Annual Report

Pakarab Fertilizers Limited for the year ended December 31, 2010

Ample supply through balanced nutrients

pakarab FERTILIZERS LIMITED

Contents

Our Vision and Mission

Vision

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

Mission

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

Our Core Values and Code of Conduct / Ethical Principles

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

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

Ethics and Business Practices

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

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

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

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

Assets and Proprietary information

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

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

Relations with Business partners

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

Our Employees

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

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

Company Information

Board of Directors

Mr. Arif Habib
Chairman

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer

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

Audit Committee

Mr. Nasim Beg
Chairman

Mr. Fazal Ahmed Sheikh
Member

Mr. Rehman Naseem
Member

Mr. Muhammad Kashif Habib
Member

Human Resource and Remuneration Committee

Mr. Nasim Beg
Chairman

Mr. Abdus Samad
Member

Mr. Faisal Ahmed Mukhtar
Member

Mr. Rehman Naseem
Member

Company Secretary

Mr. Ausaf Ali Qureshi

Chief Financial Officer

Mr. Arif Hamid Dar

Key Management

Mr. M. Abad Khan
Advisor to CEO

Mr. Qadeer Ahmed Khan
Director Operations

Mr. Muhammad Zahir
Director Marketing

Mr. Tanvir H. Qureshi
Group Head of Human Resource

Mr. Asad Murad
Head of Internal Audit

Mr. Iftikhar Mahmood Baig
General Manager Business Development

Mr. Shahid Saeed
Head of Information Technology

Mr. Javed Akbar
Head of Procurement

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

Mr. Muhammad Saleem Zafar
General Manager Projects

Legal Advisors

M/s. Chima & Ibrahim
Advocates

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

Auditors

A. F. Ferguson & Co.,
Chartered Accountants

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

Bankers

Allied Bank Limited
Al-Baraka Islamic Bank Limited
Askari Bank Limited
BankIslami Pakistan 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
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited
Soneri Bank Limited
United Bank Limited
Zarai Taraqiati Bank Limited

Registered/Head Office

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

Karachi Office

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

Plant Site

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

Company Profile

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

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

The Company was incorporated on November 12, 1973. Subsequently, PIDC assigned 52% of its shares to National Fertilizer Corporation (NFC) of Pakistan and ADNOC assigned 48% of its shares to International Petroleum Investment Company, with a paid-up capital of PKR743.061 million.

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

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

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

Profiles of the Directors

Mr. Arif Habib
Chairman

Mr. Arif Habib is the Chairman of Pakarab Fertilizers Limited. He is also the Chairman of Arif Habib Corporation Limited, Fatima Fertilizer Company Limited, 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 and Exchange Ordinance Review Committee.

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

Mr. Fawad Ahmed Mukhtar
Chief Executive Officer / Director

Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer and Director of the Company. He has rich experience of manufacturing and industrial management. Following his graduation he has spent 27 years in developing his family business into a sizeable conglomerate. Mr. Fawad Mukhtar leads several community service initiatives of his group including the Fatima Fertilizer Trust and Welfare Hospital, Fatima Fertilzer Education Society and School, Mukhtar A. Sheikh Welfare Trust etc. He also holds the following portfolio:

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

CEO
- Fatima Fertilizer Company Limited
- Fatima Sugar Mills Limited

Mr. Fazal Ahmed Sheikh
Director

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

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

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

Mr. Nasim Beg
Director

Mr. Nasim Beg is Director of the Company. He qualified as a Chartered Accountant in 1970 and is a Fellow Member of the Institute of Chartered Accountants of Pakistan and also holds a Bachelor's degree in Commerce from Karachi University. Mr. Beg is the founder Chief Executive of Arif Habib Investments Limited, a leading Asset Management Company of Pakistan. Mr. Beg serves on the Board of Summit Bank Limited, as well as on the boards of several group companies and is Chairman of the group's REITS Management Company. He has extensive experience of over 40 years of industry and financial sector in both domestic and international markets. He was part of the task force set up by the Securities and Exchange Commission of Pakistan (SECP) to develop the Voluntary Pension System. He is Chairman of the SECP sponsored Institute of Capital Markets and is a Member of the Prime Minister's Economic Advisory Council.

Mr. Faisal Ahmed Mukhtar
Director

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

Chairman
- Workers Welfare Board - Pakarab Fertilizers Limited

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

Member
- Syndicate of Bahauddin Zakariya University, Multan
- Provincial Finance Commission
- Steering Committee of Southern Punjab Development Project
- Decentralization Support Program

Mr. Rehman Naseem
Director

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

Mr. Abdus Samad
Director

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

He began his career with Arif Habib Corporation Limited as 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.

On September 4, 2004, he became the Chairman and CEO of Arif Habib Limited, a Brokerage Company. He has extensive experience in serving corporate clients, institutions and high net worth individuals for their investments in the securities market and raising capital through IPO, TFC's for corporate entities. During his career, he has served on the boards of various group concerns such as Arif Habib Corporation Limited, Fatima Fertilizer Company Limited, Arif Habib Investments Limited and Thatta Cement Company Limited.

Mr. Muhammad Kashif Habib
Director

Mr. Muhammad Kashif Habib is a Director of the Company. He has completed C.A. Intermediate from the Institute of Chartered Accountants of Pakistan (ICAP) and has completed his mandatory Articles with M/s. A. F. Ferguson & Co. Chartered Accountants. He is also director of Fatima Fertilizer Company Limited, Arif Habib Corporation Limited, Arif Habib Investments Limited, Nooriabad Spinning Mills (Pvt) Limited, Rotocast Engineering (Pvt) Limited, Real Estate Modaraba Management Company Limited, Thatta Cement Company Limited, Arif Habib REITS management Limited (AHRML) and the Chief Executive of Al-Abbas Cement Industries Limited.

Board Structure and Committees

Board Structure

PFL's Board is comprised of eight directors who have been elected by the shareholders for a term of three years expiring on December 31, 2012. Other than the Chief Executive Officer (CEO), there is one executive director and six non-executive directors on the Board. The Chairman of the Board is a non-executive director.

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

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

Board Committees

The standing committees of the Board are:

Audit Committee

Composition

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

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

Terms of Reference

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

- to monitor the quality and integrity of the Company's accounting and reporting practices;
- to oversee the performance of Company's internal audit function;

- to review the external auditor's qualification, independence, performance and competence, and
- to comply with the legal and regulatory requirements, Company's by-laws and internal regulations.

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

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

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

c) review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:
   - major judgmental areas;
   - significant adjustments resulting from the audit;
   - the going-concern assumption;
   - any changes in accounting policies and practices;
   - compliance with applicable accounting standards; and
   - compliance with listing regulations and other statutory and regulatory requirements.

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

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

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

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

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

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

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

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

l) determination of compliance with relevant statutory requirements;

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

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

Human Resource and Remuneration Committee

Composition

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

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

Terms of Reference (Under review and approval)

The Human Resource and Remuneration Committee is entrusted with the following main tasks:

a) To review and recommend the annual Compensation strategy with focus on the annual budget for Head count and Salaries and Wages;

b) To review and recommend the annual bonus and incentive plan;

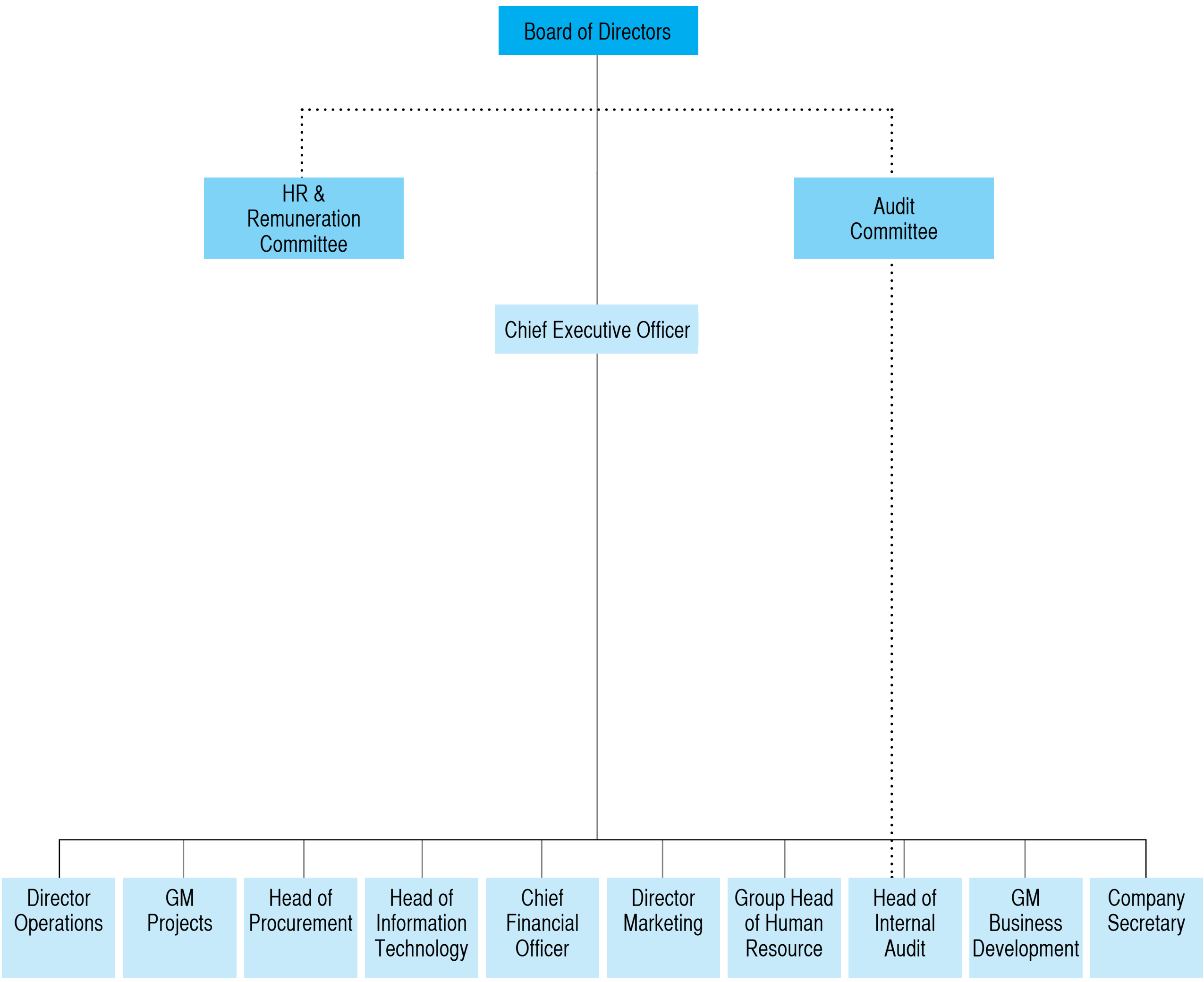
c) To review and recommend the compensation of the Chief Executive and Executive Directors;

d) To assist the Board in reviewing and monitoring the succession plans of key positions in the Company;

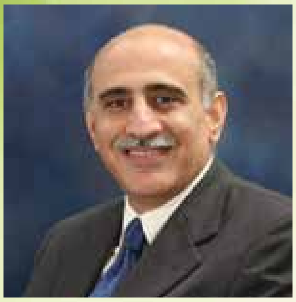
e) To review and monitor processes and initiatives related to work environment and culture;

f) To perform such other duties and responsibilities as may be assigned from time to time by the Board of Directors.

Organization Chart



Profile of the Key Management



Mr. M. Abad Khan
Advisor to CEO

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

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

He has been with Fatima Group for almost 5 years and played significant role in establishment of Fatima Fertilizer.

During the course of a long career, he had extensive international exposure through trainings, seminars and symposiums.

Qadeer Ahmed Khan
Director Operations

Mr. Qadeer Ahmed Khan is Director Operations. He has done his M.S in Petrochemicals and Hydrocarbons from the University of Manchester Institute of Science and Technology. He has vast experience of working in Chemical and Fertilizer industry i.e. over 32 years of experience from Engro Chemicals and Engro Polymers in various capacities and over 2 years of experience in Pakarab Fertilizers Limited as Director Operations.

Muhammad Zahir
Director Marketing

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

Tanvir H. Qureshi
Group Head of Human Resource

Mr. Tanvir H. Qureshi is working as Group Head of Human Resource. Mr. Qureshi has over 24 years of professional experience in pharmaceutical, banking and fertilizer industries, in the fields of Human Resource, Finance, Economics and Corporate and 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 from the University of Karachi. He joined the Group in early 2009.

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

Ausaf Ali Qureshi
Company Secretary

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

Asad Murad
Head of Internal Audit

Mr. Asad Murad is a Fellow Member of the Institute of Chartered Accountants of Pakistan He has 12 years of experience of handling finance and business planning functions with Honda Atlas Cars (Pakistan) Limited.

Mr. Iftikhar Mahmood Baig
GM Business Development

Mr. Iftikhar Mahmood Baig is working as GM Business Development of the Company. He also remained Company Secretary of the company till May 27, 2010 since its acquisition. Mr. Baig is associated with the Fatima Group since 1996 and has held various middle and senior level management positions. He is a Fellow member of Institute of Chartered Secretaries and Managers of Pakistan. He has over 24 years of experience in Corporate , Strategic Planning and Financial Management of various companies.

Shahid Saeed
Head of Information Technology

Mr. Shahid Saeed holds a Masters degree in Information Technology, from the UK. He has more than 25 years of national and international experience in the financial, telecom and utility sectors. He has managed several major projects in the financial and telecom domains. Mr. Saeed has held senior positions for more than 10 years during which he has managed an offshore IT unit of a major European Bank, launched a major telecom company as part of the original core team.

Javed Akbar
Head of Procurement

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

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

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

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

Muhammad Saleem Zafar
General Manager Projects

Mr. Muhammad Saleem Zafar is General Manager (Projects). He did his M. Sc. Chemistry from Punjab University Lahore in 1971 with academic Role Of Honour. He has over 32 years work experience in fertilizer industry. He remained associated with Pakarab Plant's start up activities after necessary training from M/s Udhe & Stamicarbon. He has been working with Pakarab Fertilizers Limited since 1976. Prior to joining Pakarab Fertilizers Limited, he also worked at Pak Dyes & Chemicals Iskanderabad for four years and developed Feasibility Report for manufacture of Sodium Thiosulfate as a by product of Sulfur Black Dyestuff.


Amm. Converter Cat. Reduction

Chairman's Message

Global Fertilizer Market

The global fertilizer market has seen some unprecedented volatility over the last few years. The sharp rise and fall in prices have been reflected in the unpredictability of prices in Nitrogen, Phosphate and Potash. The recent upturn and its possible recurrence in the future have 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 and Sulphur prices) jumped significantly. However, with other key drivers such as farm economies and the global food security programs, the demand for fertilizers is expected to remain firm.

Domestic Fertilizer Market of Nitrogen and Phosphate based Fertilizers

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

Punjab constitutes 70% of total fertilizer usage, followed by Sindh with 22% share in product off-take.

From a valuation standpoint, a difficult situation in Rabi post floods has passed without serious incidence. Potential upside to this scenario could be seen in terms of better fertilizer application going forward in 2011 to cater for soil erosion caused by flood, better water availability which could encourage higher wheat cultivation in other districts and limited demand deterioration for manufacturers.

