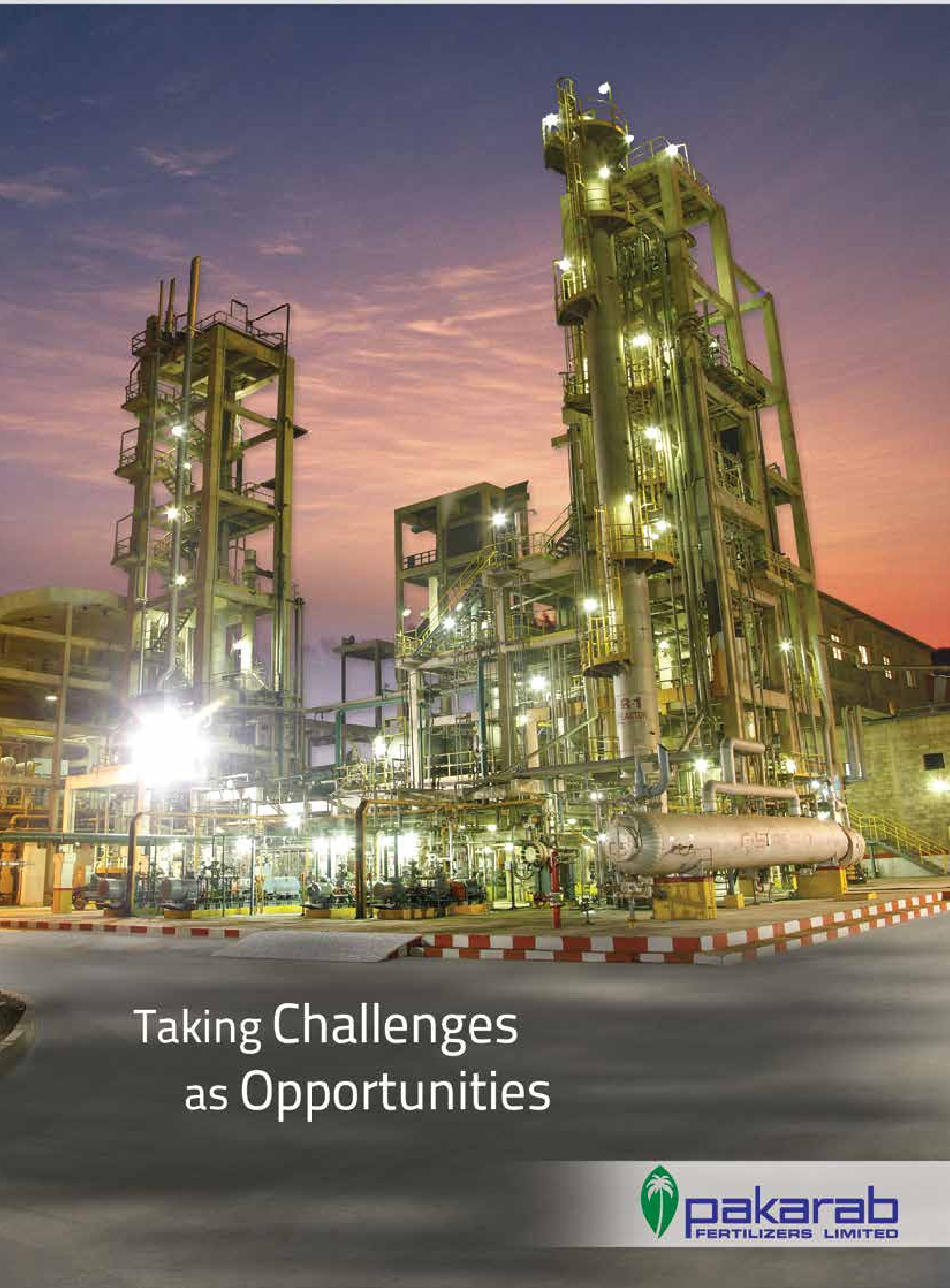
Annual Report *of* **Pakarab Fertilizers Limited** for the year ended December 31, 2012



Taking Challenges as Opportunities

Pakarab Fertilizers Limited

Contents

Core Values

Integrity
Our actions are driven by honesty, ethics, fairness and transparency

Innovation
We encourage creativity and recognize new ideas

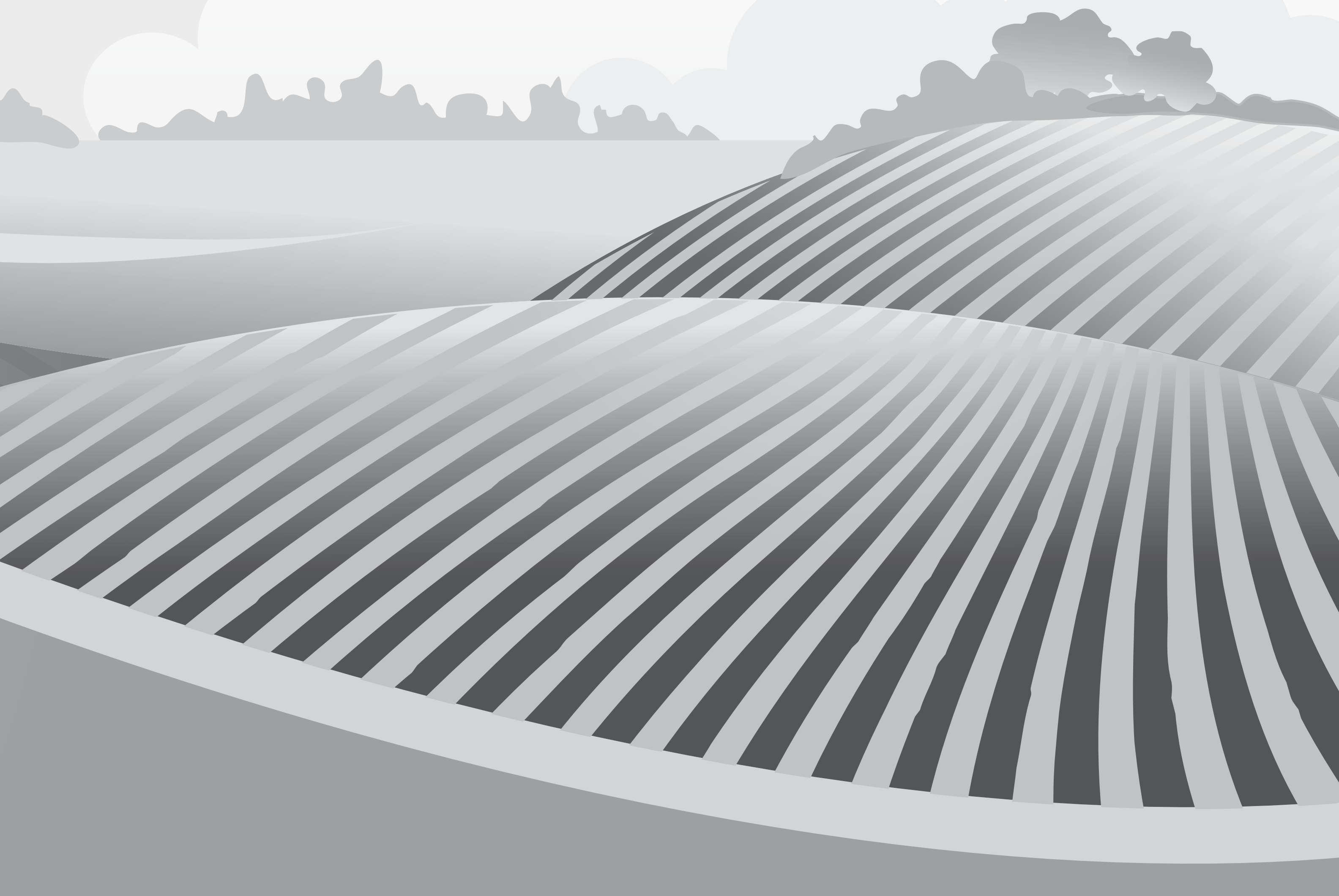
Teamwork
We work collectively towards a common goal

Safety, Health, Environment & CSR
We care for our people and the communities around us

Customer Focus
We believe in listening to our customers and delivering value in our products and services

Excellence
We strive to excel in everything we do

Valuing People
We value our people as our greatest resource



Our Vision and Mission

Vision

To be a world class manufacturer of fertilizers and ancillary products, with a focus on safety, quality and contribution to national economic growth and development. We will care for the environment and the communities we work in while continuing to create shareholders' value.

Mission

- *To be the preferred fertilizer company for farmers, business associates and suppliers through quality and service.*
- *To provide employees an exciting, enabling and supportive environment to excel in, be innovative, entrepreneurial in an ethical and safe working place based on meritocracy and equal opportunity.*
- *To be a responsible corporate citizen with a concern for the environment and the communities we deal with.*

Code of Conduct

“A commitment to honesty, ethical conduct and integrity is the supreme objective of the Company. To assist employees in achieving this objective and implement its commitment, the Company has developed a comprehensive Code of Conduct which guides the behaviour of directors, officers and employees of the Company and is reproduced in the form of a Policy Statement of Ethics and Business Practices ”

Pakarab Fertilizers Limited conducts its business with the highest ethical standards in full compliance with all applicable laws. Honesty and integrity take precedence in all relationships including those with customers, suppliers, employees and other stakeholders.

Ethics and Business Practices
WE believe in conducting the Company’s business in a manner that respects, protects and improves the environment and provides employees with a safe and healthy workplace. We conduct our business in an environmentally responsible and sustainable manner. Employees must be completely familiar with the permits, Health Safety and Environment Policy, local laws and regulations that apply to their work.

All employees are expected to understand the laws and business regulations related to their work and comply fully so that our shareholders, employees, customers, suppliers, stakeholders and the Government have complete faith in the way we operate and that our business decisions are made ethically and in the best interests of the Company.

Employees are obligated to act in accordance with the Company’s code of Ethics and Business Conduct and are restricted to using only legitimate practices in commercial operations and in promoting the Company’s position on issues before governmental authorities. Inducements intended to reward favorable decisions and governmental actions are unacceptable and prohibited.

Employees are prohibited from using their positions, Company property or information for personal gain, and from competing with the Company. Employees are also prohibited from taking advantage from opportunities that become available through the use of Company information, property or their position.

Assets and Proprietary information
WE consider our Company’s assets, both physical and intellectual, very valuable. We have, therefore an obligation to protect these assets in the interest of the Company and its shareholders.

Protection of the Company’s information is important for our business. All employees are expected to know what information is proprietary and which must not be disclosed to unauthorized sources. Employees are responsible for applying all available tools to manage the Company’s information resources and records.

Relations with Business partners
WE seek to do business with suppliers, vendors, contractors and other independent businesses who demonstrate high standards of ethical business behavior. Our Company will not knowingly do business with any persons or businesses that operate in violation of applicable laws and regulations, including employment, health, safety and environmental laws. We shall take steps to assure that our suppliers, vendors and contractors understand the standards we apply to ourselves, and expect the same from them.

Our Employees
WE believe that highly engaged employees are the key ingredient in professional development and business success. Therefore, we invite our employees to contribute their best and to avail the opportunities for improvement and growth. We are an equal opportunity employer and promote gender diversity, self-development and innovation. We provide employees with tools, techniques, and training to master their current jobs, broaden their skills, and advance their career goals.

The Audit Committee of the Board ensures the compliance of above principles.

Company Information

Board of Directors

Mr. Arif Habib
Chairman

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer

Mr. Fazal Ahmed Sheikh
Mr. Nasim Beg
Mr. Faisal Ahmed Mukhtar
Mr. Rehman Naseem
Mr. Abdus Samad
Mr. Muhammad Kashif Habib

Audit Committee

Mr. Nasim Beg
Chairman

Mr. Fazal Ahmed Sheikh
Member

Mr. Rehman Naseem
Member

Mr. Muhammad Kashif Habib
Member

Human Resource and Remuneration Committee

Mr. Nasim Beg
Chairman

Mr. Abdus Samad
Member

Mr. Faisal Ahmed Mukhtar
Member

Mr. Rehman Naseem
Member

Chief Financial Officer

Mr. Arif Hamid Dar

Company Secretary

Mr. Ausaf Ali Qureshi

Key Management

Mr. M. Abad Khan
Advisor to CEO

Mr. Qadeer Ahmed Khan
Director Special Projects

Mr. Muhammad Zahir
Director Marketing

Mr. Haroon Waheed
Group Head of Human Resource

Mr. Farrukh Iqbal Qureshi
General Manager Manufacturing

Mr. Asad Murad
Head of Internal Audit

Mr. Iftikhar Mahmood Baig
General Manager Business Development

Mr. Fuad Imran Khan
Chief Information Officer

Mr. Javed Akbar
Head of Procurement

Brig (R) Muhammad Ali Asif Sirhindi
General Manager Administrative Services

Mr. Muhammad Saleem Zafar
General Manager Projects

Legal Advisors

M/s. Chima & Ibrahim
Advocates

1-A/245, Tufail Road,
Lahore Cantt.

Auditors

A. F. Ferguson & Co.,
Chartered Accountants

23-C, Aziz Avenue,
Canal Bank, Gulberg V,
Lahore-54660.
Tel: 042 35715864-71
Fax: 042 35715872

Bankers

Allied Bank Limited
Al–Baraka Bank (Pakistan)Limited
Askari Bank Limited
BankIslami Pakistan Limited
Bank Alfalah Limited
Burj Bank Limited
Citibank, N.A.
Dubai Islamic Bank Pakistan Limited
Deutsche Bank Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Pakoman Investment Company Limited
Pakistan Kuwait Investment Company (Private) Limited
PAIR Investment Company Limited
Sindh Bank Limited
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited
Soneri Bank Limited
United Bank Limited
Zarai Taraqiati Bank Limited

Registered / Head Office

E-110, Khayaban-e-Jinnah,
Lahore Cantt., Pakistan.
UAN: 111-FATIMA (111-328-462)
Fax: 042-36621389
E-mail: mail@fatima-group.com
Website: www.fatima-group.com

Karachi Office

21-Oil Installation Area,
Keamari, Karachi.
Tel: 021 32855444-5
Fax: 021 32855446

Plant Site

Khanewal Road, Multan.
Tel: 061 9220022
Fax: 061 9220021

Company Profile

Pakarab Fertilizers Limited was established as a result of protocol concluded and signed on November 15, 1972 by the Government of Pakistan to further strengthen and develop fraternal ties between Islamic Republic of Pakistan and State of Abu Dhabi.

A Memorandum of Understanding was concluded between Pakistan Industrial Development Corporation (PIDC) and Abu Dhabi National Oil Company Limited (ADNOC) on March 7, 1973. A participation agreement emerged on November 1, 1973 to establish a joint venture for the expansion and modernization of the old Natural Gas Fertilizer Factory (NGFF) at Multan.

The Company was incorporated on November 12, 1973. Subsequently, PIDC assigned 52% of its shares to National Fertilizer Corporation (NFC) of Pakistan and ADNOC assigned 48% of its shares to International Petroleum Investment Company, with a paid-up capital of Rs. 743.061 million.

Under the privatization policy of Government of Pakistan, Pakarab Fertilizers Limited was privatized on July 14, 2005 at a cost of Rs.14.125 billion. It was acquired by the consortium of Fatima Group and Arif Habib Group.

Under the new management, Pakarab Fertilizers Limited has undergone extensive modernization and new improved processes have been introduced to maximize the output while minimizing the negative impacts on the environment. For this a Clean Development Mechanism (CDM) plant was installed, which is the first project of its kind in Pakistan. Basic aim of this project is the abatement of N2O and NOX emissions from the stack gases of Nitric Acid plant. The reduction of green house effect of these gases shows the new management's commitment towards a cleaner environment.

Pakarab Fertilizers Limited is located at Khanewal Road, Multan. The site area comprises 302 acres, which includes area for the factory and the housing colony with all amenities including medical centre, school, management and staff clubs for recreation of employees and their families, etc.

Profile of the Directors

Mr. Arif Habib
Chairman

Mr. Arif Habib is the Chairman of Pakarab Fertilizers Limited. He is also the Chairman of Arif Habib Corporation Limited, Fatima Fertilizer Company Limited, Javedan Corporation Limited and Arif Habib DMCC Dubai.

Mr. Arif Habib has remained the President / Chairman of Karachi Stock Exchange six times in the past. He is the Founding Member and Former Chairman of the Central Depository Company of Pakistan Limited. He has served as Member of the Privatization Commission, Board of Investment, Tariff Reforms Commission and Securities and Exchange Ordinance Review Committee.

On the social services front, Mr. Arif Habib is the Chairman of Arif Habib Foundation, Memon Health and Education Foundation, Trustee of Fatimid Foundation and Director of Pakistan Centre for Philanthropy and Karachi Education Initiative (Karachi Business School).

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer / Director

Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer and Director of the Company. He has rich experience of manufacturing and industrial management. Following his graduation he has spent 29 years in developing his family business into a sizeable conglomerate.

Mr. Fawad Mukhtar leads several community service initiatives of his group including the Fatima Fertilizer Trust and Welfare Hospital, Fatima Fertilizer Education Society and School, Mukhtar A. Sheikh Welfare Trust etc. He also holds the following portfolios:

Chairman
- Reliance Weaving Mills Limited
- Fatima Energy Limited
- Reliance Commodities (Private) Limited
- Fatima Sugar Mills Limited
- Air One (Private) Limited

CEO
- Fatima Fertilizer Company Limited

Member
- Board of Governor "National Management Fund" - Parent body of LUMS

Mr. Faisal Ahmed Mukhtar
Non-Executive Director

Mr. Faisal Ahmed Mukhtar is a Director of the Company. He holds a Law degree from Bahauddin Zakariya University, Multan. He is the former Mayor and City District Nazim of Multan, and continues to lead welfare efforts in the city. He also holds the following portfolios:

Chairman
- Workers Welfare Board - Pakarab Fertilizers Limited

Director
- Fatima Fertilizer Company Limited
- Fatima Sugar Mills Limited
- Fatima Energy Limited
- Reliance Weaving Mills Limited
- Reliance Commodities (Private) Limited
- Fazal Cloth Mills Limited
- Air One (Private) Limited

Member
- Provincial Finance Commission
- Steering Committee of Southern Punjab Development Project
- Decentralization Support Program

Mr. Nasim Beg
Non-Executive Director

Mr. Nasim Beg qualified as a Chartered Accountant in 1970 and is a Fellow Member of the Institute of Chartered Accountant of Pakistan; he also holds a Bachelor's degree in Commerce from Karachi University. Mr. Beg was the founder Chief Executive (now Executive Vice Chairman) of Arif Habib Investments Limited, a leading Asset Management Company of Pakistan. Mr. Beg serves on the Board of Summit Bank Limited, as well as on the Boards of several Arif Habib Group companies and is Chairman of the group's REITS Management Company. He has extensive experience of over forty years of industry and financial sector in both domestic and international markets. He was part of the task force set up by the Securities & Exchange Commission of Pakistan (SECP) to develop the Voluntary Pension System. He was the founder Chairman of the SECP sponsored Institute of Capital Markets and has also been a Member of the Prime Minister's Economic Advisory Council.

Mr. Fazal Ahmed Sheikh
Executive Director

Mr. Fazal Ahmed Sheikh is a Director of the Company. He holds a degree in Economics from the University of Michigan, Ann Arbor, USA. He has played a strategic role in Fatima Group's expansion and success. He also holds the following portfolios:

CEO
- Reliance Weaving Mills Limited
- Fatima Energy Limited
- Air One (Private) Limited

Director
- Fatima Fertilizer Company Limited
- Reliance Commodities (Private) Limited
- Fatima Sugar Mills Limited
- Fazal Cloth Mills Limited

Mr. Rehman Naseem
Non-Executive Director

Mr. Rehman Naseem is director of the Company. He obtained a Bachelor of Economics Degree from Columbia University, New York. He is the Chief Executive of Ahmed Fine Textile Mills Limited and Rehman Amir Fabrics Limited. He is also director of Fazal Cloth Mills Limited, Ahmed Fine Textile Mills Limited, Amir Fine Exports (Pvt) Limited, Fazal Rehman Fabrics Limited, Hussain Ginneries Limited, Zafar Nasir Oil Extraction Limited, Rehman Amir Fabrics Limited and Fazal Farms (Pvt) Limited.

Mr. Abdus Samad
Non-Executive Director

Mr. Samad has earned his Master's degree in Business Administration in 2001. He has more than 15 years of experience, including 09 years working in the financial services industry at various senior level positions. He began his career with Arif Habib Corporation Limited (the holding company of Arif Habib group) as an Investment Analyst, then served the company at various executive positions including Executive Sales and Business Promotions, Company Secretary, Head of Marketing, etc. Subsequently he was appointed as a Director of Arif Habib Corporation Limited. On September 2004, he was appointed as the Chairman and Chief Executive of Arif Habib Limited. He resigned from that position in January 2011. Presently, he is leading Javedan Corporation Limited; one of the largest housing projects, in the capacity of Chief Executive of the company. Further to this he is responsible for group real estate project and is also on board of Arif Habib Corporation Ltd., Arif Habib Investment Management Limited, Arif Habib REIT Management , Pakistan Private Equity, Aisha Steel Limited, International Complex, Rotocast Engineering Limited and Sukh Chayan Garden.

Mr. Muhammad Kashif Habib
Non-Executive Director

Mr. Muhammad Kashif Habib is a Director of the Company. He is a Chartered Accountant from the Institute of Chartered Accountants of Pakistan (ICAP) and has completed his mandatory Articles with M/s. A. F. Ferguson & Co. Chartered Accountants. He is also director of Arif Habib Corporation Limited, Fatima Fertilizer Company Limited, Javedan Corporation Limited, Aisha Steel Mills Limited, Arif Habib REITS management Limited, Rotocast Engineering (Pvt) Limited, Memon Health & Education Foundation, and the Chief Executive of Al-Abbas Cement Industries Limited.

Board Structure and Committees

Board Structure

PFL's Board is comprised of eight directors who have been elected by the shareholders for a term of three years expiring on December 31, 2015. Other than the Chief Executive Officer (CEO), there is one executive director and six non-executive directors on the Board. The Chairman of the Board is a non-executive director.

The Board provides leadership and strategic guidance to the Company, oversees the conduct of business and promotes the interests of all stakeholders. It reviews corporate policies, overall performance, accounting and reporting standards and other significant areas of management, corporate governance and regulatory compliance.

The Board is headed by the Chairman who manages the Board's business and acts as its facilitator and guide. The Board is assisted by an Audit Committee and a Human Resource and Remuneration Committee while the CEO carries responsibility for day-to-day operations of the Company and execution of Board policies.

Board Committees

The standing committees of the Board are:

Audit Committee

Composition

The Audit Committee consists of four members of the Board. Majority of the members of the Audit Committee are non-executive including the Chairman. The members are:

1. Mr. Nasim Beg
   Chairman
2. Mr. Fazal Ahmed Sheikh
   Member
3. Mr. Rehman Naseem
   Member
4. Mr. Muhammad Kashif Habib
   Member

Terms of Reference

In addition to any other responsibilities which may be assigned from time to time by the Board, the main purpose of the Audit Committee is to assist the Board by performing the following main functions:

- to monitor the quality and integrity of the Company's accounting and reporting practices;
- to oversee the performance of Company's internal audit function;
- to review the external auditor's qualification; independence, performance and competence; and
- to comply with the legal and regulatory requirements, Company's by-laws and internal regulations.

The Terms of Reference of the Audit Committee have been drawn up and approved by the Board of Directors in compliance with the Code of Corporate Governance. In addition to compliance with Code of Corporate Governance, the Audit Committee carries out the following duties and responsibilities for the Company as per its Terms of Reference:

a) determination of appropriate measures to safeguard the Company's assets;

b) review of preliminary announcements of results prior to publication;

c) review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:

`

- major judgmental areas;
- significant adjustments resulting from the audit;
- the going-concern assumption;
- any changes in accounting policies and practices;
- compliance with applicable accounting standards; and
- compliance with listing regulations and other statutory and regulatory requirements.

d) facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

e) review of management letter issued by external auditors and management's response thereto;

f) ensuring coordination between the internal and external auditors of the Company;

g) review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;

h) consideration of major findings of internal investigations and management's response thereto;

i) ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;

j) review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;

k) instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;

l) determination of compliance with relevant statutory requirements;

m) monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and

n) consideration of any other issue or matter as may be assigned by the Board of Directors.

Human Resource and Remuneration Committee

Composition

The Human Resource and Remuneration Committee consists of four members of the Board. All the members of the Committee are non-executive directors including the Chairman. The members are:

1. Mr. Nasim Beg
   Chairman
2. Mr. Abdus Samad
   Member
3. Mr. Faisal Ahmed Mukhtar
   Member
4. Mr. Rehman Naseem
   Member

Terms of Reference

The Human Resource Committee is a means by which the Board provides guidance on human resources excellence. The specific responsibilities, authorities and powers that the Committee carries out on behalf of the Board are as follows:

1. Duties and Responsibilities

   The Committee shall carry out the duties below for the Company:

   1.1 to review and recommend the annual Compensation strategy with focus on the annual budget for Head count and Salaries and wages;

   1.2 to review and recommend the annual Bonus and Incentive plan;

   1.3 to review and recommend the compensation of the Chief Executive and Executive Directors;

   1.4 to assist the Board in reviewing d monitoring the succession plans of key positions in the company;

   1.5 to review and monitor processes and initiatives related to work environment and culture;

   1.6 to perform such other duties and responsibilities as may be assigned time to time by the Board of Directors.

2. Reporting Responsibilities

   2.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;

   2.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

   2.3 The Committee shall, if requested by the Board, compile a report to shareholders on its activities to be included in the Company's Annual Report.

3. Authorities and Powers

   The Committee is authorised and empowered:

   3.1 To seek any information it requires from any employee of the Company in order to perform its duties;

   3.2 To obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and

   3.3 To call any employee to be questioned at a meeting of the Committee as and when required.

Profile of the Key Management

Mr. M. Abad Khan
Advisor to CEO

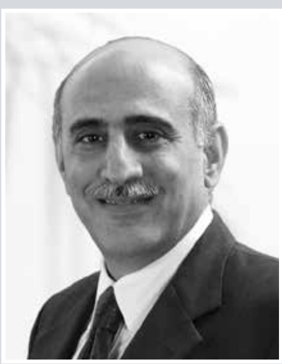
Mr. M. Abad Khan graduated in Mechanical Engineering from UET Lahore and received extensive training in Fertilizer operations in Europe. After serving some initial years in commissioning Pakistan's first Urea Plant with PIDC, he joined Exxon Chemical Pakistan Ltd. at its very initial stage. After 15 years working mostly at senior management positions, he took early retirement to join Fauji Fertilizer Co. as General Manager Plant. Here he organized and established systems and procedures to lead the Plant to world standards. After serving for 14 years, and when Plant capacity had more than doubled, he retired from Company service on attaining the age of superannuation.

In 2001, when Fauji Fertilizer Bin Qasim faced serious challenges, he accepted the position of General Manager Plant. During his contract of 4 years, Plant production and reliability was improved and a major re-vamp of 25% over design capacity was conceived, planned and ordered which was subsequently implemented with very good results.

He has been with Fatima Group for almost 7 years and played significant role in establishment of Fatima Fertilizer. During the course of a long career, he had extensive international exposure through trainings, seminars and symposiums.

Mr. Qadeer Ahmed Khan
Director Special Projects

Mr. Qadeer Ahmed Khan has done his MS in Petrochemicals and Hydrocarbons from the Institute of Science and Technology, University of Manchester, England. He has a vast experience of working in chemicals and fertilizer industries. He has over 32 years of experience from Engro Chemicals and Engro Polymers, where he held various senior management positions.



Mr. Muhammad Zahir
Director Marketing

Mr. Muhammad Zahir holds a Masters degree in Business Administration from the Institute of Business Administration, Karachi. He spent 29 years with ICI Pakistan working in its various businesses and the Human Resource Function. He served as an Executive Director on the Board of ICI Pakistan. He has diverse experience in business including paints, polyester fiber, chemical, agrochemicals, pharmaceuticals, seeds and animal health.

Mr. Haroon Waheed
Group Head of Human Resource

Mr. Haroon Waheed has done his LLM from Monash University, Melbourne, Australia. He has 21+ years of national & international broad based functional business experience with Unilever and has been associated with Pakistan Society of HR Management as President. In addition to representation in the HR and Management Development conferences at the national level. Mr. Haroon has won the International best HR Leadership award in 2010.

Mr. Arif Hamid Dar
Chief Financial Officer

Mr. Arif Hamid Dar is a fellow member of the Institute of Chartered Accountants of Pakistan and got training with A.F. Ferguson & Co. Chartered Accountants. He has 14 years of diversified experience of handling finance, business planning, after sales services functions with Honda Atlas Cars (Pakistan) Ltd, a subsidiary of Honda Motor Company, Japan. He has joined the Company in early 2010.

Mr. Ausaf Ali Qureshi
Company Secretary

Mr. Ausaf Ali Qureshi is a Fellow Member of Institute of Chartered Accountants of Pakistan. He has over 27 years of experience with Fauji Fertilizer, Pakistan International Airlines (Holdings) and Bristol-Myers Squibb (BMS). In his over 20 years career at BMS, he held various senior management positions in Pakistan, South Korea, Egypt and Singapore in the areas of finance, corporate compliance and strategic project planning.

Mr. Asad Murad
Head of Internal Audit

Mr. Asad Murad is a Fellow Member of the Institute of Chartered Accountants of Pakistan. He has 13 years of experience of handling finance and business planning functions with Honda Atlas Cars (Pakistan) Limited. He joined the Company in October, 2010.

Mr. Iftikhar Mahmood Baig
GM Business Development

Mr. Iftikhar Mahmood Baig is working as GM Business Development of Fatima Group. He is also director of Fatima Energy Limited, Reliance Sacks Limited, Pakistan Mining Company Limited and member of the Workers Welfare Board- Pakarab Fertilizers Limited. He is a Fellow member of Institute of Chartered Secretaries and Managers of Pakistan. Mr. Baig is associated with Fatima Group since 1996 and has held various senior level management positions. He has over 29 years of experience in new venture development, Corporate, Finance, Government Relations and Strategic Planning.

Profile of the Key Management

Mr. Fuad Imran Khan
Chief Information Officer

Mr. Fuad holds a Ph.D. Degree in Computer Information and Control Engineering from University of Michigan USA, a Master's degree in Electrical and Computer Engineering from University of Michigan USA and has a Bachelor's degree in Electrical Engineering from Massachusetts Institute of Technology, Cambridge MA USA. He has worked as Director and Head of Information Technology Telecom Development Company Afghanistan (Roshan), Executive Vice President and Head of Information Technology PTCL, Vice President Engineering Xavor Pakistan, Director Engineering Manager and Head of Offshore Development Centre Terraspring , Manager and Head of Software Design Center Alcatel Pakistan. Mr. Fuad has also worked as Principal Research Officer National Institute of Electronics, Islamabad and was also part of advisory committee and worked as Advisor Academics for Electronics Engineering Department of Ghulam Ishaq Khan Institute, Pakistan during its inception days. Mr. Fuad's last assignment was with Warid Telecom as their Head of Information Technology.

Mr. Javed Akbar
Head of Procurement

Mr. Javed Akbar is a Mechanical Engineer from NED University of Engineering and Technology Karachi, and also did his graduation in computer science from university of Mississippi, USA. He brings with him an experience of around 25 years, out of which more than 15 years is in the area of supply chain with multinational companies in Pakistan including Philips, Alcatel, Mobilink and PTCL. He has attended International Training Course on management and leadership from world renowned institutions like Insead, Harvard and MIT.

Brig (R) Muhammad Ali Asif Sirhindi
General Manager Administrative Services

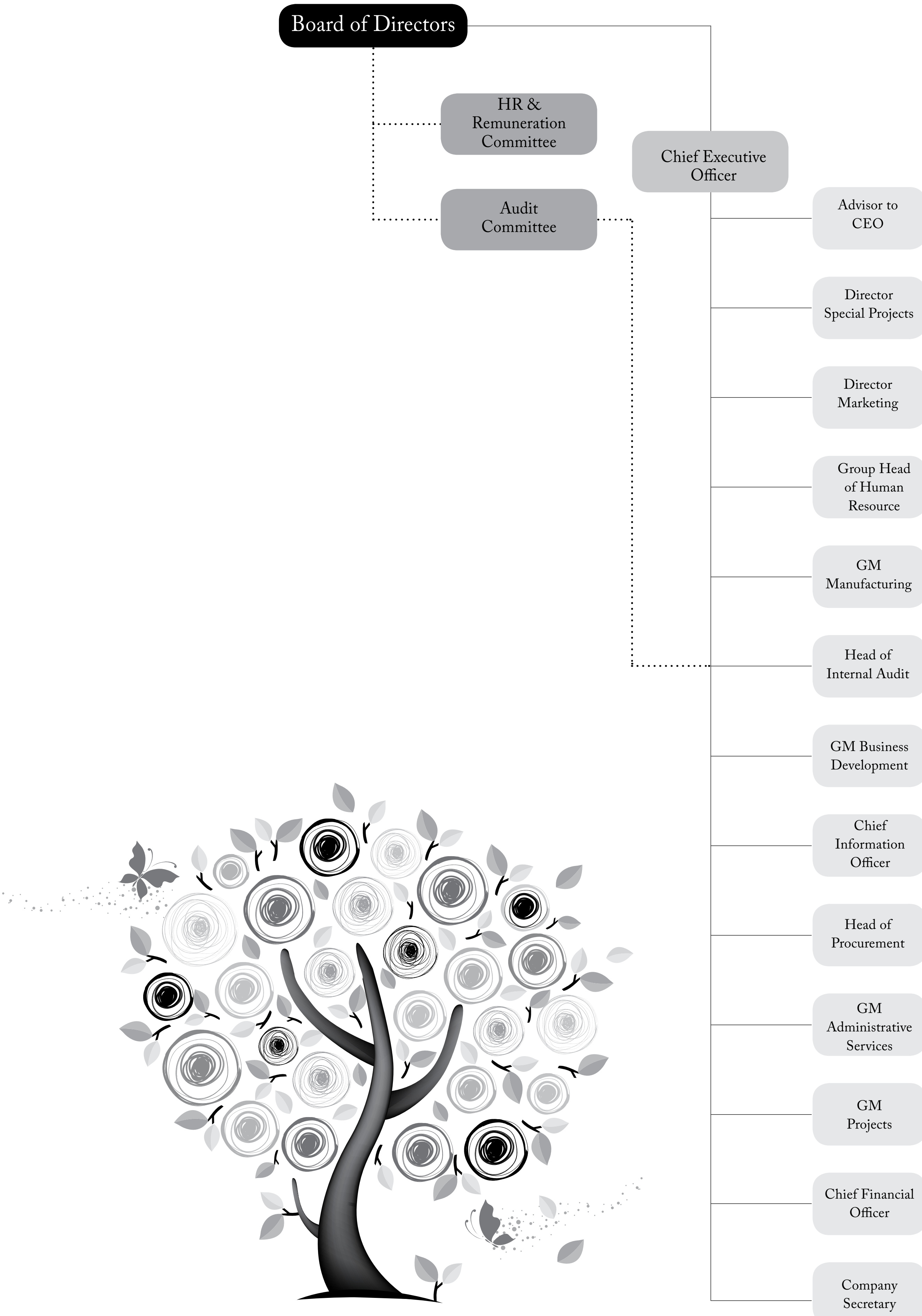
Brig (Retd) Muhammad Ali Asif Sirhindi SI(M) joined Pakarab Fertilizers Limited team in September 2009 as General Manager (Administrative Services). He is a Graduate of Command and Staff College and has more than 30 Years of rich Army experience. In the Army he has served on important assignments of Command, Staff and Instructional appointments in Pakistan and abroad. He was awarded two CAOS Commendation Cards for act of valor and safe flying and Sitara-e-Imtiaz (Military) for devotion to duty, hard work and excellence.

Before joining Pakarab Fertilizers Limited he has also served as General Manager Administration in Oil and Gas Development Company Limited (OGDCL) for more than three years.

Mr. Muhammad Saleem Zafar
General Manager Projects

Mr. Muhammad Saleem Zafar is General Manager (Projects). He did his M. Sc. Chemistry from Punjab University Lahore in 1971 with academic Role of Honour. He has over 33 years work experience in fertilizer industry. He remained associated with Pakarab Plant's start up activities after necessary training from M/s Udhe & Stamicarbon. He has been working with Pakarab Fertilizers Limited since 1976. Prior to joining Pakarab Fertilizers Limited, he also worked at Pak Dyes & Chemicals Iskanderabad for four years and developed Feasibility Report for manufacture of Sodium Thiosulfate as a by product of Sulfur Black Dyestuff.

Organization Chart



NOTICE of Fortieth Annual General Meeting

Notice is hereby given that the Fortieth Annual General Meeting of the shareholders of PAKARAB FERTILIZERS LIMITED (the 'Company' or 'PFL') will be held on Tuesday, April 30, 2013 at 10:30 a.m. at E-110, Khayaban-e-Jinnah, Lahore Cantt., to transact the following business:

Ordinary Business

1. To confirm minutes of the Extraordinary General Meeting held on December 31, 2012.

2. To receive, consider and adopt the audited financial statements of the Company together with the Directors' and Auditors' Reports thereon for the year ended December 31, 2012 together with the audited consolidated financial statements of Pakarab Fertilizers Limited and subsidiary Reliance Sacks Limited for the year ended December 31, 2012 and the Auditors' Reports thereon.

3. To appoint Auditors for the year ending December 31, 2013 and to fix their remuneration. The Audit Committee and the Board of Directors have recommended for reappointment of M/s A. F. Ferguson & Co., Chartered Accountants as external auditors.

Other Business

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

By order of the Board

Ausaf Ali Qureshi
Company Secretary

Lahore: April 09, 2013.

Notes:

1. The share transfer books of the Company will remain closed from April 24, 2013 to April 30, 2013 (both days inclusive). Transfers received in order at the registered office of the Company by the close of business on April 23, 2013 will be treated in time.

2. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy who shall have such rights as respects attending, speaking and voting at the meeting as are available to a member.

3. Proxies in order to be effective must be received by the Company at the Registered Office not later than 48 hours before the time for holding meeting, duly signed and stamped and witnessed by two persons with their names, address, NIC number and signatures.

