Annual Report of Pakarab Fertilizers Limited for the year ended December 31, 2009

Balanced use of Nutrients

The most important constraints to crop growth are those caused by inefficient and imbalanced use of plant nutrients. It is essential to encourage the use of nitrogenous, phosphatic and potashic fertilizers, so as to achieve the desired yield.

The Government of Pakistan has embarked on a plan to enhance agricultural productivity by encouraging balanced use of fertilizers and nutrients. The objective of this programme is to ensure proper fertilization, particularly the use of major nutrients, N, P and K in optimum quantity through correct method, timely application and the right proportions.

The loss of soil fertility in Pakistan poses an immediate and long term threat to food security and to the lives and livelihood of millions of people. The proper use of fertilizers in soils of low fertility makes it possible to grow a wider variety of crops and target higher yields. The consequence of the balanced use of fertilizers is greater efficiency in the utilization of land, labour and water.

Pakarab supports the government's endeavour by providing balanced nutrient solutions through Nitrogenous and Phosphatic fertilizers to the farmers' community of the Country.

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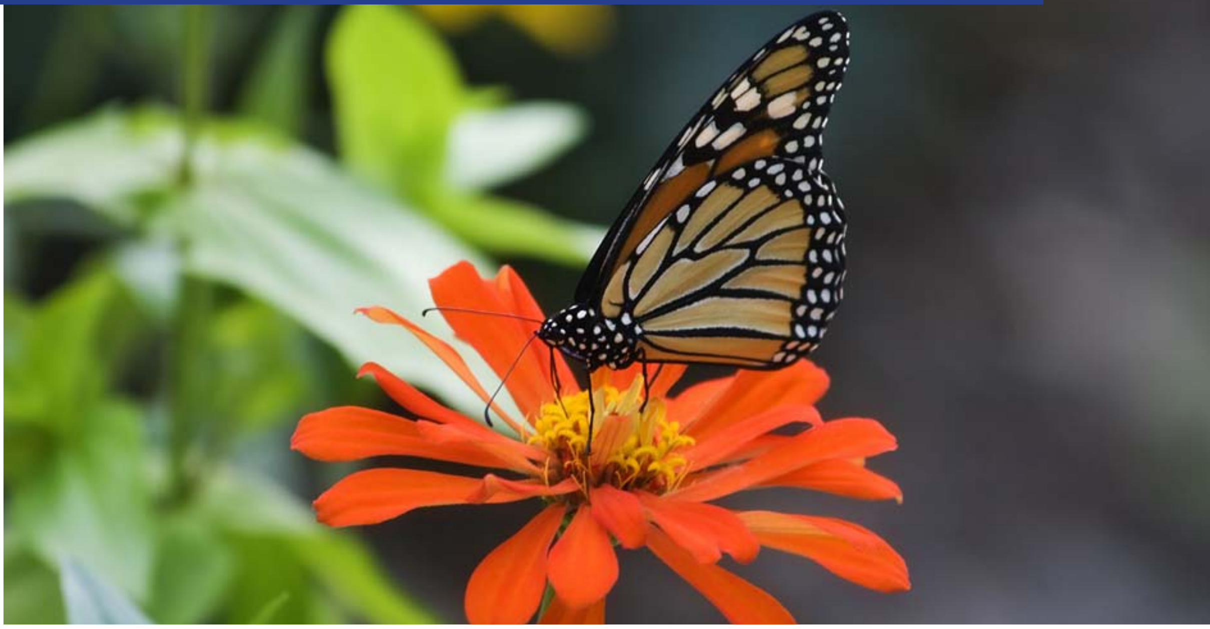

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Corporate Information

BOARD OF DIRECTORS

Mr. Muhammad Arif Habib
Chairman

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer

Mr. Fazal Ahmed Sheikh
Executive Director

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

KEY MANAGEMENT

Mr. M. Abad Khan
Advisor to the CEO

Mr. Qadeer Ahmed Khan
Director Operations

Mr. Muhammad Zahir
Director Marketing

Mr. Tanvir H. Qureshi
Group Head Human Resourses

Mr. Arif Hamid Dar
Chief Financial Officer
arif.dar@fatima-group.com

Mr. Iftikhar Mahmood Baig
Company Secretary
iftikhar.baig@fatima-group.com

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

Mr. Muhammad Saleem Zafar
General Manager Projects

AUDIT COMMITTEE

Mr. Nasim Beg
Chairman

Mr. Fazal Ahmed Sheikh
Member

Mr. Rehman Naseem
Member

Mr. Muhammad Kashif
Member

LEGAL ADVISORS

M/s. Chima & Ibrahim
Advocates
1-A / 245, Tufail Road
Lahore Cantt.

AUDITORS

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

TFCs & PPTFCs REGISTRAR

THK Associates (Pvt) Limited
Ground Floor, State Life Building-3,
Dr. Ziauddin Ahmed Road
Karachi - 75530
Tel: No. 92-21-111-000-322
Fax: No. 92-21-35655595

BANKERS

Allied Bank Limited
Arif Habib Bank Limited
Askari Bank Limited
Al-Baraka Islamic Bank Limited
Bank Alfalah Limited
Dubai Islamic Bank Limited
Deutsche Bank Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan Limited
Standard Chartered Bank (Pakistan) Limited
Silk Bank Limited
Soneri Bank Limited
The Royal Bank of Scotland
United Bank Limited
Zarai Taraqiati Bank Limited

REGISTERED OFFICE

2nd Floor, Trust Plaza, L.M.Q. Road,
Multan.
Ph # 061-4512031
Fax # 061-4511677, 4584288
E-mail: mail@fatima-group.com

LAHORE OFFICE

E-110, New Super Town,
Main Boulevard, Defence Road,
Lahore Cantt.
UAN: 111FATIMA
Fax # 042-3662189, 042-3662190

KARACHI OFFICE

21-Oil Installation Area, Keamari,
Karachi.
Ph # 021-2855444-5
Fax # 021-2855446

PLANT SITE

Khanewal Road, Multan.
Ph # 061-9220022
Fax # 061-9220021

Company Profile

Company Background

Pakarab Fertilizers Limited (PFL) is the largest and only fertilizer complex in Pakistan producing compound fertilizers in the country.

The company was established as a result of protocol concluded and signed on November 15, 1972 by the Government of Pakistan and the Government of Abu Dhabi. PFL was privatized on July 14, 2005 under privatization policy of Government of Pakistan.

The Company was acquired by a consortium of Fatima Group and Arif Habib Group in 2005.

Commercial Production

PFL commenced commercial production in January 1979.

Rehabilitation of Ammonia / Urea

Ammonia / Urea plants rehabilitation / expansion and plants rationalization program was completed in 1986.

Technologies

Plant	Technology
Ammonia plant	Pullman Kellogg's Catalytic Steam-Hydrocarbon Reforming process
Nitric Acid Plants:	
• Line A & B	Uhde process
• Line C	C &I/Girdler process
Calcium Ammonium Nitrate Plant	Hoechst & Uhde process
Nitro Phosphate Plant	Stamicarbon process
Urea Plant	Ammonia Stripping process Snam Projetti

Rated Capacities

Plant-wise rated capacities of the complex are as under:

Product	Operating days	Rated capacity per day M. Ton	Total capacity per annum M. Ton
Fertilizer products			
Calcium Ammonium Nitrate - (CAN)	300	1,500	450,000
Nitro Phosphate- (NP)	300	1,015	304,500
Urea	330	280	92,400
Mid Products			
Ammonia	330	960	316,800
Nitric Acid (Line-A)	330	600	198,000
Nitric Acid (Line-B)	330	600	198,000
Nitric Acid (Line-C)	220	180	39,600
CO_2 Liquid	330	192	63,360

Audit Committee

Pursuant to Code of Corporate Governance, the Board has established an Audit Committee comprising of four Directors. The Committee meets at least once every quarter to review the accounts or as it considers necessary to review and discuss any concerns prior to their presentation to the Board.

The committee is comprised of following directors;

Mr. Nasim Beg
Chairman

Mr. Fazal Ahmed Sheikh
Member

Mr. Rehman Naseem
Member

Mr. Muhammad Kashif
Member

Terms of Reference

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. The terms of reference of Audit Committee also include the following:

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

d. compliance with listing regulations and other statutory and regulatory requirements.
e. 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);
f. review of management letter issued by external auditors and management's response thereto;
g. ensuring coordination between the internal and external auditors of the Company;
h. 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;
i. consideration of major findings of internal investigations and management's response thereto;
j. ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective;
k. review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;
l. 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;
m. determination of compliance with relevant statutory requirements;
n. monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and
o. consideration of any other issue or matter as may be assigned by the Board of Directors.

Board of Directors

Mr. Muhamad Arif Habib

Mr. Muhammad Arif Habib is the Chairman of Pakarab Fertilizers Limited. He is also the Chairman of Arif Habib Bank Limited, Arif Habib Securities Limited, Fatima Fertilizer Company Limited, Thatta Cement Company 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 & Exchange Ordinance Review Committee.

As the President of the Karachi Stock Exchange, he introduced a number of reforms including the establishment of central depository system, introduction of computerized trading and risk management system at Karachi Stock Exchange.

He has participated in a number of professional advancement courses including courses on Development of Securities Market organized by the SEC, USA at Washington, D.C. in 1992. He visited over a dozen of stock exchanges in different countries for exchange of views.

On the social services front, Mr. Arif Habib is a significant participant of welfare activities of different organizations. To quote a few he is one of the trustees of Fatmid Foundation and Memon Health & Education Foundation and director of Pakistan Centre for Philanthropy and Memon Medical Centre.

Mr. Fawad Ahmed Mukhtar

Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer ("Director & CEO") of Pakarab Fertilizers Limited (PFL) and Fatima Fertilizer Company Limited. He has rich experience of manufacturing/industrial management. He received his Bachelors from Government College, Multan (BZU). He is also director of Fazal Cloth Mills Limited, Reliance Weaving Mills Limited, Fatima Sugar Mills Limited, Reliance Commodities (Private) Limited, Farrukh Trading Company (Private) Limited, Fatima Energy Limited, Fatima Trading Company (Private) Limited, Air One (Private) Limited.

Mr. Faisal Ahmed Mukhtar

Mr. Faisal Ahmed Mukhtar is Director of the Company. He holds a Bachelor of Law Degree from Bahauddin Zakariya University, Multan. He is also director of Fatima Sugar Mills Limited, Reliance Weaving Mills Limited, Fazal Cloth Mills Limited, Reliance Commodities (Private) Limited and Fatima Fertilizer Company Limited, Air One (Private) Limited.

Mr. Muhammad Kashif

Mr. Muhammad Kashif is Director of the Company. He has completed his mandatory Articles with M/s. A. F. Ferguson & Co. Chartered Accountants. He has completed C.A. Intermediate from the Institute of Chartered Accountants of Pakistan (ICAP). He has at his credit experience of 3 years Internship and working as Non-Executive Director for 3 years in Arif Habib Securities Limited.

Mr. Fazal Ahmed Sheikh

Mr. Fazal Ahmed Sheikh is Director of PFL and looks after finance and administration matters of the company. He holds a Bachelor of Economics Degree from the University of Michigan, USA. He is also director in Fatima Fertilizer Company Limited, Fazal Cloth Mills Limited, Reliance Weaving Mills Limited, Fatima Sugar Mills Limited, Reliance Commodities (Private) Limited, Fatima Energy Limited, Fatima Trading Company (Private) Limited, Air One (Private) Limited.

Mr. Abdus Samad

Mr. Abdus Samad is Director of the Company. He has vast experience of equity portfolio management and capital market operations.

He began his career with Arif Habib Securities Limited as an Investment Analyst. After obtaining his MBA in 2001, he was elected as the Company's Director. He was assigned the dual responsibility of heading the Sales Department and to act as the Company Secretary. In 2003, he led the Marketing Department as Executive Director.

During his career, he has served on the boards of various group concerns such as Arif Habib Limited, Arif Habib Securities Limited and Fatima Fertilizer Company Limited.

Mr. Samad is also the Chairman and CEO of Arif Habib Limited. He has extensive experience in serving corporate clients, institutions and high net worth individuals for their investments in the securities market.

Mr. Nasim Beg

Mr. Nasim Beg is Director of the Company. He holds a Bachelor's Degree in Commerce from Karachi University and is a fellow member of the Institute of Chartered Accountants of Pakistan. Mr. Beg is the Chief Executive of Arif Habib Investments Limited (formerly Arif Habib Investment Management Limited) and is also the founder Chief Executive of Arif Habib Investments Limited. He has extensive experience of over 40 years of industry and financial sector in both domestic and international markets. Mr. Beg served at senior positions at various institutions. As Deputy Chief Executive of National Investment Trust Limited (NIT), he was a key member of the professional team that successfully turned around NIT during its difficult period. In 2003, he was part of the task force set up by the Securities & Exchange Commission of Pakistan to develop Voluntary Pension Scheme.

Mr. Rehman Naseem

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

Operational Management

M. Abad Khan
Advisor to the CEO

Mr. Muhammad Abad Khan is a mechanical engineer from the University of Engineering & Technology, Lahore. He has experience of more than 50 years and has worked for major fertilizer companies in Pakistan like Fauji Fertilizer Company Limited, Engro Chemicals Pakistan Limited and Fauji Fertilizer Bin Qasim Limited. He has received extensive training and availed useful learning opportunities in technical and managerial fields at home and abroad.

Director Operations

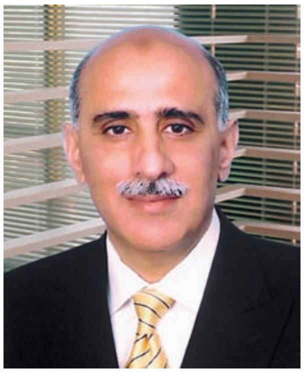
Mr. Qadeer A. Khan is Director Operations. He has done his M.S in Petrochemicals and Hydrocarbons from the Institute of Science and Technology, University of Manchester. He has vast experience of working in Chemical and Fertilizer industry. He has over 32 years experience from Engro Chemicals and Engro Polymers in various capacities.

Arif Hamid Dar
Chief Financial Officer

Mr. Arif Hamid Dar is Chief Financial Officer of Pakarab Fertilizers Limited. He is a fellow member of the Institute of Chartered Accountants of Pakistan and Articles 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.

Iftikhar Mahmood Baig
Company Secretary

Mr. Iftikhar Mahmood Baig is a Chartered Secretary. He completed his Articles with M/s. Hameed Chaudri & Co. Chartered Accountants, in 1986 and has over 23 years experience in Corporate & Financial Management of Companies. He is also working as Company Secretary of Fatima Fertilizer Company Limited. Mr. Baig was pivotal in the acquisition of the Company and its subsequent turnaround. Mr. Baig is associated with the Fatima Group since 1996 and held various middle and senior level management positions and now working as GM Corporate & Business Development of Fatima Group.



Muhammad Zahir
Director Marketing

Mr.Muhammad Zahir holds a Master's degree in Business Administration from the Institute of Business Administration, University of Karachi. He spent twenty nine years with ICI Pakistan working in its various businesses and the Human Resource Function. He has diverse experience in businesses including Paints, Polyster Fiber, Chemical, Agrochemicals, pharmaceuticals, seeds and animal health. He has joined the Fatima Group as Director Marketing.

Tanvir H. Qureshi
Group Head Human Resources

Mr. Tanvir H. Qureshi is working as Group Head of Human Resource.

Mr. Qureshi has over 22 years of professional experience in pharmaceutical, banking and fertilizer industries, in the fields of Human Resource, Finance, Economics and Corporate & Strategic Planning. He worked at Bankers Equity Ltd and Muller & Phipps Pakistan (Pvt) Ltd, prior to joining Fatima Group.

He did his Masters in Business Administration from IBA, Karachi, and Masters in Economics and LLB form the University of Karachi. He joined the Group in early 2009.

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

Brig (R) Muhammad Ali Asif Sirhindi is working as General Manager Administrative Service.

He served Pakistan Army for over three decades, in the Aviation arm. He held various command, staff and instructional appointments in the Army including, Station Commander Quetta and Director Training of Army Aviation.

He is a Graduate of Command and Staff College, Quetta and was awarded two COAS 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, Brig(R) Sirhindi served as General Manager Administration at OGDCL for over three years. He joined the Company in September 2009.

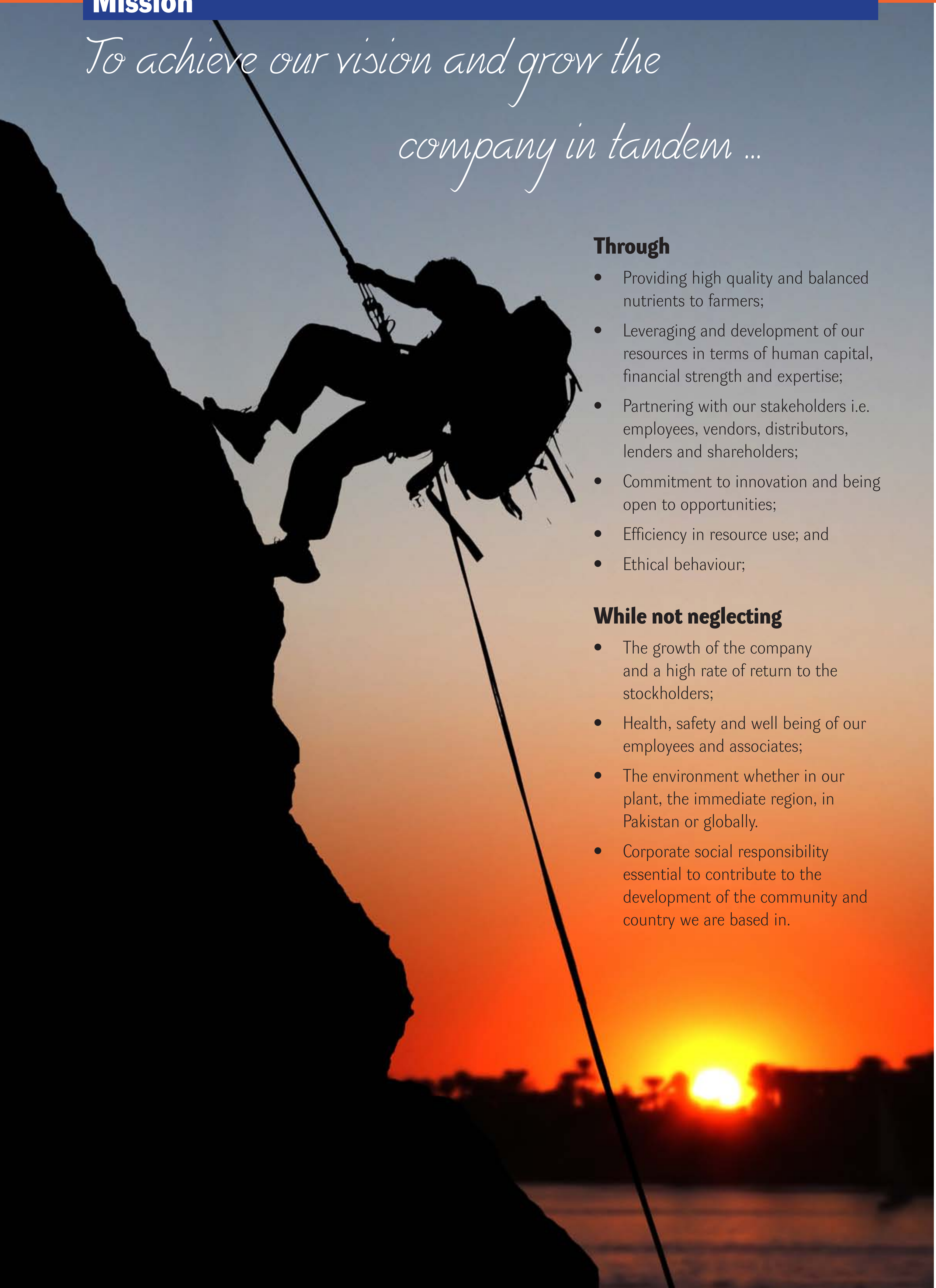
Muhammad Saleem Zafar
General Manager Projects

Mr. Muhammad Saleem Zafar is General Manager (Projects). He did his M.Sc. Chemistry from Punjab University Lahore in 1971. He has over 32 years work experience in fertilizer industry. He has been working with Pakarab Fertilizers Limited since 1978.

Vision

A green and prosperous Pakistan with high agricultural productivity

Mission



To achieve our vision and grow the company in tandem ...

Through

- Providing high quality and balanced nutrients to farmers;
- Leveraging and development of our resources in terms of human capital, financial strength and expertise;
- Partnering with our stakeholders i.e. employees, vendors, distributors, lenders and shareholders;
- Commitment to innovation and being open to opportunities;
- Efficiency in resource use; and
- Ethical behaviour;

While not neglecting

- The growth of the company and a high rate of return to the stockholders;
- Health, safety and well being of our employees and associates;
- The environment whether in our plant, the immediate region, in Pakistan or globally.
- Corporate social responsibility essential to contribute to the development of the community and country we are based in.

Corporate Strategy

Our philosophy is to deal honestly and fairly with our customers by providing the best products and services to merit and earn their trust, and to deal fairly with our business associates. We understand that the relationship that exists in the market today between the customer and supplier has run afoul due to greed, mistrust, and short sightedness. We believe that the customer is interested in true business partner and we intend to build such relationships. We intend to create wealth for our shareholders and in turn value for ourselves. We believe that all energy comes from our customers and we respect and cherish the opportunity to serve them.

Policy Statement of Ethics and Business Practices

- PFL ensures the highest business ethical standards and we are accountable for all our acts. While making decisions we consider what is best for the entire Company. Everyone, teams and individuals, is responsible to fulfill customer and business promises.

- PFL believes that being accountable means conducting our business in a manner that respects, protects and improves the environment. We conduct our business in an environmentally responsible and sustainable manner, i.e., by using energy wisely and efficiently and employing technology to minimize any risk of environmental impact.

- PFL's relationships with its customers, business associates, suppliers, employees and the wider community are conducted in accordance with the highest standards of integrity, honesty, openness and professionalism. PFL is committed to truth and fair dealing and creating a positive and supportive work environment.