Revamp and Expansion Project

Pakarab Fertilizers Limited plans to revamp and expand its existing fertilizer manufacturing capacity. In this respect, Pakarab Fertilizers 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.

Arif Habib
Chairman

Notice of Thirty Eighth Annual General Meeting

Notice is hereby given that the Thirty Eighth Annual General Meeting of the shareholders of PAKARAB FERTILIZERS LIMITED will be held on Thursday, March 31, 2011 at 12:00 noon at Royal Palm Golf and Country Club, 52-Canal Bank Road, Lahore, to transact the following business.

Ordinary Business

1. To confirm the minutes of the Annual General Meeting held on April 30, 2010.

2. To receive, consider and adopt the audited financial statements of the Company together with the Directors' and Auditors' Reports thereon for the year ended December 31, 2010.

3. To appoint Auditors for the year ending December 31, 2011 and to fix their remuneration. The Audit Committee and the Board of Directors have recommended for reappointment of M/s A. F. Ferguson & Co., Chartered Accountants as external auditors.

4. To declare final specie dividend for the year ended December 31, 2010 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 shareholders of the Company as specie dividend in the ratio of 5:10 (5 shares of FATIMA for every 10 shares held of Pakarab Fertilizers Limited), as recommended by the Board of Directors of the Company and also to confirm the 50% interim Specie dividend of August 27, 2010 for the financial year ended December 31, 2010.

Special Business

5. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

Resolved, that fractional shares to be allocated as a result of distribution of specie dividend in the form of quoted shares of Fatima, be treated as per Companies Ordinance, 1984.

Other Business:

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

By order of the Board

Ausaf Ali Qureshi
Company Secretary

Lahore: March 10, 2011.

Notes:

1. The share transfer books of the Company will remain closed from March 25, 2011 to March 31, 2011 (both days inclusive). Transfers received in order at the Registered Office of the Company by the close of business on March 24, 2011 will be treated in time.

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

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

4. Any Individual Beneficial Owner of CDC, entitled to vote at this Meeting, must bring his / her original NIC to prove identity, and in case of proxy, a copy of shareholder's attested computerised national identity card (CNIC) must be attached with the proxy form. Representatives of corporate members should bring the usual documents required for such purpose.

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

   A. For attending the Meeting:

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

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

   B. For appointing proxies:

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

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

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

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

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

5. Shareholders are requested to immediate notify the change of their address, if any.

Financial Highlights

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

		FY 2005	FY 2006	FY 2007	December 31, 2007 (Transitional)*	December 31, 2008	December 31, 2009 Restated	December 31, 2010
Income Statement								
Turnover	Rs.	5,954	7,069	9,102	5,164	18,887	16,706	18,248
Cost of Goods Sold	Rs.	(3,911)	(4,255)	(5,658)	(2,473)	(6,378)	(9,796)	(9,051)
Gross Profit	Rs.	2,043	2,814	3,444	2,691	12,509	6,910	9,197
Admin Cost	Rs.	(515)	(148)	(198)	(144)	(590)	(610)	(780)
Distribution Cost	Rs.	-	(97)	(250)	(178)	(583)	(898)	(994)
Financial Cost	Rs.	(8)	(1,088)	(1,093)	(660)	(2,296)	(3,160)	(3,590)
Other Expenses	Rs.	(130)	(673)	(315)	(121)	(1,019)	(244)	(386)
Re-measurement gain	Rs.	-	-	-	-	-	2,866	(121)
Interest Income	Rs.	21	125	79	21	37	146	543
Other Income	Rs.	13	17	35	21	34	196	866
Share gain/(loss) of associated company	Rs.	-	-	-	6	(57)	(25)	(39)
Profit before Tax	Rs.	1,424	950	1,702	1,636	8,035	5,182	4,696
Profit after Tax	Rs.	685	1,442	1,359	1,337	7,090	4,739	3,232
EBITDA	Rs.	1,604	2,617	3,208	2,543	10,815	8,342	8,943
Balance Sheet								
Paid up Capital	Rs.	743	743	743	3,000	3,000	4,500	4,500
Shareholder's Equity	Rs.	1,532	5,839	7,069	6,156	11,976	14,847	12,248
Long term borrowings	Rs.	-	7,920	7,040	10,905	13,805	16,191	13,372
Capital employed	Rs.	1,532	13,759	14,109	17,061	25,781	31,038	25,620
Deferred liabilities	Rs.	-	4,389	4,364	4,417	4,656	5,021	5,631
Property, plant and equipment	Rs.	339	13,808	14,305	16,784	20,279	21,285	21,916
Long term assets	Rs.	396	17,485	18,585	23,703	32,047	35,039	33,178
Net current assets / Working capital	Rs.	1,034	1,262	581	930	1,666	4,388	811
Total Assets	Rs.	3,573	23,225	25,167	30,645	45,523	52,126	50,637
Cash Flows								
Operating activities	Rs.	838	3,202	2,512	240	2,780	6,712	4,109
Investing activities	Rs.	(188)	11	(1,935)	(5,000)	(10,278)	(10,353)	(2,989)
Financing activities	Rs.	(594)	(2,952)	(218)	2,864	3,100	3,467	(316)
Changes in cash and cash equivalents	Rs.	655	261	359	(1,896)	(4,398)	(174)	804
Cash and cash equivalents - Year end	Rs.	413	789	1,147	(748)	(5,146)	(5,321)	(4,517)
Key Indicators								
Operating:								
Gross Profit Margin	%	34.31	39.81	37.84	52.11	66.23	41.36	50.40
Pre tax margin	%	23.92	13.44	18.70	31.68	42.54	31.02	25.73
Net profit margin	%	11.50	20.40	14.93	25.89	37.54	28.37	17.71
EBITDA %age to sale	%	26.94	37.02	35.25	49.24	57.26	49.93	49.01
Earning per share (Rs.) Basic	Rs.	9.22	19.40	18.29	4.46	23.63	10.53	7.18
Performance								
Book Value per share	Rs.	20.61	78.59	95.14	20.52	39.92	32.99	27.22
Return on assets	%	19.17	6.21	5.32	4.36	15.57	9.09	6.38
Total Assets Turnover	Times	1.67	0.30	0.36	0.17	0.41	0.32	0.36
Fixed Assets Turnover	Times	17.57	0.51	0.63	0.31	0.93	0.77	0.82
Debtors turnover	Times	6.89	9.00	21.34	4.85	19.18	11.80	11.13
Debtors turnover	Days	53	41	17	38	19	31	33
Inventory turnover	Times	3.29	2.76	3.30	1.21	1.43	1.80	1.82
Inventory turnover	Days	111	132	111	152	255	203	200
Return on Share Capital	%	92.21	194.08	183.04	44.57	236.33	105.31	71.82
Return on Equity	%	92.21	24.70	19.22	21.72	59.20	31.92	26.39
Leverage								
Long Term Debt : Equity		0:100	58:42	50:50	64:36	54:46	54:46	59:41
Interest cover		179.50	2.03	2.60	4.41	5.21	2.64	2.31
Liquidity								
Current Ratio		1.51	1.28	1.10	1.15	1.14	1.35	1.05
Quick ratio		0.91	0.88	0.85	0.70	0.62	0.98	0.73
Valuation								
Earnings per share(before tax)	Rs.	19.16	12.79	22.91	5.46	26.78	11.52	10.44
Earnings per share(after tax)	Rs.	9.22	19.41	18.30	4.46	23.63	10.53	7.18
Earnings Growth	%	(35.97)	110.50	(5.72)	(1.64)	430.29	(55.44)	(31.80)
Break-up value	Rs.	20.61	78.59	95.14	20.52	39.92	32.99	27.22
Cash dividend	%	80.17	-	-	-	-	-	-
Bonus dividend	%	-	2,562.10	-	303.73	50.00	-	-
Specie dividend	%	-	-	-	75.00	50.00	100.00	100.00

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

Horizontal Analysis Balance Sheet

	Rupees in Million						Variance in %				
	FY 2006	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	FY 2007 Vs. FY 2006	2007 (Trans.) Vs. FY 2007	2008 Vs 2007 (Trans.)	2009 Vs 2008	2010 Vs 2009
					Restated					Restated	
Issued, subscribed and paid up capital	743	743	3,000	3,000	4,500	4,500	-	303.77	-	50.00	-
Reserves	3,423	4,673	1,818	1,646	4,995	4,995	36.52	(61.09)	(9.49)	203.46	-
Share deposit money	-	-	-	240	200	200	-	-	-	(16.67)	-
Unappropriated profit	1,673	1,653	1,338	7,090	5,152	2,553	(1.20)	(19.07)	430.04	(27.33)	(50.45)
Revaluation reserve	-	-	2,476	2,476	2,476	2,476	-	-	-	-	-
	5,839	7,069	8,632	14,452	17,323	14,724	21.07	22.11	67.43	19.87	(15.00)
Non-current liabilities											
Long term finances	7,920	7,040	10,905	13,805	16,191	13,372	(11.11)	54.90	26.60	17.28	(17.41)
Liabilities against assets subject to finance lease	-	36	38	75	107	218	-	5.20	98.14	42.67	103.74
Payable against mining rights	-	-	-	-	52	-	-	-	-	-	(100.00)
Long term deposits	599	657	641	724	732	44	9.68	(2.35)	12.84	1.10	(93.99)
Deferred liabilities	10	15	23	42	46	57	50.00	52.27	83.61	8.95	24.57
Deferred taxation	4,379	4,349	4,394	4,614	4,975	5,574	(0.69)	1.03	5.01	7.82	12.04
	12,908	12,097	16,001	19,260	22,103	19,265	(6.28)	32.27	20.37	14.76	(12.84)
Current liabilities											
Current portion of long term liabilities	80	891	13	32	1,339	4,009	1,013.75	(98.53)	141.50	4,141.50	199.40
Finances under mark up arrangements - secured	26	11	935	5,231	5,556	4,702	(57.69)	8,401.25	459.43	6.20	(15.37)
Derivative financial instruments	-	-	-	52	-	-	-	-	-	-	-
Payable to Privatization Commission of Pakistan	2,293	2,198	2,198	2,198	2,198	2,198	(4.14)	-	-	-	-
Trade and other payables	1,105	2,339	1,940	3,045	2,491	4,458	111.67	(17.07)	56.97	(18.19)	78.96
Accrued finance cost	975	561	320	799	989	650	(42.46)	(42.90)	149.55	23.73	(34.28)
Provision for taxation	461	374	606	454	127	631	(18.87)	62.01	(25.10)	(72.01)	396.85
	4,940	6,374	6,012	11,811	12,700	16,648	29.03	(5.68)	96.45	7.53	31.09
	23,687	25,540	30,645	45,523	52,126	50,637	7.82	19.99	48.55	14.50	(2.86)

	Rupees in Million						Variance in %				
	FY 2006	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	FY 2007 Vs. FY 2006	2007 (Trans.) Vs. FY 2007	2008 Vs 2007 (Trans.)	2009 Vs 2008	2010 Vs 2009
					Restated					Restated	
Non-current assets											
Property, plant and equipment	13,809	14,305	16,784	20,279	21,285	21,916	3.59	17.33	20.82	4.96	2.96
Assets subject to finance lease	-	50	44	117	148	283	-	(12.04)	165.70	26.65	91.22
Intangibles	-	-	-	4	206	183	-	-	-	-	(11.17)
Goodwill	3,488	3,305	3,305	3,305	3,305	3,305	(5.25)	-	-	-	-
Investments - related party	-	744	3,562	8,334	7,882	2,930	-	378.79	133.95	(5.42)	(62.83)
Loan to subsidiary	-	-	-	-	2,196	4,516	-	-	-	-	105.65
Security deposits	188	182	8	8	17	45	(3.19)	(95.78)	5.52	109.67	164.71
	17,485	18,586	23,703	32,047	35,039	33,178	6.30	27.53	35.20	9.34	(5.31)
Current assets											
Stores and spare parts	966	1,033	1,277	1,777	1,880	2,310	6.94	23.58	39.21	5.80	22.87
Stock-in-trade	901	533	1,428	4,430	2,793	2,947	(40.84)	167.93	210.21	(36.95)	5.51
Trade debts	353	500	564	1,405	1,427	1,851	41.64	12.93	148.87	1.57	29.71
other receivables	3,167	3,477	3,486	5,779	6,814	3,583	9.79	0.26	65.79	17.91	(47.42)
Derivative	-	251	-	-	8	69	-	(100.00)	-	-	762.50
Investments	-	-	-	-	3,930	6,513	-	-	-	-	65.73
Cash and bank balances	815	1,160	187	85	235	186	42.33	(83.90)	(54.53)	176.47	(20.85)
	6,202	6,954	6,941	13,476	17,087	17,459	12.13	(0.18)	94.14	26.80	2.18
	23,687	25,540	30,645	45,523	52,126	50,637	7.82	19.99	48.55	14.50	(2.86)

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

Vertical Analysis Balance Sheet

	Rupees in Million					Variance in %				
	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010
Issued, subscribed and paid up capital	743	3,000	3,000	4,500	4,500	2.91	9.79	6.59	8.63	8.89
Reserves	4,673	1,818	1,646	4,995	4,995	18.30	5.93	3.62	9.58	9.86
Share deposit money	-	-	240	200	200	-	-	0.53	0.38	0.39
Unappropriated profit	1,653	1,338	7,091	5,152	2,553	6.47	4.37	15.58	9.88	5.04
Revaluation reserve	-	2,476	2,476	2,476	2,476	-	8.08	5.44	4.75	4.89
	7,069	8,632	14,452	17,323	14,724	27.68	28.17	31.75	33.23	29.08
Non-current liabilities										
Long term finances	7,040	10,905	13,805	16,191	13,372	27.56	35.58	30.33	31.06	26.41
Liabilities against assets subject to finance lease	36	38	75	107	218	0.14	0.12	0.16	0.21	0.43
Payable against mining rights	-	-	-	52	-	-	-	-	0.10	-
Long term deposits	657	642	724	732	44	2.57	2.09	1.59	1.40	0.09
Deferred liabilities	15	23	42	46	57	0.06	0.07	0.09	0.09	0.11
Deferred taxation	4,349	4,394	4,614	4,975	5,574	17.03	14.34	10.14	9.54	11.01
	12,097	16,001	19,260	22,103	19,265	47.36	52.21	42.31	42.40	38.05
Current liabilities										
Current portion of long term liabilities	891	13	32	1,339	4,009	3.49	0.04	0.07	2.57	7.92
Finances under mark up arrangements - secured	11	935	5,231	5,556	4,702	0.04	3.05	11.49	10.66	9.29
Derivative financial instruments	-	-	52	-	-	-	0.11	-	-	
Payable to Privatization Commission of Pakistan	2,198	2,198	2,198	2,198	2,198	8.61	7.17	4.83	4.22	4.34
Trade and other payables	2,339	1,940	3,045	2,491	4,458	9.16	6.33	6.69	4.78	8.80
Accrued finance cost	561	320	799	989	650	2.20	1.05	1.76	1.90	1.28
Provision for taxation	374	606	454	127	631	1.46	1.98	1.00	0.24	1.25
	6,374	6,012	11,811	12,700	16,648	24.96	19.62	25.94	24.36	32.88
	25,540	30,645	45,523	52,126	50,637	100.00	100.00	100.00	100.00	100.00