4. Shareholders are requested to immediately notify the change of their address, if any.

Financial Highlights

Six Years at a glance and transitional period of six months (Rs. in million except per share data and ratios)

		FY 2007	Dec 31, 2007 (Transitional)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Income Statement								
Turnover	Rs.	9,102	5,164	18,887	16,706	18,248	16,701	8,136
Cost of Goods Sold	Rs.	(5,658)	(2,473)	(6,378)	(9,796)	(9,051)	(7,188)	(6,221)
Gross Profit	Rs.	3,444	2,691	12,509	6,910	9,197	9,513	1,915
Admin Cost	Rs.	(198)	(144)	(590)	(610)	(780)	(969)	(1,165)
Distribution Cost	Rs.	(250)	(178)	(583)	(898)	(994)	(829)	(299)
Financial Cost	Rs.	(1,093)	(660)	(2,296)	(3,159)	(3,589)	(3,472)	(2,610)
Other Expenses	Rs.	(315)	(121)	(1,019)	(244)	(386)	(510)	(218)
Interest Income	Rs.	79	21	37	146	543	736	685
Other Income	Rs.	35	21	34	196	866	1,119	843
Re-measurement gain / (loss)	Rs.	-	-	-	2,866	(121)	741	(47)
Share gain/(loss) of associated company	Rs.	-	6	(57)	(25)	(39)	(18)	-
Profit before Tax	Rs.	1,702	1,636	8,035	5,183	4,697	6,311	(896)
Profit after Tax	Rs.	1,359	1,337	7,090	4,738	3,232	4,590	(240)
EBITDA	Rs.	3,208	2,543	10,815	8,342	8,943	10,665	2,929
Balance Sheet								
Paid up Capital	Rs.	743	3,000	3,000	4,500	4,500	4,500	4,500
Shareholder's Equity including revaluation reserve	Rs.	6,326	5,632	11,452	12,823	10,224	17,856	15,396
Long term borrowings	Rs.	7,040	10,905	13,805	16,191	13,372	8,484	4,559
Capital employed	Rs.	19,166	24,633	33,713	39,426	33,989	43,880	37,077
Deferred liabilities	Rs.	4,364	4,417	4,656	5,021	5,631	11,058	11,038
Property, plant & equipment	Rs.	14,305	16,784	20,279	21,285	21,916	37,937	37,290
Long term assets	Rs.	18,586	23,703	32,047	35,039	33,178	46,336	41,188
Net current assets / Working capital	Rs.	580	930	1,666	4,387	811	(2,456)	(4,111)
Total Assets	Rs.	25,540	30,645	45,523	52,126	50,637	65,341	54,636
Cash Flows:								
Operating activities	Rs.	2,512	240	2,780	6,712	4,109	4,023	(1,179)
Investing activities	Rs.	(1,935)	(5,000)	(10,278)	(10,353)	(2,989)	(710)	5,870
Financing activities	Rs.	(218)	2,864	3,100	3,467	(316)	(2,643)	(5,665)
Changes in cash & cash equivalents	Rs.	359	(1,896)	(4,398)	(174)	804	669	(973)
Cash & cash equivalents - Year end	Rs.	1,147	(748)	(5,146)	(5,321)	(4,517)	(3,847)	(4,820)
Key Indicators:								
Operating:								
Gross Profit Margin	%	37.84	52.11	66.23	41.36	50.40	56.96	23.54
Pre tax margin	%	18.70	31.68	42.54	31.03	25.74	37.79	(11.01)
Net profit margin	%	14.93	25.89	37.54	28.36	17.71	27.48	(2.95)
EBITDA %age to sale	%	35.25	49.24	57.26	49.93	49.01	63.86	36.00
Earning per share (Rs.) Basic	Rs.	18.29	4.46	23.63	10.53	7.18	10.20	(0.53)
Performance:								
Book Value per share (Excluding revaluation surplus)	Rs.	95.14	20.52	39.92	32.99	27.22	23.14	17.63
Book Value per share (Including revaluation surplus)	Rs.	95.14	28.77	48.17	38.50	32.72	49.68	44.21
Return on assets	%	5.32	4.36	15.57	9.09	6.38	7.02	(0.44)
Total Assets Turnover	Times	0.36	0.17	0.41	0.32	0.36	0.26	0.15
Fixed Assets Turnover	Times	0.63	0.31	0.93	0.77	0.82	0.44	0.22
Debtors turnover	Times	21.34	4.85	19.18	11.80	11.13	12.19	11.14
Debtors turnover	Days	17.10	37.93	19.03	30.94	32.78	29.95	32.77
Inventory turnover	Times	3.30	1.21	1.43	1.80	1.82	1.45	1.32
Inventory turnover	Days	110.73	152.07	255.00	202.70	200.22	251.31	275.70
Return on Share Capital	%	183.04	44.57	236.33	105.29	71.82	102.00	(5.33)
Return on Equity (excluding revaluation surplus)	%	19.22	21.72	59.20	31.91	26.39	44.08	(3.03)
Leverage:								
Long Term Debt : Equity		53:47	64:36	54:46	54:46	59:41	59:41	54:46
Interest cover		2.60	4.41	4.06	1.64	1.31	1.82	(0.34)
Liquidity:								
Current Ratio		1.10	1.15	1.14	1.35	1.05	0.89	0.77
Quick ratio		0.85	0.70	0.62	0.98	0.73	0.67	0.49
Valuation								
Earnings per share (before tax)	Rs.	22.91	5.46	26.78	11.52	10.44	14.02	(1.99)
Earnings per share (after tax)	Rs.	18.30	4.46	23.63	10.53	7.18	10.20	(0.53)
Earnings Growth	%	(5.72)	(1.64)	430.29	(55.45)	(31.79)	42.02	(105.23)
Cash dividend	%	-	-	-	-	-	-	-
Bonus dividend	%	-	303.73	50.00	-	-	-	-
Specie dividend	%	-	75.00	50.00	100.00	129.58	147.83	49.02

** Period ended December 31, 2007 was transitional period of six months from July 07 to December 07*

Horizontal Analysis
Balance Sheet

	Dec 31 2008	Dec 31, 2009 (Restated	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	2008 Vs 2007 (Transitional)	2009 vs 2008	2010 vs 2009	2011 vs 2010	2012 vs 2011
Issued, subscribed and paid up capital	3,000	4,500	4,500	4,500	4,500	-	50.00	-	-	-
Reserves	8,736	10,147	7,548	5,714	3,432	176.78	16.15	(25.61)	(24.30)	(39.94)
Share deposit money	240	200	200	200	-	-	(16.67)	-	-	(100.00)
Revaluation reserve	2,476	2,476	2,476	11,942	11,964	-	-	-	382.31	0.18
	14,452	17,323	14,724	22,356	19,896	67.43	19.87	(15.00)	51.83	(11.00)
Non-Current Liabilities										
Long term finances	13,805	16,191	13,372	8,484	4,559	26.60	17.28	(17.41)	(36.55)	(46.26)
Supplier's credit - secured	-	-	-	1,796	1,488	-	-	-	-	(17.15)
Liabilities against assets subject to finance lease	75	107	218	138	50	98.14	42.67	103.74	(36.70)	(63.77)
Payable against mining rights	-	52	-	-	-	-	-	(100.00)	-	-
Long term deposits	724	732	44	48	46	12.84	1.10	(93.99)	9.09	(4.17)
Deferred liabilities	42	46	57	91	115	83.61	8.95	24.57	59.65	26.37
Deferred taxation	4,614	4,975	5,574	10,967	10,923	5.01	7.82	12.04	96.75	(0.40)
	19,260	22,103	19,265	21,524	17,181	20.37	14.76	(12.84)	11.73	(20.18)
Current Liabilities										
Current portion of long term liabilities	32	1,339	4,009	6,335	4,878	141.50	4,141.50	199.40	58.02	(23.00)
Finances under mark up arrangements - secured	5,231	5,556	4,702	4,644	5,814	459.43	6.20	(15.37)	(1.23)	25.19
Derivative financial instruments	52	-	-	-	-	-	-	-	-	-
Payable to Privatization Commission of Pakistan	2,198	2,198	2,198	2,198	2,198	-	-	-	-	-
Trade and other payables	3,045	2,491	4,458	3,121	3,225	56.97	(18.19)	78.96	(29.99)	3.33
Accrued finance cost	799	989	650	677	366	149.55	23.73	(34.28)	4.15	(45.94)
Dividend payable	-	-	-	3,755	1,078	-	-	-	-	(71.29)
Provision for taxation	454	127	631	731	-	(25.10)	(72.01)	396.85	15.85	(100.00)
	11,811	12,700	16,648	21,461	17,559	96.45	7.53	31.09	28.91	(18.18)
	45,523	52,126	50,637	65,341	54,636	48.55	14.50	(2.86)	29.04	(16.38)

	Dec 31 2008	Dec 31, 2009 (Restated	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	2008 Vs 2007 (Transitional)	2009 vs 2008	2010 vs 2009	2011 vs 2010	2012 vs 2011
Non-Current Assets										
Property, plant and equipment	20,279	21,285	21,916	37,937	37,290	20.82	4.96	2.96	73.10	(1.71)
Assets subject to finance lease	117	148	283	230	121	165.70	26.65	91.22	(18.73)	(47.39)
Intangibles	4	206	183	161	149	-	-	(11.17)	(12.02)	(7.45)
Goodwill	3,305	3,305	3,305	3,305	3,305	-	-	-	-	-
Investments - related party	8,334	7,882	2,930	130	262	133.95	(5.42)	(62.83)	(95.56)	101.54
Loan to subsidiary	-	2,196	4,516	4,516	-	-	-	105.65	-	(100.00)
Security deposits	8	17	45	57	61	5.52	109.67	164.71	26.67	7.02
	32,047	35,039	33,178	46,336	41,188	35.20	9.34	(5.31)	39.66	(11.11)
Current Assets										
Stores and spare parts	1,777	1,880	2,310	2,583	3,023	39.21	5.80	22.87	11.82	17.03
Stock-in-trade	4,430	2,793	2,947	2,058	1,734	210.21	(36.95)	5.51	(30.17)	(15.74)
Trade debts	1,405	1,427	1,851	890	571	148.87	1.57	29.71	(51.92)	(35.84)
other receivables	5,779	6,814	3,583	5,300	6,042	65.79	17.91	(47.42)	47.92	14.00
Derivative	-	8	69	19	-	-	-	762.50	(72.46)	(100.00)
Investments	-	3,930	6,513	7,359	1,084	-	-	65.73	12.99	(85.27)
Cash and bank balances	85	235	186	796	994	(54.53)	176.47	(20.85)	327.96	24.87
	13,476	17,087	17,459	19,005	13,448	94.14	26.80	2.18	8.86	(29.24)
	45,523	52,126	50,637	65,341	54,636	48.55	14.50	(2.86)	29.04	(16.38)

Vertical Analysis

Balance Sheet

	Dec 31 2008	Dec 31, 2009 (Restated	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Issued, subscribed and paid up capital	3,000	4,500	4,500	4,500	4,500	6.59	8.63	8.89	6.89	8.24
Reserves	8,736	10,147	7,548	5,714	3,432	19.19	19.47	14.91	8.74	6.28
Share deposit money	240	200	200	200	-	0.53	0.38	0.39	0.31	-
Revaluation reserve	2,476	2,476	2,476	11,942	11,964	5.44	4.75	4.89	18.28	21.90
	14,452	17,323	14,724	22,356	19,896	31.75	33.23	29.08	34.21	36.42
Non-Current Liabilities										
Long term finances	13,805	16,191	13,372	8,484	4,559	30.33	31.06	26.41	12.98	8.34
Supplier's credit - secured	-	-	-	1,796	1,488	-	-	-	2.75	2.72
Liabilities against assets subject to finance lease	75	107	218	138	50	0.16	0.21	0.43	0.21	0.09
Payable against mining rights	-	52	-	-	-	-	0.10	-	-	-
Long term deposits	724	732	44	48	46	1.59	1.40	0.09	0.07	0.08
Deferred liabilities	42	46	57	91	115	0.09	0.09	0.11	0.14	0.21
Deferred taxation	4,614	4,975	5,574	10,967	10,923	10.14	9.54	11.01	16.78	19.99
	19,260	22,103	19,265	21,524	17,181	42.31	42.40	38.05	32.94	31.45
Current Liabilities										
Current portion of long term liabilities	32	1,339	4,009	6,335	4,878	0.07	2.57	7.92	9.70	8.93
Finances under mark up arrangements - secured	5,231	5,556	4,702	4,644	5,814	11.49	10.66	9.29	7.11	10.64
Derivative financial instruments	52	-	-	-	-	0.11	-	-	-	-
Payable to Privatization Commission of Pakistan	2,198	2,198	2,198	2,198	2,198	4.83	4.22	4.34	3.36	4.02
Trade and other payables	3,045	2,491	4,458	3,121	3,225	6.69	4.78	8.80	4.78	5.90
Accrued finance cost	799	989	650	677	366	1.76	1.90	1.28	1.04	0.67
Dividend payable	-	-	-	3,755	1,078	-	-	-	5.75	1.97
Provision for taxation	454	127	631	731	-	1.00	0.24	1.25	1.12	-
	11,811	12,700	16,648	21,461	17,559	25.94	24.36	32.88	32.84	32.14
	45,523	52,126	50,637	65,341	54,636	100.00	100.00	100.00	100.00	100.00

	Dec 31 2008	Dec 31, 2009 (Restated	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	2008 Vs Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Non-Current Assets										
Property, plant and equipment	20,279	21,285	21,916	37,937	37,290	44.55	40.83	43.28	58.06	68.25
Assets subject to finance lease	117	148	283	230	121	0.26	0.28	0.56	0.35	0.22
Intangibles	4	206	183	161	149	0.01	0.40	0.36	0.25	0.27
Goodwill	3,305	3,305	3,305	3,305	3,305	7.26	6.34	6.53	5.06	6.05
Investments - related party	8,334	7,882	2,930	130	262	18.31	15.12	5.79	0.20	0.48
Loan to subsidiary	-	2,196	4,516	4,516	-	-	4.21	8.92	6.91	-
Security deposits	8	17	45	57	61	0.02	0.03	0.09	0.09	0.11
	32,047	35,039	33,178	46,336	41,188	70.40	67.22	65.52	70.91	75.39
Current Assets										
Stores and spare parts	1,777	1,880	2,310	2,583	3,023	3.90	3.61	4.56	3.95	5.53
Stock-in-trade	4,430	2,793	2,947	2,058	1,734	9.73	5.36	5.82	3.15	3.17
Trade debts	1,405	1,427	1,851	890	571	3.09	2.74	3.66	1.36	1.05
Other receivables	5,779	6,814	3,583	5,300	6,042	12.70	13.07	7.08	8.11	11.06
Derivative financial instruments	-	8	69	19	-	-	0.02	0.14	0.03	-
Investments	-	3,930	6,513	7,359	1,084	-	7.54	12.86	11.26	1.98
Cash and bank balances	85	235	186	796	994	0.19	0.45	0.37	1.22	1.82
	13,477	17,087	17,459	19,005	13,448	29.60	32.78	34.48	29.09	24.61
	45,523	52,126	50,637	65,341	54,636	100.00	100.00	100.00	100.00	100.00

Horizontal Analysis
Profit and Loss

	Rupees in Million					Variance in %				
	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	2008 Vs 2007 (Transitional)	2009 Vs 2008	2010 Vs 2009	2011 Vs 2010	2012 Vs 2011
Sales	18,887	16,706	18,248	16,701	8,136	84.57	(11.55)	9.23	(8.48)	(51.28)
Cost of Sales	(6,378)	(9,796)	(9,051)	(7,188)	(6,221)	15.61	53.59	(7.61)	(20.58)	(13.45)
Gross Profit	12,509	6,910	9,197	9,513	1,915	165.25	(44.76)	33.10	3.44	(79.87)
Administrative Expenses	(590)	(610)	(780)	(969)	(1,165)	123.48	3.39	27.87	24.23	20.23
Selling & Distribution Expenses	(583)	(898)	(994)	(829)	(299)	60.61	54.03	10.69	(16.60)	(63.93)
Finance Cost	(2,296)	(3,159)	(3,589)	(3,472)	(2,610)	84.12	37.59	13.61	(3.26)	(24.83)
Other Operating Expenses	(1,019)	(244)	(387)	(510)	(218)	170.29	(76.05)	58.61	31.78	(57.25)
Other Operating Income	71	342	1,409	1,855	1,528	(38.26)	381.69	311.99	31.65	(17.63)
Operating Profit / (loss)	8,092	2,341	4,856	5,588	(849)	213.64	(71.07)	107.43	15.07	(115.19)
Share of profit /(loss) of associated co.	(57)	(25)	(39)	(18)	-	(1,050.00)	(55.78)	54.72	(53.85)	(100.00)
Re-measurement gain / (loss)	-	2,866	(121)	741	(47)	-	-	(104.22)	(712.40)	(106.34)
Profit / (loss) before Taxation	8,035	5,182	4,696	6,311	(896)	210.71	(35.50)	(9.38)	34.39	(114.20)
Taxation	(945)	(444)	(1,464)	(1,721)	656	158.90	(53.02)	229.73	17.55	(138.12)
Profit / (loss) after Taxation	7,090	4,738	3,232	4,590	(240)	219.23	(33.17)	(31.79)	42.02	(105.23)

Vertical Analysis
Profit and Loss

	Rupees in Million					Variance in %				
	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	2008 Vs 2007 (Transitional)	2009 Vs 2008	2010 Vs 2009	2011 Vs 2010	2012 Vs 2011
Sales	18,887	16,706	18,248	16,701	8,136	100.00	100.00	100.00	100.00	100.00
Cost of Sales	(6,378)	(9,796)	(9,051)	(7,188)	(6,221)	(33.77)	(58.64)	(49.60)	(43.04)	(76.46)
Gross Profit	12,509	6,910	9,197	9,513	1,915	66.23	41.36	50.40	56.96	23.54
Administrative Expenses	(590)	(610)	(780)	(969)	(1,165)	(3.12)	(3.65)	(4.27)	(5.80)	(14.32)
Selling & Distribution Expenses	(583)	(898)	(994)	(829)	(299)	(3.09)	(5.38)	(5.45)	(4.96)	(3.68)
Finance Cost	(2,296)	(3,159)	(3,589)	(3,472)	(2,610)	(12.16)	(18.91)	(19.67)	(20.79)	(32.08)
Other Operating Expenses	(1,019)	(244)	(387)	(510)	(218)	(5.40)	(1.46)	(2.12)	(3.05)	(2.68)
Other Operating Income	71	342	1,409	1,855	1,528	0.38	2.05	7.72	11.11	18.78
Operating Profit / (loss)	8,092	2,341	4,856	5,588	(849)	42.84	14.01	26.61	33.46	(10.44)
Share of profit / (loss) of associated co.	(57)	(25)	(39)	(18)	-	(0.30)	(0.15)	(0.21)	(0.11)	-
Re-measurement gain / (loss)	-	2,866	(121)	741	(47)	-	17.16	(0.66)	4.44	(0.58)
Profit / (loss) before Taxation	8,035	5,182	4,696	6,311	(896)	42.54	31.02	25.73	37.79	(11.01)
Taxation	(945)	(444)	(1,464)	(1,721)	656	(5.00)	(2.66)	(8.02)	(10.30)	8.06
Profit / (loss) after Taxation	7,090	4,738	3,232	4,590	(240)	37.54	28.36	17.71	27.48	(2.95)

Entity Ratings by JCR-VIS

AA- (Long Term)
A-1 (short term)

Rs. 5.0 billion TFCs
Rating AA (Long Term)

Rs. 6.5 billion PPTFCs
AA (Long Term)

Definitions:

AA-
High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A-1
High certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

AA
High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

Directors' Report to the Members

On behalf of the Board of Directors of Pakarab Fertilizers Limited, I am pleased to present the Annual Report of your Company and the audited financial statements for the year ended December 31, 2012 together with auditors' report thereon and a brief overview of financial and operational performance of the Company.

Fertilizer Market Review

Domestic fertilizer market

In 2012 unprecedented gas curtailment on the SNGPL network led to sharp decline in production on all the four plants based on this network. The partial curtailment on the plants on Mari gas field also continued and consequently they were unable to produce to their full potential. The government continued to import fertilizer above the national requirement costing the country in both foreign exchange outflow and hefty subsidy to mitigate the difference between international and local prices of Urea. By the commencement of Kharif, record inventories had piled up.

The fertilizer market in 2012, however, exhibited a mixed trend. The Nitrogen market continued to decline for the third consecutive year and Urea off-take further shrank by 12% in 2012 from 5.9 million tons to 5.2 million tons. The major shortfall up to the year-end was in Kharif. The lower acreage on BT cotton due to extended winter in early 2012 coupled with high prices of Urea and weakening of cotton prices in mid-year resulted in demand destruction. The Rabi season also commenced with weak demand in October and November but there was a year-end rally following the late announcement of the support price increase for wheat by the government. This spurred Urea purchasing with significant sales in December. On the other hand the phosphate market for DAP increased by 7% over the previous year primarily due to increased volumes in the first half of 2012-2013 Rabi season. This increase, however, was not sufficient by any measure, to recover the usage decline which commenced in 2010. The marginal improvement in DAP sales was despite the world prices of the fertilizer hovering around the USD600 per ton mark for most part of the year. Softening of DAP prices commenced in the last months of 2012, too late for any advantage to be passed on to the farmer.

Company performance

Sales of all the products were severely restricted due to record gas outages and curtailment during the year. Thus CAN sales volume declined by 64%, NP by 33% and Urea by 100% as compared to last year.

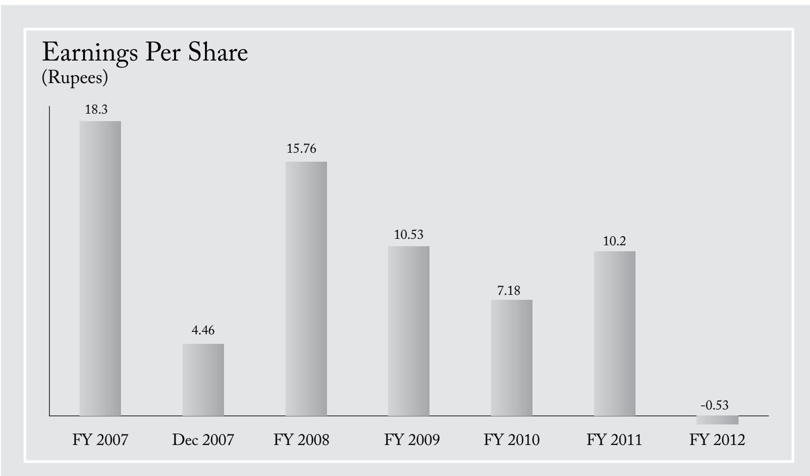
The 'Sarsabz' brand building strategy launched in 2011 continued with both product specific and portfolio communication throughout the year. Research has confirmed that our recall rates from the target audience are well above the norms for new launches in any category. Two successful farmer campaigns were run in Kharif and Rabi with positive impact on brand recognition. Our focus on the channel was to strengthen our position in the retail network, targeting the small dealer, whilst continuously growing the overall reach. This has led to consolidation of our position in the channel and establishing positions in regional markets hitherto unattended.

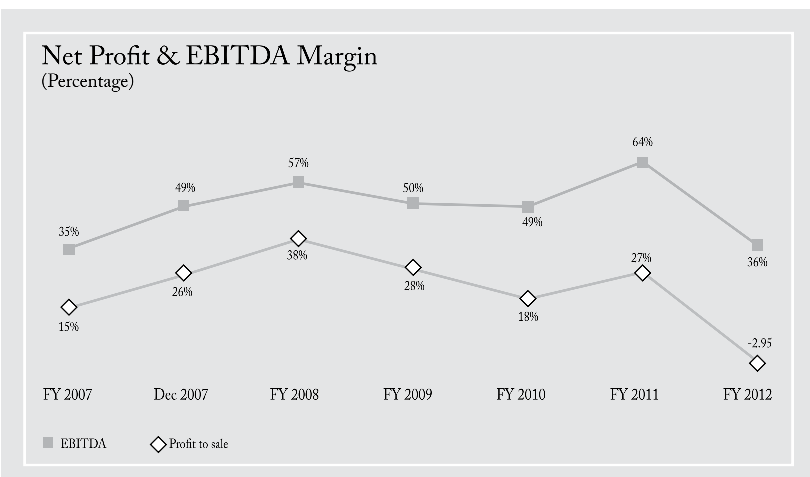
The aggressive targets set to reach the farmer were met at all levels as was the initiative to work with government agricultural institutes. The focus of our technical team was to work with farmers in areas and crops where NP and CAN had low usage. Apart from the traditional farmer visits, seminars and demonstration plots, farmer registration was initiated at the national level to leverage direct contact. Similarly extensive trials were conducted with the government agencies to demonstrate the unique benefits of our products in increasing yields and seek approval for farmer recommendation.

Financial Performance Review

Rupees in million

	December 31, 2012	December 31, 2011
Sales	8,136	16,701
Gross Profit	1,915	9,513
Finance Cost	(2,610)	(3,472)
Other Operating Income	1,528	1,855
Re-measurement of financial assets at fair value	(47)	741
Profit / (loss) after tax	(239)	4,590





The year 2012 was the most difficult year for the fertilizer industry as a whole due to hard hitting gas crisis. The curtailment/stoppage of gas during the year was highest ever since the emergence of gas crisis. Production budgeted for 2012 could not be achieved due to gas stoppage for a period of over 291 days. Excessive import of urea also affected the margins of fertilizer industry.

Management adopted various measures to minimize its expenses including financial cost which remained lower as compared to last year by around Rs. 862 million.

Directors' Report to the Members

Appropriations

Appropriations during the year were as follows:

Rupees in million

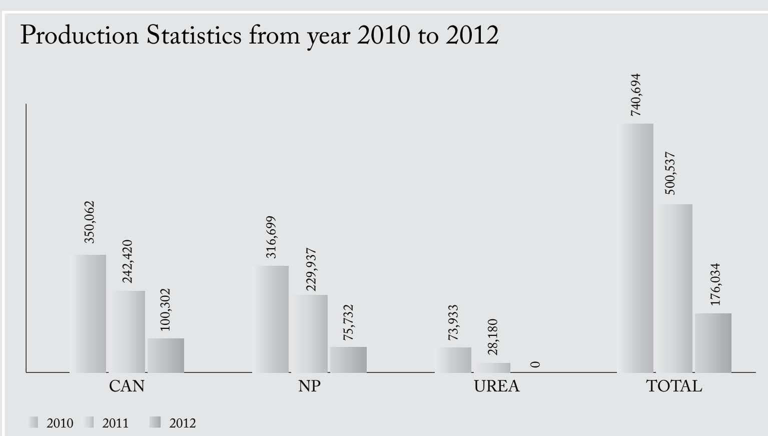
	General reserve	Un-Appropriated Profit
Balance as at December 31, 2011	2,098	3,616
Total Comprehensive Loss for the year		(76)
Specie dividend for the year 2012		(2,206)
	2,098	1,334

Operational Review

The product wise fertilizer production during the period as compared to last corresponding period is as under:

Products	Jan. 12 to Dec. 12			Jan. 11 to Dec. 11			Variance		
	Production, M. Tons		Nutrient M. Tons	Production, M. Tons		Nutrient M. Tons	Production, M. Tons		Nutrient M. Tons
	Actual	Budget		Actual	Budget		Actual	Budget	
Calcium Ammonium Nitrate (CAN)	100,302	270,108	26,079	242,820	323,995	63,133	(142,518)	(53,887)	(37,054)
Nitro Phosphate (NP)	75,732	230,433	31,807	229,937	310,635	96,574	(154,205)	(80,202)	(64,767)
Urea	-	15,840	-	28,180	94,600	12,963	(28,180)	(78,760)	(12,963)
TOTAL	176,034	516,381	57,886	500,937	729,230	172,670	(324,903)	(212,849)	(114,784)

CAN, NP and Urea production remained 37%, 33% and 0% of the budgeted target with total fertilizer production standing at 34% of the target production. Production remained below target mainly due to gas outages and continued natural gas curtailment (throughout the year) from SNGPL.



Post Balance Sheet Events

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements.

Contribution to National Exchequer and Economy

The Company's contribution to the National Exchequer by way of taxes, levies, excise duty and sales tax amounts to Rs. 1,703 million as against Rs. 2,366 million last year.

Statement as to the Value of Investments of Provident and Gratuity Funds

The funded retirement benefits of the employees of the company are audited at regular intervals and are adequately covered by appropriate investments. The value of the investments of the two provident funds and gratuity fund aggregated to Rs. 253.55 millions. According to actuarial valuation, Fair value of the assets of the funded defined benefit gratuity plan for both management & non-management staff is Rs. 82.10 millions as on December 31, 2012.

Values & Behaviors

"Culturing the Business DNA"

Last year, your Company defined its 7 core business values and their relevant behaviors. These are the values that Pakarab Fertilizer epitomize, and are reflected in all ways of working.

Pakrab Fertilizers Core Values

- Integrity
- Innovation
- Teamwork
- Safety, Health, Environment & CSR
- Customer Focus
- Excellence
- Valuing People

During a rich process of discussion and debate, the Company measured and described the values that are held critical in its operations. These values provide a clear and concise direction that all stakeholders namely shareholders, employees, customers and society can understand and identify with.

After defining the 7 Core Business Values and their relevant behaviors, Pakarab Fertilizers entered into the next phase; the embedding of the plan. In order to bring these values to life, the embedment plan was formally initiated; all the business functions nominated Value Champions who conducted workshops and initiated discussion sessions on the importance of values and how they can be effectively incorporated into the business DNA. With an aim to keep the embedding uniform, the same strategy was adopted across all business operations.

Furthermore, a Business Strategy Review Committee has been formed which will evaluate and take required action on the feedback provided by the Value Champions.

Strongly believing in the fact that core values are central to the long term plan of an organization, your Company is making all possible efforts of smooth implementation of the Pakarab Fertilizers Values.

Corporate Social Responsibility

Your Company is a socially responsible corporate entity with a goal to support the development of the communities in which it operates. We ensure that as the Company's business grows, the communities around it also grow. Playing its role in promoting sustainable growth and making a positive impact on the local economies, your Company has not just honored its previous commitments, but taken new initiatives in various areas to fulfill its responsibilities towards the community and the country. Details of such initiatives are as under.

- **LUMS-National Outreach Program (NOP)**

  Further to last year's commitment to the institution, LUMS, your Company enhanced the number of NOP scholarships from 4 to 8 in 2012 and paid Rs. 600,000 towards this cause. The objective of the LUMS NOP program which was launched in 2001 is to provide free of cost education to the deserving youth of Pakistan.

- **Infrastructural Support of LUMS**

  An amount of Rs. 2 million has been contributed for infrastructure development at LUMS Suleman Dawood School of Business. An auditorium has been built and regular classes are being conducted.

- **Pakarab Fertilizers Limited – Representation in the Board of Governors, National Management Foundation (NMF), parent body of LUMS.**

  Your Company's CEO, Mr. Fawad Ahmed Mukhtar, has been selected as a member of Board of Governors; National Management Foundation (NMF), the parent body of LUMS. The National Management Foundation (NMF) was incorporated in November 1984 and was granted a charter by the Government of Pakistan for establishing the University in March 1985.

  The Board of Governors of the NMF, being the sponsors of LUMS, raises the necessary funds for the University's operations and meets its infra-structure requirements. Members of the Board of Governors of the NMF are representatives of the business community and form a crucial link between the University and the business world.

  Being a responsible citizen, your Company strongly believes in supporting the development of the country, be it in the form of nurturing talent, sustaining the environment, or any other way.

- **Scholarship Program at UET Lahore; Furthering the cause of education through Talent Development**

  In its commitment of developing national talent, your Company initiated a scholarship program to support deserving students in achieving higher education. For this an agreement was signed with The University of Engineering and Technology, Lahore. Under the agreement Pakarab Fertilizers Limited will support 4 students every year (two students from Chemical and one each from Mechanical and Electrical Engineering disciplines).

  Established in 1921, UET is the oldest Engineering Institute and ranked number 1 in Public Sector Engineering University in Pakistan.

Other CSR Initiatives:

The Company has further donated Rs. 5 million towards the following charitable institutions/causes:

Imkan Welfare Organization
Multan Diabetic Foundation
Patient Welfare Society
Shaukat Khanum Memorial Trust
Sindh Institute of Urology &Transplantation
The Patients' Behbud Society for

Directors' Report to the Members

AKUH
Water scheme at Mines site
Aga Khan Education Board for Karimabad
Forestation Activities
Industrial homes

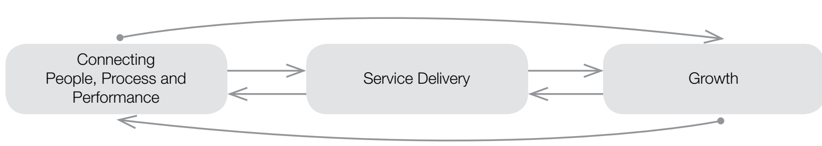
Human Resource Management

Your Company strongly believes in growing business by growing people. Your Company fully understands the importance of skilled and developed human resource towards the success of any organization. Hence, following the best practices, your Company undertook various steps to add value to its current HR practices and structure.

- **Introducing HR Service Delivery**

  I believe your Company has achieved a milestone by introducing HR services delivery in the business in 2012, which is the core of human resources. This domain will allow the Company to leverage economies of scale by consolidating resources and streamlining processes through effective use of technology and a simplified hierarchy of service delivery. In addition, it will lower the HR's administrative burden, freeing HR professionals to devote time to strategic and value-added activities.

  HR service delivery is not merely a way to get pay benefits and other services to employees. Rather, its a method for helping an organization meet a variety of key business and financial goals. When properly planned and executed, good HR service delivery advances the overall goals of the organization and helps free HR to offer a higher level of value to the organization.



- **Advancing technologically**

  The year 2012 marks your Company's transition towards embracing a paper free environment. "Online Performance Management System" was launched across the Company. Performance Management is the corner stone of every organization as it provides means to assess and manage contribution, performance and development of each and every individual. Having an online Performance Management System will not only centralize your Company's data by providing easy access to individuals but would also allow to keep a check on the deadlines thereby increasing the process efficiency. Such facilities will put the Company at par with the best practices followed across the globe.

- **Performance Management**

  The aim of this policy is to foster a performance driven culture, which values the contribution of your company's employees.

- **Mid-Year Performance Review**

  In connection with inculcating a performance based culture, the Company launched a Mid-Year Performance Review in June 2012 to CONNECT as teams, REVIEW the annual objectives and REALIGN the annual objectives, if so required. This platform also provided an opportunity to identify Key Development Needs in Functional or Soft skills.

  The Mid-Year Review aims at recognizing the employee's progress and accomplishments and reinforce the path to goal achievement, commend high performers and devise an action plan for under performers and to develop a performance driven culture, which supports and values employee contribution across the board.

Defining Roles

Your Company is committed to enhancing human capital development and a number of wide ranging initiatives were undertaken in 2012 in the context of Organizational Development.

HR Policies

The following policies pertaining to strategic organizational development were developed, approved and implemented during the year 2012:

- **Career Progression**

  This policy is designed to provide our employees an equal opportunity to continuously build their capabilities and thus grow to their maximum potential.

  Other polices such as; Succession Planning are in the development phase and will be completed by the first quarter of 2013.

The policies in question have been developed in order to ensure open communication, ascertain transparency in HR procedures and as a significant step towards employee engagement.

Job Description/Role Clarification

A comprehensive Role Clarification initiative has been concluded across the board. The primary objective of this detailed exercise was to assess the job size of key Management Roles in each department across the Business. The aim is to develop comprehensive Job Descriptions for unique benchmarked positions within every function.

Adhering to international best practice, are a clear and concise representation of the knowledge, skills, accountabilities & KPIs associated with each role.

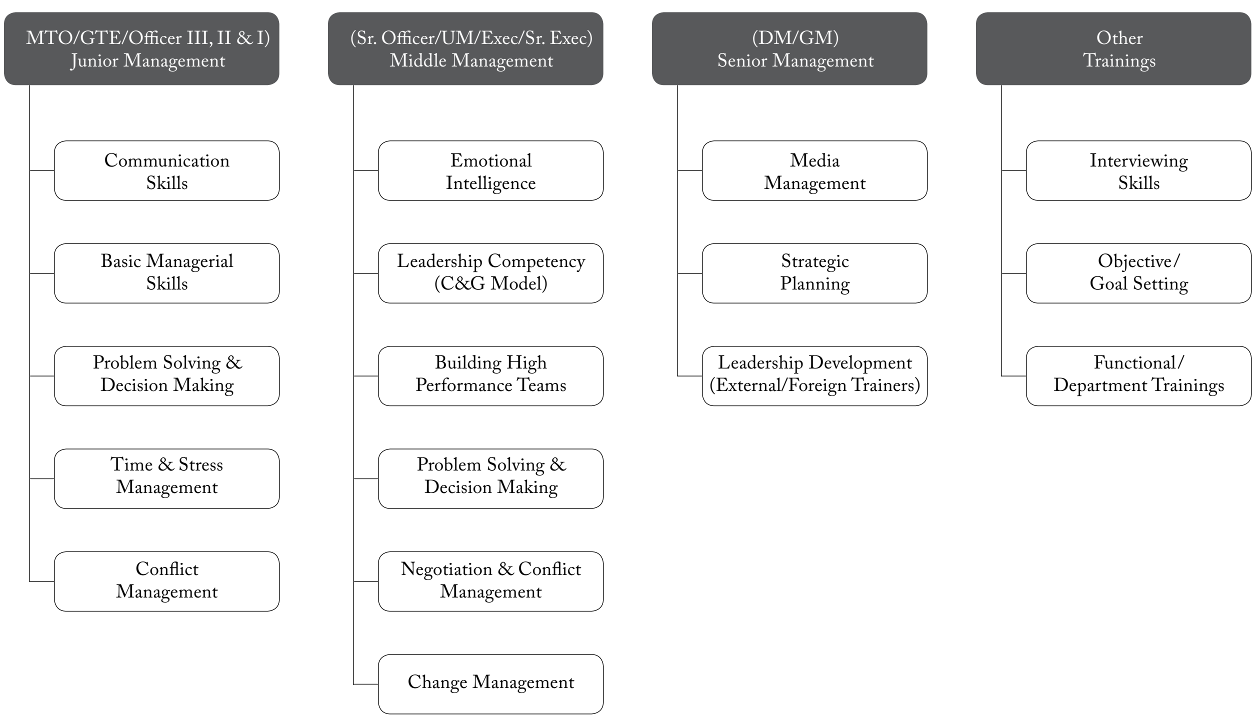
HR Process Maps and Forms

In addition to the above, operational HR processes have been mapped, thereby ensuring consistency, adherence and effective administration. Along with this, all HR forms have been revamped based on best practice and customized to Company needs with a view to simplify processes and enhance service delivery.

- **Capability Building**

  Our employees are our brand ambassadors. Pakarab Fertilizer wants to develop a skilled work force that can achieve organizational as well as individual goals. The diagram below depicts the framework developed to accomplish this task.

Capability Building Framework



Directors' Report to the Members

Training and Development

In its commitment to investing in human capital, a number of trainings were conducted by your Company this year.

