand tonnes were imported by the Industry during the year to complement total availability during the year, in addition to opening inventory of 119 thousand tonnes.

DAP offtake of 1,424 thousand tonnes during 2007 registered a decline of 6%, equivalent with urea decline, and the Industry carried 252 thousand tonnes of DAP at the close of 2007. The carryover stock is, however, anticipated to meet the requirements of Rabi 2007-08 season.

**Industry Urea Market Supplies Vs Demand**



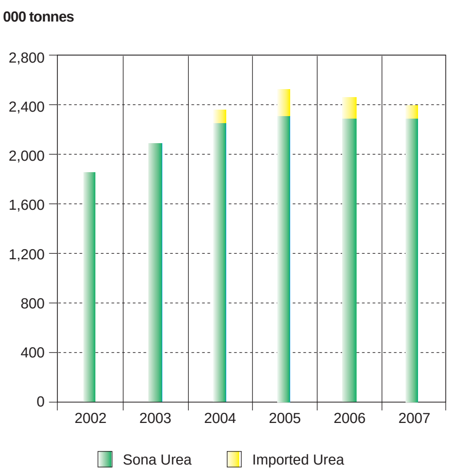
Managing Director being briefed during a field visit



Managing Director addressing the Annual Marketing Conference

Surveying the results at a cotton crop field

**Urea Sales**




## FFC Marketing Operations

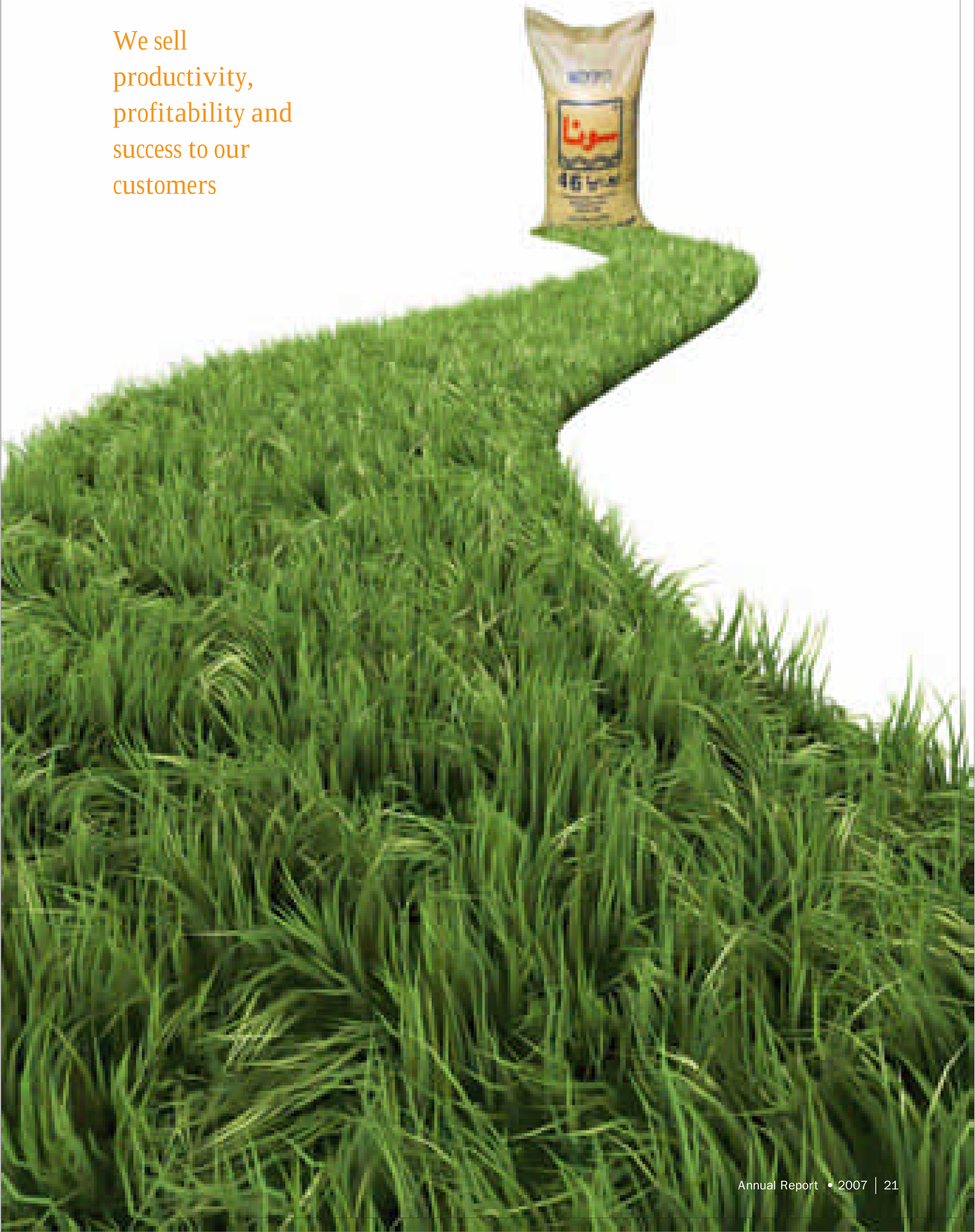
FFC Marketing Group played its customary pivotal role through the largest fertilizer marketing network in the Country towards improvement of national agriculture and enhancement of farmer economy for a satisfactory and improved life style.

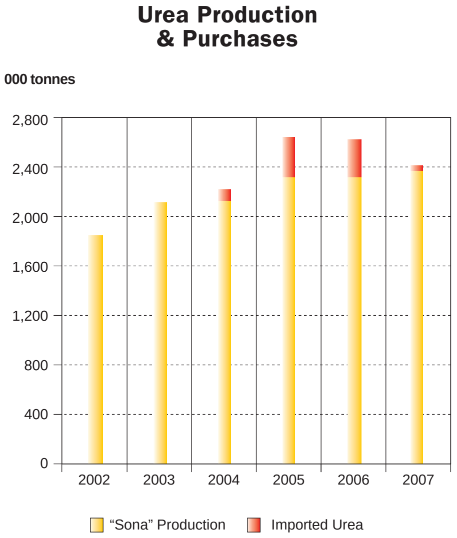
The Company marketed 2,298 thousand tonnes of "Sona" urea prilled which improved marginally over last year, and 79 thousand tonnes of imported urea during the year in addition to marketing of 474 thousand tonnes of "Sona" urea Granular and 18 thousand tonnes of imported urea on behalf of FFBL. Aggregate urea sales were, therefore, recorded at 2,869 thousand tonnes which enabled the Company to contribute 58% to the local urea Industry during the year.

Aggregate DAP sales by the Company stood at 562 thousand tonnes, 32% below sales of 2006, comprising 352 thousand tonnes of FFBL's "Sona" DAP and 210 thousand tonnes of imported DAP. The Company resultantly attained a market share of 40%. The Company additionally marketed 17 thousand tonnes of SOP and 116 tonnes of Boron from FFC stock.

Aggregate all product sales were recorded at 3,448 thousand tonnes and the Company earned dispatch money of US$ 345,238 during handling of 7 DAP vessels at Karachi port. The Company attained highest ever urea sales record in July and November 2007, while highest ever DAP offtake was recorded in January, February and July 2007.

We sell productivity, profitability and success to our customers




## Production Facilities

We are determined in our resolve to enhance plant operational efficiency and team work for sustaining Company profitability and retaining our leadership in the fertilizer manufacturing industry. We are also committed to serve both the agricultural community and the industrial sector at large by provision of quality services, training and by maintaining our renowned product quality.

We have also developed Information Technology tools and data schema to facilitate the eventual seamless exchange of information between systems that prompts effective decision making.

**PLANTS I & II (GOTH MACHHI)**

The Plants achieved highest ever production records during 2007 with an output of 829 thousand tonnes and 811 thousand tonnes by Plant I and Plant II respectively, aggregating to 1,640 thousand tonnes. Total output improved by 4% over last year with Plant I operating at 119% of design while Plant II registered an efficiency factor of 128% of capacity. Highest ever daily production records of 2,478 tonnes and 2,368 tonnes for Plant I and Plant II respectively were also attained in addition to monthly records of 74.84 thousand tonnes and 71.39 thousand tonnes by the respective Plants. Plant II Ammonia front end surpassed its continuous running record of 613 days on December 31, 2007 and is still running. These achievements are attributable to our consistent efforts towards efficiency improvement through harmonized team efforts.

Building on strengths to create new products, services and markets

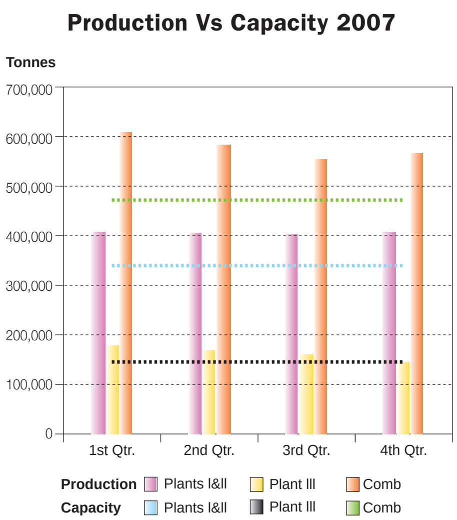
## PLANT III (MIRPUR MATHELO)

The Plant operated at 119% of design, producing 680 thousand tonnes of Sona Urea against target of 717 thousand tonnes. The shortfall was due to plant shutdowns to attend Urea Striper Leakage problems.

Planned annual turnaround was undertaken in September 2007. A large number of jobs were carried out pertaining to reliability improvement, efficiency and technological advancements. All these jobs were carried out safely and efficiently, inspite of high ambient temperature. During this turnaround, urea Stripper was replaced with another stripper refurbished at FFC, Goth Machhi. However, due to successive leakages in this stripper, the old Urea Stripper had to be reinstalled after necessary repairs.

A number of tubes of Boilers, B-601/2 were replaced owing to thickness loss. Boiler floor was covered with refractory to eliminate the flame effect on the tubes to improve reliability of the boilers and help achieving high service factor of the Plant.

Leakage in Urea Reactor, R-101, being observed in weep holes since 2006, was successfully detected during Turnaround-2007 and repaired through extensive mechanical job including segregation of lining and rehabilitation of weld seam, which has resulted in improved reliability and integrity of the equipment.




# Balancing, Modernization & Replacement (BMR)

### PLANTS I & II (GOTH MACHHI)

A major bottleneck at Plant-II for high load operation of CO2 removal section was successfully revamped through on-line changeover of conventional aMDEA solvent with new improved HiCap formulation, for reducing CO2 slippage to less than 500 ppm which also resulted in enhanced urea production by approximately 80 Met per day. The project cost was approximately Rs. 20 million and payback was achieved within 2 months.

BMR of natural gas compression facilities at Deh Shahbaz Pur [DSP] site has been kicked-off with site development work in full swing. This project is being undertaken to sustain plant load by maintaining the gas supply pressure thereby countering the negative effects of the continuously depleting natural gas reservoir. Order for three compressor packages [Phase-I] has been placed with Enerflex, Canada.

Phased-out replacement of Plant-I MCR instrumentation and control system with the state-of-art PCIMS (Process Control & Information Management System) is under way. FFC engineers actively took part in engineering of ESD logics and commissioning of DCS training system. Complete hardware of Phase-I was received at site and seven cabinets were installed.

The challenging task of inspection and repair of the Demin Water Tank T-901, base plate corrosion problem was carried out for the first time since Plant commissioning and the redundant moth-balled ammonia storage tank was also prepared for DMW storage. State-of-art Magnetic Flux Leakage (MFL) technique was applied for the first time in FFC, to evaluate base plate condition.


**PLANT III (MIRPUR MATHELO)**

Natural gas pressure from MGCL continued to decline due to well head pressure depletion. Commissioning of natural gas booster compressor has been taken up. Test run of compressor has been carried out on no load successfully and the compressor is ready for commissioning with expected service by January 2008.

Replacement of damaged/dislodged packing with high efficiency packing of the utilities eight cells cooling tower has been completed which improved reliability and thermal efficacy of the tower. Up-gradation of cooling tower fans and motors, at cost of Rs. 39 million, was also highlighted by cooling tower specialist, Spig Italy, during performance test. All technical matters have been finalized for the project and ordering of fans and motors is being initiated.

Turbo-generator TG-701 B, in service since Plant commissioning was tested at full/rated load successfully for the first time to check its capability for continuous operation in view of additional loads required in year 2008 due to township expansion, natural gas booster compressor operation and Plant DBN.

Obsolete control systems of ammonia and urea Plants were replaced with state-of-the-art DCS control which shall not only improve Plant reliability/monitoring but also help in accurate and timely diagnosis of problems as well optimize operational control. Urea Vent stack, ME-121 had corroded and was replaced with superior material. The Vent is 110 meter tall and replacement was undertaken safely inspite of safety risk involved due to job execution at such height, utilizing the largest mobile crane in Pakistan with its extra ordinary boom length.

After developing fabrication shop/facilities, nine exchangers including intercoolers of Air and CO2 compressors have been fabricated and installed during Turnaround 2007. The latest state-of-the-art techniques of hydraulic expansion and tack expander were employed to achieve welding reliability. This quantum of exchangers handled in one year is a record in the history of FFC which has resulted in savings of Rs. 20 Million.

Field activities of Plant-III De-Bottlenecking (DBN) project have commenced. Excavation for civil foundation and digging of test piles are in progress. Almost all the bulk piping material has been received at Plantsite. Prefabrication activities of ammonia Plant have started and preparations for urea Plant prefabrication activities are in progress.

## Fiscal Review

The Board's primary role is to safeguard and enhance long-term shareholders' value by providing strategic direction to the Company to remain economically and operationally viable over time. Integrated performance by all our divisions resulted in record performance for the year.

'Sona' urea sales generated record revenue of Rs. 22.161 billion which improved by 5% compared to last year's performance. Revenues from imported fertilizers, phosphates and urea, were recorded at Rs. 5.47 billion and Rs. 798 million respectively, registering declines of 14% and 68% owing to lower imports. This resulted in a net reduction of 5% in aggregate sales revenues as compared to 2006.

The cost of sales was also lower by 10% at Rs. 18.312 billion, mainly on account of lower imported fertilizers sales. The Company was, therefore, able to improve gross margin to 36% with gross profitability of Rs. 10.117 billion which improved by 4% compared to last year. The subsidy receivable from the Government on import of DAP amounted to Rs. 936 million as at the Balance Sheet date.

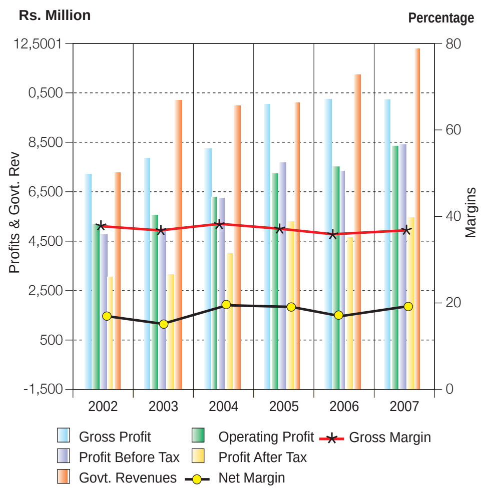
The Company paid Rs. 2.42 billion for marketing of fertilizers all over the Country. The distribution cost decreased by 12% compared to last year mainly due to lower imported fertilizer sales. Other income grew to Rs. 1.66 billion depicting an increase of 32% in 2007. The growth is attributable primarily to substantial increase in dividend income from our subsidiary FFBL, of Rs. 1.31 billion as against Rs. 832 million last year, in addition to returns from our treasury operations.

Finance cost was higher by Rs. 195 million compared to last year mainly due to financial charges on long term loans for DBN of Plant III and long term working capital requirements of the Company.

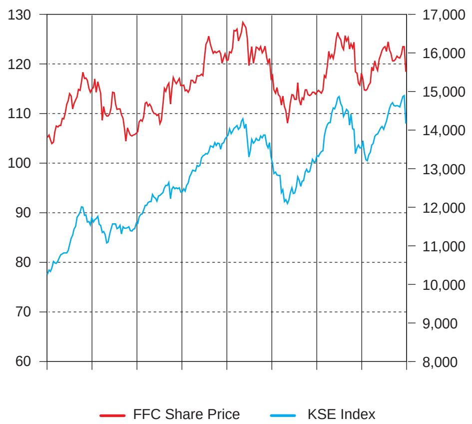
The amortisation of goodwill on acquisition of Pak Saudi Fertilizers Limited (PSFL) of Rs. 105 million annually has ceased pursuant to adoption of IFRS 3-"Business Combinations" by the Securities & Exchange Commission of Pakistan.

Net profit after tax was, therefore, earned at a record Rs. 5.361 billion which improved by 16% over last year's figure. Earnings per share of Rs. 10.86 increased by Rs. 1.47 per share as compared to 2006 while the price earning ratio was recorded at 10.93%.

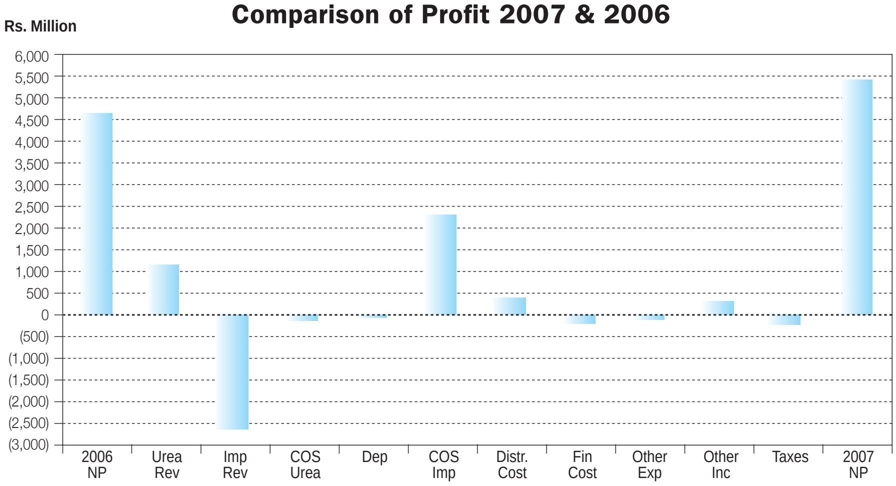
**Profit, Margins & Govt. Revenues**




**FFC Share Price Trends Vs KSE Index In 2007**




**Comparison of Profit 2007 & 2006**




### COMMITMENTS

As at the Balance Sheet date, the Company was financially committed to pay certain amounts in the future against purchase orders/letters of credit for goods and services. These included an aggregate Rs. 2.088 billion for procurement of property, plant and equipment, import of fertilizer, stores & spares and other revenue items. Committed lease rentals include payments for premises and vehicles from 2008 to 2012, and beyond. These payments have been duly catered for in projected cash flows for 2008 and onwards.

The Company also has an obligation to share commitments of Pakistan Maroc Phosphore (PMP), an offshore investment, by virtue of FFC equity participation in PMP under the International Accounting Standards. FFC share of PMP's commitments amounted to Rs. 837 million as at December 31, 2007.

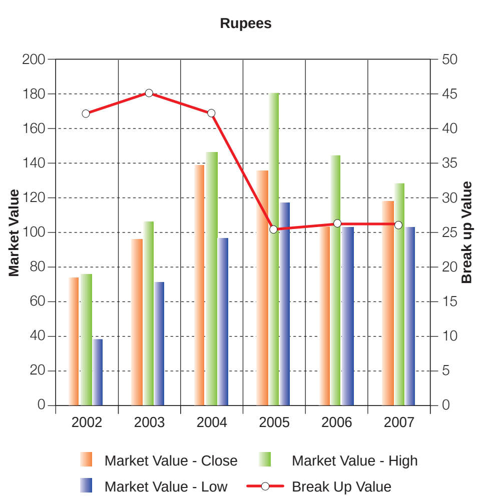
### APPROPRIATION OF PROFIT

| | Rupees "000" |
|---|---|
| **Un-appropriated profit brought forward** | 1,671,801 |
| **Transfer from general reserve** | 250,000 |
| | 1,921,801 |
| **Final Dividend 2006 Rs. 3.90 per share** | 1,924,549 |
| | (2,748) |
| **Net profit after taxation** | 5,360,953 |
| | 5,358,205 |
| **Dividend on ordinary shares:** | |
| First interim 2007 Rs. 2.50 per share | 1,233,685 |
| Second interim 2007 Rs. 2.25 per share | 1,110,317 |
| Third interim 2007 Rs. 2.75 per share | 1,357,054 |
| | 3,701,056 |
| **Un-appropriated profit carried forward** | 1,657,149 |

### POST BALANCE SHEET EVENT

The Board has announced final dividend of Rs. 3.50 per share (35%), for 2007, in addition to three interim dividends aggregating to Rs. 7.50 per share (75%), subject to the approval of the members of the Company in their meeting scheduled for February 27, 2008.

**Market & Break Up Values**




## 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 2008 have been planned to be financed through internal cash generations and short term financings from external sources. Provisions have also been made for payments on account of capital commitments stated in financial statements for 2007.

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

The investment portfolio of the Company is fairly diversified, ranging from equity participation in FFBL and PMP to investment in Government Bonds and mutual funds. These investments are aimed at tapping the positive developments in the financial and industrial sectors. 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 rate long term financing is hedged against interest rate risk by holding "prepayment option", which can be exercised upon any adverse movement in the underlying interest rates.

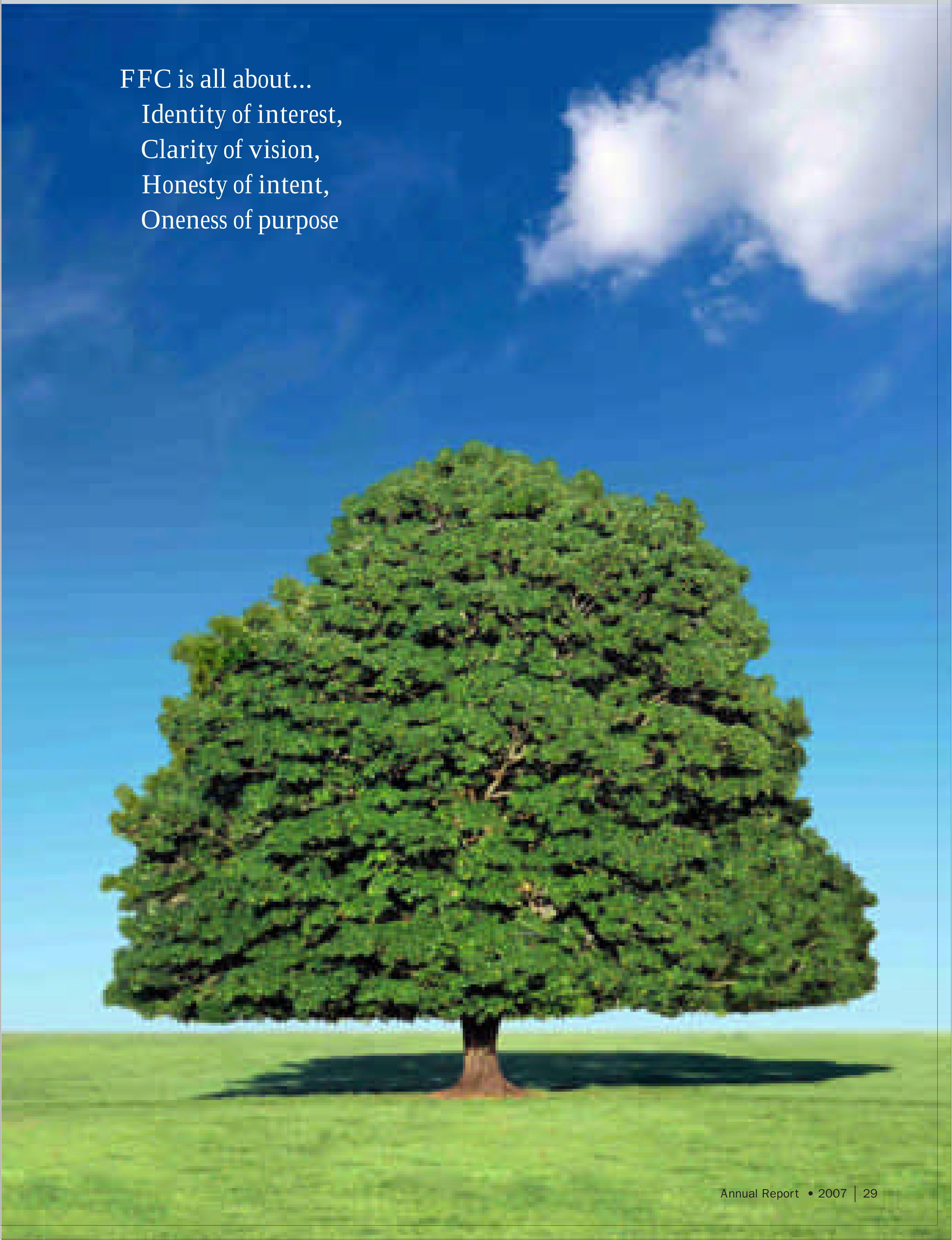
### Foreign Exchange Risk

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 further mitigated by making short term placements/obtaining short term financing that give Company's treasury the flexibility to readjust its portfolio.

### Capital Management

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

FFC is all about...
Identity of interest,
Clarity of vision,
Honesty of intent,
Oneness of purpose



**FAUJI FERTILIZER BIN QASIM LIMITED (FFBL)**

The Group earned consolidated all fertilizers sales revenue of Rs. 40.689 billion depicting a decline of 9% as compared to Rs. 44.681 billion for 2006 and included Rs. 12.243 billion of FFBL's sales revenue. FFBL achieved highest ever daily Ammonia production of 1.58 thousand tonnes. Total production of 362 thousand tonnes, however, was 19% below the figure for 2006 due to natural gas supply restriction by SSGC. Granular urea production at 488 thousand tonnes was 19% lower than last year, whereas, DAP production at 357 thousand tonnes was 21% below the figure for 2006.

Consolidated profitability improved owing to better performance by both FFC and FFBL during 2007 with gross profit enhancement by 4% to Rs. 14.957 billion while the after tax profitability, after elimination of inter-company transactions, amounted to Rs. 6.594 billion which was 5% higher than 2006. Dividend income of FFC from FFBL during the year was 27.5% as compared to 17.5% last year, representing an increase of 10%. Dividend income, however, does not form part of consolidated profitability, being an inter-company transaction. FFBL has announced a final dividend of Rs 1.0 per share (10%) for 2007.

GOP compensation to FFBL decreased by 14% to Rs. 600 million as compared to Rs 700 million in 2006. However, income through treasury operations and other sources increased by 18% to Rs. 652 million. The Group claim for DAP & SOP subsidy from the Government amounted to Rs. 1.665 billion.