- The Company does not support any political party nor contributes to the funds of groups whose activities promote party interests.

- Employees whose work affects environmental compliance must be completely familiar with the permits, laws and regulations that apply to their work. These beliefs, along with our dedicated commitment to comply with all applicable environmental laws and regulations, comprise our environmental ethics.

- PFL employees must comply with the letter and, where it is clear, the spirit of all laws and regulations relating to their business conduct. This includes understanding the laws and regulations relevant to their work and complying with the legal requirements of the country.

- All employees of the company are restricted to use only legitimate practices in commercial operations and in promoting the Company position on issues before governmental authorities. "kickbacks" or "bribes" intended to induce or reward favorable decisions and governmental actions are unacceptable and prohibited.

- Employees are prohibited from using their positions or the Company's property or information for personal gain, and from competing with the Company. Employees are also prohibited from taking for themselves opportunities that are discovered through the use of Company information, and property or their position.

- PFL's assets — both physical and intellectual — are very valuable. We have an obligation to protect these assets for the benefit of the entire Company and its shareholders. When using Company assets, employees must put the interests of the Company ahead of other or competing interests.

- Our shareholders have a right to expect that our business decisions are made ethically and in the best interests of the Company. Any situation that creates, or appears to create, a conflict of interest between personal interests and the interests of the Company must be avoided, eliminated, resolved or appropriately disclosed.

- Protection of the Company's information is key to our success. All the employees are responsible to apply the tools available to help us to manage the Company's information resources and records, including computers, e-mail, the Internet, mobile communication devices, and telephones.

- PFL seeks to do business with suppliers, vendors, contractors and other independent businesses who demonstrate high standards of ethical business behavior. PFL 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 take steps to assure that our suppliers, vendors and contractors understand the standards we apply to ourselves, and expect from them.

- At PFL, we invite our employees to contribute their best and to avail the opportunities for improvement and growth. We encourage self-development and provide employees with tools, techniques, and training to master their current jobs, broaden their skills, and advance their careers in the Company.

- We place our employees in positions in which they can contribute to the Company and achieve personal growth. Our employees are encouraged to express their opinions and innovative ideas about how to improve the Company's performance. We believe that highly engaged employees are the key ingredient in professional development and business success.

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


High yield solutions

Notice of Annual General Meeting

Notice is hereby given that the Thirty Seventh Annual General Meeting of Members of PAKARAB FERTILIZERS LIMITED will be held on Friday April 30, 2010 at 11 A.M at its Registered Office, 2nd Floor Trust Plaza L.M.Q. Road Multan to transact the following business.

ORDINARY BUSINESS:

1 To confirm the minutes of the Extra Ordinary General Meeting held on December 28, 2009.

2 To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and Directors' Reports thereon for the year ended December 31, 2009 together with the Audited Consolidated Accounts of Pakarab Fertilizers Limited and subsidiary Fatima Fertilizer Company Limited for the year ended December 31, 2009.

3 To appoint Auditors for the year ending December 31, 2010 and to fix their remuneration. The retiring Auditors M/s A.F. Ferguson & Co. Chartered Accountants, being eligible, offer themselves for re-appointment. On the proposal of some of the members, the Board Audit Committee and the Board of Directors have recommended to appoint Auditors from the following :

KPMG Taseer Hadi & Co. Chartered Accountants
M. Yousuf Adil Saleem & Co. Chartered Accountants
Ford Rhodes Sidat Hyder & Co. Chartered Accountants
A.F. Ferguson & Co. Chartered Accountants

4 To approve and confirm Specie Dividend for the year ended 31 December 2009 at the rate of 50% i.e. to distribute 225 million shares of the subsidiary company Fatima Fertilizer Company Limited (Fatima) having face value of Rs. 10 each, to the shareholders of the parent Company in the ratio of 5:10 as recommended by the Board of Directors in their meeting held on April 9, 2010. This entitlement shall be in addition to the interim specie dividend already approved and distributed @ 50% i.e. 225 million shares of Fatima.

Special Business:

5. To pass the following Special Resolution(s) with or without modification(s), addition(s) or deletion(s):-
Resolved that a sum of Rs. 2,250,000,000 from General Reserves of the Company be applied towards the payment of 50% Dividend in Specie by distributing 225 million shares of the subsidiary company Fatima Fertilizer Company Limited (Fatima) having face value of Rs.10 each, to the shareholders of the parent Company, as specie dividend in the ratio of 5:10 (5 share of Fatima for every 10 shares of Pakarab Fertilizers Limited), who are registered in the books of the Company on April 24, 2010.
Further resolved that this entitlement shall be in addition to the interim specie dividend already approved in the extra ordinary general meeting held on September 30, 2009 and distributed at the rate of 50% i.e. 225 million shares of Fatima.
Further resolved that fractional shares will be treated as per Companies Ordinance, 1984.

6. To consider and, if thought fit, to pass the following resolution as Special Resolution, with or without modification(s), approving the recommendation of the Board of Directors to place first, second and third quarter accounts of the company on its website instead of circulating the same by post to the shareholders in compliance with the provisions of Section 245 of the Companies Ordinance, 1984 and Securities & Exchange Commission of Pakistan (SECP) Circular No. 19 of 2004, dated April 14, 2004.

"Resolved that the company be and is hereby authorized to place quarterly accounts on its website instead of sending the same to members by post, pursuant to the SECP Circular No. 19 of 2004, dated April 14, 2004."

"Further Resolved that the Chief Executive/any Director/Company Secretary singly be and is hereby authorized to complete all procedural formalities for placement of Quarterly Accounts on Company's website."

Other Business:

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

By order of the Board

Iftikhar Mahmood Baig
Company Secretary

MULTAN: April 9, 2010.

Notes:

1. The Share Transfer Books of the Company will remain closed for 7 days from 24th to 30th April 2010 (both days inclusive).
2. Any member eligible to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote instead of him/her.
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.
4. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited under Central Depository System (CDS) must bring their original National Identity Card (NIC) or Original Passport along with their account number in CDS at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the NIC or the Passport of the beneficial owners. Representatives of corporate members should bring the usual documents required for such purpose.
5. Shareholders are requested to immediately notify the change of their address, if any.

STATEMENT OF MATERIAL FACTS U/S 160(1)(B) OF THE COMPANIES ORDINANCE 1984

Agenda Item No. 6

The Securities and Exchange Commission of Pakistan vide its Circular No. 19 of April 14, 2004 has allowed all listed companies to place first, second and third quarter accounts on company's website instead of sending the same to shareholders at their registered addresses. The decision of the Commission is intended to ensure timely availability of information to all shareholders. As a procedure, the company has to seek approval of its shareholders to get permission of SECP for placement of quarterly accounts on its website. However, the company will send the printed copy of the report to shareholder, within seven days of his request.

The Directors of the Company have no interest in the above special resolution, save to the extent of their shareholding in the Company.

Directors' Report to the Members

Dear Shareholders

On behalf of Board of Directors of Pakarab Fertilizers Limited, I am pleased to present the 37th Annual Report of the Company for the financial year ended December 31, 2009 along with the audited consolidated financial statements of its subsidiary, Fatima Fertilizer Company Limited.

Global Fertilizer Market

The global fertilizer market has seen some unprecedented volatility over the last two years. The sharp rise and fall in prices have been reflected in the unpredictability of prices in nitrogen, phosphate & potash. The recent upturn and possible recurrence in the future has been driven by some demand factors. These include crop prices also reaching record levels both globally and locally. Farm economies have improved significantly, encouraging farmers to apply more fertilizers. Prices of fertilizers have been increasing dramatically with factors such as input cost (Phosphate & Sulphur prices jumped significantly). However with other key drivers remaining strong, that is farm economies and global food security concerns, the demand for fertilizer is expected to remain firm.

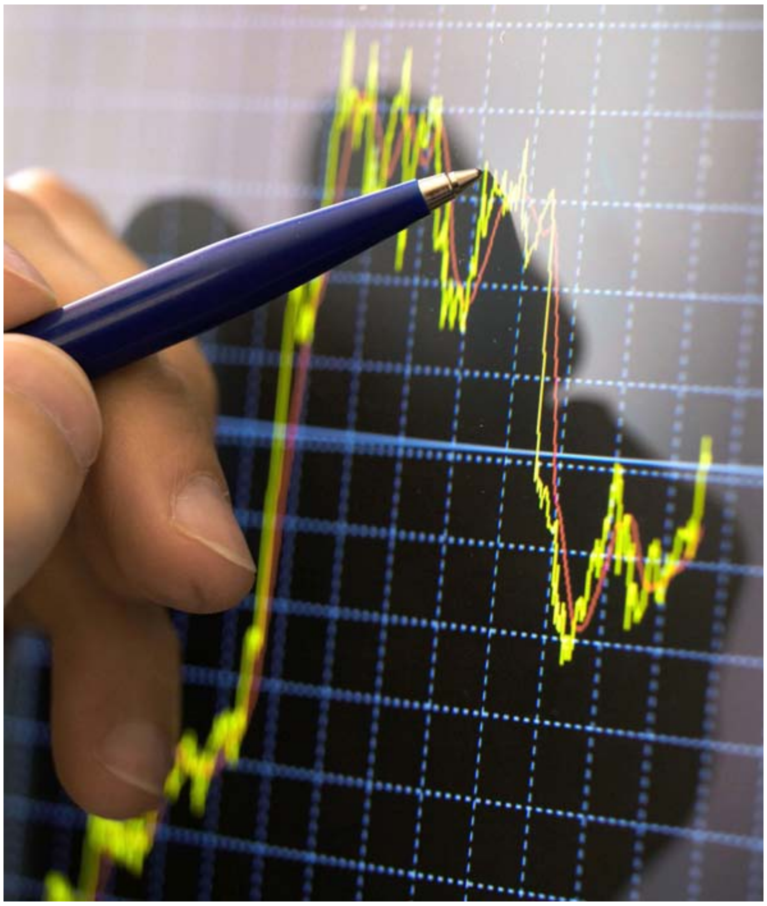
In the near term, as fertilizer demand grows at sustained rates, potential supply from announced projects would further amplify the emerging surplus imbalances, at least until 2013. The nitrogen sector may see tightening conditions in 2010-11 for urea supply and for merchant ammonia. In the longer term, the massive addition of nitrogen capacity from announced projects may generate large potential surpluses starting in 2012.

Domestic Market of Nitrogenous and Phosphatic Fertilizer

The domestic market running in tandem with the global scene saw some dramatic growth in fertilizer consumption. With strong crop profitability particularly in cotton, wheat and sugarcane, the fertilizer utilization has been good.

Urea offtake during 2009 was 6384kT as compared to 4655 kT in the year 2008; which represented an increase of 27%. While total fertilizer nutrient offtake during Rabi 2009 (Oct-Dec) was about 1,338 thousand tonnes, which increased by 27.3 per cent, compared with same period of last Rabi. In product terms, urea offtake increased by 26.4 per cent only while DAP increased by 23.1 per cent during Rabi 2009.

DAP offtake during 2009 was 1747kT as compared to 755kT of year 2008; which represent an upward trend of 131%. Total provisional nutrient offtake was about 584 kT during December 2009, which increased by 80.4 per cent compared with December 2008.



The offtake of nitrogen was about 475 thousand tonnes, phosphate 109 thousand tonnes, with an increase of 65.5 and 197.2 per cent, respectively. Potash offtake increased by 93.4 per cent. In product terms, urea offtake was 913 thousand tonnes that increased by 60.1 per cent. DAP offtake was about 177 thousand tonnes which saw an increase of 167.5 per cent over December 2008.

Rabi 2009-10 started with a balance of 176 thousand tonnes of urea. Domestic production during the season is estimated at 2,467 thousand tonnes. Estimated imports for current seasons are 697 thousand tonnes. Urea offtake during current Rabi 2009-10 is estimated at about 3,168 thousand tonnes, against the 3,339 thousand tonnes availability. Keeping in view the local production and imported supply the position seems comfortable for rest of the season.

DAP availability in current season would be 974 thousand tonnes, which included 129 thousand tonnes of inventory, 573 thousand tonnes of imported supplies and domestic production of 272 thousand tonnes. DAP supply/demand situation would be satisfactory throughout the season. Other complimentary phosphate products such as SSP, NP, MAP and TSP are also available in the market to meet the phosphate demands.

Fatima Fertilizer Company Limited-Subsidiary Company

Fatima Fertilizer Company Limited (Fatima), a subsidiary was listed on all three stock exchanges of Pakistan in March 2010. It is engaged in the production and sale of chemical fertilizers and its by-products. Fatima Fertilizer Company Limited is a fully integrated fertilizer complex of Nitro Phosphate (NP), Nitrogen Potassium Phosphate (NPK), Calcium Ammonium Nitrate (CAN) and Urea plants with off sites and utilities. The Project envisages achieving an optimal balance between the production of NP, NPK, CAN and Urea, while aiming to fully exploit the synergies in marketing the four products. The required gas of 110 MMCFD has been allocated by Government of Pakistan from Mari Gas fields.

By the Grace of Almighty ALLAH, management of the company has achieved the milestone of production of Ammonia, Urea and CAN plants. Nitric Acid plant, NP and NPK plants are expected to be commissioned during the year.

Fatima has invested Rupees 53.147 Billion in the project as on December 31, 2009. The project is being financed by debt to equity ratio of 56:44. Total amount of debt has been arranged and significant part of equity has been contributed by the sponsors. Equity is in the form of ordinary shares, preference shares and subordinated loans. 10% of the ordinary share capital has been offered to general public in January 2010.

Your Company, being major sponsor, deposited Rs. 3,750 million for issuance of preference shares of Fatima. The shares were issued in subsequent period. The Company has decided to make necessary investment in Fatima by way of loan. In this regard, an amount of Rs. 2,037 million has been arranged from a syndicate of financial institutions.

The management has further decided to invest through subordinated loan an amount of Rs. 2,238 million in Fatima. Amount of Rs. 158 million has already been provided and the remaining amount will be provided in subsequent periods.

The implementation of this project will substitute import of heavily subsidized fertilizer with local manufacturing, saving of foreign exchange and reduction of import subsidy burden on the exchequer and will also help in achieving the Government of Pakistan goals to have food security in the country.

Financial Review

The company earned pre-tax profit of Rs. 5,098.674 million and after tax profit of Rs. 4,642.878 million as against pre-tax profit of Rs. 8,034.501 million and after tax profit of Rs. 7,089.890 million respectively achieved during the previous year.

We seek happiness today and in tomorrow; we nurture it with sweetness of our lives

Directors' Report to the Members

Profit for the year also includes PKR 1,229 million from the sale of Certified Emissions Reductions (CERs) from Clean Development Mechanism Project (CDM).

A summary of the operating results for the year and appropriation of the divisible profits is given below:

	2009	**2008**
Sales (Rs. in million)	16,551	18,887
Gross Profit (%)	41	66
Profit before tax to Sale (%)	31	43
EBITDA (Rs. in million)	8,850	10,815
EBITDA to sale (%)	53	57
Earning Per Share (Rupees)	10.32	* 15.76
Break up value of shares (Rupees)	31.86	* 26.61

* *Restated*

Major reasons of decrease in sales value and profits in current year are:

- Decrease in sale price of Nitro phosphate mainly due to decrease in DAP / Rock phosphate prices internationally.
- Impact of Rock Price increase nearing year end in 2008, consumed in the current year resulting in increase in Cost of Sales.
- Prices of Natural gas used as feed as well as fuel have also increased by 26% and 31% respectively from previous year.

APPROPRIATIONS

	Share Premium Rs. in million	**General Reserve Rs. in million**	**Un-Appropriated Profit Rs. in million**
Balance as at December 31, 2008	1,048.652	606.700	7,090.638
Transfer to General Reserve	- .	7,090.000	(7,090.000)
	1,048.652	7,696.700	0.638
Bonus shares 2008 @ 50%	(1,048.652)	(451.348)	-
Specie distribution @ 50%		(2,250.000)	-
Profit for the year	-	-	4,642,878
Balance as at December 31, 2009	**-**	**4,995.352**	**4,643.516**

Post Balance Sheet Event

The Board of Directors of the Company has recommended specie dividend for the year ended 31 December, 2009 at the rate of 50% i.e. to distribute 225 million shares of Fatima Fertilizer Company Limited (Fatima) having face value of Rs. 10/- each, to the sharehololders of the Company as specie dividend in the ratio of 5:10 (5 shares of Fatima for every 10 shares of PFL) at their meeting held on April 09, 2010 for the approval of members at the annual general meeting to be held on April 30, 2010. This entitlement shall be in adddition to the interim specie dividend already approved and distributed at the rate of 50% i.e. 225 million shares of Fatima.

Earnings Per Share

Based on the net profit for the year ended December 31, 2009 the earnings per share (EPS) stand at Rs. 10.32 per share.

Provident and Gratuity Funds

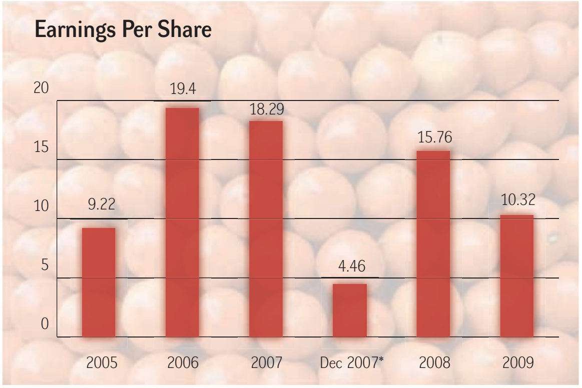
The funded retirement benefits of the employees of the Company are audited at regular intervals and are adequately covered by appropriate investments. The value of the investments of the two provident funds and gratuity fund aggregated to Rs. 109.84 Millions. According to the actuarial valuation, Fair value of the assets of the funded defined benefit gratuity plan for both management and non-management staff is Rs. 29.96 Millions as at 31st December 2009.

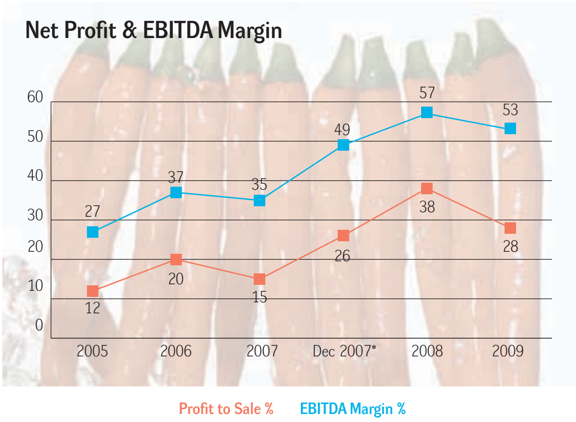
Contribution to the National Exchequer and Economy

The company's contribution to the National Exchequer by way of taxes, levies, excise duty and sales tax amounted to Rs. 1,034.309 million in the year 2009 as against Rs. 1,614.591 million in 2008.

Summary of Key Operating and Financial Data of the Last Six Years

A summary of key operating and financial data of the last six years is annexed.





* reflects six month results

Directors' Report to the Members

Production Review

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

Plant	2008		2009		Variance	
	Product M. Ton	Nutrient M. Ton	Product M. ton	Nutrient M. Ton	Product M. Ton	Nutrient M. Ton
Calcium Ammonium Nitrate (CAN)	342,574	89,069	341,928	88,901	(646)	(168)
Nitro Phosphate (NP)	312,095	131,080	292,102	122,683	(19,993)	(8,397)
Urea	104,102	47,887	105,674	48,610	1,572	723
Total	**758,771**	**268,036**	**739,704**	**260,194**	**(19,067)**	**(7,842)**

Event Oriented Reconciliation

Production of CAN and NP remained lower by 0.19% and 6.41% respectively in terms of nutrient tons as compared to that of last year. The production decreased mainly due to following reasons:

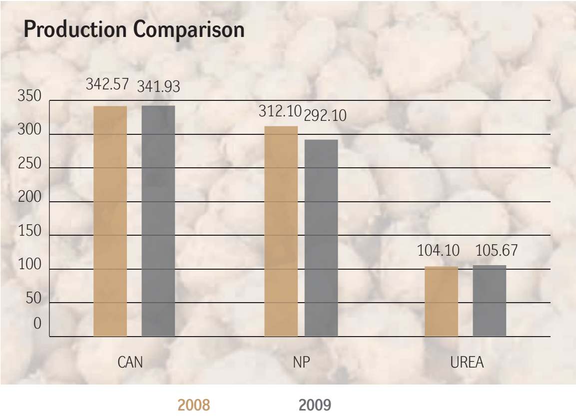
- Reduced ammonia availability for Fertilizers production mainly due to:
  - Natural gas limitation
  - Startup issues after ATA-2009

Plant Reliability Improvements

Followings are the major improvements that have been made in 2009 to improve the plant reliability and ultimately will help to enhance production.

- **Cooling water chemical treatment system**
  Cooling water chemical treatment system changed from chromate based to phosphate based system. Chromate is toxic and dangerous to health of operating personnel and for the environment.

- **Lamont boiler at Nitric Acid**
  Lamont boiler of Nitric Acid Line 'A' had outlived its operational life and its operation was resulting in waste of energy. Therefore, it has been replaced with a new modified design Lamont boiler. The new equipment will help to recover energy and enhance the operational reliability of the plant for continued production. The extra steam production will ultimately reduce the manufacturing cost of Nitric Acid.



- **DCS system at nitric acid plant**
  Installation of the State of the art Distributed Control System (DCS) has been completed at the Nitric Acid plant. This will make the operation of Nitric Acid plant efficient and enable effective control through improved monitoring of process parameters.

- **Emergency load management system**
  Emergency load management system (ELMS) has been installed and made functional to ensure reliability of critical plants in case of Gas Turbine failure. There is a sequence of plant tripping according to their criticality.