Soft Skills Trainings

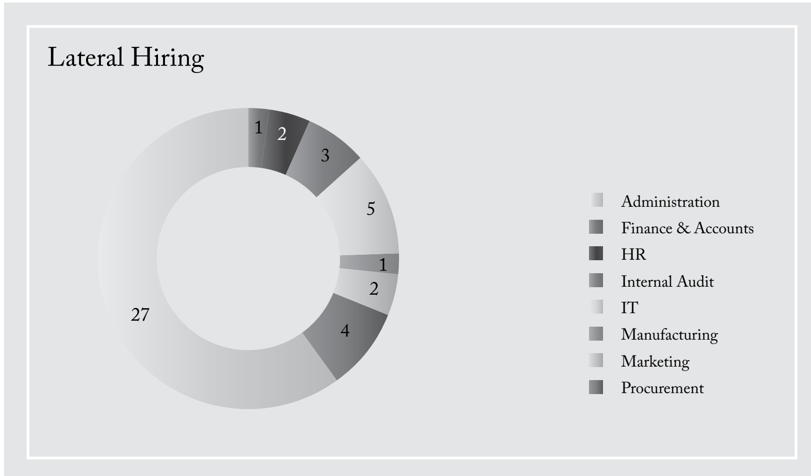
Communication Skills
Customer Services
HIRE THE BEST – Interviewing Skills
Leadership Excellence
Leadership the 8th habit
Managerial Skills

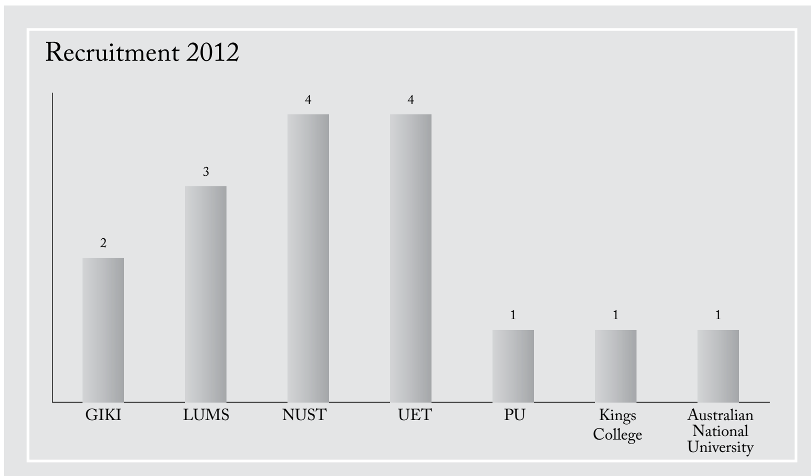
Functional Trainings

Personal Effectiveness
Selling skills
Dreaded Appraisal
Effective Financial Presentations
EQ
Excellence in Excel
Finance for Non-Financial Management
Human Capital Measurement
Internationally Certified Supply Chain
Lead Auditor
Leadership Care & Growth Practitioner
Proactive Recruitment
Return on Training Investment
Risk Based Audit
Risk Management
Service Delivery
Smart Objectives
Training Evaluation and ROI Assessment
Media Management
Project Management
Management Innovation Program
Professional Personal Assistant

Total Trainings Held: 80
Total Training Days: 268
Total Training Man hours: 17152
Total Training Man Days: 2144
Total % of manpower trained (Non-unique): 203%
Total Number of Management employees:
PFL: 417

178 shared resources





Recruitment 2012

Pakarab Fertilizers aspires to be the employer of choice. 2012 has been an amazing year for the Company as far as far recruiting young talent is concerned. Your Company takes pride in providing Pakistan's top talent with the opportunities and trainings they require to nurture their skills and add to their professional growth development.

The Company conducted campus drives in leading institutions like LUMS, IBA, LSE, NUST, NED, UET, GIK and Punjab University to identify potential Management Trainee Officers (MTOs) and Graduate Trainee Engineers (GTEs) who were finally brought on board after a rigorous and competitive hiring process.

Happy people-Engaged employees

I feel very proud in sharing that Pakarab Fertilizers Limited provides a safe, happy, comfortable and appealing work environment. That is precisely the reason why the attrition rate at your Company is well below the market. PFL treats its employees like family. Hence happy and engaged employees; resulting in better productivity.

Information Technology Review

After successful upgrade of the core Oracle ERP system last year, in 2012 many additional Oracle modules were implemented which included:

-- Oracle Process Manufacturing (OPM) – OPM was implemented to provide consistency throughout the production cycle by providing tight control over ingredients and processes along with complete visibility of plant operations.

-- Oracle Enterprise Asset Management (eAM) – eAM was implemented with the objective of automation of manual stand-alone maintenance systems. It also helps in managing the full asset life lifecycle resulting in improvement of organization's performance.

-- Oracle Payroll – It is a high-performance; graphical, rules-based payroll management system that is designed to keep pace with the changing needs of the organization and has reduced the set-up costs and administrative time.

-- Oracle Performance Management – It has provided the management a robust functionality of aligning the objectives and goals of employees to the organizational goals and improving strategy execution.

Along with the introduction of above modules, after successful launch of EDN and WAN Regional Sale Offices were brought online. It helped in online data entry of sale transactions in integrated Oracle Sales System resulting in reduction of administrative time, efficient cash flow processing and providing segregation of duties and better controls.

On the IT Security and Infrastructure side, Enterprise Data Network (EDN) connecting various sites (Head Office, Site, Regional Offices, Warehouses etc.) over Secure MPLS WAN cloud was successfully made live in 2012. EDN has helped in establishing a secure Data Network Infrastructure for all the locations and acts as the information backbone of the organization, on which all traffic (voice, data, video, etc.) is managed while providing streamlined operations, creating a resilient and low-latency network with high quality end-user experience. Wide Area Network (WAN) is the part of EDN and forms all the physical media links required to connect the sites.

Centralized Authentication Services along-with consolidation of Internet Services was also successfully accomplished in 2012. The Centralized Authentication Services provide secure logging mechanism for all users at various sites while ensuring confidentiality, integrity and availability triad. Furthermore, Internet Usage is now being managed centrally using state of art perimeter protection suites and centralized policies are being applied across the users at various sites.

In addition the Enterprise Email Services with Microsoft Exchange 2013 was also successfully launched during the year. It provides robust and efficient email system for the users. New email setup brought a new rich set of technologies, features, and services while lowering the total cost of ownership.

Code of Corporate Governance

The Board and management are committed to ensure that requirements of the Code of Corporate Governance are fully met. The Company has adopted good Corporate Governance practices with an aim to enhance the accuracy, comprehensiveness and transparency of financial and non-financial information. Pursuant to and in compliance with clause (xvi) of the Code of Corporate Governance, the Directors are pleased to report that:

a) The financial statements, prepared by the management of the Company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;

b) Proper books of account of the Company have been maintained;

c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;

d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements;

e) The system of internal control is sound in design and has been effectively implemented and monitored; and

f) There are no significant doubts upon the Company's ability to continue as a going concern.

Changes in the Board

During the year under review, the directors of your Company completed their tenure in office. Election of directors was held on December 31,

Directors' Report to the Members

2012 and all the existing directors were re-elected for the next term of three years commencing from January 01, 2013 to December 31, 2015.

Board and Committees' Meetings and Attendance

During the year under review, seven meetings of the Board of Directors and four meetings of the Audit Committee were held from January 01, 2012 to December 31, 2012. The attendance of the Board and Committee members was as follows:

Audit Committee Meetings

Name of Director	Board Meetings	Audit Committee Meetings
Mr. Arif Habib	7	N/A
Mr. Fawad Ahmed Mukhtar	7	N/A
Mr. Fazal Ahmed Sheikh	7	4
Mr. Faisal Ahmed Mukhtar	2	N/A
Mr. Rehman Naseem	2	3
Mr. Abdus Samad	3	N/A
Mr. Muhammad Kashif Habib	6	4
Mr. Nasim Beg	4	3

The leave of absence was granted to the members not attending the Board and Committee meetings.

Pattern of Shareholding

The detailed pattern of the shareholding and categories of shareholders of the Company as at December 31, 2012, as required under the listing regulations, have been appended to the Annual Report on page 154.

Trading in Shares of the Company by Directors and Executives

The shares of the Company are not listed on any stock exchange so the Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any trade in the shares of the Company.

Financial Highlights

Key operating and financial data of previous years has been summarized on page 15.

Audit Committee

The Audit Committee of the Board continued to perform its duties and responsibilities effectively as per its terms of reference duly approved by the Board. The committee composition and its terms of reference have also been attached with this report.

Corporate and Secretarial Compliance

The Company Secretary has furnished a Secretarial Compliance Certificate as part of the annual return filed with the registrar of Companies to certify that the secretarial and corporate requirements of the Companies Ordinance, 1984, Memorandum and Articles of Association of the Company and the listing regulations have been duly complied with.

Code of Conduct

As per the Corporate Governance guidelines, the Company has prepared a Code of Conduct and communicated throughout the Company apart from placing it on the Company's website.

Auditors

M/s A.F.Ferguson & Company Chartered Accountants Lahore, retiring auditors of the Company, being eligible offer themselves for re-appointment. The Board Audit Committee and the Board of Directors have recommend their re-appointment by the shareholders at the 40th Annual General Meeting, as auditors of the Company for the year ending December 31, 2013 at a fee to be mutually agreed.

Future Outlook

Your Company is continuously engaged with the Ministry of Petroleum for the fair treatment to the fertilizer industry in respect of gas curtailment needs of the Government. In this regard various steps have been taken-up by the industry and Government. ECC has approved solutions for the resolution of this issue. Moreover, ECC has approved in principle the proposal of the petroleum ministry to allocate new gas supply from existing or new discoveries to the fertilizer industry, especially the plants which are on the SNGPL system but lying closed due to suspension of gas supply.

In accordance to this plan, different gas fields of total 202 MMCFD gas capacity have been identified as gas supply sources for four fertilizer plants. Industry is in the process of establishing dedicated transmission system, as a common header, for transportation of natural gas to the respective fertilizer plants.

While the above stated infrastructure development will take time, a short-term plan has also been proposed (as mentioned above) to enable the closed plants to start operations on immediate basis.

We are hopeful that the industry will be able to get out of this crisis in coming year.

Acknowledgements

The Board places on record its gratitude for the hard work and dedication of every employee of the Company. The Board also appreciates and acknowledges the assistance, guidance and cooperation of all stakeholders including the Government of Pakistan, financial institutions, commercial banks, business associates, customers and all others whose efforts and contributions strengthened the Company.

For and on behalf of Board

Sd/-
Arif Habib
Chairman

Lahore
March 21, 2013

ATTACHMENT TO THE DIRECTORS' REPORT

TO ALL MEMBERS OF THE COMPANY

Dear Sir/Madam,

ABSTRACT OF THE TERMS OF APPOINTMENT UNDER SECTION 218 OF THE COMPANIES ORDINANCE, 1984

In pursuance of section 218 of the Companies Ordinance, 1984, this is to inform you that the Board of Directors of the Company on December 31, 2012 has reappointed Mr. Fawad Ahmed Mukhtar as Chief Executive Officer of the Company for the next three years commencing from January 01, 2013 to December 31, 2015 without any remuneration. The Chief Executive Officer shall be entitled to all the rights and privileges and subject to all the liabilities of the office of the Chief Executive. The Chief Executive shall carry on the day to day business and affairs of the Company in consultation with the Board of Directors in accordance with the provisions of the Memorandum and Articles of Association of the Company. The executive director, Mr Fazal Ahmed Sheikh shall also serve without any remuneration.

MEMORANDUM UNDER SECTION 218 OF THE COMPANIES ORDINANCE, 1984

Mr. Fawad Ahmed Mukhtar and Mr Fazal Ahmed Sheikh are concerned/ interested in fixation of of their remuneration to the extent mentioned above and upto the extent of their shareholdings in Pakarab Fertilizers Limited. No other directors are concerned/interested in this respect.

Statement of Compliance
with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in listing regulations of Karachi Stock Exchange Limited 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 CCG 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:

Category	Names
Executive Directors	1. Mr Fawad Ahmed Mukhtar 2. Mr Fazal Ahmed Sheikh
Non-Executive Directors	1. Mr Arif Habib 2. Mr Nasim Beg 3. Mr Faisal Ahmed Mukhtar 4. Rehman Naseem 5. Mr Muhammad Kashif Habib 6. Mr Abdus Samad

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

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. No casual vacancy occurred on the Board during the year.

5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

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, other executive and non-executive directors, 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 in-house one training program for its directors during the year to acquaint them with the Code. Further, one director, Mr Muhammad Kashif Habib has obtained certification of the Pakistan Institute of Corporate Governance.

10. No new appointment of CFO, Company Secretary and Head of Internal Audit were made after the revised CCG has taken effect. However, the board has approved their appointment, remuneration and terms and conditions of employment.

11. The directors' report for this year has been prepared in compliance with the requirements of the CCG 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 CCG.

15. The board has formed an Audit Committee. It comprises four members, of whom three are non-executive directors and the chairman of the committee is a non-executive director.

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

17. The board has formed an HR and Remuneration Committee. It comprises four members, all of whom are non-executive directors and the chairman of the committee is a non-executive director.

18. The board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, 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 the ICAP.

20. 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.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange.

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.

23. We confirm that all other material principles enshrined in the CCG have been complied with.

Fawad Ahmed Mukhtar
Chief Executive Officer

Place: Lahore
Date: March 21, 2013

Financial Statements of

Pakarab Fertilizers Limited

for the year ended December 31, 2012

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pakarab Fertilizers Limited ('the company') to comply with the Listing Regulations No. 35 of The Karachi Stock Exchange (Guarantee) Limited, 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, Sub-Regulation (x) of Listing Regulation No. 35 of Karachi Stock Exchange (Guarantee) Limited requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee.

We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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, 2012.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: March 21, 2013

Engagement Partner: Muhammad Masood

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakarab Fertilizers Limited ('the company') as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement 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 ;

- **(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, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2012 and of the loss, total comprehensive loss, changes in equity and its cash flows 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 the Central Zakat Fund established under Section 7 of that Ordinance.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: March 21, 2013

Engagement Partner: Muhammad Masood

Balance Sheet
as at December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
1,000,000,000 (2011: 1,000,000,000)			
ordinary shares of Rs 10 each		10,000,000	10,000,000
Issued, subscribed and paid up share capital			
450,000,000 (2011: 450,000,000)			
ordinary shares of Rs 10 each	5	4,500,000	4,500,000
Share deposit money	6	-	200,000
Reserves	7	3,432,253	5,714,040
		7,932,253	10,414,040
SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS	8	11,964,238	11,942,294
NON-CURRENT LIABILITIES			
Long term finances - secured	9	4,559,279	8,484,223
Import bill payable - secured	10	1,488,400	1,796,000
Liabilities against assets subject to finance lease	11	49,678	138,018
Long term deposits	12	46,180	47,345
Deferred liabilities	13	114,840	90,684
Deferred taxation	14	10,922,741	10,967,290
		17,181,118	21,523,560
CURRENT LIABILITIES			
Current portion of long term liabilities	15	4,877,123	6,335,181
Short term borrowings - secured	16	5,814,085	4,643,806
Payable to Privatization Commission of Pakistan	17	2,197,901	2,197,901
Derivative financial instruments	18	714	-
Trade and other payables	19	3,224,946	3,120,353
Accrued finance cost	20	365,673	677,086
Dividend payable		1,078,200	3,755,250
Provision for taxation		-	731,455
		17,558,642	21,461,032
CONTINGENCIES AND COMMITMENTS	21		
		54,636,251	65,340,926

The annexed notes 1 to 50 form an integral part of these financial statements.

Chief Executive

	Note	2012	2011
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	22	37,290,256	37,937,267
Assets subject to finance lease	23	121,126	229,382
Intangible assets	24	149,073	161,000
Goodwill	25	3,305,163	3,305,163
Investments	26	261,910	130,482
Long term loans - unsecured	27	-	4,515,565
Security deposits		60,409	57,036
		41,187,937	46,335,895
CURRENT ASSETS			
Stores and spare parts	28	3,023,106	2,583,273
Stock-in-trade	29	1,733,871	2,057,363
Trade debts	30	570,992	890,573
Advances, deposits, prepayments and other receivables	31	6,042,228	5,299,913
Derivative financial instruments	18	-	18,756
Investments	32	1,084,160	7,358,830
Cash and bank balances	33	993,957	796,323
		13,448,314	19,005,031
		54,636,251	65,340,926

Director

Profit and Loss Account
for the year ended December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
Sales	34	8,136,158	16,700,794
Cost of sales	35	(6,221,309)	(7,188,147)
Gross profit		1,914,849	9,512,647
Administrative expenses	36	(1,164,607)	(968,729)
Selling and distribution expenses	37	(299,050)	(828,717)
		451,192	7,715,201
Finance cost	38	(2,610,043)	(3,472,405)
Other operating expenses	39	(218,131)	(510,568)
		(2,376,982)	3,732,228
Other operating income	40	1,528,566	1,855,015
Share of loss of associate		-	(17,612)
(Loss)/gain on re-measurement of financial assets at fair value through profit or loss		(47,120)	741,050
(Loss)/profit before taxation		(895,536)	6,310,681
Taxation	41	655,748	(1,720,542)
(Loss)/profit for the year		(239,788)	4,590,139
(Loss)/earnings per share in Rupees	42	(0.53)	10.20

The annexed notes 1 to 50 form an integral part of these financial statements.

Chief Executive

Director

Statement of Comprehensive Income
for the year ended December 31, 2012

	2012	2011
	(Rupees in thousand)	
(Loss)/profit for the year	(239,788)	4,590,139
Other comprehensive income		
Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	163,901	227,734
Total comprehensive (loss)/income for the year	(75,887)	4,817,873

The annexed notes 1 to 50 form an integral part of these financial statements.

Chief Executive

Director

Statement of Changes in Equity
for the year ended December 31, 2012

	Share capital	Share deposit money	Revenue reserves General reserve	Revenue reserves Unappropriated profit	Total
			(Rupees in thousand)		
Balance as on January 01, 2011	4,500,000	200,000	4,995,352	2,553,104	12,248,456
Profit for the year	-	-	-	4,590,139	4,590,139
Other comprehensive income for the year: Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	-	-	-	227,734	227,734
Total comprehensive income for the year	-	-	-	4,817,873	4,817,873
Specie dividend to equity holders of the company	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Total contributions by and distributions to owners of the company recognised directly in equity	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Balance as on December 31, 2011	4,500,000	200,000	2,098,313	3,615,727	10,414,040
Loss for the year	-	-	-	(239,788)	(239,788)
Other comprehensive income for the year: Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	-	-	-	163,901	163,901
Total comprehensive loss for the year	-	-	-	(75,887)	(75,887)
Share deposit money refunded		(200,000)	-	-	(200,000)
Specie dividend to equity holders of the company	-	-	-	(2,205,900)	(2,205,900)
Total contributions by and distributions to owners of the company recognised directly in equity	-	(200,000)	-	(2,205,900)	(2,405,900)
Balance as on December 31, 2012	4,500,000	-	2,098,313	1,333,940	7,932,253

The annexed notes 1 to 50 form an integral part of these financial statements.

Chief Executive

Director

Cash Flow Statement
for the year ended December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	43	2,054,616	8,090,550
Finance cost paid		(2,921,456)	(3,445,470)
Taxes paid		(257,656)	(581,191)
Retirement benefits paid		(54,076)	(41,345)
Net cash (outflow)/inflow from operating activities		(1,178,572)	4,022,544
Cash flows from investing activities			
Purchase of property, plant and equipment		(423,517)	(637,189)
Purchase of intangible assets		(1,843)	-
Security deposits		(11,369)	(12,018)
Sale proceeds of property, plant and equipment disposed		64,648	26,581
Investments made		(128,096)	(103,133)
Investments redeemed		1,800,000	-
Short term loan to related party		(1,300,000)	-
Loans repaid by related party		5,815,565	-
Interest received from related party		27,229	-
Preference dividend received from related party		824	-
Profit on bank deposits received		26,997	15,622
Net cash inflow/(outflow) from investing activities		5,870,438	(710,137)
Cash flows from financing activities			
Repayment of redeemable capital		(3,825,000)	(2,625,000)
Proceeds from long term loans acquired		2,000,000	1,437,836
Repayment of long term loans		(3,551,419)	(1,277,419)
Payment of liability against mining rights		-	(84,000)
Share deposit money refunded		(200,000)	-
Payment of finance lease liabilities		(88,092)	(94,454)
Net cash outflow from financing activities		(5,664,511)	(2,643,037)
Net (decrease)/increase in cash and cash equivalents		(972,645)	669,370
Cash and cash equivalents at the beginning of the year		(3,847,483)	(4,516,853)
Cash and cash equivalents at the end of the year	44	(4,820,128)	(3,847,483)

The annexed notes 1 to 50 form an integral part of these financial statements.

Chief Executive

Director

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

1. The company and its activities

Pakarab Fertilizers Limited ('company') was incorporated as a private limited company in Pakistan under the Companies Act, 1913, (now Companies Ordinance, 1984). The company's status changed to a non-listed public company from June 7, 2007. The company's Term Finance Certificates are listed at the Karachi Stock Exchange (Guarantee) Limited (KSE). It is principally engaged in the manufacturing and sale of chemical fertilizers and generation and sale of Certified Emission Reductions (CERs). The address of the registered office of the company is E-110, Khayaban-e-Jinnah, Lahore Cantt. The manufacturing facility of the company is located in Multan.

These financial statements are the separate financial statements of the company. Consolidated financial statements are prepared separately.

2. Basis of preparation

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

2.2 During the current year, the company has changed the presentation of its Profit and Loss Account to bring it in line with the practice followed by major players of the local fertilizer industry. Previously, 'other operating income' was presented before 'finance cost'. However, as per new presentation, 'finance cost' has been presented before 'other operating income'. The presentation has been revised as in management's view, the new presentation provides reliable and more relevant information for the users of the company's financial statements as it is an improvement on the previous presentation. In accordance with the requirements of IAS 1 'Presentation of Financial Statements', comparative amounts have been reclassified in line with the new presentation.

2.3 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the company's financial statements covering annual periods, beginning on or after the following dates:

2.3.1 Standards, amendments and interpretations to approved accounting standards that are effective in current year

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on January 1, 2012 but are considered not to be relevant or to have any significant effect on the company's operations and are, therefore, not detailed in these financial statements.

2.3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the company

There are certain standards, amendments to the approved accounting standards and interpretations that are mandatory for the company's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or to have any significant effect on the company's operations and are, therefore, not detailed in these financial statements except for the following:

- IAS 19, 'Employee Benefits' (effective for periods beginning on or after January 1, 2013). The impact on the company will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined liability / (asset). The company is yet to assess the full impact of the amendments.

3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention as modified by the revaluation of operating fixed assets and certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

3.2 The company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgment or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates.

a) Employee retirement benefits

The company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.2.

b) Provision for taxation

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

c) Useful lives and residual values of property, plant and equipment

The company reviews the useful lives and residual values of property, plant and equipment on 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 and impairment.

d) Estimated impairment of goodwill

The company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 25).

3.3 Changes in accounting estimates

During the year, the company's management carried out a comprehensive review of the estimated useful lives and residual values of its aircrafts and has revised the following accounting estimates:

i) Previously, the company depreciated its aircraft (Bombardier Challenger 605) over an estimated useful life of five years. Now the company charges depreciation on this aircraft over an estimated useful life of ten years from the month in which it was available for use. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in the accounting estimate, the loss before tax for the year ended December 31, 2012 would have been higher by Rs 225.401 million and carrying value of operating fixed assets as at that date would have been lower by the same amount. Consequently, due to the above change in accounting estimate, future profits before tax would reduce by Rs 225.401 million.

ii) The company has estimated the residual value of its abovementioned aircraft (Bombardier Challenger 605) and accordingly its depreciable amount has been adjusted. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had the residual value of the abovementioned aircraft not been considered for charging depreciation, the loss before tax for the year ended December 31, 2012 would have been higher by Rs 118.431 million and carrying value of operating fixed assets as at that date would have been lower by the same amount. Consequently, due to the above change in accounting estimate, future profits before tax would reduce by Rs 118.431 million.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

4. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction neither affects accounting nor taxable profit or loss. Deferred tax liabilities are generally 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 utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to other comprehensive income or equity in which case it is included in other comprehensive income or equity.

4.2 Employee retirement benefits

The main features of the schemes operated by the company for its employees are as follows:

(a) Defined benefit plan - Gratuity

The company operates an approved funded gratuity scheme for all permanent employees. Annual provision is made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits.

The latest actuarial valuation for the gratuity scheme was carried out as at December 31, 2012. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

- Discount rate 11 % per annum
- Expected rate of increase in salary level 10% per annum
- Expected rate of return 12.50% per annum

The company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employee Benefits".

(b) Defined contribution plan - Provident Fund

There is an approved defined contributory provident fund for all permanent employees. Equal monthly contributions are made both by the company and employees to the fund at the rate of 8.33 percent of salary for the executives and 10 percent of salary for the workers.

(c) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

Retirement benefits are payable to employees on completion of prescribed qualifying period of service under these schemes.

4.3 Property, plant and equipment

4.3.1 Operating fixed assets

Operating fixed assets except freehold land, buildings on freehold land, railway siding, plant and machinery and tools and other equipment are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at revalued amount less any identified impairment loss while buildings on freehold land, railway siding, plant and machinery and tools and other equipment are stated at revalued amount less accumulated depreciation and any identified impairment loss. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value. Revalued amount has been determined by an independent professional valuer on the basis of present market value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Cost in relation to other operating fixed assets signifies historical cost, gains and losses transferred from other comprehensive income on qualifying cash flow hedges as referred to in note 4.12.

Increases in the carrying amount arising on revaluation of operating fixed assets are credited to surplus on revaluation of operating fixed assets. Decreases that offset previous increases of the same assets are charged against this surplus, all other decreases are charged to profit. Each year the difference between depreciation based on revalued carrying amount of the asset (the depreciation charged to the profit) and depreciation based on the assets' original cost is transferred from surplus on revaluation of operating fixed assets to other comprehensive income. All transfers to/from surplus on revaluation of operating fixed assets are net of applicable deferred taxation.

Depreciation on operating fixed assets is charged to profit on the straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates given in note 22.1 after taking into account their residual values. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to operating fixed assets is charged from the month in which the asset is available for use, while no depreciation is charged for the month in which the asset is disposed off.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.5).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.3.2 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to operating fixed assets as and when these are available for use.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

4.4 Intangible assets

4.4.1 Computer software

Expenditure incurred to acquire computer software is capitalised as intangible asset and stated at cost less accumulated amortisation and any identified impairment loss. Computer software is amortised using the straight line method over a period of four years.

Amortisation on additions to computer software is charged from the month in which the asset is available for use while no amortisation is charged for the month in which the asset is disposed off.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.5).

4.4.2 Mining rights

Expenditure incurred to acquire mining rights is capitalised as intangible asset and stated at cost less accumulated amortisation and any identified impairment loss. Mining rights are amortised using the straight line method over a period of ten years.

Amortisation on additions to mining rights is charged from the month in which the asset is available for use while no amortisation is charged for the month in which the asset is disposed off.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.5).

4.5 Impairment of non-financial assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4.6 Leases

The company is the lessee.

4.6.1 Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. At inception finance leases are capitalised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 11. The liabilities are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method at the rates given in note 23. Depreciation of leased assets is charged to profit.

Depreciation on additions to leased assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

4.6.2 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.7 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of the company, by Reliance Exports (Private) Limited at the date of acquisition i.e. July 14, 2005.

Goodwill is tested annually for impairment and carried at its carrying value as at June 30, 2007 less any identified impairment losses. Impairment losses on goodwill are not reversed.

4.8 Investments

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

4.8.1 Investment in equity instruments of subsidiary

Investments in equity instruments of subsidiary are designated upon initial recognition as 'financial assets at fair value through profit or loss' or 'available for sale financial assets'. In case of financial assets at fair value through profit or loss, these are initially recognized at fair value while in case of available for sale financial assets, these are initially recognized at fair value and associated directly attributable acquisition costs. Subsequently, these are measured at fair value unless in case of available for sale financial assets whose fair value cannot be measured reliably, these are carried at cost. For investments having quoted price in active market, the quoted price represents the fair value. In other cases, fair value is measured using appropriate valuation methodology.

Gains and losses on subsequent re-measurements of financial assets at fair value through profit or loss are included in the profit and loss while those on re-measurement of available for sale financial assets are included in other comprehensive income. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss.

The company is required to issue consolidated financial statements along with its separate financial statements in accordance with the requirements of IAS 27 'Consolidated and Separate Financial Statements'.

4.8.2 Investment in equity instruments of associate

Investment in associate where the company has significant influence and that are not expected to be disposed off within twelve months from the balance sheet date are accounted for using equity method. It is classified as current when the company is committed to distribute the investment to the owners within twelve months from the balance sheet date and the distribution is highly probable, in which case it is stated at the carrying amount.

At each balance sheet date, the company reviews the carrying amounts of the investments in subsidiaries and associates to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. In making an estimate of recoverable amount of these investments, the management considers future dividend stream and an estimate of the terminal value of these investments. Impairment losses are recognised as expense in the profit and loss account.

Investments in subsidiaries and associates, that suffered an impairment, are reviewed for possible reversal of impairment at each reporting date. Impairment losses recognised in the profit and loss account on investments in subsidiaries and associates are reversed through the profit and loss account.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

4.9 Financial assets

4.9.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also categorised as held for trading unless they are designated as hedges. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise, they are classified as non current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise loans, advances, deposits and other receivables and cash and cash equivalents in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) Held to maturity

Financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are classified as held to maturity and are stated at amortised cost.

4.9.2 Recognition and measurement

All financial assets are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised on trade-date – the date on which the company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the company's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the company's right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the company measures the investments at cost less impairment in value, if any.

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables is described in note 4.15.

4.10 Financial liabilities

All financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit and loss account.

4.11 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.12 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates certain derivatives as cash flow hedges.

The company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in other comprehensive income are recognised in profit and loss account in the periods when the hedged item will affect profit or loss. However, when the forecast hedged transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability. The changes in fair value re-measurement of derivatives which the company has not designated as a hedging instrument are recognised in the profit and loss account. Trading derivatives are classified as a current asset or liability.

4.13 Stores and spare parts

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. For items which are slow moving and / or identified as obsolete, adequate provision is made for any excess book value over estimated realisable value. The company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

4.14 Stock-in-trade

All stocks are valued at the lower of cost and net realizable value. Cost in relation to raw and packing materials, except for those in transit, signifies weighted average cost and that relating to mid products and finished goods, annual average cost comprising cost of direct materials, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges incurred thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make the sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management estimate.

4.15 Trade debts and other receivables

Trade debts and other receivables are recognised initially at invoice value, which approximates fair value, and subsequently measured at amortised cost using the effective interest method, less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the company will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade debt is impaired. The provision is recognised in the profit and loss account. When a trade debt is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

4.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts / short term borrowings. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

4.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. Finance costs are accounted for on an accrual basis and are reported under accrued finance costs to the extent of the amount remaining unpaid.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

4.18 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

4.19 Provisions

Provisions are recognized 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 of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.20 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

4.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.22 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable on the following basis:

Revenue from sale of fertilizer products is recognized on dispatch to customers.

Revenue from sale of Certified Emission Reductions (CERs) is recognised on the generation of the Emission Reductions when a firm commitment for sale of CERs exists with a buyer.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income and entitlement of bonus shares are recognised when the right to receive such dividend and bonus shares is established.

4.23 Share capital

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax.

4.24 Dividend

Dividend distribution to the company's members is recognised as a liability in the period in which the dividends are approved.

4.25 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the company that makes strategic decisions. Disclosure relating to operating segments is presented in the consolidated financial statements.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

5. Issued, subscribed and paid up capital

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
2,791,260	2,791,260	Ordinary shares of Rs 10 each fully paid in cash	27,913	27,913
447,208,740	447,208,740	Ordinary shares of Rs 10 each issued as fully paid bonus shares	4,472,087	4,472,087
450,000,000	450,000,000		4,500,000	4,500,000

	2012	2011
	(Number of shares)	
Ordinary shares of the company held by associated undertakings as at year end are as follows:		
Reliance Commodities (Private) Limited	7,136,613	7,136,613
Fatima Sugar Mills Limited	71,250,558	71,250,558
Fazal Cloth Mills Limited	25,790,610	25,790,610
Arif Habib Corporation Limited	135,000,000	135,000,000
	239,177,781	239,177,781

6. Share deposit money

This represents contribution towards the share capital of the company against which shares had not been issued. It was contributed by a related party, Fazal Cloth Mills Limited, and has been repaid during the year. Since the company had not complied with the requirements of section 86 of the Companies Ordinance, 1984 and The Companies (Issue of Capital) Rules, 1996, hence, mark up was charged on the outstanding balance during the year at the rate of 14.47% per annum.

	2012	2011
	(Rupees in thousand)	
7. Reserves		
Revenue:		
- General reserve	2,098,313	2,098,313
- Un-appropriated profit	1,333,940	3,615,727
	3,432,253	5,714,040

8. Surplus on revaluation of operating fixed assets

This represents surplus over book value resulting from the revaluation of freehold land, buildings on freehold land, plant and machinery, railway siding and tools and other equipment, adjusted by incremental depreciation arising out of revaluation of abovementioned assets except freehold land. The valuation was carried out by independent valuers, M/s Pirsons Chemical Engineering (Private) Limited, on September 30, 2011 under current market price / appraisal methods wherever applicable for the respective assets. Surplus on revaluation of operating fixed assets can be utilized by the company only for the purposes specified in section 235 of the Companies Ordinance, 1984.

The revaluation surplus relating to abovementioned operating fixed assets excluding freehold land is net of applicable deferred income taxes. Incremental depreciation represents the difference between the actual depreciation on the abovementioned assets excluding freehold land and the equivalent depreciation based on the historical cost of these assets. The movement in revaluation surplus is as follows:

		2012	2011
		(Rupees in thousand)	
Opening balance - net of tax		11,942,294	2,475,847
Revaluation surplus during the year	- note 22.1	-	14,048,486
Deferred tax on revaluation surplus	- note 14	185,845	(4,434,012)
Surplus transferred to other comprehensive income for the year on account of incremental depreciation - net of tax		(163,901)	(148,027)
Closing balance - net of tax	- note 8.1	11,964,238	11,942,294

8.1 Includes surplus on revaluation of freehold land amounting to Rs 3,855.69 million (2011: Rs 3,855.69 million).

			2012	2011
			(Rupees in thousand)	
9.	**Long term finances - secured**			
	Redeemable capital	- note 9.1	1,625,000	4,750,000
	Long term loans	- note 9.2	2,656,946	2,375,890
	Syndicated term finance	- note 9.3	277,333	1,358,333
			4,559,279	8,484,223
9.1	**Redeemable capital**			
	This is composed of:			
	Listed Term Finance Certificates	- note 9.1.1	1,500,000	3,700,000
	Privately Placed Term Finance Certificates	- note 9.1.2	3,250,000	4,875,000
			4,750,000	8,575,000
	Less: Current portion shown under current liabilities	- note 15	3,125,000	3,825,000
			1,625,000	4,750,000
	9.1.1 Listed Term Finance Certificates			
	Opening balance		3,700,000	4,700,000
	Less: Redeemed during the year		2,200,000	1,000,000
			1,500,000	3,700,000
	Less: Current portion shown under current liabilities		1,500,000	2,200,000
			-	1,500,000

These Term Finance Certificates (TFCs) are listed on KSE.

Terms of redemption

The tenure of the TFCs is five years. The TFCs are redeemable in such a way that 6% of the principal would be redeemed in the first five semi annual installments which started from August 28, 2008 and the remaining 94% principal would be redeemed in five stepped up semi annual installments ending on February 28, 2013. The company has an option to redeem in full (Call Option) or part (Partial Call Option) of the outstanding amount without any premium by giving written notice to the Trustee at least sixty days prior to the option date. The Call Option is exercisable only on mark up payment dates.

Rate of return

The return on TFCs is payable semi-annually and is calculated at the rate of six months Karachi Inter-Bank Offered Rate (KIBOR) plus 1.5% per annum with no floor or cap. The effective mark up rate charged during the year on the outstanding balance ranges from 12.03% to 14.88% per annum.

Trustee

In order to protect the interests of the TFC holders, Pak Oman Investment Company Limited was appointed as Trustee under a trust deed dated July 05, 2007. The Trustee is paid a fee of Rs 0.75 million per annum.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

In case the company defaults on any of its obligations, the Trustee may enforce Pakarab Fertilizers Limited's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcements shall be distributed to the TFC holders at the time on a pari passu basis in proportion to the amounts owed to them pursuant to the TFCs.

Security

The TFCs are secured by a registered first ranking pari passu charge over all present and future fixed assets of the company excluding assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the lamont boiler for nitric acid.

	2012	2011
	(Rupees in thousand)	
9.1.2 Privately Placed Term Finance Certificates (PPTFCs)		
Opening balance	4,875,000	6,500,000
Less: Redeemed during the year	1,625,000	1,625,000
	3,250,000	4,875,000
Less: Current portion shown under current liabilities	1,625,000	1,625,000
	1,625,000	3,250,000

On December 15, 2009, the company converted the bridge finance of Rs 6,500 million from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) to Term Finance Certificates having unit value of Rs 5,000 each by way of private placement. As of December 31, 2012, HBL and NBP hold 400,000 units and 846,570 units respectively while the remaining 53,430 units are held by other private investors.

Terms of redemption

The tenure of the PPTFCs is from December 16, 2009 to September 1, 2014. The PPTFCs are redeemable in six semi-annual installments of Rs 812.5 million ending on September 1, 2014. The company has an option to redeem in full (Call Option) or part (Partial Call Option) of the outstanding amount without any premium by giving written notice to the Trustee at least thirty days prior to the option date. The Call Option is exercisable only on mark up payment dates.

Rate of return

The return on PPTFCs is payable semi-annually and is calculated on the outstanding balance at the rate of six months KIBOR plus 2.5% per annum. The effective mark up rate charged during the year on the outstanding balance ranges from 11.97% to 14.53% per annum.

Trustee

In order to protect the interests of the PPTFCs holders, HBL was appointed as Trustee under a trust deed dated September 01, 2009. The Trustee is paid a fee of Rs 0.75 million per annum.

In case the company defaults on any of its obligations, the Trustee may enforce Pakarab Fertilizers Limited's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcements shall be distributed to the PPTFC holders at the time on a pari passu basis in proportion to the amounts owed to them pursuant to the PPTFCs.

Security

The PPTFCs are secured by a registered first ranking pari passu charge over all present and future fixed assets of the company excluding land and buildings and lamont boiler for nitric acid, the Cessna aircraft, Clean Development Mechanism (CDM) project and carbon dioxide recovery plant / liquefaction plant.

			2012	2011
			(Rupees in thousand)	
9.2	**Long term loans**			
	These have been obtained from the following financial institutions:			
	Habib Bank Limited - Loan 1	- note 9.2.1	-	486,000
	Habib Bank Limited - Loan 2	- note 9.2.2	-	96,476
	Dubai Islamic Bank Limited	- note 9.2.3	-	262,500
	MCB Bank Limited	- note 9.2.4	688,890	1,033,334
	Standard Chartered Bank (Pakistan) Limited - Loan 1	- note 9.2.5	500,000	900,000
	Standard Chartered Bank (Pakistan) Limited - Loan 2	- note 9.2.6	833,334	-
	Faysal Bank Limited	- note 9.2.7	500,000	-
	National Bank of Pakistan	- note 9.2.8	187,500	437,500
	Pakistan Kuwait Investment Company (Private) Limited	- note 9.2.9	437,500	500,000
	PAIR Investment Company Limited	- note 9.2.10	500,000	-
	Soneri Bank Limited	- note 9.2.11	400,000	400,000
			4,047,224	4,115,810
	Less: Current portion shown under current liabilities	- note 15	1,390,278	1,739,920
			2,656,946	2,375,890

9.2.1 This has been repaid during the year. The effective markup rate charged during the year on the outstanding balance ranges from 10.51% to 15.00% per annum.

9.2.2 This has been repaid during the year. The effective markup rate charged during the year on the outstanding balance ranges from 13.40% to 14.96% per annum.