	Rupees in Million					Variance in %				
	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010
Non-current assets										
Property, plant and equipment	14,305	16,784	20,279	21,285	21,916	56.01	54.77	44.55	40.83	43.28
Assets subject to finance lease	50	44	117	148	283	0.20	0.14	0.26	0.28	0.56
Intangibles	-	-	4	206	183	-	-	0.01	0.40	0.36
Goodwill	3,305	3,305	3,305	3,305	3,305	12.94	10.79	7.26	6.34	6.53
Investments - related party	744	3,562	8,334	7,882	2,930	2.91	11.62	18.31	15.12	5.79
Loan to subsidiary	-	-	-	2,196	4,516	-	-	-	4.21	8.92
Security deposits	182	8	8	17	45	0.71	0.03	0.02	0.03	0.09
	18,586	23,703	32,047	35,039	33,178	72.77	77.35	70.40	67.22	65.52
Current assets										
Stores and spare parts	1,033	1,277	1,777	1,880	2,310	4.04	4.17	3.90	3.61	4.56
Stock-in-trade	533	1,428	4,430	2,793	2,947	2.09	4.66	9.73	5.36	5.82
Trade debts	500	565	1,405	1,427	1,851	1.96	1.84	3.09	2.74	3.66
Other receivables	3,477	3,486	5,779	6,814	3,583	13.61	11.38	12.70	13.07	7.08
Derivative financial instruments	-	-	-	8	69	-	-	-	0.02	0.14
Investments	251	-	-	3,930	6,513	0.98	-	-	7.54	12.86
Cash and bank balances	1,160	187	85	235	186	4.54	0.61	0.19	0.45	0.37
	6,954	6,942	13,477	17,087	17,459	27.23	22.65	29.60	32.78	34.48
	25,540	30,645	45,523	52,126	50,637	100.00	100.00	100.00	100.00	100.00

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

Horizontal Analysis Profit and Loss

	Rupees in Million					Variance in %				
	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010	FY 2007 Vs. FY 2006	2007 (Trans.) Vs. FY 2007	2008 Vs 2007 (Trans.)	2009 Vs 2008 Restated	2010 Vs 2009
Sales	9,102	10,233	18,887	16,706	18,248	28.76	12.43	84.57	(11.55)	9.23
Cost of Sales	(5,658)	(5,517)	(6,378)	(9,796)	(9,051)	32.97	(2.49)	15.61	53.59	(7.61)
Gross Profit	3,444	4,716	12,509	6,910	9,197	22.39	36.93	165.25	(44.76)	33.10
Administrative Expenses	(198)	(264)	(590)	(610)	(780)	33.78	33.33	123.48	3.39	27.87
Selling and Distribution Expenses	(250)	(363)	(583)	(898)	(994)	157.73	45.20	60.61	54.03	10.69
Other Operating Expenses	(315)	(377)	(1,019)	(244)	(387)	(53.19)	19.68	170.29	(76.05)	58.61
Other Operating Income	114	115	71	342	1,409	(19.72)	0.88	(38.26)	381.69	311.99
Operating Profit	2,795	3,827	10,388	5,501	8,445	37.14	36.92	171.44	(47.04)	53.52
Finance Cost	(1,093)	(1,247)	(2,296)	(3,160)	(3,590)	0.46	14.09	84.12	37.63	13.61
Share of profit /(loss) of associated co.	-	6	(57)	(25)	(39)	-	-	(1,050.00)	(55.78)	54.72
Re-measurement gain / (loss)	-	-	-	2,866	(121)	-	-	-	-	(104.22)
Profit before Taxation	1,702	2,586	8,035	5,182	4,696	79.16	51.94	210.71	(35.51)	(9.38)
Taxation	(342)	(365)	(945)	(444)	(1,464)	(169.51)	6.73	158.90	(53.02)	229.73
Profit after Taxation	1,360	2,221	7,090	4,739	3,232	(5.69)	63.31	219.23	(33.16)	(31.80)

Vertical Analysis Profit and Loss

	Rupees in Million					Variance in %				
	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010	FY 2007	2007 (Trans.)	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010
Sales	9,102	10,233	18,887	16,706	18,248	100.00	100.00	100.00	100.00	100.00
Cost of Sales	(5,658)	(5,517)	(6,378)	(9,796)	(9,051)	(62.16)	(53.91)	(33.77)	(58.64)	(49.60)
Gross Profit	3,444	4,716	12,509	6,910	9,197	37.84	46.09	66.23	41.36	50.40
Administrative Expenses	(198)	(264)	(590)	(610)	(780)	(2.18)	(2.58)	(3.12)	(3.65)	(4.27)
Selling and Distribution Expenses	(250)	(363)	(583)	(898)	(994)	(2.75)	(3.55)	(3.09)	(5.38)	(5.45)
Other Operating Expenses	(315)	(377)	(1,019)	(244)	(387)	(3.46)	(3.68)	(5.40)	(1.46)	(2.12)
Other Operating Income	114	115	71	342	1,409	1.25	1.12	0.38	2.05	7.72
Operating Profit	2,795	3,827	10,388	5,501	8,445	30.71	37.40	55.00	32.93	46.28
Finance Cost	(1,093)	(1,247)	(2,296)	(3,160)	(3,590)	(12.01)	(12.19)	(12.16)	(18.92)	(19.67)
Share of profit / (loss) of associated co.	-	6	(57)	(25)	(39)	-	0.06	(0.30)	(0.15)	(0.21)
Re-measurement gain / (loss)	-	-	-	2,866	(121)	-	-	-	17.16	(0.66)
Profit before Taxation	1,702	2,586	8,035	5,182	4,696	18.70	25.27	42.54	31.02	25.73
Taxation	(342)	(365)	(945)	(444)	(1,464)	(3.76)	(3.57)	(5.00)	(2.66)	(8.02)
Profit after Taxation	1,360	2,221	7,090	4,739	3,232	14.94	21.70	37.54	28.37	17.71

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

Entity Ratings by JCR-VIS

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

Rs. 5.0 billion TFCs : Rating AA (Long Term)
Rs. 6.5 billion PPTFCs : AA (Long Term)

Definitions:

AA-
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.

Directors' Report to the Members

On behalf of the Board of Directors of Pakarab Fertilizers Limited, I am pleased to present the Annual Report of your Company and the audited financial statements for the year ended December 31, 2010 together with auditors' report thereon and a brief overview of operational and financial performance of the Company.

Fertilizer Marketing Review

International Scenario

The fertilizer business began to show signs of recovery in 2010. Following the global down turn in the markets, particularly in Europe, the forecast for the fertilizer sector was pessimistic. However with continued improvement in crop commodity prices in the wake of calamities in some parts of the world the demand for fertilizer has steadily improved in 2010. With China's participation in global sales steadily on the decline and its continued internal growth in demand the global availability of fertilizer is and will continue to be affected.

Domestic Market

Agriculture

Major crops during the year saw record high prices and gains for the farming community. This was particularly evident for cotton and sugarcane, where as for wheat, rice and maize the prices remained fairly attractive. However the devastating floods on the back of unprecedented monsoons wreaked havoc in the agricultural belts in the north and south of the country. This cast a pall of gloom on the

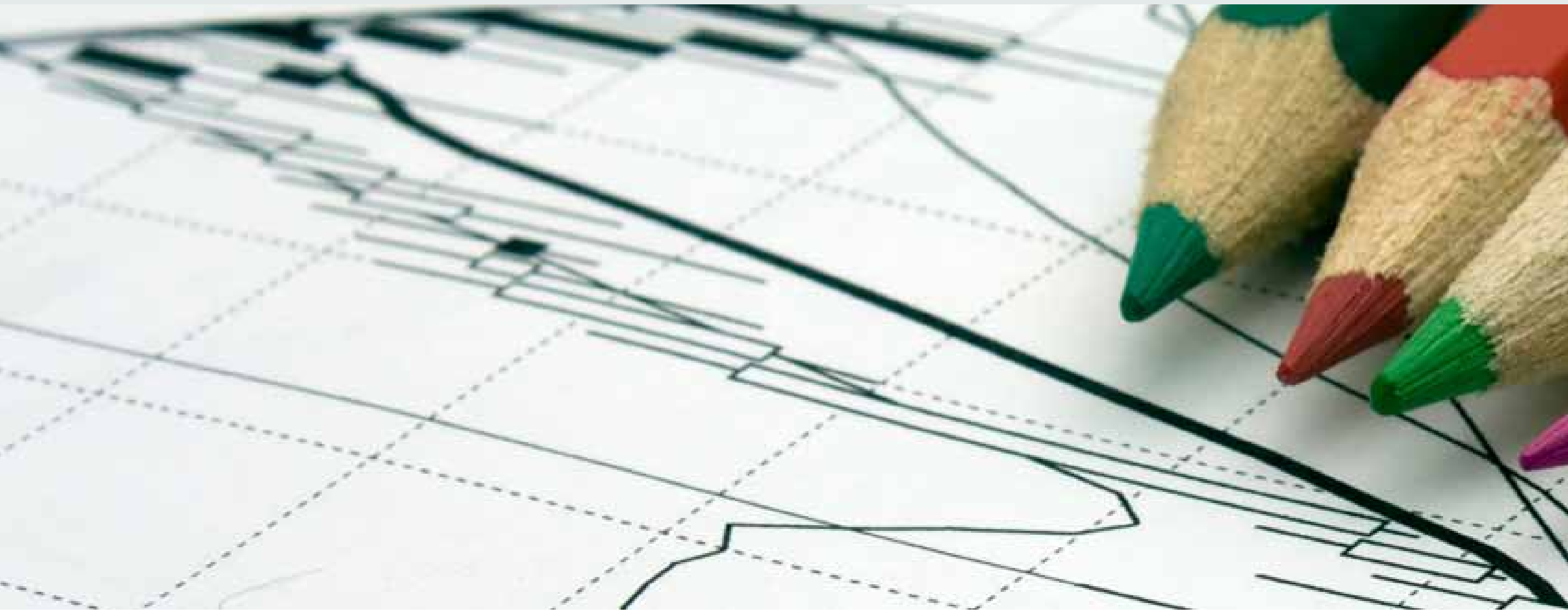
agriculture sector and on the economy of the country as a whole. However, despite the general consensus on the negative impact of the floods, cotton prices and sugarcane prices continued to rise, both locally and internationally. With the aftermath of the floods sowing in the affected areas for wheat commenced ahead of time whereas in southern parts it was delayed as growers continued to get excellent prices for cotton. The improved financial position of the farming community could improve investment by farmers in soil nutrients like fertilizer.

Fertilizer Industry

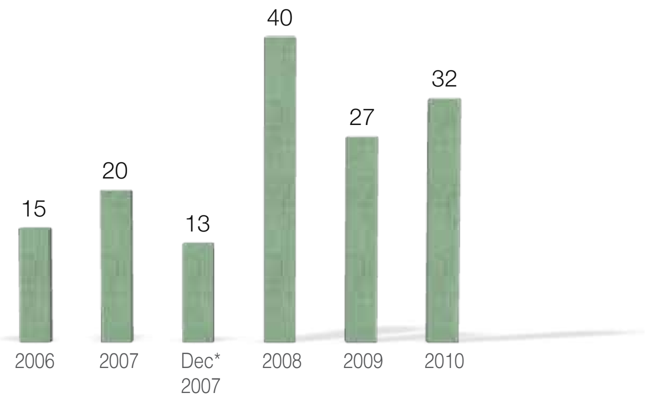
The year began fairly normally but by the end of the first quarter the specter of the gas shortage was fast becoming a reality. In April, Government requested the Industry to buckle up for curtailment for a quarter to generate electricity. The industry advised the Government on the shortages that would occur. Consequently the Government went ahead with a significant import of 600,000 tons of Urea for Kharif. With widespread rains the mammoth floods soon followed and fertilizer demand plummeted by over 30% in the season. With the combined impact of heavy imports and low off take the industry piled up an inventory of 800,000 tons of Urea at the close of September, a significant high in recent history. During the same period DAP inventory also ballooned to over 420,000 tons representing a drop of 45% versus 2009. Sales bounced back for both the categories in the last quarter. A number of reasons beyond the yearend rally. Early sowing of wheat, continued good returns on cotton and sugarcane, strengthening of the international DAP prices and most significantly the possibility of the imposition of RGST on fertilizers spurred buying. As a consequence, the Urea market decline, was restricted to only 6% compared to the previous year and DAP volumes registered a 25% shortfall against 2009. Local production grew primarily on account of the additional volume injected by the start up of Fatima's production. Thus the total industry sales for urea ended the year at 6,092,000 tons with the Government's volume reduced by 460,000 tons i.e., to 1 million tons.

Sales of Urea at 74 thousand tons were 31% behind last year mainly on account of gas curtailment and shortages during the year. NP sales were 18% behind the volume sold in 2009. This shortfall was on account of practically no opening inventory in 2010 whereas at the beginning of 2009 the business had almost 100 thousand tons of stock. CAN sales grew by 20% over 2009 on the back of strong demand in the first half of the year. Overall the sales were 5% behind last year.

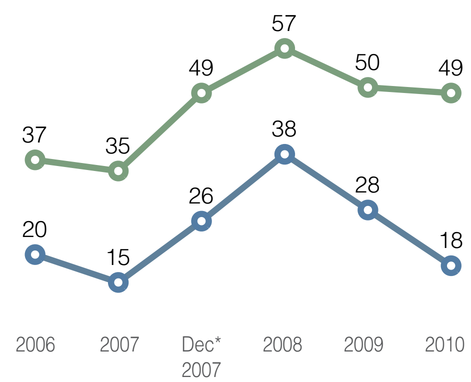
Directors' Report to the Members



Return on Capital Employed
(in percentage)



Net Profit & EBITDA Margin
(in percentage)



** Six months period.*

Financial Performance Review

Rupees in million

	December 31, 2010	December 31, 2009 Restated
Sales	18,248	16,706
Gross Profit	9,197	6,910
Other Operating Income	1,409	342
Operating Profit	8,445	5,500
Finance Cost	(3,590)	(3,160)
Re-measurement of financial assets at fair value	(121)	2,866
Profit after tax	3,232	4,739

Appropriations during the year were as follows:

Rupees in million

	General Reserve	Un-appropriated profit
Balance as at December 31, 2009	4,995	5,152
Total comprehensive income for the year	-	3,232
Final specie dividend for the year 2009	-	(2,920)
Interim specie dividend for the year 2010	-	(2,911)
Balance as at December 31, 2010	4,995	2,553

The year 2010 was a difficult year for the industry as a whole because fertilizer industry was severely hit by gas curtailment/ stoppage during summer season and then flood had its devastating effect on off take of Kharif season. Stocks piled up and budgeted revenues could not be achieved, which was reflected during the quarterly accounts for the nine months ended September 2010.

