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FFC FAUJI FERTILIZER COMPANY LIMITED
Head Office: 93-Harley Street, Rawalpindi, Pakistan. Tel: (051) 9272308-15

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With our people we are building
a strong business to deliver
long-term value to our
shareholders and the community.



Company Information

Board of Directors
Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired)
Chairman
Lt Gen Mahmud Ahmed, HI(M) (Retired)
Chief Executive & Managing Director
Dr Haldor Topsoe
Brig Ghulam Hussain (Retired)
Mr Qaiser Javed
Brig Arshad Shah (Retired)
Mr Istaqbal Mehdi
Mr Abdul Hafeez Chaudhry
Mr Zaigham Mahmood Rizvi
Mr Tariq Iqbal Khan
Mr Mohammad Farooq Saleem
Mr Salim Batla
Brig Aftab Ahmed (Retired)

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

Registered Office
93-Harley Street, Rawalpindi Cantt.

Plant Sites
Goth Machhi, Sadikabad,
(Distt: Rahim Yar Khan)

Mirpur Mathelo
(Distt: Ghotki)

Marketing Division
Lahore Trade Centre,
11 Shahrah-e-Aiwan-e-Tijarat, Lahore

Karachi Office
D-143, Block 4, KDA Scheme-5,
Kehkashan Clifton, Karachi

Auditors A. F. Ferguson & Co.,
Chartered Accountants

Directors' Review

Dear Shareholders

The directors of Fauji Fertilizer Company Limited are pleased to present the unaudited financial and operating results of the Company for the period Jan 1 to March 31, 2003 as required under the directives of Securities and Exchange Commission of Pakistan.

Our first quarter results show a 55% increase in production and 46% enhancement in revenues over the same period last year with a corresponding increase of 17% in the gross profit. Sona production during the quarter was 384 thousand tonnes, which represents an operating efficiency of 116 %, whereas, the Acquisition Unit produced 169 thousand tonnes at 118 % of the designed capacity.

Sales of own manufactured urea at 406 thousand tonnes, including 126 thousand tonnes produced by the Acquisition Unit, were up by 11%, whereas, phosphatic fertilizer sales at 85 thousand tonnes increased by more than 5 times compared to the same period last year. In addition, 42 thousand tonnes of granular urea were marketed on behalf of FJFC and the urea market share participation increased to 60% as opposed to 48% in the corresponding period last year.

Revenues at Rs. 3.99 billion are the highest ever achieved by the Company during the first quarter in any one year, primarily due to PSFL acquisition. The increase, which confirms the positive trend for the year, was achieved in spite of ever greater competition in the sector influenced by the GOP desire to reduce price as a result of which the overall industry urea off-take remained depressed.

Consequently, FFC urea sales for the period, though higher by industry standards, were lower than planned targets. Thus, the net profit after tax for the quarter was negatively impacted due to increase in selling expenses, financial charges and reduction in investment income, resulting in an aggregate overall reduction of 20% compared to the corresponding period last year. Despite lower margins, the Board of Directors, consistent with the best traditions of the Company, is pleased to approve 1st interim dividend at 30% by appropriating Rs. 769.48 million from the available divisible profits for the period.

Effective March 21, 2003, the feedstock price of gas used in the Expansion Unit has been enhanced almost five times from a fixed rate to a floating rate. As



a result, margins from urea operations are likely to be constricted by approximately Rs. 200 per tonne.

The industry is currently carrying large urea inventories, higher by 32% compared to the same period last year. The main reasons for this increase are 10% higher production, 21% decline in urea off-takes as a result of uncertainty about price, as mentioned above, and also because approvals for urea export have been withheld by the GOP. The month of March 2003 recorded highest ever production of 408 thousand tonnes and the annual production for the year 2003 is also expected to surpass 2002 production.

Better rains and higher crop prices improved fertilizer off-take by 9% during 2002 compared to previous year. This was despite lower cultivated area for cotton and rice due to water shortage at the time of sowing. However, part of this growth has been due to record sales during the month of December 2002. The water availability situation at the start of Kharif is better due to improved winter rains and snowfall. The water shortage is, therefore, not

expected to be as bad as last year which may help in achieving the same level of urea off-take as last year.

Management is focused on growth opportunities and continues to aggressively explore ways of improving profitability and minimize business risks emanating from economic, market, and climatic conditions. We anticipate that FFC's fuel efficient manufacturing facilities, overall operational efficiency, increasing market share and the continuing consolidation of our business would be modestly accretive to our earnings in this fiscal year.