Ammonia Plant BMR was successfully carried out by FFBL during March - May 2007 Turnaround. The project was spread over two phases with 40% of the job carried out in Turnaround 2006. The project involved an aggregate capital outlay equivalent to Euro 48.5 million and has resulted in improved efficiency, reliability and optimum utilization of Plant capacity with 23% increased production of 1,570 tonnes/day.

DAP Plant Revamp has also been undertaken by FFBL from December 2007 with a view to utilizing additional Ammonia available, wherein DAP Plant capacity would be enhanced to 150% of its design. Construction activities are in full swing and the project is progressing satisfactorily. Commissioning and start-up is expected by end March 2008 within the approved budget of US$ 30 million.

Amendment to existing GSA was signed by FFBL & SSGC in December 2007 whereby the required quantity of gas of 85 MMSCFD has been secured upto 2015, extendable for a further 10 years. Additional allocation of gas will help meeting post-BMR requirement on sustained basis.

## OVERSEAS INVESTMENT – PMP

FFC has invested Rs. 706 million equivalent to Morroccan Dirhams (MAD) 100 million, representing 12.50 % equity of PMP. An additional 12.72% equity is controlled by FFC by virtue of FFC's 50.88% stake in FFBL. Group investment in PMP amounted to Rs. 2.117 billion while Group share of PMP commitments amounted to Rs. 2.510 billion as at December 31, 2007.

The Project has been undertaken to ensure uninterrupted supply of phosphoric acid to FFBL, which is a major raw material for DAP production. The Project shall also enhance earnings of both FFC and FFBL through distribution of income in the form of dividends.

The Project has entered the start up phase and at current rate of progress, phosphoric acid production is likely to commence by mid February 2008. Mechanical erection alongwith all major tests have been completed and the Project is expected to be completed within the budget of MAD 2,030 million.

First off shore shipment of phosphoric acid is expected in March 2008, which shall coincide with completion of FFBL's DAP Plant DBN. Business Plan for the year 2008 has been approved in the last PMP Board meeting held in January 2008 with budgeted phosphoric acid production of 302 thousand tonnes at 91% capacity against the designed capacity of 375 thousand tonnes.

Being strong is not enough; it is about managing our strengths in the right direction – towards a greener future

## Good Governance

We have come a long way in shaping our model standards and behaviours which we all need to emulate as an efficient, transparent and law abiding corporate citizen.

**TOOLS OF GOOD GOVERNANCE**

The Board places paramount importance on Good Governance and has, therefore, developed effective Governance structures, processes and frameworks including "Core Values", "Standard of Conduct for Directors", "Standard of Conduct for Employees", and, "Policy Statement of Ethics and Business Practices", in conformity with the Code of Corporate Governance of Pakistan. Priority has been accorded to values and ethical conduct, in addition to international best practices, to cater for the evolving and ever changing commercial, social and environmental requirements.

Values and ethics encompass a trustworthy relationship between organizations and their business partners which paves the way towards a mutually beneficial relationship. These are, therefore, ingrained in FFC's culture. These standards are regularly reviewed and updated to ensure effectiveness and relevance for achievement of long term objectives of the Company and are applicable to everybody in the Company.

The Board acknowledges its responsibility for the overall strategy, management, identification and solution for risks and challenges, sustained business prosperity and safeguarding the rights of shareholders. It endorses the Best Practices of the Code of Corporate Governance as an effective tool in discharging these duties in addition to enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non-financial information through accountability and integrity.

**BOARD OF DIRECTORS**

The roles and responsibilities of the Board of Directors are governed by the Memorandum and Articles of Association of the Company, the Companies Ordinance-1984, of Pakistan, the Code of Corporate Governance and other applicable regulations. The Board comprises one executive and twelve non-executive Directors representing diverse interests, including the Chairman and the Chief Executive of the Company with distinct responsibilities. The Chairman represents the non-executive directorship of the Company and the Board encourages effective representation of minority interests on the Board in addition to facilitating effective exercise of shareholders rights through efficient discharge of its duties.

The Board has formulated formal policies including risk management, procurement of goods and services, marketing, terms of credit and

discount, acquisition and disposal of fixed assets, write-off of inventories, bad debts, loans and advances, investments and disinvestments of funds with maturity period exceeding six months, borrowings, donations, charities, delegation of financial powers, transactions with related parties, loans and advances, human resource management including succession planning, performance evaluation of the management, health, safety and environment, etc. which are implemented and monitored through delegation of duties to three standing committees of the Board i.e. the Audit, Human Resources and System & Technology Committees.

The Board held an aggregate of six meetings during the year to review significant issues recommended by the Board Committees including the financial and corporate reporting framework, approval of periodic financial statements, compliance with all relevant laws, regulations and codes of conduct, annual business plans, budgets and forecasts along with variance analyses, cash flow projections and long term plans, agreements/contracts, agreement with Collective Bargaining Agent (CBA), details of related party transactions, status of payment of debts and obligations and repayment of loans, significant internal and external audit issues, sale of material investments and assets and transactions of extraordinary nature etc. The meetings were also attended by the Chief Financial Officer and the Company Secretary.

The Board is regularly apprised of their duties, changes in laws, regulations, emerging commercial issues etc through annual Orientation Programs which include information on 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.

**Farewell**

On behalf of the Board and myself, I would like to place on record our appreciation for the contributions by the outgoing Director Mr. Tariq Bajwa towards the progress of the Company.

The Board unanimously welcomes Mr. Mohsin Raza as fellow Board member and looks forward to working in harmony towards future growth and prosperity of the Company.

Company directors are elected for a three year term. All members occupying casual vacancies and/or newly elected Directors are required to file declarations, along with written consents to act as Directors, regarding awareness of their duties and powers under relevant laws, Company's Memorandum and Articles of Association and the listing regulations of stock exchanges.

## BOARD COMMITTEES

### Audit Committee

The terms of reference of the Audit Committee have been formulated by the Board in accordance with the Code of Corporate Governance of the stock exchanges and the Committee conducted the following business during the year, in addition to ensuring compliance with the Code of Corporate Governance:

- Review of matters relating to the Company's Business Plan, financial reporting process including review of quarterly, half-yearly and annual financial statements, monitoring compliance with applicable accounting standards and review of financial and non-financial publications,
- Extending assistance to the Board in reviewing, approving and monitoring effective compliance with the Company's mission, vision, corporate strategy & objectives, core values and standard of conduct,
- Review of operational, financial and risk management policies, instituting special projects, value for money studies or other investigations or any matter specified by the Board of Directors,
- Held separate meetings with the Chief Financial Officer, Head of Internal Audit and the External Auditors as required under the listing regulations.

The Committee comprises four members including the Chairman all of whom are Non-executive Directors of the Company and met five times during 2007.

### Human Resources Committee

The Committee comprises three members including the Chairman from the Non-executive Directors of the Board and held six meetings during the year on as required/directed basis to assist the Board in 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.

Retirement Benefit Plans:

Company Retirement Benefit Plans valued Rs. 2.810 billion and registered a growth of Rs. 239 million over last year. The valuation is based on actuarial reports, assumptions and funding recommendations and the plan includes gratuity, pension, and provident funds.

### System and Technology Committee

The Committee held three meetings during the year and consists of three members including the Chairman from the Non-executive Directors of the Board and has been entrusted the role to review and recommend Information Technology (IT) proposals suggested by Management, promote awareness of all stakeholders on needs for investment in Technology and related research work. review and assess Company systems and procedures, recommend proposals on technological innovations including 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.

### Projects Diversification Committee

This Committee consists of members from the Board of 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.

The Committee presents its findings for the Board's review and approval for acquisition or expansion with attractive return and satisfactory growth and success potential.

# Bringing out the magic of dancing fields

We do the possible best in every moment to have the best of every coming moment

## MANAGEMENT AND ITS COMMITTEES

The CE& MD of the Company has been entrusted with the supervision of the management, leadership, ensuring integrity, accountability, compliance with the Company's mission/vision statements, values and ethics, policies and principles.

Management comprises heads of various functions who operate under powers and limits delegated by the CE & MD and the Board for ensuring smooth operations and achieving the objectives under strategies adopted by the Board.

These include 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 variances, monitoring control and reporting deviations thereof, procurement of goods and services, approving transactions under delegated financial powers, flow of quality and timely information between the Management and the Board to facilitate the decision making process.

Management conducts regular reviews of the progress of the Company under the supervision of the CE & MD to ensure implementation of Board strategies, policies and proposes improvements through Management committees including the "Business Strategy Committee" and the "Executive Committee".

### Executive Committee

This Committee conducts its business under the chairmanship of the CE & MD and is composed of eight 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, preparing comprehensive agendas and feasibilities for matters requiring Board's approval and for dealing 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.

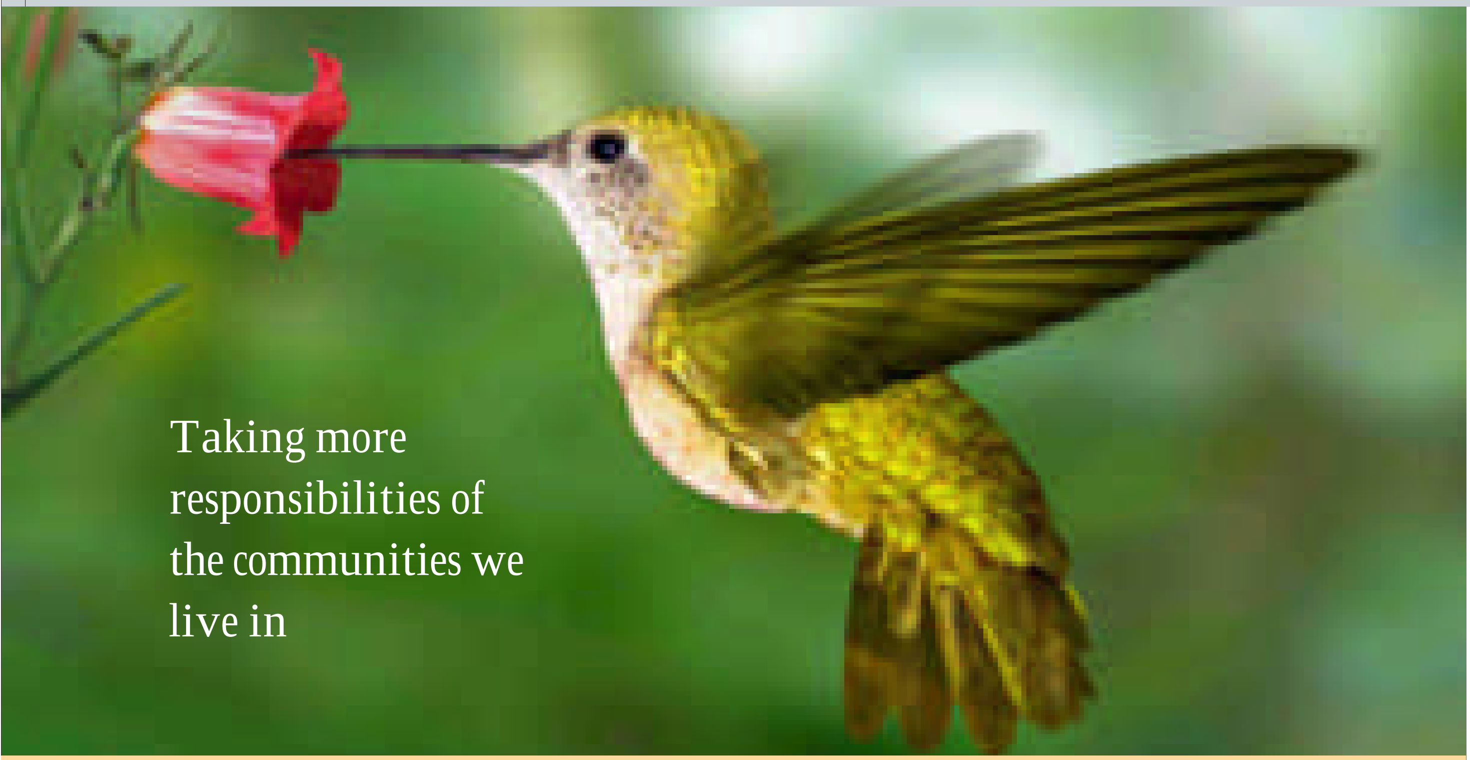
### Business Strategy Committee

This Committee is chaired by the CE&MD and includes five members from the Management of the Company. Meetings are held on requirement basis for identification and management of risks and overseeing the Plant operations etc.

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.

We set free the spirit of our people ...

towards a greener future




**PATTERN OF SHAREHOLDING & SHAREHOLDERS' WEALTH**

There were 9,326 Company shareholders as of end December 2007. Closely held shares (i.e. those held by the sponsors, investment companies, financial institutions, foreign investors and other corporate bodies) amounted to 88% of the total shares outstanding, of which 6% were held by foreign shareholders. A total of 398 million Company shares were traded on the stock markets during the year.

Company shares are quoted on all three stock exchanges of Pakistan i.e. the Karachi, Lahore and Islamabad exchanges. The Company continued to dominate the Fertilizer Industry in the stock markets with significant capitalization of Rs. 58.6 billion at the close of 2007, which improved by Rs. 6.51 billion over last year, establishing the superiority of our shareholders' value in the Industry.

The detailed Pattern of Shareholding, as required under the listing regulations, has been annexed to the Annual Report.

**INVESTOR ACCOUNTABILITY**

The Board keeps all its stakeholders regularly updated with information on the state of affairs and operations of the Company, considered to affect the shares market price and stakeholders' decisions through prompt dissemination of all material information including announcement of interim and final results to the stock exchanges.

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

The Board encourages informed and effective participation of shareholders in general meetings. Reviews of Company financial position and prospects alongwith periodic reports, notices and announcements of dividends were transmitted to stakeholders and regulators within the time stipulated 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. Members of various Board and Management Committees in addition to External Auditors are also requested to attend general meetings to answer queries of various stakeholders.

The Company Secretary has furnished a Secretarial Compliance Certificate for the year 2007 and the Company determined a closed period prior to each Board meeting.

## AWARDS FOR BEST PRACTICES AND CORPORATE REPORTING

For the fifth consecutive year, your Company has won apex national and international awards for the finest corporate reporting for the year 2006, an achievement unsurpassed by any organization in the Country.

Our Annual Report for 2006 retained the overall top position in the Annual Report Competition 2006, in addition to maintaining the lead in the Chemical & Fertilizers sector. This competition was held jointly by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan.

We also brought home the international SAARC region award for the Best Presented Accounts in the Manufacturing Sector from the "South Asian Federation of Accountants" for the fourth year in succession for our Annual Report 2006.

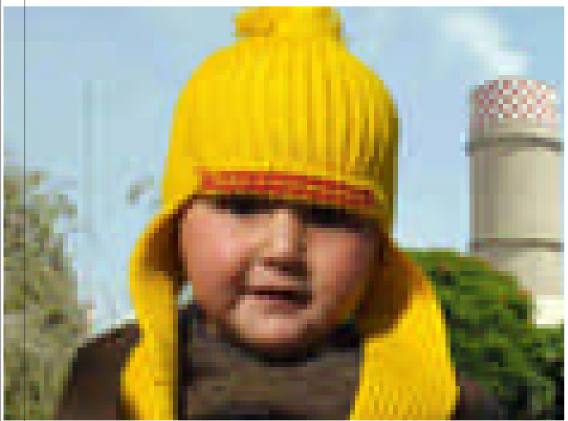
These awards reflect our unrelenting emphasis on accountability through transparency, timeliness and completeness of information, excellent governance framework and dedication to best practices, ethics and values.

The Company also improved its Annual Report quality to the best by securing first position for Best Corporate Report at the "Corporate Printing & Designing Award 2007", organized by the National Council of Culture and Arts, Karachi. In addition, we sustained our position amongst the "Top Twenty Five Companies" on the Karachi Stock Exchange for the thirteenth year in succession.

Mr Muhammad Shuaib - General Manager (FR & PO) receiving SAFA Corporate Report Award 2006 in the Manufacturing Sector


Mr Muhammad Shuaib - General Manager (FR & PO) receiving ICAP & ICMAP overall Best Corporate Report Award 2006

Mr Muhammad Munir Malik -General Manager (T&P) receiving ICAP & ICMAP Best Corporate Report Award 2006 for 1st position in Chemical and Fertilizer Sector



## Contribution To Society

Socially responsible attitude is imperative to be a good citizen. To do justice to our role as "Model Corporate Citizen", we endorse FFC's standards of conduct, values, ethics and business practices at all times, by all employees and at all levels of the Company. We aim to provide more than is legally required and we believe that the more we contribute to our employees, customers, business partners and the surrounding communities, the more productive we would be owing to a conducive and mutually beneficial environment, on a long term basis.

We recognize and endorse labour rights, product safety and emission standards. Provision of a clean and healthy workplace and medical facilities for our employees and our neighbouring community is accorded priority. Direct interaction with the community through funfairs, sports activities etc. for development of the society at large and sustained economic growth of the Country is also encouraged.

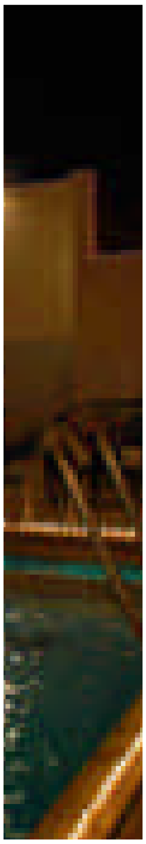
We take good care of our customers, the farmers, though provision of special agronomic services and facilities free of cost through our five Farm Advisory Centres and Technical Services officers based in the marketing area. The services include special farmers meetings, group discussions, demo plots, experiments, field days, soil/water tests, technical crop literature and documentary films. Total cost incurred by the Company on provision of these services amounted to Rs. 4.3 million.

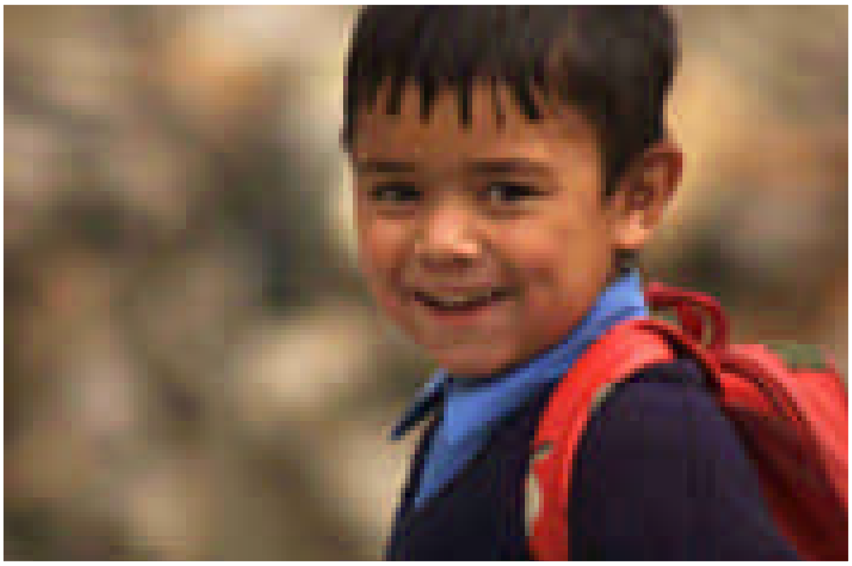
We believe in nurturing our youth as our future leaders and we have, therefore, adopted three schools through our Plantsite Goth Machhi i.e. the Government Girls Primary School, Goth Machhi, the Government Girls Primary School, Sona Goth and the Government Boys Primary School, Sona Goth.

Efforts are being focused on uplifting the education standards of these schools along with teachers' specific training and improvement in hygiene. Major repair & maintenance work including white wash of all schools has been carried out to enhance their outlook in addition to provision of various facilities resulting in increased strength of students in the schools.

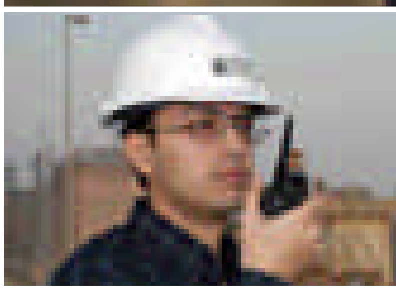
Community welfare projects undertaken by the Company in proximity to the Mirpur Mathelo Plant include Sona Welfare Hospital, Sona Public School and Coronary Care Unit at District Hospital, Ghotki.

Monetary donations by the Company aggregated to Rs. 49 million, representing about One percent of our net profit for 2007, which in addition to the above causes, were also extended to various welfare Institutions and societies.





We define commitment the same way we have for years; developing our people, giving back to our communities and staying true to our values



**Serving the Industry**

The Company conducted various customized training seminars for organizations including OMV Pakistan Ltd and Unilever Pak Ltd. through its Technical Training Centre at Goth Machhi in addition to several new courses on management and technical skill improvement for other organizations.

**ORGANIZATIONAL HEALTH, SAFETY & ENVIRONMENT**

One of the Company's strategic priorities is to strengthen its commitment to all its employees, to those who create and those who support them, in addition to employment equity, health and safety and workforce diversity.  We believe in creating a healthier workplace and the Management and the Union continue to act on employee welfare issues. Safety culture is endorsed through training sessions, competitions and audits.

Re-certification audit of Quality, Occupational Health & Safety and Environmental Management System was successfully achieved for the next three years by Plantsite Goth Machhi, after successful audit of the Integrated Management System. The Plantsite completed 7.82 safe million man-hours by the end of 2007 while Mirpur Mathelo accumulated 4.32 million man hours of safe operations which is a record for the Plant. Safety audits based on DuPont approach and OSHA standards are also regularly conducted at Plantsite Goth Machhi.

Fulfilling our commitment towards environmental improvement, we successfully switched over to the environment friendly phosphate based cooling water treatment system at Plant I and Plant II in March and November 2007 respectively.

Ammonia process condensate treatment unit was also successfully commissioned at Plantsite Mirpur Mathelo, utilizing redundant equipment. Basic process design, detailed engineering, erection and commissioning was carried out by utilizing in house expertise. The project was completed in record time with maximum utilization of reclaimed material. The complex is now fully compliant with National Environmental Quality Standards (NEQS) laid limits on effluents.

New drying beds have been constructed for drying of sludge produced from raw water clarifier in softening/turbidity removal process of canal & well water. Five acres barren land has been procured 2 km away from the Mirpur Mathelo for disposal of dried sludge.

The Plantsite Mirpur Mathelo also attained registration with Pakistan Environment Protection Agency (Pak EPA) for Self Monitoring and Reporting Tool (SMART – II) through implementation of mega environmental projects on crash basis and enforcement of an active pollution prevention program.

Second routine surveillance audit of FFBL was also conducted by BVQI at Plantsite and Head Office in November 2007. The Company has been verified for compliance on the already achieved ISO standards in Quality, Occupational Health & Safety and Environment.


**Building & Strengthening Our Team**

The Company continued its focus on improving internal communications, in addition to professional development and training to enable employees to better understand the corporate direction and to equip them to meet current and future challenges. Various in-house coaching seminars were conducted for education and skill improvement of the employees while several employees were nominated for local and international training for enhanced efficiency and output.

FFC also adhered to its commitment to foster an environment that is inclusive and promotes open dialogue between managers and employees. Management conducted various meetings with Union leaders to improve relationship and for negotiations aimed at enhancement in staff emoluments.

**WAY FORWARD**

The Audit Committee has reported that there are no significant financial, operational or legal constraints affecting the Company's ability to continue as a going concern. Business plans and cash flow projections supplemented with returns from our diversified investment portfolios sufficiently cater for a profitable growth for the Company and stakeholders' value.

Going forward, continued success will again be dependent on people from within and outside the Company, people with diverse talents and qualities with the singleness of purpose aimed at improving the way we work to be more professional, efficient and profitable.

Our financial and technical strength, supplemented with our significant research and development acumen, gives us considerable flexibility to explore new avenues to remain the industry leader in the Country.

**Wind Power Project**

The Company is in the process of setting up a Wind Power Project with an estimated investment of US$ 126 million at Jhimpir – Nooriabad, Distt. Thatta, with electricity generation capacity of 50 Mega Watts for onward supply to National Transmission & Dispatch Company (NTDC).

Draft feasibility study prepared by Lahmeyer International, Germany is being reviewed in addition to finalization of tender documentation. The financial close is expected to be achieved by mid 2008 while the construction phase is projected to take 15 months after the financial close. 1700 acres of land have been acquired by the Company from the "Alternate Energy Development Board" (AEDB) and the project is scheduled to commence commercial production by August 2009.

The Board has approved leasing of additional land in Jhimpir through AEDB for two new Wind Farms each of 50 Mega Watts capacity.

**Fauji Cement**

The Company resolved to make an equity investment of Rs. 1.5 billion, in the expansion project of Fauji Cement Company Limited (FCCL) as approved by Company shareholders in their Extraordinary General Meeting held on August 13, 2007.

The project encompasses capacity enhancement by 200% to benefit from the recent unprecedented growth in local demand in addition to increased exports opportunities during 2007. A new cement line is being set up with a capacity of 2.3 million tonnes per annum at a cost of Rs. 14.5 billion. The project is expected to generate a return on investment of 16.6% per annum and is projected to take 30 months for completion.

FCCL operates one of the most efficient and well-maintained cement plants in the Country, with quicker production turnaround time. Its multi-fuel burning capability including use of natural gas, coal or furnace oil optimizes its fuel efficiency/operating margins.

FFBL also intends to invest Rs. 300 million in this project to become a 2.8% ordinary shareholder, thereby adding to its earnings.

**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.

**ACKNOWLEDGEMENTS**

The Board looks forward to the forthcoming Annual General Meeting of the shareholders to discuss Company performance for 2007 in addition to future prospects and plans, and is profoundly thankful for the trust and confidence reposed in the Board by the shareholders. We are also grateful for the loyalty of our agrarian partners which provides us a firm foundation on which to build our future.