- **CO2 Plant**

  CO_2 plant is Pakarab's major achievement for the Year 2009. CO_2 is the by product of Ammonia plant and partially used in Urea and CAN production. The balance CO_2 had been venting for the past many years. To recover this venting CO_2, a liquefaction plant of 192 MT per day of CO_2 was installed in 2009. This plant not only produces food grade liquefied CO_2 but also helps to prevent green house gases effect on environment.

- **Co-Generation Plant**
  Switching from old power generation system to energy efficient cogeneration system is one of the major achievements of the year 2009. Co-Gen is based on latest combined cycle steam and power generation system. There are three gas turbo generators coupled with heat recovery steam generator. HRSG's recover heat from gas turbines' flue gases and minimize the gas consumption required for steam generation. Cogeneration system is not only energy efficient system but also generates Certified Emission Reductions (CER's). Co-Gen CDM has also been approved by the UNFCCC. The project would result in reduction of CO_2 released to atmosphere by about 108,000 Tons/year. In monitory terms, it would generate foreign exchange of around two million USD per annum for the country.

Sales Review

SALES COMPARISON 2009 vs 2008

CAN sales registered a decline during 2009 primarily due to adverse market conditions during September and October 2009. The nitrogen market had surplus supply following weak demand.NP sales in 2009 seem to have increased significantly. However this increase is to be seen in the context that 2008 sales were extraordinarily low on account of record high prices of phosphatic fertilizers. As a consequence farmers used lower quantities in 2008. Urea sales were in line with total production for the year.

	2008 M. Ton	2009 M. Ton	% VAR
CAN	357,183	296,156	(17)
NP	251,578	389,751	55
UREA	103,480	106,185	3
TOTAL	**712,241**	**792,092**	**11**

Farmers Awareness and Education Program

Mission

Enhance farm productivity and profitability through the use of balanced fertilizers by improving farmers' knowledge & perception about PFL products.

Enhancement of Yield through Balanced Nutrient Delivery

Balanced use of fertilizers on crops, fruit and vegetables is of primary importance for Pakistan agriculture to achieve better yield and high quality to bring self sufficiency and target surplus produce for export. Farmer, being the most critical link of this chain, has always been given due consideration and attention. Pakarab Fertilizers Limited has allocated significant resources for Farmers' Education Programme to make them aware of the growing need of balanced fertilizer use due to the deficiencies of major and minor nutrients in our soils. This aims at highlighting the importance of fertilizer management for productivity enhancement.

Pakarab has developed effective distribution channels to ensure availability of PFL fertilizer products closer to the consumption areas. The channels include warehousing and dealers networks throughout Pakistan. Direct channels like cotton ginners, sugar mills, rice mills and other related industry have also been developed to provide maximum support to farmers. To make the channels effective, a series of training programs were conducted with main focus on product composition, attributes, optimum doses and benefits of balanced use of fertilizers for the enhancement of crop productivity.

Pakarab has also played a role in establishing working linkages with Agricultural Research Institutes, Agricultural Extension department and Agricultural Universities. These linkages helped sharing to expedite dissemination of crop production technologies. In addition, these have been effectively used to test and introduce new products in the industry.

Activities

- Farmers' Education and Business Associate Trainings
- Seminars (pre and post season seminars in focus territories)
- Farm visit and farmers meetings
- Product Demonstration
- Field days at product demonstration site
- Literature development, publication and distribution
- Farmers and allied industry staff trainings

Direct Contacts

This includes visit of field agronomist to farmer's fields & provide advisory services at the farm level. Agronomists also use formal discussion session at villages and dealers outlet to build farmers confidence and to educate them on balanced fertilizer use.

Media and Farmer Meeting

Crops production and products literature is used to provide knowledge directly to the educated segment of farmers. This includes mega farmer gatherings and seminars with formal presentation from both private and public sector experts.

Media has been used effectively for fast dissemination of message and knowledge. Discussion forums and documentaries are the main source of media campaigns.

Product Demonstration Programs

Product demonstration on various crops are laid out close to the farmer's plot with balance dose of fertilizer in comparison with normal farmer practice. Small scale farmer meetings are conducted at critical growth stages of crops to show the difference between the plots. At the harvesting stage, mega meetings are conducted to demonstrate the results in the form of yield difference and register importance of balanced doses of fertilizers. The main purpose of such demonstrations is to improve farmers' perception about PFL and its products' usage to improve crop yield.

Seminars were organized for the education of the farmers and promote balanced use of fertilizer for improving crop productivity with special focus on Pakarab fertilizer products (Nitrophos and Calcium Ammonium Nitrate). A total of 38 seminars and 91 farmers meetings were arranged on all major crops. A total of 8882 farmers participated in these seminars and meetings. The participants included progressive growers, Agriculture extension staff and sugar mills cane staff. Details are as under:

Crop	Number of Seminars	Number of Farmers Meetings	Number of Participants in Seminars	Number of Participants in farmers Meetings
Cotton	12	20	1,558	546
Sugarcane	12	18	2,712	856
Wheat	11	43	1,460	1,025
Maize	1	7	125	230
Potato	1	3	127	71
Chillies	1		172	
TOTAL:	**38**	**91**	**6,154**	**2,728**

Culture of success...

Technical services staff (TSO and Field supervisors) also contacted thousands of farmers individually at the farms and provided services to the growers.

Biological Pest Control

Establishment of Pakarab Biological Laboratory is a unique development in the fertilizer industry. Services were provided to the growers to control insect pests of sugarcane, cotton, citrus, "BER" and sorghum. Total control of sugarcane insect pests was demonstrated to the farmers. Services were provided to various growers and sugar mills in Muzaffar Garh, Khanpur, Rahim Yar Khan, Mir Pur Khas, Sanghar and Sahiwal area's farmers were also educated on the environment friendly and cost effective biological insects control.

During the year 2009, a total of 729,620 Tricho cards and 17,000 Chrysopa rings were provided to the growers across the country. Pakarab Biological Laboratory has successfully been used as one of the most effective tool to promote PFL product use in different crops. Pakarab Biological Laboratory Products include Trichogramma and Chrysoperla carneae.

Target crops

Sugarcane, Cotton, maize, sorghum, citrus, banana and vegetables

Target Insects

Sugarcane borers, Pyrilla, Maize, Sorghum borers, White fly, Mites, Thrips, Aphid.

Health, Safety, Environment and Quality

Health and Hygiene

Pakarab Fertilizers has a well established Medical Centre located at the Plant's Township. It has two wings of male and female with 4 doctors and 16 paramedics. It has a state of the art patients' laboratory, X-Ray machine and an ICU with all necessary medical equipments to deal with any emergency. The female wing has a well equipped delivery room with trained LHV and midwives. Two fully equipped ambulances are always on stand by.

The highest standard of fitness and health of all its employees at the time of induction and during service is the sole motto of Pakarab Medical Centre. Proper vaccination of all newborns as per recommendations and family planning program is also carried out for employees children and surrounding nearby community. Counseling by a trained Lady Doctor and all family planning material is provided free of cost.

The Medical Centre runs 24 hours a day. All complicated medical and surgical cases are referred to specialists at Multan or anywhere in Pakistan for proper and best treatment. Six heart cases were also referred to the Institute of Cardiology Multan and Lahore for Stents procedure and by-pass operations in year 2009.

Special campaigns are launched to protect the employees by inoculations against typhoid and Hepatitis A and recently all employees were vaccinated against Hepatitis B to make Pakarab Hep B Free Community. The medical wastage generated from our Medical Centre is disposed off in proper incinerator established by a firm outside Multan.

Hygiene monitoring of Staff Canteens, Officers Mess, Guest House and Market alongwith good quality of cooked food is ensured.

Safety

Pakarab Management endeavors to keep abreast with World-Class Safety Standards. PFL is in the process of adopting DuPont's Process Safety & Risk Management Systems (PSRM).

PSRM provides a framework to manage process related hazards by managing the risk. The system has fourteen best practices categorized in three parts technology, facilities and personnel which demand more active involvement of different levels of organization in day-to-day safety improvement.

Development of Safety Management System

In the year 2009, safety procedures were revised and developed based on Process Safety & Risk Management Systems (PSRM).

Safety Committees

Safe Operations Committee (SOC)

SOC provides direction, guidance, assistance and monitor activities related to operational safety and health recognizing that the safety in all its aspects rests with the line organization and individuals.

SOC meeting is held on a monthly basis and is chaired by Director Operations. All General Managers and Departmental Managers of the Manufacturing division are members of the SOC and UM Safety acts as the secretary.

Sub Safe Operations Committees

Sub SOC Process

The Sub-Safe Operations Committee reports to the SOC Chairman. This committee is the final review authority for all new and modified process designs and procedures except those which deviate from standard safety practices for which SOC approval is mandatory.

Sub SOC Mechanical

The Sub-SOC Mechanical reviews mechanical standards, procedures and design safety of new plant facilities in addition to the existing plant and to ensure that safety related engineering standards are being met.

Sub SOC E&I

The Sub SOC E&I reviews electrical and instrument standards, design and procedures and ensures compliance with the standards.

Sub SOC Civil

Sub SOC Civil reviews the Civil Standards, design and procedures and ensures compliance with the standards.

Sub SOC	Meetings held in 2009
Process	54
Mechanical	41
E&I	16
Civil	05

“B” Level – Departmental Safety Committees

Departmental safety committees are formed in all the departments i.e. Operations Maintenance, E&I, Technical & Projects, and Administration & Training & Lab. These committees help to communicate and implement the policies formulated by the Safe Operations Committee within their respective departments.

“C” Level – Hazard Observations and Rectification Committees

Hazard Observation & Rectification Committees are formulated in Operations Department to ensure that effective systems are in place to systematically identify and evaluate potential hazards associated with the operation of the facilities covered.

“D” Level – Safety Talk

“D” Level Safety Meetings are held in all departments, units/ sections to ensure involvement and participation of staff employees in the company’s safety programme. There are 49 committees which conduct “D” Level meetings on a weekly basis.

B & C level meetings are held on monthly basis and their performance is measured in the SOC meeting.

Meeting	No. of Meeting Held in 2009
SOC	11
DSC’s	55
HORC	88
Staff Talk	2352

Leading Performance Indicators for Safety

Basic concept

- Forward-thinking safety leadership requires leading indicators, which enable the understanding of the effectiveness of the safety efforts underway at an operation.
- Management that dedicates time to continuous improvement uses these indicators not only as a way to prevent injuries, but also to continuously improve productivity and quality on the plants.

Purpose

- Leading indicators inform the organization of its progress by tracking each small step to improvement.
- They enable employees to access the quality of their efforts, the rate of their improvement and the health of their programmes.
- Most importantly, leading indicators drive continuous improvement in an organization that results in safer employees. By attacking the base of the hazard pyramid to reduce at-risk behavior and unsafe thinking, important differences are made that reduce injuries and fatalities.

We protect
our people...
our assets ...

Determining Leading Indicators

- Organizations can turn facts into leading indicators by using their own experience and knowledge to infer relationships between facts and results.
- Leading indicators become valuable tools only if they are used to take corrective action in order to negate their implications on the outcome.
- This methodology can be useful in using leading indicator data to help manage safety performance.

  17 Leading Indicators were in place at Pakarab and these were being monitored by SOC on a monthly basis. Results are communicated to the employees to strengthen safety culture.

Safety Performance

Your Company achieved 6.5 Million Safe Working Man Hours on December 31, 2009 without any Lost Time Injury.

Safety Training

Safety Training on various safety topics on Safety Procedures, PSRM Elements, Welding Safety, Scaffolding Safety, Traffic Safety etc. was imparted to all levels of employees during the year 2009.

Environment

Global warming has become the most important challenge the world is facing in the 21st century. This is evident from the recent UN conference on climate change, held in Copenhagen to find a way forward for curtailing the greenhouse gas emissions through involving developed, developing and poor countries. Water conservation, clean drinking water, waste water treatment, hazardous waste disposal, acid rain and air pollutants are some of the other concerns discussed at international level and are also being debated in developing countries like ours. Environmental concerns linked with our business activities are among the core values of PFL.

We are continuously strengthening our environmental portfolio through R & D, better process control, improving the current waste treatment systems.

Chromate based system is used widely in cooling tower for corrosion control and it was used in our industry as well. Due to its toxic nature for environment, last year, we have replaced this by an environment friendly Zinc Phosphate based system in our main Cooling Tower. In 2010 year we plan to switch over the remaining two Cooling Towers on to this treatment.

Water conservation is becoming a widely acceptable solution for addressing the water scarcity all around the world. Our environment team is also working to reduce our burden on the existing underground water resources by recycling the Cooling Tower Blow-Down for horticulture purposes.

We are an ISO-14001:2004 certified company since 2008 which also advocates our commitment in developing a robust Environmental Management System (EMS). In the recent Annual Turn Around of 2010, we have carried out a number of maintenance jobs at each Plant to reduce the gaseous emissions, liquid effluent and solid waste. This activity has further reduced our already decreasing polluting trend.

Clean Development Mechanism (CDM)

The importance of protecting the environment has increasingly become a concern the world over. Our contribution towards reducing Greenhouse Gas emissions (primarily responsible for global warming) is evident from the installation of CDM plant in collaboration with Mitsubishi Corporation, Japan, which is used to reduce the NOx emissions from our all three Nitric Acid Plants.

Corporate Social Responsibility

Corporate Social Responsibility or Social Investment is a voluntary contribution to the communities and broader society in which a company operates.

In the recent years, your Company has focused on programmes increasingly on the issues that are linked to local people and communities. It has always been important to the Company to make a positive contribution to communities. Our approach to social investment is focused on programmes which are based on sustainability, community needs having a measurable positive impact in the fields of Education, Health and Skill Development. Your Company at a local level has positively contributed through donations and charities for Health and Education sector.

Mukhtar A. Sheikh Memorial Welfare Hospital

In keeping with the Company's long-standing commitment towards community development and social welfare, a Kidney and Psychiatric Hospital in Multan namely "Mukhtar A. Sheikh Memorial Welfare Hospital" is planned to be established at a cost of PKR 2 billion approximately for free treatment of workers and the poor people of the area.

Education

The company is paying special attention to the educational facilities for the children of employees. The Company is running two high schools, one each for boys and girls.

Since 1994, the company started operating another English medium school, Pakarab Public School. After privatization of the Company, the new management paid special attention to the education and affiliated the Pakarab Public School to Bloomfield Halls schooling system to provide quality education to the children.

Human Resource Management

The human resource management (HRM) plays most vital role to ensure that the organization is able to achieve success through people. HRM has been important in achieving objectives through organizational effectiveness, human capital management, knowledge management, reward management and employee relations.

The Company recognizes that human capital is an important element of the intangible assets and know-how, imagination and creativity of employees, are as critical to business as tangible assets.

During the year under review, the Company achieved all its operational land marks through its human resource, including many new projects like installation of new CO_2 project which was conceived and implemented in-house and has been added as a new line of business, within the fertilizer manufacturing facility. The Company undertook a complete revamp of energy efficiency project by way of installing new co-generation plant. Also, the Company envisaged construction of new ammonia tank, to be completed in the year 2010, with a better and safer engineering design and security from external exposure.

Organization Development

The Company undertook many such initiatives that would enhance its internal processes and re-designed its organization structure, like separation of human resource and administration functions. Recognizing the fact that human capital is most important, a new human resource division was made to give focus on the employees' developmental needs, design their career paths, make succession plans, etc. Now human resource division is fully equipped to cater to both employees as well as organization needs. Core policies as regards recruitment and selection, compensation and benefits, training and development and employees relations have been made to establish HR function on modern lines.

The Company has also separated information technology function from finance division, to give it a due importance and benefit from the modern technology. The Company has invested heavily to have a modern enterprise resource planning solution, by acquiring complete Oracle suite, which will be fully operational by the first quarter of next year. This is one step towards paperless office environment and shall bring in the desired business efficiencies.

The Company is also undergoing re-structuring of its procurement function and same shall be completed by the next year.

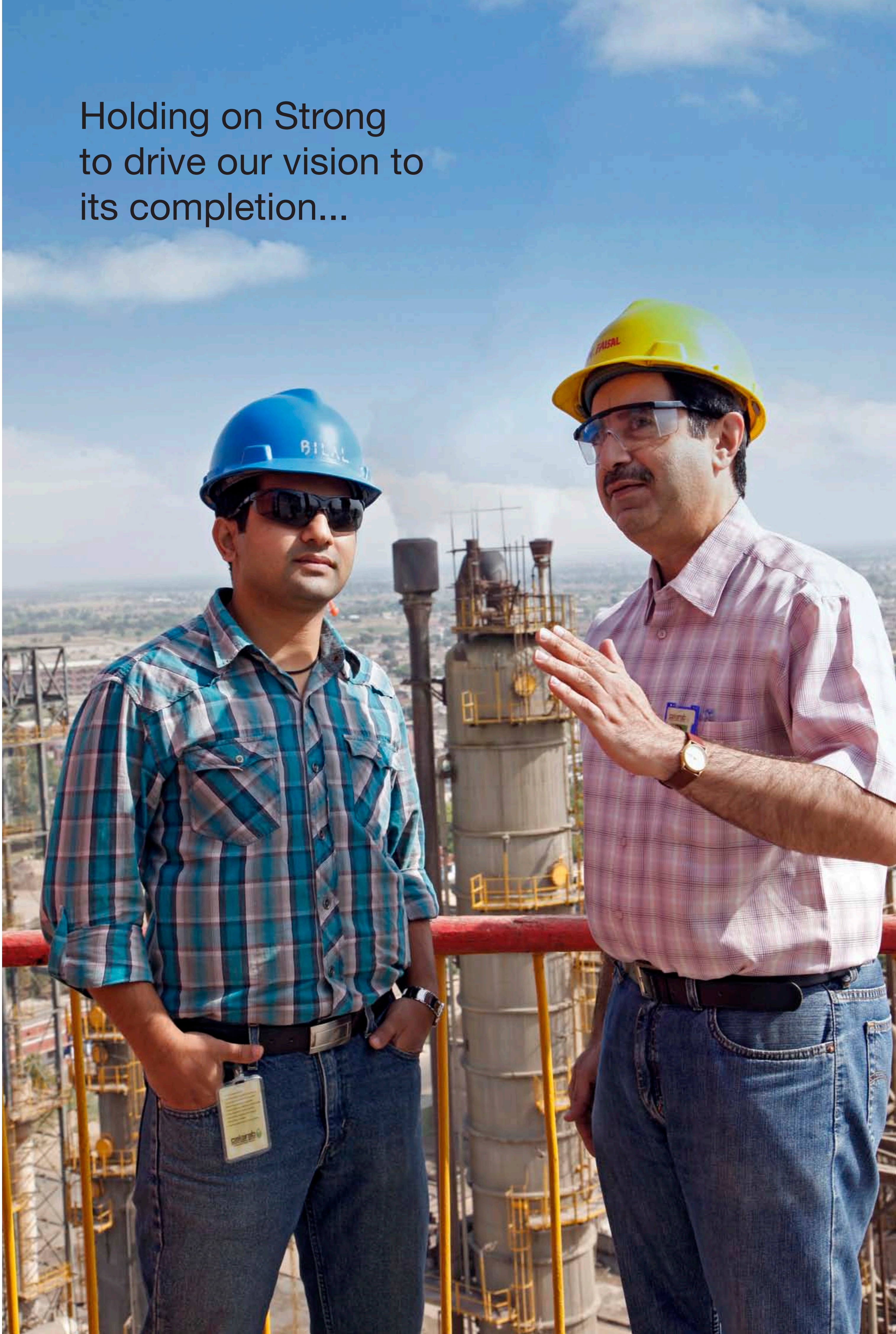
New HR Endeavors

1. Performance Management System

Performance management, which is a systematic process for improving organizational performance by developing the performance of individuals and teams, and is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements.

The Company, through its HR function has adopted a new performance management system that covers the entire cycle of performance measurement, including evaluation of existing goals and objectives, development of next year's goals and objectives/ key performance indicators and identification of relevant training and development needs, post appraisal interview for face to face interaction of employees and supervising managers, career development and succession planning.

Holding on Strong to drive our vision to its completion...



With the introduction of new performance management system it is assumed that now each and every employee of the Company will have a definite career path, will be better trained and equipped to add value to the business and improve return on investment, i.e., act as a business partner.

2. Job Evaluation

The Company has undertaken a major initiative to adopt Hay's system of job evaluation and the exercise shall be completed in the first half of next year. Job evaluation is of fundamental importance in reward management. It provides the basis for achieving equitable pay and is essential as a means of dealing with equal pay for work of equal value issues.

It is envisaged that through job evaluation, the Company will be able to establish the relative value or size of jobs based on fair, sound and consistent judgments; produce the information required to design and maintain equitable and defensible grade and pay structure; enable sound market comparisons with jobs or roles of equivalent complexity and size; be transparent and ensure that the organization meets equal pay for work of equal value obligations.

3. Policies and Procedures

HR policies are continuing guidelines on the approach the organization intends to adopt in managing its people. HR policies serve as reference points when employment practices are being developed, and when decisions are being made about people. Since HR policies provide guidance on what managers should do in particular circumstances, they facilitate empowerment, devolution and delegation.

HR has undertaken revamp of all major policies and procedures concerning the employees and it is assumed that all new policies shall be in place by the next year.

4. Training and Development

Learning is a continuous process that not only enhances existing capabilities but also leads to the development of the skills, knowledge and attitudes that prepare employees for enlarged or higher-level responsibilities in the future.

The Company believes and has invested heavily in its employees through continuous training and development of its employees. Throughout the year employees were provided, both in-house and outside trainings and development to acquaint them with the modern management concepts and equip them to take higher positions in the future.

With the introduction of a modern HR function, it is believed that in the years to come this function will gain its strength and Company will be in a great position of having fully trained and equipped managers who would succeed and take senior roles in the organization.

Director operations chairing daily planning meeting at plant site

Corporate Affairs

Directors

The Board expresses its appreciation for the services rendered by the outgoing Director, Mr. Salim Chamdia and welcomes Mr. Adbus Samad on the Board.

During the year under review the Directors of your Company completed their tenure in office. Election of Directors was held in December 2009 and all the existing Directors were re-elected for the next term of three years. The existing terms and conditions of the appointment of Chief Executive were approved by the Board for the next term of three years.