On behalf of the Board

CHAIRMAN

Lt Gen

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

Rawalpindi
April 28, 2003

Balance Sheet

	Note	March 31, 2003 (Rupees '000)	December 31, 2002
SHARE CAPITAL AND RESERVES			
Share capital			
Authorised		3,000,000	3,000,000
Issued, subscribed and fully paid		2,564,959	2,564,959
Capital reserve		160,000	160,000
Revenue reserves	4	8,517,902	8,038,098
		11,242,861	10,763,057
REDEEMABLE CAPITAL		3,669,924	4,420,014
LONG TERM LOANS		1,489,391	1,283,481
DEFERRED TAXATION		2,656,000	2,690,000
CURRENT LIABILITIES AND PROVISIONS			
Current maturity			
Redeemable capital		1,129,886	379,946
Long term loans		1,741	538,045
Short term finances	5	2,436,296	3,388,897
Creditors, accrued and other liabilities		1,683,651	2,829,008
Taxation		546,874	975,960
Dividend payable		769,488	641,240
Proposed dividend		-	256,496
		6,567,936	9,009,592
CONTINGENT LIABILITIES AND COMMITMENTS			
	6		
		25,626,112	28,166,144

The annexed notes form an integral part of these accounts.

As At March 31, 2003 (Un-audited)

	Note	March 31, 2003 (Rupees '000)	December 31, 2002
FIXED CAPITAL EXPENDITURE			
Fixed assets	7	9,317,967	9,378,161
Capital work in progress		61,949	138,313
		9,379,916	9,516,474
GOODWILL		1,961,540	1,987,694
LONG TERM INVESTMENTS	8	7,713,337	7,077,892
LONG TERM LOANS AND ADVANCES		48,951	50,137
LONG TERM DEPOSITS, PREPAYMENTS AND DEFERRED COSTS		110,998	128,495
CURRENT ASSETS			
Stores and spares		1,718,009	1,618,373
Stock in trade		1,033,861	630,808
Trade debts		838,853	1,400,893
Loans, advances, deposits, prepayments and other receivables		1,056,450	1,068,419
Short term investments	9	91,951	2,792,279
Cash and bank balances		1,672,246	1,894,680
		6,411,370	9,405,452
		25,626,112	28,166,144


Chairman


Chief Executive


Director

Profit and Loss Account

for the first quarter ended March 31, 2003 (Un-Audited)

	Note	Quarter ended March 31, 2003	Quarter ended March 31, 2002
		(Rupees '000)	
Sales		3,996,244	2,745,340
Less: Cost of goods sold	10	2,429,751	1,403,284
GROSS PROFIT		1,566,493	1,342,056
Less: Selling and distribution expenses		444,028	251,564
Financial charges		201,120	40,767
		645,148	292,331
Other income		921,345	1,049,725
		138,853	256,187
Other charges		1,060,198	1,305,912
		100,279	94,134
NET PROFIT BEFORE TAXATION		959,919	1,211,778
Provision for taxation		351,000	450,000
NET PROFIT AFTER TAXATION		608,919	761,778
Unappropriated profit brought forward		218,203	253,246
Profit available for appropriation		827,122	1,015,024
APPROPRIATIONS:			
First interim dividend @ 30% (2002: 25%)		769,488	641,240
UNAPPROPRIATED PROFIT CARRIED FORWARD		57,634	373,784
		(Rupees)	(Rupees)
Earnings per share		2.37	2.97



Chairman



Chief Executive



Director

Cash Flow Statement

for the first quarter ended March 31, 2003 (Un-Audited)

	Note	March 31, 2003	March 31, 2002
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	11	(315,538)	349,737
Payments for:			
Financial charges		(140,595)	(51,297)
Income tax		(814,086)	(529,947)
Net cash used in operating activities		(1,270,219)	(231,507)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(49,800)	(125,481)
Sale proceeds of fixed assets		459	1,706
Income received on loans, deposits and investments		132,984	177,680
Decrease / (Increase) in investments		2,693,494	(737,363)
Revolving credit facility to an associated Company		–	(50,000)
Increase in balance due from associated company		–	(1,185)
Net cash from/(used in) investing activities		2,777,137	(734,643)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redeemable capital - disbursements		–	–
- repayments		(150)	–
Long term loans - disbursements		205,910	–
- repayments		(208,987)	(243,403)
Short term finance		(952,601)	–
Dividends paid		(773,524)	(611,634)
Net cash used in financing activities		(1,729,352)	(855,037)
Net decrease in cash and cash equivalents		(222,434)	(1,821,187)
Cash and cash equivalents at beginning of the year		1,894,680	2,270,358
Cash and cash equivalents at close of the first quarter, representing cash and bank balances		1,672,246	449,171

The annexed notes form an integral part of these accounts.