Besides confronting with this devastating natural calamity and gas curtailment / stoppage due to wave of summer heat, your Company managed to recover during the last quarter of the financial year and closed the financial year with growth in terms of revenue, gross profit and operating profit over the last year. Operating profit of the Company for the current year is higher as compared to last year. The increase in profit is mainly attributable to higher fertilizer prices compared to last year and other income. Net profit after tax for the year is lower as compared to last year due to recognition of loss on re-measurement of financial assets at fair value through profit and loss account. Moreover, higher financial charges also added to the reduction in net profits due to increase in KIBOR rates.

Post Balance Sheet Event

The Board of Directors of the Company has recommended final specie dividend for the year ended December 31, 2010 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 shareholders of the Company in the ratio of 5:10 (5 shares of FATIMA for every 10 shares held of Pakarab Fertilizers Limited), in their meeting held on February 24, 2011.

Earnings Per Share

Based on the net profit for the year endded December 31, 2010, the earnings per share (EPS) stand at Rs. 7.18 per share.

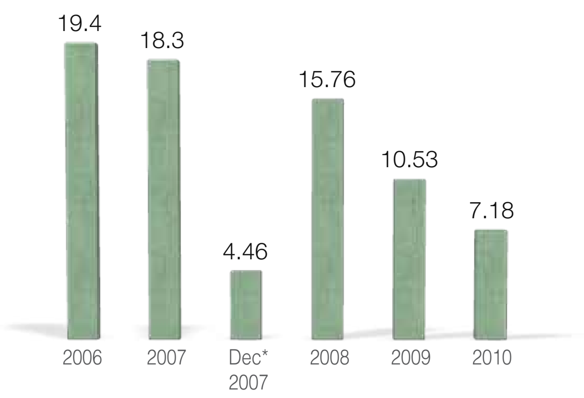
Contribution to the National Exchequer and Economy

The Company's contribution to the National Exchequer by way of taxes, levies, excise duty and sales tax amounted to Rs. 1,344 million in the year 2010 as against Rs. 1,034 million in the year 2009.

Credit Rating

JCR-VIS, a renowned rating agency approved by both SECP and SBP, has conducted the rating of Pakarab Fertilizers Limited. The PPTFC of PKR 6.5 billion and TFC of PKR 5 billion are rated AA by the agency. Furthermore keeping in view the strong performance of Pakarab Fertilizers Limited, JCR-VIS reaffirmed the entity rating of the company at 'AA-/A-1' (Double A Minus/ A-One). The outlook on the rating is 'stable' showing a consistent strong performance expected in future.

Earnings per Share
(in Rupees)



** Six months period.*

Directors' Report to the Members

Operational Review

Pakarab Fertilizers Limited (PFL) is the only fertilizer Company in Pakistan which is producing three different types of fertilizers i.e. NP, CAN and Urea fulfilling all the needs of a healthy crop.

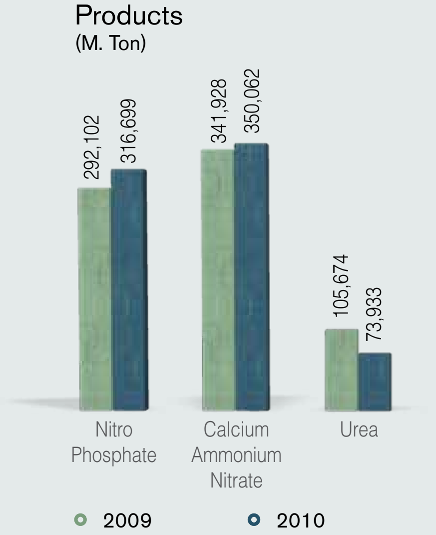
PFL products, NP and CAN do not enhance pH of soil because NP is acidic in nature which reduces pH towards neutral of alkaline soils while CAN is already neutral in nature. These two fertilizers are known to combat bad effects of application of Urea fertilizer on soil fertility.

We have an edge over other fertilizer manufactures as our products Nitro-Phosphate (NP) is a dual nutrient fertilizer containing Nitrogen and Phosphorus and Calcium Ammonium Nitrate (CAN) contains Ammonical Nitrogen and Nitrate Nitrogen which serves both immediate and delayed needs of Nitrogen by the crops.

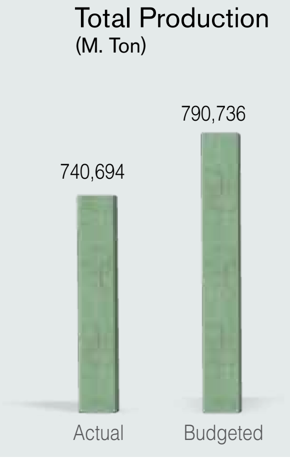
Moreover, both of these fertilizers suit to all types of soils in all the four provinces of Pakistan under different weather and water availability conditions, especially, CAN absorbs moisture from the air and keeps Nitrogen available for the crops even in water scarcity conditions.

The fertilizers production during the year 2010 as compared to last year is shown in the table.

Product	Jan 09 - Dec 09 M.Tons	Jan 10 - Dec 10 M.Tons	Variance M.Tons
Nitro Phosphate	292,102	316,699	24,597
Calcium Ammonium Nitrate	341,928	350,062	8,134
Urea	105,674	73,933	(31,741)
Total	739,704	740,694	990



The chart depicts the increase in production of the two fertilizers in 2010.



NP production has increased 8.42% in 2010 compared to 2009.

Similarly, CAN production has also increased 2.38% compared to 2009.

Urea production remained lower than Plan mainly due to 31 days outage taken to replace the leaking tube sheet of High Pressure Stripper.

Although production in 2010 was higher than 2009 yet production targets were not achieved and was short by 50,042 tons mainly due to frequent shutdowns and plant load reductions because of natural gas limitation by SNGPL.

Smooth plant operations were achieved through out the year by focusing and implementing preventive maintenance plans and plant reliability measures.

Plant Reliability and Improvements

Pakarab Fertilizers continued its efforts to become the leading fertilizer complex in Pakistan during 2010. For effective and reliable operation of plants, a number of critical jobs were identified and attended in the annual turn around. Excluding the plant outage due to gas shortages, capacity factor of Ammonia Plant increased from 0.94 in 2009 to 0.98 in 2010. In addition to normal maintenance jobs, a number of plant reliability improvement projects were also implemented.

Directors' Report to the Members

New Ammonia Storage Tank

A double wall, double integrity ammonia storage tank with additional piping, equipment and a flare system has been in place to replace the old tank.

New Catalyst Basket for Ammonia Converter

Catalyst baskets of both the Ammonia Converters were installed in 1993. Its catalyst charge had completed its useful life period; moreover minor catalyst slip was being noted from the basket of one converter, which was affecting the plant operation. Now both the Converters Baskets are replaced with TOPSOE S-200 design along with new catalyst charge. The new baskets are designed for the Ammonia revamp thruputs of 1400 Tons per day. This replacement will provide operational reliability.

Replacement of Urea Stripper Tube Sheet

In 2010, a leakage was found on the tube sheet of Stripper at Urea plant. Since the shell of Stripper is not designed to withstand high pressure streams and posing a safety hazard. The tube sheet was replaced in July 2010 under the supervision of foreign VSMs. This is a unique repair of its kind carried out in Pakistan.

Installation of IS Limiter

The installation of the IS limiter on our newly installed 3 Gas turbines of the Co-gen plant enabled us to run all three machines in synchronized mode. It has enhanced the operational reliability of our power generation system and ultimately improved the plant service factor.

Nitric Acid Bleacher Tower

Thirty years old Bleacher Tower of Nitric Acid line A and B had outlived its useful life. This has been replaced to enhance reliability of plant operations.

New Projects

Ammonia Revamp and Expansion Project

Detail working on Ammonia Plant Revamp Project was done. Feasibility study and basic engineering agreement was signed with M. W. Kellogg, UK for Ammonia Plant Revamp. Ammonia production capacity would increase by 138,600 MT per year from its current production of 316,800 MT per year after its implementation.

Corporate Social Responsibility

Establishment of Pakarab Workers Welfare Board

An agreement has been signed between Governing Body of Worker Welfare Fund, Ministry of Labor and Manpower and Pakarab Fertilizers Limited for the construction of Mukhtar A. Sheikh Memorial Welfare Hospital a Kidney and Psychiatric treatment facility and other allied services at Multan.

Under the agreement, Pakarab Workers Welfare Board is being established as a Public-Private partnership between Worker Welfare Fund (WWF) and Pakarab Fertilizers Limited for the efficient management and administration of the money to be allocated for the Project. For the establishment of the hospital 50% will be contributed by the WWF and the remaining 50% will be contributed by Pakarab Fertilizers Limited. The total project cost of Rs. 2 billion does not include the land cost. The land for the project is being provided by Pakarab Fertilizers Limited. Once completed, it will be a self sustaining hospital.

Mukhtar A. Sheikh Memorial Welfare Hospital once completed will provide free Kidney and Psychiatric treatment to all workers registered with EOBI or ESSI.

This is the first Worker Welfare Board of its kind and only the fifth after the four Provincial Worker Welfare Funds.

Establishment of Industrial Home

An industrial home has been established for the welfare of surrounding communities and wives / daughters of PFL staff employees to impart training in sewing, knitting and embroidery.

Flood Relief

Your Company actively participated in flood relief efforts towards mitigating the sufferings of our affected people by dispatching rations, tents and medicines on behalf of Fatima Group to Sanawan area of Kot Addu District. The employees of Pakarab Fertilizers Limited have also donated separately in this activity.

Directors' Report to the Members

Commitment to Health Safety and Environment

Environment

Environmental concerns are given high priorities and remedial actions are taken promptly. Water Conservation, waste water treatment, air pollutants, global warming and hazardous waste disposal are the key concerns of modern era.

We are an ISO-14001:2004 certified Company since 2008 which also advocates our efforts in developing robust Environmental Management System. In recent turn around a number of maintenance jobs were performed to reduce impacts of gaseous emission, liquid effluents and solid waste.

We are striving for continuous betterment of our Environment portfolio through better process control, R & D work and improving the waste treatment systems.

Following steps illustrate the commitment of our management for environment.

CDM Cogen Plant

In 2010, CDM was approved for Cogen and generation of monitoring reports started for verification of Carbon Credits. Total 54,583 number of CERs were generated during the year 2010.

Process Optimizations

The dosage of Calcium Nitrate for Fluoride removal was optimized which has reduced 20 % total dissolved solids in plant effluent as compared to 2009.

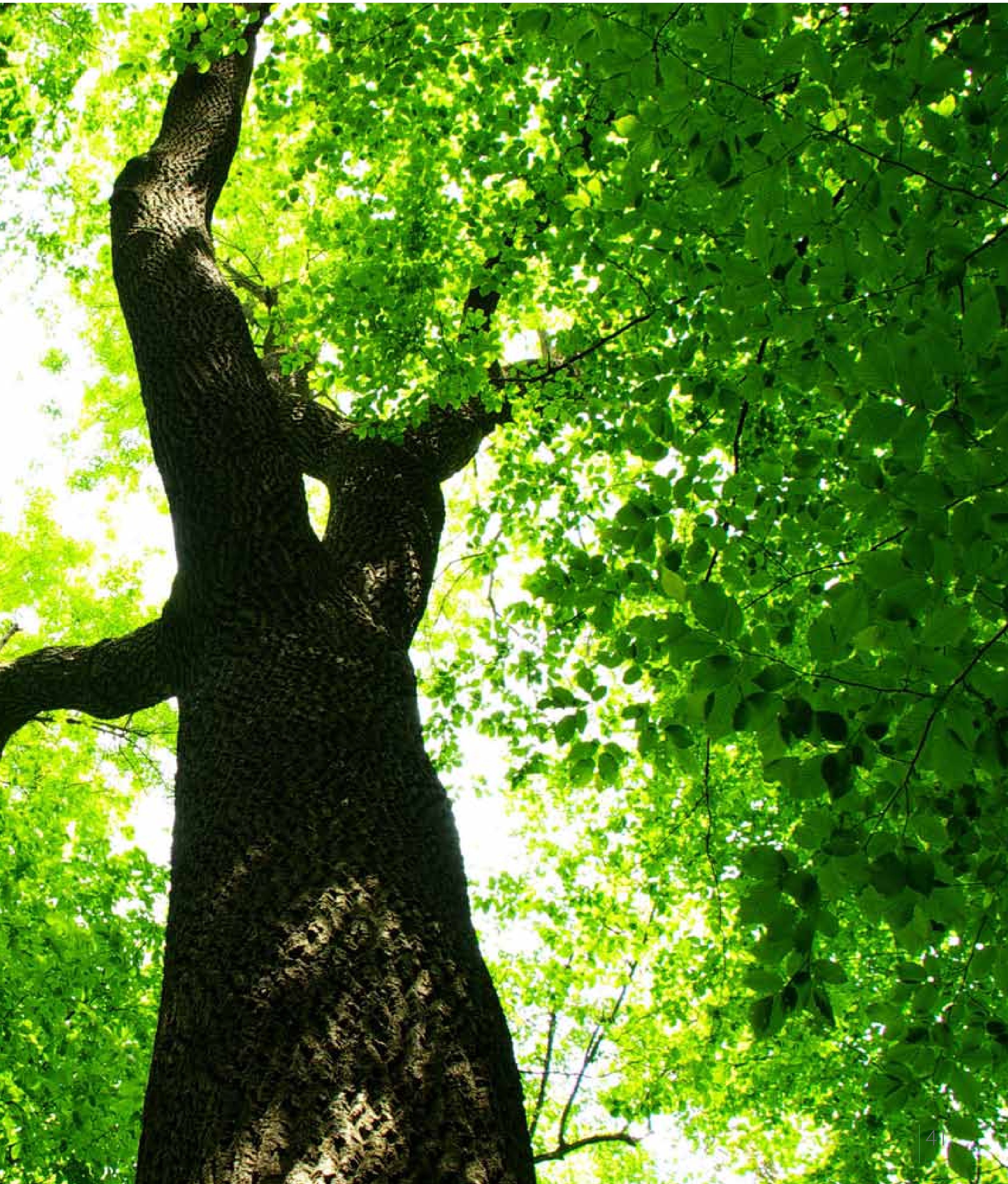
Celebrations on Environmental Days

To raise awareness among PFL employees and their families, Earth Day and World Environment Days were celebrated and tree plantation was done on these occasions.

Safety Management

PFL management maintained its focus towards development of safety system and alignment with Dupont Process Safety and Risk Management (PSRM) Standard.

Management of Change Protocol remained a top priority and a lot of improvement was brought about in this regard. An initiative was taken for improving the review protocol through introduction of checklist system. The review process in Sub-Safe Operations



Directors' Report to the Members

Committees for Process and Mechanical were improved by use of these checklists covering all aspects of safe operations of the facility.

Safety training system was enhanced by use of DVDs on Dupont guidelines for PSRM. A full day training session on Root Cause Analysis was conducted by Director Operations to develop RCA skills in management employees of PFL. Other trainings on PSM elements were also conducted by Safety Unit.

Loss Time Injury
Emergency Response Procedure was revised to incorporate some of the important elements of an emergency response plan. These factors were included keeping in view the OSHA guidelines.

Work Permit procedure was revised and extensive training of staff was conducted to implement this system properly. Another important step to improve this system was the development of Work Permit Issuers and Receivers Procedure. According to this new system all work permit issuers and receivers have to go through a rigorous process to qualify as an authority for Issue or Receive Permit to Work (PTW). On qualifying for work permit, they are issued a card of two years validity.