Changes in the Audit Committee

Following the change in the Board of Directors, Mr. Salim Chamdia was replaced by Mr. Muhammad Kashif in the Audit Committee. The Committee welcomes the new member and appreciates for the contributions made by the outgoing member. The statutory composition of the Committee remained intact with this change.

Board and Audit Committee Meetings

During the year under review, four meetings of the Board of Directors and six meetings of the Audit Committee were held from January 01, 2009 to December 31, 2009. The attendance of the Board and Audit Committee members was as follows:

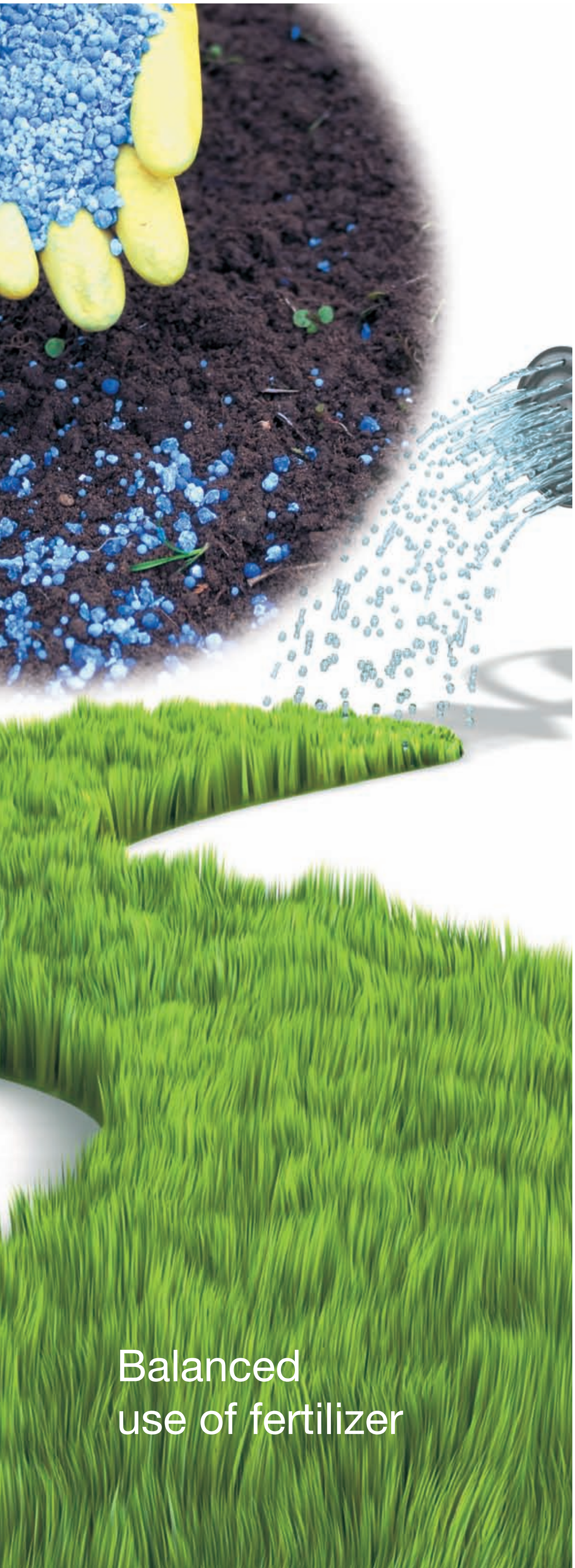
Name of Director	Board Meetings	Audit Committee Meetings
Mr. Muhammad Arif Habib	4	-
Mr. Fawad Ahmed Mukhtar	4	-
Mr. Fazal Ahmed Sheikh	4	6
Mr. Faisal Ahmed Mukhtar	2	-
Mr. Rehman Naseem	1	3
Mr. Nasim Beg	2	5
Mr. Abdus Samad	4	-
Mr. Salim Chamdia	-	2
Mr. Muhammad Kashif	3	3

The leave of absence was granted to the members not attending the Board meeting.

Corporate Governance

During the year, the Company has obtained membership of Pakistan Institute of Corporate Governance.
The Board of Directors and the Company remain committed to the principal of good corporate management practices with the emphasis on transparency and disclosures. As per requirements of the listing regulations, following specific statements are being given hereunder:

- Proper books of account of the Company have been maintained.
- The financial statements prepared by the management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.



- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of the financial statements without any departure there-from.

- The system of internal control is sound in design and has been effectively implemented by the management and monitored by the internal auditor as well as the Board of Directors and Board's Audit Committee. The Board reviews the effectiveness of established internal controls through the Audit Committee and suggests, whenever required, further improvement in the internal control system. The internal controls are also reviewed by the external auditors.

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

- There has been no material departure from the best practices of Corporate Governance as detailed in the Listing Regulations.

Statement of compliance with the code of corporate governance

The Company's Statement of Compliance with the Code of Corporate Governance is annexed with the report.

Shareholding

The pattern of the shareholding as at 31st December 2009 as required by Section 236 of the Companies Ordinance 1984 is annexed hereto:

The Directors, CEO and Company Secretary and CFO, their spouses and minor children did not carry out any trade in the shares of the Company.

Information Technology

In order to meet the ever changing requirements of business more efficiently and effectively, the Company has implemented Oracle E-Business Suite, covering Purchase, Inventory, Order Management, HR and Finance modules; Firewall (physical and windows operate) and DNS (Domain Name System) to achieve an integration of activities across the organization and to ensure high level of security and user safety.

In future, the IT division of the Company concentrates to implement VPN (Virtual Private Network) that will allow users to access network from another office and home using VPN software for remote access.

Credit Rating

The Company issued Privately Placed Term Finance Certificates (PPTFCs) of Rs. 6.5 billion during the year. The PPTFCs were rated by SECP and SBP approved credit rating agency JCR-VIS Credit Rating Co. Ltd. (JCR-VIS). On November 24, 2009, JCR-VIS assigned a final long-term rating of AA (Double A) with a 'Stable' outlook to the PPTFC of Rs. 6.5 billion of Pakarab Fertilizers Limited (PFL). Furthermore, JCR-VIS has also reaffirmed the entity ratings of PFL at 'AA-/A-1' (Double

A Minus / A-One) and the rating of the company's Rs. 5b TFC issue at 'AA' (Double A). The outlook on ratings is 'Stable'.

Mining Rights of Mineral Resources

Being the only producer of Nitro-Phosphate (NP) fertilizer in the country, your Company is dependent on importing raw material (Rock Phosphate). Adhering to the Government policy to substitute the imports by harnessing indigenous sources, your company participated in the auction of a phosphatic mining opportunity and was successful in acquiring the 10 years mining lease for Phosphate deposits over an area of 673,889 acres (Block-D) near village Lagarban Distt. Abbottabad, NWFP with an estimated investment of Rs. 1 billion.

We are in the final stages of negotiation with an international vendor to prepare mining/beneficiation feasibility study of indigenous rock phosphate making it suitable for use in our fertilizer plant.

Revamp and expansion Project

PFL proposes to revamp and expand its existing fertilizer manufacturing capacity by making an investment of approximately Pak Rupees 22.0 billion. In this respect, PFL plans to increase its ammonia plant production capacity by 138,600 tons per year from its current production of 316,800 metric tons per year.

The proposed expansion is also intended to introduce more efficient technologies that have developed since the original plants were established in 1978. The total manufacturing capacity after the proposed expansion would be 1,185,000 tons per year against existing capacity of 800,000 metric ton per year. An additional quantity of 16 MMCFD of gas is required for the proposed expanded manufacturing capacity has been allocated by the GOP in February 2010 under Fertilizer Policy 2001. Gas Supply Agreement (GSA) is being finalized with SNGPL.

Auditors

M/s. A. F. Ferguson & Co. Chartered Accountants Lahore, retiring auditors of the Company, offer themselves for re-appointment. The Board Audit Committee and the Board of Directors recommend their re-appointment by the shareholders at the 37th Annual General Meeting, as auditors of the Company for the year ending 31st December 2010.

Outlook and Challenges 2010

Given the current pricing levels of wheat and cotton and the surge in sugarcane prices; the farmer profitability seems to be intact. The Government's focus on increasing yields and cultivable area will also act as a catalyst in promoting fertilizer sales.

About 3,339 thousand tonnes of urea would be available against the estimated demand of 3,168 thousand tonnes till the end of current Rabi season. Urea production units have worked as per capacity. Keeping in view the situation so far, the urea supply is expected to be smooth in the coming months.

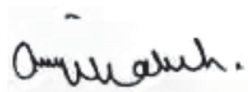
Rabi 2009-10 started with 129 thousand tonnes inventory of DAP. Domestic production would be 272 thousand tonnes. Estimated offtake is 776 thousand tones. An amount of 373 thousand tones of DAP has been imported during first three months (Oct-Dec 09) and an additional quantity of 202 kT of DAP is required to be imported in next months. In view of expected demands against supply the situation would be comfortable throughout remaining Rabi 2009-10.

Though the demand outlook for 2010 looks favorable, the looming issue of water scarcity could act as deterrent to the growth of industry. Though fertilizer prices are on the rise again, particularly DAP, we must be cognizant of the fact that these are not allowed to break thresholds that are detrimental to farmer profitability. From the Fatima Group perspective, increase in capacity of NP & CAN will be needed to be managed effectively through an aggressive sales and distribution strategy.

Acknowledgements

Your Directors wish to place on record their appreciation for the assistance, guidance and cooperation that your Company received from all the stakeholders including the Government of Pakistan, Financial Institutions, Commercial Banks, SNGPL, Business Associates, Customers and all others whose continued support has been a source of strength to the Company. The Directors also wish to place on record their sincere appreciation for the devotion and commitment of every employee of the Company.

For and on behalf of the Board



Multan
April 09, 2010

Muhammad Arif Habib
Chairman

Financial Highlights

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

Income Statement		FY 04	FY 05	FY 06	FY 07	Dec 31, 2007 (Transitional) *	Dec 31, 2008	Dec 31, 2009
Turnover	Rs.	5,763	5,954	7,069	9,102	5,164	18,887	16,551
Cost of Goods Sold	Rs.	(3,690)	(3,911)	(4,255)	(5,658)	(2,473)	(6,378)	(9,783)
Gross Profit	Rs.	2,073	2,043	2,814	3,444	2,691	12,509	6,768
Admin Cost	Rs.	(186)	(515)	(148)	(198)	(144)	(590)	(606)
Distribution Cost	Rs.	-	-	(97)	(250)	(178)	(583)	(764)
Financial Cost	Rs.	(14)	(8)	(1,088)	(1,093)	(660)	(2,296)	(3,191)
Other Expenses	Rs.	(95)	(130)	(673)	(315)	(121)	(1,019)	(238)
Re-measurement gain	Rs.	-	-	-	-	-	-	2,866
Interest Income	Rs.	1	21	125	79	21	37	30
Other Income	Rs.	21	13	17	35	21	34	259
Share gain/(loss) of associated company	Rs.	-	-	-	-	6	(57)	(25)
Profit before Tax	Rs.	1,800	1,424	950	1,702	1,636	8,035	5,099
Profit after Tax	Rs.	1,070	685	1,442	1,359	1,337	7,090	4,643
EBITDA	Rs.	1,962	1,604	2,617	3,208	2,543	10,815	8,850

Balance Seet		FY 04	FY 05	FY 06	FY 07	Dec 31, 2007 (Transitional) *	Dec 31, 2008	Dec 31, 2009
Paid up Capital	Rs.	743	743	743	743	3,000	3,000	4,500
Shareholder's Equity	Rs.	1,442	1,532	5,839	7,069	6,156	11,976	14,339
Long term borrowings	Rs.	-	-	7,920	7,040	10,905	13,805	16,191
Capital employed	Rs.	1,442	1,532	13,759	14,109	17,061	25,781	30,530
Deferred liabilities	Rs.	-	-	4,389	4,364	4,417	4,656	5,033
Property, plant & equipment	Rs.	313	339	13,808	14,305	16,784	20,279	21,285
Long term assets	Rs.	533	396	17,485	18,585	23,703	32,047	35,039
Net current assets / Working capital	Rs.	899	1,034	1,262	581	930	1,666	3,891
Total Assets	Rs.	2,813	3,573	23,225	25,167	30,645	45,523	51,421

Cash Flows		FY 04	FY 05	FY 06	FY 07	Dec 31, 2007 (Transitional) *	Dec 31, 2008	Dec 31, 2009
Operating activities	Rs.	1,304	838	3,202	2,512	240	2,780	6,712
Investing activities	Rs.	(203)	(188)	11	(1,935)	(5,000)	(10,278)	(10,353)
Financing activities	Rs.	(446)	(594)	(2,952)	(218)	2,864	3,100	3,467
Changes in cash & cash equivalents	Rs.	56	655	261	359	(1,896)	(4,398)	(174)
Cash & cash equivalents - Year end	Rs.	358	413	789	1,147	(748)	(5,146)	(5,321)

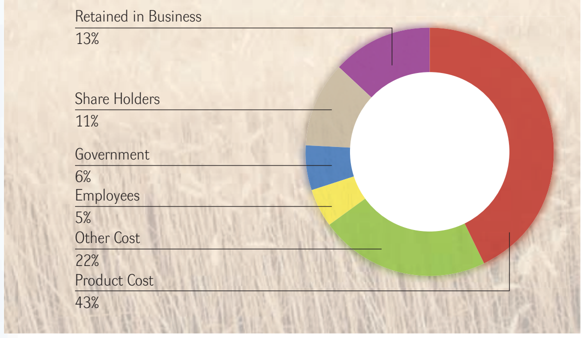
Key Indicators Operating :		FY 04	FY 05	FY 06	FY 07	Dec 31, 2007 (Transitional) *	Dec 31, 2008	Dec 31, 2009
Gross Profit Margin	%	35.97	34.31	39.81	37.84	52.11	66.23	40.89
Pre tax margin	%	31.23	23.92	13.44	18.70	31.68	42.54	30.81
Net profit margin	%	18.57	11.50	20.40	14.93	25.89	37.54	28.05
EBITDA %age to sale	%	34.04	26.94	37.02	35.25	49.24	57.26	53.47
Earning per share (Rs.) Basic	Rs.	14.40	9.22	19.40	18.29	4.46	15.76	10.32
Performance								
Book Value per share	Rs.	19.41	20.61	78.59	95.14	20.52	26.61	31.86
Return on assets	%	38.05	19.17	6.21	5.32	4.36	15.57	9.03
Total Assets Turnover	Times	2.05	1.67	0.30	0.36	0.17	0.41	0.32
Fixed Assets Turnover	Times	18.42	17.57	0.51	0.63	0.31	0.93	0.76
Debtors turnover	Times	11.76	6.89	9.00	21.34	9.70	19.18	15.69
Debtors turnover	Days	31	53	41	17	19	19	23
Inventory turnover	Times	3.45	3.29	2.76	3.30	1.21	1.43	1.80
Inventory turnover	Days	106	111	132	111	152	255	203
Return on Share Capital	%	144.04	92.21	1,940.39	182.93	44.57	236.33	154.76
Return on Equity	%	144.04	92.21	24.70	19.22	21.72	59.20	32.38
Leverage:								
Long Term Debt : Equity		0:100	0:100	58:42	50:50	64:36	54:46	53:47
Interest cover		137.13	179.50	2.03	2.60	4.41	5.21	2.74
Liquidity:								
Current Ratio		1.66	1.51	1.28	1.10	1.15	1.14	1.31
Quick ratio		0.81	0.91	0.88	0.85	0.70	0.62	0.94

Valuation :		FY 04	FY 05	FY 06	FY 07	Dec 31, 2007 (Transitional) *	Dec 31, 2008	Dec 31, 2009
Earnings per share(before tax)	Rs.	24.22	19.16	12.78	22.90	5.46	17.86	11.33
Earnings per share(after tax)	Rs.	14.40	9.22	19.40	18.29	4.46	15.76	10.32
Earnings Growth	%	106.33	(35.97)	110.41	(5.72)	(1.64)	253.26	(34.52)
Break-up value	Rs.	19.41	20.61	78.59	95.14	20.52	39.92	31.86
Cash dividend	%	80.00	80.17	-	-	-	-	-
Bonus dividend	%	-	-	2,562.10	-	303.73	50.00	-
Specie dividend	%	-	-	-	-	75.00	50.00	100.00

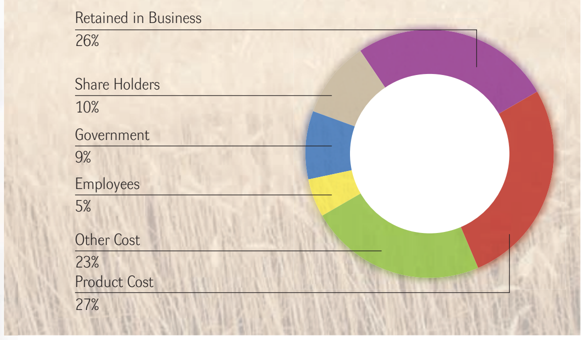
* Period ended December 31, 2007 was transitional period of six months from July 07 to Dec. 07.

Graphic Presentation

Revenue Application 2009



Revenue Application 2008



Horizontal Analysis

	Rupees in Million					Variance in %				
	2005-06	2006-07	2007 (Transitional)	2008	2009	2005-2006	2006-2007 Vs. 2005-2006	2007 (Transitional) Vs. 2006-2007	2008 Vs 2007 (Transitional)	2009 vs 2008
Issued, subscribed and paid up capital	743	743	3,000	3,000	4,500	100	-	303.77	-	50.00
Reserves	3,423	4,673	1,818	1,646	4,995	100	36.52	(61.09)	(9.49)	203.50
Share deposit money	-	-	-	240	200	100	-	-	-	(16.67)
Unappropriated profit	1,673	1,653	1,338	7,090	4,644	100	(1.20)	(19.07)	430.04	(34.51)
Revaluation reserve	-	-	2,476	2,476	2,476	100	-	-	-	-
	5,839	7,069	8,632	14,452	16,815		21.07	22.11	67.43	16.35
NON-CURRENT LIABILITIES										
Long term finances	7,920	7,040	10,905	13,805	16,191	100	(11.11)	54.90	26.60	17.28
Liabilities against assets subject to finance lease	-	36	38	75	107	100	-	5.20	98.14	42.59
Payable against mining rights	-	-	-	-	52		-	-	-	-
Long term deposits	599	657	641	724	732	100	9.68	(2.35)	12.84	1.12
Deferred liabilities	10	15	23	42	46	100	50.00	52.27	83.61	9.11
Deferred taxation	4,379	4,349	4,394	4,614	4,987	100	(0.69)	1.03	5.01	8.08
	12,908	12,097	16,001	19,260	22,115		(6.28)	32.27	20.37	14.82
CURRENT LIABILITIES										
Current portion of long term liabilities	80	891	13	32	1,339	100	1,013.75	(98.53)	141.50	4,141.50
Finances under mark up arrangements - secured	26	11	935	5,231	5,555	100	(57.69)	8,401.25	459.43	6.19
Derivative financial instruments	-	-	-	52	-	100	-	-	-	-
Payable to Privatization Commission of Pakistan	2,293	2,198	2,198	2,198	2,198	100	(4.14)	-	-	-
Trade and other payables	1,105	2,339	1,940	3,045	2,277	100	111.67	(17.07)	56.97	(25.22)
Accrued finance cost	975	561	320	799	989	100	(42.46)	(42.90)	149.55	23.73
Provision for taxation	461	374	606	454	133	100	(18.87)	62.01	(25.10)	(70.69)
	4,940	6,374	6,012	11,811	12,491		29.03	(5.68)	96.45	5.76
	23,687	25,540	30,645	45,523	51,421	100	7.82	19.99	48.55	12.95

	Rupees in Million					Variance in %				
	2005-06	2006-07	2007 (Transitional)	2008	2009	2005-2006	2006-2007 Vs. 2005-2006	2007 (Transitional) Vs. 2006-2007	2008 Vs 2007 (Transitional)	2009 vs 2008
NON-CURRENT ASSETS										
Property, plant and equipment	13,809	14,305	16,784	20,279	21,285	100	3.59	17.33	20.82	4.96
Assets subject to finance lease	-	50	44	117	148	100	-	(12.04)	165.70	26.65
Intangibles	-	-	-	4	206	100	-	-	-	-
Goodwill	3,488	3,305	3,305	3,305	3,305	100	(5.25)	-	-	-
Investments - related party	-	744	3,562	8,334	7,882	100	-	378.79	133.95	(5.42)
Loan to subsidiary	-	-	-	-	2,196	100	-	-	-	-
Security deposits	188	182	8	8	17	100	(3.19)	(95.78)	5.52	109.67
	17,485	18,586	23,703	32,047	35,039		6.30	27.53	35.20	9.34
CURRENT ASSETS										
Stores and spare parts	966	1,033	1,277	1,777	1,880	100	6.94	23.58	39.21	5.79
Stock-in-trade	901	533	1,428	4,430	2,811	100	(40.84)	167.93	210.21	(36.55)
Trade debts	353	500	564	1,405	705	100	41.64	12.93	148.87	(49.83)
Other receivables	3,167	3,477	3,486	5,779	6,813	100	9.79	0.26	65.79	17.89
Derivative	-	-	-	-	8	100	-	(100.00)	-	-
Investments	-	251	-	-	3,930	100	-	-	-	-
Cash and bank balances	815	1,160	187	85	235	100	42.33	(83.90)	(54.53)	176.69
	6,202	6,954	6,942	13,476	16,382		12.13	(0.17)	94.13	21.56
	23,687	25,540	30,645	45,523	51,421	100	7.82	19.99	48.55	12.95