9.2.3 This has been repaid during the year. The effective markup rate charged during the year on the outstanding balance ranges from 13.95% to 15.40% per annum.

9.2.4 This represents a term loan facility and the balance is repayable in four semi annual installments of Rs 172.222 million each ending on October 23, 2014. Markup is payable semi-annually at the rate of six months KIBOR plus 0.65% per annum on Rs 533.335 million, while on the remaining Rs 155.555 million, it is payable at the rate of six months KIBOR plus 3% per annum. The effective mark up rate charged during the year on the outstanding balance of Rs 533.335 million ranges from 10.43% to 12.65% per annum, while on the outstanding balance of Rs 155.555 million, the effective markup rate charged during the year ranges from 12.78% to 15.00% per annum. It is secured by a registered first pari passu charge on all present and future fixed assets of the company excluding the assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the Lamont boiler for nitric acid.

9.2.5 This represents a term loan facility on musharika basis for capital expenditure. The balance is repayable in five quarterly installments of Rs 100 million each ending on March 15, 2014. Mark up is payable quarterly at the rate of one month KIBOR plus 1.90% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 15.24% to 16.09% per annum. The loan is secured by a registered charge over fixed assets comprising the Clean Development Mechanism (CDM).

9.2.6 This represents a term loan facility of Rs 1,000 million obtained during the year on musharika basis for capital expenditure. The tenure of the loan is three years and the balance is repayable in ten quarterly installments of Rs 83.333 million each ending on March 17, 2015. Mark up is payable monthly at the rate of one month KIBOR plus 1.75% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 11.26% to 13.85% per annum. The loan is secured by a registered first pari passu charge over the fixed assets of the company including land, building, plant and machinery.

9.2.7 This represents a term finance facility of Rs 500 million obtained during the year to finance the company's capacity expansion. It is repayable after a grace period of two years in six equal semi-annual installments of Rs 83.333 million each commencing December 14, 2014 and carries mark up at the rate of six months KIBOR plus 1.70% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 11.24% to 13.73% per annum. It is secured by a pari passu charge on all present and future movable fixed assets

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna and Bombardier Challenger aircrafts, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant and the land and buildings of the excluded assets.

9.2.8 This represents credit facility to cover debt swap of expensive debts outstanding with financial institutions. The balance is repayable in three equal quarterly installments of Rs 62.5 million each ending on September 25, 2013 and carries mark up at the rate of three months KIBOR plus 2.5% per annum, payable quarterly. The effective markup rate charged during the year on the outstanding balance ranges from 11.87% to 14.47% per annum. It is secured by a first exclusive hypothecation charge over the Cessna aircraft, pledge of ordinary shares of Fatima Fertilizer Company Limited held by the company and ranking charge over current assets excluding the receivables of CERs revenue.

9.2.9 This represents term finance facility to finance the company's capacity expansion. The balance is repayable in seven equal semi-annual installments of Rs 62.5 million each ending on June 29, 2016 and carries mark up at the rate of six months KIBOR plus 2.25% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 11.67% to 14.29% per annum. It is secured by a pari passu charge on all present and future movable fixed assets excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories.

9.2.10 This represents term finance facility of Rs 500 million obtained during the year for balance sheet restructuring and company's capital expenditure requirements. It is repayable after a grace period of eighteen months in seven equal semi-annual installments of Rs 71.428 million each commencing August 28, 2014 and carries mark up at the rate of six months KIBOR plus 2.25% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance was 12.77% per annum. It is secured by a first pari passu charge on the company's present and future fixed assets.

9.2.11 This represents term finance facility of Rs 400 million to meet the company's capital expenditure / repayment of expensive debt. It is repayable in six equal semi-annual installments of Rs 66.667 million each commencing May 2, 2014 and carries mark up at the rate of six months KIBOR plus 1.75% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 11.11% to 13.76% per annum. It is secured by a first pari passu charge on the company's present and future fixed assets including land and building and machinery excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories and the land and buildings related to these assets.

			2012	**2011**
			(Rupees in thousand)	
9.3	**Syndicated term finance**			
	This has been obtained from a consortium of the following financial institutions:			
	National Bank of Pakistan		266,333	399,500
	Habib Bank Limited		-	405,500
	United Bank Limited		238,095	357,143
	Allied Bank Limited		-	800,000
	Faysal Bank Limited		50,239	75,357
			554,667	2,037,500
	Less: Current portion shown under current liabilities	- note 15	277,334	679,167
			277,333	1,358,333

It represents a syndicated term finance facility (STFF) to finance equity investment / debt financing in Fatima Fertilizer Company Limited, a related party. The loan portion of Habib Bank Limited and Allied Bank Limited has been repaid during the year. The balance is repayable in four equal semi annual installments of Rs 138.667 million each ending on August 26, 2014. Mark up is payable semi-annually at the rate of six months KIBOR plus 2.5% per annum with no floor and no cap. The effective markup rate charged during the year on the outstanding balance ranges from 13.03% to 15.88% per annum. The facility is secured by a registered first pari passu charge on all present and future fixed assets of the company including plant and machinery, fixtures, fittings, vehicles, tools and equipment but excluding immovable property, land and buildings, Lamont Boiler for nitric acid, Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project and the complete carbon dioxide recovery plant/liquefaction plant along with carbon dioxide static storage tank, its spares, tools and accessories.

10. Import bill payable - secured

This represents deferred payment letter of credit established with Allied Bank Limited for import of an aircraft from Bombardier Inc., Canada. It is interest free and is secured through an exclusive hypothecation charge over the aircraft with all accessories, spares and parts installed or which may be installed in future.

		2012	2011
		(Rupees in thousand)	
Import bill payable [USD 24 million (2011: USD 20 million)]		2,330,400	1,796,000
Less: Current portion included in trade and other payables		842,000	-
		1,488,400	1,796,000
11. Liabilities against assets subject to finance lease			
Present value of minimum lease payments	- note 11.1	113,189	208,112
Less: Current portion shown under current liabilities	- note 15	63,511	70,094
		49,678	138,018

The minimum lease payments have been discounted at an implicit interest rate of KIBOR plus 2% to 2.5% reset at the beginning of every three or six months depending upon the terms of the lease agreement. The implicit interest rate used during the period to arrive at the present value of minimum lease payments ranges from 10.67% to 16.81%. Since the implicit interest rate is linked with KIBOR so the amount of minimum lease payments and finance charge may vary from period to period. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs and insurance costs are to be borne by the company. In case of early termination of lease, the lessee shall pay entire amount of rentals for unexpired period of lease agreement.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	Minimum lease payments	Future finance cost	Present value of lease liability	
			2012	2011
	(Rupees in thousand)			
Not later than one year	71,731	8,220	63,511	70,094
Later than one year and not later than five years	51,139	1,461	49,678	138,018
	122,870	9,681	113,189	208,112

11.1 These include a balance of Rs 0.08 million (2011: Rs 5.466 million) of a related party, Summit Bank Limited.

12. Long term deposits

These represent interest free security deposits from customers and carriage contractors and are repayable on cancellation/ withdrawal of the dealership or on cessation of the business with the company respectively.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

			2012	2011
			(Rupees in thousand)	
13.	**Deferred liabilities**			
	Accumulating compensated absences	- note 13.1	84,150	66,001
	Retirement benefits - gratuity fund	- note 13.2	30,690	24,683
			114,840	90,684

		2012	2011
13.1	**Accumulating compensated absences**		
	Opening balance	66,001	42,664
	Provision for the year	26,568	25,269
		92,569	67,933
	Less: Payments made during the year	8,419	1,932
	Closing balance	84,150	66,001
13.2	**Gratuity fund**		
	The amounts recognised in the balance sheet are as follows:		
	Present value of defined benefit obligation	115,230	88,126
	Fair value of plan assets	(82,105)	(64,824)
	Unrecognised actuarial (losses)/gains	(2,435)	1,381
	Liability as at year end	30,690	24,683
	Opening net liability	24,683	14,702
	Charge to profit and loss account	21,746	23,977
	Charge to related party	8,944	706
	Contribution by the company	(24,683)	(14,702)
	Liability as at year end	30,690	24,683
	The movement in the present value of defined benefit obligation is as follows:		
	Opening present value of defined benefit obligation	88,126	53,709
	Service cost	27,102	23,719
	Interest cost	11,016	6,982
	Benefits paid to out-going members during the year	(14,727)	(1,877)
	Experience loss	3,713	5,593
	Present value of defined benefit obligation as at year end	115,230	88,126
	The movement in fair value of plan assets is as follows:		
	Opening fair value	64,824	45,505
	Expected return on plan assets	8,104	5,916
	Company contributions	24,683	14,702
	Benefits paid to out-going members during the year	(14,727)	(1,877)
	Experience (loss)/gain	(779)	578
	Fair value as at year end	82,105	64,824
	Plan assets are comprised as follows:		
	Mixed funds	56,520	62,777
	Cash	25,585	2,047
		82,105	64,824

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

	2012	2011	2010	2009	2008
			(Rupees in thousand)		
Present value of defined benefit obligation	115,230	88,126	53,709	38,481	32,356
Fair value of plan assets	82,105	64,824	45,505	29,959	20,783
Loss	(33,125)	(23,302)	(8,204)	(8,522)	(11,573)
Experience adjustment on obligation	3%	6%	2%	-21%	5%
Experience adjustment on plan assets	-0.95%	0.89%	0.21%	2%	3%

			2012	2011
			(Rupees in thousand)	
14.	**Deferred taxation**			
	The liability for deferred taxation comprises temporary differences relating to:			
	Accelerated tax depreciation		9,912,589	10,183,663
	Accumulating compensated absences		(29,453)	(23,100)
	Provision for doubtful receivable		(3,119)	(3,119)
	Post retirement medical benefits and other allowances payable		(4,030)	(4,030)
	Assets subject to finance lease		2,778	7,444
	Interest receivable		553,828	336,500
	Preference dividend receivable		468,025	400,390
	Unrealised recovery of chemical catalyst		50,799	69,542
	Goodwill		836,155	-
	Unused tax losses		(793,934)	-
	Minimum tax available for carry forward		(70,897)	-
			10,922,741	10,967,290
	The gross movement in deferred tax liability during the year is as follows:			
	Opening balance		10,967,290	5,574,152
	Deferred tax on revaluation surplus	- note 8	(185,845)	4,434,012
	Transferred to other comprehensive income for the year on account of incremental depreciation		-	(79,706)
	Charged to profit and loss account		141,296	1,038,832
	Closing balance		10,922,741	10,967,290
15.	**Current portion of long term liabilities**			
	Long term finances - secured:			
	- Redeemable capital	- note 9.1	3,125,000	3,825,000
	- Long term loans	- note 9.2	1,390,278	1,739,920
	- Syndicated term finance	- note 9.3	277,334	679,167
	Liabilities against assets subject to finance lease	- note 11	63,511	70,094
	Payable against mining rights (overdue)	- note 15.1	21,000	21,000
			4,877,123	6,335,181

15.1 This represents interest free amount payable to Director General, Mines and Minerals, Government of Khyber Pakhtunkhwa ('GOKP') in respect of mining rights acquired for extraction of rock phosphate from a block of area in District Abbottabad for a ten years period ending on August 11, 2019. Since the balance Rs 21 million is overdue, the mining rights can be cancelled by the GOKP. However, it has pledged its investment in Defence Saving Certificates referred to in note 26.2 as security with the Director General, Mines & Minerals, GOKP as per the terms of the mining agreement.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
16. Short term borrowings - secured			
Running finances	- note 16.1	3,815,060	3,494,806
Term finances	- note 16.2	1,999,025	1,149,000
		5,814,085	4,643,806

16.1 Running finances

Short term running finance facilities available from commercial banks under mark-up arrangements amount to Rs 8,100 million (2011: Rs 7,101 million). The rates of mark-up range from 10.63 % to 14.60 % on the outstanding balance or part thereof. The aggregate running finances are secured against pledge of stock-in-trade as referred to in note 29.1 and registered hypothecation charge on current assets (excluding CER receivables) of the company. Included in the above is a running finance of Rs 400 million (2011: Rs 400 million) from a related party, Summit Bank Limited.

16.2 Term finances

Term finance facilities available from various commercial banks under profit arrangements amount to Rs 2,804 million (2011: Rs 1,149 million). The rates of profit range from 10.38 % to 12.10 % on the outstanding balance or part thereof. The aggregate term finances are secured against first pari passu charge over all current assets of the company.

16.3 Letters of credit and guarantees

Of the aggregate facility of Rs 8,214 million (2011: Rs 5,313 million) for opening letters of credit and Rs 2,350 million (2011: Rs 100 million) for guarantees, the amount utilised at December 31, 2012 was Nil (2011: Rs 652.554 million) and Rs 17 million (2011: Rs 8.846 million) respectively. The facility for opening letters of credit is secured against import documents and facility for guarantees is secured by registered joint pari passu charge over current assets.

17. Payable to Privatization Commission of Pakistan

Reliance Exports (Private) Limited ('REL'), under the terms and conditions stated in the 'Share Purchase Agreement' (the Agreement), acquired 100% shares in the company on July 14, 2005 through the process of privatization. Under the terms of the Agreement, the purchase consideration, in addition to lump sum cash payment, included a further payment equivalent to 90% of the company's claim of tax refund aggregating to Rs 2,814.511 million for the assessment years 1993-94, 1995-96 through 2002-2003 and tax years 2003 and 2004. The amount is payable to the Privatization Commission in the event of and at the time of cash receipt of the refund from the concerned tax authorities.

The amount recognized in these financial statements as payable to Privatization Commission is net off Rs 240.119 million which, according to the management of the company, has already been withdrawn by the Previous Members as part of the dividend distribution for the year ended June 30, 2005. The management of the company feels that the Agreement as presently worded, if executed, would result into double payment of the same amount to the Privatization Commission/ Previous Members, firstly, as part of the profits for the year ended June 30, 2005 (computed without recognition of the tax expense for the years for which when the refund is issued, an amount equivalent to 90% would be the right of the Privatization Commission/Previous Members) and secondly, at the time the refund is received from the tax authorities when an amount equivalent to 90% of such refund is paid off to the Privatization Commission, as agreed. The management of the company feels that such double payment is neither the intention nor warranted under the specific provisions of the Agreement.

Upon dissolution of REL and its amalgamation with the company on July 14, 2005, this liability was recognised in the books of the company being the surviving entity upon REL's amalgamation with the company in accordance with the Scheme of Arrangement for Amalgamation.

18. This represents the derivative cross currency swaps the company had entered into with various banks. Under the terms of certain cross currency swap arrangements, the company pays London Inter-Bank Offered Rate (LIBOR) plus bank spread to the arranging banks on the notional USD amount for the purposes of the cross currency swap, and receives KIBOR from the arranging banks. Similarly, under the terms of certain other cross currency swap arrangements, the company pays KIBOR to the arranging bank on the notional USD amount for the purposes of the cross currency swap, and receives LIBOR plus bank spread from the arranging bank. There has been no transfer of liability under these arrangements, only the nature of the interest payments has changed. The derivative cross currency swaps outstanding as at December 31, 2012 have been marked to market and the resulting gain of Rs 2.929 million has been recognised in the profit and loss account.

			2012	2011
			(Rupees in thousand)	
19.	**Trade and other payables**			
	Trade creditors	- note 19.1	1,345,804	906,781
	Sui gas bill payable		112,228	135,612
	Security deposits		30,160	33,333
	Accrued liabilities		375,682	424,228
	Workers' profit participation fund	- note 19.2	753,108	803,274
	Workers' welfare fund		244,046	182,545
	Customers' balances		126,282	504,011
	Bank guarantees discounted		66,348	100,968
	Due to related party	- note 19.3	133,000	-
	Due to employees' provident fund trust		6,084	5,196
	Withholding tax payable		13,999	10,549
	Electricity duty payable		16,481	12,214
	Excise duty payable		1,724	1,642
			3,224,946	3,120,353

19.1 Includes an amount of Rs 0.05 million (2011: Nil) payable to FATIMA, a related party.

			2012	2011
			(Rupees in thousand)	
19.2	**Workers' profit participation fund**			
	Opening balance		803,274	613,236
	Provision for the year	- note 39	-	290,232
	Interest for the year	- note 38	-	27,046
			803,274	930,514
	Less: Payments made during the year		50,166	127,240
	Closing balance		753,108	803,274

The company has an agreement with the Workers Welfare Fund ('WWF'), Ministry of Labour and Manpower, Government of Pakistan whereby the balance amount of Workers' Profit Participation Fund ('WPPF') remaining after deducting the workers' portion of WPPF that is required to be deposited in the WWF, would be used for establishing a hospital for the workers as per the mechanism defined in that agreement.

19.3 This amount is payable to Fazal Cloth Mills Limited.

		2012	2011
		(Rupees in thousand)	
20.	**Accrued finance cost**		
	Accrued mark-up on:		
	- redeemable capital - secured	79,805	221,873
	- long term loans - secured	61,202	89,199
	- syndicated term finance - secured	26,051	112,509
	- short term borrowings - secured	155,451	124,373
	Acceptance commission on letter of credit	43,164	129,132
		365,673	677,086

21. Contingencies and commitments

21.1 Contingencies

(i) The company has netted off an amount of Rs 240.119 million from the amount payable to the Privatization Commission, as part of purchase consideration, at the time and in the event the refund is received from the tax authorities. In case, the company's contention relating to possible double payment is not acceded to by the other party to the Share Purchase Agreement, the company is contingently liable to the aforesaid amount of Rs 240.119 million. In case, the amount becomes payable, the corresponding effect would be reflected in the computation of goodwill.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

(ii) The company has issued following guarantees in favour of:

- Sui Northern Gas Pipelines Limited against gas sale amounting to Rs 10 million (2011: Rs 8.846 million).

- Pakistan State Oil Company Limited against fuel for aircraft amounting to Rs 7 million (2011: Nil).

- Meezan Bank Limited as security against finance obtained by its subsidiary, Reliance Sacks Limited.

(iii) Indemnity bonds aggregating Rs 152.7 million (2011: Rs 354.880 million) issued to the Customs authorities in favour of The President of Islamic Republic of Pakistan under SRO 489(I)/2000 for the value of goods exported and to be re-imported.

(iv) Post dated cheques furnished by the company in favour of the Collector of Customs to cover import levies against imports aggregating to Nil (2011: Rs 150 million).

(v) As at June 30, 2004, the company had investment of 140,000 ordinary shares of Rs 10 each valuing Rs 100,000 in National Fertilizer Marketing Limited, being the associated company on that date. On May 20, 2005, this investment was transferred to National Fertilizer Corporation of Pakistan (Private) Limited by the management of the company. However, the new buyer, Reliance Exports (Private) Limited filed an application before Privatization Commission challenging this transfer on the grounds that such transfer had been carried out against the terms and conditions of the bid documents. In case of a positive outcome to the application, this investment would be re-instated.

(vi) An amount of Rs 129.169 million was withdrawn by the previous members of the company as part of dividend for the year ended June 30, 2005 under the Share Purchase Agreement. Out of the aggregate amount, Rs 89.39 million represents the value of certain catalysts recovered in consequence of clean down operations of the plant prior to undertaking the process of privatization, which was accounted for as income in the financial statements for the year ended June 30, 2005 in the light of applicable financial reporting framework.

The management of the company feels that notwithstanding the applicability of the financial reporting framework, on the financial statements for the year ended June 30, 2005, the amount was not distributable as part of dividend for that year in view of the clear understanding behind the execution of the Agreement as categorically confirmed, in writing, by the Privatization Commission prior to signing of the Agreement. Similarly, the balance amount of Rs 39.779 million is considered to be dividend distribution out of the then available reserves which was also not distributable to the previous members in terms of other covenants of the Agreement.

The company has filed a claim for the recovery of the aforesaid aggregate amount on the grounds that in the present form, the distribution has been made out of the accumulated reserves, for the years up to June 30, 2004, which, under the specific provisions of the Agreement were not distributable to the previous members of the company. In case of a positive outcome to the company's claim, the excess dividend withdrawn by the previous members of the company would be recovered.

(vii) Through a show cause notice issued recently, the department has raised the issue of short payment of output sales tax on supplies of the company's fertilizer product, Calcium Ammonium Nitrate ('CAN') for the period from April 18, 2011 to December 31, 2011 involving a principal sales tax demand of Rs 500 million. Such issue has been raised on the grounds that notification SRO 15(I)/2006, providing for levy of sales tax on the basis of 'notified price' of CAN, was withdrawn through notification SRO 313(I)/ 2011 dated April 18, 2011 and hence, company was legally required to recover output sales tax on supplies of CAN on the basis of actual consideration received there against. The company has impugned the vires of such notice through institution of a constitutional petition before the Lahore High Court, inter alia, on the grounds that (i) pending the disposal of application earlier filed with the Federal Board of Revenue by the company under section 65B of the Sales Tax Act, 1990, on this matter, instant proceedings initiated by department lack the legal sanctity; and (ii) that inadvertence of charging the sales tax on the basis of notified price was not attributable to any mala fide on company's part. In view of the fact that management considers company's stance to be based on meritorious grounds and hence expects a favourable decision on the matter by Lahore High Court, no provision on this account has been made in these financial statements.

(viii) For assessment years 1993-94 and 1995-96 through 2002-2003 and for tax years 2003 through 2005, the company, in view of the position taken by the tax authorities that the income of the company is chargeable to tax on the basis of 'net income', had provided for in the financial statements the tax liability on net income basis which aggregated to Rs 5,223.343 million. Tax liabilities admitted in respective returns of total income in respect of these assessment / tax years, however, aggregated to Rs 1,947.671 million being the liabilities leviable under the Presumptive Tax Regime ('PTR'), considered by the management to be applicable in respect of company's income from sale of own manufactured fertilizer products.

The Appellate Tribunal Inland Revenue ('ATIR') through its separate orders for the assessment years 1993-94, 1995-96 through 2002-03 upheld the company's position as taken in respective returns of total income and consequently, management reversed the excess provisions aggregating to Rs 3,275.673 million on the strength of such judgments. ATIR's decisions in respect of certain assessment years have also been upheld by the Lahore High Court while disposing departmental appeals against respective orders of ATIR. Income tax department has statedly agitated the issue further before Supreme Court of Pakistan, which is pending adjudication.

In view of the favourable disposal of the matter up to the level of High Court, management of the company feels that the decision of the apex court would also be in the favour of the company and hence in these financial statements, tax liabilities in respect of above referred assessment / tax years have been provided on the basis that company's income during such years was taxable under PTR. In case, the apex court decides the matter otherwise, amount aggregating to Rs 3,275.673 million will have to be recognized as tax expense in respect of such assessment / tax years.

(ix) Included in trade debts is an amount of Rs 18.877 million (2011: Rs 28.511 million) which has not been acknowledged as debts by its customers due to a dispute regarding the discount on the product's price. The company's customers had collectively filed an appeal regarding the price dispute before the Civil Court, Multan, which decided the case in favour of the company's customers. The company preferred an appeal before the District and Sessions Court, Multan which set aside the order of the Civil Court. The company's customers filed a revised petition before the Lahore High Court against the order of the District and Sessions Court, which is pending for adjudication. Based on the advice of the company's legal counsel, the company's management considers that there are meritorious grounds to defend the company's stance and hence, no provision has been made in these financial statements on this account.

(x) The company, along with other fertilizer companies, has received a show cause notice from the Competition Commission of Pakistan ('CCP') for initiating action under the Competition Act, 2010 in relation to unreasonable increase in the price of fertilizer. The company has responded in detail to the factors resulting in such increase, gas curtailment being the single largest factor, to CCP and the company is hopeful that there will be no adverse action taken against the company.

(xi) Claims against the company not acknowledged as debts Rs 23.051 million (2011: Rs 23.051 million).

21.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 39.717 million (2011: Rs 312.65 million).

(ii) Letters of credit other than for capital expenditure Rs 128.189 million (2011: Rs 233.937 million).

(iii) Purchase orders aggregating Rs 5.656 million (2011: Rs 4.818 million) were placed and letters of credit were established subsequently.

(iv) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2012	**2011**
	(Rupees in thousand)	
Not later than one year	57,019	52,564
Later than one year and not later than five years	109,669	106,950
	166,688	159,514

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
22. Property, plant and equipment			
Operating fixed assets	- note 22.1	36,841,325	37,643,602
Capital work-in-progress	- note 22.2	448,931	293,665
		37,290,256	37,937,267

22.1 Operating fixed assets

(Rupees in thousand)

	Freehold land	Building on freehold land	Railway siding	Plant and machinery	Aircrafts	Furniture and fixtures	Tools and other equipment	Vehicles	Catalyst	Total
COST										
Balance as at January 01, 2011	3,387,787	2,312,174	30,673	20,415,421	505,796	66,140	508,652	193,128	45,547	27,465,318
Additions during the year	-	23,676	-	193,764	2,273,109	12,016	68,811	22,777	56,555	2,650,708
Revaluation	1,379,847	439,234	27,006	11,933,148	-	-	269,251	-	-	14,048,486
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	77,688	-	77,688
Disposals during the year	-	-	-	-	-	-	-	(50,085)	-	(50,085)
Elimination of accumulated depreciation against cost on revaluation	-	(846,533)	(20,879)	(4,475,964)	-	(13,534)	(224,342)	-	-	(5,581,252)
Balance as at December 31, 2011	4,767,634	1,928,551	36,800	28,066,369	2,778,905	64,622	622,372	243,508	102,102	38,610,863
Balance as at January 01, 2012	4,767,634	1,928,551	36,800	28,066,369	2,778,905	64,622	622,372	243,508	102,102	38,610,863
Additions during the year - note 22.1.2	-	124,652	-	23,432	4,304	4,923	54,121	2,578	115,210	329,220
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	117,858	-	117,858
Disposals during the year	-	-	-	(6,759)	-	-	-	(123,909)	-	(130,668)
Balance as at December 31, 2012	4,767,634	2,053,203	36,800	28,083,042	2,783,209	69,545	676,493	240,035	217,312	38,927,273
DEPRECIATION										
Balance as at January 01, 2011	-	795,834	19,183	4,225,549	286,234	8,269	248,996	130,240	38,606	5,752,911
Charge for the year	-	84,779	4,897	467,734	138,929	7,559	34,840	25,525	9,955	774,218
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	54,722	-	54,722
Charge on disposals	-	-	-	-	-	-	-	(33,338)	-	(33,338)
Elimination of accumulated depreciation against cost on revaluation	-	(846,533)	(20,879)	(4,475,964)	-	(13,534)	(224,342)	-	-	(5,581,252)
Balance as at December 31, 2011	-	34,080	3,201	217,319	425,163	2,294	59,494	177,149	48,561	967,261
Balance as at January 01, 2012	-	34,080	3,201	217,319	425,163	2,294	59,494	177,149	48,561	967,261
Charge for the year	-	101,661	9,600	698,441	215,368	7,859	43,363	28,126	23,610	1,128,028
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	74,917	-	74,917
Charge on disposals	-	-	-	(91)	-	-	-	(84,167)	-	(84,258)
Balance as at December 31, 2012	-	135,741	12,801	915,669	640,531	10,153	102,857	196,025	72,171	2,085,948
Book value as at December 31, 2011	4,767,634	1,894,471	33,599	27,849,050	2,353,742	62,328	562,878	66,359	53,541	37,643,602
Book value as at December 31, 2012	4,767,634	1,917,462	23,999	27,167,373	2,142,678	59,392	573,636	44,010	145,141	36,841,325
Annual depreciation rate %	-	4 to 5.26	10	4 to 5.26	10 to 20	10	4 to 25	20	7 to 67	

22.1.1 Freehold land, buildings on freehold land, railway siding, plant and machinery and tools and other equipment were revalued by an independent valuer M/s Pirsons Chemical Engineering (Private) Limited on September 30, 2011 on current market value basis. The revaluation surplus net of deferred tax was credited to surplus on revaluation of operating fixed assets. Had there been no revaluation, the carrying amounts of the following classes of assets would have been as follows:

	2012	2011
	(Rupees in thousand)	
Freehold land	3,387,787	3,387,787
Buildings on freehold land	1,509,190	1,462,942
Railway siding	6,312	8,844
Plant and machinery	15,653,706	16,020,581
Tools and other equipment	340,641	302,731
	20,897,636	21,182,885

22.1.2 Included in additions during the year is a vehicle of Rs 1.998 million which has been purchased from Fatima Energy Limited, a related party.

22.1.3 Included in plant and machinery are assets costing Rs 34.613 million which are installed at the manufacturing facilities of the company's customers namely Iceberg Gas Company, Coca-Cola Beverages Pakistan Limited and Shamim & Company (Private) Limited.

		2012	2011 Restated
		(Rupees in thousand)	
22.1.4 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 35	829,836	570,163
Administrative expenses	- note 36	296,217	201,376
Selling and distribution expenses	- note 37	1,975	2,679
		1,128,028	774,218

22.1.5 Disposal of operating fixed assets

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2012 (Rupees in thousand)				
Vehicles	**Ex - employees**					
	Pervaiz Iqbal	993	993	-	97	As per company policy
	Khurram Shahzad	712	560	152	521	- do -
	Muhammad Tariq Virk	1,016	1,016	-	503	- do -
	Munir Ahmed Bhatti	1,070	876	194	575	- do -
	Syed Muhammad Ali Shah	648	553	95	244	- do -
	Abdul Karim Noon	945	945	-	95	- do -
	Capt (R) Muhammad Aslam Ch	1,044	1,044	-	264	- do -
	Muhammad Zeeshan Nasim	878	702	176	604	- do -
	Fahad Ishfaq	878	702	176	604	- do -
	Waqas Zaib	899	285	614	656	- do -
	Feroz Ahmed Tariq	825	454	371	324	- do -
	Javed Ghafoor Lodhi	906	332	574	525	- do -
	Sohail Shahzad	922	430	492	648	- do -
	Kashif Aleem Khan	828	469	359	363	- do -
	Amir Mahmood	893	357	536	526	- do -
	Alamgir Khan	1,298	843	455	981	- do -
	Islamuddin Memon	922	415	507	522	- do -
	Faisal Karim	1,515	631	884	801	- do -
	Jamal Nasir	695	359	336	484	- do -
	M. Usman Khalid	700	480	220	256	- do -
	Jamal Abdul Nasir	944	802	142	183	- do -
	Liaqat Ali	649	551	98	243	- do -
	Adnan Ashraf	1,256	669	587	1,061	- do -
	Inam Ullah Zaffar	1,349	472	877	790	- do -
	Abdul Haque Sajid	1,298	756	542	1,110	- do -
	Muhammad Akbar	1,350	472	878	860	- do -
	Kashif Ahmad Shahzad	737	356	381	476	- do -
	Employees					
	Mubashar Hanif Khan	682	534	148	421	- do -
	Sohail Bashir	928	803	125	703	- do -

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012 (Rupees in thousand)				
Particulars	**Sold to**	**Cost**	**Accumulated depreciation**	**Book value**	**Sale proceeds**	**Mode of disposal**
Vehicles	**Employees**					
	Farrukh Iqbal	1,071	820	251	763	As per company policy
	Raheel Ahmed	538	421	117	127	- do -
	Dr. (Capt) Aftab Ahmed (R)	604	604	-	70	- do -
	Salman Saleem	878	746	132	475	- do -
	Muhammad Sajjad Hadir	639	532	107	147	- do -
	Mahmood Javed	649	551	98	160	- do -
	Sohail Sharif	520	442	78	111	- do -
	Farooq Ahmad Rana	878	746	132	389	- do -
	Muhammad Saeed	649	551	98	244	- do -
	Tahir Asghar Raja	878	746	132	475	- do -
	Muhammad Atif Masood	649	551	98	244	- do -
	Waseem Zaman	639	532	107	147	- do -
	Muhammad Faisal Gurmani	525	446	79	116	- do -
	Muhammad Nauman Talat	596	507	89	190	- do -
	Yousaf Ali	516	438	78	117	- do -
	Muhammad Afzal Bajwa	878	746	132	475	- do -
	Mohammad Mohtashim Ali	516	438	78	117	- do -
	Muhammad Usman	520	442	78	111	- do -
	Farhan Talib	682	568	114	269	- do -
	Munir Ahmed	993	993	-	100	- do -
	Muhammad Abubakar	672	594	78	266	- do -
	Amjad Manzoor	682	614	68	269	- do -
	Shams Ur Rehman Afzal	1,297	605	692	527	- do -
	Imran Hameed	644	515	129	127	- do -
	Ammar Anwar Ch.	888	355	533	526	- do -
	Qadeer Ahmed Khan	1,887	1,507	380	444	- do -
	Qadeer Ahmed Khan	1,118	875	243	479	- do -
	Farhan Rashid	899	359	540	529	- do -
	Sahrish Khawaja	606	484	122	191	- do -
	Yousaf Imran Khan	893	387	506	479	- do -
	Rashid Ali Rashid	893	387	506	494	- do -
	Muhammad Khalid	928	417	511	525	- do -
	Muhammad Yaqoob	928	417	511	525	- do -
	Muhammad Yasin	899	389	510	528	- do -

		2012 (Rupees in thousand)				
Particulars	**Sold to**	**Cost**	**Accumulated depreciation**	**Book value**	**Sale proceeds**	**Mode of disposal**
Vehicles	**Employees**					
	Afzal Ahmad Khan Babar	1,450	1,063	387	375	As per company policy
	Azhar Nawaz	520	416	104	111	- do -
	M. Asif Javed	525	420	105	116	- do -
	Kamil Hussain	520	416	104	31	- do -
	Muhammad Iqbal Baig	644	515	129	301	- do -
	Muhammad Shahid	649	519	130	306	- do -
	Faryad Hussain	644	526	118	239	- do -
	Syed M. Ali	649	530	119	244	- do -
	Hafiz Imran Anjum Saleemi	899	329	570	529	- do -
	M. Bilal Arshad	893	372	521	529	- do -
	Mudassar Hafeez	899	359	540	529	- do -
	Shahid Habib	825	495	330	481	- do -
	Imran Ali Bhatti	928	417	511	525	- do -
	Ahmad Majeed	908	393	515	482	- do -
	Accidental loss	1,387	555	832	1,325	Insurance claim
	Accidental loss	1,476	714	762	1,414	- do -
	Accidental loss	1,961	360	1,601	1,889	- do -
	Fakhar Alam	365	365	-	-	Donated
	Outside party					
	Gul Sher	923	923	-	452	Auction
	Muhammad Qasim	1,894	1,894	-	470	- do -
	Trans Pak Enterprises	460	460	-	552	- do -
	Muhammad Qasim	916	916	-	329	- do -
	Muhammad Qasim	819	819	-	432	- do -
	Muhammad Qasim	2,026	2,026	-	191	- do -
	Muhammad Qasim	288	288	-	214	- do -
	Muhammad Qasim	468	468	-	199	- do -
	Related parties					
	Reliance Weaving Mills Limited	1,635	1,291	344	344	Negotiation
	Fatima Sugar Mills Limited	604	604	-	121	- do -
	Fatima Fertilizer Company Limited	42,902	28,128	14,774	23,687	- do -
Plant & machinery	**Outside party**					
	Johnson Matthey Public Limited Company, United Kingdom	6,759	91	6,668	2,035	Negotiation
		130,668	84,258	46,410	64,648	

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2011 (Rupees in thousand)				
Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Ex - employees**					
	Shahid Mehmood Mirza	1,054	632	422	936	As per company policy
	M. Ashfaq Anwar	864	202	662	963	- do -
	Sabahat Fatima	526	324	202	310	- do -
	Muhammad Zubair Khan	920	567	353	786	- do -
	Hamza Mehmood Manj	878	541	337	739	- do -
	Dr. Salman Ayyaz	525	324	201	437	- do -
	Syed Sarfraz Ali	826	302	524	791	- do -
	Asif Masood Khan	638	393	245	487	- do -
	Muhammad Asif Baig	790	407	383	758	- do -
	Shmaz Mir	1,448	362	1,086	1,472	- do -
	Muhammad Hamid Mehmood	785	418	367	402	- do -
	Hyder Ali	878	541	337	726	- do -
	Vehicle theft	1,298	540	758	1,225	Insurance claim
	Vehicle theft	1,542	231	1,311	1,479	- do -
	Ghulam Yasin	927	679	248	179	As per company policy
	Syed Saqib Hussain	596	397	199	389	- do -
	Zafar Ullah	785	444	341	674	- do -
	Rana Kashif	827	343	484	783	- do -
	Muhammad Shahzad	820	301	519	520	- do -
	M. Nadeem Lasi	827	371	456	421	- do -
	Syed Muhammad Sibtain	879	674	205	370	- do -
	Syed Yawer Ali	511	358	153	318	- do -
	Muhammad Waqas Qureshi	649	454	195	444	- do -
	Saira Ashraf	622	436	186	411	- do -
	Muhammad Wasim Anjum	671	290	381	621	- do -
	Abid Ali Abid	949	680	269	705	- do -
	Tahir Hussain	524	244	280	454	- do -
	Vehicle theft	922	231	691	868	Insurance claim
	Vehicle theft	690	310	380	650	- do -
	Imran Rasheed	649	465	184	126	As per company policy
	Tanveer H. Qureshi	1,874	873	1,001	989	- do -
	Kashif Rasheed	1,054	737	317	1,068	- do -
	Mansoor Ahmed Janjua	963	673	290	779	- do -
	Muhammad Amin	910	819	91	176	- do -
	Zarar Saleem	604	544	60	119	- do -

		2011 (Rupees in thousand)				
Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Ex - employees**					
	Muhammad Rizwan Nazar	604	544	60	119	As per company policy
	Tofique Ahmed	924	708	216	178	- do -
	Muhammad Nasir	865	663	202	231	- do -
	Arif-Ur-Rehman	1,286	985	301	249	- do -
	Arif-Ur-Rehman	652	488	164	126	- do -
	Malik Muhammad Rehan	923	707	216	178	- do -
	Rehmat Ullah Shah	604	544	60	119	- do -
	Zaheer Abbas	605	554	51	110	- do -
	Muhammad Jahanzeb Sohail	628	471	157	122	- do -
	Ghulam Sabir Hussain	604	544	60	119	- do -
	Iftikhar Mehmood Baig	1,258	1,152	106	244	- do -
	Mumtaz Ali Soomro	604	544	60	119	- do -
	Muhammad Saleem Malik	607	576	31	119	- do -
	Abu Saeed	870	870	-	170	- do -
	Amir Faisal	628	502	126	122	- do -
	Muhammad Imran	607	576	31	119	- do -
	Khurram Shahzad	628	502	126	122	- do -
	Umar Waqas	495	396	99	96	- do -
	Asghar Ali Rana	1,016	863	153	268	- do -
	Mohammad Saeed Iqbal	628	523	105	122	- do -
	Khalid Iqbal Sippal	628	534	94	122	- do -
	Syed Waheed Ullah	927	726	201	178	- do -
	Related parties					
	Reliance Weaving Mills Limited	142	142	-	28	Negotiation
	Reliance Weaving Mills Limited	600	600	-	120	- do -
	Reliance Weaving Mills Limited	941	941	-	188	- do -
	Fatima Sugar Mills Limited	604	594	10	121	- do -
	Reliance Weaving Mills Limited	982	982	-	196	- do -
		50,085	33,338	16,747	26,580	

		2012	2011
		(Rupees in thousand)	
22.2	**Capital work - in progress**		
	Plant and machinery	365,163	9,965
	Civil works	2,478	23,709
	Advances against purchase of plant and machinery - considered good	80,158	203,570
	Others	1,132	56,421
		448,931	293,665

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		Vehicles (Rupees in thousand)
23. Assets subject to finance lease		
COST		
Balance as at January 01, 2011		394,481
Additions during the year		54,659
Transfer to operating fixed assets during the year		(48,978)
Deletions during the year		(28,710)
Balance as at December 31, 2011		371,452
Balance as at January 01, 2012		371,452
Transfer to operating fixed assets during the year		(117,858)
Balance as at December 31, 2012		253,594
DEPRECIATION		
Balance as at January 01, 2011		111,767
Charge for the year	- note 23.1	85,025
Transfer to operating fixed assets during the year		(54,722)
Balance as at December 31, 2011		142,070
Balance as at January 01, 2012		142,070
Charge for the year	- note 23.1	65,315
Transfer to operating fixed assets during the year		(74,917)
Balance as at December 31, 2012		132,468
Book value as at December 31, 2011		229,382
Book value as at December 31, 2012		121,126
Annual depreciation rate %		20

		2012 (Rupees in thousand)	2011 (Rupees in thousand)
23.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 35	15,299	23,793
Administrative expenses	- note 36	32,891	42,706
Selling and distribution expenses	- note 37	17,125	18,526
		65,315	85,025

23.2 Vehicles of Rs 42.902 million (2011: Rs 173.133 million) are in possession and use of a related party, Fatima Fertilizer Company Limited.