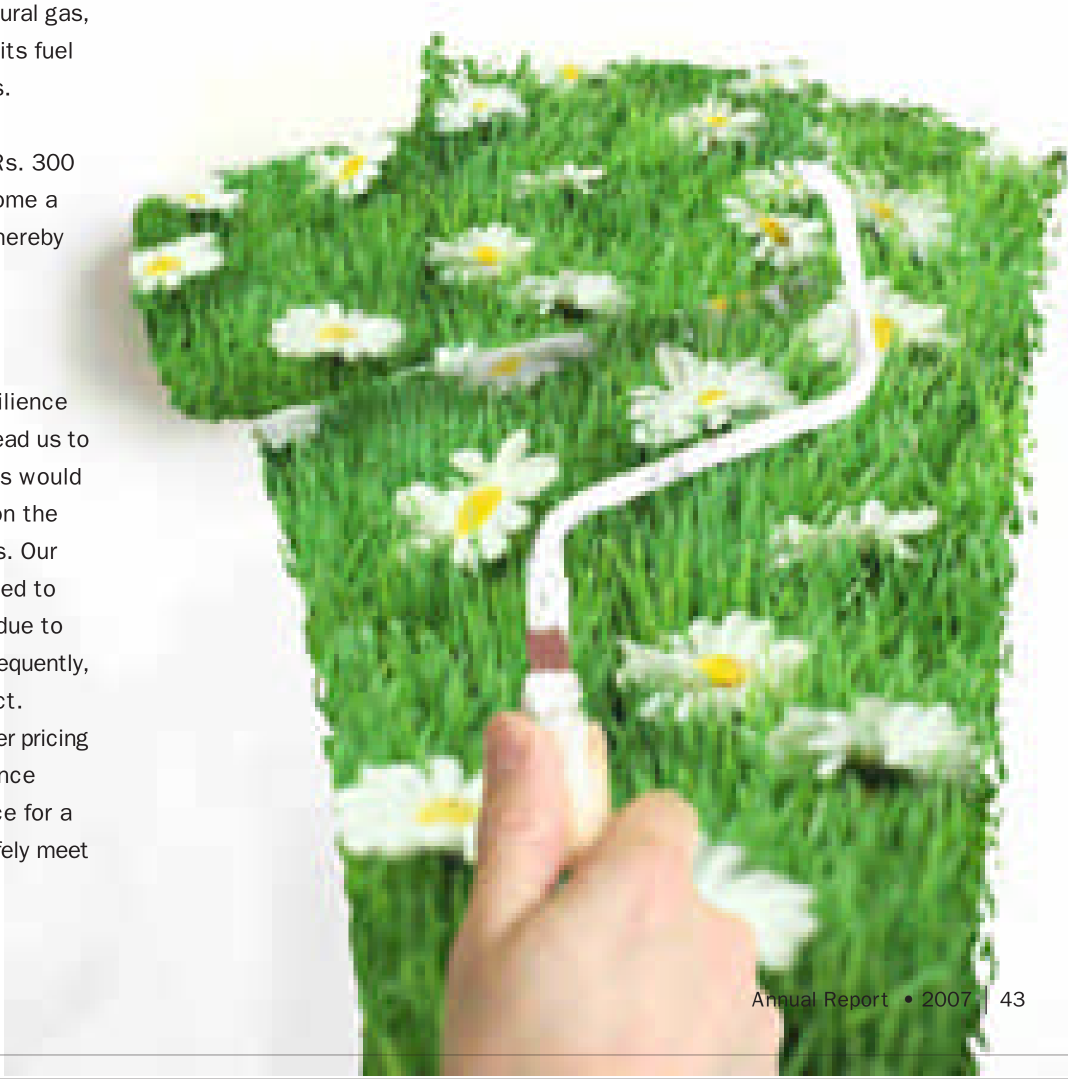
We are exceedingly grateful to our employees, customers, suppliers and members of the communities around our business locations for their commitment and support. The Board joins me in placing on record our appreciation to the Government of Pakistan for its supportive policies including favourable gas pricing, farmer subsidies, agricultural credit etc., and our crucial business partner Mari Gas for continuous assistance towards efficient Plant operations.

We live in troubled times. May Allah grant us the wisdom, courage & tolerance to work and live in harmony for the future of our beloved land (Ameen). We will be judged by posterity for our actions. Let us not disappoint those who follow in our footsteps.

Chairman

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

Rawalpindi
January 31, 2008



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

The Audit Committee has concluded its annual review of the conduct and operations of the Company during 2007, and reports that:

- The Company has adhered in full, without any material departure, with both the mandatory and voluntary provisions of the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges of Pakistan, Company's statement of ethics and values and the international best practices of Governance throughout the year.

- Compliance has been confirmed from the members of the Board, the Management and employees of the Company individually. Equitable treatment of shareholders has also been ensured.

- The Company has issued a "Statement of Compliance with the Code of Corporate Governance" which has also been reviewed and certified by the Auditors of the Company,

- Appropriate accounting policies have been consistently applied except for 3.6.1 "Goodwill" with which the Auditors have concurred. Applicable accounting standards were followed in preparation of financial statements of the Company and consolidated financial statements on a going concern basis, for the financial year ended December 31, 2007, which present fairly the state of affairs, results of operations, profits, cash flows and changes in equities of the Company and its subsidiary for the year under review.

- The CE&MD 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.

- Accounting estimates are based on reasonable and prudent judgment. Proper and adequate accounting records have been maintained by the Company in accordance with the Companies Ordinance, 1984.

- The financial statements comply with the requirements of the Fourth Schedule to the Companies Ordinance, 1984 and applicable "International Accounting Standards (IAS/IFRS)" notified by the SECP.

- All direct or indirect trading and holdings of Company's shares by Directors & executives or their spouses were notified in writing to the Company Secretary alongwith the price, number of shares, form of share certificates and nature of transaction which were notified by the Company Secretary to the Board within the stipulated time. All such holdings have been disclosed in the Pattern of Shareholdings.

- **INTERNAL AUDIT**

  – The internal control framework has been effectively implemented through an independent in-house Internal Audit function established by the Board

  – The Company's system of internal control is sound in design and has been continually evaluated for effectiveness and adequacy

  – The Audit Committee has ensured the achievement of operational, compliance and financial reporting objectives, safeguarding of the assets of the Company and the shareholders wealth through effective financial, operational and compliance controls and risk management at all levels within the Company

  – The Head of Internal Audit has direct access to the Chairman of the Audit Committee and the Committee has ensured staffing of personnel with sufficient internal audit acumen

  – Coordination between the External and Internal Auditors was facilitated to ensure efficiency and contribution to the Company's objectives, including a reliable financial reporting system and compliance with laws and regulations.

- **EXTERNAL AUDITORS**

  – The statutory Auditors of the Company, M/s KPMG Taseer Hadi & Company, Chartered Accountants, have completed their Audit assignment of the "Company's Financial Statements", the "Consolidated Financial Statements" and the "Statement of Compliance with the Code of Corporate Governance" for the financial year ended December 31, 2007 and shall retire on the conclusion of the 30th Annual General Meeting

  – The Audit Committee has reviewed and discussed Audit observations and Draft Audit Management Letter with the External Auditors. Final Management Letter is required to be submitted within 30 days of the date of the Auditors' Report on financial statements under the listing regulations and shall therefore accordingly be discussed in the next Audit Committee Meeting.

  – The Audit Firm has been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan (ICAP) and the firm is fully compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as adopted by the ICAP. The Auditors attended the general meetings of the Company during the year and have confirmed attendance of the 30th Annual General Meeting scheduled for February 27, 2008 and have indicated their willingness to continue as Auditors

  – Being eligible for reappointment as Auditors of the Company, the Audit Committee recommends their reappointment for the financial year ending December 31, 2008 with enhancement in the audit fee as requested.

**Tariq Iqbal Khan**
Chairman - Audit Committee

Rawalpindi
January 26, 2008

There are many paths to success, but we have chosen the one that's green

# Financial Statements

FFC FAUJI FERTILIZER COMPANY LIMITED

2007

# 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 letter No. NIT/CG-07/FFCL/0761 dated January 01, 2008.

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 2007 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 2007 to apprise them of their duties and responsibilities.

10. The CFO was appointed prior to the implementation of the Code of Corporate Governance. The Board has approved appointment of Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises four members, who all are non-executive directors including the chairman of the committee.

16. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

Date: January 31, 2008
Place: Rawalpindi

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

# Review Report to the Members on Directors' Statement of Compliance With the Best Practices of Code of Corporate Governance

We have reviewed the Directors' 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 Regulation No. 36, 37 and Chapter VIII 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 the 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, 2007.

Islamabad
January 31, 2008

**KPMG TASEER HADI & CO.**
**CHARTERED ACCOUNTANTS**

We have audited the annexed balance sheet of Fauji Fertilizer Company Limited ("the Company") as at December 31, 2007 and the related profit and loss account, cash flow statement, and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion-

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change referred to in note 3.6.1 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 the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in Central Zakat Fund established under section 7 of that Ordinance.

Islamabad
January 31, 2008

**KPMG TASEER HADI & CO.**
**CHARTERED ACCOUNTANTS**

# Balance Sheet
## as at December 31, 2007

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **SHARE CAPITAL AND RESERVES** | | | |
| Share capital | 4 | 4,934,742 | 4,934,742 |
| Capital reserve | 5 | 160,000 | 160,000 |
| Revenue reserves | 6 | 7,635,303 | 7,861,801 |
| | | 12,730,045 | 12,956,543 |
| **NON CURRENT LIABILITIES** | 7 | 2,671,250 | 1,193,750 |
| **DEFERRED TAXATION** | 8 | 2,363,526 | 2,396,000 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 9 | 5,815,276 | 4,025,926 |
| Interest and mark - up accrued | 11 | 184,430 | 134,039 |
| Short term borrowings | 12 | 3,141,081 | 4,531,090 |
| Current portion of long term financing | 7 | 1,022,500 | 887,327 |
| Taxation | | 1,313,106 | 1,305,606 |
| | | 11,476,393 | 10,883,988 |
| | | 29,241,214 | 27,430,281 |
| **CONTINGENCIES AND COMMITMENTS** | 13 | | |

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

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **PROPERTY, PLANT AND EQUIPMENT** | 14 | 10,390,490 | 9,607,957 |
| **GOODWILL** | 15 | 1,569,234 | 1,569,234 |
| **LONG TERM INVESTMENTS** | 16 | 6,325,129 | 6,409,382 |
| **LONG TERM LOANS AND ADVANCES** | 17 | 142,782 | 76,647 |
| **LONG TERM DEPOSITS AND PREPAYMENTS** | 18 | 2,144 | 2,474 |
| **CURRENT ASSETS** | | | |
| Stores, spares and loose tools | 19 | 2,407,988 | 2,202,053 |
| Stock in trade | 20 | 642,836 | 952,905 |
| Trade debts | 21 | 1,722,602 | 961,427 |
| Loans and advances | 22 | 83,917 | 95,245 |
| Deposits and prepayments | 23 | 33,665 | 25,488 |
| Other receivables | 24 | 1,542,763 | 1,451,390 |
| Short term investments | 25 | 3,027,664 | 2,452,850 |
| Cash and bank balances | 26 | 1,350,000 | 1,623,229 |
| | | 10,811,435 | 9,764,587 |
| | | 29,241,214 | 27,430,281 |

Chairman

Chief Executive

Director

# Profit and Loss Account

## for the year ended December 31, 2007

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| Sales | 27 | 28,429,005 | 29,950,873 |
| Cost of sales | 28 | 18,311,525 | 20,242,194 |
| GROSS PROFIT | | 10,117,480 | 9,708,679 |
| Distribution cost | 29 | 2,418,793 | 2,746,782 |
| | | 7,698,687 | 6,961,897 |
| Finance cost | 30 | 696,407 | 501,241 |
| Other expenses | 31 | 845,327 | 735,331 |
| | | 6,156,953 | 5,725,325 |
| Other income | 32 | 1,658,000 | 1,259,819 |
| NET PROFIT BEFORE TAXATION | | 7,814,953 | 6,985,144 |
| Provision for taxation | 33 | 2,454,000 | 2,349,000 |
| NET PROFIT AFTER TAXATION | | 5,360,953 | 4,636,144 |
| Earnings per share - basic and diluted (Rupees) | 34 | 10.86 | 9.39 |

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

Chairman

Chief Executive

Director

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 36 | 9,500,680 | 2,953,298 |
| Finance cost paid | | (605,275) | (422,831) |
| Income tax paid | | (2,497,500) | (2,462,813) |
| Payment to gratuity fund | | (44,592) | (40,779) |
| Payment to pension fund | | (35,472) | (36,438) |
| Payment to Workers' Profit Participation Fund | | (374,992) | (386,728) |
| Net cash generated from/(used in) operating activities | | 5,942,849 | (396,291) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Fixed capital expenditure | | (1,611,784) | (1,225,148) |
| Proceeds from sale of property, plant and equipment | | 8,983 | 17,279 |
| Interest received | | 273,572 | 388,092 |
| Investment in Pakistan Maroc Phosphore S.A. Morocco | | – | (338,438) |
| Increase in other investments | | (457,901) | (27,335) |
| Dividends received from FFBL | | 1,306,891 | 831,658 |
| Net cash used in investing activities | | (480,239) | (353,892) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Long term financing – disbursements | | 2,600,000 | 1,100,000 |
| – repayments | | (987,327) | (1,845,658) |
| Long term murabaha – repayments | | – | (41,667) |
| (Decrease)/ increase in short term borrowings | | (1,436,473) | 1,996,667 |
| Dividends paid | | (5,976,382) | (3,764,184) |
| Net cash used in financing activities | | (5,800,182) | (2,554,842) |
| Net decrease in cash and cash equivalents | | (337,572) | (3,305,025) |
| Cash and cash equivalents at beginning of the year | | 3,884,668 | 7,176,453 |
| Effect of exchange rate changes | | 7,166 | 13,240 |
| Cash and cash equivalents at end of the year | 37 | 3,554,262 | 3,884,668 |

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

Chairman

Chief Executive

Director

# Statement of Changes in Equity

for the year ended December 31, 2007

| | Share capital | Capital reserve | General reserve | Surplus on remeasurement of investments available for sale to fair value | Unappropriated profit | Total |
|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | |
| Balance as at December 31, 2005 | 4,934,742 | 160,000 | 7,390,000 | – | (43,834) | 12,440,908 |
| Transfer from general reserve | – | – | (1,200,000) | – | 1,200,000 | – |
| Final dividend 2005: Rs 2.25 per share | – | – | – | – | (1,110,317) | (1,110,317) |
| Net profit for the year ended December 31, 2006 | – | – | – | – | 4,636,144 | 4,636,144 |
| **Dividend:** | | | | | | |
| First interim 2006: Rs 2.25 per share | – | – | – | – | (1,110,317) | (1,110,317) |
| Second interim 2006: Rs 2.00 per share | – | – | – | – | (986,948) | (986,948) |
| Third interim 2006: Rs 1.85 per share | – | – | – | – | (912,927) | (912,927) |
| Balance as at December 31, 2006 | 4,934,742 | 160,000 | 6,190,000 | – | 1,671,801 | 12,956,543 |
| Transfer from general reserve | – | – | (250,000) | – | 250,000 | – |
| Final dividend 2006:Rs 3.90 per share | – | – | – | – | (1,924,549) | (1,924,549) |
| Net profit for the year ended December 31, 2007 | – | – | – | – | 5,360,953 | 5,360,953 |
| Surplus on remeasurement of investments | | | | | | |
| available for sale to fair value– net of tax | – | – | – | 38,154 | – | 38,154 |
| **Dividend:** | | | | | | |
| First interim 2007: Rs 2.50 per share | – | – | – | – | (1,233,685) | (1,233,685) |
| Second interim 2007: Rs 2.25 per share | – | – | – | – | (1,110,317) | (1,110,317) |
| Third interim 2007: Rs 2.75 per share | – | – | – | – | (1,357,054) | (1,357,054) |
| Balance as at December 31, 2007 | 4,934,742 | 160,000 | 5,940,000 | 38,154 | 1,657,149 | 12,730,045 |

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. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

## 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 available for sale and investments at fair value through profit or loss 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 the approved accounting standards require 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 if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in respective policy notes.

### 3.2 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.

Gratuity and pension contributions require assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

**Contributory Provident Fund**

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

**b) Compensated absences**

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

**3.3 Taxation**

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

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

**3.4 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 and charged to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 14.

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.

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

**3.4.1 Change in accounting estimate**

Depreciation on addition in property, plant and equipment is charged from the month of addition while no depreciation is charged in the month of disposal. Previously, full year's depreciation was being charged in the year of addition and no depreciation in the year of disposal. This change in accounting estimate has resulted in decrease in depreciation charge for the year by Rs 45,537 thousand with corresponding increase in carrying value of property, plant and equipment and profit before taxation by the same amount.

### 3.5 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account.

### 3.6 Goodwill

On acquisition of an entity, excess of the purchase consideration over the fair value of the identifiable assets and liabilities acquired is initially recognised as goodwill and tested for impairment annually.

### 3.6.1 Change in accounting policy

Pursuant to the adoption of IFRS 3 -" Business Combinations " by the Securities & Exchange Commission of Pakistan vide S.R.O No. 1228 (I) / 2006 dated December 6, 2006, the Company has changed its accounting policy and now the amortisation of goodwill on acquisition of Pak Saudi Fertilizer Limited (PSFL) has ceased which was previously being amortised over the period of 20 years. The effect of this change in accounting policy has been made prospectively in accordance with the requirements of IFRS 3. The goodwill is now being stated at the carrying value as at December 31, 2006. This change has resulted in increased net profit before tax for the year by Rs 104,615 thousand.

### 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 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.

### 3.7.3 Investments available for sale

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

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement (e.g. valuation, interest rate etc.) and therefore, cannot be determined with precision.

### 3.7.4 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 and designated as such upon initial recognition. 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. A provision is made for any excess of book value over net realisable value of items identified as surplus to the Company's requirement. Adequate provision is made for slow moving items. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools.

**3.9 Stock in trade**

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

Cost is determined as follows:

| | |
|---|---|
| Raw materials | at weighted average purchase cost and directly attributable expenses |
| Work in process and finished goods | at weighted average cost of raw materials and 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**

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

**3.11 Revenue recognition**

Sales revenue is recognised when the goods are dispatched and significant risks and rewards of ownership are transferred to the customer. Revenue from sale of goods is measured at the fair value of consideration received or receivable, net of returns and trade discounts. Return on bank deposits, investments and interest on loans is 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 Research and development costs**

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

**3.14 Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an 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.

**3.15 Basis of allocation of common expenses**

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

**3.16 Fertilizer subsidy for farmers**

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

### 3.17 Dividend and reserve appropriation

Dividend is recognized as a liability in the period in which it is declared.

### 3.18 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements of the Company are presented in Pak Rupees, which is the Company's functional and presentation currency.

### 3.19 Mark-up bearing borrowings

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

### 3.20 Cash and cash equivalents

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.

### 3.21 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 offset the recognised amounts and the Company intends to settle either on a net basis or realise the asset and settle the liability simultaneously.

### 3.22 Financial instruments

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

#### a) Trade and other payables

Liabilities for trade and other payables are carried at 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. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

### 3.23 Operating leases

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

### 3.24 New accounting standards and IFRIC interpretations that are not yet effective

Except for the changes made in IAS – 1 Presentation of Financial Statements (revised 2007) which are effective after 01 January 2008, new standards, interpretations and amendments to approved accounting standards effective from future years are not expected to have significant impact on the current transactions of the Company. The management is considering the effects of the changes in IAS -1 on the Company's financial statements.

| | | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **4.** | **SHARE CAPITAL** | | | |
| | **ISSUED, SUBSCRIBED AND PAID UP CAPITAL** | | | |
| | **Numbers** | | | |
| | 256,495,902 | Ordinary shares of Rs 10 each issued for consideration in cash. | 2,564,959 | 2,564,959 |
| | 236,978,328 | Ordinary shares of Rs 10 each issued as fully paid bonus shares. | 2,369,783 | 2,369,783 |
| | 493,474,230 | | 4,934,742 | 4,934,742 |

**AUTHORISED SHARE CAPITAL**

This represents 500,000,000 (2006: 500,000,000) ordinary shares of Rs 10 each amounting to Rs 5,000,000 thousand.

**4.1** Fauji Foundation held 44.35% (2006: 44.35%) ordinary shares of the Company at the year end.

| | | Note | 2007 (Rupees '000) | 2006 (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.

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **6.** | **REVENUE RESERVES** | | |
| | General reserve | 5,940,000 | 6,190,000 |
| | Surplus on remeasurement of available for sale investments to fair value - net of tax | 38,154 | – |
| | Unappropriated profit | 1,657,149 | 1,671,801 |
| | | 7,635,303 | 7,861,801 |

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **7.** | **NON CURRENT LIABILITIES** | | | |
| | This represents secured long term financing from the following: | | | |
| | **Loans from banking companies** | 7.1 | | |
| | i) National Bank of Pakistan (NBP–2) | 7.1.1 | 500,000 | 500,000 |
| | ii) Askari Bank Limited (AKBL) | 7.1.1 | 100,000 | 100,000 |
| | iii) Habib Bank Limited (HBL– 3) | 7.1.1 | 500,000 | 500,000 |
| | iv) United Bank Limited (UBL–2) | 7.1.1 | 800,000 | – |
| | v) Bank Alfalah Limited (BAFL) | 7.1.1 | 500,000 | – |
| | vi) Standard Chartered Bank Limited (SCB) | 7.1.1 | 500,000 | – |
| | vii) National Bank of Pakistan (NBP–3) | 7.1.1 | 400,000 | – |
| | viii) Saudi Pak Commercial Bank Limited (SPCB–1) | 7.1.1 | 150,000 | – |
| | ix) Saudi Pak Commercial Bank Limited (SPCB–2) | 7.1.1 | 150,000 | – |
| | x) Habib Bank Limited (HBL– 2) | 7.1.2 | 93,750 | 281,250 |
| | xi) ABN Amro Bank – Syndicated | 7.1.2 | – | 91,667 |
| | xii) MCB Bank Limited (MCB) | 7.1.2 | – | 100,000 |
| | xiii) National Bank of Pakistan (NBP–1) | 7.1.2 | – | 166,667 |
| | xiv) Habib Bank Limited (HBL– 1) | 7.1.2 | – | 62,500 |
| | xv) United Bank Limited (UBL–1) | 7.1.2 | – | 62,500 |
| | | | 3,693,750 | 1,864,584 |
| | Term Finance Certificates (TFCs) | 7.2 | – | 216,493 |
| | | | 3,693,750 | 2,081,077 |
| | Less: Current portion shown under current liabilities | | 1,022,500 | 887,327 |
| | | | 2,671,250 | 1,193,750 |

**7.1 Terms and conditions of these loans are given below:**

| | Lenders | mark-up rate p.a. (%) | No. of instalments outstanding | Date of final repayment |
|---|---|---|---|---|
| i) | NBP-2 | 6 months' KIBOR+0.5 | On maturity | May 31, 2008 |
| ii) | AKBL | 6 months' KIBOR+0.4 | On maturity | December 30, 2008 |
| iii) | HBL-3 | 6 months' KIBOR+1.45 | 8 half yearly | November 30, 2011 |
| iv) | UBL-2 | 6 months' KIBOR+1.5 | 7 half yearly | August 30, 2012 |
| v) | BAFL | 6 months' KIBOR+1.5 | 16 quarterly | March 20, 2012 |
| vi) | SCB | 6 months' KIBOR+1.3 | 10 half yearly | March 29, 2013 |
| vii) | NBP-3 | 6 months' KIBOR+1.4 | 8 half yearly | August 30, 2012 |
| viii) | SPCB-1 | 6 months' KIBOR+1.5 | 10 half yearly | September 27, 2012 |
| ix) | SPCB-2 | 6 months' KIBOR+1.5 | 10 half yearly | December 28, 2012 |
| x) | HBL-2 | 6 months' Treasury Bill rate+1.3 | 1 half yearly | May 30, 2008 |

**7.1.1** Finances (i) through (ix) have been obtained to meet the debottle-necking and other capital expenditure requirements of the Company. Finances (i) and (ii) are secured against lien on Pakistan Investment Bonds having face value of Rs 600,000 thousand whereas finances (iii) to (ix) are secured by an equitable mortgage on the assets and hypothecation of all assets including plant, machinery, tools and spares, and all other moveable properties of the Company including stocks and book debts ranking pari passu with each other with 25% margin.

**7.1.2** Finances (x) through (xv) are secured by an equitable mortgage on 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 with 25% margin. These finances have been obtained for the acquisition of PSFL. Loans (xi) to (xv) were fully repaid during the year.