Chairman



Chief Executive



Director

Statement of Changes In Equity

for the first quarter ended March 31, 2003 (Un-Audited)

	Share Capital	Capital Reserve	General Reserve	Fair value adjustment	Unappropriated Profit	Total
				(Rupees '000)		
Balance at December 31, 2001	2,564,959	160,000	7,200,000	(676,573)	253,246	9,501,632
Profit for the quarter ended March 31, 2002	-	-	-	-	761,778	761,778
Adjustment arising from remeasurement to fair value of investment in associated company	-	-	-	355,827	-	355,827
Dividends	-	-	-	-	(641,240)	(641,240)
Balance at March 31, 2002	2,564,959	160,000	7,200,000	(320,746)	373,784	9,977,997
Profit for the period from April 1, 2002 to December 31, 2002	-	-	-	-	2,311,643	2,311,643
Adjustment arising from remeasurement to fair value of investment in associated company	-	-	-	140,641	-	140,641
Transfer to general reserve	-	-	800,000	-	(800,000)	-
Dividends	-	-	-	-	(1,667,224)	(1,667,224)
Balance at December 31, 2002	2,564,959	160,000	8,000,000	(180,105)	218,203	10,763,057
Profit for the quarter ended March 31, 2003	-	-	-	-	608,919	608,919
Adjustment arising from remeasurement to fair value of investment in associated company	-	-	-	640,373	-	640,373
Dividends	-	-	-	-	(769,488)	(769,488)
Balance at March 31, 2003	2,564,959	160,000	8,000,000	460,268	57,634	11,242,861

The annexed notes form an integral part of these accounts.



Chairman



Chief Executive



Director

Notes To The Accounts

for the first quarter ended March 31, 2003

- These accounts are unaudited and are being submitted to shareholders, as per the directives of the Securities and Exchange Commission of Pakistan (SECP) issued vide Notification No. SRO 764 (1)/2001 dated November 05, 2001.
- Accounting policies adopted for preparation of these accounts are the same as those applied in preparation of the annual accounts for the year ended December 31, 2002. Accounting policy in respect of related party transactions and transfer pricing is as under.
All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is the interest of the Company to do so.

- These accounts have been prepared in accordance with the requirements of International Accounting Standard IAS 34 'Interim Financial Reporting'.

4. REVENUE RESERVES

	March 31, 2003	December 31, 2002
	(Rupees '000)	
General reserve	8,000,000	8,000,000
Adjustment arising from remeasurement to fair value of investment in associated company	460,268	(180,105)
Unappropriated profit	57,634	218,203
	<u>8,517,902</u>	<u>8,038,098</u>

5. SHORT TERM FINANCES - Secured

Short term running finance	-	797,314
Short term loan	915,000	1,355,000
Short term import credit	1,521,296	1,236,583
	<u>2,436,296</u>	<u>3,388,897</u>

6. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities

(i) Guarantees issued by banks on behalf of the Company	14,020	14,020
(ii) Demand in respect of import of duty-free first charge catalysts for the expansion unit, which matter has been decided in favour of the Company by the High Court of Sindh. This issue is currently pending in the Supreme Court on appeal filed by the Customs authorities.	179,000	179,000
(iii) Income tax demands related to disallowance of Workers' Profit Participation Fund contribution claimed by PSFL and demand for levy of contribution to Workers' Welfare Fund, Which matters have been decided in favour of the Company by the income tax appellate authorities. The department has moved an application against the above decision through the appellate tribunal for reference to the High Court of Sindh. The management is confident that there are reasonable grounds for ultimate decision in favour of the Company.	295,590	295,590
(iv) Claims against the Company and/or potential exposure not acknowledged as debt.	42,175	42,175

Notes To The Accounts

for the period ended March 31, 2003 (Un-Audited)

	March 31, 2003	December 31, 2002
	(Rupees '000)	
(b) Commitments in respect of:		
(i) Capital expenditure	546,803	401,111
(ii) Purchase of fertilizer, stores, spares and other revenue items	223,372	188,309
(iii) Funding to be provided to an associated company as one of the co-sponsors in the form of equity	750,000	750,000
(iv) Rentals under operating lease agreements in respect of premises and vehicles are as follows:		
Premises - not later than one year	26,366	29,540
- later than one year and not later than five years		
2004	19,985	10,729
2005	12,524	11,652
2006	10,822	10,822
2007	12,039	12,039
- later than five years	42,313	12,445
Vehicles - not later than one year	17,613	20,849
- later than one year and not later than five years		
2004	23,922	21,287
2005	27,573	24,938
2006	26,150	23,222
2007	15,746	13,421
- later than five years	5,355	2,576

7. FIXED ASSETS

Based on extended useful life of plants determined by independent valuers, rate of depreciation on Plant & Machinery has been reduced to 5% per annum w.e.f. January 01, 2003.