Vertical Analysis

	Rupees in Million					Variance in %				
	2005-06	2006-07	2007 (Transitional)	2008	2009	2005-2006	2006-2007 Vs. 2005-2006	2007 (Transitional) Vs. 2006-2007	2008 Vs 2007 (Transitional)	2009 vs 2008
Issued, subscribed and paid up capital	743	743	3,000	3,000	4,500	3.14	2.91	9.79	6.59	8.75
Reserves	3,423	4,673	1,818	1,646	4,995	14.45	18.30	5.93	3.62	9.71
Share deposit money	-	-	-	240	200	-	-	-	0.53	0.39
Unappropriated profit	1,673	1,653	1,338	7,090	4,644	7.06	6.47	4.37	15.58	9.03
Revaluation reserve	-	-	2,476	2,476	2,476	-	-	8.08	5.44	4.81
	5,839	7,069	8,632	14,452	16,815	24.65	27.68	28.17	31.75	32.70
NON-CURRENT LIABILITIES										
Long term finances	7,920	7,040	10,905	13,805	16,191	33.44	27.56	35.58	30.33	31.49
Liabilities against assets subject to finance lease	-	36	38	75	107	-	0.14	0.12	0.16	0.21
Payable against mining rights	-	-	-	-	52	-	-	-	-	0.10
Long term deposits	599	657	641	724	732	2.53	2.57	2.09	1.59	1.42
Deferred liabilities	10	15	23	42	46	0.04	0.06	0.07	0.09	0.09
Deferred taxation	4,379	4,349	4,394	4,614	4,987	18.49	17.03	14.34	10.14	9.70
	12,908	12,097	16,001	19,260	22,115	54.49	47.36	52.21	42.31	43.01
CURRENT LIABILITIES										
Current portion of long term liabilities	80	891	13	32	1,339	0.34	3.49	0.04	0.07	2.60
Finances under mark up arrangements - secured	26	11	935	5,231	5,556	0.11	0.04	3.05	11.49	10.80
Derivative financial instruments	-	-	-	52	-	-	-	-	0.11	-
Payable to Privatization Commission of Pakistan	2,293	2,198	2,198	2,198	2,198	9.68	8.61	7.17	4.83	4.27
Trade and other payables	1,105	2,339	1,940	3,045	2,277	4.67	9.16	6.33	6.69	4.43
Accrued finance cost	975	561	320	799	989	4.12	2.20	1.05	1.76	1.92
Provision for taxation	461	374	606	454	133	1.95	1.46	1.98	1.00	0.26
	4,940	6,374	6,012	11,811	12,491	20.86	24.96	19.62	25.94	24.29
	23,687	25,540	30,645	45,523	51,421	100.00	100.00	100.00	100.00	100.00

	Rupees in Million					Variance in %				
	2005-06	2006-07	2007 (Transitional)	2008	2009	2005-2006	2006-2007 Vs. 2005-2006	2007 (Transitional) Vs. 2006-2007	2008 Vs 2007 (Transitional)	2009 vs 2008
NON-CURRENT ASSETS										
Property, plant and equipment	13,809	14,305	16,784	20,279	21,285	58.30	56.01	54.77	44.55	41.39
Assets subject to finance lease	-	50	44	117	148	-	0.20	0.14	0.26	0.29
Intangibles	-	-	-	4	206	-	-	-	0.01	0.40
Goodwill	3,488	3,305	3,305	3,305	3,305	14.73	12.94	10.79	7.26	6.43
Investments - related party	-	744	3,562	8,334	7,882	-	2.91	11.62	18.31	15.33
Loan to subsidiary	-	-	-	-	2,196	4.27	-	-	-	-
Security deposits	188	182	8	8	18	0.79	0.71	0.03	0.02	0.03
	17,485	18,586	23,703	32,047	35,039	73.82	72.77	77.35	70.40	68.14
CURRENT ASSETS										
Stores and spare parts	966	1,033	1,277	1,777	1,880	4.08	4.04	4.17	3.90	3.66
Stock-in-trade	901	533	1,428	4,430	2,811	3.80	2.09	4.66	9.73	5.47
Trade debts	353	500	564	1,405	705	1.49	1.96	1.84	3.09	1.37
Other receivables	3,167	3,477	3,486	5,779	6,813	13.37	13.61	11.38	12.70	13.25
Derivative financial instruments	-	-	-	-	8	-	-	-	-	0.02
Investments	-	251	-	-	3,930	-	0.98	-	-	7.64
Cash and bank balances	815	1,160	187	85	235	3.44	4.54	0.61	0.19	0.46
	6,202	6,954	6,942	13,476	16,382	26.18	27.23	22.65	29.60	31.86
	23,687	25,540	30,645	45,523	51,421	100.00	100.00	100.00	100.00	100.00

Horizontal Analysis Profit & Loss

	Rupees in Million					Variance in %				
	2005-06	2006-07	2007 (Transitional)	2008	2009	2005-2006	2006-2007 Vs. 2005-2006	2007 (Transitional) Vs. 2006-2007	2008 Vs 2007 (Transitional)	2009 vs 2008
Sales	7,069	9,102	10,233	18,887	16,551	100.00	28.76	12.43	84.57	(12.37)
Cost of Sales	(4,255)	(5,658)	(5,517)	(6,378)	(9,783)	100.00	32.97	(2.49)	15.61	53.38
Gross Profit	2,814	3,444	4,716	12,509	6,768	100.00	22.39	36.93	165.25	(45.90)
Administrative Expenses	(148)	(198)	(264)	(590)	(606)	100.00	33.78	33.33	123.48	2.77
Selling & Distribution Expenses	(97)	(250)	(363)	(583)	(764)	100.00	157.73	45.20	60.61	31.05
Other Operating Expenses	(673)	(315)	(377)	(1,019)	(238)	100.00	(53.19)	19.68	170.29	(76.67)
Other Operating Income	142	114	115	71	289	100.00	(19.72)	0.88	(38.26)	306.81
Operating Profit	2,038	2,795	3,827	10,388	5,449	100.00	37.14	36.92	171.44	(47.55)
Finance Cost	(1,088)	(1,093)	(1,247)	(2,296)	(3,191)	100.00	0.46	14.09	84.12	38.99
Share of profit of associated co.	-	-	6	(57)	(25)	100.00	-	-	(1,050.00)	(55.78)
Re-measurement gain	-	-	-	-	2,866	100.00	-	-	-	-
Profit before Taxation	950	1,702	2,586	8,035	5,099	100.00	79.16	51.94	210.71	(36.54)
Taxation	492	(342)	(365)	(945)	(456)	100.00	(169.51)	6.73	158.90	(51.77)
Profit after Taxation	1,442	1,360	2,221	7,090	4,643	100.00	(5.69)	63.31	219.23	(34.52)

Vertical Analysis Profit & Loss

	Rupees in Million					Variance in %				
	2005-06	2006-07	2007 (Transitional)	2008	2009	2005-2006	2006-2007 Vs. 2005-2006	2007 (Transitional) Vs. 2006-2007	2008 Vs 2007 (Transitional)	2009 vs 2008
Sales	7,069	9,102	10,233	18,887	16,551	100.00	100.00	100.00	100.00	100.00
Cost of Sales	(4,255)	(5,658)	(5,517)	(6,378)	(9,783)	(60.19)	(62.16)	(53.91)	(33.77)	(59.11)
Gross Profit	2,814	3,444	4,716	12,509	6,768	39.81	37.84	46.09	66.23	40.89
Administrative Expenses	(148)	(198)	(264)	(590)	(606)	(2.09)	(2.18)	(2.58)	(3.12)	(3.66)
Selling & Distribution Expenses	(97)	(250)	(363)	(583)	(764)	(1.37)	(2.75)	(3.55)	(3.09)	(4.62)
Other Operating Expenses	(673)	(315)	(377)	(1,019)	(238)	(9.52)	(3.46)	(3.68)	(5.40)	(1.44)
Other Operating Income	142	114	115	71	289	2.01	1.25	1.12	0.38	1.75
Operating Profit	2,038	2,795	3,827	10,388	5,449	28.83	30.71	37.40	55.00	32.92
Finance Cost	(1,088)	(1,093)	(1,247)	(2,296)	(3,191)	(15.39)	(12.01)	(12.19)	(12.16)	(19.28)
Share of profit of associated co.	-	-	6	(57)	(25)	-	-	0.06	(0.30)	(0.15)
Re-measurement gain	-	-	-	-	2,866	-	-	-	-	17.32
Profit before Taxation	950	1,702	2,586	8,035	5,099	13.44	18.70	25.27	42.54	30.81
Taxation	492	(342)	(365)	(945)	(456)	6.96	(3.76)	(3.57)	(5.00)	(2.75)
Profit after Taxation	1,442	1,360	2,221	7,090	4,643	20.40	14.94	21.70	37.54	28.05

Entity Ratings

Entity Rating	**AA- (Long Term)**
	A-1 (short term)

Rs. 5 billion TFCs Rating	**AA (Long Term)**
Rs. 6.5 billion PPTFCs	**AA (Long Term)**

Definitions:

AA-

Very high capacity to meet policyholder and contract obligations. However, risk is modest, but may vary slightly over time due to business/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.

Pattern of Shareholding as at 31 December 2009

Disclosure Requirement under the Code of Corporate Governance

	Details of holding on 31.12.2009:	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 Securities Limited	135,000,000
2.	**NIT & ICP**	-
3.	**Directors & CEO (including holding of their spouses & minor children)**	
	Mr. Muhammad Arif Habib - Chairman	50,624,877
	Mr. Fawad Ahmed Mukhtar - CEO	12,499,995
	Mr. Fazal Ahmed Shekih	30,943,236
	Mr. Faisal Ahmed Mukhtar	30,943,236
	Mr. Rehman Naseem	2,698,101
	Mr. Nasim Beg	1
	Mr. Abdus Samad	1
	Mr. Muhammad Kashif	1
	Mrs. Zetun Arif	39,375,120
	Mrs. Ambreen Fawad	3,577,410
	Mr. Ali Mukhtar	4,030,431
	Mr. Abbas Mukhtar	4,030,431
	Miss Meraj Fatima	4,030,431
	Mr. Amin Rehman Fazal	3,693,000
	Mr. Sadek Rehman	6,076,653
4.	**Executives**	-
5.	**Public Sector Companies and Corporations**	-
6.	**Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds**	-
7.	**Shareholders holding ten percent or more voting interest**	
	Mr. Muhammad Arif Habib	50,624,877
	Fatima Sugar Mills Limited	71,250,558
	Arif Habib Securities Limited	135,000,000

Pattern of Shareholding as at 31 December 2009

Shareholding From	Shareholding To	No. of Shareholders	TotalShares held	Percentage %
1	100	3	3	0.00
500,001	505,000	1	502,188	0.11
900,001	905,000	1	904,425	0.20
2,695,001	2,700,000	1	2,698,101	0.60
3,575,001	3,580,000	1	3,577,410	0.80
3,690,001	3,695,000	1	3,693,000	0.82
4,030,001	4,035,000	4	16,121,724	3.58
6,075,001	6,080,000	1	6,076,653	1.35
6,430,001	6,435,000	2	12,862,251	2.86
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
130,000,001	135,000,000	1	135,000,000	30.00
Total		**24**	**450,000,000**	**100.00**

Pattern of Shareholding as at 31 December 2009
Category-Wise

Categories of Shareholders	Number of shareholders	Total shares held	Percentage
Individuals	20	210,822,219	46.85
Joint Stock Companies	4	239,177,781	53.15
Total	**24**	**450,000,000**	**100.00**

Statement of Compliance

with the Code of Corporate Governance

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present, the Board includes six non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten 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. Casual vacancies occurred in the Board during the year 2009 were filled up within 30 days of occurrence.

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

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

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

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

9. The Board arranged one orientation course for its directors during the year to apprise them of their duties and responsibilities.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

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

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

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

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

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

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

17. The Board has set-up an effective internal audit function.

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

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

20. All material information as required under the relevant rules has been provided to the stock exchange and to the Securities and Exchange Commission of Pakistan within the prescribed time limit.

21. All related party transactions entered during the year were at arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by Audit Committee and Board of Directors.

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

Muhammad Arif Habib
(Chairman)

Financial Statements

Pakarab Fertilizers Limited

for the year ended December 31, 2009

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakarab Fertilizers Limited ('the company') as at December 31, 2009 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 except for the changes in accounting policies as stated in note 2.2.1 to the annexed financial statements with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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, 2009 and of the profit, total comprehensive income, 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, April 09, 2010

Engagement partner: Mr. Muhammad Masood

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 (xiii a) of Listing Regulation 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 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, 2009.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: April 09, 2010

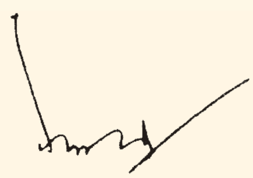
Engagement Partner: Mr. Muhammad Masood

Balance Sheet

As at December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised capital			
1,000,000,000 (2008: 1,000,000,000)			
Ordinary shares of Rs 10 each		10,000,000	10,000,000
Issued, subscribed and paid up capital			
450,000,000 (2008: 300,000,000) ordinary shares of Rs 10 each	5	4,500,000	3,000,000
Reserves	6	4,995,352	1,645,807
Share deposit money	7	200,000	240,000
Unappropriated profit		4,643,516	7,090,638
		14,338,868	11,976,445
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	8	2,475,847	2,475,847
NON-CURRENT LIABILITIES			
Long term finances – secured	9	16,190,741	13,805,265
Liabilities against assets subject to finance lease	10	106,720	75,038
Payable against mining rights	11	52,500	–
Long term deposits	12	732,241	723,924
Deferred liabilities	13	45,760	41,938
Deferred taxation	14	4,987,221	4,614,236
		22,115,183	19,260,401
CURRENT LIABILITIES			
Current portion of long term liabilities	15	1,338,502	31,569
Short term borrowings – secured	16	5,555,693	5,231,431
Derivative financial instruments	17	–	51,744
Payable to Privatization Commission of Pakistan	18	2,197,901	2,197,901
Trade and other payables	19	2,276,833	3,044,894
Accrued finance cost	20	989,422	799,308
Provision for taxation		132,780	453,804
		12,491,131	11,810,651
CONTINGENCIES AND COMMITMENTS	21		
		51,421,029	45,523,344

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



Chief Executive

	Note	2009	2008
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	22	21,285,201	20,278,611
Assets subject to finance lease	23	147,524	116,860
Intangibles	24	205,693	4,039
Goodwill	25	3,305,163	3,305,163
Investments	26	7,881,744	8,333,936
Long term loans – unsecured	27	2,196,320	–
Security deposits		17,546	8,108
		35,039,191	32,046,717
CURRENT ASSETS			
Stores and spare parts	28	1,880,195	1,777,186
Stock–in–trade	29	2,810,923	4,430,029
Trade debts	30	704,555	1,405,200
Advances, deposits, prepayments and other receivables	31	6,813,295	5,779,279
Derivative financial instruments	17	7,882	–
Investment – related party	32	3,930,000	–
Cash and bank balances	33	234,988	84,933
		16,381,838	13,476,627
		51,421,029	45,523,344

Director

Profit and Loss Account

for the year ended December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
Sales	34	16,550,581	18,887,111
Cost of sales	35	(9,782,667)	(6,377,818)
Gross profit		6,767,914	12,509,293
Administrative expenses	36	(606,332)	(589,907)
Selling and distribution expenses	37	(764,010)	(583,354)
Other operating expenses	38	(237,728)	(1,019,351)
Other operating income	39	288,835	70,731
Profit from operations		5,448,679	10,387,412
Finance cost	40	(3,191,186)	(2,295,526)
Gain on re-measurement of financial assets at fair value through profit or loss	26.1	2,866,388	–
Share of loss of associated company	26.1	(25,207)	(57,385)
Profit before taxation		5,098,674	8,034,501
Taxation	41	(455,796)	(944,611)
Profit for the year		4,642,878	7,089,890
Earnings per share in Rupees	42	10.32	15.76

Appropriations have been reflected in the statement of changes in equity.

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

Chief Executive **Director**

Statement of Comprehensive Income

for the year ended December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
Profit after taxation		4,642,878	7,089,890
Other comprehensive income / (loss)			
Effective portion of loss arising on marked to market foreign currency options entered into as part of cash flow hedge for the purchase of plant and machinery		–	(9,545)
Transferred to cost of plant and machinery in capital work-in-progress on expiry of foreign currency options – net of tax		9,545	–
		9,545	(9,545)
Total comprehensive income for the year		4,652,423	7,080,345

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

Chief Executive **Director**

Statement of Changes in Equity

for the year ended December 31, 2009

	Share capital	Share premium	Hedging reserve	General reserve	Share deposit money	Unappropriated profit	Total
	(Rupees in thousand)						
Balance as on January 01, 2008	3,000,000	1,048,652	–	769,700	–	1,337,748	6,156,100
Proceeds from share deposit money	–	–	–	–	240,000	–	240,000
Transfer to general reserve	–	–	–	1,337,000	–	(1,337,000)	–
Specie dividend (note 26.1.1)	–	–	–	(1,500,000)	–	–	(1,500,000)
Total comprehensive income for the year	–	–	(9,545)	–	–	7,089,890	7,080,345
Balance as on December 31, 2008	3,000,000	1,048,652	(9,545)	606,700	240,000	7,090,638	11,976,445
Share deposit money refunded	–	–	–	–	(40,000)	–	(40,000)
Issuance of bonus shares	1,500,000	(1,048,652)	–	(451,348)	–	–	–
Transfer to general reserve	–	–	–	7,090,000	–	(7,090,000)	–
Specie dividend (note 26.1.1)	–	–	–	(2,250,000)	–	–	(2,250,000)
Total comprehensive income for the year	–	–	9,545	–	–	4,642,878	4,652,423
Balance as on December 31, 2009	4,500,000	–	–	4,995,352	200,000	4,643,516	14,338,868

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

Chief Executive **Director**

Cash Flow Statement

for the year ended December 31, 2009

	Note	2009	2008
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	43	10,119,143	5,277,386
Finance cost paid		(2,983,608)	(1,638,910)
Taxes paid		(403,835)	(913,613)
Retirement benefits paid		(27,816)	(27,466)
Long term deposits received		8,318	82,376
Net cash inflow from operating activities		6,712,202	2,779,773
Cash flows from investing activities			
Fixed capital expenditure		(1,522,000)	(3,961,360)
Security deposits		(9,438)	(424)
Sale proceeds of property, plant and equipment disposed		2,718	8,161
Investments purchased		(6,635,883)	(6,329,121)
Long term loans to related party		(2,196,320)	–
Profit on bank deposits received		7,715	4,989
Net cash outflow from investing activities		(10,353,208)	(10,277,755)
Cash flows from financing activities			
Repayment of redeemable capital		(2,000)	(1,000)
Proceeds from issue of redeemable capital		–	1,250,000
Proceeds from bridge finance		–	508,135
Proceeds from long term loans		1,524,198	1,145,130
Proceeds from syndicated term finance		2,037,500	–
Proceeds from share deposit money		–	240,000
Share deposit money refunded		(40,000)	–
Repayment of finance lease liability		(52,899)	(42,441)
Net cash inflow from financing activities		3,466,799	3,099,824
Net decrease in cash and cash equivalents		(174,207)	(4,398,158)
Cash and cash equivalents at the beginning of the year		(5,146,498)	(748,340)
Cash and cash equivalents at the end of the year	44	(5,320,705)	(5,146,498)

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

Chief Executive **Director**

1. The company and its activities

Pakarab Fertilizers Limited (the 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. During the last year, the company listed its Term Finance Certificates on 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 registered office of the company and manufacturing facility are located in Multan. The address of the registered office of the company is 2nd Floor, Trust Plaza, L.M.Q Road, Multan.

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

2.2.1 Standards, amendments to published standards and interpretations that are effective in the current year and are relevant to the company

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:

– IAS 1 (Revised), 'Presentation of Financial Statements' is effective from January 01, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the company shows all owner related changes in equity in statement of changes in equity, whereas all non-owner changes in equity are presented in other comprehensive income. Comparative information is required to be re-presented so that it is in conformity with the revised standard.

The company has preferred to present two statements; a profit and loss account (income statement) and a second statement beginning with profit or loss and display components of other comprehensive income (statement of comprehensive income). Comparative information has also been re-presented so it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on profit for the year.

– IAS 23 (Amendment), 'Borrowing Costs' is effective from January 01, 2009. The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The company's current accounting policy is in compliance with this amendment, and therefore there is no impact on the company's financial statements.

– IAS 29 'Financial Reporting in Hyperinflationary Economies' is effective from January 01, 2009. The company does not have any operations in hyperinflationary economies and therefore, the application of this standard has no effect on the company's financial statements.

– IFRS 7, 'Financial Instruments: Disclosures', is effective from January 01, 2009. IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and measurement of the company's financial instruments. The application of IFRS 7 has resulted in additional disclosures in the company's financial statements, however, there is no impact on profit for the year.

– IFRS 8 'Operating Segments' is effective from January 01, 2009. IFRS 8 replaces IAS 14, 'Segment Reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. There is no impact of the new standard on the company's financial statements. Disclosure relating to operating segments is presented in the consolidated financial statements.

2.2.2 Standards, amendments to published standards and interpretations that are effective in the current year but not relevant to the company

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 01, 2009 are considered not to be relevant or to have any significant impact on the company's financial reporting and operations.

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

The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after January 01, 2010 or later periods, but the company has not early adopted them:

– IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment is part of the International Accounting Standard Board's (IASB) annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The company will apply IAS 1 (amendment) from January 01, 2010. It is not expected to have a material impact on the company's financial statements.

– IAS 27 (Revised), 'Consolidated and Separate Financial Statements', is effective from July 01, 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in income statement. The company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 01, 2010.

– IAS 38 (Amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in any significant impact on the company's financial statements.

– IAS 39 (Amendment); 'Cash flow hedge accounting'. This amendment provides clarification when to recognise gains or losses on hedging instruments as a reclassification adjustments in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to income statement in the period in which the hedged forecast cash flow affects income statement. The company will apply IAS 39 (Amendment) from January 01, 2010. It is not expected to have any significant impact on the company's financial statements.

– IFRS 3 (Revised), 'Business Combinations' is effective from July 01, 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The company will apply IFRS 3 (Revised) prospectively to all business combinations from January 01, 2010. It is not expected to have a material impact on the company's financial statements.

– IFRS 5 (Amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The company will apply IFRS 5 (amendment) from January 01, 2010. It is not expected to have a material impact on the company's financial statements.