Human Resource Management

Human resource function at Pakarab Fertilizers Limited has played its professional role of business partnering. There has been emphasis and effort to enable employees to excel in their careers and contribute towards the achievement of corporate goals and objectives. HR, during the year took many initiatives, including:

- Development of a professional HR team
- Recruitment of industry best professionals across all functions
- Bench marking with industry to align with external equity
- Job evaluation on Hay's System
- Training and development for all employees
- Career progression within and across different functions
- Organization development
- Development of corporate goals and objectives
- Development of individual goals and objectives and its transparent performance measurement
- Development of corporate communication function
- Participation in corporate social responsibility related actions.

Information Technology Review

The main focus this year was on upgrading the current Oracle ERP system to the next release (version R12). This will help improve reporting and decision making.

Pakarab has witnessed a growth in the use of IT services and in 2011 we will be looking to enhance our Enterprise Data Network to cater for current and future growth. Other areas of focus will be cost reduction through consolidation of all resources from all locations to a central data centre. This will allow centralized monitoring of all critical applications through a single site and team. We will also introduce standardization of all IT assets. Standardization will enable us to create a common platform easing purchase, upgrades, repair of hardware and ensure a more stable and secure environment through a common application infrastructure.

Pakarab will continue to implement the remaining ERP modules with the end result of a complete fully integrated ERP covering all areas of Manufacturing, Inventory, Procurement, Finance and HR.

Corporate Governance

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

a) 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;

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

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

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

Directors' Report to the Members

e) 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;

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

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

Board and Audit Committee Meetings and Attendance

During the year under review, four meetings of the Board of Directors and four meetings of the Audit Committee were held from January 01, 2010 to December 31, 2010. The attendance of the Board and Audit Committee members was as follows:

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

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

Mandatory Certification of the Directors

In adherence to the Code of Corporate Governance, the Board of Directors of the Company has nominated Mr. Muhammad Kashif Habib for getting mandatory certification of Pakistan Institute of Corporate Governance (PICG) in compliance with clause (xiv) of the Code of Corporate Governance and Mr. Muhammad Kashif Habib has successfully completed part 1 of the Corporate Governance Leadership Skills Program of PICG.

Pattern of Shareholding

The detailed pattern of the shareholding and categories of shareholders of the Company as at December 31, 2010, as required under the Listing Regulations, have been appended to the Annual Report on page 110.

Trading in Shares of the Company by Directors and Executives

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

Financial Highlights

Key operating and financial data of last six years has been summarized on page 24.

Statement as to the value of investments of Provident and Gratuity Funds

The funded retirement benefits of the employees of the Company are audited at regular intervals and are adequately covered by appropriate investments. The value of the investments of the two provident funds and gratuity fund aggregated to Rs. 121 Million. 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. 45.50 Million as at December 31, 2010.

Audit Committee

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

Human Resource and Remuneration Committee

The Board has constituted a Human Resource and Remuneration Committee to ensure a human resources strategy aligned to the overall corporate strategy and a remuneration policy that will create value for the shareholders. The committee composition and its terms of reference have also been attached with this report.

Corporate Compliance

The Company Secretary has furnished a Secretarial Compliance Certificate as part of the annual return filed with the registrar of Companies to certify that the secretarial and corporate requirements of the Companies Ordinance, 1984, Memorandum

and Articles of Association of the Company and the listing regulations have been duly complied with.

Ethics and Business Practices

As per the Corporate Governance guidelines, the Company has issued a "Statement of Ethics and Business Practices" for compliance and has also posted the same on the website of the Company.

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 38th Annual General Meeting, as auditors of the Company for the year ending December 31, 2011.

Outlook and Challenges

Pakarab looks forward to a bright future and reasonable growth in the emerging enviornment. There is an ever increasing demand of fertilizers in the domestic market especially considering the fact that Pakarab offers a one window operation for its brands.

Acknowledgements

The Directors wish to place on record their appreciation for the devotion and commitment of every employee of the Company. The Directors also sincerely appreciate assistance, guidance and cooperation that Pakarab Fertilizers Limited received from all stakeholder including the Government of Pakistan, financial institutions, commercial banks, business associates, customers and all others whose continued support has been a source of strength to the Company.

For and on behalf of Board

Karachi
February 24, 2011

Fawad Ahmed Mukhtar
Chief Executive Officer

Statement of Compliance
with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of 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.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancies occurred in the Board during the year 2010.
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 and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged one orientation course for its directors during the year 2010 to apprise them of their duties and responsibilities. Further, the Board has arranged for certification offered by the Pakistan Institute of Corporate Governance for Mr. Muhammad Kashif Habib, director of the Company.
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 four members, three of whom 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 with employees who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. 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 the Board of Directors. These transactions are duly reviewed and approved by the Audit Committee and the Board of Directors.
22. We confirm that all other material principles contained in the Code have been complied with.

Fawad Ahmed Mukhtar
Chief Executive Officer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Financial Statements of

Pakarab Fertilizers Limited

for the year ended December 31, 2010

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, 2010.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: February 24, 2011

Engagement Partner: Muhammad Masood

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakarab Fertilizers Limited ('the company') as at December 31, 2010 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 and 4.1 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, 2010 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: February 24, 2011

Engagement Partner: Muhammad Masood

Balance Sheet
as at December 31, 2010

	Note	2010	2009 Restated
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorised share capital			
1,000,000,000 (2009: 1,000,000,000)			
Ordinary shares of Rs 10 each		10,000,000	10,000,000
Issued, subscribed and paid up share capital			
450,000,000 (2009: 450,000,000)			
Ordinary shares of Rs 10 each	5	4,500,000	4,500,000
Reserves	6	4,995,352	4,995,352
Share deposit money	7	200,000	200,000
Unappropriated profit		2,553,104	5,152,449
		12,248,456	14,847,801
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	8	2,475,847	2,475,847
NON-CURRENT LIABILITIES			
Long term finances - secured	9	13,371,890	16,190,740
Liabilities against assets subject to finance lease	10	217,379	106,720
Payable against mining rights	11	-	52,500
Long term deposits	12	44,031	732,241
Deferred liabilities	13	57,366	45,760
Deferred taxation	14	5,574,152	4,975,084
		19,264,818	22,103,045
CURRENT LIABILITIES			
Current portion of long term liabilities	15	4,008,533	1,338,502
Short term borrowings - secured	16	4,702,528	5,555,693
Payable to Privatization Commission of Pakistan	17	2,197,901	2,197,901
Trade and other payables	18	4,458,237	2,491,206
Accrued finance cost	19	650,151	989,422
Provision for taxation		630,936	127,043
		16,648,286	12,699,767
CONTINGENCIES AND COMMITMENTS	20		
		50,637,407	52,126,460

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Executive

	Note	2010	2009 Restated
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	21	21,916,392	21,285,201
Assets subject to finance lease	22	282,714	147,524
Intangibles	23	183,347	205,693
Goodwill	24	3,305,163	3,305,163
Investments	25	2,930,231	7,881,744
Long term loans - unsecured	26	4,515,565	2,196,320
Security deposits		45,018	17,546
		33,178,430	35,039,191
CURRENT ASSETS			
Stores and spare parts	27	2,309,564	1,880,195
Stock-in-trade	28	2,946,995	2,793,255
Trade debts	29	1,850,695	1,427,054
Advances, deposits, prepayments and other receivables	30	3,582,964	6,813,895
Derivative financial instruments	31	69,958	7,882
Investments	32	6,513,126	3,930,000
Cash and bank balances	33	185,675	234,988
		17,458,977	17,087,269
		50,637,407	52,126,460

Director

Profit and Loss Account
for the year ended December 31, 2010

	Note	2010	2009 Restated
		(Rupees in thousand)	
Sales	34	18,247,829	16,705,556
Cost of sales	35	(9,050,836)	(9,795,619)
Gross profit		9,196,993	6,909,937
Administrative expenses	36	(780,046)	(610,153)
Selling and distribution expenses	37	(993,556)	(897,737)
Other operating expenses	38	(386,735)	(243,919)
Other operating income	39	1,408,607	342,400
Profit from operations		8,445,263	5,500,528
Finance cost	40	(3,589,819)	(3,159,504)
(Loss)/gain on re-measurement of financial assets at fair value through profit or loss		(120,720)	2,866,388
Share of loss of associate	25.2	(39,002)	(25,207)
Profit before taxation		4,695,722	5,182,205
Taxation	41	(1,463,760)	(443,659)
Profit after taxation		3,231,962	4,738,546
Earnings per share in Rupees	42	7.18	10.53

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

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Executive

Director

Statement of Comprehensive Income

for the year ended December 31, 2010

	Note	2010	2009 Restated
		(Rupees in thousand)	
Profit after taxation		3,231,962	4,738,546
Other comprehensive income			
Hedging reserve transferred to cost of plant and machinery in capital work-in-progress on expiry of foreign currency options - net of tax		–	9,545
Total comprehensive income for the year		3,231,962	4,748,091

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Executive **Director**

Statement of Changes in Equity

for the year ended December 31, 2010

	Share capital	Share premium	Hedging reserve	General reserve	Share deposit money	Unappropriated profit	Total
				(Rupees in thousand)			
Balance as on January 01, 2009 as previously reported	3,000,000	1,048,652	(9,545)	606,700	240,000	7,090,638	11,976,445
Effect of change in accounting policy as referred to in note 4.1	–	–	–	–	–	413,265	413,265
Balance as on January 01, 2009 – restated	3,000,000	1,048,652	(9,545)	606,700	240,000	7,503,903	12,389,710
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	–	–	–	(2,250,000)	–	–	(2,250,000)
Total comprehensive income for the year – restated - refer note 4.1	–	–	9,545	–	–	4,738,546	4,748,091
Balance as on December 31, 2009 – restated	4,500,000	–	–	4,995,352	200,000	5,152,449	14,847,801
Specie dividend (note 25.2)	–	–	–	–	–	(5,831,307)	(5,831,307)
Total comprehensive income for the year	–	–	–	–	–	3,231,962	3,231,962
Balance as on December 31, 2010	4,500,000	–	–	4,995,352	200,000	2,553,104	12,248,456

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Executive

Director

Cash Flow Statement
for the year ended December 31, 2010

	Note	2010	2009 Restated
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	43	8,454,216	10,118,399
Finance cost paid		(3,929,090)	(2,983,608)
Taxes paid		(379,235)	(403,835)
Retirement benefits paid		(36,713)	(27,816)
Long term deposits received		–	8,318
Net cash inflow from operating activities		4,109,178	6,711,458
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,193,641)	(1,521,256)
Security deposits		(27,472)	(9,438)
Sale proceeds of property, plant and equipment disposed		22,255	2,718
Investments purchased		(20,000)	(6,635,883)
Proceeds from sale of investment		150,000	–
Long term loans to related party		(2,319,245)	(2,196,320)
Interest received from associated company		386,602	–
Profit on bank deposits received		12,593	7,715
Net cash outflow from investing activities		(2,988,908)	(10,352,464)
Cash flows from financing activities			
Repayment of redeemable capital		(297,000)	(2,000)
Proceeds from long term loans		1,066,201	1,524,198
Repayment of long term loans		(943,270)	–
Proceeds from syndicated term finance		–	2,037,500
Payment of liability against mining rights		(52,500)	–
Share deposit money refunded		–	(40,000)
Repayment of finance lease liability		(89,849)	(52,899)
Net cash (outflow)/inflow from financing activities		(316,418)	3,466,799
Net increase/(decrease) in cash and cash equivalents		803,852	(174,207)
Cash and cash equivalents at the beginning of the year		(5,320,705)	(5,146,498)
Cash and cash equivalents at the end of the year	44	(4,516,853)	(5,320,705)

The annexed notes 1 to 52 form an integral part of these financial statements.

Chief Executive **Director**

Notes to and forming part of the Financial Statements
for the year ended December 31, 2010

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. The company's Term Finance Certificates are listed at the Karachi Stock Exchange (Guarantee) Limited (KSE). It is principally engaged in the manufacturing and sale of chemical fertilizers and generation and sale of Certified Emission Reductions (CERs). The address of the registered office of the company is E-110, Khayaban-e-Jinnah, Lahore Cantt. The manufacturing facility of the company is located in Multan.

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 (amendment), 'Presentation of Financial Statements'. The amendment is part of the IASB's 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 application of this amendment has no material impact on the company's financial statements.

- IAS 7 (amendment), 'Statement of Cash Flows' is effective from January 1, 2010. The amendment provides clarification that only expenditure that results in a recognised asset in the balance sheet can be classified as a cash flow from investing activity. The clarification results in an improvement in the alignment of the classification of cash flows from investing activities in the cash flow statement and the presentation of recognised assets in the balance sheet. The application of the amendment does not affect the results or net assets of the company as it is only concerned with presentation and disclosures.

- IAS 17 (amendment), 'Leases' is effective from January 1, 2010. Prior to the amendment, IAS 17 generally required a lease of land with an indefinite useful life to be classified as an operating lease, unless title passed at the end of the lease term. The amendment provides clarification that when a lease includes both land and buildings, classification as a finance or operating lease is performed separately in accordance with IAS 17's general principles. A lease newly classified as a finance lease should be recognised retrospectively. Its adoption does not have any significant impact on the company's financial statements.

- IAS 27 (revised), 'Consolidated and Separate Financial Statements', 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 application of this revised standard has resulted in an increase of Rs 2.4 billion in the carrying value of investment in associated company now accounted for under the equity method as referred to in note 4.9.2, and a corresponding increase in shareholders' equity as at December 31, 2010.

- IAS 36 (amendment), 'Impairment of Assets', is effective from January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The application of the amendment does not have any material impact on the company's financial statements.

- IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009. 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 application of this amendment has no material 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 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 application of this amendment has no material impact on the company's financial statements.

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions' is effective from January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. Its adoption does not have any significant impact on the company's financial statements.

- IFRS 3 (revised), 'Business Combinations' is effective from July 1, 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 application of this revised standard has no 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 requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The application of this amendment has no material impact on the company's financial statements.

- IFRIC 17, 'Distribution of non-cash assets to owners' is effective from July 1, 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. The amendment requires 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 is 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, is recognised in profit or loss. The application of this interpretation has no 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.

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

- 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 does not have a material impact on the company's financial statements.

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, 2011 or later periods, but the company has not early adopted them:

- IFRS 9, 'Financial Instruments', issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the company's accounting for its financial assets. The standard is not applicable until January 1, 2013 but is available for early adoption. IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The company has not yet decided when to adopt IFRS 9.
- Revised IAS 24, 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24, 'Related Party Disclosures', issued in 2003. The revised IAS 24 is required to be applied from January 1, 2011. Earlier application, in whole or in part, is permitted.
- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after February 1, 2010. Earlier application is permitted.
- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after July 1, 2010. Earlier application is permitted.
- Improvements to International Financial Reporting Standards 2010, issued in May 2010.

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 4.3.

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.

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, except for the change in accounting policy as explained in note 4.1.