**7.2** Term Finance Certificates (TFC's) were fully repaid during the year.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **8.** | **DEFERRED TAXATION** | | | |
| | The balance of deferred tax is in respect of the following major temporary differences: | | | |
| | Accelerated depreciation | | 2,400,000 | 2,446,000 |
| | Slow moving/surplus spares, doubtful debts, other receivables and investments | | (55,000) | (50,000) |
| | Remeasurement of investment available for sale | | 18,526 | – |
| | | | 2,363,526 | 2,396,000 |
| **9.** | **TRADE AND OTHER PAYABLES** | | | |
| | Creditors | | 428,757 | 295,334 |
| | Accrued liabilities | | 1,168,346 | 979,245 |
| | Consignment account with Fauji Fertilizer Bin Qasim Limited – unsecured | | 67,540 | 375,022 |
| | Other liabilities | | 51,404 | 12,162 |
| | Sales tax payable – net | | 195,210 | 147,145 |
| | Deposits | | 89,380 | 84,634 |
| | Retention money | | 31,487 | 25,463 |
| | Advances from customers | | 2,167,899 | 369,393 |
| | Workers' Profit Participation Fund | 9.1 | 426,954 | 374,992 |
| | Workers' Welfare Fund | | 552,011 | 376,970 |
| | Gratuity fund | 10 | 5,268 | 3,769 |
| | Unclaimed dividend | | 631,020 | 981,797 |
| | | | 5,815,276 | 4,025,926 |
| **9.1** | **Workers' Profit Participation Fund** | | | |
| | Balance at beginning of the year | | 374,992 | 386,728 |
| | Allocation for the year | | 426,954 | 374,992 |
| | Payment to fund during the year | | (374,992) | (386,728) |
| | | | 426,954 | 374,992 |

| | | Funded gratuity | Funded pension | 2007 Total | 2006 Total |
|---|---|---|---|---|---|
| | | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| **10.** | **RETIREMENT BENEFIT FUNDS** | | | | |
| **a)** | **Reconciliation of amounts recognised in the balance sheet is as follow:** | | | | |
| | Present value of defined benefit obligation | 736,148 | 816,872 | 1,553,020 | 1,299,742 |
| | Fair value of plan assets | (644,234) | (781,717) | (1,425,951) | (1,247,846) |
| | Deficit | 91,914 | 35,155 | 127,069 | 51,896 |
| | Net actuarial losses not recognized | (86,646) | (35,155) | (121,801) | (48,127) |
| | | 5,268 | – | 5,268 | 3,769 |
| **b)** | **The movement in the present value of defined benefit obligation is as follows:** | | | | |
| | Present value of defined benefit obligation at beginning of the year | 635,237 | 664,505 | 1,299,742 | 1,170,899 |
| | Current service cost | 39,387 | 37,236 | 76,623 | 70,544 |
| | Interest cost | 56,592 | 60,911 | 117,503 | 105,274 |
| | Benefits paid during the year | (29,194) | (18,165) | (47,359) | (47,766) |
| | Actuarial loss | 34,126 | 72,385 | 106,511 | 791 |
| | Present value of defined benefit obligation at end of the year | 736,148 | 816,872 | 1,553,020 | 1,299,742 |
| **c)** | **The movement in fair value of plan assets is as follows:** | | | | |
| | Fair value of plan assets at beginning of the year | 562,861 | 684,985 | 1,247,846 | 1,068,074 |
| | Expected return on plan assets | 50,312 | 62,675 | 112,987 | 96,320 |
| | Contributions | 44,592 | 35,472 | 80,064 | 77,217 |
| | Benefits paid during the year | (29,194) | (18,165) | (47,359) | (47,766) |
| | Actuarial gain | 15,663 | 16,750 | 32,413 | 54,001 |
| | Fair value of plan assets at end of the year | 644,234 | 781,717 | 1,425,951 | 1,247,846 |
| **d)** | **Plan assets comprise of:** | | | | |
| | Investment in listed securities | 84,432 | 34,262 | 118,694 | 66,487 |
| | Defence Saving Certificates | 174,434 | 183,003 | 357,437 | 629,113 |
| | Mutual funds | 62,716 | 35,636 | 98,352 | 71,909 |
| | National Investment Trust Units | 116,566 | 167,498 | 284,064 | 19,760 |
| | Deposits with banks | 139,960 | 295,225 | 435,185 | 328,954 |
| | Pakistan Investment Bonds | 61,181 | 61,171 | 122,352 | 121,646 |
| | WAPDA securities | 5,162 | 5,124 | 10,286 | 10,194 |
| | Others | (217) | (202) | (419) | (217) |
| | | 644,234 | 781,717 | 1,425,951 | 1,247,846 |
| **e)** | **Actual return on plan assets** | 65,974 | 79,425 | 145,399 | 150,367 |
| | Contributions expected to be paid to the plan during the next financial year | 50,327 | 44,530 | 94,857 | 80,064 |

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

| | | Funded gratuity | Funded pension | 2007 Total | 2006 Total |
|---|---|---|---|---|---|
| | | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| **g)** | **Movement in asset recognised in the balance sheet:** | | | | |
| | Opening liability | 3,769 | – | 3,769 | – |
| | Expense for the year | 46,091 | 35,472 | 81,563 | 80,986 |
| | Payments to the fund during the year | (44,592) | (35,472) | (80,064) | (77,217) |
| | Closing liability | 5,268 | – | 5,268 | 3,769 |
| **h)** | **Amount recognised in the profit and loss account is as follows:** | | | | |
| | Current service cost | 39,387 | 37,236 | 76,623 | 70,544 |
| | Interest cost | 56,592 | 60,911 | 117,503 | 105,274 |
| | Expected return on plan assets | (50,312) | (62,675) | (112,987) | (96,320) |
| | Actuarial losses recognised | 424 | – | 424 | 1,488 |
| | | 46,091 | 35,472 | 81,563 | 80,986 |

**i)** **Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of gratuity fund for the current year and previous four years is as follows:**

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| Present value of defined benefit obligation | 736,148 | 635,237 | 579,589 | 514,777 | 421,903 |
| Fair value of plan assets | (644,234) | (562,861) | (502,285) | (458,174) | (385,338) |
| Deficit | 91,914 | 72,376 | 77,304 | 56,603 | 36,565 |
| Experience adjustments | | | | | |
| – on obligations | (34,126) | (4,301) | (11,620) | (40,758) | (39,898) |
| – on plan assets | 15,663 | 11,510 | (9,471) | 20,720 | 30,347 |

**j)** **Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of pension fund for the current year and previous four years is as follows:**

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| Present value of defined benefit obligation | 816,872 | 664,505 | 591,310 | 464,935 | 450,833 |
| Fair value of plan assets | (781,717) | (684,985) | (565,789) | (473,096) | (404,303) |
| Deficit/(surplus) | 35,155 | (20,480) | 25,521 | (8,161) | 46,530 |
| Experience adjustments | | | | | |
| – on obligations | (72,385) | 3,510 | (64,734) | 39,866 | (85,244) |
| – on plan assets | 16,750 | 42,491 | 31,981 | 15,913 | 35,045 |

**k)** **Principal actuarial assumptions used in the actuarial valuations carried out as at December 31, 2007 are as follows:**

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Funded gratuity | Funded Pension | Funded gratuity | Funded Pension |
| Discount rate | 10% | 10% | 9% | 9% |
| Expected rate of salary growth | 11-12% | 11-12% | 11-12% | 11-12% |
| Expected rate of return on plan assets | 10% | 10% | 9% | 9% |

**l)** "Salaries, wages and benefits" expense, stated in notes 28 and 29 include retirement benefits in respect of gratuity, provident fund, pension plans and compensated absences amounting to Rs 43,509 thousand, Rs 53,347 thousand, Rs 32,915 thousand and Rs 57,073 thousand respectively (2006: Rs 40,494 thousand, Rs 48,560 thousand, Rs 32,443 thousand and Rs 41,114 thousand respectively). These are reduced by the amount of charges debited to Fauji Fertilizer Bin Qasim Limited under inter company services agreement.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **11.** | **INTEREST AND MARK-UP ACCRUED** | | | |
| | On long term financing | | 127,932 | 42,791 |
| | On short term borrowings | | 56,498 | 91,248 |
| | | | 184,430 | 134,039 |
| **12.** | **SHORT TERM BORROWINGS - SECURED** | | | |
| | **From banking companies** | | | |
| | Short term import credit | 12.1 | 2,931,081 | 4,031,090 |
| | Short term running finance | 12.2 | 210,000 | 500,000 |
| | | | 3,141,081 | 4,531,090 |

**12.1 Short term import credit**

Import credit facilities of Rs 2,931,081 thousand (2006: Rs 4,031,090 thousand) have been arranged from various banks under mark-up arrangements at six months' LIBOR + 0.4% per annum (2006: six months' LIBOR + 0.5% - 0.6% per annum).

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

**12.2 Short term running finance**

Short term running finance facilities are available from various banks under mark-up arrangements amounting to Rs 7,500,000 thousand (2006: Rs 5,250,000 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 July 31, 2008.

These are secured by first pari passu and ranking hypothecation charges of present and future current assets and fixed assets of the Company. The rates of mark-up range from one month KIBOR + 0.40% to 0.50% per annum to 6 months' KIBOR + 0.25% per annum (2006: one month KIBOR + 0.5% to 0.80% per annum to six months' KIBOR + 0.25% per annum).

| | | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **13.** | **CONTINGENCIES AND COMMITMENTS** | | | |
| | **a)** | **Contingencies:** | | |
| | i) | Guarantees issued by banks on behalf of the Company. | 18,729 | 18,228 |
| | ii) | Disputed demands for income tax and levy of contribution to Workers' Welfare Fund related to former PSFL decided in favour of the Company by the Income Tax Appellate Authorities, are currently in appeal by the department. The Company is confident that there are reasonable grounds for a favourable decision. | 178,590 | 295,590 |
| | iii) | Claims against the Company and/or potential exposure not acknowledged as debt. | 50,696 | 73,776 |
| | **b)** | **Commitments in respect of:** | | |
| | i) | Capital expenditure. | 1,192,706 | 378,294 |
| | ii) | Purchase of fertilizer, stores, spares and other revenue items. | 895,762 | 468,511 |
| | iii) | Company's share of commitments in Pakistan Maroc Phosphore S.A. (a joint venture with OCP). The joint venture itself is committed to incur capital expenditure as at September 30, 2007 of MAD 838,637 thousand (2006: MAD 1,326,000) Equivalent Pak Rs 6,692,323 thousand (2006: Rs 9,600,240 thousand). | 836,540 | 1,200,030 |
| | iv) | Company's share of investment in Fauji Cement Company Limited. | 1,500,000 | – |
| | v) | Rentals under lease agreements: | | |
| | | Premises – not later than one year | 29,191 | 28,579 |
| | | – later than one year and not later than five years | | |
| | | 2009 | 26,399 | 23,721 |
| | | 2010 | 22,069 | 21,452 |
| | | 2011 | 8,718 | 17,712 |
| | | 2012 | 2,534 | 6,413 |
| | | Vehicles – not later than one year | 81,896 | 73,669 |
| | | – later than one year and not later than five years | | |
| | | 2009 | 66,062 | 64,296 |
| | | 2010 | 41,462 | 55,483 |
| | | 2011 | 37,423 | 26,449 |
| | | 2012 | 14,780 | 16,957 |
| | | – later than five years | 4,343 | 2,917 |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land | Lease hold land | Buildings & structures on freehold land | Buildings & structures on leasehold land | Railway siding | Plant and machinery | Catalysts | Office and electrical equipment | Furniture and fixtures | Vehicles | Maintenance and other equipment | Library books | Capital work in progress (note 14.4) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | | (Rupees '000) |
| **COST** | | | | | | | | | | | | | | |
| Balance as at Jan 01, 2006 | 176,902 | 82,400 | 1,844,169 | 42,150 | 26,517 | 18,758,981 | 378,655 | 239,370 | 90,135 | 250,562 | 643,361 | 8,940 | 337,565 | 22,879,707 |
| Additions during the year | 16,022 | – | 81,972 | – | – | 157,544 | 161,854 | 35,861 | 14,150 | 33,929 | 100,753 | 2,077 | 806,325 | 1,410,487 |
| Disposals | – | – | – | – | – | (3,654) | (83,878) | (10,665) | (5,176) | (23,119) | (8,253) | (2) | – | (134,747) |
| Transfers/adjustments | – | – | (1,436) | – | – | – | – | (328) | – | – | 328 | – | (185,339) | (186,775) |
| Balance as at Dec 31, 2006 | 192,924 | 82,400 | 1,924,705 | 42,150 | 26,517 | 18,912,871 | 456,631 | 264,238 | 99,109 | 261,372 | 736,189 | 11,015 | 958,551 | 23,968,672 |
| Balance as at Jan 01, 2007 | 192,924 | 82,400 | 1,924,705 | 42,150 | 26,517 | 18,912,871 | 456,631 | 264,238 | 99,109 | 261,372 | 736,189 | 11,015 | 958,551 | 23,968,672 |
| Additions during the year | 25,877 | 96,350 | 220,565 | – | – | 269,780 | 81,842 | 33,392 | 28,922 | 20,431 | 162,910 | 2,053 | 1,607,711 | 2,549,833 |
| Disposals | – | – | – | – | – | (3,748) | (81,036) | (9,201) | (1,624) | (10,460) | (24,396) | (149) | – | (130,614) |
| Transfers/adjustments | – | – | – | – | – | – | – | (110) | – | – | 110 | – | (938,049) | (938,049) |
| Balance as at Dec 31, 2007 | **218,801** | **178,750** | **2,145,270** | **42,150** | **26,517** | **19,178,903** | **457,437** | **288,319** | **126,407** | **271,343** | **874,813** | **12,919** | **1,628,213** | **25,449,842** |
| **DEPRECIATION** | | | | | | | | | | | | | | |
| Balance as at Jan 01, 2006 | – | 20,600 | 1,089,348 | 40,539 | 26,493 | 11,479,153 | 181,473 | 137,859 | 45,481 | 139,179 | 527,479 | 7,376 | – | 13,694,980 |
| Charge for the year | – | 5,150 | 70,944 | 108 | 24 | 472,023 | 91,443 | 29,744 | 7,858 | 45,195 | 73,965 | 1,476 | – | 797,930 |
| Depreciation on disposals | – | – | – | – | – | (3,654) | (83,878) | (10,511) | (4,799) | (21,137) | (8,135) | (2) | – | (132,116) |
| Transfers/adjustments | – | – | (72) | – | – | – | – | (116) | – | – | 109 | – | – | (79) |
| Balance as at Dec 31, 2006 | – | 25,750 | 1,160,220 | 40,647 | 26,517 | 11,947,522 | 189,038 | 156,976 | 48,540 | 163,237 | 593,418 | 8,850 | – | 14,360,715 |
| Balance as at Jan 01, 2007 | – | 25,750 | 1,160,220 | 40,647 | 26,517 | 11,947,522 | 189,038 | 156,976 | 48,540 | 163,237 | 593,418 | 8,850 | – | 14,360,715 |
| Charge for the year | – | 9,736 | 76,003 | 108 | – | 480,120 | 98,110 | 29,628 | 8,950 | 43,316 | 80,436 | 1,443 | – | 827,850 |
| Depreciation on disposals | – | – | – | – | – | (3,748) | (81,036) | (8,374) | (1,496) | (10,372) | (24,142) | (45) | – | (129,213) |
| Transfers/adjustments | – | – | – | – | – | – | – | (66) | – | – | 66 | – | – | – |
| Balance as at Dec 31, 2007 | **–** | **35,486** | **1,236,223** | **40,755** | **26,517** | **12,423,894** | **206,112** | **178,164** | **55,994** | **196,181** | **649,778** | **10,248** | **–** | **15,059,352** |
| Written down value as at Dec 31, 2006 | 192,924 | 56,650 | 764,485 | 1,503 | – | 6,965,349 | 267,593 | 107,262 | 50,569 | 98,135 | 142,771 | 2,165 | 958,551 | 9,607,957 |
| Written down value as at Dec 31, 2007 | **218,801** | **143,264** | **909,047** | **1,395** | – | **6,755,009** | **251,325** | **110,155** | **70,413** | **75,162** | **225,035** | **2,671** | **1,628,213** | **10,390,490** |
| Rate of depreciation in % | **–** | **6 1/4** | **5 to 10** | **5** | **5** | **5** | **20** | **15** | **10** | **20** | **15 – 33.33** | **30** | **–** | |

**14.1** Cost of property, plant and equipment has been shown net of Government grant of Rs 68,164 thousand (2006: Rs 68,164 thousand).

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **14.2** | **Depreciation charge has been allocated as follows:** | | | |
| | Cost of sales | 28 | 808,558 | 780,091 |
| | Distribution cost | 29 | 14,344 | 12,819 |
| | Charged to FFBL under Inter Company Services Agreement | | 4,948 | 5,020 |
| | | | 827,850 | 797,930 |

**14.3 Details of property, plant and equipment sold :**

| Description | Cost | Book value | Sale proceeds |
|---|---|---|---|
| | | (Rupees '000) | |
| **Computer and ancillary equipment** | | | |
| As per Company's policy | | | |
| Brig Muhammad Saleem Suleman (Retired) | 163 | 109 | 109 |
| **Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand** | 130,451 | 1,292 | 8,874 |
| **2007** | 130,614 | 1,401 | 8,983 |
| 2006 | 134,747 | 2,631 | 17,279 |

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **14.4** | **CAPITAL WORK IN PROGRESS** | | | |
| | Civil works | | 157,890 | 265,020 |
| | Plant and machinery including advances to suppliers | | 1,470,323 | 693,531 |
| | | | 1,628,213 | 958,551 |
| **15.** | **GOODWILL** | | | |
| | Balance at beginning of the year | | 1,569,234 | 1,673,849 |
| | Less: Amortisation for the year | 31 | – | (104,615) |
| | | | 1,569,234 | 1,569,234 |

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **16. LONG TERM INVESTMENTS** | | | |
| **Investment in joint venture - at cost** | | | |
| Pakistan Maroc Phosphore S.A., Morocco | 16.1 | 705,925 | 705,925 |
| **Investment in subsidiary - at cost** | | | |
| Fauji Fertilizer Bin Qasim Limited (FFBL) | 16.2 | 4,752,330 | 4,752,330 |
| **Investments available for sale** | 16.3 | | |
| Certificates of Investment | | 259,835 | 293,124 |
| Pakistan Investment Bonds | | 652,932 | – |
| Term Finance Certificates | | 53,718 | – |
| | | 966,485 | 293,124 |
| **Investments held to maturity** | 16.4 | | |
| Pakistan Investment Bonds | | – | 600,000 |
| Term Finance Certificates | | – | 149,930 |
| | | – | 749,930 |
| | | 6,424,740 | 6,501,309 |
| **Less: Current portion shown under short term investments** | 25 | | |
| **Investments available for sale** | | | |
| Certificates of Investment | | 99,589 | 91,867 |
| Term Finance Certificates | | 22 | – |
| **Investments held to maturity** | | | |
| Term Finance Certificates | | – | 60 |
| | | 99,611 | 91,927 |
| | | 6,325,129 | 6,409,382 |

### 16.1 Investment in joint venture – at cost

The Company has 12.5% equity participation in Pakistan Maroc Phosphore S.A. (PMP), amounting to Moroccan Dirhams (MAD) 100,000 thousand equivalent to Rs 705,925 thousand (2006: Rs 705,925 thousand). PMP is a joint venture between the Company, Fauji Foundation, FFBL and Officie Cherifien Des Phosphates, Morocco. The principal activity of PMP is to manufacture and market Phosphoric acid, fertilizer and other related products in Morocco and abroad.

According to the Shareholders' agreement, 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. The Company has also committed not to pledge shares of PMP without prior consent of PMPs' lenders.

PMP is due to start its commercial operations in the first quarter of the next year. The project is expected to show favourable outcome after the commencement of its commercial operations.

### 16.2 Investment in subsidiary - at cost

Investment in subsidiary represents 475,233 thousand fully paid ordinary shares of Rs 10 each representing 50.88% of FFBL share capital as at December 31, 2007. Market value of the Company's investment as at December 31, 2007 was Rs 19,983,548 thousand (2006: Rs 13,544,141 thousand), whereas value based on net assets as per audited financial statements as at December 31, 2007 was Rs 4,329,342 thousand (2006: Rs 4,343,980 thousand).

**16.3 Investments available for sale**

**Certificates of Investment (COI)**

These represent placements in certificates of investment of a financial institution for periods ranging from one to five years at profit rates ranging from 6% to 15% per annum.

**Pakistan Investment Bonds (PIBs)**

These were purchased for a period of 10 years with remaining period ranging between 3 to 5 years Profit is payable on a half yearly basis at rates ranging from 11% to 14% per annum. These are under lien of banks against loans for debottle-necking requirements.

**Term Finance Certificates (TFCs)**

These include 9,994 certificates of Rs 5,000 each of Pakistan Mobile Communications Limited. Profit is payable on a half yearly basis at the rate of six months' KIBOR +2.85% per annum.

**16.4 Investments held to maturity**

The carrying amount of "Held to Maturity" investments has been reclassified as "Available for Sale" in compliance with the provisions of International Accounting Standard - 39 "Financial Instruments: Recognition and Measurement".

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **17. LONG TERM LOANS AND ADVANCES - SECURED** | | | |
| Loans and advances, considered good, to: | | | |
| Executives | | 84,027 | 78,184 |
| Other employees | | 88,573 | 39,297 |
| | | 172,600 | 117,481 |
| Less: Amount due within twelve months, shown under current loans and advances | 22 | 29,818 | 40,834 |
| | | 142,782 | 76,647 |

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

| | Opening balance as at January 01, 2007 | Disbursements | Repayments | Closing balance as at December 31, 2007 |
|---|---|---|---|---|
| | (Rupees '000) | | | |
| Executives | 78,184 | 35,155 | 29,312 | 84,027 |
| Other employees | 39,297 | 74,725 | 25,449 | 88,573 |
| | **117,481** | **109,880** | **54,761** | **172,600** |
| 2006 | 114,458 | 171,580 | 168,557 | 117,481 |

These represent secured house building loans, house rent advances and advances pursuant to agreement with workers which are repayable within one to ten years house building loans carry mark-up at 4% per annum.

The maximum amount of advances to executives outstanding at the end of any month during the year was Rs 85,966 thousand (2006: Rs 82,548 thousand).

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **18.** | **LONG TERM DEPOSITS AND PREPAYMENTS** | | | |
| | Deposits | | 1,299 | 2,133 |
| | Prepayments | | 845 | 341 |
| | | | 2,144 | 2,474 |
| **19.** | **STORES, SPARES AND LOOSE TOOLS** | | | |
| | Stores | | 110,789 | 89,271 |
| | Spares | | 2,284,650 | 2,043,029 |
| | Provision for slow moving and surplus items | | (139,325) | (125,298) |
| | | | 2,145,325 | 1,917,731 |
| | Loose tools | | 240 | 240 |
| | Items in transit | | 151,634 | 194,811 |
| | | | 2,407,988 | 2,202,053 |
| **20.** | **STOCK IN TRADE** | | | |
| | Raw materials | | 66,350 | 55,522 |
| | Work in process | | 16,319 | 23,484 |
| | Finished goods: | | | |
| | Manufactured urea | | 164,714 | 34,298 |
| | Purchased fertilizers | | 395,453 | 839,601 |
| | | | 642,836 | 952,905 |
| **21.** | **TRADE DEBTS** | | | |
| | Considered good: | | | |
| | Secured | | 1,709,236 | 952,427 |
| | Unsecured | 21.1 | 13,366 | 9,000 |
| | | | 1,722,602 | 961,427 |
| | Considered doubtful | | 1,904 | 1,951 |
| | | | 1,724,506 | 963,378 |
| | Provision for doubtful debts | | (1,904) | (1,951) |
| | | | 1,722,602 | 961,427 |

**21.1** This includes Rs 476 thousand (2006: Rs 198 thousand) due from Fauji Foundation, an associated undertaking.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **22.** | **LOANS AND ADVANCES** | | | |
| | Current portion of long term loans and advances | 17 | 29,818 | 40,834 |
| | Loans and advances-unsecured | | | |
| | – executives | | 17,133 | – |
| | – others | | 9,581 | – |
| | Advances to suppliers - considered good | | 27,385 | 54,411 |
| | | | 83,917 | 95,245 |
| **23.** | **DEPOSITS AND PREPAYMENTS** | | | |
| | Deposits | | 1,778 | 1,205 |
| | Prepayments | | 31,887 | 24,283 |
| | | | 33,665 | 25,488 |

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **24. OTHER RECEIVABLES** | | | |
| Accrued income on investments and bank deposits | | 44,793 | 49,835 |
| Advance tax | 24.1 | 476,489 | 476,489 |
| Subsidy receivable from Government of Pakistan (GOP) | 28.3 | 935,808 | 863,881 |
| Other receivables – considered good | | 85,673 | 61,185 |
| – considered doubtful | | 2,232 | 2,232 |
| | | 87,905 | 63,417 |
| Provision for doubtful receivables | | (2,232) | (2,232) |
| | | 85,673 | 61,185 |
| | | 1,542,763 | 1,451,390 |

**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.

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **25. SHORT TERM INVESTMENTS** | | | |
| **Term deposits with banks and financial institutions** | | | |
| **Available for sale** | | | |
| Local currency (net of provision for doubtful recovery Rs 13,000 thousand) | 25.1 | 1,350,000 | 500,000 |
| Foreign currency | 25.1 | 841,296 | |
| **Held to maturity** | 16.4 | | |
| Local currency | | – | 775,000 |
| Foreign currency | | – | 882,322 |
| **Investments at fair value through profit or loss** | | | |
| Meezan Balanced Fund | 25.2 | 84,000 | 86,000 |
| National Investment Trust | 25.2 | 127,885 | 96,154 |
| Nafa Cash Fund | 25.2 | 174,077 | 21,447 |
| AMZ Plus Income Fund | 25.2 | 150,397 | – |
| Askari Income Fund | 25.2 | 200,398 | – |
| **Current maturity of long term investments** | | | |
| Available for sale | | 99,611 | 91,867 |
| Held to maturity | | – | 60 |
| | | 3,027,664 | 2,452,850 |

**25.1** These represent investments having maturities ranging between 1 to 3 months and are being carried at cost as management expects there would be no significant change in the rate of returns on comparable investments.

**25.2** Fair value of these investments are determined using quoted market price and redemption/repurchase price, whichever is applicable.

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **26. CASH AND BANK BALANCES** | | |
| At banks: | | |
| Deposit accounts: | | |
| Local currency | 1,189,806 | 1,022,049 |
| Foreign currency | 11,979 | 11,922 |
| | 1,201,785 | 1,033,971 |
| Drafts in hand and in transit | 146,716 | 587,752 |
| Cash in hand | 1,499 | 1,506 |
| | 1,350,000 | 1,623,229 |

Balances with banks include Rs 89,380 thousand (2006: Rs 84,634 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 15,000 thousand (2006: Rs 15,000 thousand) under lien of a bank, against a guarantee issued on behalf of the Company.

## 27. SALES

Sales include Rs 6,267,655 thousand (2006: Rs 8,825,883 thousand) in respect of sale of purchased fertilizers and are exclusive of trade allowances and sales tax of Rs 600,123 thousand and Rs 2,453,686 thousand respectively (2006: Rs 317,777 thousand and Rs 2,549,631 thousand respectively).

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **28. COST OF SALES** | | | |
| Raw materials consumed | | 5,531,108 | 5,194,285 |
| Fuel and power | | 3,374,046 | 3,598,693 |
| Chemicals and supplies | | 159,616 | 151,657 |
| Salaries, wages and benefits | | 1,616,995 | 1,421,157 |
| Training and employees welfare | | 307,991 | 218,574 |
| Rent, rates and taxes | 28.1 | 15,899 | 16,833 |
| Insurance | | 101,679 | 97,051 |
| Travel and conveyance | 28.1 | 116,065 | 113,164 |
| Repairs and maintenance (includes stores and spares consumed of Rs 557,841 thousand; 2006: Rs 525,952 thousand) | 28.2 | 710,886 | 716,437 |
| Depreciation | 14.2 | 808,558 | 780,091 |
| Communication and other expenses | | 544,064 | 463,506 |
| Opening stock – work in process | | 23,484 | 18,028 |
| Closing stock – work in process | | (16,319) | (23,484) |
| Cost of goods manufactured | | 13,294,072 | 12,765,992 |
| Opening stock of manufactured urea | | 34,298 | 19,386 |
| Closing stock of manufactured urea | | (164,714) | (34,298) |
| | | (130,416) | (14,912) |
| Cost of sales– own manufactured urea | | 13,163,656 | 12,751,080 |
| Opening stock of purchased fertilizers | | 839,601 | 487,978 |
| Purchase of fertilizers for resale | 28.3 | 4,703,721 | 7,842,737 |
| | | 5,543,322 | 8,330,715 |
| Closing stock of purchased fertilizers | | (395,453) | (839,601) |
| Cost of sales – purchased fertilizers | | 5,147,869 | 7,491,114 |
| | | 18,311,525 | 20,242,194 |

**28.1** These include operating lease rentals amounting to Rs 47,769 thousand (2006: Rs 45,062 thousand).

**28.2** This includes provision for slow moving and surplus spares amounting to Rs 14,027 thousand (2006: Rs 16,374 thousand).