		Computer software	Mining rights	Total
		(Rupees in thousand)		
24. Intangible assets				
COST				
Balance as at January 01, 2011		6,759	210,000	216,759
Elimination of accumulated amortization against cost on revaluation		(4,932)	-	-
Balance as at December 31, 2011		1,827	210,000	216,759
Balance as at January 01, 2012		1,827	210,000	211,827
Additions during the year	- note 24.2	9,266	-	9,266
Balance as at December 31, 2012		11,093	210,000	221,093
AMORTIZATION				
Balance as at January 01, 2011		5,412	28,000	33,412
Charge for the year	- note 24.3	1,347	21,000	22,347
Elimination of accumulated amortization against cost on revaluation		(4,932)	-	-
Balance as at December 31, 2011		1,827	49,000	55,759
Balance as at January 01, 2012		1,827	49,000	50,827
Charge for the year	- note 24.3	193	21,000	21,193
Balance as at December 31, 2012		2,020	70,000	72,020
Book value as at December 31, 2011		-	161,000	161,000
Book value as at December 31, 2012		9,073	140,000	149,073
Annual amortization rate %		25	10	-

24.1 Mining rights represent rights acquired for extraction of rock phosphate from a block of area in District Abbottabad for a ten years period ending on August 11, 2019. The aforesaid area is in the possession and control of Pakistan Mining Company Limited ('PMCL'), a related party, which provides rock phosphate extraction services to the company as per the Services Agreement between the company and PMCL.

24.2 Includes Rs 2.592 million for auditors' services in respect of implementation of an integrated Oracle Process Manufacturing module.

		2012	2011
		(Rupees in thousand)	
24.3 The amortization charge for the year has been allocated as follows:			
Cost of sales (included in raw materials consumed)		21,000	21,000
Administrative expenses	- note 36	193	1,347
		21,193	22,347

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

25. Goodwill

This represents goodwill on amalgamation of REL and the company.

Goodwill has been allocated for impairment testing purposes to one individual cash generating unit, the fertilizers segment. The recoverable amount of the fertilizers segment has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering an eighteen-year period, and a discount rate of 14 per cent. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The above cash flow projections are principally based on the assumption that gas supply would resume to the company. During the year, the company has faced excessive gas shortages due to which the operations have remained suspended for major part of the year resulting into loss for the year. However, subsequent to year end, the Government of Pakistan has approved long term gas supply arrangements from dedicated sources for fertilizer plants, based on which management feels that the current gas shortage is of a temporary nature and the gas supply will resume in the near future which would result in increased production as compared to current year thereby leading to future profits.

		2012	2011
		(Rupees in thousand)	
26. Investments			
Available for sale:			
Subsidiary - unquoted			
Reliance Sacks Limited (incorporated in Pakistan) 2,350,000 (2011: 2,350,000) fully paid ordinary shares of Rs 10 each Equity held 100% (2011: 100%)	- note 26.1	23,500	23,500
Held to maturity:			
- Other	- note 26.2	30,681	27,349
Advance against purchase of shares in:			
- Subsidiary, Reliance Sacks Limited		145,133	79,633
- Related party, Multan Real Estate Company (Private) Limited		62,596	-
		261,910	130,482

26.1 Investment in Reliance Sacks Limited - at fair value

The company invested Rs 23.5 million in the equity of Reliance Sacks Limited ('RSL') which was incorporated for the purpose of implementing a project comprising the establishment and operation of production facility of polypropylene sacks to be used in packing of fertilizers. The company currently holds 100% shareholding interest in RSL.

26.2 Investment - Other

This represents Defence Saving Certificates issued for a period of ten years, which will mature on September 11, 2019. Yield to maturity on these certificates is 12.15%. These certificates have been pledged as security with the Director General, Mines & Minerals, Government of Khyber Pakhtunkhwa as per the terms of the mining agreement as referred to in note 15.1.

		2012	2011
		(Rupees in thousand)	
27. Long term loans - unsecured			
Considered good:			
Long term loan (from STFF)	- note 27.1	-	2,037,500
Long term loan	- note 27.2	-	2,478,065
		-	4,515,565

27.1 This has been repaid by FATIMA during the year. The effective rate of markup charged during the year on outstanding balance ranges from 13.03% to 15.88%.

27.2 This has been repaid by FATIMA during the year. The rate of mark up is equal to the borrowing cost of the company. The effective rate of mark up charged on the outstanding balance during the year was 13.41%.

			2012	2011
			(Rupees in thousand)	
28.	**Stores and spare parts**			
	Chemicals and catalysts	- note 28.1	1,158,793	1,013,577
	Stores		141,384	108,586
	Spare parts [including in transit Rs 86.915 million [(2011: Rs 41.216 million)]		1,799,153	1,537,334
			3,099,330	2,659,497
	Less: Provision for obsolete items		76,224	76,224
		- note 28.2	3,023,106	2,583,273

28.1 Included in chemicals and catalysts is platinum, rhodium and palladium of Rs 69.337 million (2011: Rs 258.635 million) held by Johnson Matthey Public Limited Company, United Kingdom on behalf of the company.

28.2 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

			2012	2011
			(Rupees in thousand)	
29.	**Stock-in-trade**			
	Raw materials	- note 29.2	1,630,244	1,201,970
	Packing materials		51,962	35,194
	Mid products		38,080	16,964
	Finished goods:			
	- own manufactured fertilizers		8,521	788,873
	- emission reductions	- note 29.3	5,064	14,362
			1,733,871	2,057,363

29.1 Raw materials and finished goods amounting to Rs 981.903 million (2011: Rs 1,439.669 million) are pledged with lenders as security against short term borrowings as referred to in note 16.

29.2 Includes rock phosphate amounting to Rs 10.567 million (2011: 22.955 million) and Rs 279.863 million (2011: Nil) which is in the possession of related parties, Pakistan Mining Company Limited and FATIMA respectively.

29.3 This represents emission reductions costing Rs 43.988 million carried at their Net Realizable Value ('NRV') amounting to Rs 5.064 million. The NRV write down expense of Rs 35.794 million has been charged to cost of sales.

			2012	2011
			(Rupees in thousand)	
30.	**Trade debts**			
	Considered good:			
	- Secured (by way of bank guarantees and security deposits)		103,121	129,887
	- Unsecured	- note 30.2	467,871	760,686
			570,992	890,573

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

30.1 These are in the normal course of business and certain debts carry interest ranging from 1% to 9% (2011: 1% to 9%) per annum.

30.2 Includes an amount of Rs 12.525 million (2011: Nil) receivable from Fatima Sugar Mills Limited, a related party.

			2012	2011
			(Rupees in thousand)	
31.	**Advances, deposits, prepayments and other receivables**			
	Advances - considered good:			
	- To employees	- note 31.1	16,687	9,734
	- To suppliers	- note 31.2	71,372	108,758
	Trade deposits		100	100
	Prepayments		94,222	157,762
	Due from related party:			
	- Interest receivable on long term loans	- note 31.3	1,477,634	961,429
	- Interest receivable on preference dividend receivable	- note 31.3	94,017	-
	- Preference dividend receivable	- notes 31.3 and 31.4	1,337,214	1,143,971
	Interest receivable on bank deposits		1,035	-
	Balances with statutory authorities:			
	- Sales tax			
	- considered good	- note 31.5	80,593	398,441
	- considered doubtful		8,911	8,911
			89,504	407,352
	- Income tax recoverable		2,830,258	2,479,352
	- Custom duty recoverable		9,811	9,811
	Letters of credit - margins, deposits, opening charges etc.		1,531	333
	Security deposits		17,884	8,081
	Other receivables - considered good		9,870	22,141
			6,051,139	5,308,824
	Less: Provision for doubtful receivable		8,911	8,911
			6,042,228	5,299,913

31.1 Included in advances to employees are amounts due from executives of Rs 6.90 million (2011: Rs 4.297 million).

31.2 Includes an amount of Rs 2.983 million advance to subsidiary, Reliance Sacks Limited, against supply of polypropylene sacks.

31.3 These are due from Fatima Fertilizer Company Limited and are considered good.

31.4 This has been classified as current on the basis that Rs 941 million has been received by the company subsequent to year end and the remaining balance would be received within the next twelve months from the balance sheet date.

31.5 Includes Rs 134.022 million which primarily represents the input sales tax paid by the company in respect of raw materials acquired before June 11, 2008 on which date fertilizer products manufactured by the company were exempted from levy of sales tax through notification SRO 535(I)/2008. The amount stood refundable to the company there being no output sales tax liability remaining payable on fertilizer products manufactured by the company against which such input sales tax was adjustable. The company's claim of refund on this account was not entertained by Federal Board of Revenue ('FBR') on the premise that since subject raw materials were subsequently consumed in manufacture of a product exempt from levy of sales tax, claim was not in accordance with the relevant provisions of the Sales Tax Act, 1990.

Company's management being aggrieved with the interpretation advanced by FBR on the issue has preferred a writ petition before the Lahore High Court, which has not yet been disposed off. Since company's management considers that claim of refund is completely in accordance with relevant statutory framework and expects relief from appellate authorities on this account, it considers that the receivable amount was unimpaired at the balance sheet date.

			2012	2011
			(Rupees in thousand)	
32.	**Investments**			
	Available for sale:			
	Related party - quoted Fatima Fertilizer Company Limited Nil (2011: 360,000,000) unquoted fully paid non-voting convertible cumulative preference shares of Rs 10 each. Extent of preference shares held Nil (2011: 90%)		-	3,600,000
	Assets at fair value through profit or loss:			
	Other - Wateen Telecom Limited 2,000,000 (2011: 2,000,000) fully paid ordinary shares of Rs 10 each	- note 32.1	5,960	3,580
			5,960	3,603,580
	Investment held for distribution to members	- note 32.2	1,078,200	3,755,250
			1,084,160	7,358,830

32.1 These investments have been classified as current on management's intention that in the next twelve months from the balance sheet date, the company may distribute these investments as 'specie dividend' in line with the past dividend distribution practice or it may dispose of these investments to meet the working capital requirements of the company.

32.2 This represents 45 million ordinary shares of FATIMA held by the company for distribution to members. It includes 33 million ordinary shares of FATIMA which are pledged with National Bank of Pakistan as security against debt swap loan agreement as referred in note 9.2.8.

			2012	2011
			(Rupees in thousand)	
33.	**Cash and bank balances**			
	At banks on:			
	- Saving accounts	- note 33.1 & 33.2	698,633	645,471
	- Current accounts	- note 33.2	290,226	146,427
			988,859	791,898
	In hand		5,098	4,425
			993,957	796,323

33.1 Profit on balances in saving accounts ranges from 5% to 10% (2011: 5% to 10%) per annum.

33.2 Included in saving accounts is an amount of Rs 17.637 million (2011: Rs 516.443 million) which bears mark up at the rates ranging from 5% to 10% (2011: 5% to 10%) per annum and included in current accounts is an amount of Rs 4.049 million (2011: Rs 6.962 million), both placed with a related party, Summit Bank Limited.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
34. Sales			
Fertilizer products:			
- Own manufactured		8,772,572	15,899,396
- Purchased for resale		21,497	676,280
		8,794,069	16,575,676
Certified Emission Reductions (CERs)		223,310	1,020,844
Mid products		520,500	601,260
Rock phosphate		122,560	88,791
Processing income	- note 34.1	12,551	86,351
		878,921	1,797,246
		9,672,990	18,372,922
Less:			
Sales tax		1,255,351	1,584,711
Excise duty		-	5,622
Sales incentive		259,836	79,251
Discount		21,645	2,544
		1,536,832	1,672,128
		8,136,158	16,700,794

34.1 This represents income from processing services rendered for a related party, FATIMA.

		2012	2011
		(Rupees in thousand)	
35. Cost of sales			
Raw material consumed	- note 35.1 and 35.2	2,194,693	3,050,050
Packing material consumed		98,669	281,867
		2,293,362	3,331,917
Salaries, wages and other benefits	- note 35.3	691,704	751,295
Fuel and power		770,201	1,131,008
Chemicals and catalysts consumed		42,431	220,199
Spare parts consumed		183,705	338,815
Stores consumed		66,489	108,913
Repairs and maintenance		170,391	206,694
Insurance		282,609	228,064
Depreciation on operating fixed assets	- note 22.1.4	829,836	570,163
Depreciation on assets subject to finance lease	- note 23.1	15,299	23,793
Others-	note 35.4	90,449	109,434
		5,436,476	7,020,295
Opening stock of mid products		16,964	17,368
Closing stock of mid products		(38,080)	(16,964)
		(21,116)	404
Cost of goods manufactured		5,415,360	7,020,699
Opening stock of finished goods		803,235	382,976
Closing stock of finished goods		(13,585)	(803,235)
		789,650	(420,259)
Cost of goods sold - own manufactured		6,205,010	6,600,440
Cost of goods sold - purchased for resale	- note 35.5	16,299	587,707
		6,221,309	7,188,147

35.1 Includes feed gas consumed of Rs 1,065.407 million (2011: Rs 822.783 million) at subsidized rates under the Fertilizer Policy 2001 issued by the Ministry of Industries and Production, Government of Pakistan. The expense of feed gas consumed has been recognized at the aforesaid subsidized rates. However, the amount of subsidy cannot be estimated with reasonable certainty.

35.2 Includes expenses of Rs 113.503 million (2011: Rs 84.232 million) for extraction of rock phosphate by a related party, Pakistan Mining Company Limited.

	2012	2011
	(Rupees in thousand)	
35.3 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	14,840	13,722
Interest cost for the year	6,031	4,039
Expected return on plan assets	(4,435)	(3,422)
Past service cost	369	(59)
Less: Amount charged to related party	-	(706)
	16,805	13,574

In addition to the above, salaries, wages and other benefits include Rs 16.221 million (2011: Rs 13.970 million) and Rs 17.607 million (2011: Rs 12.512 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

35.4 Includes operating lease rentals amounting to Rs 14.234 million (2011: Rs 3.112 million).

35.5 This represents fertilizer purchased from a related party, FATIMA.

		2012	2011
		(Rupees in thousand)	
36. Administrative expenses			
Salaries, wages and other benefits	- note 36.1	375,062	354,764
Travelling and conveyance		70,623	62,070
Telephone, telex and postage		15,462	13,259
Stationery, printing and periodicals		6,016	2,792
Rent, rates and taxes	- note 36.2	22,356	16,077
Repairs and maintenance		46,496	72,371
Aircraft operating expenses	- note 36.3	89,281	60,196
Insurance		12,926	9,831
Legal and professional charges	- note 36.4	47,197	25,963
Vehicle running expenses		8,659	5,006
Entertainment		5,401	3,686
Advertisement		2,986	2,987
Depreciation on operating fixed assets	- note 22.1.4	296,217	201,376
Depreciation on assets subject to finance lease	- note 23.1	32,891	42,706
Amortization on intangible assets	- note 24.3	193	1,347
CDM administrative expenses		7,202	9,545
Others	- note 36.5	125,640	84,753
	- note 36.6	1,164,608	968,729

	2012	2011
36.1 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	5,623	5,529
Interest cost for the year	2,286	1,628
Expected return on plan assets	(1,681)	(1,379)
Past service cost		-
Actuarial loss/(gain)	140	(24)
Less: amount charged to related party	(1,595)	-
	4,773	5,754

Notes to and forming part of the Financial Statements for the year ended December 31, 2012

In addition to the above, salaries, wages and other benefits include Rs 7.181 million (2011: Rs 7.776 million) and Rs 5.509 million (2011: Rs 6.099 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

36.2 Includes operating lease rentals amounting to Rs 8 million (2011: Rs 4.664 million).

36.3 Includes expenses of Rs 34.152 million (2011: Rs 26.741 million) for flying and maintenance services of the company's aircrafts by Air One (Private) Limited, a related party.

	2012	2011
	(Rupees in thousand)	
36.4 Professional services		
The charges for professional services include the following in respect of auditors' services for:		
- Statutory audit	2,090	1,900
- Half yearly review	825	750
- Tax services	12,530	5,353
- Assurance and other certification services	3,560	320
- Out of pocket expenses	790	701
	19,795	9,024

36.5 Includes expenses of Rs 38.532 million (2011: Rs 11.214 million) for research and development activities of the extracted rock phosphate, which has been carried out by a foreign consultant.

36.6 Includes amount of Rs 114.928 million (2011: Nil) which represents common costs charged to the company by its related party, FATIMA. Also included is an amount of Rs 133.77 million (2011: Rs 53.04 million) which represents common costs charged by the company to its related party, FATIMA.

		2012	2011
		(Rupees in thousand)	
37. Selling and distribution expenses			
Salaries, wages and other benefits	- note 37.1	33,970	91,656
Travelling and conveyance		4,167	10,710
Telephone, telex and postage		3,120	8,189
Stationery, printing and periodicals		976	1,313
Rent, rates and taxes	- note 37.2	12,723	40,266
Repairs and maintenance		2,635	8,417
Insurance		955	3,871
Vehicle running expenses		4,237	13,457
Entertainment		1,507	8,757
Advertisement and sale promotion		67,138	40,058
Depreciation on operating fixed assets	- note 22.1.4	1,975	2,679
Depreciation on assets subject to finance lease	- note 23.1	17,125	18,526
Transportation and freight		120,060	331,013
Utilities		455	1,270
Technical services		1,005	17,505
CERs share of Mitsubishi Corporation, Japan		25,026	230,760
Others		1,976	270
	- note 37.3	299,050	828,717

		2012	2011
		(Rupees in thousand)	
37.1	**Salaries, wages and other benefits**		
	Salaries, wages and other benefits include following in respect of gratuity:		
	Current service cost	6,637	4,467
	Interest cost for the year	2,698	1,315
	Expected return on plan assets	(1,984)	(1,114)
	Past service cost	165	(19)
	Less: amount charged to related party	(7,348)	-
		168	4,649

In addition to the above, salaries, wages and other benefits include Rs 7.742 million (2011: Rs 4.979 million) and Rs 3.999 million (2011: Rs 6.506 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

37.2 Includes operating lease rentals amounting to Rs 12.523 million (2011: Rs 3.759 million).

37.3 Includes amount of Rs 36.781 million (2011: Nil) which represents common costs charged to the company by its related party, FATIMA. Also included is an amount of Rs 425.15 million (2011: Rs 191.054 million) which represents common costs charged by the company to its related party, FATIMA.

			2012	2011
			(Rupees in thousand)	
38.	**Finance cost**			
	Interest/mark up on:			
	- Listed TFCs - secured		329,864	615,205
	- PPTFCs - secured		633,526	971,075
	- Finance leases		12,478	22,725
	- Share deposit money from related party		14,583	33,102
	- Short term borrowings - secured	- note 38.1	712,789	607,716
	- Short term borrowing from related party	- note 38.2	17,429	-
	- Long term loans - secured		589,664	642,402
	- Syndicated term finance - secured		230,502	325,743
	- Workers' Profit Participation Fund	- note 19.2	-	27,046
	Loan arrangement fees and other charges		22,385	24,297
	Acceptance commission on letter of credit		37,378	185,738
	Bank charges		9,445	17,356
			2,610,043	3,472,405

38.1 Includes interest expense of Rs 51.835 million (2011: Rs 45.833 million) on account of running finance facility availed from Summit Bank Limited, a related party.

38.2 This relates to Fatima Fertilizer Company Limited.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

			2012	2011
			(Rupees in thousand)	
39.	**Other operating expenses**			
	Workers' profit participation fund	- note 19.2	-	290,232
	Workers' welfare fund		68,084	40,619
	Donations	- note 39.1	10,290	149,215
	Exchange loss		139,757	30,502
			218,131	510,568

39.1 Following is the interest of the directors in the donee:

Name and address of donee	Directors of the company	Interest in donee	Rupees in thousand
Mukhtar A. Sheikh Trust, 2nd Floor, Trust Plaza, L.M.Q Road Multan	Mr. Fawad Ahmad Mukhtar and Mr. Faisal Ahmad Mukhtar	Trustees	5,640

			2012	2011
			(Rupees in thousand)	
40.	**Other operating income**			
	Income from financial assets:			
	Income on bank deposits		28,032	13,827
	Income from related party, FATIMA:			
	- Interest income on long term loan (from STFF)		221,792	325,744
	- Interest income on long term loan		313,515	395,995
	- Interest income on short term loan		27,229	-
	- Interest income on preference dividend receivable		94,017	-
	- Accrued dividend on preference shares		194,067	598,320
	Gain on cessation of associate		-	113,461
	Gain on conversion of preference shares		455,400	-
	Unrealised gain on investment held to maturity		3,332	2,963
	Mark-up on credit sale of fertilizers		5,956	11,490
	Gain on derivative financial instruments		2,929	124,769
			1,346,269	1,586,569
	Income from non-financial assets:			
	Rental income	- note 40.1	46,587	44,348
	Profit on disposal of operating fixed assets		18,238	9,833
	Scrap sales and sundry income		24,387	12,579
	Gain on recovery of chemical catalysts		9,468	198,690
	Provisions and unclaimed balances written back		81,444	2,236
	Income from biological laboratory		2,173	760
			182,297	268,446
			1,528,566	1,855,015

40.1 Includes rental income of Rs 31.740 million (2011: Rs 30.154 million) for vehicles in use of Fatima Fertilizer Company Limited, a related party.

	2012	2011
	(Rupees in thousand)	
41. Taxation		
Current		
- For the year	73,828	681,710
- Prior years	(870,872)	-
	(797,044)	681,710
Deferred	141,296	1,038,832
	(655,748)	1,720,542

	2012	2011
	% age	% age
41.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
Not deductible for tax purposes	(0.40)	0.17
Exempt for tax purposes	6.08	(4.12)
Not taxable under the law	15.96	(4.13)
Chargeable at lower rate of tax	1.27	(0.18)
Chargeable at different rate of tax	(0.08)	0.36
Allowable as tax credit	0.26	(0.29)
Effect of change in prior years' tax	15.14	-
Others	-	0.45
	38.23	(7.74)
Average effective tax rate	73.23	27.26

42. (Loss)/earnings per share

42.1 Basic (loss)/earnings per share

		2012	2011
Net (loss)/profit for the year	**Rupees in thousand**	(239,788)	4,590,139
Weighted average number of ordinary shares	**Number**	450,000,000	450,000,000
(Loss)/earnings per share	**Rupees**	(0.53)	10.20

42.2 Diluted earnings per share

A diluted earnings per share has not been presented as the company does not have any convertible instruments in issue as at December 31, 2012 and December 31, 2011 which would have any effect on the earnings per share if the option to convert is exercised.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
43. Cash generated from operations			
(Loss)/profit before taxation		(895,536)	6,310,681
Adjustments for non cash charges and other items:			
- Depreciation on operating fixed assets		1,128,028	774,218
- Depreciation on leased assets		65,315	85,025
- Amortization on intangible assets		21,193	22,347
- Retirement benefits accrued		79,120	75,820
- Profit on disposal of operating fixed assets		(18,238)	(9,833)
- Provisions and unclaimed balances written back		(81,444)	(2,236)
- Finance cost		2,610,043	3,472,405
- Income on bank deposits		(28,032)	(13,827)
- Interest income on loans to related party		(656,553)	(721,739)
- Loss/(gain) on re-measurement of investments		47,120	(854,511)
- Gain on conversion of preference shares		(455,400)	-
- Dividend income on preference shares of related party		(194,067)	(598,320)
- Unrealised gain on investment held to maturity		(3,332)	(2,963)
- Unrealised gain on recovery of catalyst		-	(198,690)
- Exchange loss		118,387	739
- Gain on derivative financial instruments		(2,929)	(124,769)
- Share of loss of associate		-	17,612
Profit before working capital changes		1,733,675	8,231,959
Effect on cash flow due to working capital changes			
- Increase in stores and spare parts		(508,225)	(75,019)
- Decrease in stock-in-trade		323,492	889,632
- Decrease in trade debts		347,194	972,297
- Decrease/(increase) in advances, deposits prepayments and other receivables		403,988	(222,715)
- Decrease in trade and other payables		(245,508)	(1,705,604)
		320,941	(141,409)
		2,054,616	8,090,550
44. Cash and cash equivalents			
Short term borrowings	- note 16	(5,814,085)	(4,643,806)
Cash and bank balances	- note 33	993,957	796,323
		(4,820,128)	(3,847,483)

45. Remuneration of Chief Executive, Directors and Executives

45.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, Directors and Executives of the company is as follows:

	Chief Executive		Executive directors		Non-execuitve director		Executives	
	2012	2011	2012	2011	2012	2011	2012	2011
	(Rupees in thousand)							
Short term employee benefits								
Managerial remuneration	11,909	7,241	11,672	7,221	6,000	6,020	229,725	230,533
Housing rent	5,311	3,259	5,307	3,259	-	-	105,459	84,414
Utilities	4,164	2,024	2,395	1,074	242	220	23,434	18,759
Conveyance	-	-	-	-	-	240	-	24,610
Incentives	-	7,845	-	7,845	-	-	-	93,846
Medical expenses	21	181	8	110	-	-	12,425	1,213
Leave passage	-	-	-	-	-	-	36,536	29,213
Club expenses	3,804	3,503	535	456	-	-	-	-
Others	-	-	-	-	-	-	30,377	-
	25,209	24,053	19,917	19,965	6,242	6,480	437,956	482,588
Post employment benefits								
Contribution to provident and gratuity funds	-	-	-	-	-	-	40,666	32,355
Other long term benefits								
Accumulating compensated absences	-	-	-	-	-	-	33,222	24,241
	25,209	24,053	19,917	19,965	6,242	6,480	511,844	539,184
Number of persons	1	1	1	1	1	1	199	179

45.2 The company also provides the chief executive, directors and some of its executives with company maintained cars, travel facilities and club membership.

46. Transactions with related parties

The related parties comprise subsidiary, associated undertakings, other related parties, key management personnel and post employment benefit plans. The company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 45. Other significant transactions with related parties are as follows:

		2012	2011
		(Rupees in thousand)	
Relationship with the company	**Nature of transaactions**		
i. Subsidiary	Purchase of goods	46,725	-
ii. Associated undertakings	Sale of goods and services	339,224	340,391
iii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	91,650	80,286

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
47. Capacity and production			
Urea			
Rated production capacity	M. Tons	92,400	92,400
Actual urea produced	M. Tons	-	28,180
No production of urea is due to shortage of natural gas and periodical maintenance.			
Nitro Phosphate (NP)			
Rated production capacity	M. Tons	304,500	304,500
Actual NP produced	M. Tons	75,732	229,937
The low production of NP is due to shortage of natural gas and periodical maintenance.			
Calcium Ammonium Nitrate (CAN)			
Rated production capacity	M. Tons	450,000	450,000
Actual CAN produced	M. Tons	100,302	242,820
The low production of CAN is due to shortage of natural gas and periodical maintenance.			

48. Financial risk management

48.1 Financial risk factors

The company is exposed to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management is carried out by the company's Board of Directors (the Board). The company's finance department evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

a) Market risk

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The company is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Euro. Currently, the company's foreign exchange risk exposure is restricted to bank balances and amounts receivable from / payable to the foreign entities.

At December 31, 2012 if the Rupee had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on post tax loss for the year would have been Rs 103.504 million (2011: Rs 70.982 million) higher / lower, mainly as a result of exchange losses / gains on translation of USD denominated financial instruments.

At December 31, 2012 if the Rupee had weakened / strengthened by 5% against the Euro with all other variables held constant, the impact on post tax loss for the year would have been Rs 19.795 million (2011: Rs 7.246 million) lower / higher, mainly as a result of exchange gains / losses on translation of Euro denominated financial instruments.

Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company is not materially exposed to equity price risk since there are no significant investments in equity instruments traded in the market either classified as available-for-sale or at fair value through profit or loss at the reporting date. The company is also not exposed to commodity price risk since it does not hold any financial instrument based on commodity prices.

iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The company's interest rate risk arises from long term finances, lease liabilities, short term borrowings, derivative financial instruments and dividend receivable on preference shares. Borrowings obtained and loans provided at variable rates expose the company to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the company's significant interest bearing financial instruments was:

	2012	2011
	(Rupees in thousand)	
Fixed rate instruments:		
Financial assets		
Investment	30,681	27,349
Trade debts	101,503	122,563
Bank balances - saving accounts	698,633	645,471
	830,817	795,383
Financial liabilities	-	-
Net exposure	830,817	795,383
Floating rate instruments:		
Financial assets		
Long term loans	-	4,515,565
Dividend receivable on preference shares	1,337,214	-
Investment	-	3,600,000
Derivative financial instruments	-	18,756
	1,337,214	8,134,321
Financial liabilities		
Long term finances	9,351,891	14,728,310
Liabilities against assets subject to finance lease	113,189	208,112
Short term borrowings	5,814,085	4,643,806
Derivative financial instruments	714	-
	15,279,879	19,580,228
Net exposure	(13,942,665)	(11,445,907)

Notes to and forming part of the Financial Statements for the year ended December 31, 2012

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on variable rate financial instruments, at the year end date, fluctuates by 1% higher / lower with all other variables held constant, post tax loss for the year would have been Rs 152.687 million (2011: Rs 33.620 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate instruments.

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk of the company arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The management assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored and major sales to customers are settled in cash. For banks and financial institutions, only independently rated parties with a strong credit rating are accepted.

The company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as under:

	2012	2011
	(Rupees in thousand)	
Investments	261,910	130,482
Long term loans	-	4,515,565
Security deposits	60,409	57,036
Trade debts	104,097	243,082
Advances, deposits and other receivables	124,337	30,555
Derivative financial instruments	-	18,756
Short term investments	1,084,160	7,358,830
Cash and bank balances	993,957	796,323
	2,628,870	13,150,629

The company's exposure to credit risk is limited to the carrying amount of unsecured trade receivables and bank balances. The ageing analysis of trade receivable balances is as follows:

	2012	2011
	(Rupees in thousand)	
Upto 90 days	104,097	243,082
91 to 180 days	19,985	326,332
181 to 270 days	166,823	160,739
271 to 360 days	97,943	122,596
above 360 days	182,144	37,824
	570,992	890,573

The management estimates the recoverability of trade receivables on the basis of financial position and past history of its customers based on the objective evidence that it will not receive the amount due from the particular customer. A provision for doubtful debts is established when there is objective evidence that the company will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade debt is impaired. The provision is recognised in the profit and loss account. The provision is written off by the company when it expects that it cannot recover the balance due. Any subsequent repayments in relation to amount written off, are credited directly to profit and loss account.

The credit quality of company's bank balances can be assessed with reference to external credit ratings as follows:

	Rating Short term	Rating Long term	Rating Agency	2012 (Rupees in thousand)	2011 (Rupees in thousand)
Al Baraka Islamic Bank Limited	A1	A	PACRA	10,892	26,169
Allied Bank Limited	A1+	AA+	PACRA	604,087	10,930
Summit Bank Limited	A-2	A	JCR-VIS	21,686	523,406
Askari Bank Limited	A1+	AA	PACRA	3	1,511
Bank Alfalah Limited	A1+	AA	PACRA	62	6,558
Deutsche Bank A.G	F1+	A1+	FITCH	-	2,067
Dubai Islamic Bank Limited	A-1	A	JCR-VIS	73	383
Faysal Bank Limited	A1+	AA	PACRA	11,799	35,522
Habib Bank Limited	A-1+	AA+	JCR-VIS	250,549	11,446
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	100	1,550
MCB Bank Limited	A1+	AA+	PACRA	-	1,021
Meezan Bank Limited	A-1+	AA-	JCR-VIS	5,472	4,412
National Bank of Pakistan	A-1+	AAA	JCR-VIS	3,827	21,865
Silkbank Limited	A-2	A-	JCR-VIS	1	1
Soneri Bank Limited	A1+	AA-	PACRA	-	-
Standard Chartered Bank (Pakistan) Limited"	A1+	AAA	PACRA	11,248	14,443
The Bank of Punjab	A1+	AA-	PACRA	-	-
United Bank Limited	A-1+	AA+	JCR-VIS	44,978	107,455
Zarai Taraqiati Bank Limited	A-1+	AAA	JCR-VIS	55	53
Bank Islami Pakistan Limited	A1	A	PACRA	19,141	23,106
Sindh Bank Limited	A-1	AA-	JCR-VIS	3,827	-
Burj Bank Limited	A-1	A	JCR-VIS	1,059	-
				988,859	791,898

Due to the company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the company. Accordingly, the credit risk is minimal.

c) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The company's approach to managing liquidity is to ensure that, as far as possible, it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the company's reputation.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

The following are the contractual maturities of financial liabilities as at December 31, 2012 and December 31, 2011:

At December 31, 2012

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	9,351,891	4,792,612	4,559,279	-
Import bill payable	2,330,400	842,000	1,488,400	-
Liabilities against assets subject to finance lease	113,189	63,511	49,678	-
Payable against mining rights	21,000	21,000	-	-
Long term deposits	46,180	-	-	46,180
Short term borrowings	5,814,085	5,814,085	-	-
Derivative financial instruments	714	714		
Trade and other payables	1,996,874	1,996,874	-	-
Accrued finance cost	365,673	365,673	-	-
	20,040,006	13,896,469	6,097,357	46,180

At December 31, 2011

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	14,728,310	6,244,087	8,484,223	-
Import bill payable	1,796,000	-	1,796,000	-
Liabilities against assets subject to finance lease	208,112	70,094	138,018	-
Payable against mining rights	21,000	21,000	-	-
Long term deposits	47,345	-	-	47,345
Short term borrowings	4,643,806	4,643,806	-	-
Trade and other payables	1,859,154	1,859,154	-	-
Accrued finance cost	677,086	677,086	-	-
	23,980,813	13,515,227	10,418,241	47,345

48.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the company's assets and liabilities that are measured at fair value at December 31, 2012.

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	5,960	-	-	5,960
Available for sale				
Ordinary shares of RSL	-	-	23,500	23,500
Total assets	5,960	-	23,500	29,460
At fair value through profit or loss				
Derivative financial instruments	-	714	-	714
Total liabilities	-	714	-	714

The following table presents the company's assets and liabilities that are measured at fair value at December 31, 2011.

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	3,580	-	-	3,580
Derivative financial instruments	-	18,756	-	18,756
Available for sale				
Ordinary shares of RSL	-	-	23,500	23,500
Preference shares of FATIMA	-	3,600,000	-	3,600,000
Total assets	3,580	3,618,756	23,500	3,645,836
Total Liabilities	-	-	-	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade and other receivables, and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

48.3 Financial instruments by categories

	Available for sale	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
			(Rupees in thousand)		
As at December 31, 2012					
Assets as per balance sheet					
Security deposits	-	-	-	60,409	60,409
Trade debts	-	-	-	570,992	570,992
Advances, deposits and other receivables	-	-	-	2,937,654	2,937,654
Investments	23,500	5,960	30,681	-	60,141
Cash and bank balances	-	-	-	993,957	993,957
	23,500	5,960	30,681	4,563,012	4,623,153

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
		(Rupees in thousand)	
At December 31, 2012			
Liabilities as per balance sheet			
Long term finances	-	9,351,891	9,351,891
Import bill payable	-	2,330,400	2,330,400
Liabilities against assets subject to finance lease	-	113,189	113,189
Payable against mining rights	-	21,000	21,000
Long term deposits	-	46,180	46,180
Short term borrowings	-	5,814,085	5,814,085
Derivative financial instruments	714	-	714
Trade and other payables	-	1,996,874	1,996,874
Accrued finance cost	-	365,673	365,673
Dividend payable	-	1,078,200	1,078,200
	714	21,117,492	21,118,206

	Available for sale	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
			(Rupees in thousand)		
As at December 31, 2011					
Assets as per balance sheet					
Long term loans	-	-	-	4,515,565	4,515,565
Security deposits	-	-	-	57,036	57,036
Trade debts	-	-	-	890,573	890,573
Advances, deposits and other receivables	-	-	-	2,135,622	2,135,622
Derivative financial instruments	-	18,756	-	-	18,756
Investments	3,623,500	3,580	27,349	-	3,654,429
Cash and bank balances	-	-	-	796,323	796,323
	3,623,500	22,336	27,349	8,395,119	12,068,304

	Financial liabilities at amortized cost (Rupees in thousand)
As at December 31, 2011	
Liabilities as per balance sheet	
Long term finances	14,728,310
Import bill payable	1,796,000
Liabilities against assets subject to finance lease	208,112
Payable against mining rights	21,000
Long term deposits	47,345
Short term borrowings	4,643,806
Trade and other payables	1,859,154
Accrued finance cost	677,086
Dividend payable	3,755,250
	27,736,063

48.4 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term finances obtained by the company as referred to in note 9 and note 15. Total capital employed includes equity as shown in the balance sheet plus borrowings. The company's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at December 31, 2012 and December 31, 2011 is as follows:

Notes to and forming part of the Financial Statements
for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
Borrowings - note 9 and 15		9,351,891	14,728,310
Less: Cash and cash equivalents - note 44		(4,820,128)	(3,847,483)
Net debt		14,172,019	18,575,793
Total equity (includes surplus on revaluation of operating fixed assets)		19,896,491	22,356,334
Gearing ratio	**Percentage**	42%	45%

49. Date of authorization for issue

These financial statements were authorized for issue on March 21, 2013 by the Board of Directors of the company.

50. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. Significant re-arrangement made is of Rs 1,796 million previously reported as 'Supplier's credit - secured', now reclassified and reported as 'Import bill payable - secured'.

The above figure has been re-arranged as the reclassification made is considered more appropriate for the purpose of presentation.