– IFRIC 17 'Distribution of non-cash assets to owners' is effective from July 01, 2009. It sets out requirements as to how an entity should measure distributions of assets other than cash made as a dividend to its owners. Adoption of these amendments would require the company to recognise a liability for a non-cash distribution to owners when the dividend is authorised and is no longer at the discretion of the entity. The dividend payable would be measured at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed, would be recognised in profit or loss.

– IFRIC 18 'Transfers of assets from customers' is effective from July 01, 2009. The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This interpretation is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This interpretation is not expected to have a material impact on the company's financial statements.

There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 (not addressed above). These amendments are unlikely to have any impact on the company's financial statements and therefore have not been analyzed in detail.

3. Basis of measurement

3.1 These financial statements have been prepared under the historical cost convention except for certain assets and certain financial instruments which are measured at fair values 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 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) Fair value of unquoted investments

The company has performed a valuation of unquoted investment through discounted cash flow analysis. The valuation is based on significant assumptions as mentioned in note 26.1.2.

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 income statement, except in the case of items credited or charged to equity in which case it is included in 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, 2009. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

- Discount rate 12 % per annum
- Expected rate of increase in salary level 11 % per annum
- Expected rate of return 15% 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 employees. Equal monthly contributions are made both by the company and employees to the fund at the rate of 8.33 percent and 10 percent of salary for the executives and workers respectively.

(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 is stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at revalued amount less any identified impairment loss. Cost in relation to certain operating fixed assets of the company except vehicles signifies the fair value as on July 14, 2005 determined by an independent valuer, M/s Projects (Private) Limited based on present market value, pursuant to the amalgamation of Reliance Exports (Private) Limited (REL) with the company. 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 4.17.

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. The company's estimate of the residual value of its operating fixed assets as at December 31, 2009 has not required any adjustment as its impact is considered insignificant.

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.

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 land, are not subject to depreciation/amortisation and are tested annually for impairment. Assets that are subject to depreciation/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 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 10. 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 acquired 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 REL 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.

Investment in equity instruments of subsidiary company

Investment in equity instruments of subsidiary company, upon initial recognition has been designated by the company as 'financial asset at fair value through profit or loss' and is measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted market price is not available, are measured at a value determined through an appropriate valuation methodology.

Previously, the company was not required to issue consolidated financial statements since it did not have any subsidiary and the investment in associate, where the company had significant influence, was accounted for using the equity method. On September 21, 2009, the associate's status changed to a subsidiary and upto September 20, 2009, the investment in associate has been accounted for under the equity method. The carrying amount of the investment in associate as of September 21, 2009 has been considered as cost for the initial recognition of the subsidiary.

4.9 Financial instruments

4.9.1 Financial assets

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. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term.

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.

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 other comprehensive income are reclassified from equity to profit and loss amount as a reclassification adjustment. 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 except for investment in subsidiary as explained in note 4.8.

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 4.12.

4.9.2 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.

4.9.3 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.

4.10 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.

4.11 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 moving 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.

4.12 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.

4.13 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.

4.14 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.

4.15 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.

4.16 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.

4.17 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 gain or loss relating to the cross currency swap is recognised in the profit and loss account.

4.18 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.

4.19 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the profit and loss account in the period in which they arise.

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

Revenue from sale of Certified Emission Reductions (CERs) is recognised on the certification of the Emission Reductions by the Designated Operational Entity and issuance of the CERs by the CDM Executive Board of the United Nations Framework Convention for Climate Change (UNFCCC) in accordance with the CDM Modalities and Procedures, 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.

4.21 Government grant

Subsidy on Nitro Phosphate (NP) and Di-Ammonium Phosphate (DAP) fertilizers announced by the Government of Pakistan for farmers is recognised in the profit and loss account in the periods in which the NP is produced and in which the DAP is imported.

4.22 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.

4.23 Dividend

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

5. Issued, subscribed and paid up capital

2009	2008		2009	2008
(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	297,208,740	Ordinary shares of Rs 10 each issued as fully paid bonus shares	4,472,087	2,972,087
450,000,000	300,000,000		4,500,000	3,000,000

The reconciliation of ordinary shares is as follows:

	2009	2008
	(Number of shares)	
Opening balance	300,000,000	300,000,000
Add: Shares issued during the year	150,000,000	–
Closing balance	450,000,000	300,000,000
Ordinary shares of the company held by associated undertakings as at year end are as follows:		
Reliance Commodities (Private) Limited	7,136,613	4,757,742
Fatima Sugar Mills Limited	71,250,558	47,500,372
Fazal Cloth Mills Limited	25,790,610	17,193,740
Arif Habib Securities Limited	135,000,000	90,000,000
	239,177,781	159,451,854

	Note	2009	2008
		(Rupees in thousand)	
6. Reserves			
Movement in and composition of reserves is as follows:			
Capital			
– Share premium			
At the beginning of the year		1,048,652	1,048,652
Less: Issue of bonus shares	6.1	1,048,652	
		–	1,048,652
– Hedging reserve			
At the beginning of the year		(9,545)	–
Loss during the year		–	(9,545)
Transferred to capital work–in–progress		9,545	–
		–	(9,545)
		–	1,039,107
Revenue			
– General reserve			
At the beginning of the year		606,700	769,700
Transfer from profit and loss account		7,090,000	1,337,000
		7,696,700	2,106,700
Less:			
Issue of bonus shares		451,348	–
Specie dividend	26.1.1	2,250,000	1,500,000
		2,701,348	1,500,000
		4,995,352	606,700
		4,995,352	1,645,807

6.1 This reserve can be utilised by the company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

7. Share deposit money

This represents contribution towards the share capital of the company against which shares have not been issued. It has been contributed by an associated undertaking, Fazal Cloth Mills Limited. Since the company is in process of complying with the requirements of section 86 of the Companies Ordinance, 1984 and The Companies (Issue of Capital) Rules, 1996, hence, mark up has been charged on this amount during the year at the rates ranging from 14.01% to16.95% (2008: 15.44% to 15.77%) per annum.

8. Surplus on revaluation of property, plant and equipment

This represents surplus over book value resulting from the revaluation of freehold land. The valuation was carried out by independent valuers, M/s Projects (Private) Limited, on November 17, 2007 on open market value basis. Surplus on revaluation of property, plant and equipment can be utilized by the company only for the purposes specified in section 235 of the Companies Ordinance, 1984.

	Note	2009	2008
		(Rupees in thousand)	
9. Long term finances - secured			
Redeemable capital	9.1	11,200,000	4,997,000
Bridge finances	9.2	–	7,663,135
Long term loans	9.3	2,953,241	1,145,130
Syndicated term finance	9.4	2,037,500	–
		16,190,741	13,805,265
9.1 Redeemable capital			
This is composed of:			
Listed Term Finance Certificates	9.1.1	4,700,000	4,997,000
Privately Placed Term Finance Certificates	9.1.2	6,500,000	–
		11,200,000	4,997,000
9.1.1 Listed Term Finance Certificates			
Opening balance		4,999,000	3,750,000
Issued during the year		–	1,250,000
Redeemed during the year		(2,000)	(1,000)
		4,997,000	4,999,000
Less: Current portion shown under current liabilities	15	297,000	2,000
		4,700,000	4,997,000

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 have started from August 28, 2008 and the remaining 94% principal would be redeemed in five stepped up semi annual installments commencing February 28, 2011 .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 ranges from 14.05% to 15.20% per annum.

Trustee

In order to protect the interests of the TFC holders, Pak Oman Investment company Limited has been appointed as Trustee under a trust deed dated July 05, 2007. 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 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 aircraft and the lamont boiler for nitric acid.

9.1.2 Privately Placed Term Finance Certificates (PPTFCs)

On December 15, 2009, the company converted the bridge finance of Rs 6,500 million as referred to in note 9.2.2 from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) to Term Finance Certificates by way of private placement. NBP and HBL have subscribed to PPTFCs of Rs 4,500 million and Rs 2,000 million respectively.

Terms of redemption

The tenure of the PPTFCs is from December 16, 2009 to September 14, 2014. The PPTFCs are redeemable in eight semi-annual installments of Rs 812.5 million commencing June 16, 2011. 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 at the rate of six months KIBOR plus 2.5% per annum. The effective mark up rate charged during the year ranges from 13.30% to 15.85% per annum.

Trustee

In order to protect the interests of the PPTFCs holders, HBL has been 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 PPTFCs 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, Cessna Aircraft, Clean Development Mechanism (CDM) project and carbon dioxide recovery plant / liquefaction plant.

		Note	2009	2008
			(Rupees in thousand)	
9.2	**Bridge finances**			
	MCB Bank Limited	9.2.1	–	1,163,135
	Syndicate finance			
	– Habib Bank Limited	9.2.2	–	2,000,000
	– National Bank of Pakistan	9.2.2	–	4,500,000
			–	6,500,000
			–	7,663,135

9.2.1 This bridge finance facility was originally of Rs 1,200 million which was enhanced during the year to Rs 1,550 million. The purpose of the facility was to finance the power plant. It has been converted during the year into a term loan for five years as referred to in note 9.3.5.

Mark up on the bridge finance of Rs 1,200 million was payable semi-annually at the rate of six months KIBOR plus 0.65% per annum, while on the enhancement of Rs 350 million it was payable semi-annually at the rate of six months KIBOR plus 3% per annum. The effective mark up rate charged during the year on Rs 1,200 million ranges from 13.10% to 16.41% per annum, while on Rs 350 million the effective markup rate charged during the year ranges from 14.91% to 15.56% per annum. The facility was 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 aircraft and the lamont boiler for nitric acid.

9.2.2 During the year, the company converted the bridge finance of Rs 6,500 million from HBL and NBP to PPTFCs as referred to in note 9.1.2.

Markup was payable semi-annually at the rate of six months KIBOR plus 0.45% per annum. The effective mark up rate charged during the year ranges from 10.77% to 14.97% per annum. The facility was secured by a registered first ranking pari passu charge over all present and future fixed assets of the company excluding the assets comprising the Clean Development Mechanism (CDM) project, the aircraft and the lamont boiler for nitric acid.

		Note	2009	2008
			(Rupees in thousand)	
9.3	**Long term loans**			
	These have been obtained from the following financial institutions:			
	Standard Chartered Bank (Pakistan) Limited	9.3.1	457,500	457,500
	Habib Bank Limited – Loan 1	9.3.2	972,000	687,630
	Habib Bank Limited – Loan 2	9.3.3	152,963	–
	Dubai Islamic Bank Limited	9.3.4	700,000	–
	MCB Bank Limited	9.3.5	1,550,000	–
			3,832,463	1,145,130
	Less: Current portion shown under current liabilities	15	879,222	–
			2,953,241	1,145,130

9.3.1 The purpose of this term finance facility is to finance the purchase of a Cessna aircraft for the company. The loan is repayable on September 14, 2010 and mark up is payable semi-annually at the rate of six months KIBOR plus 0.50% per annum. The effective mark up rate charged during the year ranges from 12.93% to 14.43% per annum. The facility is secured by a registered first mortgage over the aircraft and registered ranking charge on the present plant and machinery excluding the assets comprising the Clean Development Mechanism (CDM) project and lamont boiler for nitric acid. Of the aggregate facility of Rs 457.5 million (2008: Rs 457.5 million), the amount availed as at December 31, 2009 is Rs 457.5 million (2008: Rs 457.5 million).

9.3.2 The purpose of this term finance facility of Rs 972 million is to finance the purchase of heat recovery steam generators for the power plant of the company. It is repayable in six semi-annual instalments of Rs 162 million commencing September 30, 2010. Mark up is payable quarterly at the rate of six months KIBOR plus 1% per annum on Rs 900 million, while on the remaining Rs 72 million, markup is payable at the rate of six month KIBOR plus 3% per annum. The effective markup rate charged during the year ranges from 13.69% to 16.67% per annum. It is secured by a registered first pari passu charge on present and future fixed assets of the company excluding the aircraft. Of the aggregate facility of Rs 972 million (2008: Rs 900 million), the amount availed as at December 31, 2009 is Rs 972 million (2008: Rs 687.63 million).

9.3.3 This represents a term loan facility of Rs 257 million for financing the purchase of ammonia storage tank. Tenure of the loan is three years from the retirement of the letter of credit established for ammonia storage tank and it is repayable in six equal semi-annual installments. Mark up is payable quarterly at the rate of three months KIBOR plus 3% per annum. The effective markup rate charged during the year ranges from 15.37% to 15.55% per annum. It is secured by a regitered first parri passu charge over fixed assets excluding the Lamont boiler for Nitric acid, the Cessna aircraft, assets comprising the Clean Development Mechanism (CDM) project and Carbon dioxide plant. Of the aggregate facility of Rs 257 million (2008: Nil), the amount availed as at December 31, 2009 is Rs 152.963 million (2008: Nil)

9.3.4 This represents Shirkat El Melk facility of Rs 700 million for financing the carbon dioxide recovery/ liquefaction plant. Tenure of the facility is three years and it is repayable after a grace period of one year in eight quarterly installments of Rs 87.5 million commencing from December 17, 2010. Markup is payable quarterly at the rate of six months KIBOR plus 2% per annum. The effective markup rate charged during the year was 14.66% per annum. The facility is secured by first exclusive hypothecation charge over the company's Carbon dioxide recovery/ liquefaction plant and ranking charge on present and future fixed assets excluding land and building. Of the aggregate facility of Rs 700 million (2008: Nil), the amount availed as at December 31, 2009 is Rs 700 million (2008: Nil).

9.3.5 As referred to in note 9.2.1, the bridge finance facility of Rs 1,550 million has been converted into a term loan during the year. Tenure of the loan is five years and is repayable in nine equal semi annual installments of Rs 172.222 million commencing October 23, 2010. Markup is payable semi-annually at the rate of six months KIBOR plus 0.65% per annum on Rs 1,200 million, while on the enhancement of Rs 350 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 Rs 1,200 million is 13.72% per annum, while on Rs 350 million the effective markup rate charged during the year is 15.72% 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 aircraft and the Lamont boiler for Nitric Acid. Of the aggregate facility of Rs 1,550 million, the amount availed as at December 31, 2009 is Rs 1,550 million.

	2009	2008
	(Rupees in thousand)	
9.4 Syndicated term finance		
This has been obtained from a consortium of the following financial institutions:		
National Bank of Pakistan	399,500	–
Habib Bank Limited	405,500	–
United Bank Limited	357,143	–
Allied Bank Limited	800,000	–
Faysal Bank Limited	75,357	–
	2,037,500	–

It represents a syndicated term finance facility (STFF) of Rs 2,119 million to finance equity investment / debt financing in Fatima Fertilizer Company Limited, a subsidiary company. The tenure of the loan is five years and it is repayable after a grace period of two years, in six equal semi annual installments commencing February 27, 2012. 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 is 15.06%. The facility is secured by a registered first pari passu charge on all present and future fixed assets of the company. Of the aggregate facility of Rs 2,119 million, the amount availed as at December 31, 2009 is Rs 2,037.5 million.

	2009	2008
	(Rupees in thousand)	
10. Liabilities against assets subject to finance lease		
Present value of minimum lease payments	164,000	104,607
Less: Current portion shown under current liabilities	57,280	29,569
	106,720	75,038

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 six months. The implicit interest rate used during the period to arrive at the present value of minimum lease payments ranges from 12.65% to 15.70%. 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 2009	2008
	(Rupees in thousand)			
Not later than one year	74,714	17,434	57,280	29,569
Later than one year and not later than five years	122,939	16,219	106,720	75,038
	197,653	33,653	164,000	104,607

10.1 These include finance leases of Rs 58.307 million (2008: Rs 92.639 million) obtained from an associated company, Arif Habib Bank Limited.

11. Payable against mining rights

This represents interest free amount payable to Director General, Mines and Minerals, Government of North West Frontier Province (N.W.F.P) in respect of mining rights acquired for extraction of rock phosphate from a block of area in District Abbottabad for a ten years period starting from August 12, 2009. An amount of Rs 157.5 million is payable at the balance sheet date in three semi annual installments of Rs 52.5 million on February 11, 2010, August 11, 2010 and February 11, 2011. Its movement is as follows:

	Note	2009	2008
		(Rupees in thousand)	
Liability against mining rights acquired		210,000	–
Paid during the year		52,500	–
		157,500	–
Less: Current portion shown under current liabilities	15	105,000	–
		52,500	–

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.

	Note	2009	2008
		(Rupees in thousand)	
13. Deferred liabilities			
Accumulating compensated absences	13.1	29,233	31,186
Retirement benefits - gratuity fund	13.2	16,527	10,752
		45,760	41,938
13.1 Accumulating compensated absences			
Opening balance		31,186	9,621
Provision for the year		1,093	22,777
		32,279	32,398
Less: Payments made during the year		3,046	1,212
Closing balance		29,233	31,186

	2009	2008
	(Rupees in thousand)	
13.2 Gratuity fund		
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	38,481	32,357
Fair value of plan assets	(29,959)	(20,783)
Unrecognised actuarial gains/ (losses)	8,005	(822)
Liability/(asset) as at year end	16,527	10,752
Opening net liability	10,752	13,220
Charge to profit and loss account	16,527	10,752
Contribution by the company	(10,752)	(13,220)
Liability/(asset) as at year end	16,527	10,752
The movement in the present value of defined benefit obligation is as follows:		
Opening present value of defined benefit obligation	32,357	17,960
Payables as at December 31, 2007	–	2,394
Service cost	12,641	11,529
Interest cost	4,853	1,796
Benefits due but not paid to out-going members during the year	(192)	(197)
Benefits paid to out-going members during the year	(5,101)	(575)
Curtailments during the year	–	(2,093)
Past service cost of contracted employees	2,149	
Experience loss/(gain)	(8,226)	1,543
Present value of defined benefit obligation as at year end	38,481	32,357
The movement in fair value of plan assets is as follows:		
Opening fair value	20,783	4,808
Reserve held for payables as at December 31, 2007	–	2,394
Expected return on plan assets	3,117	481
company contributions	10,751	13,219
Benefits due but not paid to out-going members during the year	(192)	(197)
Benefits paid to out-going members during the year	(5,101)	(576)
Experience gain/(loss)	601	654
Fair value as at year end	29,959	20,783
Plan assets are comprised as follows:		
Mixed funds	28,512	20,813
Cash	1,639	167
Payable to outgoing members	(192)	(197)
	29,959	20,783

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

	December 31, 2009	December 31, 2008	December 31, 2007	June 30, 2007
		(Rupees in thousand)		
Present value of defined benefit obligation	38,481	32,356	17,960	13,567
Fair value of plan assets	29,959	20,783	4,807	4,854
Loss	(8,522)	(11,573)	(13,153)	(8,713)
Experience adjustment on obligation	-21%	5%	3%	-7%
Experience adjustment on plan assets	2%	3%	10%	0%

	Note	2009	2008
		(Rupees in thousand)	
14. Deferred taxation			
The liability for deferred taxation comprises temporary differences relating to:			
Accelerated tax depreciation		5,065,112	4,628,011
Accumulating compensated absences		(10,232)	(10,915)
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		9,300	4,289
Minimum tax available for carry forward		(69,810)	–
		4,987,221	4,614,236
15. Current portion of long term liabilities			
Long term finances – secured :			
– Redeemable capital	9.1	297,000	2,000
– Long term loans	9.3	879,222	–
Liabilities against assets subject to finance lease	10	57,280	29,569
Payable against mining rights	11	105,000	–
		1,338,502	31,569

16. Short term borrowings - secured

Short term running finance facilities available from a consortium of commercial banks under mark-up arrangements amount to Rs 7,745 million (2008: Rs 6,045.941 million). The rates of mark-up range from Rs 0.346 to Rs 0.539 per Rs 1,000 per diem 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 and registered hypothecation charge on property, plant and equipment and current assets of the company.

Of the aggregate facility of Rs 7,170 million (2008: Rs 7,075 million) for opening letters of credit and Rs 50 million (2008: Rs 50 million) for guarantees, the amount utilised at December 31, 2009 was Rs 1,205.690 million (2008: Rs 2,387.834 million) and Rs 7.655 million (2008: Rs 5.002 million) respectively. The aggregate facilities for guarantees are secured by ranking charge on current assets of the company.

	Note	2009	2008
		(Rupees in thousand)	
17. Derivative financial instruments			
Cross currency swaps	17.1	–	30,602
Forward options	17.2	–	21,142
		–	51,744

17.1 Last year, the company entered into derivative cross currency swaps 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, 2009 have been marked to market and the resulting gain of Rs 7.882 million has been recognised in the profit and loss account with a corresponding asset.

17.2 The company entered into foreign currency forward options to hedge the possible adverse movements in exchange rates (exchange rate risk) arising on foreign currency payments required to be made for the purchase of plant and machinery. As the hedging relationship of certain foreign currency forward options is effective and meets the criteria of cash flow hedge, this arrangement qualifies for special hedge accounting as specified in IAS 39 'Financial Instruments: Recognition and Measurement'. All foreign currency forward options expired during the current year.

18. Payable to Privatization Commission of Pakistan

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.

	Note	2009	2008
		(Rupees in thousand)	
19. Trade and other payables			
Trade creditors		748,023	1,500,890
Sui gas bill payable		264,260	290,760
Security deposits		19,676	26,504
Accrued liabilities		425,115	402,354
Due to director		1,252	–
Due to associated undertakings	19.1	–	15,278
Workers' profit participation fund	19.2	418,761	312,759
Workers' welfare fund	19.3	176,367	173,631
Customers' balances		206,694	309,899
Due to employees' provident fund trust		3,544	2,520
Withholding tax payable		11,522	8,698
Electricity duty payable		1,305	1,324
Excise duty payable		314	277
		2,276,833	3,044,894

19.1 These relate to normal business of the company and are interest free.

19.2 Workers' profit participation fund

	Note	2009	2008
Opening balance		312,759	260,455
Provision for the year	38	124,319	142,727
Interest for the year	40	30,946	37,001
		468,024	440,183
Less: Payments made during the year		49,263	127,424
Closing balance		418,761	312,759

	Note	2009	2008
		(Rupees in thousand)	
19.3 Workers' welfare fund			
Opening balance		173,631	77,144
Provision for the year	38	104,569	133,158
		278,200	210,302
Less: Payments made during the year		101,833	36,671
Closing balance		176,367	173,631
20. Accrued finance cost			
Accrued mark–up on:			
– redeemable capital – secured		283,007	259,615
– bridge finances – secured		284,283	270,999
– long term loans – secured		104,095	44,245
– syndicated term finance – secured		113,061	
– short term borrowings – secured		204,976	167,622
– loans from related parties – unsecured		–	36,300
– share deposit money from associated company		–	20,527
		989,422	799,308

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.