4.1 Change in accounting policy

During the year, the company has changed its accounting policy for revenue recognition of Certified Emission Reductions (CERs). As per the new policy, revenue is recognized on the generation of the Emission Reductions, when a firm commitment for sale of CERs exists with a buyer. Previously, such revenue was recognized 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 existed with a buyer. The accounting policy has been revised as in management's view, the previous policy did not properly depict the revenue accruing to the company on a timely basis since the certification and issuance of the Emission Reductions by the CDM Executive Board of the UNFCCC took a considerable period of time due to which the revenue of Emission Reductions generated during a certain period was recognised in later periods. Also, as per the terms of the sale agreements with the buyers, the Emission Reductions which the company has generated are deemed to be sold and the company's primary obligation to the contract is the generation of the Emission Reductions. Furthermore, based on past experience, the units of Emission Reductions generated by the company according to the company's monitoring system are substantially the same that are certified and issued by the CDM Executive Board of the UNFCCC. Hence, in management's view, the new policy provides reliable and more relevant information because it results in a more transparent treatment of revenue.

The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment specified in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors."

Effect on 2009	Rupees in thousand
Increase in sales	154,975
(Increase) in cost of sales	(12,952)
(Increase) in administrative expenses	(3,821)
(Increase) in selling and distribution expenses	(133,727)
(Increase) in other operating expenses	(6,191)
Increase in other operating income	53,565

Decrease in finance cost	31,682
Decrease in taxation	12,137
Increase in profit after taxation	95,668
Effect on periods prior to 2009	
Increase in profit after taxation	413,265
Increase in retained earnings at December 31, 2009	508,933

Had there been no change in the accounting policy, the amount of retained earnings would have been lower by Rs 682.116 million, net current assets would have been lower by Rs 721.028 million as at December 31, 2010 and sales would have been lower by Rs 328.648 million for the year ended December 31, 2010.

4.2 Taxation

Current

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

Deferred

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

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

4.3 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, 2010. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

- Discount rate 13% per annum
- Expected rate of increase in salary level 12% per annum
- Expected rate of return 13% 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 of salary for the executives and 10 percent of salary for the 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.

4.4 Property, plant and equipment

4.4.1 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 4.18.

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 21.1 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, 2010 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 4.6).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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.

4.4.2 Capital work-in-progress

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

4.5 Intangible assets

4.5.1 Computer software

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

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

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

4.5.2 Mining rights

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

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

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

4.6 Impairment of non-financial assets

Assets that have an indefinite useful life, for example 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.

4.7 Leases

The company is the lessee.

4.7.1 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 22. 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.

4.7.2 Operating leases

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

4.8 Goodwill

Goodwill represents the excess of the cost of 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.

4.9 Investments

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

4.9.1 Investment in equity instruments of subsidiary company

Investment in equity instruments of subsidiary company, upon initial recognition 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.

4.9.2 Investment in equity instruments of associated company

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

4.10 Financial instruments

4.10.1 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 account 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.

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 4.13.

4.10.2 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.

4.10.3 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.

4.11 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.

4.12 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.

4.13 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.

4.14 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.

4.15 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.

4.16 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.

4.17 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.

4.18 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 swaps is recognised in the profit and loss account.

4.19 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.

4.20 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.

4.21 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 generation of the Emission Reductions when a firm commitment for sale of CERs exists with a buyer.

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

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

4.22 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.

4.24 Segment reporting

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

5. Issued, subscribed and paid up capital

2010	2009		2010	2009 Restated
(Number of shares)			(Rupees in thousand)	
2,791,260	2,791,260	Ordinary shares of Rs 10 each fully paid in cash	27,913	27,913
447,208,740	447,208,740	Ordinary shares of Rs 10 each issued as fully paid bonus shares	4,472,087	4,472,087
450,000,000	450,000,000		4,500,000	4,500,000

The reconciliation of ordinary shares is as follows:

	2010	2009 Restated
	(Rupees in thousand)	
Opening balance	450,000,000	300,000,000
Add: Shares issued during the year	–	150,000,000
Closing balance	450,000,000	450,000,000
Ordinary shares of the company held by associated undertakings as at year end are as follows:		
Reliance Commodities (Private) Limited	7,136,613	7,136,613
Fatima Sugar Mills Limited	71,250,558	71,250,558
Fazal Cloth Mills Limited	25,790,610	25,790,610
Arif Habib Securities Limited	135,000,000	135,000,000
	239,177,781	239,177,781

6. Reserves

Movement in and composition of reserves is as follows:

	2010	2009 Restated
Capital		
– Share premium		
At the beginning of the year	–	1,048,652
Less: Issue of bonus shares	–	1,048,652
	–	–
– Hedging reserve		
At the beginning of the year	–	(9,545)
Transferred to capital work–in–progress	–	9,545
	–	–
	–	–
Revenue		
– General reserve		
At the beginning of the year	4,995,352	606,700
Transfer from profit and loss account	–	7,090,000
	4,995,352	7,696,700
Less:		
Issue of bonus shares	–	451,348
Specie dividend	–	2,250,000
	–	2,701,348
	4,995,352	4,995,352
	4,995,352	4,995,352

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 the outstanding balance during the year at the rates ranging from 13.60% to 15.11% 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 valuer, 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.

		2010	2009 Restated
		(Rupees in thousand)	
9. Long term finances – secured			
Redeemable capital	– note 9.1	8,575,000	11,200,000
Long term loans	– note 9.2	2,759,390	2,953,240
Syndicated term finance	– note 9.3	2,037,500	2,037,500
		13,371,890	16,190,740
9.1 Redeemable capital			
This is composed of:			
Listed Term Finance Certificates	– note 9.1.1	4,700,000	4,997,000
Privately Placed Term Finance Certificates	– note 9.1.2	6,500,000	6,500,000
		11,200,000	11,497,000
Less: Current portion shown under current liabilities	– note 15	2,625,000	297,000
		8,575,000	11,200,000
9.1.1 Listed Term Finance Certificates			
Opening balance		4,997,000	4,999,000
Redeemed during the year		(297,000)	(2,000)
		4,700,000	4,997,000
Less: Current portion shown under current liabilities		1,000,000	297,000
		3,700,000	4,700,000

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 on the outstanding balance ranges from 13.93% to 14.37% 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 (2009: 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.

			2010	2009 Restated
			(Rupees in thousand)	
9.1.2	**Privately Placed Term Finance Certificates (PPTFCs)**			
	Opening balance		6,500,000	–
	Issued during the year		–	6,500,000
			6,500,000	6,500,000
	Less: Current portion shown under current liabilities	– note 15	1,625,000	–
			4,875,000	6,500,000

On December 15, 2009, the company converted the bridge finance of Rs 6,500 million from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) to Term Finance Certificates by way of private placement. HBL and NBP have subscribed to PPTFCs of Rs 2,000 million and Rs 4,500 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 on the outstanding balance at the rate of six months KIBOR plus 2.5% per annum. The effective mark up rate charged during the year on the outstanding balance ranges from 14.85% to 16.10% 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 (2009: Rs 0.75 million) per annum.

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

Security

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

		2010	2009 Restated
		(Rupees in thousand)	
9.2 Long term loans			
These have been obtained from the following financial institutions:			
Standard Chartered Bank (Pakistan) Limited – Loan 1	– note 9.2.1	–	457,500
Habib Bank Limited – Loan 1	– note 9.2.2	810,000	972,000
Habib Bank Limited – Loan 2	– note 9.2.3	155,116	152,963
Dubai Islamic Bank Limited	– note 9.2.4	612,499	699,999
MCB Bank Limited	– note 9.2.5	1,377,778	1,550,000
Standard Chartered Bank (Pakistan) Limited – Loan 2	– note 9.2.6	1,000,000	–
		3,955,393	3,832,462
Less: Current portion shown under current liabilities	– note 15	1,196,003	879,222
		2,759,390	2,953,240

9.2.1 The purpose of this term finance facility was to finance the purchase of a Cessna aircraft for the company. During the year, this loan has been converted into a short term running finance. Mark up was payable semi–annually at the rate of six months KIBOR plus 0.50% per annum. The effective mark up rate charged during the year on the outstanding balance ranges from 12.93% to 13.17% per annum. The facility was 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.

9.2.2 The purpose of this term finance facility was to finance the purchase of heat recovery steam generators for the power plant of the company. It is repayable in five semi–annual installments of Rs 162 million each ending on May 21, 2013. Mark up is payable quarterly at the rate of six months KIBOR plus 1% per annum on Rs 750 million, while on the remaining Rs 60 million, markup is payable at the rate of six month KIBOR plus 3% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 13.22% to 16.20% per annum. It is secured by a registered first pari passu charge on present and future fixed assets of the company excluding the aircraft.

9.2.3 This represents a term loan facility for financing the purchase of ammonia storage tank. It is repayable in four semi–annual installments of Rs 38.779 million each, ending on August 7, 2012. Mark up is payable quarterly at the rate of three months KIBOR plus 3% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 15.23% to 16.37% per annum. It is secured by a registered 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.

9.2.4 This represents Shirkat El Melk facility for financing the carbon dioxide recovery/ liquefaction plant. It is repayable in seven quarterly installments of Rs 87.5 million each, ending on September 17, 2012. Markup is payable quarterly at the rate of six months KIBOR plus 2% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 14.44% to 14.90% 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.

9.2.5 This represents a term loan facility and is repayable in eight semi annual installments of Rs 172.222 million each, ending on October 23, 2014. Markup is payable semi–annually at the rate of six months KIBOR plus 0.65% per annum on Rs 1,066.667 million, while on the remaining of Rs 311.111 million, it is payable at the rate of six months KIBOR plus 3% per annum. The effective mark up rate charged during the year on the outstanding balance of Rs 1,066.667 million ranges from 12.99% to 13.86% per annum, while on the outstanding balance of Rs 311.111 million, the effective markup rate charged during the year ranges from 15.34% to 16.21% 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.

9.2.6 This represents a term loan facility of Rs 1,000 million on musharika basis for capital expenditure. The tenure of the loan is four years and it is repayable after a grace period of eighteen months in ten quarterly installments of Rs 100 million each commencing December 13, 2011. Mark up is payable quarterly at the rate of six months KIBOR plus 2.35% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 14.78% to 15.24% per annum. The loan is secured by a registered charge over fixed assets comprising the Clean Development Mechanism (CDM). Of the aggregate facility of Rs 1,000 million (2009: Nil), the amount availed as at December 31, 2010 is Rs 1,000 million (2009: Nil).

	2010	2009 Restated
	(Rupees in thousand)	
9.3 Syndicated term finance		
This has been obtained from a consortium of the following financial institutions:		
National Bank of Pakistan	399,500	399,500
Habib Bank Limited	405,500	405,500
United Bank Limited	357,143	357,143
Allied Bank Limited	800,000	800,000
Faysal Bank Limited	75,357	75,357
	2,037,500	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, an associated 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 on the outstanding balance ranges from 14.93% to 15.36%. 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, 2010 is Rs 2,037.5 million (2009: Rs 2,037.5 million).

10. Liabilities against assets subject to finance lease

		2010	2009 Restated
		(Rupees in thousand)	
Present value of minimum lease payments		299,909	164,000
Less: Current portion shown under current liabilities	– note 15	82,530	57,280
		217,379	106,720

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 12.01% to 16.03%. 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 2010	Present value of lease liability 2009 Restated
	(Rupees in thousand)			
Not later than one year	115,937	33,407	82,530	57,280
Later than one year and not later than five years	251,517	34,138	217,379	106,720
	367,454	67,545	299,909	164,000

10.1 These include finance leases of Rs 31.794 million (2009: Rs 58.307 million) obtained from an associated company, Summit Bank Limited (formerly Arif Habib Bank Limited).

11. Payable against mining rights

This represents interest free amount payable to Director General, Mines and Minerals, Government of Khyber Pakhtunkhwa ('GOKP') in respect of mining rights acquired for extraction of rock phosphate from a block of area in District Abbottabad for a ten years period ending on August 11, 2019. The outstanding balance of Rs 105 million was payable in two semi annual installments of Rs 52.5 million each on August 11, 2010 and February 11, 2011, which have been rescheduled to February 28, 2011 and August 28, 2011, respectively. In case, the company fails to pay the installments on the rescheduled dates, the mining rights would be cancelled by the GOKP. The movement of the balance is as follows:

		2010	2009 Restated
		(Rupees in thousand)	
Opening balance		157,500	–
Liability against mining rights acquired		–	210,000
		157,500	210,000
Less: Payments made during the year		52,500	52,500
		105,000	157,500
Less: Current portion shown under current liabilities	– note 15	105,000	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.

		2010	2009 Restated
		(Rupees in thousand)	
13. Deferred liabilities			
Accumulating compensated absences	– note 13.1	42,664	29,233
Retirement benefits – gratuity fund	– note 13.2	14,702	16,527
		57,366	45,760
13.1 Accumulating compensated absences			
Opening balance		29,233	31,186
Provision for the year		15,292	1,093
		44,525	32,279
Less: Payments made during the year		1,861	3,046
Closing balance		42,664	29,233

	2010	2009 Restated
	(Rupees in thousand)	
13.2 Gratuity fund		
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	53,709	38,481
Fair value of plan assets	(45,505)	(29,959)
Unrecognised actuarial gains	6,498	8,005
Liability as at year end	14,702	16,527
Opening net liability	16,527	10,752
Charge to profit and loss account	14,702	16,527
Contribution by the company	(16,527)	(10,752)
Liability as at year end	14,702	16,527
The movement in the present value of defined benefit obligation is as follows:		
Opening present value of defined benefit obligation	38,481	32,357
Service cost	14,057	12,641
Interest cost	4,618	4,853
Benefits due but not paid to out–going members during the year	(150)	(192)
Benefits paid to out–going members during the year	(4,521)	(5,101)
Past service cost of contracted employees	–	2,149
Experience loss/(gain)	1,224	(8,226)
Present value of defined benefit obligation as at year end	53,709	38,481
The movement in fair value of plan assets is as follows:		
Opening fair value	29,959	20,783
Expected return on plan assets	3,595	3,117
Company contributions	16,527	10,751
Benefits due but not paid to out–going members during the year	(150)	(192)
Benefits paid to out–going members during the year	(4,521)	(5,101)
Experience gain	95	601
Fair value as at year end	45,505	29,959
Plan assets are comprised as follows:		
Mixed funds	29,284	28,512
Cash	16,371	1,639
Payable to outgoing members	(150)	(192)
	45,505	29,959

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, 2010	December 31, 2009	December 31, 2008	December 31, 2007	June 30, 2007
			(Rupees in thousand)		
Present value of defined benefit obligation	53,709	38,481	32,356	17,960	13,567
Fair value of plan assets	45,505	29,959	20,783	4,807	4,854
Loss	(8,204)	(8,522)	(11,573)	(13,153)	(8,713)
Experience adjustment on obligation	2%	–21%	5%	3%	–7%
Experience adjustment on plan assets	0%	2%	3%	10%	0%

		2010	2009 Restated
		(Rupees in thousand)	
14. Deferred taxation			
The liability for deferred taxation comprises temporary differences relating to:			
Accelerated tax depreciation		5,308,553	5,065,112
Accumulating compensated absences		(14,932)	(10,232)
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		12,182	9,300
Interest receivable		84,520	–
Accrued preference dividend		190,978	–
Minimum tax available for carry forward		–	(81,947)
		5,574,152	4,975,084
15. Current portion of long term liabilities			
Long term finances – secured :			
- Redeemable capital	- note 9.1	2,625,000	297,000
- Long term loans	- note 9.2	1,196,003	879,222
Liabilities against assets subject to finance lease	- note 10	82,530	57,280
Payable against mining rights	- note 11	105,000	105,000
		4,008,533	1,338,502
16. Short term borrowings - secured			
Running finances	- note 16.1	3,877,528	5,136,486
Term finances	- note 16.2	825,000	419,207
		4,702,528	5,555,693

16.1 Short term running finance facilities available from a consortium of commercial banks under mark-up arrangements amount to Rs 6,342 million (2009: Rs 6,920 million). The rates of mark-up range from Rs 0.364 to Rs 0.463 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 28 and registered hypothecation charge on property, plant and equipment and current assets of the company. Included in the above are running finances of Rs 1,651.729 million (2009: Rs 1,130.780 million) from an associated undertaking, Summit Bank Limited (formerly Arif Habib Bank Limited).