**28.3** Cost of purchased fertilizer is net of subsidy on potassic and phosphatic fertilizers as notified by the Ministry of Food, Agriculture and Live Stock, Government of Pakistan. Currently the amount of subsidy is Rs 470 per bag which is increased from Rs 250 per bag when initially announced by GOP in September 2006.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **29.** | **DISTRIBUTION COST** | | | |
| | Product transportation | | 1,641,079 | 2,129,866 |
| | Salaries, wages and benefits | | 480,641 | 370,584 |
| | Training and employees welfare | | 29,691 | 23,937 |
| | Rent, rates and taxes | 29.1 | 54,555 | 46,237 |
| | Insurance | | 1,016 | 42 |
| | Technical services to farmers | | 4,295 | 4,093 |
| | Travel and conveyance | 29.1 | 68,923 | 65,952 |
| | Sale promotion and advertising | | 28,060 | 31,088 |
| | Communication and other expenses | | 30,542 | 26,380 |
| | Warehousing expenses | | 65,647 | 35,784 |
| | Depreciation | 14.2 | 14,344 | 12,819 |
| | | | 2,418,793 | 2,746,782 |

**29.1** These include operating lease rentals amounting to Rs 72,619 thousand (2006: Rs 71,858 thousand).

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **30.** | **FINANCE COST** | | |
| | Mark-up on long term financing, loans and murabaha | 291,530 | 217,014 |
| | Mark-up on short term borrowings | 364,136 | 258,212 |
| | Exchange loss | 37,890 | 23,435 |
| | Bank charges | 2,851 | 2,580 |
| | | 696,407 | 501,241 |

Borrowing cost capitalised during the year amounting to Rs 33,070 thousand at an average rate of 11.40% per annum (2006: Nil).

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **31.** | **OTHER EXPENSES** | | | |
| | Amortisation of goodwill | 15 | – | 104,615 |
| | Research and development | | 118,712 | 113,981 |
| | Workers' Profit Participation Fund | | 426,954 | 374,992 |
| | Workers' Welfare Fund | 31.1 | 297,180 | 139,703 |
| | Auditors' remuneration | | | |
| | Audit fee | | 1,122 | 1,020 |
| | Fee for half yearly review, audit of consolidated accounts and certifications for Government and related agencies | | 1,259 | 920 |
| | Out of pocket expenses | | 100 | 100 |
| | | | 845,327 | 735,331 |

**31.1** This includes Rs 140,881 thousand relating to demands raised by the income tax department for prior years' WWF of PSFL. The Company is contesting this demand, however, provision on a prudent basis has been made.

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **32. OTHER INCOME** | | |
| **Income from financial assets** | | |
| Income on loans, deposits and investments | 268,530 | 363,612 |
| Gain / (loss) on re-measurement of investments at fair value through profit or loss | 33,157 | (13,899) |
| Gain on encashment of Term Finance Certificates | 1,099 | – |
| **Income from subsidiary** | | |
| Commission on sale of FFBL products | 16,886 | 22,825 |
| Dividend from FFBL | 1,306,891 | 831,658 |
| **Income from non–financial assets** | | |
| Gain on sale of property, plant and equipment | 7,582 | 14,648 |
| **Other income** | | |
| Old liabilities written back | – | 9,933 |
| Scrap sales | 19,552 | 23,335 |
| Others | 4,303 | 7,707 |
| | 1,658,000 | 1,259,819 |
| **33. TAXATION** | | |
| Provision for taxation – current year | 2,505,000 | 2,354,000 |
| Deferred | (51,000) | (5,000) |
| | 2,454,000 | 2,349,000 |
| **33.1 Reconciliation of tax charge for the year** | | |
| Profit before taxation | 7,814,953 | 6,985,144 |
| | % | % |
| **33.2 Reconciliation of tax charge for the year** | | |
| Applicable tax rate | 35.00 | 35.00 |
| Add: Tax effect of amounts that are not deductible for tax purpose | 1.28 | 2.48 |
| Less: Tax effect of amounts taxed at lower rates | (4.66) | (3.71) |
| Tax effect of rebates and tax credit | (0.22) | (0.14) |
| Average effective tax rate charged on income | 31.40 | 33.63 |
| **34. EARNINGS PER SHARE** | | |
| Net profit after tax (Rupees '000) | 5,360,953 | 4,636,144 |
| Weighted average number of ordinary shares in issue during the year ('000) | 493,474 | 493,474 |
| Basic and diluted earnings per share (Rupees) | 10.86 | 9.39 |

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

**35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Chief Executive | Executives | Chief Executive | Executives |
| | (Rupees '000) | | (Rupees '000) | |
| Managerial remuneration | 2,645 | 563,704 | 2,661 | 479,715 |
| Contribution to provident fund | 162 | 29,666 | 154 | 25,156 |
| Bonus | 138 | 50,503 | – | 21,595 |
| Good performance award | – | 203,061 | – | 148,925 |
| Others | 1,684 | 182,040 | 2,687 | 154,198 |
| Total | 4,629 | 1,028,974 | 5,502 | 829,589 |
| No. of person(s) | 1 | 313 | 1 | 283 |

The above were provided with medical facilities; the chief executive and certain executives were also provided with some furnishing items and vehicles in accordance with the Company's policy. Gratuity is payable to the chief executive in accordance with the terms of employment while contributions for executives in respect of gratuity and pension are based on actuarial valuations. Leave encashment of Rs Nil (2006: Rs 766 thousand) and Rs 8,227 thousand (2006: Rs 9,446 thousand) were paid to the chief executive and executives respectively on separation, in accordance with the Company's policy.

In addition, 11 (2006: 17) directors were paid aggregate fee of Rs 152 thousand (2006: Rs 166 thousand).

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **36. CASH GENERATED FROM OPERATIONS** | | |
| Net profit before taxation | 7,814,953 | 6,985,144 |
| | | |
| Adjustments for: | | |
| Depreciation | 822,902 | 792,910 |
| Amortisation of goodwill | – | 104,615 |
| Provision for slow moving and surplus spares | 14,027 | 16,374 |
| Provision for gratuity | 43,509 | 40,494 |
| Provision for pension | 32,915 | 32,443 |
| Provision for Worker's Profit Participation Fund | 426,954 | 374,992 |
| Finance cost | 655,666 | 475,226 |
| Income on loans, deposits and investments | (268,530) | (363,612) |
| Gain on sale of property, plant and equipment | (7,582) | (14,648) |
| Exchange loss | 39,298 | 16,220 |
| (Gain)/ loss on re–measurement of investments | | |
| at fair value through profit or loss | (33,157) | 13,899 |
| Dividend from FFBL | (1,306,891) | (831,658) |
| Old liabilities written back | – | (9,933) |
| | 419,111 | 647,322 |
| | 8,234,064 | 7,632,466 |
| Changes in working capital | | |
| (Increase)/ decrease in current assets: | | |
| Stores and spares | (219,962) | (64,109) |
| Stock in trade | 310,069 | (392,433) |
| Trade debts | (761,175) | (301,714) |
| Loans and advances | 11,328 | 21,565 |
| Deposits and prepayments | (8,177) | 609 |
| Other receivables | (96,415) | (847,108) |
| Increase/(decrease) in current liabilities: | | |
| Trade and other payables | 2,096,753 | (3,084,837) |
| | 1,332,421 | (4,668,027) |
| Changes in long term loans and advances | (66,135) | (12,102) |
| Changes in long term deposits and prepayments | 330 | 961 |
| | 9,500,680 | 2,953,298 |
| | | |
| **37. CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | 1,350,000 | 1,623,229 |
| Short term highly liquid investments | 2,204,262 | 2,261,439 |
| | 3,554,262 | 3,884,668 |

## 38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 38.1 Financial assets and liabilities

| | Interest / mark-up bearing | | | | | | | | Non–interest / mark-up bearing | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Interest rates | 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 | 2007 Total |
| | (Rupees `000) | | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | | | |
| Investments | | | | | | | | | | | | |
| – Local currency | 6%–15% | 1,449,610 | 60,995 | 136,356 | 488,133 | 172,447 | 8,944 | 2,316,485 | 736,757 | – | 736,757 | 3,053,242 |
| – Foreign currency | 5.85% | 841,296 | – | – | – | – | – | 841,296 | – | – | – | 841,296 |
| Loans and advances | 4% | 19,706 | 14,930 | 14,062 | 12,912 | 11,404 | 39,062 | 112,076 | 27,245 | 59,993 | 87,238 | 199,314 |
| Trade debts | | – | – | – | – | – | – | – | 1,722,602 | – | 1,722,602 | 1,722,602 |
| Deposits | | – | – | – | – | – | – | – | 1,778 | 1,299 | 3,077 | 3,077 |
| Accrued income on investments and bank deposits | | – | – | – | – | – | – | – | 44,793 | – | 44,793 | 44,793 |
| Other receivables | | – | – | – | – | – | – | – | 1,021,481 | – | 1,021,481 | 1,021,481 |
| Cash and bank balances | | | | | | | | | | | | |
| – Local currency | 0.5% – 9% | 1,189,806 | – | – | – | – | – | 1,189,806 | 148,215 | – | 148,215 | 1,338,021 |
| – Foreign currency | 5.35%–6.10% | 11,979 | – | – | – | – | – | 11,979 | – | – | – | 11,979 |
| | | 3,512,397 | 75,925 | 150,418 | 501,045 | 183,851 | 48,006 | 4,471,642 | 3,702,871 | 61,292 | 3,764,163 | 8,235,805 |
| **Financial liabilities** | | | | | | | | | | | | |
| **Recognised** | | | | | | | | | | | | |
| Long term financing | 10.11%–12.02% | 1,022,500 | 624,287 | 738,571 | 738,571 | 519,821 | 50,000 | 3,693,750 | – | – | – | 3,693,750 |
| Short term borrowings | 5.62%–11.59% | 3,141,081 | – | – | – | – | – | 3,141,081 | – | – | – | 3,141,081 |
| Trade and other payables | | 426,954 | – | – | – | – | – | 426,954 | 3,019,945 | – | 3,019,945 | 3,446,899 |
| Interest and mark-up accrued | | – | – | – | – | – | – | – | 184,430 | – | 184,430 | 184,430 |
| | | 4,590,535 | 624,287 | 738,571 | 738,571 | 519,821 | 50,000 | 7,261,785 | 3,204,375 | – | 3,204,375 | 10,466,160 |
| **Unrecognised** | | | | | | | | | | | | |
| Guarantees | | – | – | – | – | – | – | – | 18,729 | – | 18,729 | 18,729 |
| Letters of credit | | – | – | – | – | – | – | – | 895,762 | – | 895,762 | 895,762 |
| Contingencies | | – | – | – | – | – | – | – | 229,286 | – | 229,286 | 229,286 |
| Commitments | | – | – | – | – | – | – | – | 3,640,333 | 223,790 | 3,864,123 | 3,864,123 |
| | | – | – | – | – | – | – | – | 4,784,110 | 223,790 | 5,007,900 | 5,007,900 |
| | | 4,590,535 | 624,287 | 738,571 | 738,571 | 519,821 | 50,000 | 7,261,785 | 7,988,485 | 223,790 | 8,212,275 | 15,474,060 |

## 38.2 Financial assets and liabilities

| | Interest / mark-up bearing | | | | | | | | Non–interest / mark-up bearing | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Interest rates | 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 | 2006 Total |
| | (Rupees `000) | | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | | | |
| Investments | | | | | | | | | | | | |
| – Local currency | 6% - 20% | 1,570,528 | 118,606 | 64,591 | 115,277 | 427,895 | 224,758 | 2,521,655 | – | – | – | 2,521,655 |
| – Foreign currency | 4.00% – 5.85% | 882,322 | – | – | – | – | – | 882,322 | – | – | – | 882,322 |
| Loans and advances | 4% | 34,602 | 12,728 | 12,412 | 11,989 | 10,967 | 25,032 | 107,730 | 7,840 | 1,911 | 9,751 | 117,481 |
| Trade debts | | – | – | – | – | – | – | – | 961,427 | – | 961,427 | 961,427 |
| Deposits | | – | – | – | – | – | – | – | 1,205 | 2,133 | 3,338 | 3,338 |
| Accrued income on investments and bank deposits | | – | – | – | – | – | – | – | 49,835 | – | 49,835 | 49,835 |
| Other receivables | | – | – | – | – | – | – | – | 925,066 | – | 925,066 | 925,066 |
| Cash and bank balances | | | | | | | | | | | | |
| – Local currency | 0.1% – 8% | 1,022,049 | – | – | – | – | – | 1,022,049 | 589,258 | – | 589,258 | 1,611,307 |
| – Foreign currency | 3.30% | 11,922 | – | – | – | – | – | 11,922 | – | – | – | 11,922 |
| | | 3,521,423 | 131,334 | 77,003 | 127,266 | 438,862 | 249,790 | 4,545,678 | 2,534,631 | 4,044 | 2,538,675 | 7,084,353 |
| **Financial liabilities** | | | | | | | | | | | | |
| **Recognised** | | | | | | | | | | | | |
| Long term financing | 3.5% – 12.03% | 887,327 | 818,750 | 125,000 | 125,000 | 125,000 | – | 2,081,077 | – | – | – | 2,081,077 |
| Short term borrowings | 4.49% – 11.12% | 4,531,090 | – | – | – | – | – | 4,531,090 | – | – | – | 4,531,090 |
| Trade and other payables | | 374,992 | – | – | – | – | – | 374,992 | 3,130,627 | – | 3,130,627 | 3,505,619 |
| Interest and mark-up accrued | | – | – | – | – | – | – | – | 134,039 | – | 134,039 | 134,039 |
| | | 5,793,409 | 818,750 | 125,000 | 125,000 | 125,000 | – | 6,987,159 | 3,264,666 | – | 3,264,666 | 10,251,825 |
| **Unrecognised** | | | | | | | | | | | | |
| Guarantees | | – | – | – | – | – | – | – | 18,228 | – | 18,228 | 18,228 |
| Letters of credit | | – | – | – | – | – | – | – | 468,511 | – | 468,511 | 468,511 |
| Contingencies | | – | – | – | – | – | – | – | 369,366 | – | 369,366 | 369,366 |
| Commitments | | – | – | – | – | – | – | – | 1,680,572 | 235,400 | 1,915,972 | 1,915,972 |
| | | – | – | – | – | – | – | – | 2,536,677 | 235,400 | 2,772,077 | 2,772,077 |
| | | 5,793,409 | 818,750 | 125,000 | 125,000 | 125,000 | – | 6,987,159 | 5,801,343 | 235,400 | 6,036,743 | 13,023,902 |

**38.3 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 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 amounting to Rs 853,275 thousand (2006: Rs 894,244 thousand) and Rs 2,931,081 thousand (2006: Rs 4,031,090 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 certain 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) Mark-up rate risk**

Financial assets and liabilities include balances of Rs 895,014 thousand (2006: Rs 1,387,502 thousand) and Rs 6,834,830 thousand (2006: Rs 6,612,168 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 is hedged against interest rate risk by holding "prepayment option", which can be exercised upon any adverse movement in the underlying interest rates.

**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 dynamic nature of the business. The Company's treasury aims at maintaining flexibility in funding by keeping committed credit lines.

**e) Capital management**

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

**38.4 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.

## 39. RELATED PARTY TRANSACTIONS

Fauji Foundation holds 44.35% (2006: 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. Pakistan Maroc Phosphore is also a related party of the Company due to common directorship. The related parties also comprise of directors, major shareholders, key management personnel, entities over which the directors are able to exercise influence and employees' funds. Transactions with related parties and the balances outstanding at the year end are given below. Loans and advances to executives and remuneration of chief executive, directors and executives are disclosed in notes 17, 22 and 35 to the financial statements respectively.

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **Transactions with subsidiary company** | | |
| Marketing of fertilizer on behalf of subsidiary company | | |
| under sale on consignment basis | 239,582 | 250,803 |
| Commission on sale of subsidiary company's products | 16,886 | 22,825 |
| Services and materials provided | 12,716 | 5,446 |
| Services and materials received | 580 | 3,044 |
| Dividend income | 1,306,891 | 831,658 |
| Balance payable at the year end – unsecured | 67,540 | 375,022 |
| **Transactions with associated undertaking/companies due to common directorship** | | |
| Sale of fertilizer | 1,827 | 687 |
| Medical services | 69 | 25 |
| Office rent | 3,062 | 2,835 |
| Dividend paid | 2,672,777 | 1,351,435 |
| Purchase of gas as feed and fuel stock | 8,154,469 | 8,090,286 |
| Others | 2,570 | – |
| Technical services received | 14,756 | 16,106 |
| Catalyst purchased | – | 161,854 |
| Balance receivable at the year end – unsecured | 759 | 234 |
| Balance payable at the year end – unsecured | 402,405 | 450,275 |
| **Transactions with joint venture company** | | |
| Contribution towards equity | – | 338,438 |
| Balance of advance against issue of shares | 705,925 | 705,925 |
| **Other related parties** | | |
| Payments to: | | |
| Employees' Provident Fund Trust | 143,620 | 125,558 |
| Employees' Gratuity Fund Trust | 44,592 | 40,779 |
| Employees' Pension Fund Trust | 35,472 | 36,438 |
| Workers' Profit Participation Fund | 374,992 | 386,728 |
| Balances payable at the year end – unsecured | 432,222 | 378,761 |

**40. POST BALANCE SHEET EVENT**

The Board of Directors in their meeting held on January 31, 2008 have proposed a final dividend of Rs 3.5 per share.

**41. GENERAL**

| | 2007 (Tonnes '000) | 2006 (Tonnes '000) |
|---|---|---|
| **41.1 Production capacity** | | |
| Design capacity | 1,904 | 1,904 |
| Production | 2,320 | 2,296 |

**41.2 Facilities of letters of guarantee and letters of credit**

Facilities of letters of guarantee and letters of credit amounting to Rs 40,000 thousand and Rs 7,156,000 thousand (2006: Rs 40,000 thousand and Rs 5,800,000 thousand) respectively are available to the Company against first charge by way of equitable mortgage on all fixed assets of the Company.

**41.3** Donations aggregating Rs 49,072 thousand i.e, around 1% of net profit (2006: Rs 28,450 thousand i.e, 0.60% of net profit), included under cost of sales and distribution cost 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, 2008.

Chairman | Chief Executive | Director

# Consolidated Financial Statements

FFC FAUJI FERTILIZER COMPANY LIMITED

2007

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Fauji Fertilizer Company Limited ("the Company") as at December 31, 2007 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. These financial statements are responsibility of the Company's management. Our responsibility is to express our opinion on these financial statements based on our audit.

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

In our opinion the consolidated financial statements present fairly the financial position of Fauji Fertilizer Company Limited as at December 31, 2007 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Islamabad
January 31, 2008

**KPMG TASEER HADI & CO.**
**CHARTERED ACCOUNTANTS**

# Consolidated Balance Sheet
## as at December 31, 2007

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **SHARE CAPITAL AND RESERVES** | | | |
| Share capital | 3 | 4,934,742 | 4,934,742 |
| Capital reserve | 4 | 276,184 | 276,184 |
| Revenue reserve | 5 | 7,095,745 | 7,336,881 |
| | | 12,306,671 | 12,547,807 |
| **MINORITY INTEREST** | | 4,179,969 | 4,194,102 |
| | | 16,486,640 | 16,741,909 |
| **NON CURRENT LIABILITIES** | 6 | 9,644,110 | 9,273,744 |
| **DEFERRED TAXATION** | 7 | 6,357,761 | 5,030,339 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 8 | 8,211,982 | 6,337,033 |
| Interest and mark-up accrued | 10 | 308,317 | 238,991 |
| Short term borrowings | 11 | 9,016,422 | 9,062,926 |
| Current portion of: | | | |
| - Long term financing | 6.1 | 1,439,444 | 1,304,271 |
| - Long term murabaha | 6.2 | 38,679 | 38,679 |
| - Long term loan | 6.3 | 648,201 | 648,201 |
| - Liabilities against assets subject to finance lease | 6.4 | 2,651 | 2,586 |
| Taxation - net | | 1,001,180 | 1,054,572 |
| | | 20,666,876 | 18,687,259 |
| | | 53,155,387 | 49,733,251 |
| **CONTINGENCIES AND COMMITMENTS** | 12 | | |

The annexed notes 1 to 39 form an integral part of these consolidated financial statements.

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **PROPERTY, PLANT AND EQUIPMENT** | 13 | 26,848,753 | 24,538,295 |
| **GOODWILL** | 14 | 1,569,234 | 1,569,234 |
| **LONG TERM INVESTMENTS** | 15 | 2,983,949 | 3,068,202 |
| **LONG TERM LOANS AND ADVANCES** | 16 | 142,782 | 76,647 |
| **LONG TERM DEPOSITS AND PREPAYMENTS** | 17 | 17,372 | 19,747 |
| **CURRENT ASSETS** | | | |
| Stores, spares and loose tools | 18 | 3,674,558 | 2,999,367 |
| Stock in trade | 19 | 1,230,782 | 1,753,440 |
| Trade debts | 20 | 1,966,353 | 1,192,699 |
| Loan and advances | 21 | 163,436 | 156,405 |
| Deposits and prepayments | 22 | 42,132 | 30,546 |
| Other receivables | 23 | 2,443,141 | 2,514,454 |
| Short term investments | 24 | 6,922,326 | 2,955,237 |
| Cash and bank balances | 25 | 5,150,569 | 8,858,978 |
| | | 21,593,297 | 20,461,126 |
| | | 53,155,387 | 49,733,251 |

Chairman

Chief Executive

Director

# Consolidated Profit and Loss Account

## for the year ended December 31, 2007

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| Sales | 26 | 40,688,779 | 44,680,986 |
| Cost of sales | 27 | 25,731,835 | 30,265,238 |
| GROSS PROFIT | | 14,956,944 | 14,415,748 |
| Administrative expenses and distribution cost | 28 | 3,618,791 | 4,268,699 |
| | | 11,338,153 | 10,147,049 |
| Finance cost | 29 | 1,326,920 | 914,111 |
| Other expenses | 30 | 1,181,558 | 978,405 |
| | | 8,829,675 | 8,254,533 |
| Other income | 31 | 1,578,316 | 1,657,494 |
| **NET PROFIT BEFORE TAXATION** | | 10,407,991 | 9,912,027 |
| Provision for taxation | 32 | 3,813,896 | 3,661,056 |
| **NET PROFIT AFTER TAXATION** | | 6,594,095 | 6,250,971 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of Fauji Fertilizer Company Limited | | 5,346,316 | 5,049,946 |
| Minority interest | | 1,247,779 | 1,201,025 |
| | | 6,594,095 | 6,250,971 |

The annexed notes 1 to 39 form an integral part of these consolidated financial statements.

Chairman

Chief Executive

Director

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 33 | 13,930,511 | 5,884,188 |
| Payments for : | | | |
| Finance cost paid | | (1,177,632) | (866,733) |
| Income tax paid | | (2,558,435) | (2,570,085) |
| Payment to pension fund | | (35,472) | (36,438) |
| Payment to gratuity fund | | (58,486) | (51,920) |
| Payment to Workers' Profit Participation Fund | | (550,211) | (546,114) |
| Compensation from Government of Pakistan–net | | 51,800 | 51,800 |
| | | (4,328,436) | (4,019,490) |
| Net cash from operating activities | | 9,602,075 | 1,864,698 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Fixed capital expenditure | | (4,362,512) | (2,583,479) |
| Proceeds from sale of property, plant and equipment | | 26,861 | 21,269 |
| Interest received | | 787,416 | 900,617 |
| Investment in Pakistan Maroc Phosphore S.A., Morocco | | – | (1,015,313) |
| Increase in other investments – net | | (2,211,269) | (527,335) |
| Net cash used in investing activities | | (5,759,504) | (3,204,241) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Long term financing – disbursements | | 2,600,000 | 1,100,000 |
| – repayments | | (1,404,271) | (2,262,602) |
| Long term murabaha – repayments | | (38,679) | (80,345) |
| Short term borrowings | | (1,436,473) | 1,996,667 |
| Finance lease paid | | (3,245) | (4,413) |
| Dividends paid | | (7,126,161) | (4,705,842) |
| Net cash used in financing activities | | (7,408,829) | (3,956,535) |
| Net decrease in cash and cash equivalents | | (3,566,258) | (5,296,078) |
| Cash and cash equivalents at beginning of the year | | 6,588,581 | 11,871,419 |
| Effect of exchange rate changes | | 7,166 | 13,240 |
| Cash and cash equivalents at end of the year | 34 | 3,029,489 | 6,588,581 |

The annexed notes 1 to 39 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, 2007

| | Attributable to equity holders of Fauji Fertilizer Company Limited | | | | | Minority interest | Total |
|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | General Reserve | Surplus on remeasurement of available for sale investments to fair value | Unappropriated profit/(loss) | | |
| | (Rupees '000) | | | | | | |
| Balance at December 31, 2005 | 4,934,742 | 276,184 | 7,390,000 | – | (982,556) | 3,796,112 | 15,414,482 |
| Transfer from general reserve | – | – | (1,200,000) | – | 1,200,000 | – | – |
| FFC final dividend 2005: Rs 2.25 per share | – | – | – | – | (1,110,317) | – | (1,110,317) |
| FFBL final dividend 2005 to minority holders: | | | | | | | |
| Re 0.5 per ordinary share | – | – | – | – | – | (229,439) | (229,439) |
| Net profit for the year ended December 31, 2006 | – | – | – | – | 5,049,946 | 1,201,025 | 6,250,971 |
| **FFC Dividends** | | | | | | | |
| First interim 2006: Rs 2.25 per share | – | – | – | – | (1,110,317) | – | (1,110,317) |
| Second interim 2006: Rs 2.00 per share | – | – | – | – | (986,948) | – | (986,948) |
| Third interim 2006: Rs 1.85 per share | – | – | – | – | (912,927) | – | (912,927) |
| **Dividends to FFBL minority holders** | | | | | | | |
| First interim 2006: Re 0.5 per ordinary share | – | – | – | – | – | (229,438) | (229,438) |
| Second interim 2006: Re 0.75 per ordinary share | – | – | – | – | – | (344,158) | (344,158) |
| Balance at December 31, 2006 | 4,934,742 | 276,184 | 6,190,000 | – | 1,146,881 | 4,194,102 | 16,741,909 |
| FFC final dividend 2006: Rs 3.90 per share | – | – | – | – | (1,924,549) | – | (1,924,549) |
| FFBL final dividend 2006 to minority holders: | | | | | | | |
| Rs 1.25 per share | – | – | – | – | – | (573,596) | (573,596) |
| Transfer from general reserve | | | (250,000) | – | 250,000 | – | – |
| Net profit for the year ended December 31, 2007 | – | – | – | – | 5,346,316 | 1,247,779 | 6,594,095 |
| Surplus on remeasurement of investments available | | | | | | | |
| for sale to fair value – net of tax | – | – | – | 38,154 | – | – | 38,154 |
| **FFC Dividends** | | | | | | | |
| First interim 2007: Rs 2.50 per share | – | – | – | – | (1,233,686) | – | (1,233,686) |
| Second interim 2007: Rs 2.25 per share | – | – | – | – | (1,110,317) | – | (1,110,317) |
| Third interim 2007: Rs 2.75 per share | – | – | – | – | (1,357,054) | – | (1,357,054) |
| **Dividends to FFBL minority holders** | | | | | | | |
| First interim 2007: Re 0.5 per ordinary share | – | – | – | – | – | (229,439) | (229,439) |
| Second interim 2007: Rs 1.00 per ordinary share | – | – | – | – | – | (458,877) | (458,877) |
| Balance at December 31, 2007 | 4,934,742 | 276,184 | 5,940,000 | 38,154 | 1,117,591 | 4,179,969 | 16,486,640 |

The annexed notes 1 to 39 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 (2006: 50.88%) ("the Group companies/FFC and FFBL").