Chief Executive

Director

Consolidated Financial Statements of

Pakarab Fertilizers Limited

for the year ended December 31, 2012

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakarab Fertilizers Limited (the holding company) and its subsidiary company (hereinafter referred to as 'the Group') as at December 31, 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Pakarab Fertilizers Limited and its subsidiary company. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of Pakarab Fertilizers Limited and its subsidiary company (the Group) as at December 31, 2012 and the results of their operations for the year then ended.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: March 21, 2013

Engagement Partner: Muhammad Masood

Consolidated Balance Sheet
as at December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital			
1,000,000,000 (2011: 1,000,000,000)			
ordinary shares of Rs 10 each		10,000,000	10,000,000
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued, subscribed and paid up share capital			
450,000,000 (2011: 450,000,000)			
ordinary shares of Rs 10 each	5	4,500,000	4,500,000
Share deposit money	6	-	200,000
Reserves	7	3,423,729	5,711,183
		7,923,729	10,411,183
SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS	8	11,964,238	11,942,294
NON-CURRENT LIABILITIES			
Long term finances - secured	9	4,772,924	8,672,192
Import bill payable - secured	10	1,488,400	1,796,000
Liabilities against assets subject to finance lease	11	49,678	138,018
Long term deposits	12	46,180	47,345
Deferred liabilities	13	114,840	90,684
Deferred taxation	14	10,915,238	10,967,290
		17,387,260	21,711,529
CURRENT LIABILITIES			
Current portion of long term liabilities	15	4,912,729	6,335,181
Short term borrowings - secured	16	6,006,224	4,643,806
Payable to Privatization Commission of Pakistan	17	2,197,901	2,197,901
Derivative financial instruments	18	714	-
Trade and other payables	19	3,373,049	3,145,761
Accrued finance cost	20	371,016	677,821
Dividend payable		1,078,200	3,755,250
Provision for taxation		-	731,118
		17,939,833	21,486,838
CONTINGENCIES AND COMMITMENTS	21		
		55,215,060	65,551,844

The annexed notes 1 to 51 form an integral part of these financial statements.

Chief Executive

	Note	2012	2011
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	22	37,710,362	38,248,373
Assets subject to finance lease	23	121,126	229,382
Intangible assets	24	149,073	161,000
Goodwill	25	3,305,163	3,305,163
Investments	26	93,277	27,349
Long term loans - unsecured	27	-	4,515,565
Security deposits		60,409	57,036
		41,439,410	46,543,868
CURRENT ASSETS			
Stores and spare parts	28	3,026,075	2,583,273
Stock-in-trade	29	1,906,583	2,057,363
Trade debts	30	674,446	890,573
Advances, deposits, prepayments and other receivables	31	6,089,944	5,302,845
Derivative financial instruments	18	-	18,756
Investments	32	1,084,160	7,358,830
Cash and bank balances	33	994,442	796,336
		13,775,650	19,007,976
		55,215,060	65,551,844

Director

Consolidated Profit and Loss Account
for the year ended December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
Sales	34	8,136,158	16,700,794
Cost of sales	35	(6,220,877)	(7,188,147)
Gross profit		1,915,281	9,512,647
Administrative expenses	36	(1,174,276)	(969,535)
Selling and distribution expenses	37	(299,050)	(828,717)
		441,955	7,714,395
Finance cost	38	(2,611,036)	(3,472,416)
Other operating expenses	39	(218,131)	(511,839)
		(2,387,212)	3,730,140
Other operating income	40	1,528,566	1,855,015
Share of loss of associate		-	(17,612)
(Loss)/gain on re-measurement of financial assets at fair value through profit or loss		(47,120)	741,050
(Loss)/profit before taxation		(905,766)	6,308,593
Taxation	41	660,311	(1,720,542)
(Loss)/profit for the year		(245,455)	4,588,051
(Loss)/profit attributable to owners of the parent		(245,455)	4,588,051

The annexed notes 1 to 51 form an integral part of these financial statements.

Chief Executive

Director

Consolidated Statement of Comprehensive Income
for the year ended December 31, 2012

	2012	2011
	(Rupees in thousand)	
(Loss) / profit for the year	(245,455)	4,588,051
Other comprehensive income		
Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	163,901	227,734
Total comprehensive (loss) / income for the year	(81,554)	4,815,785
Attributable to owners of the parent	(81,554)	4,815,785

The annexed notes 1 to 51 form an integral part of these financial statements.

Chief Executive

Director

Consolidated Statement of Changes in Equity
for the year ended December 31, 2012

	Attributable to the owners of the parent				
			Revenue reserves		
	Share capital	Share deposit money	General reserve	Unappropriated profit	Total
	(Rupees in thousand)				
Balance as on January 01, 2011	4,500,000	200,000	4,995,352	2,553,104	12,248,456
Profit for the year	-	-	-	4,588,051	4,588,051
Share issuance cost, net	-	-	-	(769)	(769)
Other comprehensive income for the year: Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	-	-	-	227,734	227,734
Total comprehensive income for the year	-	-	-	4,815,016	4,815,016
Specie dividend to owners of the parent	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Total contributions by and distributions to owners of the parent, recognised directly in equity	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Balance as on December 31, 2011	4,500,000	200,000	2,098,313	3,612,870	10,411,183
Loss for the year	-	-	-	(245,455)	(245,455)
Other comprehensive income for the year: Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	-	-	-	163,901	163,901
Total comprehensive loss for the year	-	-	-	(81,554)	(81,554)
Share deposit money refunded		(200,000)	-	-	(200,000)
Specie dividend to owners of the parent	-	-	-	(2,205,900)	(2,205,900)
Total contributions by and distributions to owners of the parent, recognised directly in equity	-	(200,000)	-	(2,205,900)	(2,405,900)
Balance as on December 31, 2012	4,500,000	-	2,098,313	1,325,416	7,923,729

The annexed notes 1 to 51 form an integral part of these financial statements.

Chief Executive

Director

Consolidated Cash Flow Statement
for the year ended December 31, 2012

	Note	2012	2011
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	42	1,823,525	8,110,966
Finance cost paid		(2,917,841)	(3,445,481)
Taxes paid		(260,259)	(581,528)
Retirement benefits paid		(32,661)	(41,345)
Net cash (outflow)/inflow from operating activities		(1,387,236)	4,042,612
Cash flows from investing activities			
Purchase of property, plant and equipment		(533,302)	(947,577)
Purchase of intangible assets		(1,843)	-
Security deposits		(11,369)	(12,018)
Sale proceeds of property, plant and equipment disposed		64,648	26,581
Investments made		(62,596)	-
Investments redeemed		1,800,000	-
Short term loan to related party		(1,300,000)	-
Loans repaid by related party		5,815,565	-
Interest received from related party		27,229	-
Preference dividend received from related party		824	-
Profit on bank deposits received		26,997	15,622
Net cash inflow/(outflow) from investing activities		5,826,153	(917,392)
Cash flows from financing activities			
Repayment of redeemable capital		(3,825,000)	(2,625,000)
Proceeds from long term loans acquired		2,061,281	1,625,805
Repayment of long term loans		(3,551,418)	(1,277,419)
Share issuance costs		-	(769)
Payment of liability against mining rights		-	(84,000)
Share deposit money refunded		(200,000)	-
Payment of finance lease liabilities		(88,092)	(94,454)
Net cash outflow from financing activities		(5,603,229)	(2,455,837)
Net (decrease)/increase in cash and cash equivalents		(1,164,312)	669,383
Cash and cash equivalents at the beginning of the year		(3,847,470)	(4,516,853)
Cash and cash equivalents at the end of the year	43	(5,011,782)	(3,847,470)

The annexed notes 1 to 51 form an integral part of these financial statements.

Chief Executive

Director

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

1. Legal status and nature of business

Pakarab Fertilizers Limited (the 'parent company') was incorporated as a private limited company in Pakistan under the Companies Act, 1913, (now Companies Ordinance, 1984). The parent company's status changed to a non-listed public company from June 7, 2007. The parent company's Term Finance Certificates are listed at the Karachi Stock Exchange (Guarantee) Limited ('KSE'). On April 12, 2011, the parent company incorporated a wholly owned subsidiary company, Reliance Sacks Limited (together, the 'Group'). Reliance Sacks Limited is a non-listed public company incorporated in Pakistan under the Companies Ordinance, 1984. The parent company is principally engaged in the manufacturing and sale of chemical fertilizers and generation and sale of Certified Emission Reductions (CERs) while the subsidiary company is principally engaged in the manufacturing and sale of polypropylene sacks and polypropylene cloth on land that is leased out to the Group by Fatima Fertilizer Company Limited ('FATIMA'), a related party. The manufacturing facilities of the parent and subsidiary company are located in Multan and Sadiqabad respectively. As of December 31, 2012, the subsidiary company's manufacturing facility was in trial run phase, however, it has commenced commercial operations from January 2013.

2. Basis of preparation

2.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives prevail.

2.2 During the current year, the Group has changed the presentation of its Profit and Loss Account to bring it in line with the practice followed by major players of the local fertilizer industry. Previously, 'other operating income' was presented before 'finance cost'. However, as per new presentation, 'finance cost' has been presented before 'other operating income'. The presentation has been revised as in Group management's view, the new presentation provides reliable and more relevant information for the users of the Group's financial statements as it is an improvement on the previous presentation. In accordance with the requirements of IAS 1 'Presentation of Financial Statements', comparative amounts have been reclassified in line with the new presentation.

2.3 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the Group's financial statements covering annual periods, beginning on or after the following dates:

2.3.1 Standards, amendments and interpretations to approved accounting standards that are effective in current year

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on January 1, 2012 but are considered not to be relevant or to have any significant effect on the Group's operations and are, therefore, not detailed in these consolidated financial statements.

2.3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

There are certain standards, amendments to the approved accounting standards and interpretations that are mandatory for the Group's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or to have any significant effect on the Group's operations and are, therefore, not detailed in these financial statements except for the following:

- IAS 19, 'Employee Benefits' (effective for periods beginning on or after January 1, 2013). The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined liability / (asset). The Group is yet to assess the full impact of the amendments.

3. Basis of measurement

3.1 These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of operating fixed assets and certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

3.2 The Group's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgment or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates.

a) Employee retirement benefits

The Group uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.3.

b) Provision for taxation

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

c) Useful lives and residual values of property, plant and equipment

The Group reviews the useful lives and residual values of property, plant and equipment on 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 and impairment.

d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 25).

3.3 Changes in accounting estimates

During the year, the Group's management carried out a comprehensive review of the estimated useful lives and residual values of its aircrafts and has revised the following accounting estimates:

i) Previously, the Group depreciated its aircraft (Bombardier Challenger 605) over an estimated useful life of five years. Now the Group charges depreciation on this aircraft over an estimated useful life of ten years from the month in which it was available for use. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in the accounting estimate, the loss before tax for the year ended December 31, 2012 would have been higher by Rs 225.401 million and carrying value of operating fixed assets as at that date would have been lower by the same amount. Consequently, due to the above change in accounting estimate, future profits before tax would reduce by Rs 225.401 million.

ii) The Group has estimated the residual value of its abovementioned aircraft (Bombardier Challenger 605) and accordingly its depreciable amount has been adjusted. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had the residual value of the abovementioned aircraft not been considered for charging depreciation, the loss before tax for the year ended December 31, 2012 would have been higher by Rs 118.431 million and carrying value of operating fixed assets as at that date would have been lower by the same amount. Consequently, due to the above change in accounting estimate, future profits before tax would reduce by Rs 118.431 million.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

4. **Significant accounting policies**

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Principles of consolidation

a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate where the Group has significant influence and that are not expected to be disposed off within twelve months from the balance sheet date are accounted for using equity method. It is classified as current when the Group is committed to distribute the investment to the owners within twelve months from the balance sheet date and the distribution is highly probable, in which case it is stated at the carrying amount.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

4.2 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction neither affects accounting nor taxable profit or loss. Deferred tax liabilities are generally 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 utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to other comprehensive income or equity in which case it is included in other comprehensive income or equity.

4.3 Employee retirement benefits

The main features of the schemes operated by the Group for its employees are as follows:

(a) Defined benefit plan - Gratuity

The parent company operates an approved funded gratuity scheme for all permanent employees. Annual provision is made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits.

The latest actuarial valuation for the gratuity scheme was carried out as at December 31, 2012. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

- Discount rate 11 % per annum
- Expected rate of increase in salary level 10% per annum
- Expected rate of return 12.50% per annum

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

The parent company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 "Employee Benefits".
The subsidiary company operates an unfunded gratuity scheme for all permanent employees. Provision is made annually to cover the obligations under the scheme.

(b) Defined contribution plan - Provident Fund

There is an approved defined contributory provident fund for all permanent employees of the parent. Equal monthly contributions are made both by the parent and employees to the fund at the rate of 8.33 percent of salary for the executives and 10 percent of salary for the workers.

(c) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

Retirement benefits are payable to employees on completion of prescribed qualifying period of service under these schemes.

4.4 Property, plant and equipment

4.4.1 Operating fixed assets

Operating fixed assets except freehold land, buildings on freehold land, railway siding, plant and machinery and tools and other equipment are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at revalued amount less any identified impairment loss while buildings on freehold land, railway siding, plant and machinery and tools and other equipment are stated at revalued amount less accumulated depreciation and any identified impairment loss. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value. Revalued amount has been determined by an independent professional valuer on the basis of present market value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Cost in relation to other operating fixed assets signifies historical cost, gains and losses transferred from other comprehensive income on qualifying cash flow hedges as referred to in note 4.13.

Increases in the carrying amount arising on revaluation of operating fixed assets are credited to surplus on revaluation of operating fixed assets. Decreases that offset previous increases of the same assets are charged against this surplus, all other decreases are charged to profit. Each year the difference between depreciation based on revalued carrying amount of the asset (the depreciation charged to the profit) and depreciation based on the assets' original cost is transferred from surplus on revaluation of operating fixed assets to other comprehensive income. All transfers to/from surplus on revaluation of operating fixed assets are net of applicable deferred taxation.

Depreciation on operating fixed assets is charged to profit on the straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates given in note 22.1 after taking into account their residual values. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to operating fixed assets is charged from the month in which the asset is available for use, while no depreciation is charged for the month in which the asset is disposed off.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.6).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

4.4.2 Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to operating fixed assets as and when these are available for use.

4.5 Intangible assets

4.5.1 Computer software

Expenditure incurred to acquire computer software is capitalised as intangible asset and stated at cost less accumulated amortisation and any identified impairment loss. Computer software is amortised using the straight line method over a period of four years.

Amortisation on additions to computer software is charged from the month in which the asset is available for use while no amortisation is charged for the month in which the asset is disposed off.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.6).

4.5.2 Mining rights

Expenditure incurred to acquire mining rights is capitalised as intangible asset and stated at cost less accumulated amortisation and any identified impairment loss. Mining rights are amortised using the straight line method over a period of ten years.

Amortisation on additions to mining rights is charged from the month in which the asset is available for use while no amortisation is charged for the month in which the asset is disposed off.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 4.6).

4.6 Impairment of non-financial assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4.7 Leases

The Group is the lessee.

4.7.1 Finance leases

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. At inception finance leases are capitalised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 11. The liabilities are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Assets acquired under a finance lease are depreciated over the useful life of the asset on a straight-line method at the rates given in note 23. Depreciation of leased assets is charged to profit.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

Depreciation on additions to leased assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

4.7.2 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4.9 Investments

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

4.10 Financial assets

4.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are also categorised as held for trading unless they are designated as hedges. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise, they are classified as non current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise loans, advances, deposits and other receivables and cash and cash equivalents in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the balance sheet date.

d) Held to maturity

Financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are classified as held to maturity and are stated at amortised cost.

4.10.2 Recognition and measurement

All financial assets are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of other income when the Group's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Group measures the investments at cost less impairment in value, if any.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade debts and other receivables is described in note 4.16.

4.11 Financial liabilities

All financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit and loss account.

4.12 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Group intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.13 Derivative financial instruments

These are initially recorded at cost on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flow of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

Amounts accumulated in other comprehensive income are recognised in profit and loss account in the periods when the hedged item will affect profit or loss. However, when the forecast hedged transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability. The changes in fair value re-measurement of derivatives which the Group has not designated as a hedging instrument are recognised in the profit and loss account. Trading derivatives are classified as a current asset or liability.

4.14 Stores and spare parts

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. For items which are slow moving and / or identified as obsolete, adequate provision is made for any excess book value over estimated realisable value. The Group reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

4.15 Stock-in-trade

All stocks are valued at the lower of cost and net realizable value. Cost in relation to raw and packing materials, except for those in transit, signifies weighted average cost and that relating to mid products and finished goods, annual average cost comprising cost of direct materials, labour and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges incurred thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make the sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management estimate.

4.16 Trade debts and other receivables

Trade debts and other receivables are recognised initially at invoice value, which approximates fair value, and subsequently measured at amortised cost using the effective interest method, less provision for doubtful debts. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade debt is impaired. The provision is recognised in the profit and loss account. When a trade debt is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

4.17 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts / short term borrowings. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

4.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method. Finance costs are accounted for on an accrual basis and are reported under accrued finance costs to the extent of the amount remaining unpaid.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

4.19 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

4.20 Provisions

Provisions are recognized when the Group 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 of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.21 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

4.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.23 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable on the following basis:

Revenue from sale of goods and export rebate is recognized on dispatch to customers.

Revenue from sale of Certified Emission Reductions (CERs) is recognised on the generation of the Emission Reductions when a firm commitment for sale of CERs exists with a buyer.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income and entitlement of bonus shares are recognised when the right to receive such dividend and bonus shares is established.

4.24 Share capital

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax.

4.25 Dividend

Dividend distribution to the members is recognised as a liability in the period in which the dividends are approved.

4.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the parent company that makes strategic decisions.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

5. Issued, subscribed and paid up share capital

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
2,791,260	2,791,260	Ordinary shares of Rs 10 each fully paid in cash	27,913	27,913
447,208,740	447,208,740	Ordinary shares of Rs 10 each issued as fully paid bonus shares	4,472,087	4,472,087
450,000,000	450,000,000		4,500,000	4,500,000

Ordinary shares of the company held by associated undertakings as at year end are as follows:		
Reliance Commodities (Private) Limited	7,136,613	7,136,613
Fatima Sugar Mills Limited	71,250,558	71,250,558
Fazal Cloth Mills Limited	25,790,610	25,790,610
Arif Habib Corporation Limited	135,000,000	135,000,000
	239,177,781	239,177,781

6. Share deposit money

This represents contribution towards the share capital of the parent company against which shares had not been issued. It was contributed by a related party, Fazal Cloth Mills Limited, and has been repaid during the year. Since the parent company had not complied with the requirements of section 86 of the Companies Ordinance, 1984 and The Companies (Issue of Capital) Rules, 1996, hence, mark up was charged on the outstanding balance during the year at the rate of 14.47% per annum.

	2012	2011
	(Rupees in thousand)	
7. Reserves		
Revenue:		
- General reserve	2,098,313	2,098,313
- Un-appropriated profit	1,325,416	3,612,870
	3,423,729	5,711,183

8. Surplus on revaluation of operating fixed assets

This represents surplus over book value resulting from the revaluation of freehold land, buildings on freehold land, plant and machinery, railway siding and tools and other equipment, adjusted by incremental depreciation arising out of revaluation of above mentioned assets except freehold land. The valuation was carried out by independent valuers, M/s Pirsons Chemical Engineering (Private) Limited, on September 30, 2011 under current market price / appraisal methods wherever applicable for the respective assets. Surplus on revaluation of operating fixed assets can be utilized only for the purposes specified in section 235 of the Companies Ordinance, 1984.

The revaluation surplus relating to above mentioned operating fixed assets excluding freehold land is net of applicable deferred income taxes. Incremental depreciation represents the difference between the actual depreciation on the above mentioned assets excluding freehold land and the equivalent depreciation based on the historical cost of these assets. The movement in revaluation surplus is as follows:

		2012	2011
		(Rupees in thousand)	
Opening balance - net of tax		11,942,294	2,475,847
Revaluation surplus during the year	- note 22.1	-	14,048,486
Deferred tax on revaluation surplus	- note 14	185,845	(4,434,012)
Surplus transferred to other comprehensive income for the year on account of incremental depreciation - net of tax		(163,901)	(148,027)
Closing balance - net of tax	- note 8.1	11,964,238	11,942,294

8.1 Includes surplus on revaluation of freehold land amounting to Rs 3,855.69 million (2011: Rs 3,855.69 million).

			2012	2011
			(Rupees in thousand)	
9.	**Long term finances - secured**			
	Redeemable capital	- note 9.1	1,625,000	4,750,000
	Long term loans	- note 9.2	2,870,591	2,563,859
	Syndicated term finance	- note 9.3	277,333	1,358,333
			4,772,924	8,672,192

9.1	**Redeemable capital**			
	This is composed of:			
	Listed Term Finance Certificates	- note 9.1.1	1,500,000	3,700,000
	Privately Placed Term Finance Certificates	- note 9.1.2	3,250,000	4,875,000
			4,750,000	8,575,000
	Less: Current portion shown under current liabilities	- note 15	3,125,000	3,825,000
			1,625,000	4,750,000

9.1.1	**Listed Term Finance Certificates**		
	Opening balance	3,700,000	4,700,000
	Less: Redeemed during the year	2,200,000	1,000,000
		1,500,000	3,700,000
	Less: Current portion shown under current liabilities	1,500,000	2,200,000
		-	1,500,000

These Term Finance Certificates (TFCs) are listed on KSE.

Terms of redemption

The tenure of the TFCs is five years. The TFCs are redeemable in such a way that 6% of the principal would be redeemed in the first five semi annual installments which started from August 28, 2008 and the remaining 94% principal would be redeemed in five stepped up semi annual installments ending on February 28, 2013. The Group has an option to redeem in full (Call Option) or part (Partial Call Option) of the outstanding amount without any premium by giving written notice to the Trustee at least sixty days prior to the option date. The Call Option is exercisable only on mark up payment dates.

Rate of return

The return on TFCs is payable semi-annually and is calculated at the rate of six months Karachi Inter-Bank Offered Rate (KIBOR) plus 1.5% per annum with no floor or cap. The effective mark up rate charged during the year on the outstanding balance ranges from 12.03% to 14.88% per annum.

Trustee

In order to protect the interests of the TFC holders, Pak Oman Investment Company Limited was appointed as Trustee under a trust deed dated July 05, 2007. The Trustee is paid a fee of Rs 0.75 million per annum.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

In case the Group defaults on any of its obligations, the Trustee may enforce the Group's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcements shall be distributed to the TFC holders at the time on a pari passu basis in proportion to the amounts owed to them pursuant to the TFCs.

Security

The TFCs are secured by a registered first ranking pari passu charge over all present and future fixed assets of the parent company excluding assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the lamont boiler for nitric acid.

	2012	2011
	(Rupees in thousand)	
9.1.2 Privately Placed Term Finance Certificates (PPTFCs)		
Opening balance	4,875,000	6,500,000
Less: Redeemed during the year	1,625,000	1,625,000
	3,250,000	4,875,000
Less: Current portion shown under current liabilities	1,625,000	1,625,000
	1,625,000	3,250,000

On December 15, 2009, the Group converted the bridge finance of Rs 6,500 million from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) to Term Finance Certificates having unit value of Rs 5,000 each by way of private placement. As of December 31, 2012, HBL and NBP hold 400,000 units and 846,570 units respectively while the remaining 53,430 units are held by other private investors.

Terms of redemption

The tenure of the PPTFCs is from December 16, 2009 to September 1, 2014. The PPTFCs are redeemable in six semi-annual installments of Rs 812.5 million ending on September 1, 2014. The Group has an option to redeem in full (Call Option) or part (Partial Call Option) of the outstanding amount without any premium by giving written notice to the Trustee at least thirty days prior to the option date. The Call Option is exercisable only on mark up payment dates.

Rate of return

The return on PPTFCs is payable semi-annually and is calculated on the outstanding balance at the rate of six months KIBOR plus 2.5% per annum. The effective mark up rate charged during the year on the outstanding balance ranges from 11.97% to 14.53% per annum.

Trustee

In order to protect the interests of the PPTFCs holders, HBL was appointed as Trustee under a trust deed dated September 01, 2009. The Trustee is paid a fee of Rs 0.75 million per annum.

In case the Group defaults on any of its obligations, the Trustee may enforce the Group's obligations in accordance with the terms of the trust deed. The proceeds of any such enforcements shall be distributed to the PPTFC holders at the time on a pari passu basis in proportion to the amounts owed to them pursuant to the PPTFCs.

Security

The PPTFCs are secured by a registered first ranking pari passu charge over all present and future fixed assets of the parent company excluding land and buildings and lamont boiler for nitric acid, the Cessna aircraft, Clean Development Mechanism (CDM) project and carbon dioxide recovery plant / liquefaction plant.

			2012	2011
			(Rupees in thousand)	
9.2	**Long term loans**			
	These have been obtained from the following financial institutions:			
	Habib Bank Limited - Loan 1	- note 9.2.1	-	486,000
	Habib Bank Limited - Loan 2	- note 9.2.2	-	96,476
	Dubai Islamic Bank Limited	- note 9.2.3	-	262,500
	MCB Bank Limited	- note 9.2.4	688,890	1,033,334
	Standard Chartered Bank (Pakistan) Limited - Loan 1	- note 9.2.5	500,000	900,000
	Standard Chartered Bank (Pakistan) Limited - Loan 2	- note 9.2.6	833,334	-
	Faysal Bank Limited	- note 9.2.7	500,000	-
	National Bank of Pakistan	- note 9.2.8	187,500	437,500
	Pakistan Kuwait Investment Company (Private) Limited	- note 9.2.9	437,500	500,000
	PAIR Investment Company Limited	- note 9.2.10	500,000	-
	Soneri Bank Limited	- note 9.2.11	400,000	400,000
	Meezan Bank Limited	- note 9.2.12	249,251	187,969
			4,296,475	4,303,779
	Less: Current portion shown under current liabilities	- note 15	1,425,884	1,739,920
			2,870,591	2,563,859

9.2.1 This has been repaid during the year. The effective markup rate charged during the year on the outstanding balance ranges from 10.51% to 15.00% per annum.

9.2.2 This has been repaid during the year. The effective markup rate charged during the year on the outstanding balance ranges from 13.40% to 14.96% per annum.

9.2.3 This has been repaid during the year. The effective markup rate charged during the year on the outstanding balance ranges from 13.95% to 15.40% per annum.

9.2.4 This represents a term loan facility and the balance is repayable in four semi annual installments of Rs 172.222 million each ending on October 23, 2014. Markup is payable semi-annually at the rate of six months KIBOR plus 0.65% per annum on Rs 533.335 million, while on the remaining Rs 155.555 million, it is payable at the rate of six months KIBOR plus 3% per annum. The effective mark up rate charged during the year on the outstanding balance of Rs 533.335 million ranges from 10.43% to 12.65% per annum, while on the outstanding balance of Rs 155.555 million, the effective markup rate charged during the year ranges from 12.78% to 15.00% per annum. It is secured by a registered first pari passu charge on all present and future fixed assets of the parent company excluding the assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the Lamont boiler for nitric acid.

9.2.5 This represents a term loan facility on musharika basis for capital expenditure. The balance is repayable in five quarterly installments of Rs 100 million each ending on March 15, 2014. Mark up is payable quarterly at the rate of one month KIBOR plus 1.90% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 15.24% to 16.09% per annum. The loan is secured by a registered charge over fixed assets comprising the Clean Development Mechanism (CDM).

9.2.6 This represents a term loan facility of Rs 1,000 million obtained during the year on musharika basis for capital expenditure. The tenure of the loan is three years and the balance is repayable in ten quarterly installments of Rs 83.333 million each ending on March 17, 2015. Mark up is payable monthly at the rate of one month KIBOR plus 1.75% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 11.26% to 13.85% per annum. The loan is secured by a registered first pari passu charge over the fixed assets of the parent company including land, building, plant and machinery.

9.2.7 This represents a term finance facility of Rs 500 million obtained during the year to finance the Group's capacity expansion. It is repayable after a grace period of two years in six equal semi-annual installments of Rs 83.333 million each commencing December 14, 2014 and carries mark up at the rate of six months KIBOR plus 1.70% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 11.24% to 13.73% per annum. It is secured by a pari passu charge on all present and future movable fixed assets excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna and

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

Bombardier Challenger aircrafts, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant and the land and buildings of the excluded assets.

9.2.8 This represents credit facility to cover debt swap of expensive debts outstanding with financial institutions. The balance is repayable in three equal quarterly installments of Rs 62.5 million each ending on September 25, 2013 and carries mark up at the rate of three months KIBOR plus 2.5% per annum, payable quarterly. The effective markup rate charged during the year on the outstanding balance ranges from 11.87% to 14.47% per annum. It is secured by a first exclusive hypothecation charge over the Cessna aircraft, pledge of ordinary shares of Fatima Fertilizer Company Limited held by the Group and ranking charge over current assets excluding the receivables of CERs revenue.

9.2.9 This represents term finance facility to finance the Group's capacity expansion. The balance is repayable in seven equal semi-annual installments of Rs 62.5 million each ending on June 29, 2016 and carries mark up at the rate of six months KIBOR plus 2.25% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 11.67% to 14.29% per annum. It is secured by a pari passu charge on all present and future movable fixed assets excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories.

9.2.10 This represents term finance facility of Rs 500 million obtained during the year for balance sheet restructuring and Group's capital expenditure requirements. It is repayable after a grace period of eighteen months in seven equal semi-annual installments of Rs 71.428 million each commencing August 28, 2014 and carries mark up at the rate of six months KIBOR plus 2.25% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance was 12.77% per annum. It is secured by a first pari passu charge on the parent company's present and future fixed assets.

9.2.11 This represents term finance facility of Rs 400 million to meet the Group's capital expenditure / repayment of expensive debt. It is repayable in six equal semi-annual installments of Rs 66.667 million each commencing May 2, 2014 and carries mark up at the rate of six months KIBOR plus 1.75% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 11.11% to 13.76% per annum. It is secured by a first pari passu charge on the parent company's present and future fixed assets including land and building and machinery excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories and the land and buildings related to these assets.

9.2.12 This represents diminishing musharika facility of Rs 250 million from a banking company, Meezan Bank Limited, and the purpose of this facility is to finance the purchase of both local and imported plant and machinery for the subsidiary company. It has a tenor of 5 years including a grace period of one and a half year. It is repayable in fourteen equal quarterly installments of Rs 17.803 million each commencing September 16, 2013 and carries markup at the rate of six months Karachi Inter-Bank Offered Rate (KIBOR) plus 3% per annum with a floor of 12% and a cap of 25%. The effective markup rate charged during the year on the outstanding balance ranges from 12.47% to 15.03% per annum. The facility is secured by a registered mortgage of Rs 100 million over the building/superstructure on the subsidiary company's leasehold land and an exclusive hypothecation charge on plant and machinery.

			2012	**2011**
			(Rupees in thousand)	
9.3	**Syndicated term finance**			
	This has been obtained from a consortium of the following financial institutions:			
	National Bank of Pakistan		266,333	399,500
	Habib Bank Limited		-	405,500
	United Bank Limited		238,095	357,143
	Allied Bank Limited		-	800,000
	Faysal Bank Limited		50,239	75,357
			554,667	2,037,500
	Less: Current portion shown under current liabilities	- note 15	277,334	679,167
			277,333	1,358,333

It represents a syndicated term finance facility (STFF) to finance equity investment / debt financing in Fatima Fertilizer Company Limited, a related party. The loan portion of Habib Bank Limited and Allied Bank Limited has been repaid during the year. The balance is repayable in four equal semi annual installments of Rs 138.667 million each ending on August 26, 2014. Mark up is payable semi-annually at the rate of six months KIBOR plus 2.5% per annum with no floor and no cap. The effective markup rate charged during the year on the outstanding balance ranges from 13.03% to 15.88% per annum. The facility is secured by a registered first pari passu charge on all present and future fixed assets of the parent company including plant and machinery, fixtures, fittings, vehicles, tools and equipment but excluding immovable property, land and buildings, Lamont Boiler for nitric acid, Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project and the complete carbon dioxide recovery plant/liquefaction plant along with carbon dioxide static storage tank, its spares, tools and accessories.

10. Import bill payable - secured

This represents deferred payment letter of credit established with Allied Bank Limited for import of an aircraft from Bombardier Inc., Canada. It is interest free and is secured through an exclusive hypothecation charge over the aircraft with all accessories, spares and parts installed or which may be installed in future.

		2012	2011
		(Rupees in thousand)	
Import bill payable [USD 24 million (2011: USD 20 million)]		2,330,400	1,796,000
Less: Current portion included in trade and other payables		842,000	-
		1,488,400	1,796,000
11. Liabilities against assets subject to finance lease			
Present value of minimum lease payments	- note 11.1	113,189	208,112
Less: Current portion shown under current liabilities	- note 15	63,511	70,094
		49,678	138,018

The minimum lease payments have been discounted at an implicit interest rate of KIBOR plus 2% to 2.5% reset at the beginning of every three or six months depending upon the terms of the lease agreement. The implicit interest rate used during the period to arrive at the present value of minimum lease payments ranges from 10.67% to 16.81%. Since the implicit interest rate is linked with KIBOR so the amount of minimum lease payments and finance charge may vary from period to period. The lessee has the option to purchase the assets after expiry of the lease term.

Taxes, repairs and insurance costs are to be borne by the Group. In case of early termination of lease, the lessee shall pay entire amount of rentals for unexpired period of lease agreement.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	Minimum lease payments	Future finance cost	Present value of lease liability 2012	Present value of lease liability 2011
	(Rupees in thousand)			
Not later than one year	71,731	8,220	63,511	70,094
Later than one year and not later than five years	51,139	1,461	49,678	138,018
	122,870	9,681	113,189	208,112

11.1 These include a balance of Rs 0.08 million (2011: Rs 5.466 million) of a related party, Summit Bank Limited.

12. Long term deposits

These represent interest free security deposits from customers and carriage contractors and are repayable on cancellation/ withdrawal of the dealership or on cessation of the business with the Group respectively.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

			2012	2011
			(Rupees in thousand)	
13.	**Deferred liabilities**			
	Accumulating compensated absences	- note 13.1	84,150	66,001
	Retirement benefits - gratuity fund	- note 13.2	30,690	24,683
			114,840	90,684
13.1	**Accumulating compensated absences**			
	Opening balance		66,001	42,664
	Provision for the year		26,568	25,269
			92,569	67,933
	Less: Payments made during the year		8,419	1,932
	Closing balance		84,150	66,001
13.2	**Gratuity fund**			
	The amounts recognised in the balance sheet are as follows:			
	Present value of defined benefit obligation		115,230	88,126
	Fair value of plan assets		(82,105)	(64,824)
	Unrecognised actuarial (losses)/gains		(2,435)	1,381
	Liability as at year end		30,690	24,683
	Opening net liability		24,683	14,702
	Charge to profit and loss account		30,249	23,977
	Charge to related party		441	706
	Contribution by the Group		(24,683)	(14,702)
	Liability as at year end		30,690	24,683
	The movement in the present value of defined benefit obligation is as follows:			
	Opening present value of defined benefit obligation		88,126	53,709
	Service cost		27,102	23,719
	Interest cost		11,016	6,982
	Benefits paid to out-going members during the year		(14,727)	(1,877)
	Experience loss		3,713	5,593
	Present value of defined benefit obligation as at year end		115,230	88,126
	The movement in fair value of plan assets is as follows:			
	Opening fair value		64,824	45,505
	Expected return on plan assets		8,104	5,916
	Group contributions		24,683	14,702
	Benefits paid to out-going members during the year		(14,727)	(1,877)
	Experience (loss)/gain		(779)	578
	Fair value as at year end		82,105	64,824
	Plan assets are comprised as follows:			
	Mixed funds		56,520	62,777
	Cash		25,585	2,047
			82,105	64,824

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

	2012	2011	2010	2009	2008
			(Rupees in thousand)		
Present value of defined benefit obligation	115,230	88,126	53,709	38,481	32,356
Fair value of plan assets	82,105	64,824	45,505	29,959	20,783
Loss	(33,125)	(23,302)	(8,204)	(8,522)	(11,573)
Experience adjustment on obligation	3%	6%	2%	-21%	5%
Experience adjustment on plan assets	-0.95%	0.89%	0.21%	2%	3%

		2012	2011
		(Rupees in thousand)	
14. Deferred taxation			
The liability for deferred taxation comprises temporary differences relating to:			
Accelerated tax depreciation		9,912,589	10,183,663
Accumulating compensated absences		(29,453)	(23,100)
Provision for doubtful receivable		(3,119)	(3,119)
Post retirement medical benefits and other allowances payable		(4,030)	(4,030)
Assets subject to finance lease		2,778	7,444
Interest receivable		553,828	336,500
Preference dividend receivable		468,025	400,390
Unrealised recovery of chemical catalyst		50,799	69,542
Goodwill		836,155	-
Unused tax losses		(793,934)	-
Minimum tax available for carry forward		(73,669)	-
Precommencement expenditure		(4,731)	-
		10,915,238	10,967,290
The gross movement in deferred tax liability during the year is as follows:			
Opening balance		10,967,290	5,574,152
Deferred tax on revaluation surplus	- note 8	(185,845)	4,434,012
Transferred to other comprehensive income for the year on account of incremental depreciation		-	(79,706)
Charged to profit and loss account		133,793	1,038,832
Closing balance		10,915,238	10,967,290
15. Current portion of long term liabilities			
Long term finances - secured:			
- Redeemable capital	- note 9.1	3,125,000	3,825,000
- Long term loans	- note 9.2	1,425,884	1,739,920
- Syndicated term finance	- note 9.3	277,334	679,167
Liabilities against assets subject to finance lease	- note 11	63,511	70,094
Payable against mining rights (overdue)	- note 15.1	21,000	21,000
		4,912,729	6,335,181

15.1 This represents interest free amount payable to Director General, Mines and Minerals, Government of Khyber Pakhtunkhwa ('GOKP') in respect of mining rights acquired for extraction of rock phosphate from a block of area in District Abbottabad for a ten years period ending on August 11, 2019. Since the balance Rs 21 million is overdue, the mining rights can be cancelled by the GOKP. However, it has pledged its investment in Defence Saving Certificates referred to in note 26.1 as security with the Director General, Mines & Minerals, GOKP as per the terms of the mining agreement.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

			2012	2011
			(Rupees in thousand)	
16.	**Short term borrowings - secured**			
	Running finances	- note 16.1	4,004,654	3,494,806
	Term finances	- note 16.2	2,001,570	1,149,000
			6,006,224	4,643,806

16.1 Running finances

Short term running finance facilities available from various commercial banks under mark-up arrangements amount to Rs 8,300 million (2011: Rs 7,101 million). The rates of mark-up range from 10.43 % to 14.60 % on the outstanding balance or part thereof. The aggregate running finances are secured against pledge of stock-in-trade as referred to in note 29.1, registered hypothecation charge on current assets (excluding CER receivables) of the parent company and first pari passu charge over all current assets of the subsidiary company. Included in the above is a running finance of Rs 400 million (2011: Rs 400 million) from a related party, Summit Bank Limited.

16.2 Term finances

Term finance facilities available from various commercial banks under profit arrangements amount to Rs 3,029 million (2011: Rs 1,149 million). The rates of profit range from 10.38 % to 13.60 % on the outstanding balance or part thereof. The aggregate term finances are secured against first pari passu charge over all current assets of the parent company and pledge of raw materials and hypothecation charge on all current assets of the subsidiary company.