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

– Sui Northern Gas Pipelines Limited against gas sale amounting to Rs 7.655 million (2008: Rs 5.002 million).

– MCB Bank Limited for equity contributions in Fatima Fertilizer Company Limited, a subsidiary company, for Nil (2008: Rs 4,200 million).

(iii) Indemnity bonds aggregating Rs 123.500 million (2008: Rs. 32.334 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 import of raw material aggregating for Nil (2008: Rs 98.542 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 upto 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) In consequence of audit of the company's sales tax affairs for the period July 2005 through May 2006, certain observations were raised by the departmental auditors whereby a sum of Rs 116.555 million was alleged to be recoverable from the company alongwith applicable default surcharge and penalty. The concerned Additional Collector (Adjudication) confirmed the observations framed by the departmental auditors to the extent of Rs 113.854 million. The company preferred an appeal before the Collector (Appeals) against such order of Additional Collector (Adjudication). The company's appeal was primarily disposed off in its favour by the Collector (Appeals) and the demand has been confirmed to the extent of Rs 16.507 million only.

The company preferred an appeal before the "Appellate Tribunal Inland Revenue", against such demand confirmed by the Collector (Appeals). No provision on this account has been made in these financial statements owing to the fact that the company's management, based on certain favourable precedents available in respect of contentious issues, considers that the matter will be ultimately decided in company's favour and such demand will be annulled.

(viii) Similarly, in consequence of another audit of the company's sales tax affairs for the period March 2006 through October 2006, certain observations were raised by the departmental auditors whereby a sum of Rs 10.411 million was alleged to be recoverable from the company alongwith applicable default surcharge and penalty. The concerned Additional Collector (Adjudication) confirmed the observations framed by the departmental auditors. The company preferred an appeal before the Collector (Appeals) against such order of Additional Collector (Adjudication). The company's appeal was disposed off in favour of the departmental auditors, by the Collector (Appeals).

Consequently, the company preferred an appeal before the "Appellate Tribunal Inland Revenue", against such demand confirmed by the Collector (Appeals). No provision on this account has been made in these financial statements owing to the fact that the company's management, based on certain favourable precedents available in respect of contentious issues, considers that the matter will be ultimately decided in company's favour and such demand will be annulled.

(ix) Claims against the company not acknowledged as debts Rs 23.051 million (2008: Nil)

21.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 549.251 million (2008: Rs 1,363.719 million).

(ii) Letters of credit other than for capital expenditure Rs 511.345 million (2008: Rs 438.306 million).

(iii) Purchase orders aggregating Rs 7.801 million (2008: Rs 15.791 million) were placed and letters of credit were established subsequently.

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

	Note	2009	2008
		(Rupees in thousand)	
Not later than one year		25,175	6,723
Later than one year and not later than five years		62,718	77
		87,893	6,800

22. Property, plant and equipment

	Note	2009	2008
Operating fixed assets	22.1	20,585,253	18,517,527
Capital work-in-progress	22.2	699,948	1,761,084
		21,285,201	20,278,611

22.1 Operating fixed assets

	Freehold land	Building on freehold land	Railway siding	Plant and machinery	Aircraft	Furniture and fixtures	Tools and other equipment	Vehicles	Catalyst	Total
	(Rupees in thousand)									
COST										
Balance as at January 01, 2008	3,387,787	2,253,812	30,673	14,583,467	–	6,894	350,748	147,674	14,942	20,775,997
Additions during the year	–	19,670	–	1,835,999	505,796	740	31,796	22,732	20,994	2,437,727
Disposals during the year	–	–	–	–	–	–	(84)	(11,735)	–	(11,819)
Balance as at December 31, 2008	3,387,787	2,273,482	30,673	16,419,466	505,796	7,634	382,460	158,671	35,936	23,201,905
Balance as at January 01, 2009	3,387,787	2,273,482	30,673	16,419,466	505,796	7,634	382,460	158,671	35,936	23,201,905
Additions during the year	–	16,642	–	2,481,371	–	637	61,781	22,796	–	2,583,227
Transfers in from assets subject to finance lease	–	–	–	–	–	–	–	2,943	–	2,943
Disposals during the year	–	–	–	–	–	–	–	(4,343)	–	(4,343)
Balance as at December 31, 2009	3,387,787	2,290,124	30,673	18,900,837	505,796	8,271	444,241	180,067	35,936	25,783,732
DEPRECIATION										
Balance as at January 01, 2008	–	568,573	11,587	3,376,681	–	3,216	181,682	87,065	5,908	4,234,712
Charge for the year	–	75,260	2,532	239,333	84,254	489	20,248	20,178	18,209	460,503
Charge on disposals	–	–	–	–	–	–	(65)	(10,772)	–	(10,837)
Balance as at December 31, 2008	–	643,833	14,119	3,616,014	84,254	3,705	201,865	96,471	24,117	4,684,378
Balance as at January 01, 2009	–	643,833	14,119	3,616,014	84,254	3,705	201,865	96,471	24,117	4,684,378
Charge for the year	–	75,641	2,532	279,672	101,093	551	20,606	23,532	11,245	514,872
Transfers in from assets subject to finance lease	–	–	–	–	–	–	–	1,547	–	1,547
Charge on disposals	–	–	–	–	–	–	–	(2,318)	–	(2,318)
Book vlaue as at December 31, 2009	–	719,474	16,651	3,895,686	185,347	4,256	222,471	119,232	35,362	5,198,479
Book value as at December 31, 2008	3,387,787	1,629,649	16,554	12,803,452	421,542	3,929	180,595	62,200	11,819	18,517,527
Balance as at December 31, 2009	3,387,787	1,570,650	14,022	15,005,151	320,449	4,015	221,770	60,835	574	20,585,253
Annual depreciation rate %	–	4	10	4	20	10	4–25	20	50–67	

22.1.1 The carrying amount of freehold land as at December 31, 2009 would have been Rs 911.94 million (2008: Rs 911.94 million) had there been no revaluation.

22.1.2 Included in additions to operating fixed assets are finance costs of Rs 42.164 million (2008: Nil)

	Note	2009	2008
		(Rupees in thousand)	
22.1.3 The depreciation charge for the year has been allocated as follows:			
Cost of sales	35	368,092	332,466
Administrative expenses	36	141,699	122,810
Selling and distribution expenses	37	5,082	5,227
		514,873	460,503

22.1.4 Disposal of operating fixed assets

		2009				
		(Rupees in thousand)				
Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Ex - employee**					
	Fahad Mushtaq	677	203	474	757	As per company policy
	Umair Ahmed	1,355	813	542	506	– do –
	Syed Zaka–ul–Hassan	911	531	380	622	– do –
	Vehicle theft	495	198	297	425	Insurance claim
	Associated company					
	Fazal Cloth Mills Limited	905	573	332	407	Negotiation
		4,343	2,318	2,025	2,717	

		2008				
		(Rupees in thousand)				
Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Ex – employee**					
	Kashif Ahmed Soomro	924	185	739	924	Negotiation
	Outside parties					
	Salamuddin Sheikh	3,202	3,202	–	2,990	Bid
	Rana Nadeem Ahmed	3,863	3,863	–	1,486	– do –
	Muhammad Mushtaq	969	969	–	591	– do –
	Adnan Hashmi	595	595	–	375	– do –
	Muhammad Yasmin	693	693	–	416	– do –
	Mirza Asghar Ali	595	595	–	555	– do –
	Vehicle theft	894	670	224	824	Insurance Claim
Other Assets having book value below Rs 50,000		84	65	19	–	
		11,819	10,837	982	8,161	

	Note	2009	2008
		(Rupees in thousand)	
22.2 Capital work-in-progress			
Plant and machinery		412,826	1,387,835
Civil works		9,230	–
Advances – considered good	22.2.1	84,410	298,561
Leased vehicles in transit		43,047	–
Others		150,435	74,688
		699,948	1,761,084
22.2.1 Advances – considered good			
Advances against:			
– civil works		3,244	105
– purchase of plant and machinery		81,166	270,597
– purchase of other capital items		–	27,859
		84,410	298,561

22.2.2 Included in additions to capital work–in–progress are finance costs of Rs 38.805 million (2008: Nil).

23. Assets subject to finance lease

	Notes	Vehicles (Rupees in thousand)
COST		
Balance as at January 01, 2008		55,739
Additions during the year		96,103
Balance as at December 31, 2008		151,842
Balance as at January 01, 2009		151,842
Additions during the year		69,245
Transfer to operating fixed assets during the year		(2,943)
Balance as at December 31, 2009		218,144
DEPRECIATION		
Balance as at January 01, 2008		11,757
Charge for the year		23,225
Balance as at December 31, 2008		34,982
Balance as at January 01, 2009		34,982
Charge for the year	23.1	37,185
Transfer to operating fixed assets during the year		(1,547)
Balance as at December 31, 2009		70,620
Book value as at December 31, 2008		116,860
Book value as at December 31, 2009		147,524
Annual depreciation rate %		20

	Note	2009	2008
		(Rupees in thousand)	
23.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	35	18,084	12,402
Administrative expenses	36	18,252	9,940
Selling and distribution expenses	37	849	883
		37,185	23,225

23.2 Vehicles of Rs 87.003 million (2008: Rs 53.877 million) are in possession and use of a subsidiary company, Fatima Fertilizer Company Limited.

24. Intangibles

	Note	Computer software	Mining rights	Total
			(Rupees in thousand)	
COST				
Balance as at January 01, 2008		1,374	–	1,374
Additions during the year		5,385	–	5,385
Balance as at December 31, 2008		6,759	–	6,759
Balance as at January 01, 2009		6,759	–	6,759
Additions during the year	24.1	–	210,000	210,000
Balance as at December 31, 2009		6,759	210,000	216,759
AMORTIZATION				
Balance as at January 01, 2008		1,374	–	1,374
Charge for the year		1,346	–	1,346
Balance as at December 31, 2008		2,720	–	2,720
Balance as at January 01, 2009		2,720	–	2,720
Charge for the year	24.2	1,346	7,000	8,346
Balance as at December 31, 2009		4,066	7,000	11,066
Book value as at December 31, 2008		4,039	–	4,039
Book value as at December 31, 2009		2,693	203,000	205,693
Annual amortization rate %		25	10	

24.1 This represents the cost of mining rights for the extraction of rock phosphate as referred to in note 11.

	Note	2009	2008
		(Rupees in thousand)	
24.2 The amortization charge for the year has been allocated as follows:			
Cost of sales	35	7,000	–
Administrative expenses	36	1,346	1,346
		8,346	1,346

25. Goodwill

This represents goodwill on amalgamation of REL and the company.

	Note	2009	2008
		(Rupees in thousand)	
26. Investments			
Related party	26.1	7,860,000	8,333,936
Other	26.2	21,744	–
		7,881,744	8,333,936
26.1 Investment – related party			
Associated company – unquoted			
Fatima Fertilizer Company Limited Nil (2008: 355,577,696) fully paid ordinary shares of Rs 10 each Equity held Nil (2008: 39.797%)	26.1.1	–	3,504,596
Subsidiary company – unquoted			
Fatima Fertilizer Company Limited 900,000,000 (2008: Nil) fully paid ordinary shares of Rs 10 each Equity held 50% (2008: Nil)	26.1.2	7,860,000	–
Advance against purchase of shares in associated company – Fatima Fertilizer Company Limited		–	4,829,340
		7,860,000	8,333,936
26.1.1 Investment in associate			
Opening balance		3,504,596	3,561,981
Shares purchased during the year		7,694,223	1,500,000
		11,198,819	5,061,981
Divestment during the year through distribution as 'specie dividend'		(2,250,000)	(1,500,000)
		8,948,819	3,561,981
Share of loss of associate		(25,207)	(57,385)
		8,923,612	3,504,596
Transferred to investment in subsidiary	26.1.2	(8,923,612)	–
Closing balance		–	3,504,596

On September 21, 2009, the company acquired 769,422,304 ordinary shares of Fatima Fertilizer Company Limited (FATIMA), out of which 225,000,000 ordinary shares were distributed as specie dividend to the company's members, thereby resulting in company's holding in FATIMA to the extent of 50% as of that date. Furthermore, on the same date, other members of FATIMA holding 25% ordinary shares by virtue of an agreement, have also surrendered their voting rights in favour of the company thereby enabling it to exercise 75% voting rights of FATIMA. Consequently, as of September 21, 2009 , FATIMA has become a subsidiary of the company as the company has the control to govern the financial and operating policies of FATIMA. In light of this, the company's investment in FATIMA upto September 20, 2009 being an associate, is accounted for under the equity method. The share of loss of FATIMA upto September 20, 2009 is based on its un-audited results. Moreover, from September 21, 2009, FATIMA being a subsidiary, upon initial recognition has been designated by the company as 'financial asset at fair value through profit or loss' under IAS 39 'Financial Instruments: Recognition and Measurement' in the separate financial statements of the company in accordance with the requirements of IAS 27 'Consolidated and Separate Financial Statements'.

The company's management has made such designation on the basis that it manages and evaluates the performance of this investment according to a documented investment strategy to maximise total return on the investment in shape of dividend and changes in fair value and information about the investment, in line with the documented investment strategy, is provided internally to the Board of Directors of the company. Further, in line with the documented investment strategy, the ordinary shares of FATIMA have been listed on KSE subsequent to the balance sheet date.

	Note	2009	2008
		(Rupees in thousand)	
26.1.2 Investment in subsidiary			
Transferred from investment in associate (at initial recognition)	26.1.1	8,923,612	–
Add: Gain on re–measurement	26.1.2.1	2,866,388	–
		11,790,000	–
Less: Investment classified under current assets	32	3,930,000	–
		7,860,000	–

26.1.2.1 Since, FATIMA's ordinary shares are not listed at the balance sheet date, the company's management has estimated a fair value of Rs 13.1 per ordinary share as at December 31, 2009 through a valuation technique based on discounted cash flow analysis of FATIMA. Based on this fair value of Rs 13.1 per ordinary share, the fair value of the company's investment of 900 million ordinary shares is estimated at Rs 11,790 million at the balance sheet date. Consequently, the resultant unrealised re-measurement gain of Rs 2,866.388 million has been included in the profit and loss account. Subsequent to the balance sheet date, on January 14, 2010, a market value of Rs 14.1 per ordinary share of FATIMA has been subscribed by institutional investors and high net worth individuals through the book building process of FATIMA's ordinary shares at KSE.

The significant assumptions used by the company's management in the valuation technique based on discounted cash flow analysis for estimating the fair value of FATIMA's ordinary share as at December 31, 2009 are as follows:

- Weighted Average Cost of Capital (WACC) used as discount rate 13.3 % per annum
- Growth rate 6 % per annum
- Terminal growth rate 3% per annum

Sensitivity analysis

Sensitivity analysis of the significant assumptions used by the company's management on the estimated fair value and profit for the year is as follows:

If the discount rate increases / decreases by 1% with all other variables held constant, the estimated fair value of the investment as at December 31, 2009 and the impact on post tax profit for the year then ended would be Rs 1,746 million lower / 1,926 million higher respectively.

If the growth rate increases / decreases by 1% with all other variables held constant, the estimated fair value of the investment as at December 31, 2009 and the impact on post tax profit for the year then ended would be Rs 2,475 million higher / 2,286 million lower respectively.

If the terminal growth rate increases / decreases by 1% with all other variables held constant, the estimated fair value of the investment as at December 31, 2009 and the impact on post tax profit for the year then ended would be Rs 927 million higher / 756 million lower respectively.

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 NWFP as per the terms of the mining agreement. These have been classified as 'held to maturity' for recognition and measurement purposes.

	Note	2009	2008
		(Rupees in thousand)	
27. Long term loans – unsecured			
Long term loan (from STFF)	27.1	2,037,500	–
Long term loan	27.2	158,820	–
		2,196,320	–

27.1 This represents unsecured loan provided to FATIMA, a subsidiary company, from the proceeds of the syndicated term finance facility (STFF) as referred to in note 9.4, for the purpose of project financing. The repayment of this loan is not to exceed the repayment amount of the syndicated loan (Senior Facility), Commercial Facility and New Facility of FATIMA by more than 6.45% of the principal component of such facilities' repayments. Till such time as the company is obligated to make repayment of the STFF, the loan carries markup at the rate of six months KIBOR plus 2.5% per annum, with no floor and no cap, payable semi-annually, on outstanding balance of such loan. Subsequently, the loan will carry markup at the rate of average borrowing cost of the company. The effective rate of markup charged during the year on outstanding balance was 15.06%.

27.2 This represents unsecured loan to FATIMA, a subsidiary company, for the purpose of project financing. The rate of mark up is equal to the average borrowing cost of the company. The effective rate of mark up charged during the year ranges from 14.53% to 14.82%. The loan is repayable by FATIMA, when the aggregate outstanding amounts of FATIMA under the Senior Facility, Commercial Facility, New Facility and security agreements between FATIMA and the financial institutions, is less than Rs 23,000 million.

	Note	2009	2008
		(Rupees in thousand)	
28. Stores and spare parts			
Chemicals and catalysts [including in transit Rs 16.109 million (2008: Rs 14.846 million)]	28.1	624,641	597,398
Stores		61,596	71,531
Spare parts [including in transit Rs 190.802 million (2008: Rs 266.528 million)]		1,270,183	1,184,482
		1,956,420	1,853,411
Less: Provision for obsolete items		76,225	76,225
		1,880,195	1,777,186

28.1 Included in chemicals and catalysts is platinum, rhodium and palladium of Rs 126.734 million (2008: Rs 156.742 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.

	Note	2009	2008
		(Rupees in thousand)	
29. Stock-in-trade			
Raw materials		2,270,042	2,859,413
Packing materials		39,972	124,997
Mid products		12,153	9,324
Finished goods:			
– own manufactured fertilizers		462,643	1,424,415
– emission reductions		26,113	11,880
		2,810,923	4,430,029

29.1 Raw materials and finished goods amounting to Rs 2,622.421 million (2008: Rs 1,724.812 million) are pledged with lenders as security against short term borrowings as referred to in note 16.

	Note	2009	2008
		(Rupees in thousand)	
30. Trade debts			
Considered good:			
– Secured (by way of bank guarantees and security deposits)		632,836	599,514
– Unsecured		71,719	805,686
		704,555	1,405,200

30.1 These are in the normal course of business and certain debts carry interest ranging from 2.5 % to 10% (2008: 2.5% to 31%) per annum.

30.2 Trade debts include an amount of Rs 4.693 million (2008: Nil) due from FATIMA, a subsidiary company.

	Note	2009	2008
		(Rupees in thousand)	
31. Advances, deposits, prepayments and other receivables			
Advances - considered good			
– To employees	31.1	7,259	10,331
– To suppliers		89,145	118,463
Trade deposits		2,720	3,892
Prepayments		162,385	120,423
Advance for subscription in shares of subsidiary company	31.2	3,750,000	–
Interest receivable on long term loans to subsidiary		115,710	–
Interest receivable on bank deposits		1,248	–
Balances with statutory authorities:			
– Sales tax			
– considered good	31.3	122,445	170,488
– considered doubtful		8,911	8,911
		131,356	179,399
– Income tax recoverable	31.4	2,479,352	2,479,352
– Custom duty recoverable		9,811	9,811
– Subsidy receivable from Government of Pakistan		–	2,840,973
Letters of credit – margins, deposits, opening charges etc.		16,537	19,908
Security deposits		40,400	–
Other receivables – considered good		16,283	5,638
		6,822,206	5,788,190
Less: Provision for doubtful receivable		8,911	8,911
		6,813,295	5,779,279

31.1 Included in advances to employees are amounts due from executives of Rs 5.781 million (2008: Rs 6.803 million).

31.2 This represents the advance for subscription in preference shares of subsidiary company, FATIMA. Subsequent to balance sheet date, FATIMA has issued the preference shares to the company. This has been classified as current on the management's intention in line with the documented investment strategy in FATIMA on the basis that in the next twelve months from the balance sheet date, the company may dispose of such preference shares to realize cash for the company's requirements or may distribute these as specie dividend in line with the past dividend distribution practice.

31.3 It primarily represents the input sales tax paid by the company on acquisition of raw materials that became refundable due to promulgation of notification SRO 535(I)/2008 dated June 11, 2008 through which fertilizer products manufactured by the company were exempted from levy of sales tax. 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 honourable 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 is un-impaired at the balance sheet date.

31.4 This represents the amount of income tax refundable from the tax authorities for the assessment years 1993-94, 1995-96 through 2002-2003 and tax years 2003 and 2004. The aggregate amount of provision for tax less payments, for the tax years 2005 through 2010 has been separately disclosed under current liabilities.

32. Investment - related party

This represents the fair value of 300 million ordinary shares out of the total 900 million ordinary shares of FATIMA held by the company. This has been classified as current on management's intention that in the next twelve months from the balance sheet date, the company may distribute these shares as specie dividend in line with the past dividend distribution practice or it may dispose of these shares to meet the working capital requirements of the company.

	Note	2009	2008
		(Rupees in thousand)	
33. Cash and bank balances			
At banks on:			
– Saving accounts	33.1 & 33.2	56,861	50,527
– Current accounts [including USD 4,070 & EURO 634,962 (2008: USD 570.53 & EURO Nil)]	33.2	175,319	31,559
		232,180	82,086
In hand		2,808	2,847
		234,988	84,933

33.1 Profit on balances in saving accounts ranges from 2% to 5% (2008: 5.00% to 10%) per annum.

33.2 Included in saving accounts is an amount of Rs 5.265 million (2008: Rs 5.223 million) which bears mark up at the rate of 5% (2008: 5%) per annum and included in current accounts is an amount of Rs 0.034 million (2008: Rs 0.547 million), both placed with an associated undertaking, Arif Habib Bank Limited.