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 investment held by the parent company is eliminated against parent company's share in paid up capital of the subsidiary.

Material intra-group balances and transactions have been eliminated.

Minority interests are that part of net results of the operations and of net assets of the 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. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

**2.2 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 or loss 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 the approved accounting standards require 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 if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in respective policy notes.

**2.3 Functional and presentation currency**

Items included in these financial statements are measured using the currency of the primary economic environment in which the Group companies' operate. The consolidated financial statements are presented in Pak Rupees, which is the Group's companies' functional and presentation currency.

**2.4 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. 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.

Gratuity and pension contributions require assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

**Compensated absences**

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

**2.5 Taxation**

Provision for current taxation is based on taxable income at the applicable rate 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 taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are 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.

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

**2.6 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 for 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 and charged to profit and loss account to write off the depreciable amount of each asset over its estimated useful life at the rates specified in note 13.

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.

**Change in accounting estimate**

Depreciation on addition in property, plant and equipment is charged from the month of addition while no depreciation is charged in the month of disposal. Previously, full year's depreciation was being charged in the year of addition and no depreciation in the year of disposal. This change in accounting estimate has resulted in decrease in depreciation charge for the year by Rs 118,783 thousand with corresponding increase in carrying value of property, plant and equipment and profit before taxation by the same amount.

**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.

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

**2.7 Impairment**

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account.

**2.8 Goodwill**

On acquisition of an entity, excess of the purchase consideration over the fair value of the identifiable assets and liabilities acquired is initially recognized as goodwill and tested for impairment annually.

**Change in accounting policy**

Pursuant to the adoption of IFRS 3 -" Business Combinations " by the Securities & Exchange Commission of Pakistan vide S.R.O No. 1228 (I) / 2006 dated December 6, 2006, FFC has changed its accounting policy and now the amortisation of goodwill on acquisition of PSFL has ceased which was previously being amortised over the period of 20 years The effect of this change in accounting policy has been made prospectively in accordance with the requirements of IFRS 3. The goodwill is now being stated at the carrying value as at December 31, 2006. This change has resulted in increased net profit before tax for the year by Rs 104,615 thousand.

**2.9 Investments**

**2.9.1 Investment in joint venture**

Joint ventures are those entities over whose activities the Group companies have joint control established by the contractual arrangement. The Group companies recognize their 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 companies' share of the profit or loss of joint venture after the date of joint control and the share of any gains and losses that are recognised by the joint venture directly in equity. The method is applied from the date that joint control commences until the date that joint control ceases.

**2.9.2 Investments available for sale**

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

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement (e.g. valuation, interest rate etc.) and therefore, cannot be determined with precision.

**2.9.3 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 and designated as such upon initial recognition. 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.

**2.9.4 Loans and receivables**

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

**2.10 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. A provision is made for any excess of book value over net realisable value of items identified as surplus to the Group companies' requirement. Adequate provision is made for slow moving items. The Group companies review the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

**2.11 Stock in trade**

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

Cost is determined as follows:

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

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

### 2.12 Foreign currencies

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

### 2.13 Revenue recognition

**Sale**

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

**Profit on bank deposits, return on investments and interest on loans**

Profit on bank deposits, return on investments and interest on loans is accounted for on a time proportion basis using the applicable rate of return/interest.

**Dividend income**

Dividend income is recognized when right to receive the dividend is established.

**Scrap sales and miscellaneous receipts**

Scrap sales and miscellaneous receipts are recognised on realized amounts.

### 2.14 Mark-up bearing borrowings

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

### 2.15 Government compensation

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

### 2.16 Fertilizer subsidy for farmers

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

### 2.17 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.

### 2.18 Research and development costs

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

### 2.19 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.

### 2.20 Dividend appropriation

Dividend is recognized as a liability in the period in which it is declared.

### 2.21 Cash and cash equivalents

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 which are subject to insignificant risk of change in value and short term running finances of FFBL.

### 2.22 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 offset the recognised amounts and the Group companies intend to settle either on a net basis, or realise the asset and settle the liability simultaneously.

**2.23 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.

**2.24 Financial instruments**

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

**a) Trade and other payables**

Liabilities for trade and other amounts payable are carried at 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. Carrying amounts of trade and other receivables are assessed on a regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

**2.25 New accounting standards and IFRIC interpretations that are not yet effective**

Except for the changes made in IAS – 1 Presentation of Financial Statements (revised 2007) which are effective after 01 January 2008, new standards, interpretations and amendments to approved accounting standards effective from future years are not expected to have significant impact on the current transactions of the Group companies. The management is considering the effects of the changes in IAS -1 on the Group companies' financial statements.

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **3.** | **SHARE CAPITAL** | | |
| | **ISSUED, SUBSCRIBED AND PAID UP CAPITAL** | | |
| **Numbers** | | | |
| 256,495,902 | Ordinary shares of Rs 10 each issued for consideration in cash. | 2,564,959 | 2,564,959 |
| 236,978,328 | Ordinary shares of Rs 10 each issued as fully paid bonus shares, | 2,369,783 | 2,369,783 |
| 493,474,230 | | 4,934,742 | 4,934,742 |

**AUTHORISED SHARE CAPITAL**

This represents 500,000,000 (2006: 500,000,000) ordinary shares of Rs 10 each.

**3.1** Fauji Foundation held 44.35% (2006: 44.35%) ordinary shares of FFC at the year end.

| | | Note | 2007 (Rupees '000) | 2006 (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 | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **5.** | **REVENUE RESERVES** | | | |
| | General reserve | | 5,940,000 | 6,190,000 |
| | Surplus on remeasurement of available for sale investments to fair value - net of tax | | 38,154 | – |
| | Unappropriated profit | | 1,117,591 | 1,146,881 |
| | | | 7,095,745 | 7,336,881 |
| **6.** | **NON CURRENT LIABILITIES** | | | |
| | Long term financing – secured | 6.1 | 3,713,610 | 2,653,054 |
| | Long term murabaha – secured | 6.2 | 96,694 | 135,373 |
| | Long term loan– Government of Pakistan | 6.3 | 5,833,806 | 6,482,007 |
| | Liabilities against assets subject to finance lease | 6.4 | – | 3,310 |
| | | | 9,644,110 | 9,273,744 |
| **6.1** | **Long term financing – SECURED** | | | |
| | **Fauji Fertilizer Company Limited** | | | |
| | **Loans from banking companies** | 6.1.1 | | |
| | i) National Bank of Pakistan (NBP–2) | 6.1.1 (a) | 500,000 | 500,000 |
| | ii) Askari Bank Limited (AKBL) | 6.1.1 (a) | 100,000 | 100,000 |
| | iii) Habib Bank Limited (HBL– 3) | 6.1.1 (a) | 500,000 | 500,000 |
| | iv) United Bank Limited (UBL–2) | 6.1.1 (a) | 800,000 | – |
| | v) Bank Alfalah Limited (BAFL) | 6.1.1 (a) | 500,000 | – |
| | vi) Standard Chartered Bank Limited (SCB) | 6.1.1 (a) | 500,000 | – |
| | vii) National Bank of Pakistan (NBP–3) | 6.1.1 (a) | 400,000 | – |
| | viii) Saudi Pak Commercial Bank Limited (SPCB–1) | 6.1.1 (a) | 150,000 | – |
| | ix) Saudi Pak Commercial Bank Limited (SPCB-2) | 6.1.1 (a) | 150,000 | – |
| | x) Habib Bank Limited (HBL– 2) | 6.1.1 (b) | 93,750 | 281,250 |
| | xi) ABN Amro Bank – Syndicated | 6.1.1 (b) | – | 91,667 |
| | xii) MCB Bank Limited (MCB) | 6.1.1 (b) | – | 100,000 |
| | xiii) National Bank of Pakistan (NBP–1) | 6.1.1 (b) | – | 166,667 |
| | xiv) Habib Bank Limited (HBL– 1) | 6.1.1 (b) | – | 62,500 |
| | xv) United Bank Limited (UBL–1) | 6.1.1 (b) | – | 62,500 |
| | | | 3,693,750 | 1,864,584 |
| | Term Finance Certificates (TFC's) | 6.1.2 | – | 216,493 |
| | **Fauji Fertilizer Bin Qasim Limited** | 6.1.3 | | |
| | **Loans from banking companies and financial institutions** | | | |
| | Habib Bank Limited (HBL) | | 454,284 | 584,080 |
| | Standard Chartered Bank (SCB) | | 259,770 | 333,990 |
| | MCB Bank Limited (MCB) | | 447,827 | 575,777 |
| | Askari Bank Limited (AKBL) | | 100,000 | 128,571 |
| | Saudi Pak Industrial and Agricultural Investment Company (Pvt) Limited (SAPICO) | | 37,423 | 48,116 |
| | | | 1,299,304 | 1,670,534 |
| | **From associated company** | | | |
| | Pak Kuwait Investment Company (Pvt) Limited (PKIC) | | 160,000 | 205,714 |
| | | | 5,153,054 | 3,957,325 |
| | Less: Current portion shown under current liabilities | | 1,439,444 | 1,304,271 |
| | | | 3,713,610 | 2,653,054 |

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

| | Lenders | Mark-up rate p.a. (%) | No. of instalments outstanding | Date of final repayment |
|---|---|---|---|---|
| i) | NBP-2 | 6 months' KIBOR+0.5 | On maturity | May 31, 2008 |
| ii) | AKBL | 6 months' KIBOR+0.4 | On maturity | December 30, 2008 |
| iii) | HBL-3 | 6 months' KIBOR+1.45 | 8 half yearly | November 30, 2011 |
| iv) | UBL-2 | 6 months' KIBOR+1.5 | 7 half yearly | August 30, 2012 |
| v) | BAFL | 6 months' KIBOR+1.5 | 16 quarterly | March 20, 2012 |
| vi) | SCB | 6 months' KIBOR+1.3 | 10 half yearly | March 29, 2013 |
| vii) | NBP-3 | 6 months' KIBOR+1.4 | 8 half yearly | August 30, 2012 |
| viii) | SPCB-1 | 6 months' KIBOR+1.5 | 10 half yearly | September 27, 2012 |
| ix) | SPCB-2 | 6 months' KIBOR+1.5 | 10 half yearly | December 28, 2012 |
| x) | HBL-2 | 6 months' Treasury Bill rate+1.3 | 1 half yearly | May 30, 2008 |

**6.1.1 (a)** Finances (i) through (ix) have been obtained to meet the debottle-necking and other capital expenditure requirements of FFC. Finances (i) and (ii) are secured against lien on Pakistan Investment Bonds having face value of Rs 600,000 thousand, whereas finances (iii) through (ix) 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 of FFC including stocks and book debts ranking pari passu with each other with 25% margin.

**6.1.1 (b)** Finances (x) through (xv) are secured by an equitable mortgage on 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 with 25% margin. These finances have been obtained for the acquisition of PSFL. Loans (xi) to (xv) were fully repaid during the year.

**6.1.2** Term Finance Certificates (TFCs) were fully repaid during the year.

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

| Lenders | Purchase price (Rupees '000) | Marked-up price (Rupees '000) | Mark-up rate | No. of quarterly instalments outstanding | Repayment commenced from |
|---|---|---|---|---|---|
| HBL | 908,571 | 1,690,772 | 12 months' Treasury bill rate | 14 | July 2004 |
| SCB | 519,539 | 966,819 | 12 months' Treasury bill rate | 14 | July 2004 |
| MCB | 895,653 | 1,666,735 | 12 months' Treasury bill rate | 14 | July 2004 |
| AKBL | 200,000 | 372,183 | 12 months' Treasury bill rate | 14 | July 2004 |
| SAPICO | 74,847 | 139,283 | 12 months' Treasury bill rate | 14 | July 2004 |
| PKIC | 320,000 | 595,493 | 12 months' Treasury bill rate | 14 | July 2004 |

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

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **6.2** | **Long term murabaha - SECURED** | | |
| | **FFBL** | | |
| | Faysal Bank Limited (FBL) - a banking company | 135,373 | 174,052 |
| | Less: Current portion shown under current liabilities | 38,679 | 38,679 |
| | | 96,694 | 135,373 |

| Lender | Facility | Purchase price | Mark-up rate | No. of quarterly instalments outstanding | Repayment commenced from |
|---|---|---|---|---|---|
| | (Rupees '000) | | | | |
| FBL | 270,748 | 503,840 | 12 months' Treasury bill rate | 14 | July 2004 |

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

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **6.3** | **Long term loan - Government of Pakistan** | | | |
| | **Unsecured** | | | |
| | Government of Pakistan (GOP) loan-FFBL | 6.3.1 | 4,552,690 | 4,860,646 |
| | Deferred Government assistance-FFBL | 6.3.1 | 1,929,317 | 2,269,562 |
| | | | 6,482,007 | 7,130,208 |
| | Less: Current portion shown under current liabilities | | 648,201 | 648,201 |
| | | | 5,833,806 | 6,482,007 |

**6.3.1** This represents balance amount of GOP loan amounting to Rs 9,723,011 thousand which is repayable in equal instalments in 16 years with 1 year grace at zero percent effective November 30, 2001. Final instalment will be paid in June 2017. This loan is 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 rate of 7%. The amount amortised and offset against financial charges during the year amounted to Rs 340,245 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.

Loans from 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 by assuming ECA loan liabilities by absolving related banks and financial institutions of their liabilities for which they earlier issued guarantees to ECA. As a result, two ECA have released the guarantee of HBL and have returned the original documents.

Since two ECA have yet to release HBL from its responsibility as guarantor therefore, the above referred guarantee and related charge on assets of FFBL have not been vacated upto December 31, 2007. FFBL is making efforts in getting this guarantee released.

### 6.4 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments | Financial charges for future periods | Principal outstanding | Minimum lease payments | Financial charges for future periods | Principal outstanding |
| | | (Rupees '000) | | | (Rupees '000) | |
| Not later than one year | 2,675 | 24 | 2,651 | 2,801 | 215 | 2,586 |
| Later than one year but not later than five years | – | – | – | 3,338 | 28 | 3,310 |
| | 2,675 | 24 | 2,651 | 6,139 | 243 | 5,896 |

Lease rentals include finance charge at 8% (2006: ranging between 8% to 16%) per annum, which have been used as discounting factor and are payable on monthly basis. FFBL has an option to purchase the assets upon completion of lease period by adjusting the security deposits amounting to Rs 1,623 thousand (2006: Rs 2,045 thousand) and has intention to exercise the option.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **7.** | **DEFERRED TAXATION** | | | |
| | The balance of deferred tax is in respect of the following major temporary differences: | | | |
| | Accelerated depreciation | | 6,425,791 | 5,102,641 |
| | Provision for slow moving/surplus spares, doubtful debts, other receivables and short term investments | | (85,628) | (70,238) |
| | Remeasurement of investments available for sale | | 18,526 | – |
| | Liabilities against assets subject to finance lease | | (928) | (2,064) |
| | | | 6,357,761 | 5,030,339 |
| **8.** | **TRADE AND OTHER PAYABLES** | | | |
| | Creditors | | 1,477,666 | 1,792,874 |
| | Accrued liabilities | | 1,663,948 | 1,376,848 |
| | Other liabilities | 8.1 | 150,939 | 43,708 |
| | Sales tax payable – net | | 195,210 | 158,371 |
| | Deposits | | 89,380 | 84,634 |
| | Retention money | | 31,487 | 25,463 |
| | Advances from customers | | 2,519,292 | 841,746 |
| | Workers' Profit Participation Fund | 8.2 | 444,740 | 389,965 |
| | Workers' Welfare Fund | | 707,571 | 454,531 |
| | Gratuity fund | | 5,268 | 3,769 |
| | Unclaimed dividend | | 926,481 | 1,165,124 |
| | | | 8,211,982 | 6,337,033 |

**8.1** This includes Rs 48 million payable to GOP after netting off the GOP compensation amounting to Rs 600 million for the year 2007 against the agreed loan repayment of Rs 648 million by FFBL.

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **8.2** | **Workers' Profit Participation Fund** | | |
| | Balance at beginning of the year | 389,965 | 395,934 |
| | Interest on funds utilised in Group companies' business | 246 | 180 |
| | Allocation for the year | 604,740 | 539,965 |
| | Payment to fund during the year | (550,211) | (546,114) |
| | | 444,740 | 389,965 |

| | Funded gratuity | Funded pension | 2007 Total | 2006 Total |
|---|---|---|---|---|
| | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| **9. RETIREMENT BENEFIT FUNDS** | | | | |
| **a) Reconcilation of amounts recognised in the balance sheet is as follow:** | | | | |
| Present value of defined benefit obligation | 831,875 | 816,872 | 1,648,747 | 1,369,088 |
| Fair value of plan assets | (712,744) | (781,717) | (1,494,461) | (1,298,374) |
| Deficit | 119,131 | 35,155 | 154,286 | 70,714 |
| Net actuarial losses not recognized | (113,863) | (35,155) | (149,018) | (65,738) |
| Unrecognized transitional liability | – | – | – | (1,207) |
| | 5,268 | – | 5,268 | 3,769 |
| **b) The movement in the present value of defined benefit obligation is as follows:** | | | | |
| Present value of defined benefit obligation at beginning of the year | 704,583 | 664,505 | 1,369,088 | 1,222,412 |
| Current service cost | 49,222 | 37,236 | 86,458 | 78,758 |
| Interest cost | 63,527 | 60,911 | 124,438 | 110,425 |
| Benefits paid during the year | (35,000) | (18,165) | (53,165) | (49,877) |
| Actuarial loss | 49,543 | 72,385 | 121,928 | 7,370 |
| Present value of defined benefit obligation at end of the year | 831,875 | 816,872 | 1,648,747 | 1,369,088 |
| **c) The movement in fair value of plan assets is as follows:** | | | | |
| Fair value of plan assets at beginning of the year | 613,389 | 684,985 | 1,298,374 | 1,106,764 |
| Expected return on plan assets | 55,365 | 62,675 | 118,040 | 100,189 |
| Contributions | 58,486 | 35,472 | 93,958 | 88,358 |
| Benefits paid during the year | (35,000) | (18,165) | (53,165) | (49,877) |
| Actuarial gain | 20,504 | 16,750 | 37,254 | 52,940 |
| Fair value of plan assets at end of the year | 712,744 | 781,717 | 1,494,461 | 1,298,374 |
| **d) Plan assets comprise of:** | | | | |
| Listed securities | 100,436 | 34,262 | 134,698 | 81,145 |
| Mutual funds | 71,133 | 35,636 | 106,769 | 71,909 |
| Term deposit receipts | 26,200 | – | 26,200 | 20,165 |
| Defence Saving Certificates | 174,434 | 183,003 | 357,437 | 629,113 |
| National Investment Trust Units | 116,566 | 167,498 | 284,064 | 19,760 |
| Deposits with banks | 157,849 | 295,225 | 453,074 | 344,659 |
| Pakistan Investment Bonds | 61,181 | 61,171 | 122,352 | 121,646 |
| WAPDA securities | 5,162 | 5,124 | 10,286 | 10,194 |
| Others | (217) | (202) | (419) | (217) |
| | 712,744 | 781,717 | 1,494,461 | 1,298,374 |
| **e) Actual return on plan assets** | 74,128 | 79,425 | 153,553 | 153,580 |
| Contributions expected to be paid to the plan during the next financial year | 68,105 | 44,530 | 112,635 | 93,958 |

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

| | | Funded gratuity | Funded pension | 2007 Total | 2006 Total |
|---|---|---|---|---|---|
| | | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| **g)** | **Movement in asset recognised in the balance sheet:** | | | | |
| | Opening liability | 3,769 | – | 3,769 | – |
| | Expense for the year | 59,985 | 35,472 | 95,457 | 92,127 |
| | Payments to the fund during the year | (58,486) | (35,472) | (93,958) | (88,358) |
| | Closing liability | 5,268 | – | 5,268 | 3,769 |
| **h)** | **Amount recognised in the profit and loss account is as follows:** | | | | |
| | Current service cost | 49,222 | 37,236 | 86,458 | 78,758 |
| | Interest cost | 63,527 | 60,911 | 124,438 | 110,425 |
| | Expected return on plan assets | (55,365) | (62,675) | (118,040) | (100,189) |
| | Actuarial losses recognised | 1,394 | – | 1,394 | 1,926 |
| | Recognised transitional liability | 1,207 | – | 1,207 | 1,207 |
| | | 59,985 | 35,472 | 95,457 | 92,127 |

**i)** **Comparison of present value of defined benefit obligation, fair value of plan assets and deficit of gratuity fund for the current year and previous four years is as follows:**

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| Present value of defined benefit obligation | 831,875 | 704,583 | 631,102 | 551,353 | 453,903 |
| Fair value of plan assets | (712,744) | (613,389) | (540,975) | (489,980) | (411,905) |
| Deficit | 119,131 | 91,194 | 90,127 | 61,373 | 41,998 |
| Experience adjustments | | | | | |
| – on obligations | (49,543) | 2,278 | (2,658) | (42,254) | (39,904) |
| – on plan assets | 20,504 | 10,449 | (9,769) | 18,680 | 29,736 |

**j)** **Comparison of present value of defined benefit obligation, fair value of plan assets and (surplus)/deficit of pension fund for the current year and previous four years is as follows:**

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| Present value of defined benefit obligation | 816,872 | 664,505 | 591,310 | 464,935 | 450,833 |
| Fair value of plan assets | (781,717) | (684,985) | (565,789) | (473,096) | (404,303) |
| Deficit/(surplus) | 35,155 | (20,480) | 25,521 | (8,161) | 46,530 |
| Experience adjustments | | | | | |
| – on obligations | (72,385) | 3,510 | (64,734) | 39,866 | (85,244) |
| – on plan assets | 16,750 | 42,491 | 31,981 | 15,913 | 35,045 |

**k)** **Principal actuarial assumptions used in the actuarial valuations carried out as at December 31, 2007 are as follows:**

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Funded gratuity | Funded Pension | Funded gratuity | Funded Pension |
| Discount rate | 10% | 10% | 9% | 9% |
| Expected rate of salary growth | 10-12% | 11-12% | 10-12% | 11-12% |
| Expected rate of return on plan assets | 10% | 10% | 9% | 9% |

**l)** "Salaries, wages and benefits" expense, stated in notes 28 and 29 include retirement benefits in respect of gratuity, provident fund, pension plans and compensated absences amounting to Rs 59,985 thousand, Rs 66,186 thousand, Rs 35,472 thousand and Rs 85,783 thousand respectively (2006: Rs 55,689 thousand, Rs 48,560 thousand, Rs 36,438 thousand and Rs 61,299 thousand respectively). These are reduced by the amount of charges debited to Fauji Fertilizer Bin Qasim Limited under inter company services agreement.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **10.** | **INTEREST AND MARK-UP ACCRUED** | | | |
| | On long term financing | | | |
| | From banking companies and financial institutions | | 158,713 | 80,827 |
| | From PKIC, an associated undertaking | | 3,791 | 4,669 |
| | On murabaha financing | | 3,207 | 3,830 |
| | On short term borrowings | | 142,606 | 149,665 |
| | | | 308,317 | 238,991 |
| **11.** | **SHORT TERM BORROWINGS - SECURED** | | | |
| | From banking companies | | | |
| | Short term import credit - FFC | 11.1 | 2,931,081 | 4,031,090 |
| | Short term running finance | 11.2 | 6,085,341 | 5,031,836 |
| | | | 9,016,422 | 9,062,926 |

**11.1 Short term import credit**

Import credit facilities of Rs 2,931,081 thousand (2006: Rs 4,031,090 thousand) have been arranged from various banks under mark-up arrangements at six months' LIBOR + 0.4% per annum (2006: six months' LIBOR + 0.5%-0.6% per annum).

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

**11.2 Short term running finance**

This includes short term facilities arranged by FFBL from various banks on mark-up basis aggregating Rs 7,600,000 thousand (2006: Rs 4,700,000 thousand). These facilities carry mark-up ranging from 5.4% to 10.50% per annum (2006: 10.23% to 10.71% per annum) at the year end and are secured by hypothecation charge over stocks and current assets of FFBL and lien on bank deposits. The purchase prices are repayable on various dates by FFBL.

Short term running finance facilities available to FFC from various banks under mark-up arrangements amounting to Rs 7,500,000 thousand (2006: Rs 5,250,000 thousand) which represent the aggregate of sale prices of all mark-up arrangements between FFC and the banks. These facilities have various maturity dates upto July 31, 2008.