16.3 Letters of credit and guarantees

Of the aggregate facility of Rs 8,214 million (2011: Rs 5,313 million) for opening letters of credit and Rs 2,350 million (2011: Rs 100 million) for guarantees, the amounts utilised at December 31, 2012 are Nil (2011: Rs 652.554 million) and Rs 17 million (2011: Rs 8.846 million) respectively. The facility for opening letters of credit is secured against import documents and facility for guarantees is secured by registered joint pari passu charge over current assets.

17. Payable to Privatization Commission of Pakistan

Reliance Exports (Private) Limited ('REL'), under the terms and conditions stated in the 'Share Purchase Agreement' (the Agreement), acquired 100% shares in the parent company on July 14, 2005 through the process of privatization. Under the terms of the Agreement, the purchase consideration, in addition to lump sum cash payment, included a further payment equivalent to 90% of the Group's claim of tax refund aggregating to Rs 2,814.511 million for the assessment years 1993-94, 1995-96 through 2002-2003 and tax years 2003 and 2004. The amount is payable to the Privatization Commission in the event of and at the time of cash receipt of the refund from the concerned tax authorities.

The amount recognized in these financial statements as payable to Privatization Commission is net off Rs 240.119 million which, according to the management of the Group, has already been withdrawn by the Previous Members as part of the dividend distribution for the year ended June 30, 2005. The management of the Group feels that the Agreement as presently worded, if executed, would result into double payment of the same amount to the Privatization Commission/Previous Members, firstly, as part of the profits for the year ended June 30, 2005 (computed without recognition of the tax expense for the years for which when the refund is issued, an amount equivalent to 90% would be the right of the Privatization Commission/Previous Members) and secondly, at the time the refund is received from the tax authorities when an amount equivalent to 90% of such refund is paid off to the Privatization Commission, as agreed. The management of the Group feels that such double payment is neither the intention nor warranted under the specific provisions of the Agreement.

Upon dissolution of REL and its amalgamation with the parent company on July 14, 2005, this liability was recognised in the books of the parent company being the surviving entity upon REL's amalgamation with the parent company in accordance with the Scheme of Arrangement for Amalgamation.

18. This represents the derivative cross currency swaps the Group had entered into with various banks. Under the terms of certain cross currency swap arrangements, the Group pays London Inter-Bank Offered Rate (LIBOR) plus bank spread to the arranging banks on the notional USD amount for the purposes of the cross currency swap, and receives KIBOR from the arranging banks. Similarly, under the terms of certain other cross currency swap arrangements, the parent company pays KIBOR to the arranging bank on the notional USD amount for the purposes of the cross currency swap, and receives LIBOR plus bank spread from the arranging bank. There has been no transfer of liability under these arrangements, only the nature of the interest payments has changed. The derivative cross currency swaps outstanding as at December 31, 2012 have been marked to market and the resulting gain of Rs 2.929 million has been recognised in the profit and loss account.

			2012	2011
			(Rupees in thousand)	
19.	**Trade and other payables**			
	Trade creditors	- note 19.1	1,486,779	926,113
	Sui gas bill payable		112,228	135,612
	Security deposits		30,160	33,333
	Accrued liabilities		376,333	424,228
	Workers' profit participation fund	- note 19.2	753,108	803,274
	Workers' welfare fund		244,046	182,545
	Customers' balances		130,676	504,011
	Bank guarantees discounted		66,348	100,968
	Due to related party	- note 19.3	133,000	429
	Due to employees' provident fund trust		6,084	5,196
	Withholding tax payable		14,006	10,995
	Electricity duty payable		16,481	12,214
	Excise duty payable		1,724	1,642
	Retention money		1,541	475
	Others		535	4,726
			3,373,049	3,145,761

19.1 Includes an amount of Rs 0.05 million (2011: Nil) payable to FATIMA, a related party.

			2012	2011
			(Rupees in thousand)	
19.2	**Workers' profit participation fund**			
	Opening balance		803,274	613,236
	Provision for the year	- note 39	-	290,232
	Interest for the year	- note 38	-	27,046
			803,274	930,514
	Less: Payments made during the year		50,166	127,240
	Closing balance		753,108	803,274

The Group has an agreement with the Workers Welfare Fund ('WWF'), Ministry of Labour and Manpower, Government of Pakistan whereby the balance amount of Workers' Profit Participation Fund ('WPPF') remaining after deducting the workers' portion of WPPF that is required to be deposited in the WWF, would be used for establishing a hospital for the workers as per the mechanism defined in that agreement.

19.3 This amount is payable to Fazal Cloth Mills Limited.

		2012	2011
		(Rupees in thousand)	
20.	**Accrued finance cost**		
	Accrued mark-up on:		
	- redeemable capital - secured	79,805	221,873
	- long term loans - secured	62,148	89,934
	- syndicated term finance - secured	26,051	112,509
	- short term borrowings - secured	159,848	124,373
	Acceptance commission on letter of credit	43,164	129,132
		371,016	677,821

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

21. Contingencies and commitments

21.1 Contingencies

(i) The Group has netted off an amount of Rs 240.119 million from the amount payable to the Privatization Commission, as part of purchase consideration, at the time and in the event the refund is received from the tax authorities. In case, the Group's contention relating to possible double payment is not acceded to by the other party to the Share Purchase Agreement, the Group is contingently liable to the aforesaid amount of Rs 240.119 million. In case, the amount becomes payable, the corresponding effect would be reflected in the computation of goodwill.

(ii) The Group has issued following guarantees in favour of:

- Sui Northern Gas Pipelines Limited against gas sale amounting to Rs 10 million (2011: Rs 8.846 million).
- Pakistan State Oil Company Limited against fuel for aircraft amounting to Rs 7 million (2011: Nil).
- Meezan Bank Limited as security against finance obtained by its polypropylene sacks segment.

(iii) Indemnity bonds aggregating Rs 152.7 million (2011: Rs 354.880 million) issued to the Customs authorities in favour of The President of Islamic Republic of Pakistan under SRO 489(I)/2000 for the value of goods exported and to be re-imported.

(iv) Post dated cheques furnished by the Group in favour of the Collector of Customs to cover import levies against imports aggregating to Nil (2011: Rs 182.347 million).

(v) As at June 30, 2004, the Group had investment of 140,000 ordinary shares of Rs 10 each valuing Rs 100,000 in National Fertilizer Marketing Limited, being the associated company on that date. On May 20, 2005, this investment was transferred to National Fertilizer Corporation of Pakistan (Private) Limited by the management of the Group. However, the new buyer, Reliance Exports (Private) Limited filed an application before Privatization Commission challenging this transfer on the grounds that such transfer had been carried out against the terms and conditions of the bid documents. In case of a positive outcome to the application, this investment would be re-instated.

(vi) An amount of Rs 129.169 million was withdrawn by the previous members of the parent company as part of dividend for the year ended June 30, 2005 under the Share Purchase Agreement. Out of the aggregate amount, Rs 89.39 million represents the value of certain catalysts recovered in consequence of clean down operations of the plant prior to undertaking the process of privatization, which was accounted for as income in the financial statements for the year ended June 30, 2005 in the light of applicable financial reporting framework.

The management of the Group feels that notwithstanding the applicability of the financial reporting framework, on the financial statements for the year ended June 30, 2005, the amount was not distributable as part of dividend for that year in view of the clear understanding behind the execution of the Agreement as categorically confirmed, in writing, by the Privatization Commission prior to signing of the Agreement. Similarly, the balance amount of Rs 39.779 million is considered to be dividend distribution out of the then available reserves which was also not distributable to the previous members in terms of other covenants of the Agreement.

The Group has filed a claim for the recovery of the aforesaid aggregate amount on the grounds that in the present form, the distribution has been made out of the accumulated reserves, for the years up to June 30, 2004, which, under the specific provisions of the Agreement were not distributable to the previous members of the parent company. In case of a positive outcome to the Group's claim, the excess dividend withdrawn by the previous members of the parent company would be recovered.

(vii) Through a show cause notice issued recently, the department has raised the issue of short payment of output sales tax on supplies of the Group's fertilizer product, Calcium Ammonium Nitrate ('CAN') for the period from April 18, 2011 to December 31, 2011 involving a principal sales tax demand of Rs 500 million. Such issue has been raised on the grounds that notification SRO 15(I)/2006, providing for levy of sales tax on the basis of 'notified price' of CAN, was withdrawn through notification SRO 313(I)/ 2011 dated April 18, 2011 and hence, Group was legally required to recover output sales tax on supplies of CAN on the basis of actual consideration received there against. The Group has impugned the vires of such notice through institution of a constitutional petition before the Honourable Lahore High Court, inter alia, on the grounds that (i) pending the disposal of application earlier filed with the Federal Board of Revenue by the Group under section 65B of the Sales Tax Act, 1990 on this matter, instant proceedings initiated by department lack the legal sanctity; and (ii) that inadvertence of charging the sales tax on the basis of notified price was not attributable to any mala fide on the Group's part. In view of the fact that management considers the Group's stance to be based on meritorious grounds and hence expects a favourable decision on the matter by Lahore High Court, no provision on this account has been made in these financial statements.

(viii) For assessment years 1993-94 and 1995-96 through 2002-2003 and for tax years 2003 through 2005, the Group, in view of the position taken by the tax authorities that the income of the Group is chargeable to tax on the basis of 'net income', had provided for in the financial statements the tax liability on net income basis which aggregated to Rs 5,223.343 million. Tax liabilities admitted in respective returns of total income in respect of these assessment / tax years, however, aggregated to Rs 1,947.671 million being the liabilities leviable under the Presumptive Tax Regime ('PTR'), considered by the management to be applicable in respect of Group's income from sale of own manufactured fertilizer products.

The Appellate Tribunal Inland Revenue ('ATIR') through its separate orders for the assessment years 1993-94, 1995-96 through 2002-03 upheld the Group's position as taken in respective returns of total income and consequently, management reversed the excess provisions aggregating to Rs 3,275.673 million on the strength of such judgments. ATIR's decisions in respect of certain assessment years have also been upheld by the Lahore High Court while disposing departmental appeals against respective orders of ATIR. Income tax department has statedly agitated the issue further before Supreme Court of Pakistan, which is pending adjudication.

In view of the favourable disposal of the matter up to the level of High Court, management of the Group feels that the decision of the apex court would also be in the favour of the Group and hence in these financial statements, tax liabilities in respect of above referred assessment / tax years have been provided on the basis that Group's income during such years was taxable under PTR. In case, the apex court decides the matter otherwise, amount aggregating to Rs 3,275.673 million will have to be recognized as tax expense in respect of such assessment / tax years.

(ix) Included in trade debts is an amount of Rs 18.877 million (2011: Rs 28.511 million) which has not been acknowledged as debts by its customers due to a dispute regarding the discount on the product's price. The Group's customers had collectively filed an appeal regarding the price dispute before the Civil Court, Multan, which decided the case in favour of the Group's customers. The Group preferred an appeal before the District and Sessions Court, Multan which set aside the order of the Civil Court. The Group's customers filed a revised petition before the Lahore High Court against the order of the District and Sessions Court, which is pending for adjudication. Based on the advice of the Group's legal counsel, the Group's management considers that there are meritorious grounds to defend the Group's stance and hence, no provision has been made in these financial statements on this account.

(x) The Group, along with other fertilizer companies, has received a show cause notice from the Competition Commission of Pakistan ('CCP') for initiating action under the Competition Act, 2010 in relation to unreasonable increase in the price of fertilizer. The Group has responded in detail to the factors resulting in such increase, gas curtailment being the single largest factor, to CCP and the Group is hopeful that there will be no adverse action taken against the Group.

(xi) Claims against the Group not acknowledged as debts Rs 23.051 million (2011: Rs 23.051 million).

21.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 61.222 million (2011: Rs 334.629 million).

(ii) Letters of credit other than for capital expenditure Rs 128.189 million (2011: Rs 233.937 million).

(iii) Purchase orders aggregating Rs 5.656 million (2011: Rs 4.818 million) were placed and letters of credit were established subsequently.

(iv) The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2012	2011
	(Rupees in thousand)	
Not later than one year	57,597	53,089
Later than one year and not later than five years	112,547	109,630
Later than five years	-	775
	170,144	163,494

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
22. Property, plant and equipment			
Operating fixed assets	- note 22.1	36,846,416	37,643,761
Capital work-in-progress	- note 22.2	863,946	604,612
		37,710,362	38,248,373

22.1 Operating fixed assets

(Rupees in thousand)

	Freehold land	Building on freehold land	Railway siding	Plant and machinery	Aircrafts	Furniture and fixtures	Tools and other equipment	Vehicles	Catalyst	Total
COST										
Balance as at January 01, 2011	3,387,787	2,312,174	30,673	20,415,421	505,796	66,140	508,652	193,128	45,547	27,465,318
Additions during the year	-	23,676	-	193,764	2,273,109	12,034	68,969	22,777	56,555	2,650,884
Revaluation	1,379,847	439,234	27,006	11,933,148	-	-	269,251	-	-	14,048,486
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	77,688	-	77,688
Disposals during the year	-	-	-	-	-	-	-	(50,085)	-	(50,085)
Elimination of accumulated depreciation against cost on revaluation	-	(846,533)	(20,879)	(4,475,964)	-	(13,534)	(224,342)	-	-	(5,581,252)
Balance as at December 31, 2011	4,767,634	1,928,551	36,800	28,066,369	2,778,905	64,640	622,530	243,508	102,102	38,611,039
Balance as at January 01, 2012	4,767,634	1,928,551	36,800	28,066,369	2,778,905	64,640	622,530	243,508	102,102	38,611,039
Additions during the year - note 22.1.2	-	124,652	-	23,432	4,304	5,264	55,231	6,844	115,210	334,937
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	117,858	-	117,858
Disposals during the year	-	-	-	(6,759)	-	-	-	(123,909)	-	(130,668)
Balance as at December 31, 2012	4,767,634	2,053,203	36,800	28,083,042	2,783,209	69,904	677,761	244,301	217,312	38,933,166
DEPRECIATION										
Balance as at January 01, 2011	-	795,834	19,183	4,225,549	286,234	8,269	248,996	130,240	38,606	5,752,911
Charge for the year	-	84,779	4,897	467,734	138,929	7,560	34,856	25,525	9,955	774,235
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	54,722	-	54,722
Charge on disposals	-	-	-	-	-	-	-	(33,338)	-	(33,338)
Elimination of accumulated depreciation against cost on revaluation	-	(846,533)	(20,879)	(4,475,964)	-	(13,534)	(224,342)	-	-	(5,581,252)
Balance as at December 31, 2011	-	34,080	3,201	217,319	425,163	2,295	59,510	177,149	48,561	967,278
Balance as at January 01, 2012	-	34,080	3,201	217,319	425,163	2,295	59,510	177,149	48,561	967,278
Charge for the year	-	101,661	9,600	698,441	215,368	7,887	43,614	28,632	23,610	1,128,813
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	74,917	-	74,917
Charge on disposals	-	-	-	(91)	-	-	-	(84,167)	-	(84,258)
Balance as at December 31, 2012	-	135,741	12,801	915,669	640,531	10,182	103,124	196,531	72,171	2,086,750
Book value as at December 31, 2011	4,767,634	1,894,471	33,599	27,849,050	2,353,742	62,345	563,020	66,359	53,541	37,643,761
Book value as at December 31, 2012	4,767,634	1,917,462	23,999	27,167,373	2,142,678	59,722	574,637	47,770	145,141	36,846,416
Annual depreciation rate %	-	4 to 5.26	10	4 to 5.26	10 to 20	10	4 to 33	20	7 to 67	

22.1.1 Freehold land, buildings on freehold land, railway siding, plant and machinery and tools and other equipment were revalued by an independent valuer M/s Pirsons Chemical Engineering (Private) Limited on September 30, 2011 on current market value basis. The revaluation surplus net of deferred tax was credited to surplus on revaluation of operating fixed assets. Had there been no revaluation, the carrying amounts of the following classes of assets would have been as follows:

	2012	2011
	(Rupees in thousand)	
Freehold land	3,387,787	3,387,787
Buildings on freehold land	1,509,190	1,462,942
Railway siding	6,312	8,844
Plant and machinery	15,653,706	16,020,581
Tools and other equipment	340,641	302,731
	20,897,636	21,182,885

22.1.2 Included in additions during the year is a vehicle of Rs 1.998 million which has been purchased from Fatima Energy Limited, a related party.

22.1.3 Included in plant and machinery are assets costing Rs 34.613 million which are installed at the manufacturing facilities of the Group's customers namely Iceberg Gas Company, Coca-Cola Beverages Pakistan Limited and Shamim & Company (Private) Limited.

		2012	2011
		(Rupees in thousand)	
22.1.4 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 35	829,836	570,163
Administrative expenses	- note 36	296,239	201,382
Selling and distribution expenses	- note 37	1,975	2,679
Unallocated expenditure	- note 22.2.4	763	11
		1,128,813	774,235

22.1.5 Disposal of operating fixed assets

2012
(Rupees in thousand)

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Ex - employees**					
	Pervaiz Iqbal	993	993	-	97	As per Group's policy
	Khurram Shahzad	712	560	152	521	- do -
	Muhammad Tariq Virk	1,016	1,016	-	503	- do -
	Munir Ahmed Bhatti	1,070	876	194	575	- do -
	Syed Muhammad Ali Shah	648	553	95	244	- do -
	Abdul Karim Noon	945	945	-	95	- do -
	Capt (R) Muhammad Aslam Ch	1,044	1,044	-	264	- do -
	Muhammad Zeeshan Nasim	878	702	176	604	- do -
	Fahad Ishfaq	878	702	176	604	- do -
	Waqas Zaib	899	285	614	656	- do -
	Feroz Ahmed Tariq	825	454	371	324	- do -
	Javed Ghafoor Lodhi	906	332	574	525	- do -
	Sohail Shahzad	922	430	492	648	- do -
	Kashif Aleem Khan	828	469	359	363	- do -
	Amir Mahmood	893	357	536	526	- do -
	Alamgir Khan	1,298	843	455	981	- do -
	Islamuddin Memon	922	415	507	522	- do -
	Faisal Karim	1,515	631	884	801	- do -
	Jamal Nasir	695	359	336	484	- do -
	M. Usman Khalid	700	480	220	256	- do -
	Jamal Abdul Nasir	944	802	142	183	- do -
	Liaqat Ali	649	551	98	243	- do -
	Adnan Ashraf	1,256	669	587	1,061	- do -
	Inam Ullah Zaffar	1,349	472	877	790	- do -
	Abdul Haque Sajid	1,298	756	542	1,110	- do -
	Muhammad Akbar	1,350	472	878	860	- do -
	Kashif Ahmad Shahzad	737	356	381	476	- do -
	Employees					
	Mubashar Hanif Khan	682	534	148	421	- do -
	Sohail Bashir	928	803	125	703	- do -

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		2012 (Rupees in thousand)				
Particulars	**Sold to**	**Cost**	**Accumulated depreciation**	**Book value**	**Sale proceeds**	**Mode of disposal**
Vehicles	**Employees**					
	Farrukh Iqbal	1,071	820	251	763	As per Group's policy
	Raheel Ahmed	538	421	117	127	- do -
	Dr. (Capt) Aftab Ahmed (R)	604	604	-	70	- do -
	Salman Saleem	878	746	132	475	- do -
	Muhammad Sajjad Hadir	639	532	107	147	- do -
	Mahmood Javed	649	551	98	160	- do -
	Sohail Sharif	520	442	78	111	- do -
	Farooq Ahmad Rana	878	746	132	389	- do -
	Muhammad Saeed	649	551	98	244	- do -
	Tahir Asghar Raja	878	746	132	475	- do -
	Muhammad Atif Masood	649	551	98	244	- do -
	Waseem Zaman	639	532	107	147	- do -
	Muhammad Faisal Gurmani	525	446	79	116	- do -
	Muhammad Nauman Talat	596	507	89	190	- do -
	Yousaf Ali	516	438	78	117	- do -
	Muhammad Afzal Bajwa	878	746	132	475	- do -
	Mohammad Mohtashim Ali	516	438	78	117	- do -
	Muhammad Usman	520	442	78	111	- do -
	Farhan Talib	682	568	114	269	- do -
	Munir Ahmed	993	993	-	100	- do -
	Muhammad Abubakar	672	594	78	266	- do -
	Amjad Manzoor	682	614	68	269	- do -
	Shams Ur Rehman Afzal	1,297	605	692	527	- do -
	Imran Hameed	644	515	129	127	- do -
	Ammar Anwar Ch.	888	355	533	526	- do -
	Qadeer Ahmed Khan	1,887	1,507	380	444	- do -
	Qadeer Ahmed Khan	1,118	875	243	479	- do -
	Farhan Rashid	899	359	540	529	- do -
	Sahrish Khawaja	606	484	122	191	- do -
	Yousaf Imran Khan	893	387	506	479	- do -
	Rashid Ali Rashid	893	387	506	494	- do -
	Muhammad Khalid	928	417	511	525	- do -
	Muhammad Yaqoob	928	417	511	525	- do -
	Muhammad Yasin	899	389	510	528	- do -
	Afzal Ahmad Khan Babar	1,450	1,063	387	375	- do -

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2012 (Rupees in thousand)				
Vehicles	**Employees**					
	Azhar Nawaz	520	416	104	111	As per Group's policy
	M. Asif Javed	525	420	105	116	- do -
	Kamil Hussain	520	416	104	31	- do -
	Muhammad Iqbal Baig	644	515	129	301	- do -
	Muhammad Shahid	649	519	130	306	- do -
	Faryad Hussain	644	526	118	239	- do -
	Syed M. Ali	649	530	119	244	- do -
	Hafiz Imran Anjum Saleemi	899	329	570	529	- do -
	M. Bilal Arshad	893	372	521	529	- do -
	Mudassar Hafeez	899	359	540	529	- do -
	Shahid Habib	825	495	330	481	- do -
	Imran Ali Bhatti	928	417	511	525	- do -
	Ahmad Majeed	908	393	515	482	- do -
	Accidental loss	1,387	555	832	1,325	Insurance claim
	Accidental loss	1,476	714	762	1,414	- do -
	Accidental loss	1,961	360	1,601	1,889	- do -
	Fakhar Alam	365	365	-	-	Donated
	Outside party					
	Gul Sher	923	923	-	452	Auction
	Muhammad Qasim	1,894	1,894	-	470	- do -
	Trans Pak Enterprises	460	460	-	552	- do -
	Muhammad Qasim	916	916	-	329	- do -
	Muhammad Qasim	819	819	-	432	- do -
	Muhammad Qasim	2,026	2,026	-	191	- do -
	Muhammad Qasim	288	288	-	214	- do -
	Muhammad Qasim	468	468	-	199	- do -
	Reliance Weaving Mills Limited	1,635	1,291	344	344	Negotiation
	Fatima Sugar Mills Limited	604	604	-	121	- do -
	Fatima Fertilizer Company Limited	42,902	28,128	14,774	23,687	- do -
Plant & machinery	**Outside party**					
	Johnson Matthey Public Limited Company, United Kingdom	6,759	91	6,668	2,035	- do -
		130,668	84,258	46,410	64,648	

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		2011 (Rupees in thousand)				
Particulars	**Sold to**	**Cost**	**Accumulated depreciation**	**Book value**	**Sale proceeds**	**Mode of disposal**
Vehicles	**Ex - employees**					
	Shahid Mehmood Mirza	1,054	632	422	936	As per Group's policy
	M. Ashfaq Anwar	864	202	662	963	- do -
	Sabahat Fatima	526	324	202	310	- do -
	Muhammad Zubair Khan	920	567	353	786	- do -
	Hamza Mehmood Manj	878	541	337	739	- do -
	Dr. Salman Ayyaz	525	324	201	437	- do -
	Syed Sarfraz Ali	826	302	524	791	- do -
	Asif Masood Khan	638	393	245	487	- do -
	Muhammad Asif Baig	790	407	383	758	- do -
	Shmaz Mir	1,448	362	1,086	1,472	- do -
	Muhammad Hamid Mehmood	785	418	367	402	- do -
	Hyder Ali	878	541	337	726	- do -
	Ghulam Yasin	927	679	248	179	- do -
	Syed Saqib Hussain	596	397	199	389	- do -
	Zafar Ullah	785	444	341	674	- do -
	Rana Kashif	827	343	484	783	- do -
	Muhammad Shahzad	820	301	519	520	- do -
	M. Nadeem Lasi	827	371	456	421	- do -
	Syed Muhammad Sibtain	879	674	205	370	- do -
	Syed Yawer Ali	511	358	153	318	- do -
	Muhammad Waqas Qureshi	649	454	195	444	- do -
	Saira Ashraf	622	436	186	411	- do -
	Muhammad Wasim Anjum	671	290	381	621	- do -
	Abid Ali Abid	949	680	269	705	- do -
	Tahir Hussain	524	244	280	454	- do -
	Imran Rasheed	649	465	184	126	- do -
	Tanveer H. Qureshi	1,874	873	1,001	989	- do -
	Kashif Rasheed	1,054	737	317	1,068	- do -
	Mansoor Ahmed Janjua	963	673	290	779	- do -
	Muhammad Amin	910	819	91	176	- do -
	Zarar Saleem	604	544	60	119	- do -
	Vehicle theft	1,298	540	758	1,225	Insurance claim
	Vehicle theft	1,542	231	1,311	1,479	- do -
	Vehicle theft	922	231	691	868	- do -
	Vehicle theft	690	310	380	650	- do -

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2011 (Rupees in thousand)				
Vehicles	**Ex - employees**					
	Muhammad Rizwan Nazar	604	544	60	119	As per Group's policy
	Tofique Ahmed	924	708	216	178	- do -
	Muhammad Nasir	865	663	202	231	- do -
	Arif-Ur-Rehman	1,286	985	301	249	- do -
	Arif-Ur-Rehman	652	488	164	126	- do -
	Malik Muhammad Rehan	923	707	216	178	- do -
	Rehmat Ullah Shah	604	544	60	119	- do -
	Zaheer Abbas	605	554	51	110	- do -
	Muhammad Jahanzeb Sohail	628	471	157	122	- do -
	Ghulam Sabir Hussain	604	544	60	119	- do -
	Iftikhar Mehmood Baig	1,258	1,152	106	244	- do -
	Mumtaz Ali Soomro	604	544	60	119	- do -
	Muhammad Saleem Malik	607	576	31	119	- do -
	Abu Saeed	870	870	-	170	- do -
	Amir Faisal	628	502	126	122	- do -
	Muhammad Imran	607	576	31	119	- do -
	Khurram Shahzad	628	502	126	122	- do -
	Umar Waqas	495	396	99	96	- do -
	Asghar Ali Rana	1,016	863	153	268	- do -
	Mohammad Saeed Iqbal	628	523	105	122	- do -
	Khalid Iqbal Sippal	628	534	94	122	- do -
	Syed Waheed Ullah	927	726	201	179	- do -
	Related parties					
	Reliance Weaving Mills Limited	142	142	-	28	Negotiation
	Reliance Weaving Mills Limited	600	600	-	120	- do -
	Reliance Weaving Mills Limited	941	941	-	188	- do -
	Fatima Sugar Mills Limited	604	594	10	120	- do -
	Reliance Weaving Mills Limited	982	982	-	196	- do -
		50,085	33,338	16,747	26,580	

			2012	2011
			(Rupees in thousand)	
22.2	**Capital work - in progress**			
	Civil works	- note 22.2.1	119,974	72,518
	Plant and machinery	- note 22.2.2 and 22.2.3	665,657	224,117
	Advances - considered good			
	- against purchase of plant and machinery		80,158	203,570
	- to contractor		2,399	11,427
	- to suppliers		8,629	33,151
	- to employee for capital expenditure		-	125
	Others		1,132	56,421
	Unallocated expenditure	- note 22.2.4	(14,003)	3,283
			863,946	604,612

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

22.2.1 Includes purchases of Rs 1.236 million (2011: Rs 8.863 million) from FATIMA, a related party.

22.2.2 Includes purchases of Nil (2011: Rs 0.370 million) from FATIMA, a related party.

22.2.3 During the year, borrowing cost of Rs 36.854 million (2011: Rs 0.735 million) has been capitalised.

			2012	2011
			(Rupees in thousand)	
22.2.4	**Unallocated expenditure**			
	Raw materials consumed		330,344	-
	Liners consumed		83,224	-
	Liner insertions cost		6,838	-
	Salaries, wages and other benefits	- notes 22.2.5	31,696	1,964
	Stores and spares consumed		952	-
	Travelling and conveyance		2,379	720
	Telephone, telex and postage		85	-
	Stationery, printing and periodicals		112	-
	Rent, rates and taxes	- note 22.2.6	1,928	126
	Repairs and maintenance		79	15
	Insurance		1,929	-
	Legal and professional charges		304	304
	Vehicle running expenses		741	133
	Entertainment	- note 22.2.7	738	10
	Markup on short term borrowings - secured		8,568	-
	Depreciation on operating fixed assets		774	11
	Utilities	- note 22.2.8	22,736	-
	Freight		1,906	-
			495,333	3,283
	Sale of trial production	- note 22.2.9	(392,578)	-
	Closing stock from trial production:			
	Work-in-process		(61,796)	-
	Finished goods		(54,962)	-
			(14,003)	3,283

22.2.5 Includes Rs 0.533 million (2011: Nil) in respect of gratuity.

22.2.6 Includes rent of Rs 0.525 million (2011: Rs 0.029 million) against lease of land of FATIMA, a related party, on which the manufacturing facility has been installed.

22.2.7 Includes expenses of Rs 0.463 million (2011: Nil) charged by FATIMA, a related party.

22.2.8 Includes electricity expenses of manufacturing facility of Rs 22.717 million (2011: Nil) charged by FATIMA, a related party.

			2012
			(Rupees in thousand)
22.2.9	**Sale of trial production**		
	Local sales		436,894
	Less: Sales tax		61,670
		- note 22.2.10	375,224
	Export sales		16,782
	Export rebate		572
			392,578
22.2.10	**Includes sales to the following related parties:**		
	Fatima Fertilizer Company Limited		267,071
	Fatima Sugar Mills Limited		26,142
	Reliance Weaving Mills Limited		4,239
			297,452

			Vehicles (Rupees in thousand)
23.	**Assets subject to finance lease**		
	COST		
	Balance as at January 01, 2011		394,481
	Additions during the year		54,659
	Transfer to operating fixed assets during the year		(48,978)
	Deletions during the year		(28,710)
	Balance as at December 31, 2011		371,452
	Balance as at January 01, 2012		371,452
	Transfer to operating fixed assets during the year		(117,858)
	Balance as at December 31, 2012		253,594
	DEPRECIATION		
	Balance as at January 01, 2011		111,767
	Charge for the year		85,025
	Transfer to operating fixed assets during the year		(54,722)
	Balance as at December 31, 2011		142,070
	Balance as at January 01, 2012		142,070
	Charge for the year	- note 23.1	65,315
	Transfer to operating fixed assets during the year		(74,917)
	Balance as at December 31, 2012		132,468
	Book value as at December 31, 2011		229,382
	Book value as at December 31, 2012		121,126
	Annual depreciation rate %		20

		2012	2011
		(Rupees in thousand)	
23.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 35	15,299	23,793
Administrative expenses	- note 36	32,891	42,706
Selling and distribution expenses	- note 37	17,125	18,526
		65,315	85,025

23.2 Vehicles of Rs 42.902 million (2011: Rs 173.133 million) are in possession and use of a related party, Fatima Fertilizer Company Limited.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		Computer software	Mining rights	Total
		(Rupees in thousand)		
24. Intangible assets				
COST				
Balance as at January 01, 2011		6,759	210,000	216,759
Elimination of accumulated amortization against cost on revaluation		(4,932)	-	-
Balance as at December 31, 2011		1,827	210,000	216,759
Balance as at January 01, 2012		1,827	210,000	211,827
Additions during the year	- note 24.2	9,266	-	9,266
Balance as at December 31, 2012		11,093	210,000	221,093
AMORTIZATION				
Balance as at January 01, 2011		5,412	28,000	33,412
Charge for the year		1,347	21,000	22,347
Elimination of accumulated amortization against cost on revaluation		(4,932)	-	-
Balance as at December 31, 2011		1,827	49,000	55,759
Balance as at January 01, 2012		1,827	49,000	50,827
Charge for the year	- note 24.3	193	21,000	21,193
Balance as at December 31, 2012		2,020	70,000	72,020
Book value as at December 31, 2011		-	161,000	161,000
Book value as at December 31, 2012		9,073	140,000	149,073
Annual amortization rate %		25	10	-

24.1 Mining rights represent rights acquired for extraction of rock phosphate from a block of area in District Abbottabad for a ten years period ending on August 11, 2019. The aforesaid area is in the possession and control of Pakistan Mining Company Limited ('PMCL'), a related party, which provides rock phosphate extraction services to the Group as per the Services Agreement between the company and PMCL.

24.2 Includes Rs 2.592 million (2011: Nil) for auditors' services in respect of implementation of an integrated Oracle Process Manufacturing module.

		2012	2011
		(Rupees in thousand)	
24.3 The amortization charge for the year has been allocated as follows:			
Cost of sales (included in raw materials consumed)		21,000	21,000
Administrative expenses	- note 36	193	1,347
		21,193	22,347

25. Goodwill

This represents goodwill on amalgamation of REL and the parent company.

Goodwill has been allocated for impairment testing purposes to one individual cash generating unit, the fertilizers segment. The recoverable amount of the fertilizers segment has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering an eighteen-year period, and a discount rate of 14 per cent. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The above cash flow projections are principally based on the assumption that gas supply would resume to the Group. During the year, the Group has faced excessive gas shortages due to which the operations have remained suspended for major part of the year resulting into loss for the year. However, subsequent to year end, the Government of Pakistan has approved long term gas supply arrangements from dedicated sources for fertilizer plants, based on which management feels that the current gas shortage is of a temporary nature and the gas supply will resume in the near future which would result in increased production as compared to current year thereby leading to future profits.

		2012	**2011**
		(Rupees in thousand)	
26. Investments			
Held to maturity:			
- Other	- note 26.1	30,681	27,349
Advance against purchase of shares	- note 26.2	62,596	-
		93,277	27,349

26.1 This represents Defence Saving Certificates issued for a period of ten years, which will mature on September 11, 2019. Yield to maturity on these certificates is 12.15%. These certificates have been pledged as security with the Director General, Mines & Minerals, Government of Khyber Pakhtunkhwa as per the terms of the mining agreement as referred to in note 15.1.

26.2 This represents advance against purchase of shares in Multan Real Estate Company (Private) Limited, a related party.

		2012	**2011**
		(Rupees in thousand)	
27. Long term loans - unsecured			
Considered good:			
Long term loan (from STFF)	- note 27.1	-	2,037,500
Long term loan	- note 27.2	-	2,478,065
		-	4,515,565

27.1 This has been repaid by FATIMA during the year. The effective rate of markup charged during the year on outstanding balance ranges from 13.03% to 15.88%.

27.2 This has been repaid by FATIMA during the year. The rate of mark up is equal to the borrowing cost of the parent company. The effective rate of mark up charged on the outstanding balance during the year was 13.41%.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

			2012	2011
			(Rupees in thousand)	
28.	**Stores and spare parts**			
	Chemicals and catalysts	- note 28.1	1,158,793	1,013,577
	Stores		144,353	108,586
	Spare parts [including in transit Rs 86.915 million [(2011: Rs 41.216 million)]		1,799,153	1,537,334
			3,102,299	2,659,497
	Less: Provision for obsolete items		76,224	76,224
		- note 28.2	3,026,075	2,583,273

28.1 Included in chemicals and catalysts is platinum, rhodium and palladium of Rs 69.337 million (2011: Rs 258.635 million) held by Johnson Matthey Public Limited Company, United Kingdom on behalf of the Group.

28.2 Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

			2012	2011
			(Rupees in thousand)	
29.	**Stock-in-trade**			
	Raw materials [including in-transit of Rs 47.349 million (2011: Nil)]	- note 29.2	1,687,433	1,201,970
	Packing materials		50,727	35,194
	Mid products		38,080	16,964
	Work-in-process		61,796	-
	Finished goods:			
	- own manufactured fertilizers		8,521	788,873
	- emission reductions	- note 29.3	5,064	14,362
	- polypropylene sacks and cloth		54,962	-
			1,906,583	2,057,363

29.1 Raw materials and finished goods amounting to Rs 981.903 million (2011: Rs 1,439.669 million) are pledged with lenders as security against short term borrowings as referred to in note 16.1.

29.2 Includes rock phosphate amounting to Rs 10.567 million (2011: 22.955 million) and Rs 279.863 million (2011: Nil) which is in the possession of related parties, Pakistan Mining Company Limited and FATIMA respectively.

29.3 This represents emission reductions costing Rs 43.988 million carried at their Net Realizable Value ('NRV') amounting to Rs 5.064 million. The NRV write down expense of Rs 35.794 million has been charged to cost of sales.

			2012	2011
			(Rupees in thousand)	
30.	**Trade debts**			
	Considered good:			
	- Secured (by way of bank guarantees and security deposits)		103,121	129,887
	- Unsecured	- notes 30.2	571,325	760,686
			674,446	890,573

30.1 These are in the normal course of business and certain debts carry interest ranging from 1% to 9% (2011: 1% to 9%) per annum.

30.2 Includes the following amounts due from related parties:

	2012	2011
	(Rupees in thousand)	
Fatima Fertilizer Company Limited	8,818	-
Fatima Sugar Mills Limited	38,738	-
Reliance Weaving Mills Limited	1,588	-
	49,144	-

31. Advances, deposits, prepayments and other receivables

		2012	2011
Advances - considered good:			
- To employees	- note 31.1	16,747	9,738
- To suppliers		68,389	108,758
Trade deposits		100	100
Prepayments		95,947	157,762
Due from related party:			
- Interest receivable on long term loans	- note 31.2	1,477,634	961,429
- Interest receivable on preference dividend receivable	- note 31.2	94,017	-
- Preference dividend receivable	- notes 31.2 and 31.3	1,337,214	1,143,971
Interest receivable on bank deposits		1,035	-
Balances with statutory authorities:			
- Sales tax			
- considered good	- note 31.4	104,741	401,069
- considered doubtful		8,911	8,911
		113,652	409,980
- Income tax recoverable		2,849,127	2,479,352
- Custom duty recoverable		10,383	9,811
Letters of credit - margins, deposits, opening charges etc.		1,531	333
Security deposits		20,192	8,381
Other receivables - considered good		12,887	22,141
		6,098,855	5,311,756
Less: Provision for doubtful receivable		8,911	8,911
		6,089,944	5,302,845

31.1 Included in advances to employees are amounts due from executives of Rs 6.95 million (2011: Rs 4.301 million).

31.2 These are due from Fatima Fertilizer Company Limited and are considered good.

31.3 This has been classified as current on the basis that Rs 941 million has been received by the Group subsequent to year end and the remaining balance would be received within the next twelve months from the balance sheet date.

31.4 Includes Rs 134.022 million which primarily represents the input sales tax paid by the Group in respect of raw materials acquired before June 11, 2008 on which date fertilizer products manufactured by the Group were exempted from levy of sales tax through notification SRO 535(I)/2008. The amount stood refundable to the Group there being no output sales tax liability remaining payable on fertilizer products manufactured by the Group against which such input sales tax was adjustable. The Group's claim of refund on this account was not entertained by Federal Board of Revenue ('FBR') on the premise that since subject raw materials were subsequently consumed in manufacture of a product exempt from levy of sales tax, claim was not in accordance with the relevant provisions of the Sales Tax Act, 1990.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

Group's management being aggrieved with the interpretation advanced by FBR on the issue has preferred a writ petition before the Lahore High Court, which has not yet been disposed off. Since Group's management considers that claim of refund is completely in accordance with relevant statutory framework and expects relief from appellate authorities on this account, it considers that the receivable amount was unimpaired at the balance sheet date.