16.2 Term finance facilities available from various commercial banks under mark-up arrangements amount to Rs 825 million (2009: Rs 425 million). The rates of mark-up range from Rs 0.363 to Rs 0.414 per Rs 1,000 per diem on the outstanding balance or part thereof. The aggregate term finances are secured against pledge of stock-in-trade as referred to in note 28 and first parri passu charge over all current assets of the company.

Of the aggregate facility of Rs 5,000 million (2009: Rs 7,170 million) for opening letters of credit and Rs 100 million (2009: Rs 50 million) for guarantees, the amount utilised at December 31, 2010 was Rs 1,311.61 million (2009: Rs 1,205.690 million) and Rs 8.846 million (2009: Rs 7.655 million) respectively. The aggregate facilities for opening letters of credit and guarantees are secured by ranking charge on current assets of the company.

17. 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.

		2010	2009 Restated
		(Rupees in thousand)	
18. Trade and other payables			
Trade creditors	- note 18.1	2,198,291	925,504
Sui gas bill payable		239,601	264,260
Security deposits		25,125	19,676
Accrued liabilities	– note 18.2	453,137	425,612
Due to directors		–	1,252
Workers' profit participation fund	– note 18.3	613,236	445,134
Workers' welfare fund	– note 18.4	180,248	186,389
Customers' balances		708,660	206,693
Due to associated company	– note 18.5	22,584	–
Due to employees' provident fund trust		4,040	3,544
Withholding tax payable		8,699	11,523
Electricity duty payable		4,050	1,305
Excise duty payable		566	314
		4,458,237	2,491,206

18.1 Trade creditors include amounts of Rs 293.129 million (2009: Nil) and Rs 1.250 million (2009: Nil) payable to associated companies, Fatima Fertilizer Company Limited and Reliance Weaving Mills Limited respectively. These relate to normal business of the company and are interest free.

18.2 Includes an amount of Rs 4.710 million (2009: Nil) due to an associated company, Fatima Fertilizer Company Limited. This relates to normal business of the company and is interest free.

			2010	2009 Restated
			(Rupees in thousand)	
18.3	**Workers' profit participation fund**			
	Opening balance		445,134	334,646
	Provision for the year	- note 38	260,594	128,805
	Interest for the year	- note 40	33,692	30,946
			739,420	494,397
	Less: Payments made during the year		126,184	49,263
	Closing balance		613,236	445,134

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

			2010	2009 Restated
			(Rupees in thousand)	
18.4	**Workers' welfare fund**			
	Opening balance		186,389	181,948
	Provision for the year	- note 38	95,831	106,274
			282,220	288,222
	Less: Payments made during the year		101,972	101,833
	Closing balance		180,248	186,389

18.5 This amount is payable to Fatima Fertilizer Company Limited. It relates to normal business of the company and is interest free.

		2010	2009 Restated
		(Rupees in thousand)	
19.	**Accrued finance cost**		
	Accrued mark-up on:		
	- redeemable capital - secured	279,938	283,007
	- bridge finances - secured	-	284,283
	- long term loans - secured	88,689	104,095
	- syndicated term finance - secured	108,610	113,061
	- short term borrowings - secured	172,914	204,976
		650,151	989,422

20. Contingencies and commitments

20.1 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 8.846 million (2009: Rs 7.655 million).

- Fatima Fertilizer Company Limited, an associated company (formerly subsidiary) and Habib Bank Limited (the Security Trustee) in respect of the company's obligations for equity contributions in the associated company under the terms of the Sponsor Support Agreement dated March 6, 2009 between the company, the associated company and its sponsors and lenders.

(iii) Indemnity bonds aggregating Rs 167.170 million (2009: Rs 123.500 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 to Rs 4.320 million (2009: Nil).

(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) The Deputy Commissioner Inland Revenue ('DCIR'), through an order passed under sections 122 and 182 of the Income Tax Ordinance, 2001 ('Ordinance'), raised a demand of Rs 451.418 million, including penalty of Rs 169.196 million, for tax year 2006 by disallowing certain expenses and adding into income amount representing 'service charges'. The company has preferred an appeal before The Commissioner Inland Revenue (Appeals) ['CIR(A)'] against the order of the DCIR, which is pending adjudication. While, an amount of Rs 174.958 million has been recognised in these financial statements as an expense against the subject demand, since the company's management considers that there exists meritorious grounds to defend the company's stance in respect of issues underlying the remaining amount of demand, no provision in respect thereof has been made in these financial statements.

(viii) DCIR, through a separate order passed under section 122 of the Ordinance for tax year 2007, raised a demand of Rs 257.188 million on the grounds that entire expenses claimed by the company as deduction against the taxable income were also allocable to 'subsidy' received from the Federal Government. The company's appeal against such order has not been entertained by CIR(A) and consequently, company has further agitated the matter before the Appellate Tribunal Inland Revenue ('ATIR'). While, the matter is to be heard shortly by ATIR and is as such pending, in view of the fact that company's management expects complete relief from ATIR on the issue, no provision on this account has been made in these financial statements.

(ix) Assistant Commissioner Inland Revenue ('ACIR'), through an order dated February 21, 2009, raised a demand of Rs 256.142 million including additional tax of Rs 31.142 million on the grounds that the company had not deducted withholding tax on distribution of Rs 2,250 million as 'specie dividends'. While the matter has been decided in company's favour and assessment order has been vacated by ATIR, departmental officials have assailed the finding of ATIR through a reference filed before Lahore High Court, which is pending adjudication. Since, company's management is confident that findings given by ATIR will not be interfered into by appellate courts, no provision in respect of such demand has been made in these financial statements.

(x) ACIR, through an order dated March 25, 2009 passed under sections 221 and 205 of the Ordinance, held that adjustments made by the company out of determined refunds for previous assessment years against the tax liabilities of tax years 2006 and 2007 were not legal and legitimate. Default surcharge of Rs 89.462 million was also held to be payable by the company for claiming illegitimate adjustments. Such position taken by department has been held to be illegal by ATIR and it has been directed to allow the adjustments claimed by the company. The matter has, however, been further pursued by department by way of filing a reference application before Lahore High Court, which is pending adjudication. Since the company's management considers that under the relevant statutory provisions, adjustments cannot be denied to the company and relief accorded by ATIR will be endorsed by appellate courts, no provision in this respect has been made in these financial statements.

(xi) Included in sales of mid products is an amount of Rs 23.873 million which has not been acknowledged as debts by its customers due to a dispute regarding the discount on the product's price. The company's customers had collectively filed an appeal regarding the price dispute before the Civil Court, Multan, which decided the case in favour of the company's customers. The company preferred an appeal before the District and Sessions Court, Multan which set aside the order of the Civil Court. The company's customers filed a revised petition before the Lahore High Court against the order of the District and Sessions Court, which is pending for adjudication. Based on the advice of the company's legal counsel, the company's management considers that there are meritorious grounds to defend the company's stance and hence, such amount of sales and trade debts have not been reversed.

(xii) Claims against the company not acknowledged as debts Rs 23.051 million (2009: Rs 23.051 million)

20.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 416.697 million (2009: Rs 549.251 million).

(ii) Letters of credit other than for capital expenditure Rs 894.892 million (2009: Rs 511.345 million).

(iii) Purchase orders aggregating Rs 3.940 million (2009: Rs 7.801 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:

	2010	2009 Restated
	(Rupees in thousand)	
Not later than one year	35,538	25,175
Later than one year and not later than five years	63,898	62,718
	99,436	87,893

21. Property, plant and equipment

		2010	2009
Operating fixed assets	- note 21.1	21,712,407	20,585,253
Capital work-in-progress	- note 21.2	203,985	699,948
		21,916,392	21,285,201

21.1 Operating fixed assets

(Rupees in thousand)

	Freehold land	Building on freehold land	Railway siding	Plant and machinery	Aircraft	Furniture and fixtures	Tools and other equipment	Vehicles	Catalyst	Total
COST										
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
Balance as at January 01, 2010	3,387,787	2,290,124	30,673	18,900,837	505,796	8,271	444,241	180,067	35,936	25,783,732
Additions during the year	-	22,050	-	1,514,584	-	57,869	64,411	30,034	9,611	1,698,559
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	40,466	-	40,466
Disposals during the year	-	-	-	-	-	-	-	(57,439)	-	(57,439)
Balance as at December 31, 2010	3,387,787	2,312,174	30,673	20,415,421	505,796	66,140	508,652	193,128	45,547	27,465,318
DEPRECIATION										
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)
Balance 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
Balance as at January 01, 2010	-	719,474	16,651	3,895,686	185,347	4,256	222,471	119,232	35,362	5,198,479
Charge for the year	-	76,360	2,532	329,863	100,887	4,013	26,525	25,046	3,244	568,470
Transfers in from assets subject to finance lease	-	-	-	-	-	-	-	25,754	-	25,754
Charge on disposals	-	-	-	-	-	-	-	(39,792)	-	(39,792)
Balance as at December 31, 2010	-	795,834	19,183	4,225,549	286,234	8,269	248,996	130,240	38,606	5,752,911
Book value 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
Book value as at December 31, 2010	3,387,787	1,516,340	11,490	16,189,872	219,562	57,871	259,656	62,888	6,941	21,712,407
Annual depreciation rate %	-	4	10	4	20	10	4-25	20	50-67	

21.1.1 The carrying amount of freehold land as at December 31, 2010 would have been Rs 911.94 million (2009: Rs 911.94 million) had there been no revaluation.

21.1.2 Included in additions to plant and machinery are finance costs of Rs 23.394 million (2009: Rs 42.164 million)

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

		2010	2009 Restated
		(Rupees in thousand)	
21.1.4 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 35	413,294	368,092
Administrative expenses	- note 36	151,063	141,698
Selling and distribution expenses	- note 37	4,113	5,082
		568,470	514,872

21.1.5 Disposal of operating fixed assets

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2010 (Rupees in thousand)				
Vechicles	**Ex-employees**					
	Abdul Majid Tariq	1,261	883	378	325	As per company policy
	Hafiz Ahmed Javed	845	141	704	730	- do -
	Maria Rehman	520	252	268	438	- do -
	Abdul Karim Noon	713	356	357	409	- do -
	Syed Salman Arshad	604	484	120	121	- do -
	Nadeem Tariq	1,174	1,174	-	235	- do -
	Amman Ullah Niazi	905	754	151	176	- do -
	Employees					
	Inam-Ullah Zafar	868	550	318	218	As per company policy
	Muhammad Jamil	963	385	578	368	- do -
	M. Nadeem Lasi	1,047	401	646	620	- do -
	Ishtiaq Ahmad	914	411	503	726	- do -
	Sultan A. Khokar	832	139	693	795	- do -
	Rana Muhammad Akram	913	730	183	176	- do -
	Abdul Rauf	913	730	183	176	- do -
	Tariq Faiz	913	730	183	176	- do -
	Muhammad Moazzam	910	728	182	176	- do -
	Muhammad Tahir Sherazi	910	728	182	176	- do -
	Athar Mumtaz Sheikh	913	730	183	176	- do -
	Muhammad Siddique	911	728	183	176	- do -
	Ijaz Ahmad Ghauri	610	488	122	119	- do -
	Arif Maqsood	616	493	123	119	- do -
	Abdul Jabbar Ch.	616	492	124	119	- do -
	Mehmood Shah	617	494	123	119	- do -
	Shafiq Ahmed Maitla	616	492	124	119	- do -
	Javed Ghafoor Lodhi	616	492	124	119	- do -
	Abdul Majeed Zia	1,538	1,153	385	194	- do -
	Tariq Qasim Khan	913	730	183	176	- do -
	Afzal Hussain	617	493	124	119	- do -
	Ghulam Hussain	610	488	122	119	- do -
	M.Tariq Javed	1,367	1,025	342	196	- do -

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2010 (Rupees in thousand)				
	Mazhar Ishaq	610	468	142	119	- do -
	M. Asif Arain	638	340	298	728	- do -
	M. Saleem Zafar	1,355	1,107	248	244	- do -
	Mohsin Raza Haider Hashmi	590	501	89	118	- do -
	Muhammad Arshad Ashraf	599	489	110	120	- do -
	Muhammad Iqbal Awan	605	423	182	180	- do -
	Saeed Hassan Shah	789	671	118	158	- do -
	Mumtaz Ali Nasir	789	671	118	158	- do -
	Tayyab Amin	789	671	118	158	- do -
	Rao Khalil Asghar	590	501	89	118	- do -
	Mansoor Ahmed	590	501	89	118	- do -
	Farhan Ghouri	599	490	109	120	- do -
	Iftikhar Ahmed Khokhar	601	601	-	120	- do -
	Ghulam Rasool	783	783	-	158	- do -
	Farrukh Nadim Abid	879	835	44	176	- do -
	Naseerullah Khan	879	835	44	176	- do -
	Dr. Maqbool Akhtar	901	811	90	193	- do -
	Ex - employees of associated company					
	M. Nasir Butt	1,261	1,009	252	252	As per company policy
	M. Nasir Butt	1,794	598	1,196	1,196	- do -
	Brig. (R) Abid Abaidullah	1,380	920	460	529	- do -
	Employees of associated company					
	Mahmood Ali	913	624	289	322	As per company policy
	Shoaib Shah	913	624	289	322	- do -
	Abdul Ghani	649	281	368	376	- do -
	Azhar Chughtai	913	684	229	264	- do -
	Faysal Ghafoor	878	410	468	775	- do -
	Naveed Ahmed	931	419	512	854	- do -
	Nasir Masood Bhatti	913	730	183	176	- do -
	Mian Asad Waheed	913	730	183	176	- do -
	Shabbir Ahmad Dar	913	730	183	176	- do -
	Khuram Masood Akhtar	713	356	357	860	- do -
	Abrar Rafique	644	344	300	736	- do -
	Lt. Col. (R) Zahid Hussain	603	402	201	179	- do -
	Outside party					
	Ahmad Shahab Khan	1,405	1,008	397	1,250	Negotiation
	Vehicle theft	599	491	108	120	Insurance Claim
	Accidental loss	535	71	464	519	- do -
	Accidental loss	922	508	414	900	- do -
	Accidental loss	1,296	281	1,015	1,200	- do -
		57,439	**39,792**	**17,647**	**22,255**	

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2009 Restated (Rupees in thousand)				
Vechicles	**Ex-employees**					
	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	

		2010	2009 Restated
		(Rupees in thousand)	
21.2 Capital work-in-progress			
Plant and machinery		8,793	412,826
Civil works		7,774	9,230
Advances - considered good	- note 21.2.1	35,136	84,410
Leased vehicles in transit		52,002	43,047
Others		100,280	150,435
		203,985	699,948
21.2.1 Advances - considered good			
Advances against:			
- civil works		-	3,244
- purchase of plant and machinery		35,136	81,166
		35,136	84,410

21.2.2 Included in additions to capital work-in-progress are finance costs of Nil (2009: Rs 38.805 million)

		(Rupees in thousand) Vehicles
22.	**Assets subject to finance lease**	
	COST	
	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
	Balance as at January 01, 2010	218,144
	Additions during the year	216,803
	Transfer to operating fixed assets during the year	(40,466)
	Balance as at December 31, 2010	394,481
	DEPRECIATION	
	Balance as at January 01, 2009	34,982
	Charge for the year	37,185
	Transfer to operating fixed assets during the year	(1,547)
	Balance as at December 31, 2009	70,620
	Balance as at January 01, 2010	70,620
	Charge for the year - note 22.1	66,901
	Transfer to operating fixed assets during the year	(25,754)
	Balance as at December 31, 2010	111,767
	Book value as at December 31, 2009	147,524
	Book value as at December 31, 2010	282,714
	Annual depreciation rate %	20

		2010	2009 Restated
		(Rupees in thousand)	
22.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	- note 35	25,804	18,084
Administrative expenses	- note 36	33,277	18,252
Selling and distribution expenses	- note 37	7,820	849
		66,901	37,185

22.2 Vehicles of Rs 154.514 million (2009: Rs 87.003 million) are in possession and use of an associated company, Fatima Fertilizer Company Limited.