These are secured by first pari passu and ranking hypothecation charges of present and future current assets and fixed assets of FFC. The rates of mark-up range from one month KIBOR + 0.40% to 0.50% per annum to six months' KIBOR + 0.25% per annum (2006: one month KIBOR + 0.50% to 0.80% per annum to six months' KIBOR + 0.25% per annum).

| | | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **12.** | **CONTINGENCIES AND COMMITMENTS** | | | |
| | **a)** | **Contingencies** | | |
| | i) | Guarantees issued by banks on behalf of the Group companies. | 48,586 | 46,697 |
| | 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. | 178,590 | 295,590 |
| | iii) | Income tax demands, not acknowledged as debt, have been challenged by the FFBL and are currently in appeal; FFBL expects favourable outcome of appeal. | 49,118 | 50,727 |
| | iv) | Claims against the Group companies and/or potential exposure not acknowledged as debt. | 63,043 | 85,974 |
| | v) | Indemnity bonds and undertakings given to the customs authorities for machinery imported by FFBL for installation at plant site. | 119,650 | 119,650 |
| | **b)** | **Commitments in respect of:** | | |
| | i) | Contracted capital expenditure. | 1,467,866 | 1,675,156 |
| | ii) | Purchase of fertilizer, stores, spares and other revenue items. | 1,112,529 | 785,459 |
| | iii) | Group's share of commitments in Pakistan Maroc Phosphore S.A. (a joint venture with OCP) including minority interest. The joint venture itself is committed to incur capital expenditure as at September 30, 2007 of MAD 838,637 thousand (2006: MAD 1,326,000) Equivalent Pak Rs 6,692,323 thousand (2006: Rs 9,600,240 thousand). | 2,509,620 | 3,600,090 |
| | iv) | Group's share of investment in Fauji Cement Company Limited. | 1,800,000 | – |
| | v) | FFBL commitment for equity investment in Foundation Power Company (Dharki) Limited | 1,500,000 | – |
| | vi) | Rentals under lease agreements: | | |
| | | Premises – not later than one year | 29,191 | 28,579 |
| | | – later than one year and not later than five years | | |
| | | 2009 | 26,399 | 23,721 |
| | | 2010 | 22,069 | 21,452 |
| | | 2011 | 8,718 | 17,712 |
| | | 2012 | 3,534 | 6,413 |
| | | Vehicles – not later than one year | 81,896 | 73,669 |
| | | – later than one year and not later than five years | | |
| | | 2009 | 66,062 | 64,296 |
| | | 2010 | 41,462 | 55,483 |
| | | 2011 | 37,423 | 26,449 |
| | | 2012 | 14,780 | 16,957 |
| | | – later than five years | 4,343 | 2,917 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Owned assets | | | | | | | | | | | | | Leased | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Freehold land | Lease hold land | Buildings & structures on freehold land | Buildings & structures on leasehold land | Railway siding | Plant and machinery | Catalysts | Office and electrical equipment | Furniture and fixtures | Vehicles | Maintenance and other equipment | Library books | Capital work in progress (note 13.4) | Vehicles | Total |
| | | | | | | | | | | | | | | | (Rupees '000) |
| **COST** | | | | | | | | | | | | | | | |
| Balance as at Jan 01, 2006 | 296,902 | 295,639 | 1,844,169 | 1,507,265 | 26,517 | 35,978,378 | 431,357 | 292,068 | 98,109 | 299,696 | 677,727 | 10,453 | 1,222,167 | 19,770 | 43,000,217 |
| Additions during the year | 16,022 | 111 | 81,973 | 2,537 | – | 975,108 | 176,622 | 38,418 | 14,510 | 62,186 | 105,781 | 2,254 | 2,104,152 | – | 3,579,674 |
| Disposals | – | – | – | – | – | (3,654) | (83,878) | (10,735) | (5,176) | (29,845) | (8,253) | (2) | – | – | (141,543) |
| Transfers/adjustments | – | – | (1,437) | – | – | – | (382) | (328) | – | 6,135 | 328 | – | (996,202) | (6,135) | (998,021) |
| Balance as at Dec 31, 2006 | 312,924 | 295,750 | 1,924,705 | 1,509,802 | 26,517 | 36,949,832 | 523,719 | 319,423 | 107,443 | 338,172 | 775,583 | 12,705 | 2,330,117 | 13,635 | 45,440,327 |
| Balance as at Jan 01, 2007 | 312,924 | 295,750 | 1,924,705 | 1,509,802 | 26,517 | 36,949,832 | 523,719 | 319,423 | 107,443 | 338,172 | 775,583 | 12,705 | 2,330,117 | 13,635 | 45,440,327 |
| Additions during the year | 25,877 | 96,350 | 220,565 | 12,860 | – | 2,816,609 | 122,510 | 36,459 | 29,480 | 43,910 | 171,692 | 2,410 | 4,066,264 | – | 7,644,986 |
| Disposals | – | – | – | – | – | (159,158) | (81,036) | (9,592) | (1,624) | (22,346) | (24,396) | (149) | – | – | (298,301) |
| Transfers/adjustments | – | – | – | (11,167) | – | (50,573) | – | (12,084) | 8,492 | 2,817 | 109 | (58) | (3,282,474) | (2,817) | (3,347,755) |
| Balance as at Dec 31, 2007 | **338,801** | **392,100** | **2,145,270** | **1,511,495** | **26,517** | **39,556,710** | **565,193** | **334,206** | **143,791** | **362,553** | **922,988** | **14,908** | **3,113,907** | **10,818** | **49,439,257** |
| **DEPRECIATION** | | | | | | | | | | | | | | | |
| Balance as at Jan 01, 2006 | – | 75,106 | 1,089,348 | 303,469 | 26,493 | 16,577,715 | 194,887 | 184,576 | 51,503 | 170,469 | 557,665 | 8,520 | – | 12,636 | 19,252,387 |
| Charge for the year | – | 9,789 | 70,944 | 44,138 | 24 | 1,373,871 | 106,509 | 31,586 | 8,510 | 58,744 | 79,357 | 1,781 | – | 2,727 | 1,787,980 |
| Depreciation on disposals | – | – | – | – | – | (3,654) | (83,878) | (10,571) | (4,799) | (26,924) | (8,135) | (1) | – | – | (137,962) |
| Transfers/adjustments | – | – | (72) | – | – | – | (382) | (28) | – | 4,454 | 109 | – | – | (4,454) | (373) |
| Balance as at Dec 31, 2006 | – | 84,895 | 1,160,220 | 347,607 | 26,517 | 17,947,932 | 217,136 | 205,563 | 55,214 | 206,743 | 628,996 | 10,300 | – | 10,909 | 20,902,032 |
| Balance as at Jan 01, 2007 | – | 84,895 | 1,160,220 | 347,607 | 26,517 | 17,947,932 | 217,136 | 205,563 | 55,214 | 206,743 | 628,996 | 10,300 | – | 10,909 | 20,902,032 |
| Charge for the year | – | 14,375 | 76,003 | 44,237 | – | 1,433,294 | 118,650 | 33,008 | 15,724 | 58,056 | 86,557 | 1,771 | – | 2,163 | 1,883,838 |
| Depreciation on disposals | – | – | – | – | – | (55,875) | (81,036) | (8,687) | (1,496) | (20,448) | (24,142) | (45) | – | – | (191,729) |
| Transfers/adjustments | – | – | – | (2,680) | – | 5,965 | | (6,997) | 67 | 2,254 | 66 | (58) | – | (2,254) | (3,637) |
| Balance as at Dec 31, 2007 | **–** | **99,270** | **1,236,223** | **389,164** | **26,517** | **19,331,316** | **254,750** | **222,887** | **69,509** | **246,605** | **691,477** | **11,968** | **–** | **10,818** | **22,590,504** |
| Written down value as at Dec 31, 2006 | 312,924 | 210,855 | 764,485 | 1,162,195 | – | 19,001,900 | 306,583 | 113,860 | 52,229 | 131,429 | 146,587 | 2,405 | 2,330,117 | 2,726 | 24,538,295 |
| Written down value as at Dec 31, 2007 | **338,801** | **292,830** | **909,047** | **1,122,331** | **–** | **20,225,394** | **310,443** | **111,319** | **74,282** | **115,948** | **231,511** | **2,940** | **3,113,907** | **–** | **26,848,753** |
| Rate of depreciation in % | **–** | **6 1/4** | **5 to 10** | **5** | **5** | **5** | **20** | **15** | **10** | **20** | **15 – 33.33** | **30** | **–** | **20** | |

**13.1** Cost of property, plant and equipment has been shown net of Government grant of Rs 68,164 thousand (2006: Rs 68,164 thousand).

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **13.2** | **Depreciation charge has been allocated as follows:** | | | |
| | Cost of sales | 27 | 1859,939 | 1,766,454 |
| | Administrative expenses and distribution cost | 28 | 23,899 | 21,526 |
| | | | 1,883,838 | 1,787,980 |

**13.3 Details of property, plant and equipment sold**

| Description | Cost | Book value | Sale proceeds |
|---|---|---|---|
| | | (Rupees '000) | |
| **Computer and ancillary equipment** | | | |
| **As per company's policy to employee** | | | |
| Brig Muhammad Saleem Suleman (Retired) | 163 | 109 | 109 |
| **Vehicles** | | | |
| **As per Group companies' policy to employees** | | | |
| Lt. Col Muhammad Akhtar | 939 | 157 | 94 |
| Lt. Col Ahmed Nisar Sarwat | 939 | 126 | 94 |
| Lt. Col Muhammad Amir Mehdi | 939 | 267 | 335 |
| Lt. Col Muhammad Zulfiqar | 969 | 679 | 885 |
| **Insurance claim** | 969 | 581 | 900 |
| **Plant and Machinery** | | | |
| **By auction to outsider** | | | |
| Al-Noor Trading Company & Ch. M. Arshad | 155,410 | 103,283 | 13,327 |
| **Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50 thousand** | 137,973 | 1,370 | 11,117 |
| **2007** | **298,301** | **106,572** | **26,861** |
| 2006 | 141,543 | 3,581 | 21,269 |

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **13.4** | **CAPITAL WORK IN PROGRESS** | | |
| | Civil works | 157,890 | 265,020 |
| | Plant and machinery including advances to suppliers | 2,956,017 | 2,065,097 |
| | | 3,113,907 | 2,330,117 |
| **14.** | **GOODWILL** | | |
| | Balance at beginning of the year | 1,569,234 | 1,673,849 |
| | Less: Amortisation for the year | – | (104,615) |
| | | 1,569,234 | 1,569,234 |

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **15. LONG TERM INVESTMENTS** | | | |
| **Investment in joint venture – under Equity method** | | | |
| Pakistan Maroc Phosphore S.A. Morocco | 15.1 | 2,117,075 | 2,117,075 |
| **Investments available for sale** | 15.2 | | |
| Certificates of Investment | | 259,835 | 293,124 |
| Pakistan Investment Bonds | | 652,932 | – |
| Term Finance Certificates | | 53,718 | – |
| Arabian Sea Country Club Limited (ASCCL) | | | |
| (300,000 shares of Rs 10 each) | | 3,000 | 3,000 |
| Less: Impairment in value of investment | | (3,000) | (3,000) |
| | | – | – |
| | | 966,485 | 293,124 |
| **Investments held to maturity** | 15.3 | | |
| Pakistan Investment Bonds | | – | 600,000 |
| Term Finance Certificates | | – | 149,930 |
| | | – | 749,930 |
| | | 3,083,560 | 3,160,129 |
| **Less: Current portion shown under short term investments** | 24 | | |
| **Investments available for sale** | | | |
| Certificates of investment | | 99,589 | 91,867 |
| Term Finance Certificates | | 22 | – |
| **Investments held to maturity** | | | |
| Term Finance Certificates | | – | 60 |
| | | 99,611 | 91,927 |
| | | 2,983,949 | 3,068,202 |

**15.1 Investment in joint venture – under Equity method**

The Group companies have 37.5% equity participation in Pakistan Maroc Phosphore S.A. (PMP), amounting to Moroccan Dirhams (MAD) 300,000 thousand equivalent to Rs 2,117,075 thousand (2006: Rs 2,117,075 thousand). PMP is a joint venture between the Group companies, Fauji Foundation and Officie Cherifien Des Phosphates, Morocco. The principal activity of PMP is to manufacture and market Phosphoric acid, fertilizer and other related products in Morocco and abroad.

According to the shareholders' agreement, 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 Group companies have also committed not to pledge shares of PMP without prior consent of PMP's lenders.

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

| | Sep. 2007 (Rupees '000) | Sep. 2006 (Rupees '000) |
|---|---|---|
| Non - current assets | 3,577,293 | 898,373 |
| Current assets | 99,894 | 1,394,361 |
| Non - current liabilities | (934,368) | – |
| Current liabilities | (336,683) | (211,730) |
| Income | 8,510 | 29,318 |
| Expenses | (11,087) | (28,023) |

PMP is due to start its commercial operations in the first quarter of the next year. Adjustment for the Group companies' share in profit/(loss) of PMP was not considered since the amount was immaterial and the project is expected to show favourable outcome after the commencement of its commercial operations. Moreover, project is within its overall budget and also is expected to commence its operations as per schedule.

**15.2 Investments available for sale**

**Certificates of Investment (COI)**

These represent placements in certificates of investment of a financial institution for periods ranging from one to five years at profit rates ranging from 6% to 15% per annum.

**Pakistan Investment Bonds (PIBs)**

These were purchased for a period of 10 years with remaining period ranging between 3 to 5 years. Profit is payable on a half yearly basis at rates ranging from 11% to 14% per annum. These are under lien of banks against loans for debottle-necking requirements.

**Term Finance Certificates (TFCs)**

These include 9,994 certificates of Rs 5,000 each of Pakistan Mobile Communications Limited. Profit is payable on a half yearly basis at the rate of six months' KIBOR +2.85% per annum.

**ASCCL**

As per audited accounts of ASCCL for the year ended June 30, 2007, the break-up value of an ordinary share was Rs 9.36 (June 30, 2006: Rs 6.33).

**15.3 Investments held to maturity**

The carrying amount of "Held to Maturity" investments has been reclassified as "Available for Sale" in compliance with the provisions of International Accounting Standard - 39 "Financial Instruments: Recognition and Measurement".

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **16. LONG TERM LOANS AND ADVANCES** | | | |
| Loans and advances, considered good, to: | | | |
| Executives | | 84,027 | 78,184 |
| Other employees | | 88,573 | 39,297 |
| | | 172,600 | 117,481 |
| Less: Amount due within twelve months, shown under loans and advances | 21 | 29,818 | 40,834 |
| | | 142,782 | 76,647 |

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

| | Opening balance as at January 01, 2007 | Disbursements | Repayments | Closing balance as at December 31, 2007 |
|---|---|---|---|---|
| | (Rupees '000) | | | |
| Executives | 78,184 | 35,155 | 29,312 | 84,027 |
| Other employees | 39,297 | 74,725 | 25,449 | 88,573 |
| | 117,481 | 109,880 | 54,761 | 172,600 |
| 2006 | 114,458 | 171,580 | 168,557 | 117,481 |

These represent secured house building loans, house rent advances and advances pursuant to agreement with workers which are repayable within one to ten years. House building loans carry mark-up at 4% per annum.

The maximum amount of advances to executives outstanding at the end of any month during the year was Rs 85,966 thousand (2006: Rs 82,548 thousand).

| | | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **17.** | **LONG TERM DEPOSITS AND PREPAYMENTS** | | | |
| | Security deposits | | 16,527 | 17,361 |
| | Prepayments | | 845 | 341 |
| | Lease key money | | 1,623 | 2,045 |
| | | | 18,995 | 19,747 |
| | Less: Current portion | | (1,623) | – |
| | | | 17,372 | 19,747 |
| **18.** | **STORES, SPARES AND LOOSE TOOLS** | | | |
| | Stores | | 133,732 | 120,529 |
| | Spares | | 3,434,077 | 2,699,408 |
| | Provision for slow moving and surplus items | | (173,308) | (129,595) |
| | | | 3,260,769 | 2,569,813 |
| | Loose tools | | 240 | 240 |
| | Items in transit | | 279,817 | 308,785 |
| | | | 3,674,558 | 2,999,367 |
| **19.** | **STOCK IN TRADE** | | | |
| | Raw materials | | 387,311 | 275,882 |
| | Raw materials in transit | | – | 336,167 |
| | Work in process | | 29,791 | 28,285 |
| | Finished goods: | | | |
| | Manufactured fertilizers | | 416,981 | 133,620 |
| | Purchased fertilizers | | 396,699 | 979,486 |
| | | | 1,230,782 | 1,753,440 |
| **20.** | **TRADE DEBTS** | | | |
| | Considered good | | | |
| | Secured | | 1,952,505 | 1,183,301 |
| | Unsecured | | 12,890 | 8,802 |
| | | | 1,965,395 | 1,192,103 |
| | Due from Fauji Foundation, an associated | | | |
| | undertaking-unsecured, considered good | | 958 | 596 |
| | Considered doubtful | | 1,904 | 1,951 |
| | | | 1,968,257 | 1,194,650 |
| | Provision for doubtful debts | | (1,904) | (1,951) |
| | | | 1,966,353 | 1,192,699 |
| **21.** | **LOANS AND ADVANCES** | | | |
| | Advances to: | | | |
| | Executives – unsecured, considered good | | 20,115 | 795 |
| | Other employees, considered good | | 13,328 | 4,935 |
| | | | 33,443 | 5,730 |
| | Advances to suppliers and contractors | | | |
| | Considered good | | 100,175 | 109,841 |
| | Considered doubtful | | 45 | 45 |
| | | | 100,220 | 109,886 |
| | Provision for doubtful advances | | (45) | (45) |
| | | | 100,175 | 109,841 |
| | Current portion of long term loans and advances | 16 | 29,818 | 40,834 |
| | | | 163,436 | 156,405 |

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **22.** | **DEPOSITS AND PREPAYMENTS** | | | |
| | Deposits (including current portion of long term deposits) | | 7,983 | 2,592 |
| | Prepayments | | 34,149 | 27,954 |
| | | | 42,132 | 30,546 |
| **23.** | **OTHER RECEIVABLES** | | | |
| | Accrued income on investments and bank deposits | | 141,319 | 141,053 |
| | Advance tax | 23.1 | 476,489 | 476,489 |
| | Sale tax refundable – net | | 53,100 | – |
| | Subsidy receivable from Government of Pakistan (GOP) | 27.3 & 27.4 | 1,664,989 | 1,758,164 |
| | Other receivables – considered good | 23.2 | 107,244 | 138,748 |
| | – considered doubtful | | 55,714 | 55,714 |
| | | | 162,958 | 194,462 |
| | Provision for doubtful receivables | | (55,714) | (55,714) |
| | | | 107,244 | 138,748 |
| | | | 2,443,141 | 2,514,454 |

**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 of Rs 16 thousand (2006: Rs 867 thousand ) receivable from Fauji Foundation on account of expenses incurred on its behalf.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **24.** | **SHORT TERM INVESTMENTS** | | | |
| | **Term deposits with banks and financial institutions** | | | |
| | **Available for sale** | | | |
| | Local currency (net of provision for doubtful recovery Rs 13,000 thousand) | 24.1 | 1,350,000 | 500,000 |
| | Foreign currency | 24.1 | 841,296 | – |
| | **Held to maturity** | 15.3 | | |
| | Local currency | | – | 775,000 |
| | Foreign currency | | – | 882,322 |
| | **Investments at fair value through profit or loss** | | | |
| | Fixed income / money market funds | 24.2 | 2,481,419 | 705,988 |
| | **Loans and receivables** | | 2,150,000 | – |
| | **Current maturity of long term investments** | | | |
| | Available for sale | | 99,611 | 91,867 |
| | Held to maturity | | – | 60 |
| | | | 99,611 | 91,927 |
| | | | 6,922,326 | 2,955,237 |

**24.1** These represent investments having maturities ranging between 1 to 3 months and are being carried at cost as management expects there would be no significant change in the rate of returns on comparable investments.

**24.2** Fair value of these investments are determined using quoted market price and redemption/repurchase price, whichever is applicable.

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **25. CASH AND BANK BALANCES** | | |
| At banks: | | |
| Deposit accounts | | |
| Local currency | 4,689,489 | 8,069,611 |
| Foreign currency | 11,979 | 11,922 |
| Current accounts | | |
| Local currency (includes drafts under collection) | 300,777 | 188,187 |
| | 5,002,245 | 8,269,720 |
| Drafts in hand and in transit | 146,716 | 587,752 |
| Cash in hand | 1,608 | 1,506 |
| | 5,150,569 | 8,858,978 |

Balances with banks include Rs 89,380 thousand (2006: Rs 84,634 thousand) in respect of security deposits received. Local currency deposit accounts include Rs 178,655 thousand (2006: Rs 130,309 thousand) under lien of the bank, against guarantees issued by the banks on behalf of the Group companies. FFBL deposit accounts include Rs 2,212,625 thousand (2006: Rs 2,327,529 thousand) which are under pledge with commercial banks against letters of credit and for short term running finances.

## 26. SALES

Sales include Rs 6,465,584 thousand (2006: Rs 9,560,958 thousand) in respect of sale of purchased fertilizers and are exclusive of trade allowances and sales tax of Rs 790,566 thousand and Rs 3,170,604 thousand respectively (2006: Rs 443,501 thousand and Rs 3,471,434 thousand).

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **27. COST OF SALES** | | | |
| Raw materials consumed | 27.1 | 12,314,561 | 12,596,739 |
| Fuel and power | | 4,474,270 | 4,829,512 |
| Chemicals and supplies | | 243,345 | 224,300 |
| Salaries, wages and benefits | | 2,051,729 | 1,753,517 |
| Training and employees benefits | | 307,991 | 218,574 |
| Rent, rates and taxes | 27.2 | 38,474 | 38,410 |
| Insurance | | 146,931 | 144,960 |
| Travel and conveyance | 27.2 | 149,904 | 144,133 |
| Repairs and maintenance (includes stores and spares consumed of Rs 557,841 thousand; (2006: Rs 525,952 thousand) | 27.3 | 1,346,567 | 973,731 |
| Depreciation | | 1,859,939 | 1,766,454 |
| Communication and other expenses | | 574,387 | 510,401 |
| Opening stock – work in process | | 28,285 | 19,532 |
| Closing stock – work in process | | (29,791) | (28,285) |
| Subsidy on DAP fertilizer from Government of Pakistan | 27.4 | (2,797,017) | (1,322,110) |
| Cost of goods manufactured | | 20,709,575 | 21,869,868 |
| Opening stock of manufactured fertilizers | | 133,620 | 418,110 |
| Closing stock of manufactured fertilizers | | (416,981) | (133,620) |
| | | (283,381) | 284,490 |
| Cost of sales– own manufactured fertilizers | | 20,426,214 | 22,154,358 |
| Opening stock of purchased fertilizers | | 979,486 | 491,193 |
| Purchase of fertilizers for resale | 27.5 | 4,722,834 | 8,599,173 |
| | | 5,702,320 | 9,090,366 |
| Closing stock of purchased fertilizers | | (396,699) | (979,486) |
| Cost of sales– purchased fertilizers | | 5,305,621 | 8,110,880 |
| | | 25,731,835 | 30,265,238 |

**27.1** As per fertilizer policy, 1989, rate of feed gas being utilized by FFBL has been fixed for a period of 10 years. This period will expire at the end of the year 2008.

**27.2** These include operating lease rentals amounting to Rs 47,769 thousand (2006: Rs 45,062 thousand).

**27.3** This includes provision for slow moving and surplus spares amounting to Rs 43,713 thousand (2006: Rs 16,374 thousand).

**27.4** This represents amount of subsidy from GOP on production of DAP fertilizer by FFBL as notified by the Ministry of Food, Agriculture and Live Stock, Government of Pakistan. Currently the amount of DAP subsidy is Rs 470 per bag which is increased from Rs 250 per bag when initially announced by GOP in September 2006.

**27.5** Cost of purchased fertilizer of FFC is net of subsidy from GOP on potassic and phosphatic fertilizers as notified by the Ministry of Food, Agriculture and Live Stock, Government of Pakistan. Currently, the amount of subsidy is Rs 470 per bag which is increased from Rs 250 per bag when initially announced by GOP in September 2006.

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **28.** | **ADMINISTRATIVE EXPENSES AND DISTRIBUTION COST** | | | |
| | Product transportation | | 2,470,126 | 3,299,463 |
| | Salaries, wages and benefits | | 659,651 | 550,606 |
| | Rent, rates and taxes | 28.1 | 73,993 | 66,699 |
| | Insurance | | 1,016 | 42 |
| | Technical services | | 5,810 | 5,826 |
| | Travel and conveyance | 28.1 | 96,874 | 95,128 |
| | Sale promotion and advertising | | 36,641 | 40,004 |
| | Communication and other expenses | | 43,350 | 41,486 |
| | Warehousing expenses | | 80,669 | 49,817 |
| | Depreciation | 13.2 | 23,899 | 21,526 |
| | Administrative expenses | | 126,762 | 98,102 |
| | | | 3,618,791 | 4,268,699 |

**28.1** These include operating lease rentals amounting to Rs 72,619 thousand (2006: Rs 71,858 thousand).

| | | 2007 | 2006 |
|---|---|---|---|
| **29.** | **FINANCE COST** | | |
| | mark-up on long term financing and murabaha | 436,692 | 393,587 |
| | mark-up on long term financing from PKIC, an associated company | 16,189 | 19,692 |
| | mark-up on short term borrowings | 793,871 | 463,029 |
| | Exchange loss – net | 74,311 | 32,691 |
| | Interest on Workers' Profit Participation Fund | 246 | 180 |
| | Finance charges on leased property, plant and equipment | 206 | 461 |
| | Bank charges | 5,405 | 4,471 |
| | | 1,326,920 | 914,111 |

Borrowing cost capitalised during the year amounting to Rs 33,070 thousand at an average rate of 11.40% per annum (2006: Nil).

| | | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|---|
| **30.** | **OTHER EXPENSES** | | | |
| | Amortisation of goodwill | | – | 104,615 |
| | Research and development | | 118,712 | 113,981 |
| | Workers' Profit Participation Fund | | 604,740 | 539,965 |
| | Workers' Welfare Fund | 30.1 | 375,178 | 217,264 |
| | Loss on sale of property, plant and equipment – net | | 79,711 | – |
| | Auditors' remuneration | | | |
| | Audit fee | | 1,562 | 1,420 |
| | Fee for half yearly review, audit of consolidated accounts and certifications for Government and related agencies | | 1,505 | 1,020 |
| | Out of pocket expenses | | 150 | 140 |
| | | | 1,181,558 | 978,405 |

**30.1** This includes Rs 140,881 thousand relating to demands raised by the income tax department for prior years' WWF of PSFL. FFC is contesting this demand, however, provision on a prudent basis has been made.

| | Note | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **31. OTHER INCOME** | | | |
| **Income from financial assets** | | | |
| Income on loans, deposits and investments | | 787,682 | 881,810 |
| Gain/(loss) on remeasurement of investments at fair value through profit or loss | | 122,064 | (11,512) |
| Gain on sale of investments | | 6,790 | – |
| | | 916,536 | 870,298 |
| **Income from non-financial assets** | | | |
| Gain on sale of property, plant and equipment | | – | 17,688 |
| **Other income** | | | |
| Compensation from GOP | 31.2 | 600,000 | 700,000 |
| Old liabilities written back | | – | 9,933 |
| Scrap sales | | 57,477 | 51,868 |
| Others | | 4,303 | 7,707 |
| | | 661,780 | 769,508 |
| | | 1,578,316 | 1,657,494 |

**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 3.8 billion have been received from GOP up to December 31, 2007. GOP compensation of Rs 600,000 thousand which was receivable in June 2007 is yet to be received. However, this has been accrued in the books of FFBL subject to netting off the agreed GOP loan repayment of Rs 648,201 thousand for the year 2007. Balance of Rs 600,000 thousand will be received in one instalment during the year 2008, subject to netting off the agreed GOP loan repayment of Rs 648,201 thousand to be made by FFBL.