			2012	2011
			(Rupees in thousand)	
32.	**Investments**			
	Available for sale:			
	Related party - quoted Fatima Fertilizer Company Limited Nil (2011: 360,000,000) unquoted fully paid non-voting convertible cumulative preference shares of Rs 10 each. Extent of preference shares held: Nil (2011: 90%)		-	3,600,000
	Assets at fair value through profit or loss:			
	Other - Wateen Telecom Limited 2,000,000 (2011: 2,000,000) fully paid ordinary shares of Rs 10 each	- note 32.1	5,960	3,580
			5,960	3,603,580
	Investment held for distribution to members	- note 32.2	1,078,200	3,755,250
			1,084,160	7,358,830

32.1 These investments have been classified as current on management's intention that in the next twelve months from the balance sheet date, the Group may distribute these investments as 'specie dividend' in line with the past dividend distribution practice or it may dispose of these investments to meet the working capital requirements of the Group.

32.2 This represents 45 million ordinary shares of FATIMA held by the Group for distribution to members. It includes 33 million ordinary shares of FATIMA which are pledged with National Bank of Pakistan as security against debt swap loan agreement as referred in note 9.2.8.

			2012	2011
			(Rupees in thousand)	
33.	**Cash and bank balances**			
	At banks on:			
	- Saving accounts	- note 33.1 and 33.2	698,633	645,471
	- Current accounts	- note 33.2	290,657	146,427
			989,290	791,898
	In hand		5,152	4,438
			994,442	796,336

33.1 Profit on balances in saving accounts ranges from 5% to 10% (2011: 5% to 10%) per annum.

33.2 Included in saving accounts is an amount of Rs 17.637 million (2011: Rs 516.443 million) which bears mark up at the rates ranging from 5% to 10% (2011: 5% to 10%) per annum and included in current accounts is an amount of Rs 4.049 million (2011: Rs 6.962 million), both placed with a related party, Summit Bank Limited.

			2012	2011
			(Rupees in thousand)	
34.	**Sales**			
	Fertilizer products:			
	- Own manufactured		8,772,572	15,899,396
	- Purchased for resale		21,497	676,280
			8,794,069	16,575,676
	Certified Emission Reductions (CERs)		223,310	1,020,844
	Mid products		520,500	601,260
	Rock phosphate		122,560	88,791
	Processing income	- note 34.1	12,551	86,351
			878,921	1,797,246
			9,672,990	18,372,922
	Less:			
	Sales tax		1,255,351	1,584,711
	Excise duty		-	5,622
	Sales incentive		259,836	79,251
	Discount		21,645	2,544
			1,536,832	1,672,128
			8,136,158	16,700,794

34.1 This represents income from processing services rendered for a related party, FATIMA.

			2012	2011
			(Rupees in thousand)	
35.	**Cost of sales**			
	Raw material consumed	- note 35.1 and 35.2	2,194,693	3,050,050
	Packing material consumed		98,237	281,867
			2,292,930	3,331,917
	Salaries, wages and other benefits	- note 35.3	691,704	751,295
	Fuel and power		770,201	1,131,008
	Chemicals and catalysts consumed		42,431	220,199
	Spare parts consumed		183,705	338,815
	Stores consumed		66,489	108,913
	Repairs and maintenance		170,391	206,694
	Insurance		282,609	228,064
	Depreciation on operating fixed assets	- note 22.1.4	829,836	570,163
	Depreciation on assets subject to finance lease	- note 23.1	15,299	23,793
	Others	- note 35.4	90,449	109,434
			5,436,044	7,020,295
	Opening stock of mid products		16,964	17,368
	Closing stock of mid products		(38,080)	(16,964)
			(21,116)	404
	Cost of goods manufactured		5,414,928	7,020,699
	Opening stock of finished goods		803,235	382,976
	Closing stock of finished goods		(13,585)	(803,235)
			789,650	(420,259)
	Cost of goods sold - own manufactured		6,204,578	6,600,440
	Cost of goods sold - purchased for resale	- note 35.5	16,299	587,707
			6,220,877	7,188,147

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

35.1 Includes feed gas consumed of Rs 1,065.407 million (2011: Rs 822.783 million) at subsidized rates under the Fertilizer Policy 2001 issued by the Ministry of Industries and Production, Government of Pakistan. The expense of feed gas consumed has been recognized at the aforesaid subsidized rates. However, the amount of subsidy cannot be estimated with reasonable certainty.

35.2 Includes expenses of Rs 113.503 million (2011: Rs 84.232 million) for extraction of rock phosphate by a related party, Pakistan Mining Company Limited.

	2012	2011
	(Rupees in thousand)	
35.3 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	14,840	13,722
Interest cost for the year	6,031	4,039
Expected return on plan assets	(4,435)	(3,422)
Past service cost	369	(59)
Less: Amount charged to related party	-	706
	16,805	13,574

In addition to the above, salaries, wages and other benefits include Rs 16.221 million (2011: Rs 13.970 million) and Rs 17.607 million (2011: Rs 12.512 million) in respect of provident fund contribution by the Group and accumulating compensated absences respectively.

35.4 Includes operating lease rentals amounting to Rs 14.234 million (2011: Rs 3.112 million).

35.5 This represents fertilizer purchased from a related party, FATIMA.

		2012	2011
		(Rupees in thousand)	
36. Administrative expenses			
Salaries, wages and other benefits	- note 36.1	378,570	354,814
Travelling and conveyance		71,579	62,070
Telephone, telex and postage		15,528	13,278
Stationery, printing and periodicals		6,138	2,807
Rent, rates and taxes	- note 36.2	23,207	16,181
Fee and subscription		205	-
Repairs and maintenance		46,496	72,371
Aircraft operating expenses	- note 36.3	89,281	60,196
Insurance		12,933	9,831
Legal and professional charges	- note 36.4	48,063	26,575
Vehicle running expenses		9,084	5,006
Entertainment		5,418	3,686
Advertisement		2,986	2,987
Depreciation on operating fixed assets	- note 22.1.4	296,239	201,382
Depreciation on assets subject to finance lease	- note 23.1	32,891	42,706
Amortization on intangible assets	- note 24.3	193	1,347
CDM administrative expenses		7,202	9,545
Others	- note 36.5	128,263	84,753
	- note 36.6	1,174,276	969,535

	2012	2011
36.1 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	5,623	5,529
Interest cost for the year	2,286	1,628
Expected return on plan assets	(1,681)	(1,379)
Actuarial loss/(gain)	140	(24)
Less: Amount charged to related party	1,595	-
	4,773	5,754

In addition to the above, salaries, wages and other benefits include Rs 7.181 million (2011: Rs 7.776 million) and Rs 5.509 million (2011: Rs 6.099 million) in respect of provident fund contribution by the Group and accumulating compensated absences respectively.

36.2 Includes operating lease rentals amounting to Rs 8 million (2011: Rs 4.664 million).

36.3 Includes expenses of Rs 34.152 million (2011: Rs 26.741 million) for flying and maintenance services of the Group's aircrafts by Air One (Private) Limited, a related party.

	2012	2011
	(Rupees in thousand)	
36.4 Professional services		
The charges for professional services include the following in respect of auditors' services for:		
- Statutory audit	2,590	2,025
- Half yearly review	825	750
- Tax services	12,530	5,353
- Assurance and other certification services	3,740	485
- Out of pocket expenses	873	711
	20,558	9,324

36.5 Includes expenses of Rs 38.532 million (2011: Rs 11.214 million) for research and development activities of the extracted rock phosphate, which has been carried out by a foreign consultant.

36.6 Includes amount of Rs 114.928 million (2011: Nil) which represents common costs charged to the Group by its related party, FATIMA. Also included is an amount of Rs 133.77 million (2011: Rs 53.04 million) which represents common costs charged by the Group to its related party, FATIMA.

		2012	2011
		(Rupees in thousand)	
37. Selling and distribution expenses			
Salaries, wages and other benefits	- note 37.1	33,970	91,656
Travelling and conveyance		4,167	10,710
Telephone, telex and postage		3,120	8,189
Stationery, printing and periodicals		976	1,313
Rent, rates and taxes	- note 37.2	12,723	40,266
Repairs and maintenance		2,635	8,417
Insurance		955	3,871
Vehicle running expenses		4,237	13,457
Entertainment		1,507	8,757
Advertisement and sale promotion		67,138	40,058
Depreciation on operating fixed assets	- note 22.1.4	1,975	2,679
Depreciation on assets subject to finance lease	- note 23.1	17,125	18,526
Transportation and freight		120,060	331,013
Utilities		455	1,270
Technical services		1,005	17,505
CERs share of Mitsubishi Corporation, Japan		25,026	230,760
Others		1,976	270
	- note 37.3	299,050	828,717

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
37.1	**Salaries, wages and other benefits**		
	Salaries, wages and other benefits include following in respect of gratuity:		
	Current service cost	6,637	4,467
	Interest cost for the year	2,698	1,315
	Expected return on plan assets	(1,984)	(1,114)
	Past service cost	165	(19)
	Less: amount charged to related party	(7,348)	-
		168	4,649

In addition to the above, salaries, wages and other benefits include Rs 7.742 million (2011: Rs 4.979 million) and Rs 3.999 million (2011: Rs 6.506 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

37.2 Includes operating lease rentals amounting to Rs 12.523 million (2011: Rs 3.759 million).

37.3 Includes amount of Rs 36.781 million (2011: Nil) which represents common costs charged to the company by its related party, FATIMA. Also included is an amount of Rs 425.15 million (2011: Rs 191.054 million) which represents common costs charged by the company to its related party, FATIMA.

			2012	2011
			(Rupees in thousand)	
38.	**Finance cost**			
	Interest/mark up on:			
	- Listed TFCs - secured		329,864	615,205
	- PPTFCs - secured		633,526	971,075
	- Finance leases		12,478	22,725
	- Share deposit money from related party		14,583	33,102
	- Short term borrowings - secured	- note 38.1	712,789	607,716
	- Short term borrowing from related party	- note 38.2	17,429	-
	- Long term loans - secured		589,664	642,402
	- Syndicated term finance - secured		230,502	325,743
	- Workers' Profit Participation Fund	- note 19.2	-	27,046
	Loan arrangement fees and other charges		22,385	24,297
	Acceptance commission on letter of credit		37,378	185,738
	Bank charges		10,438	17,367
			2,611,036	3,472,416

38.1 Includes interest expense of Rs 51.835 million (2011: Rs 45.833 million) on account of running finance facility availed from Summit Bank Limited, a related party.

38.2 This relates to Fatima Fertlizer Company Limited.

			2012	2011
			(Rupees in thousand)	
39.	**Other operating expenses**			
	Workers' profit participation fund	- note 19.2	-	290,232
	Workers' welfare fund		68,084	40,619
	Donations	- note 39.1	10,290	149,215
	Exchange loss		139,757	31,773
			218,131	511,839

39.1 Following is the interest of the directors in the donee:

Name and address of donee	Directors	Interest in donee	Rupees in thousand
Mukhtar A. Sheikh Trust, 2nd Floor, Trust Plaza, L.M.Q Road Multan	Mr. Fawad Ahmad Mukhtar and Mr. Faisal Ahmad Mukhtar	Trustees	5,640

		2012	2011
		(Rupees in thousand)	
40. Other operating income			
Income from financial assets:			
Income on bank deposits		28,032	13,827
Income from related party, FATIMA:			
- Interest income on long term loan (from STFF)		221,792	325,744
- Interest income on long term loan		313,515	395,995
- Interest income on short term loan		27,229	-
- Interest income on preference dividend receivable		94,017	-
- Accrued dividend on preference shares		194,067	598,320
Gain on cessation of associate		-	113,461
Gain on conversion of preference shares		455,400	-
Unrealised gain on investment held to maturity		3,332	2,963
Mark-up on credit sale of fertilizers		5,956	11,490
Gain on derivative financial instruments		2,929	124,769
		1,346,269	1,586,569
Income from non-financial assets:			
Rental income	- note 40.1	46,587	44,348
Profit on disposal of operating fixed assets		18,238	9,833
Scrap sales and sundry income		24,387	12,579
Unrealised gain on recovery of chemical catalysts		9,468	198,690
Provisions and unclaimed balances written back		81,444	2,236
Income from biological laboratory		2,173	760
		182,297	268,446
		1,528,566	1,855,015

40.1 Includes rental income of Rs 31.740 million (2011: Rs 30.154 million) for vehicles in use of Fatima Fertilizer Company Limited, a related party.

	2012	2011
	(Rupees in thousand)	
41. Taxation		
Current tax		
- For the year	76,768	681,710
- Prior years	(870,872)	-
	(794,104)	681,710
Deferred tax	133,793	1,038,832
	(660,311)	1,720,542

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

			2012 % age	2011 % age
42.	**Cash generated from operations**			
	(Loss)/profit before taxation		(905,766)	6,308,593
	Adjustments for non cash charges and other items:			
	- Depreciation on operating fixed assets		1,128,813	774,235
	- Depreciation on leased assets		65,315	85,025
	- Amortization on intangible assets		21,193	22,347
	- Retirement benefits accrued		56,817	75,820
	- Profit on disposal of operating fixed assets		(18,238)	(9,833)
	- Provisions and unclaimed balances written back		(81,444)	(2,236)
	- Finance cost		2,611,036	3,472,416
	- Income on bank deposits		(28,032)	(13,827)
	- Interest income on loans to related party		(656,553)	(721,739)
	- Loss/(gain) on re-measurement of investments		47,120	(854,511)
	- Gain on conversion of preference shares		(455,400)	-
	- Dividend income on preference shares of related party		(194,067)	(598,320)
	- Unrealised gain on investment held to maturity		(3,332)	(2,963)
	- Unrealised gain on recovery of catalyst		-	(198,690)
	- Exchange loss		91,955	739
	- Gain on derivative financial instruments		(2,929)	(124,769)
	- Share of loss of associate		-	17,612
	Profit before working capital changes		1,676,488	8,229,899
	Effect on cash flow due to working capital changes			
	- Increase in stores and spare parts		(511,194)	(75,019)
	- Decrease in stock-in-trade		150,780	889,632
	- Decrease in trade debts		270,172	972,297
	- Decrease/(increase) in advances, deposits prepayments and other receivables		340,102	(225,647)
	- Decrease in trade and other payables		(102,823)	(1,680,196)
			147,037	(118,933)
			1,823,525	8,110,966
43.	**Cash and cash equivalents**			
	Short term borrowings	- note 16	(6,006,224)	(4,643,806)
	Cash and bank balances	- note 33	994,442	796,336
			(5,011,782)	(3,847,470)

44. Remuneration of Chief Executive, Directors and Executives

44.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Chief Executive, Directors and Executives of the Group is as follows:

	Chief Executive		Executive directors		Non-execuitve director		Executives	
	2012	2011	2012	2011	2012	2011	2012	2011
				(Rupees in thousand)				
Short term employee benefits								
Managerial remuneration	11,909	7,241	11,672	7,221	6,000	6,020	232,748	231,418
Housing rent	5,311	3,259	5,307	3,259	-	-	106,668	84,768
Utilities	4,164	2,024	2,395	1,074	242	220	23,736	18,847
Conveyance	-	-	-	-	-	240	-	24,610
Incentives	-	7,845	-	7,845	-	-	-	93,846
Medical expenses	21	181	8	110	-	-	12,425	1,213
Leave passage	-	-	-	-	-	-	36,536	29,213
Club expenses	3,804	3,503	535	456	-	-	-	-
Others	-	-	-	-	-	-	30,377	-
	25,209	24,053	19,917	19,965	6,242	6,480	442,490	483,915
Post employment benefits								
Provident fund and gratuity	-	-	-	-	-	-	41,026	32,355
Other long term benefits								
Accumulating compensated absences	-	-	-	-	-	-	33,222	24,241
	25,209	24,053	19,917	19,965	6,242	6,480	516,738	540,511
Number of persons	1	1	1	1	1	1	204	181

44.2 The Group also provides the chief executive, directors and some of its executives with company maintained cars, travel facilities and club membership.

45 Transactions with related parties

The related parties comprise associated undertakings, other related parties, key management personnel and post employment benefit plans. The Group in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 44. Other significant transactions with related parties are as follows:

		2012	2011
		(Rupees in thousand)	
Relationship with the company	**Nature of transaactions**		
i. Associated undertakings	Sale of goods and services	339,224	340,391
ii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	91,650	80,286

All transactions with related parties have been carried out on commercial terms and conditions.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
46. Capacity and production			
Urea			
Rated production capacity	M. Tons	92,400	92,400
Actual urea produced	M. Tons	-	28,180
No production of urea is due to shortage of natural gas and periodical maintenance.			
Nitro Phosphate (NP)			
Rated production capacity	M. Tons	304,500	304,500
Actual NP produced	M. Tons	75,732	229,937
The low production of NP is due to shortage of natural gas and periodical maintenance.			
Calcium Ammonium Nitrate (CAN)			
Rated production capacity	M. Tons	450,000	450,000
Actual CAN produced	M. Tons	100,302	242,820
The low production of CAN is due to shortage of natural gas and periodical maintenance.			
Polypropylene sacks			
Rated production capacity	No. of sacks	41,800,000	-
Actual sacks produced	No. of sacks	21,061,500	-
The low production is due to the reason that the segment is in its trial production phase.			

47. Segment information

A business segment is a group of assets and operations engaged in providing products that are subject to risk and returns that are different from those of other business segments.

Types of segments	Nature of business
Fertilizers	Manufacture and sale of fertilizers
Clean Development Mechanism (CDM)	Generation and sale of Certified Emission Reductions (CERs).
Sacks	Manufacture and sale of polypropylene sacks.

	Fertilizers		Clean Development Mechanism		Sacks		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
				(Rupees in thousand)				
Sales	7,912,849	15,679,950	223,309	1,020,844	-	-	8,136,158	16,700,794
Cost of sales	(6,140,959)	(7,116,097)	(79,918)	(72,050)	-	-	(6,220,877)	(7,188,147)
Gross profit	1,771,890	8,563,853	143,391	948,794	-	-	1,915,281	9,512,647
Administrative expenses	(1,157,406)	(959,183)	(7,202)	(9,545)	(9,668)	(807)	(1,174,276)	(969,535)
Selling and distribution expenses	(274,024)	(597,957)	(25,026)	(230,760)	-	-	(299,050)	(828,717)
	(1,431,430)	(1,557,140)	(32,228)	(240,305)	(9,668)	(807)	(1,473,326)	(1,798,252)
Segment results	340,460	7,006,713	111,163	708,489	(9,668)	(807)	441,955	7,714,395
Finance costs							(2,611,036)	(3,472,416)
Other operating expenses							(218,131)	(511,839)
							(2,387,212)	3,730,140
Interest income							684,585	735,566
Other operating income							843,981	1,119,449
Share of loss from associate							-	(17,612)
Gain/(loss) on re-measurement of financial assets at fair value through profit or loss							(47,120)	741,050
Taxation							660,311	(1,720,542)
(Loss) / profit for the year							(245,455)	4,588,051
47.1 Segment assets	52,860,814	63,309,951	1,602,585	1,927,506	751,661	314,387	55,215,060	65,551,844
47.2 Segment liabilities	34,652,968	42,817,409	79,289	166,845	594,836	214,113	35,327,093	43,198,367
47.3 Depreciation on operating fixed assets	1,097,683	757,899	30,345	16,319	785	17	1,128,813	774,235
47.4 Depreciation on leased assets	64,877	84,730	438	295	-	-	65,315	85,025

47.5 Information by geographical area

	Revenue		Non - current assets	
	2012	2011	2012	2011
Pakistan	8,136,158	16,700,794	41,439,410	46,543,868
	8,136,158	16,700,794	41,439,410	46,543,868

Sales are allocated to geographical areas according to the location of the country producing the goods or providing services.

47.6 Information about major customers

Included in the total revenue is revenue from Mitsubishi Corporation, Japan from the CDM segment which represents approximately Rs 223.309 million (2011: Rs 1,020.844 million) of the Group's total revenue.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

48. Financial risk management

48.1 Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Group's finance department evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

a) Market risk

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (USD) and Euro. Currently, the Group's foreign exchange risk exposure is restricted to bank balances and amounts receivable from / payable to the foreign entities.

At December 31, 2012 if the Rupee had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on post tax loss for the year would have been Rs 103.504 million (2011: Rs 70.982 million) higher / lower, mainly as a result of exchange losses / gains on translation of USD denominated financial instruments.

At December 31, 2012 if the Rupee had weakened / strengthened by 5% against the Euro with all other variables held constant, the impact on post tax loss for the year would have been Rs 19.795 million (2011: Rs 7.246 million) higher / lower , mainly as a result of exchange losses / gains on translation of Euro denominated financial instruments.

Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis. In management's opinion, the sensitivity analysis is unrepresentative of inherent currency risk as the year end exposure does not reflect the exposure during the year.

ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group is not materially exposed to equity price risk since there are no significant investments in equity instruments traded in the market either classified as available-for-sale or at fair value through profit or loss at the reporting date. The Group is also not exposed to commodity price risk since it does not hold any financial instrument based on commodity prices.

iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from long term finances, lease liabilities, short term borrowings, derivative financial instruments and dividend receivable on preference shares. Borrowings obtained and loans provided at variable rates expose the Group to cash flow interest rate risk.

At the balance sheet date, the interest rate profile of the Group's significant interest bearing financial instruments was:

	2012	2011
	(Rupees in thousand)	
Fixed rate instruments:		
Financial assets		
Investment	30,681	27,349
Trade debts	101,503	122,563
Bank balances - saving accounts	698,633	645,471
	830,817	795,383
Financial liabilities	-	-
Net exposure	830,817	795,383
Floating rate instruments:		
Financial assets		
Long term loans	-	4,515,565
Dividend receivable on preference shares	1,337,214	-
Investment	-	3,600,000
Derivative financial instruments	-	18,756
	1,337,214	8,134,321
Financial liabilities		
Long term finances	9,601,142	14,916,279
Liabilities against assets subject to finance lease	113,189	208,112
Short term borrowings	6,006,224	4,643,806
Derivative financial instruments	714	-
	15,721,269	19,768,197
Net exposure	(14,384,055)	(11,633,876)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Group.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on variable rate financial instruments, at the year end date, fluctuates by 1% higher / lower with all other variables held constant, post tax loss for the year would have been Rs 157.396 million (2011: Rs 33.620 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate instruments.

b) **Credit risk**

Credit risk represents the risk of financial loss being caused if counter party fails to discharge an obligation.

Credit risk of the Group arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The management assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored and major sales to customers are settled in cash. For banks and financial institutions, only independently rated parties with a strong credit rating are accepted.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

The Group monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as under:

	2012	2011
	(Rupees in thousand)	
Investments	93,277	27,349
Long term loans	-	4,515,565
Security deposits	60,409	57,036
Trade debts	207,550	243,082
Advances, deposits and other receivables	3,012,999	2,245,113
Derivative financial instruments	-	18,756
Short term investments	1,084,160	7,358,830
Cash and bank balances	994,442	796,336
	5,452,837	15,262,067

The Group's exposure to credit risk is limited to the carrying amount of unsecured trade receivables and bank balances. The ageing analysis of trade receivable balances is as follows:

	2012	2011
	(Rupees in thousand)	
Upto 90 days	207,550	243,082
91 to 180 days	19,985	326,332
181 to 270 days	166,823	160,739
271 to 360 days	97,943	122,596
above 360 days	182,145	37,824
	674,446	890,573

The management estimates the recoverability of trade receivables on the basis of financial position and past history of its customers based on the objective evidence that it will not receive the amount due from the particular customer. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade debt is impaired. The provision is recognised in the profit and loss account. The provision is written off by the Group when it expects that it cannot recover the balance due. Any subsequent repayments in relation to amount written off, are credited directly to profit and loss account.

The credit quality of Group's bank balances can be assessed with reference to external credit ratings as follows:

	Rating		Rating	2012	2011
	Short term	Long term	Agency	(Rupees in thousand)	
Al Baraka Islamic Bank Limited	A1	A	PACRA	10,892	26,169
Allied Bank Limited	A1+	AA+	PACRA	604,087	10,930
Summit Bank Limited	A-2	A	JCR-VIS	22,118	523,406
Askari Bank Limited	A1+	AA	PACRA	3	1,511
Bank Alfalah Limited	A1+	AA	PACRA	62	6,558
Deutsche Bank A.G	F1+	A1+	FITCH	-	2,067
Dubai Islamic Bank Limited	A-1	A	JCR-VIS	73	383
Faysal Bank Limited	A1+	AA	PACRA	11,799	35,522
Habib Bank Limited	A-1+	AA+	JCR-VIS	250,549	11,446
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	100	1,550
MCB Bank Limited	A1+	AA+	PACRA	-	1,021
Meezan Bank Limited	A-1+	AA-	JCR-VIS	5,472	4,412
National Bank of Pakistan	A-1+	AAA	JCR-VIS	3,827	21,865
Silkbank Limited	A-2	A-	JCR-VIS	1	1
Soneri Bank Limited	A1+	AA-	PACRA	-	-
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	11,248	14,443
The Bank of Punjab	A1+	AA-	PACRA	-	-
United Bank Limited	A-1+	AA+	JCR-VIS	44,978	107,455
Zarai Taraqiati Bank Limited	A-1+	AAA	JCR-VIS	55	53
Bank Islami Pakistan Limited	A1	A	PACRA	19,141	23,106
Sindh Bank Limited	A-1	AA-	JCR-VIS	3,827	-
Burj Bank Limited	A-1	A	JCR-VIS	1,058	-
				989,290	791,898

Due to the company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the company. Accordingly, the credit risk is minimal.

c) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group's approach to managing liquidity is to ensure that, as far as possible, it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable loss or risking damage to the company's reputation.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

The following are the contractual maturities of financial liabilities as at December 31, 2012 and December 31, 2011:

At December 31, 2012

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
Long term finances	9,601,142	4,828,218	4,772,924	-
Import bill payable	2,330,400	842,000	1,488,400	-
Liabilities against assets subject to finance lease	113,189	63,511	49,678	-
Payable against mining rights	21,000	21,000	-	-
Long term deposits	46,180	-	-	46,180
Short term borrowings	6,006,224	6,006,224	-	-
Derivative financial instruments	714	714		
Trade and other payables	2,138,500	2,138,500	-	-
Accrued finance cost	371,016	371,016	-	-
	20,628,365	14,271,183	6,311,002	46,180

At December 31, 2011

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
Long term finances	14,916,279	6,244,087	8,672,192	-
Import bill payable	1,796,000	-	1,796,000	-
Liabilities against assets subject to finance lease	208,112	70,094	138,018	-
Payable against mining rights	21,000	21,000	-	-
Long term deposits	47,345	-	-	47,345
Short term borrowings	4,643,806	4,643,806	-	-
Trade and other payables	1,519,715	1,519,715	-	-
Accrued finance cost	677,821	677,821	-	-
	23,830,078	13,176,523	10,606,210	47,345

48.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2012.

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	5,960	-	-	5,960
Total assets	5,960	-	-	5,960
At fair value through profit or loss				
Derivative financial instruments	-	714	-	714
Total liabilities	-	714	-	714

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2011.

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	3,580	-	-	3,580
Derivative financial instruments	-	18,756	-	18,756
Available for sale				
Preference shares of FATIMA	-	3,600,000	-	3,600,000
Total assets	3,580	3,618,756	-	3,622,336
Total Liabilities	-	-	-	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

The carrying value less impairment provision of trade and other receivables, and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

48.3 Financial instruments by categories

	Available for sale	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
			(Rupees in thousand)		
As at December 31, 2012					
Assets as per balance sheet					
Security deposits	-	-	-	60,409	60,409
Trade debts	-	-	-	674,446	674,446
Advances, deposits and other receivables	-	-	-	2,942,979	2,942,979
Investments	-	5,960	30,681	-	36,641
Cash and bank balances	-	-	-	994,442	994,442
	-	5,960	30,681	4,672,276	4,708,917

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
		(Rupees in thousand)	
At December 31, 2012			
Liabilities as per balance sheet			
Long term finances	-	9,601,142	9,601,142
Import bill payable	-	2,330,400	2,330,400
Liabilities against assets subject to finance lease	-	113,189	113,189
Payable against mining rights	-	21,000	21,000
Long term deposits	-	46,180	46,180
Short term borrowings	-	6,006,224	6,006,224
Derivative financial instruments	714	-	714
Trade and other payables	-	2,138,500	2,138,500
Accrued finance cost	-	371,016	371,016
Dividend payable	-	1,078,200	1,078,200
	714	21,705,851	21,706,565

	Available for sale	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
			(Rupees in thousand)		
As at December 31, 2011					
Assets as per balance sheet					
Long term loans	-	-	-	4,515,565	4,515,565
Security deposits	-	-	-	57,036	57,036
Trade debts	-	-	-	890,573	890,573
Advances, deposits and other receivables	-	-	-	2,138,479	2,138,479
Derivative financial instruments	-	18,756	-	-	18,756
Investments	3,600,000	3,580	27,349	-	3,630,929
Cash and bank balances	-	-	-	796,336	796,336
	3,600,000	22,336	27,349	8,397,989	12,047,674

	Financial liabilities at amortized cost
	(Rupees in thousand)
As at December 31, 2011	
Liabilities as per balance sheet	
Long term finances	14,916,279
Import bill payable	1,796,000
Liabilities against assets subject to finance lease	208,112
Payable against mining rights	21,000
Long term deposits	47,345
Short term borrowings	4,643,806
Trade and other payables	1,519,715
Accrued finance cost	677,821
Dividend payable	3,755,250
	27,585,328

48.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Group monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term finances obtained by the Group as referred to in note 9 and note 15. Total capital employed includes equity as shown in the balance sheet plus borrowings. The Group's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at December 31, 2012 and December 31, 2011 is as follows:

Notes to and forming part of the Consolidated Financial Statements for the year ended December 31, 2012

		2012	2011
		(Rupees in thousand)	
Borrowings	- note 9 and 15	9,601,142	14,916,279
Less: Cash and cash equivalents	- note 43	5,011,782	3,847,470
Net debt		14,612,924	18,763,749
Total equity (includes surplus on revaluation of operating fixed assets)		19,887,967	22,353,477
Gearing ratio	**Percentage**	42	46

49. Details of subsidiary

Name of subsidiary	Accounting year end	Percentage of holding	Country of incorporation
Reliance Sacks Limited	December 31, 2012	100%	Pakistan

50. Date of authorization for issue

These financial statements were authorized for issue on March 21, 2013 by the Board of Directors.

51. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. Significant re-arrangement made is of Rs 1,796 million previously reported as 'Supplier's credit - secured', now reclassified and reported as 'Import bill payable - secured'.

The above figure has been re-arranged as the reclassification made is considered more appropriate for the purpose of presentation.

Chief Executive

Director

Pattern of Shareholding as at December 31, 2012
Disclousre REquirment under the Code of Corporate Govenance

Details of holding on December 31, 2012

		Shares held
1.	**Associated Companies, Undertakings and Related Parties**	
	Reliance Commodities (Pvt) Limited	7,136,613
	Fazal Cloth Mills Limited	25,790,610
	Fatima Sugar Mills Limited	71,250,558
	Arif Habib Corporation Limited	135,000,000
2.	**Mutual Funds**	-
3.	**Directors and their spouse(s) and minor children**	
	Mr. Arif Habib - Chairman	50,624,877
	Mr. Fawad Ahmed Mukhtar - CEO	12,499,995
	Mr. Rehman Naseem	60,000
	Mr. Fazal Ahmed Shekih	30,943,236
	Mr. Faisal Ahmed Mukhtar	30,943,236
	Mr. Nasim Beg	1
	Mr. Abdus Samad	1
	Mr. Muhammad Kashif	1
	Mrs. Zetun Arif	39,375,120
	Mrs. Ambreen Fawad	3,577,410
	Miss Meraj Fatima	4,030,431
	Mr. Amin Rehman Fazal	6,428,045
	Mr. Sadek Rehman	6,428,052
4.	**Executives**	-
5.	**Public Sector companies and corporations**	-
6.	**Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds**	-
7.	**Shareholders holding five percent or more voting rights**	
	Arif Habib Corporation Limited	135,000,000
	Fatima Sugar Mills Limited	71,250,558
	Fazal Cloth Mills Limited	25,790,610
	Mr. Arif Habib	50,624,877
	Mrs. Zetun Arif	39,375,120
	Mr. Faisal Ahmed Mukhtar	30,943,236
	Fazal Ahmed Sheikh	30,943,236

Pattern of Shareholding as at December 31, 2012

Shareholding From	Shareholding To	No. of Shareholders	Total Shares held	Percentage
1	100	3	3	0.00
55,001	60,000	1	60,000	0.01
900,001	905,000	1	904,425	0.20
3,575,001	3,580,000	1	3,577,410	0.79
4,030,001	4,035,000	4	16,121,724	3.58
6,425,001	6,430,000	2	12,856,097	2.86
6,455,001	6,460,000	2	12,916,096	2.87
7,135,001	7,140,000	1	7,136,613	1.59
12,495,001	12,500,000	1	12,499,995	2.78
25,790,001	25,795,000	1	25,790,610	5.73
30,940,001	30,945,000	2	61,886,472	13.75
39,375,001	39,380,000	1	39,375,120	8.75
50,620,001	50,625,000	1	50,624,877	11.25
71,250,001	71,255,000	1	71,250,558	15.83
134,995,001	135,000,000	1	135,000,000	30.00
Total		**23**	**450,000,000**	**100**

Pattern of Shareholding as at December 31, 2012
Category - wise

Categories of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	184,910,405	41.09
Associated Companies, undertakings and related parties	239,177,781	53.15
Executives	-	-
Public Sector Companies and Corporation	-	-
Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Takaful, Modarabas and Pension Funds	-	-
Mutual Funds	-	-
General Public		
a. Local	-	-
b. Foreign	-	-
Others	25,911,814	5.76
Total	**450,000,000**	**100.00**

Financial Calendar

The financial results will be announced as per the following tentative schedule:

Annual General Meeting for year ended 2012	April 30, 2013
BOD meeting for Qtr 1, 2013 Financial results	Last week of April, 2013
BOD meeting for Qtr 2, 2013 Financial results	Third week of August, 2013
BOD meeting for Qtr 3, 2013 Financial results	Last week of October, 2013
BOD for year ending 2013 Financial results	Last week of January, 2014

Form of Proxy

40th Annual General Meeting

I/We ______________________________

of ______________________________

being a member(s) of Pakarab Fertilizers Limited hold ______________________________

Ordinary Shares hereby appoint Mr. / Mrs. / Miss ______________________________

of ______________ or falling 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 40th Annual General Meeting of the Company to be held on April 30, 2013 and / or any adjournment thereof.

As witness my/our hand/seal this ______________ day of ______________ 2013.

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, E-110, Khayaban-e-Jinnah, Lahore Cantt., 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.

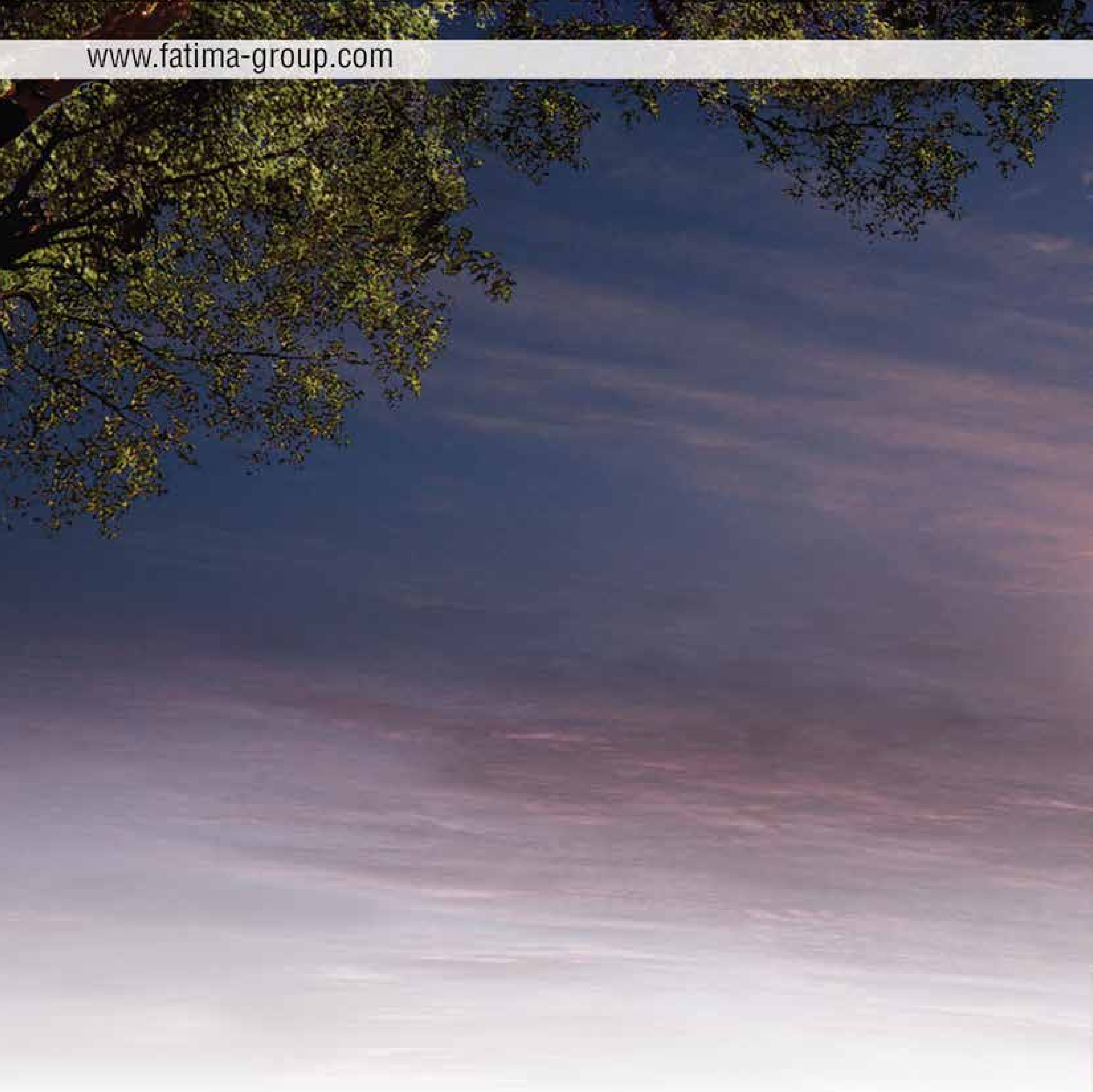
(i) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.

(ii) The proxy shall produce his original CNIC 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

PAKARAB FERTILIZERS LIMITED
E-110, Khayaban-e-Jinnah,
Lahore Cantt.



Pakarab Fertilizers Limited

E 110, Khayaban-e-Jinnah,
Lahore Cantt. Lahore 54000
Pakistan.