	March 31, 2003	December 31, 2002
	(Rupees '000)	
8. LONG TERM INVESTMENTS		
Associated company		
FFC-Jordan Fertilizer Company Limited (FJFC) - at cost	4,002,330	4,002,330
Adjustment arising from remeasurement to fair value	460,268	(180,105)
	4,462,598	3,822,225
Others		
Term deposits	256,069	250,225
Government of Pakistan Special US Dollar Bonds	1,144,800	1,155,572
Pakistan Investment Bonds	700,000	700,000
National Savings Certificates	1,000,000	1,000,000
Term Finance Certificates	149,930	149,930
	7,713,397	7,077,952
Less: maturing within twelve months shown under current assets - note 9		
Term finance certificates	60	60
	7,713,337	7,077,892

Notes To The Accounts

for the period ended March 31, 2003 (Un-Audited)

	March 31, 2003	December 31, 2002
	(Rupees '000)	
9. SHORT TERM INVESTMENTS		
Term deposits with banks and financial institutions		
Local currency	-	2,691,001
(net of provision for doubtful recovery Rs 13,000 thousand; 2002: Rs 13,000 thousand)		
Foreign currency	91,891	101,218
Current maturity of Term Finance Certificates	60	60
	91,951	2,792,279

	March 31, 2003	March 31, 2002
	(Rupees '000)	
10. COST OF GOODS SOLD		
Raw materials consumed	730,609	395,904
Fuel and power	564,152	313,330
Chemicals and supplies	21,654	13,721
Salaries, wages and benefits	229,434	156,092
Rent, rates and taxes	2,165	1,605
Insurance	19,613	16,095
Travel and conveyance	16,389	5,469
Repairs and maintenance (includes stores and spares consumed Rs 76,740 thousand; 2002: Rs. 74,053 thousand)	95,962	80,813
Amortisation of deferred costs	17,197	20,432
Depreciation	181,931	207,379
Communication, establishment and other expenses	68,188	28,218
Opening stock-work in process	12,313	11,923
Closing stock-work in process	(19,198)	(7,248)
Cost of goods manufactured	1,940,409	1,243,733
Opening stock - manufactured urea	365,250	176,761
- purchased fertilizers	223,821	224,354
Purchase of fertilizers for resale	896,108	302,474
	3,425,588	1,947,322
Closing stock - manufactured urea	(808,664)	(154,510)
- purchased fertilizers	(187,173)	(389,528)
	2,429,751	1,403,284

Notes To The Accounts

for the period ended March 31, 2003 (Un-Audited)

	March 31, 2003	March 31, 2002
	(Rupees '000)	
11. CASH GENERATED FROM OPERATIONS		
Profit before taxation	959,919	1,211,778
Adjustments for non cash charges and other items		
Depreciation (net of Rs 427 thousand charged to an associated company; 2002 Rs 680 thousand)	185,223	209,939
Amortization of goodwill	26,154	–
Amortization of deferred costs	17,197	20,432
Financial charges	201,120	40,767
Loss/(Gain) on sale of fixed assets	4	(1,253)
Income on loans, deposits and investments	(130,169)	(240,734)
	299,529	29,151
	1,259,448	1,240,929
Changes in working capital		
(Increase)/decrease in current assets:		
Stores and spares	(99,636)	17,022
Stock in trade	(402,930)	36,209
Trade debts	562,039	330,341
Loans, advances, deposits, prepayments and other receivables	(311,595)	(521,423)
Decrease in current liabilities:		
Creditors, accrued and other liabilities (excluding accrual of financial charges)	(1,324,350)	(745,044)
	(1,576,472)	(882,895)
Changes in long term loans and advances	1,186	1,053
Changes in long term deposits, prepayments and deferred costs	300	(9,350)
	(315,538)	349,737

12. FACILITIES OF LETTERS OF GUARANTEE AND LETTERS OF CREDIT
Facilities of letters of guarantee and letters of credit amounting to Rs 20 million and Rs 1,525 million (2002: Rs 20 million and Rs 1,525 million) respectively are also available to the Company under a lien against investment and first charge by way of equitable mortgage on all fixed assets of the Company.

13. CORRESPONDING FIGURES
Corresponding figures have been re-arranged, where necessary, for the purpose of comparison.



Chairman



Chief Executive



Director