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **32. PROVISION FOR TAXATION** | | |
| Current – for the year | 2,505,000 | 2,354,000 |
| Deferred – for the year | 1,308,896 | 1,307,056 |
| | 3,813,896 | 3,661,056 |
| **32.1 Reconciliation of tax charge for the year** | | |
| Profit before taxation | 10,407,991 | 9,912,027 |
| | % | % |
| Applicable tax rate | 35.00 | 35.00 |
| Add: Tax effect of amounts that are not deductible for tax purpose | 0.91 | 1.72 |
| Tax effect of intra group transactions | 0.97 | 0.42 |
| Less: Tax effect of amounts taxed at lower rates | (0.07) | (0.10) |
| Tax effect of rebates and tax credits | (0.17) | (0.10) |
| Average effective tax rate charged on income | 36.64 | 36.94 |

| | | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|---|
| **33.** | **CASH GENERATED FROM OPERATIONS** | | |
| | Net profit before taxation | 10,407,991 | 9,912,027 |
| | Adjustments for: | | |
| | Depreciation | 1,883,838 | 1,788,068 |
| | Amortisation of goodwill | – | 104,615 |
| | Provision for slow moving and surplus spares | 43,713 | 16,374 |
| | Adjustment to property, plant and equipment | 62 | – |
| | Finance cost | 1,247,204 | 929,732 |
| | Provision for Workers' Profit Participation Fund | 604,740 | 539,965 |
| | Compensation from GOP | (600,000) | (700,000) |
| | Income on loans, deposits and investments | (787,682) | (881,810) |
| | Loss/ (gain) on sale of property, plant and equipment | 79,711 | (17,688) |
| | Provision for gratuity | 59,985 | 51,635 |
| | Provision for pension | 35,472 | 32,443 |
| | Exchange loss | 39,298 | 16,220 |
| | (Gain)/Loss on remeasurement of investment at fair value through profit or loss | (122,064) | 11,512 |
| | Old liabilities written back | – | (9,933) |
| | | 2,484,277 | 1,881,133 |
| | | 12,892,268 | 11,793,160 |
| | Changes in working capital | | |
| | (Increase)/ decrease in current assets: | | |
| | Stores and spares | (661,621) | (284,341) |
| | Stock in trade | 522,658 | (170,011) |
| | Trade debts | (773,654) | (417,905) |
| | Loans and advances | (7,031) | (1,779) |
| | Deposits and prepayments | (11,586) | (1,143) |
| | Other receivables | 72,877 | (1,857,709) |
| | Increase/(decrease) in current liabilities: | | |
| | Trade and other payables | 1,960,360 | (3,165,065) |
| | | 1,102,003 | (5,897,953) |
| | Changes in long term loans and advances | (66,135) | (12,102) |
| | Changes in long term deposits and prepayments | 2,375 | 1,083 |
| | | 13,930,511 | 5,884,188 |
| **34.** | **CASH AND CASH EQUIVALENTS** | | |
| | Cash and bank balances | 5,150,569 | 8,858,978 |
| | Short term running finances | (5,875,341) | (4,531,836) |
| | Short term highly liquid investments | 3,754,261 | 2,261,439 |
| | | 3,029,489 | 6,588,581 |

## 35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 35.1 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 | 2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (Rupees `000) | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | | | |
| Investments | | | | | | | | | | | | |
| – Local currency | 6–15% | 3,599,610 | 60,995 | 136,356 | 488,133 | 172,447 | 8,944 | 4,466,485 | 2,481,419 | – | 2,481,419 | 6,947,904 |
| – Foreign currency | 5.85% | 841,296 | – | – | – | – | – | 841,296 | – | – | – | 841,296 |
| Loans and advances | 4% | 19,706 | 14,930 | 14,062 | 12,912 | 11,404 | 39,062 | 112,076 | 33,974 | 59,993 | 93,967 | 206,043 |
| Trade debts | | – | – | – | – | – | – | – | 1,966,353 | – | 1,966,353 | 1,966,353 |
| Deposits | | – | – | – | – | – | – | – | 6,360 | 16,527 | 22,887 | 22,887 |
| Accrued income on investments and deposits | | – | – | – | – | – | – | – | 141,319 | – | 141,319 | 141,319 |
| Other receivables | | – | – | – | – | – | – | – | 1,772,233 | – | 1,772,233 | 1,772,233 |
| Cash and bank balances | | | | | | | | | | | | |
| – Local currency | 0.5% – 9% | 4,689,489 | – | – | – | – | – | 4,689,489 | 449,101 | – | 449,101 | 5,138,590 |
| – Foreign currency | 5.35%–6.10% | 11,979 | – | – | – | – | – | 11,979 | – | – | – | 11,979 |
| | | 9,162,080 | 75,925 | 150,418 | 501,045 | 183,851 | 48,006 | 10,121,325 | 6,850,759 | 76,520 | 6,927,279 | 17,048,604 |
| **Financial liabilities** | | | | | | | | | | | | |
| **Recognised** | | | | | | | | | | | | |
| Long term financing | 9.5%–12.02% | 1,439,444 | 1,041,231 | 1,155,515 | 947,043 | 519,821 | 50,000 | 5,153,054 | – | – | – | 5,153,054 |
| Long term loan | | – | – | – | – | – | – | – | 6,482,007 | – | 6,482,007 | 6,482,007 |
| Long term murabaha | 9.15% | 38,679 | 38,679 | 38,679 | 19,336 | – | – | 135,373 | – | – | – | 135,373 |
| Short term finances | 5.62%–11.59% | 9,016,422 | – | – | – | – | – | 9,016,422 | – | – | – | 9,016,422 |
| Liabilities against assets subject to finance lease | 8% | 2,651 | – | – | – | – | – | 2,651 | – | – | – | 2,651 |
| Trade and other payables | 18.75% | 444,740 | – | – | – | – | – | 444,740 | 5,047,472 | – | 5,047,472 | 5,492,212 |
| Mark – up accrued | | – | – | – | – | – | – | – | 308,317 | – | 308,317 | 308,317 |
| | | 10,941,936 | 1,079,910 | 1,194,194 | 966,379 | 519,821 | 50,000 | 14,752,240 | 11,837,796 | – | 11,837,796 | 26,590,036 |
| **Unrecognised** | | | | | | | | | | | | |
| Guarantees | | – | – | – | – | – | – | – | 48,586 | – | 48,586 | 48,586 |
| Letters of credit | | – | – | – | – | – | – | – | 1,112,529 | – | 1,112,529 | 1,112,529 |
| Contingencies | | – | – | – | – | – | – | – | 410,407 | – | 410,407 | 410,407 |
| Commitments | | – | – | – | – | – | – | – | 4,878,953 | 224,790 | 5,103,743 | 5,103,743 |
| – | | – | – | – | – | – | – | – | 6,450,475 | 224,790 | 6,675,265 | 6,675,265 |
| | | 10,941,936 | 1,079,910 | 1,194,194 | 966,379 | 519,821 | 50,000 | 14,752,240 | 18,288,271 | 224,790 | 18,513,061 | 33,265,301 |

## 35.2 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 | 2006 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (Rupees `000) | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | | | |
| Investments | | | | | | | | | | | | |
| – Local currency | 6–20% | 1,570,528 | 118,606 | 64,591 | 115,277 | 427,895 | 224,758 | 2,521,655 | 705,988 | – | 705,988 | 3,227,643 |
| – Foreign currency | 4–5.8% | 882,322 | – | – | – | – | – | 882,322 | – | – | – | 882,322 |
| Loans and advances | 4% | 34,602 | 12,728 | 12,412 | 11,989 | 10,967 | 25,032 | 107,730 | 13,570 | 1,911 | 15,481 | 123,211 |
| Trade debts | | – | – | – | – | – | – | – | 1,192,699 | – | 1,192,699 | 1,192,699 |
| Deposits | | – | – | – | – | – | – | – | 2,592 | 19,406 | 21,998 | 21,998 |
| Accrued income on investments and deposits | | – | – | – | – | – | – | – | 141,053 | – | 141,053 | 141,053 |
| Other receivables | | – | – | – | – | – | – | – | 1,896,911 | – | 1,896,911 | 1,896,911 |
| Cash and bank balances | | | | | | | | | | | | |
| – Local currency | 0.1–11.28% | 8,069,611 | – | – | – | – | – | 8,069,611 | 777,445 | – | 777,445 | 8,847,056 |
| – Foreign currency | 3.30% | 11,922 | – | – | – | – | – | 11,922 | – | – | – | 11,922 |
| | | 10,568,985 | 131,334 | 77,003 | 127,266 | 438,862 | 249,790 | 11,593,240 | 4,730,258 | 21,317 | 4,751,575 | 16,344,815 |
| **Financial Liabilities** | | | | | | | | | | | | |
| **Recognised** | | | | | | | | | | | | |
| Long term financing | 8.84–12.03% | 1,304,272 | 1,235,694 | 541,944 | 541,944 | 333,472 | – | 3,957,326 | – | – | – | 3,957,326 |
| Long term loan | | – | – | – | – | – | – | – | 648,201 | 6,482,007 | 7,130,208 | 7,130,208 |
| Long term murabaha | 8.84% | 38,679 | 38,679 | 38,679 | 38,679 | 19,336 | – | 174,052 | – | – | – | 174,052 |
| Short term finances | 4.49% – 11.12% | 9,062,926 | – | – | – | – | – | 9,062,926 | – | – | – | 9,062,926 |
| Liabilities against assets | | | | | | | | | | | | |
| subject to finance lease | 8–16% | 2,586 | 3,310 | – | – | – | – | 5,896 | – | – | – | 5,896 |
| Trade and other payables | 18.8% | 389,965 | – | – | – | – | – | 389,965 | 4,943,182 | – | 4,943,182 | 5,333,147 |
| Mark – up accrued | | – | – | – | – | – | – | – | 238,991 | – | 238,991 | 238,991 |
| | | 10,798,428 | 1,277,683 | 580,623 | 580,623 | 352,808 | – | 13,590,165 | 5,830,374 | 6,482,007 | 12,312,381 | 25,902,546 |
| **Unrecognised** | | | | | | | | | | | | |
| Guarantees | | – | – | – | – | – | – | – | 46,697 | – | 46,697 | 46,697 |
| Letters of credit | | – | – | – | – | – | – | – | 785,459 | – | 785,459 | 785,459 |
| Contingencies | | – | – | – | – | – | – | – | 551,941 | – | 551,941 | 551,941 |
| Commitments | | – | – | – | – | – | – | – | 5,377,494 | 235,400 | 5,612,894 | 5,612,894 |
| | | – | – | – | – | – | – | – | 6,761,591 | 235,400 | 6,996,991 | 6,996,991 |
| | | 10,798,428 | 1,277,683 | 580,623 | 580,623 | 352,808 | – | 13,590,165 | 12,591,965 | 6,717,407 | 19,309,372 | 32,899,537 |

**35.2 Risk management**

**a) Concentration of credit risk**

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

**b) Foreign exchange risk management**

Financial assets and liabilities exposed to foreign exchange rate risk amount to Rs 853,275 thousand (2006: Rs 894,314 thousand) and Rs 2,931,081 thousand (2006: Rs 4,031,090 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 companies' 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 companies' 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 895,015 thousand (2006: Rs 1,387,502 thousand) and Rs 14,307,500 thousand (2006: Rs 13,200,200 thousand) respectively, which are subject to interest rate risk. The Group companies have long term Rupee and foreign currency based loans at variable and fixed rates. Applicable interest rates for financial assets and liabilities have been indicated in respective notes.

Variable rate long term financing is hedged against interest rate risk by holding "prepayment option", which can be exercised upon any adverse movement in the underlying interest rates.

**d) Liquidity risk**

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

**d) Capital management**

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

**35.3 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.

**36. REMUNERATION OF CHIEF EXECUTIVES, DIRECTORS AND EXECUTIVES**

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Chief Executives | Executives | Chief Executives | Executives |
| | (Rupees '000) | | (Rupees '000) | |
| Managerial remuneration | 6,620 | 717,264 | 6,380 | 595,820 |
| Contribution to provident fund | 345 | 36,938 | 328 | 30,679 |
| Bonus | 138 | 93,704 | – | 44,666 |
| Good performance award | – | 203,061 | – | 148,925 |
| Others | 3,667 | 235,187 | 4,325 | 187,237 |
| Total | 10,770 | 1,286,154 | 11,033 | 1,007,327 |
| No. of persons | 2 | 403 | 2 | 357 |

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 (2006: Rs 766 thousand) to chief executive and Rs 8,777 thousand (2006: Rs 9,808 thousand) to executives was paid on separation, in accordance with the Group companies' policy.

In addition, 20 (2006: 26) directors were paid aggregate fee of Rs 188 thousand (2006: Rs 202 thousand).

## 37. RELATED PARTY TRANSACTIONS

Fauji Foundation holds 44.35% (2006: 44.35%) shares of FFC at the year end. Therefore all subsidiaries and associated undertakings of Fauji Foundation are related parties of FFC and FFBL. In addition, Pak Kuwait Investment Company (Pvt) Limited (PKIC) and Pak Maroc Phosphore S.A. Morocco are also related parties of the Group companies 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. Transactions with related parties and balances outstanding at the year end are given below. Loans and advances to executives and remuneration of chief executives, directors and executives are disclosed in notes 16, 21 and 36 to the consolidated financial statements.

| | 2007 (Rupees '000) | 2006 (Rupees '000) |
|---|---|---|
| **Transactions with associated undertaking/companies due to common directorship** | | |
| Sale of fertilizer | 2,325 | 1,085 |
| Rent charged to the Group companies | 3,836 | 3,578 |
| Receipt on account of payment made on behalf of associated undertaking | – | 338,438 |
| Dividend paid | 3,090,999 | 2,141,510 |
| Repayment of principal portion of long term finance | 45,714 | 45,714 |
| Financial charges | 16,189 | 19,692 |
| Medical services | 69 | 25 |
| Purchase of gas as feed and fuel stock | 8,154,469 | 8,090,286 |
| Technical services received | 14,756 | 16,106 |
| Catalyst purchased | – | 161,854 |
| Others | 2,570 | – |
| Balance payable at the year end – unsecured | 402,405 | 432,302 |
| Balance receivable at the year end – unsecured | 1,257 | 1,499 |
| | | |
| **Transactions with joint venture company** | | |
| Contribution towards equity | – | 1,015,313 |
| Expenses incurred on behalf of joint venture company | 10,387 | 14,877 |
| Balance of advance against issue of shares | 2,117,075 | 2,117,075 |
| | | |
| **Other related parties** | | |
| Payments to: | | |
| Employees' Provident Fund Trust | 156,459 | 137,034 |
| Employees' Gratuity Fund Trust | 58,486 | 51,920 |
| Employees' Pension Fund Trust | 35,472 | 36,438 |
| Workers' Profit Participation Fund | 550,211 | 546,114 |
| Purchase of raw materials | 5,246,727 | 5,830,625 |
| Balances payable at the year end – unsecured | 450,008 | 393,734 |
| Balances payable at the year end – secured | 544,897 | 1,126,636 |

38. **POST BALANCE SHEET EVENT**

The Board of Directors of FFC in their meeting held on January 31, 2008 have proposed a final dividend of Rs 3.5 per share while a dividend of Rs 1 per share has been proposed by the Board of Directors of FFBL on January 24, 2008.

| | 2007 (Tonnes '000) | 2006 (Tonnes '000) |
|---|---|---|
| **39. GENERAL** | | |
| **39.1 Production capacity** | | |
| **Design capacity** | | |
| Urea | 2,455 | 2,455 |
| DAP | 445 | 445 |
| **Production** | | |
| Urea | 2,808 | 2,897 |
| DAP | 357 | 450 |

**39.2** Actual production of DAP is less than designed capacity due to implementation of Ammonia BMR expansion project in first half of 2007 and DAP Revamp project in Dec 2007.

**39.3 Facilities of letters of guarantee and letters of credit**

Facilities of letters of guarantee and letters of credit amounting to Rs 40,000 thousand and Rs 7,156,000 thousand (2006: Rs 40,000 thousand and Rs 5,800,000 thousand) respectively are available to FFC under first charge by way of equitable mortgage on all fixed assets of FFC.

**39.4** Donations aggregating Rs 49,672 thousand (2006: Rs 28,950 thousand), included under cost of sales, administrative expenses and distribution cost do not include any amount paid to any person or organisation in which the chief executive, directors or their spouses had any interest.

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

**39.6** These consolidated financial statements have been authorised for issue by the Board of Directors of FFC on January 31, 2008.

Chairman | Chief Executive | Director

# Pattern of Shareholding

## as at December 31, 2007

| Number of Shareholders | Shareholding From | Shareholding To | Total Number of Shares |
|---|---|---|---|
| 1351 | 1 | 100 | 69,327 |
| 1654 | 101 | 500 | 544,146 |
| 1917 | 501 | 1000 | 1,698,683 |
| 2447 | 1001 | 5000 | 6,303,740 |
| 739 | 5001 | 10000 | 5,406,432 |
| 322 | 10001 | 15000 | 3,960,277 |
| 180 | 15001 | 20000 | 3,252,098 |
| 116 | 20001 | 25000 | 2,643,777 |
| 78 | 25001 | 30000 | 2,165,950 |
| 51 | 30001 | 35000 | 1,671,026 |
| 43 | 35001 | 40000 | 1,611,683 |
| 34 | 40001 | 45000 | 1,447,936 |
| 37 | 45001 | 50000 | 1,797,412 |
| 21 | 50001 | 55000 | 1,092,683 |
| 13 | 55001 | 60000 | 740,807 |
| 12 | 60001 | 65000 | 754,199 |
| 13 | 65001 | 70000 | 877,857 |
| 15 | 70001 | 75000 | 1,090,030 |
| 11 | 75001 | 80000 | 854,841 |
| 10 | 80001 | 85000 | 831,473 |
| 8 | 85001 | 90000 | 694,659 |
| 10 | 90001 | 95000 | 924,921 |
| 19 | 95001 | 100000 | 1,867,320 |
| 9 | 100001 | 105000 | 925,026 |
| 6 | 105001 | 110000 | 647,130 |
| 7 | 110001 | 115000 | 779,259 |
| 10 | 115001 | 120000 | 1,173,666 |
| 10 | 120001 | 125000 | 1,238,080 |
| 5 | 125001 | 130000 | 640,562 |
| 6 | 130001 | 135000 | 791,498 |
| 4 | 135001 | 140000 | 548,752 |
| 5 | 140001 | 145000 | 709,074 |
| 12 | 145001 | 150000 | 1,794,311 |
| 4 | 150001 | 155000 | 611,348 |
| 3 | 155001 | 160000 | 470,404 |
| 2 | 160001 | 165000 | 325,106 |
| 2 | 165001 | 170000 | 338,931 |
| 1 | 170001 | 175000 | 173,149 |
| 1 | 175001 | 180000 | 175,095 |
| 4 | 180001 | 185000 | 733,158 |
| 1 | 190001 | 195000 | 194,000 |
| 2 | 195001 | 200000 | 400,000 |
| 1 | 200001 | 205000 | 203,400 |
| 2 | 205001 | 210000 | 416,588 |
| 2 | 210001 | 215000 | 425,595 |
| 2 | 215001 | 220000 | 434,700 |
| 1 | 220001 | 225000 | 223,854 |
| 2 | 225001 | 230000 | 455,285 |
| 1 | 230001 | 235000 | 230,297 |
| 1 | 235001 | 240000 | 238,500 |
| 2 | 245001 | 250000 | 493,196 |
| 1 | 250001 | 255000 | 253,000 |
| 3 | 260001 | 265000 | 790,461 |
| 1 | 265001 | 270000 | 265,843 |
| 2 | 270001 | 275000 | 549,347 |
| 1 | 275001 | 280000 | 276,107 |
| 2 | 280001 | 285000 | 563,957 |
| 2 | 290001 | 295000 | 585,712 |
| 1 | 305001 | 310000 | 309,496 |
| 2 | 315001 | 320000 | 637,648 |
| 1 | 335001 | 340000 | 339,584 |
| 1 | 345001 | 350000 | 348,700 |
| 1 | 350001 | 355000 | 351,700 |
| 2 | 355001 | 360000 | 711,842 |
| 3 | 360001 | 365000 | 1,084,318 |
| 1 | 365001 | 370000 | 369,500 |
| 1 | 385001 | 390000 | 386,500 |

| Number of Shareholders | Shareholding From | Shareholding To | Total Number of Shares |
|---|---|---|---|
| 2 | 390001 | 395000 | 782,416 |
| 2 | 395001 | 400000 | 790,748 |
| 1 | 405001 | 410000 | 405,100 |
| 1 | 435001 | 440000 | 439,825 |
| 1 | 445001 | 450000 | 450,000 |
| 2 | 460001 | 465000 | 925,800 |
| 1 | 465001 | 470000 | 465,272 |
| 2 | 495001 | 500000 | 1,000,000 |
| 1 | 500001 | 505000 | 500,675 |
| 1 | 510001 | 515000 | 513,800 |
| 2 | 525001 | 530000 | 1,055,053 |
| 1 | 540001 | 545000 | 541,799 |
| 1 | 550001 | 555000 | 551,948 |
| 3 | 560001 | 565000 | 1,685,120 |
| 1 | 590001 | 595000 | 590,833 |
| 1 | 595001 | 600000 | 600,000 |
| 1 | 605001 | 610000 | 605,946 |
| 1 | 610001 | 615000 | 610,619 |
| 1 | 620001 | 625000 | 623,400 |
| 2 | 630001 | 635000 | 1,266,466 |
| 1 | 640001 | 645000 | 644,517 |
| 1 | 670001 | 675000 | 673,363 |
| 1 | 675001 | 680000 | 680,000 |
| 1 | 695001 | 700000 | 700,000 |
| 1 | 710001 | 715000 | 710,400 |
| 1 | 745001 | 750000 | 750,000 |
| 1 | 750001 | 755000 | 754,100 |
| 1 | 760001 | 765000 | 763,097 |
| 1 | 775001 | 780000 | 775,166 |
| 1 | 780001 | 785000 | 782,600 |
| 1 | 805001 | 810000 | 809,087 |
| 1 | 825001 | 830000 | 826,800 |
| 1 | 835001 | 840000 | 837,524 |
| 2 | 845001 | 850000 | 1,698,186 |
| 2 | 860001 | 865000 | 1,726,850 |
| 2 | 880001 | 885000 | 1,766,859 |
| 1 | 925001 | 930000 | 928,555 |
| 2 | 940001 | 945000 | 1,883,608 |
| 1 | 960001 | 965000 | 961,952 |
| 1 | 970001 | 975000 | 973,900 |
| 3 | 995001 | 1000000 | 3,000,000 |
| 1 | 1005001 | 1010000 | 1,005,394 |
| 1 | 1015001 | 1020000 | 1,019,200 |
| 1 | 1020001 | 1025000 | 1,022,213 |
| 1 | 1050001 | 1055000 | 1,050,024 |
| 1 | 1065001 | 1070000 | 1,069,213 |
| 1 | 1105001 | 1110000 | 1,107,800 |
| 1 | 1200001 | 1205000 | 1,201,800 |
| 1 | 1290001 | 1295000 | 1,293,000 |
| 1 | 1295001 | 1300000 | 1,300,000 |
| 1 | 1355001 | 1360000 | 1,357,121 |
| 1 | 1360001 | 1365000 | 1,363,368 |
| 1 | 1415001 | 1420000 | 1,415,703 |
| 1 | 1450001 | 1455000 | 1,453,600 |
| 1 | 1470001 | 1475000 | 1,473,555 |
| 1 | 1480001 | 1485000 | 1,483,370 |
| 1 | 1915001 | 1920000 | 1,917,754 |
| 1 | 1935001 | 1940000 | 1,938,127 |
| 1 | 1950001 | 1955000 | 1,954,948 |
| 1 | 2070001 | 2075000 | 2,072,359 |
| 1 | 2195001 | 2200000 | 2,200,000 |
| 1 | 2215001 | 2220000 | 2,218,922 |
| 1 | 2260001 | 2265000 | 2,261,318 |
| 1 | 2335001 | 2340000 | 2,337,520 |
| 1 | 2495001 | 2500000 | 2,500,000 |
| 1 | 2570001 | 2575000 | 2,573,700 |

# Pattern of Shareholding

## as at December 31, 2007

| Number of Shareholders | Shareholding From | Shareholding To | Total Number of Shares |
|---|---|---|---|
| 1 | 3080001 | 3085000 | 3,082,285 |
| 1 | 3120001 | 3125000 | 3,120,562 |
| 1 | 3140001 | 3145000 | 3,144,793 |
| 1 | 3205001 | 3210000 | 3,207,908 |
| 1 | 3465001 | 3470000 | 3,469,931 |
| 1 | 6815001 | 6820000 | 6,818,316 |
| 1 | 8335001 | 8340000 | 8,336,376 |
| 1 | 13215001 | 13220000 | 13,216,784 |
| 1 | 21490001 | 21495000 | 21,494,163 |
| 1 | 24095001 | 24100000 | 24,095,962 |
| 1 | 41085001 | 41090000 | 41,087,937 |
| 1 | 218840001 | 218845000 | 218,842,864 |
| **9326** | | | **493,474,230** |

| Serial No. | Categories of Shareholders | No of share-holders | No of Shares held | Percentage % |
|---|---|---|---|---|
| 1 | Investment Companies | 22 | 49,914,260 | 10.11 |
| 2 | Insurance Companies | 21 | 50,552,291 | 10.24 |
| 3 | Joint Stock Companies | 168 | 8,584,623 | 1.74 |
| 4 | Financial Institutions | 32 | 26,242,431 | 5.32 |
| 5 | Modarabas | 19 | 530,537 | 0.11 |
| 6 | Foreign Investors | 53 | 31,321,079 | 6.35 |
| 7 | Leasing Companies | 2 | 30,000 | 0.01 |
| 8 | Mutual Funds | 55 | 22,427,707 | 4.54 |
| 9 | Charitable Trusts & Others | 111 | 242,647,181 | 49.17 |
| 10 | Individuals | 8843 | 61,224,121 | 12.41 |
| | **TOTAL** | **9,326** | **493,474,230** | **100.00** |

| **NIT & ICP (namewise details)** | **No of Shares** |
|---|---|
| National Investment Trust | 47,809,047 |
| Investment Corporation of Pakistan | 500 |
| **Executives** | 52,440 |
| **Public Sector Companies and Corporations** | 18,641,763 |
| **Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas, Mutual Funds** | 94,328,087 |
| **Shareholders holding ten percent or more voting interest** | |
| **Fauji Foundation** | 218,842,864 |

# Form of Proxy
## 30th 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 Thirtieth Annual General Meeting of the Company to be held on February 27, 2008 and / or any adjournment thereof.

As witness my / our hand seal this ______________ day of ______________ 2008.

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.

**FAUJI FERTILIZER COMPANY LIMITED**
93-Harley Street, Rawalpindi, Pakistan. Tel: 92-51-9272308-15

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