	Fertilizers		Clean Development Mechanism		Total	
	2009	2008	2009	2008	2009	2008
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
34. Sales						
Fertilizer products:						
– Own manufactured	15,095,287	14,020,037	–	–	15,095,287	14,020,037
– Purchased for resale	–	33,134	–	–	–	33,134
	15,095,287	14,053,171	–	–	15,095,287	14,053,171
Certified Emission Reductions	–	–	1,229,209	1,161,823	1,229,209	1,161,823
Mid products	260,799	217,286	–	–	260,799	217,286
Subsidy from Government of Pakistan on NP fertilizer	–	3,815,274	–	–	–	3,815,274
	15,356,086	18,085,731	1,229,209	1,161,823	16,585,295	19,247,554
Less:						
Sales incentive	3,428	331,855	–	–	3,428	331,855
Discount	31,286	28,588	–	–	31,286	28,588
	34,714	360,443	–	–	34,714	360,443
	15,321,372	17,725,288	1,229,209	1,161,823	16,550,581	18,887,111

34.1 Sales of fertilizer products are exclusive of sales tax amounting to Nil (2008: Rs 163.704 million).

34.2 Sales of mid products are exclusive of sales tax amounting to Rs 41.543 million (2008: Rs 33.855 million).

34.3 This represents the amount of subsidy from Government of Pakistan (GOP) on production of NP as notified by the Minsitry of Food, Agriculture and Livestock, GOP. The subsidy was withdrawn by the GOP with effect from January 01, 2009.

	Notes	Fertilizers 2009	Fertilizers 2008	Clean Development Mechanism 2009	Clean Development Mechanism 2008	Total 2009	Total 2008
		(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
35. Cost of sales							
Raw material consumed		4,584,819	3,736,982	8,449	6,887	4,593,268	3,743,869
Packing material consumed		314,281	327,625	–	–	314,281	327,625
		4,899,100	4,064,607	8,449	6,887	4,907,549	4,071,494
Salaries, wages and other benefits	35.1	621,464	563,573	6,536	5,062	628,000	568,635
Fuel and power		1,826,093	1,610,985	4,387	3,242	1,830,480	1,614,227
Chemicals and catalysts consumed		313,362	213,687	–	–	313,362	213,687
Spare parts consumed		337,027	236,853	1,174	754	338,201	237,607
Stores consumed		110,565	102,617	3,667	247	114,232	102,864
Repairs and maintenance		94,707	48,660	985	418	95,692	49,078
Insurance		180,106	82,213	5,168	–	185,274	82,213
Depreciation on operating fixed assets	22.1.3	360,091	322,087	8,001	10,379	368,092	332,466
Depreciation on assets subject to finance lease	23.1	18,084	12,402	–	–	18,084	12,402
Amortisation on intangible assets	24.2	7,000	–	–	–	7,000	–
Others		23,555	42,481	8,436	5,948	31,991	48,429
		8,791,154	7,300,165	46,803	32,937	8,837,957	7,333,102
Opening stock of mid products		9,324	6,469	–	–	9,324	6,469
Closing stock of mid products		(12,153)	(9,324)	–	–	(12,153)	(9,324)
		(2,829)	(2,855)	–	–	(2,829)	(2,855)
Cost of goods manufactured		8,788,325	7,297,310	46,803	32,937	8,835,128	7,330,247
Opening stock of finished goods		1,424,415	454,745	11,880	–	1,436,295	454,745
Closing stock of finished goods		(462,643)	(1,424,415)	(26,113)	(11,880)	(488,756)	(1,436,295)
		961,772	(969,670)	(14,233)	(11,880)	947,539	(981,550)
Cost of goods sold – own manufactured		9,750,097	6,327,640	32,570	21,057	9,782,667	6,348,697
Opening stock of purchased fertilizer		–	1,415	–	–	–	1,415
Fertilizer purchased for resale		–	27,923	–	–	–	27,923
Stock written off		–	(217)	–	–	–	(217)
Cost of goods sold – purchased for resale		–	29,121	–	–	–	29,121
		9,750,097	6,356,761	32,570	21,057	9,782,667	6,377,818

	2009	2008
	(Rupees in thousand)	
35.1 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	8,926	8,550
Interest cost for the year	3,427	1,332
Expected return on plan assets	(2,201)	(357)
Past service cost	1,517	–
Curtailments during the year	–	(1,552)
	11,669	7,973

In addition to the above, salaries, wages and other benefits include Rs 10.543 million (2008: Rs 9.058 million) in respect of provident fund contribution by the company.

	Note	2009	2008
		(Rupees in thousand)	
36. Administrative expenses			
Salaries, wages and other benefits	36.1	196,460	134,296
Travelling and conveyance		35,179	49,716
Telephone, telex and postage		9,807	7,858
Stationery, printing and periodicals		7,320	6,027
Rent, rates and taxes		7,515	3,517
Repairs and maintenance		45,449	33,389
Aircraft operating expenses	36.2	49,996	47,363
Insurance		7,019	3,964
Legal and professional charges	36.3	19,113	107,257
Vehicle running expenses		5,617	1,750
Entertainment		4,136	6,992
Advertisement		1,233	1,098
Depreciation on operating fixed assets	22.1.3	141,699	122,810
Depreciation on assets subject to finance lease	23.1	18,252	9,940
Amortization on intangible assets	24.2	1,346	1,346
CDM administrative expenses		13,514	15,027
Stock written off		–	217
Others		42,677	37,340
		606,332	589,907

36.1 Salaries, wages and other benefits

	2009	2008
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	2,210	1,534
Interest cost for the year	849	239
Expected return on plan assets	(545)	(64)
Past service cost	376	–
Curtailments during the year	–	(278)
	2,890	1,431

In addition to the above, salaries, wages and other benefits include Rs 2.340 million (2008: Rs 1.806 million) in respect of provident fund contribution by the company.

36.2 Includes expenses aggregating Rs 49.996 million (2008: Rs 47.363 million) to Air One (Private) Limited, an associated undertaking, for flying and maintenance services of the company's aircraft.

	2009	2008
	(Rupees in thousand)	
36.3 Professional services		
The charges for professional services include the following in respect of auditors' services for:		
– Statutory audit	1,500	1,300
– Half yearly review	650	450
– Tax services	4,050	3,746
– Other certification services	160	40
– Out of pocket expenses	671	641
	7,031	6,177

	Note	2009	2008
		(Rupees in thousand)	
37. Selling and distribution expenses			
Salaries, wages and other benefits	37.1	98,426	84,756
Travelling and conveyance		4,744	7,201
Telephone, telex and postage		4,020	3,135
Stationery, printing and periodicals		1,478	1,284
Rent, rates and taxes		19,935	13,806
Repairs and maintenance		3,004	2,885
Insurance		1,221	749
Vehicle running expenses		4,979	5,026
Entertainment		4,655	7,259
Advertisement and sale promotion		69,723	92,045
Depreciation on operating fixed assets	22.1.3	5,082	5,227
Depreciation on assets subject to finance lease	23.1	849	883
Transportation and freight		342,648	330,908
Utilities		585	339
Technical services		2,104	1,580
CERs share of Mitsubishi Corporation, Japan		199,842	–
Commission on sale of CERs		517	25,055
Others		198	1,216
		764,010	583,354

37.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	1,504	1,445
Interest cost for the year	578	225
Expected return on plan assets	(371)	(60)
Past service cost	256	–
Curtailments during the year	–	(262)
	1,967	1,348

In addition to the above, salaries, wages and other benefits include Rs 2.158 million (2008: Rs 1.944 million) in respect of provident fund contribution by the company.

	Note	2009	2008
		(Rupees in thousand)	
38. Other operating expenses			
Workers' profit participation fund	19.2	124,319	142,727
Workers' welfare fund	19.3	104,569	133,158
Loss on derivative financial instruments		–	731,032
Donations	38.1	8,840	12,434
		237,728	1,019,351

38.1 The Director of the company, Mr Fazal Ahmed Sheikh, is the trustee of Sheikh Mukhtar Trust to which donation of Rs 700,000 (2008: Nil) was made. The Chairman of the Board of Directors of the company, Mr Arif Habib, is the trustee of Fatimid Foundation to which donation of Nil (2008: Rs 1 million) was made.

	Note	2009	2008
		(Rupees in thousand)	
39. Other operating income			
Income from financial assets:			
Income on bank deposits		7,715	4,989
Interest income on long term loan (from STFF) to subsidiary		113,061	–
Interest income on long term loan to subsidiary		2,649	–
Realized gain on investment held for trading		–	252
Unrealised gain on investment held to maturity		744	–
Mark–up on credit sale of fertilizers		21,982	31,637
Gain on derivative financial instruments		29,246	–
		175,397	36,878
Income from non–financial assets:			
Rental income		13,462	12,300
Profit on disposal of operating fixed assets		693	7,179
Scrap sales and sundry income		18,069	13,167
Provisions and unclaimed balances written back		79,704	–
Income from biological laboratory		1,510	1,207
		113,438	33,853
		288,835	70,731
40. Finance cost			
Interest/mark up on:			
– Listed TFCs – secured		723,137	622,302
– PPTFCs – secured		42,569	–
– Finance leases		10,405	16,039
– Loans from related parties – unsecured		83,896	8,827
– Share deposit money from associated company		31,350	20,527
– Short term borrowings – secured		685,156	399,852
– Bridge finances – secured		1,089,674	802,810
– Long term loans – secured		229,785	84,862
– Syndicated term finance – secured		113,061	–
– Workers' Profit Participation Fund	19.2	30,946	37,001
Loan arrangement fees and other charges		85,858	84,521
Exchange loss		31,681	177,615
Bank charges		33,668	41,170
		3,191,186	2,295,526
41. Taxation			
For the year			
– Current		82,811	720,241
– Deferred		372,591	359,429
		455,402	1,079,670
Prior year			
– Current		–	4,032
– Deferred		394	(139,091)
		394	(135,059)
		455,796	944,611

41.1 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 Income Tax Appellate Tribunal ('ITAT') 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. ITAT'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 ITAT. 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.

41.2 Tax charge reconciliation

	2009	2008
	(Percentage)	
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	2.00	0.58
Exempt for tax purposes	(8.33)	(22.00)
Not taxable under the law	(19.68)	(0.14)
Chargeable at lower rate of tax	(0.06)	–
Effect of change in prior years' tax	0.01	(1.68)
	(26.06)	(23.24)
Average effective tax rate charged to profit and loss account	8.94	11.76

42. Earnings per share

42.1 Basic earnings per share

		2009	2008
Net profit for the year	Rupees in thousand	4,642,878	7,089,890
Weighted average number of ordinary shares	Number	450,000,000	450,000,000
Earnings per share	Rupees	10.32	15.76

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, 2009 and December 31, 2008 which would have any effect on the earnings per share if the option to convert is exercised.

	Note	2009	2008
		(Rupees in thousand)	
43. Cash generated from operations			
Profit before taxation		5,098,674	8,034,501
Adjustments for non cash charges and other items:			
– Depreciation on operating fixed assets		514,873	460,503
– Depreciation on leased assets		37,185	23,225
– Amortization on intangibles		8,346	1,346
– Retirement benefits accrued		32,661	46,605
– Profit on disposal of operating fixed assets		(693)	(7,179)
– Provisions and unclaimed balances written back		(79,704)	–
– Finance cost		3,191,186	2,295,526
– Income on bank deposits		(7,715)	(4,989)
– Unrealised gain on re-measurement of investments		(2,866,388)	–
– Share of loss of associate		25,207	57,385
Profit before working capital changes		5,953,632	10,906,923
Effect on cash flow due to working capital changes			
– Increase in stores and spare parts		(103,009)	(500,529)
– Decrease/(increase) in stock-in-trade		1,619,106	(3,001,966)
– Decrease/(increase) in trade debts		683,181	(840,571)
– Decrease/(increase) in advances, deposits prepayments and other receivables		2,708,102	(2,256,102)
– (Decrease)/increase in trade and other payables		(741,869)	969,631
		4,165,511	(5,629,537)
		10,119,143	5,277,386
44. Cash and cash equivalents			
Short term borrowings		(5,555,693)	(5,231,431)
Cash and bank balances	33	234,988	84,933
		(5,320,705)	(5,146,498)

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, full time working Directors and Executives of the company is as follows:

	Chief Executive		Directors and alternate directors		Executives	
	2009	2008	2009	2008	2009	2008
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
Short term employee benefits						
Managerial remuneration	7,217	–	13,217	–	105,703	80,439
Housing rent	3,248	–	3,487	–	47,566	36,198
Utilities	3,402	–	1,069	–	10,570	8,044
Incentives	–	–	–	–	65,564	57,943
Medical expenses	26	–	–	–	1,811	1,616
Leave passage	15,752	–	6,099	–	12,015	12,602
Club expenses	–	–	–	–	619	531
Others	–	–	–	–	9,463	7,243
	29,645	–	23,872	–	253,311	204,616
Post employment benefits						
Contribution to provident and gratuity funds	–	–	–	–	17,253	13,454
Other long term benefits						
Accumulating compensated absences	–	–	–	–	12,015	6,857
	29,645	–	23,872	–	282,579	224,927
Number of persons	1	1	2	–	107	91

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 associated undertakings, other related group companies, 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:

Relationship with the company	Nature of transactions	2009	2008
		(Rupees in thousand)	
i. Associated undertakings	Purchase of goods and services	16,110	18,384
	Sale of goods	10,553	–
ii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	37,794	27,265

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

		2009	2008
47. Capacity and production			
Urea			
Rated production capacity	M. Tons	92,400	92,400
Actual urea produced	M. Tons	105,674	104,102
The high production of urea is due to production efficiencies.			
Nitro Phosphate (NP)			
Rated production capacity	M. Tons	304,500	304,500
Actual NP produced	M. Tons	292,102	312,095
The low production 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	341,928	342,574
The low production 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 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, 2009 if the Rupee had weakened / strengthened by 5% against the USD with all other variables held constant, the impact on post tax profit for the year would have been Rs 79.379 million (2008: Rs 61.168 million) lower / higher, mainly as a result of exchange gains / losses on translation of USD denominated financial instruments.

At December 31, 2009 if the Rupee had weakened / strengthened by 5% against the EURO with all other variables held constant, the impact on post tax profit for the year would have been Rs 4.553 million (2008: Rs 8.204 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 exposed to equity price risk since there are no investments in equity instruments traded in the market 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 long term loans to related party. Borrowings obtained and loans provided at variable rates expose the company to cash flow inherent rate risk.

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

	2009	2008
	(Rupees in thousand)	
Floating rate instruments		
Financial assets		
Long term loans	2,196,320	–
Derivative financial instruments	7,882	–
Bank balances – savings accounts	56,861	50,527
	2,261,063	50,527
Financial liabilities		
Long term finances	17,366,963	13,807,265
Liabilities against assets subject to finance lease	164,000	104,607
Short term borrowings	5,555,693	5,231,431
Derivative financial instruments	–	51,744
	23,086,656	19,195,047

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 profit for the year would have been Rs 114.677 million (2008: Rs 89.228 million) lower / higher, 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, derivative financial instruments 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:

	2009	2008
	(Rupees in thousand)	
Investments	7,860,000	8,333,936
Long term loans	2,196,320	–
Security deposits	3,900	8,108
Trade debts	71,719	805,686
Advances, deposits and other receivables	4,029,363	146,031
Derivative financial instruments	7,882	–
Short term investment – related party	3,930,000	–
Bank balances	232,180	82,086
	18,331,364	9,375,847

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:

	2009	2008
	(Rupees in thousand)	
Upto 90 days	556,322	1,238,332
90 to 180 days	148,233	166,868
	704,555	1,405,200

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 income statement.

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	2009	2008
				(Rupees in thousand)	
Al Baraka Islamic Bank Limited	A1	A	JCR-VIS	17,516	2,520
Allied Bank Limited	A1+	AA	PACRA	–	91
Arif Habib Bank Limited	A2	A	JCR-VIS	5,299	5,769
Askari Bank Limited	A1+	AA	PACRA	10,174	3,687
Bank Alfalah Limited	A1+	AA	PACRA	120	–
Deutshe Bank A.G	A1	A+	STANDARD & POOR'S	2,468	3,209
Dubai Islamic Bank Limited	A2	A	JCR-VIS	6,987	–
Faysal Bank Limited	A1+	AA	PACRA	7,748	4,218
Habib Bank Limited	A1+	AA+	JCR-VIS	83,888	5,088
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	7,829	–
MCB Bank Limited	A1+	AA+	PACRA	52,531	–
Meezan Bank Limited	A1	A+	JCR-VIS	2,030	2,853
National Bank of Pakistan	A1+	AAA	JCR-VIS	1,839	6,848
NIB Bank Limited	A1+	AA–	PACRA	–	884
The Royal Bank of Scotland	A1+	AA	PACRA	801	6,339
Silk Bank Limited	A3	A–	JCR-VIS	186	2,715
Soneri Bank Limited	A1+	AA–	PACRA	1	–
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	859	613
The Bank of Punjab	A1+	AA–	PACRA	1,287	492
United Bank Limited	A1+	AA+	JCR-VIS	12,646	36,760
Zarai Taraqiati Bank Limited	A1+	AAA	JCR-VIS	17,971	–
				232,180	82,086

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.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the company's businesses, the Board maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors the forecasts of the company's cash and cash equivalents (note 44) on the basis of expected cash flow. This is generally carried out in accordance with practice and limits set by the company. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the company's liquidity management policy involves projecting cash flows in each quarter and considering the level of liquid assets necessary to meet its liabilities, monitoring balance sheet liquidity ratios against internal and external regulatory requirements, and maintaining debt financing plans.

The table below analyses the company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as the impact of discounting is not significant.

	At December 31, 2009			
	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	17,366,963	1,176,222	16,190,741	–
Liabilities against assets subject to finance lease	164,000	57,280	106,720	–
Payable against mining rights	157,500	105,000	52,500	–
Long term deposits	732,241	–	–	732,241
Short term borrowings	5,555,693	5,555,693	–	–
Trade and other payables	1,458,326	1,458,326	–	–
Accrued finance cost	989,422	989,422	–	–
	26,424,145	9,341,943	16,349,961	732,241

	At December 31, 2008			
	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	13,807,265	2,000	13,805,265	–
Liabilities against assets subject to finance lease	104,607	29,569	75,038	–
Long term deposits	723,924	–	–	723,924
Short term borrowings	5,231,431	5,231,431	–	–
Derivative financial instruments	51,744	51,744	–	–
Trade and other payables	2,235,786	2,235,786	–	–
Accrued finance cost	799,308	799,308	–	–
	22,954,065	8,349,838	13,880,303	723,924

48.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the company are the current bid prices.

The financial instruments that are not traded in active market are carried at fair value estimated through a valuation technique. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables 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.

48.3 Financial instruments by categories

	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
		(Rupees in thousand)		
As at December 31, 2009				
Assets as per balance sheet				
Investments	7,860,000	21,744	–	7,881,744
Long term loans	–	–	2,196,320	2,196,320
Security deposits	–	–	3,900	3,900
Trade debts	–	–	704,555	704,555
Advances, deposits and other receivables	–	–	3,907,358	3,907,358
Derivative financial instruments	–	–	7,882	7,882
Investment – related party	3,930,000	–	–	3,930,000
Cash and bank balances	–	–	234,988	234,988
	11,790,000	21,744	7,055,003	18,866,747

	Financial liabilities at amortized cost (Rupees in thousand)
As at December 31, 2009	
Liabilities as per balance sheet	
Long term finances	17,366,963
Liabilities against assets subject to finance lease	164,000
Payable against mining rights	157,500
Long term deposits	732,241
Short term borrowings	5,555,693
Trade and other payables	1,458,326
Accrued finance cost	989,422
	26,424,145

	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
		(Rupees in thousand)		
As at December 31, 2008				
Assets as per balance sheet				
Investments	–	–	8,333,936	8,333,936
Security deposits	–	–	8,108	8,108
Trade debts	–	–	1,405,200	1,405,200
Advances, deposits and other receivables	–	–	2,846,611	2,846,611
Cash and bank balances	–	–	84,933	84,933
	–	–	12,678,788	12,678,788

	Financial liabilities at amortized cost (Rupees in thousand)
As at December 31, 2008	
Liabilities as per balance sheet	
Long term finances	13,807,265
Liabilities against assets subject to finance lease	104,607
Long term deposits	723,924
Short term borrowings	5,231,431
Derivative financial instruments	51,744
Trade and other payables	2,235,786
Accrued finance cost	799,308
	22,954,065

48.4 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

48.5 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. 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, 2009 and December 31, 2008 is as follows:

	Note	2009	2008
		(Rupees in thousand)	
Borrowings	9	17,366,963	13,807,265
Less: Cash and cash equivalents	44	5,320,705	5,146,498
Net debt		22,687,668	18,953,763
Total equity		14,338,868	11,976,445
Gearing ratio	Percentage	61	61

49. Date of authorization for issue

These financial statements were authorized for issue on April 09, 2010 by the Board of Directors of the company.

50. Non-adjusting events after the balance sheet date

The Board of Directors have proposed to distribute 225 million ordinary shares of the subsidiary, Fatima Fertilizer Company Limited ('FATIMA'), having face value of Rs 10 each, to the members of the company as 'specie dividend' in the ratio of five ordinary shares of FATIMA for every ten ordinary shares held of the existing issued, subscribed and paid up capital of the company and a bonus share issue of Nil (2008: 50%) at their meeting held on April 09, 2010 for approval of the members at the Annual General Meeting to be held on April 30, 2010. These financial statements do not reflect this appropriation.

51. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. Significant re-arrangement made is of an advance of Rs 10 million previously classified in letters of credit - margins, deposits, opening charges etc now reclassified as advances to suppliers under advances, deposits, prepayments and other receivables.

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

Chief Executive **Director**

Rock phosphate deposits at Lagarban village (Kalu Di Bandi) Abbottabad

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