Notes to and forming part of the Financial Statements
for the year ended December 31, 2010

		(Rupees in thousand)		
		Computer software	Mining rights	Total
23. Intangibles				
COST				
Balance as at January 01, 2009		6,759	-	6,759
Additions during the year		-	210,000	210,000
Balance as at December 31, 2009		6,759	210,000	216,759
Balance as at January 01, 2010		6,759	210,000	216,759
Additions during the year		-	-	-
Balance as at December 31, 2010		6,759	210,000	216,759
AMORTIZATION				
Balance as at January 01, 2009		2,720	-	2,720
Charge for the year		1,346	7,000	8,346
Balance as at December 31, 2009		4,066	7,000	11,066
Balance as at January 01, 2010		4,066	7,000	11,066
Charge for the year	- note 23.1	1,346	21,000	22,346
Balance as at December 31, 2010		5,412	28,000	33,412
Book value as at December 31, 2009		2,693	203,000	205,693
Book value as at December 31, 2010		1,347	182,000	183,347
Annual amortization rate %		25	10	

23.1 The amortization charge for the year has been allocated as follows:

		2010	2009 Restated
		(Rupees in thousand)	
Cost of sales	- note 35	21,000	7,000
Administrative expenses	- note 36	1,346	1,346
		22,346	8,346

24. Goodwill

This represents goodwill on amalgamation of REL and the company.

Goodwill has been allocated for impairment testing purposes to one individual cash generating unit, the fertilizers segment. The recoverable amount of the fertilizers segment has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 28 per cent. Cash flows beyond that five-year period have been extrapolated using a steady 8.4 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the fertilizer products manufactured by the company. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

		2010	2009 Restated
		(Rupees in thousand)	
25. Investments			
At fair value through profit or loss:			
- Subsidiary company - quoted Fatima Fertilizer Company Limited Nil (2009: 900,000,000) fully paid ordinary shares of Rs 10 each Equity held Nil (2009: 50%)	- note 25.1	-	11,790,000
Less: Investment classified under current assets - 300,000,000 fully paid ordinary shares of Rs 10 each		-	3,930,000
		-	7,860,000
Associated company - quoted:			
Fatima Fertilizer Company Limited 450,000,000 (2009: Nil) fully paid ordinary shares of Rs 10 each Equity held 22.50% (2009: Nil) Market value - Rs 5,076 million (2009: unquoted)	- note 25.2	5,811,691	-
Less: Classified under current assets - 225,000,000 fully paid ordinary shares of Rs 10 each	- note 32	2,905,846	-
		2,905,845	-
Held to maturity:			
- Other	- note 25.3	24,386	21,744
		2,930,231	7,881,744

25.1 The company previously held 25% voting rights, in addition to its 45% direct holding in Fatima Fertilizer Company Limited ('FATIMA'), by virtue of an agreement between the company and other members of FATIMA, whereby FATIMA was a subsidiary of the company and was designated by the company's management as 'financial asset at fair value through profit and 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 aforementioned agreement was revoked on April 14, 2010 due to which the company's control of the voting rights in FATIMA reduced to the extent of its 45% direct holding. Consequently, with effect from April 14, 2010, the company does not have control to govern the financial and operating policies of FATIMA, however, it retains significant influence. In view of the above, FATIMA became an associate with effect from April 14, 2010 and is being accounted for under the equity method of accounting since that date. Hence, consolidated financial statements are not being prepared for the year ended December 31, 2010 as there is no subsidiary of the company as at December 31, 2010. The fair value of the company's investment in 900 million ordinary shares of FATIMA on April 14, 2010 was Rs 11,682 million, based on a market value of Rs 12.98 per share, which has been considered as deemed cost upon initial recognition of investment in associate in accordance with the requirements of IAS 27 (revised), 'Consolidated and Separate Financial Statements'.

		2010	2009 Restated
		(Rupees in thousand)	
25.2 Investment in associate - quoted			
Transferred from investment in subsidiary (at initial recognition)		11,682,000	-
Divestment during the period through distribution as 'specie dividend'		(5,831,307)	-
		5,850,693	-
Share of loss of associate	- note 25.2.2	(39,002)	-
		5,811,691	-

25.2.1 The 450 million ordinary shares of FATIMA held by the company, are pledged as security with the security trustee of the lenders against the loans of FATIMA.

25.2.2 The company's share of the result of its associate, which is listed and incorporated in Pakistan, and its share of the assets, liabilities and revenue is as follows:

Name	Percentage interest held	Assets	Liabilities	Revenues	Profit/(loss)
		(Rupees in thousand)			
Fatima Fertilizer Company Limited	22.5%	15,628	11,070	-	(39,002)

25.3 Investment - Other

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

		2010	2009 Restated
		(Rupees in thousand)	
26. Long term loans - unsecured			
Considered good:			
Long term loan (from STFF)	- note 26.1	2,037,500	2,037,500
Long term loan	- note 26.2	2,478,065	158,820
		4,515,565	2,196,320

26.1 This represents unsecured loan provided to FATIMA, an associated company, from the proceeds of the syndicated term finance facility (STFF) 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 on a semi annual basis. 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 equal to the borrowing cost of the company. The effective rate of markup charged during the year on outstanding balance was 14.93% to 15.36%.

26.2 This represents unsecured loan to FATIMA, an associated company, for the purpose of project financing. The rate of mark up is equal to the borrowing cost of the company. The effective rate of mark up charged during the year was 14.39%. 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.

		2010	2009 Restated
		(Rupees in thousand)	

27. Stores and spare parts

		2010	2009
Chemicals and catalysts [including in transit Nil (2009: Rs 16.109 million)]	- note 27.1	826,577	624,641
Stores		94,666	61,596
Spare parts [including in transit Rs 199.052 million (2009: Rs 190.802 million)]		1,464,545	1,270,182
		2,385,788	1,956,419
Less: Provision for obsolete items		76,224	76,224
		2,309,564	1,880,195

27.1 Included in chemicals and catalysts is platinum, rhodium and palladium of Rs 1.795 million (2009: Rs 126.734 million) held by Johnson Matthey Public Limited Company, United Kingdom on behalf of the company.

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

	2010	2009 Restated
	(Rupees in thousand)	

28. Stock-in-trade

	2010	2009
Raw materials	2,540,001	2,270,042
Packing materials	6,650	39,972
Mid products	17,368	12,153
Finished goods:		
- own manufactured fertilizers	362,042	462,643
- emission reductions	20,934	8,445
	2,946,995	2,793,255

28.1 Raw materials and finished goods amounting to Rs 1,833.268 million (2009: Rs 2,622.421 million) are pledged with lenders as security against short term borrowings as referred to in note 16.

	2010	2009 Restated
	(Rupees in thousand)	

29. Trade debts

	2010	2009
Considered good:		
- Secured (by way of bank guarantees and security deposits)	349,177	632,836
- Unsecured	1,501,518	794,218
	1,850,695	1,427,054

29.1 These are in the normal course of business and certain debts carry interest ranging from 1% to 9% (2009: 2.5% to 10%) per annum.

29.2 Trade debts include an amount of Rs 111.335 million (2009: Rs 4.693 million) due from Fatima Fertilizer Company Limited, an associated company.

		2010	2009 Restated
		(Rupees in thousand)	
30. Advances, deposits, prepayments and other receivables			
Advances - considered good:			
- To employees	- note 30.1	6,407	7,859
- To suppliers		77,170	89,146
Trade deposits		100	2,720
Prepayments		64,487	162,384
Advance for subscription in shares of associated company		-	3,750,000
Due from associated company:			
- Accrued preference dividend	- note 30.2	545,651	-
- Interest receivable on long term loans	- note 30.2	239,691	115,710
Interest receivable on bank deposits		1,795	1,248
Balances with statutory authorities:			
- Sales tax			
- considered good	- note 30.3	122,815	122,445
- considered doubtful		8,911	8,911
		131,726	131,356
- Income tax recoverable	- note 30.4	2,479,352	2,479,352
- Custom duty recoverable		9,811	9,811
Letters of credit - margins, deposits, opening charges etc.		15,188	16,537
Security deposits		9,322	40,400
Other receivables - considered good		11,175	16,283
		3,591,875	6,822,806
Less: Provision for doubtful receivable		8,911	8,911
		3,582,964	6,813,895

30.1 Included in advances to employees are amounts due from executives of Rs 6.272 million (2009: Rs 5.781 million).

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

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

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

30.4 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 as fully explained in note 41.1. The aggregate amount of provision for tax less payments, for the tax years 2005 through 2011 has been separately disclosed under current liabilities.

31. This represents the derivative cross currency swaps the company had entered into with various banks. Under the terms of certain cross currency swap arrangements, the company pays London Inter-Bank Offered Rate (LIBOR) plus bank spread to the arranging banks on the notional USD amount for the purposes of the cross currency swap, and receives KIBOR from the arranging banks. Similarly, under the terms of certain other cross currency swap arrangements, the company pays KIBOR to the arranging bank on the notional USD amount for the purposes of the cross currency swap, and receives LIBOR plus bank spread from the arranging bank. There has been no transfer of liability under these arrangements, only the nature of the interest payments has changed. The derivative cross currency swaps outstanding as at December 31, 2010 have been marked to market and the resulting gain of Rs 69.958 million has been recognised in the profit and loss account with a corresponding asset.

		2010	2009 Restated
		(Rupees in thousand)	
32. Investments			
At fair value through profit or loss:			
Subsidiary company - quoted			
Fatima Fertilizer Company Limited		-	3,930,000
Other - Wateen Telecom Limited			
2,000,000 (2009: Nil) fully paid			
ordinary shares of Rs 10 each	- note 32.1	7,280	-
		7,280	3,930,000
Available for sale:			
Associated company - quoted			
Fatima Fertilizer Company Limited			
360,000,000 (2009: Nil) unquoted fully paid			
non-voting convertible cumulative preference shares			
of Rs 10 each. Extent of preference shares held 90%	- note 32.1	3,600,000	-
		3,607,280	3,930,000
Classified from non-current investments	- note 25 and 32.2	2,905,846	–
		6,513,126	3,930,000

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

32.2 This represents the carrying amount of the 225 million ordinary shares out of the total 450 million ordinary shares of FATIMA held by the company. These have been classified as current on the basis that the company's management has decided to distribute these shares as 'specie dividend' as referred to in note 51 to these financial statements.

		2010	2009 Restated
		(Rupees in thousand)	
33. Cash and bank balances			
At banks on:			
- Saving accounts	- note 33.1 & 33.2	132,871	56,861
- Current accounts [including USD 4,325 & EURO 4,402 (2009: USD 4,070 & EURO 634,962)]	- note 33.2	49,543	175,319
		182,414	232,180
In hand		3,261	2,808
		185,675	234,988

33.1 Profit on balances in saving accounts ranges from 5% to 10% (2009: 2% to 5%) per annum.

33.2 Included in saving accounts is an amount of Rs 118.788 million (2009: Rs 5.265 million) which bears mark up at the rates ranging from 5% to 10% (2009: 5%) per annum and included in current accounts is an amount of Rs 0.552 million (2009: Rs 0.034 million), both placed with an associated undertaking, Summit Bank Limited (formerly Arif Habib Bank Limited).

		Fertilizers		Clean Development Mechanism		Total	
		2010	2009 Restated	2010	2009 Restated	2010	2009 Restated
		(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
34. Sales							
Fertilizer products:							
- Own manufactured		16,482,847	15,095,287	-	-	16,482,847	15,095,287
- Purchased for resale		311,342	-	-	-	311,342	-
		16,794,189	15,095,287	-	-	16,794,189	15,095,287
Certified Emission Reductions		-	-	1,095,709	1,384,184	1,095,709	1,384,184
Mid products	- note 34.1	325,677	260,799	-	-	325,677	260,799
		17,119,866	15,356,086	1,095,709	1,384,184	18,215,575	16,740,270
Less:							
Sales incentive		80,058	3,428	-	-	80,058	3,428
Discount		28,050	31,286	-	-	28,050	31,286
		108,108	34,714	-	-	108,108	34,714
Rock phosphate		29,027	-	-	-	29,027	-
Processing income	- note 34.2	111,335	-	-	-	111,335	-
		17,152,120	15,321,372	1,095,709	1,384,184	18,247,829	16,705,556

34.1 Sales of mid products are exclusive of sales tax amounting to Rs 45.007 million (2009: Rs 41.543 million).

34.2 This represents income from processing services rendered for an associated company, Fatima Fertilizer Company Limited.

	Fertilizers		Clean Development Mechanism		Total	
	2010	2009 Restated	2010	2009 Restated	2010	2009 Restated
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
35. Cost of sales						
Raw material consumed - note 35.1	4,397,856	4,584,819	8,546	8,449	4,406,402	4,593,268
Packing material consumed	318,791	314,281	-	-	318,791	314,281
	4,716,647	4,899,100	8,546	8,449	4,725,193	4,907,549
Salaries, wages and other benefits - note 35.2	691,870	621,464	5,661	6,536	697,531	628,000
Fuel and power	1,537,491	1,826,093	4,677	4,387	1,542,168	1,830,480
Chemicals and catalysts consumed	384,940	313,362	-	-	384,940	313,362
Spare parts consumed	302,413	337,027	4,932	1,174	307,345	338,201
Stores consumed	111,978	110,565	1,975	3,667	113,953	114,232
Repairs and maintenance	120,706	94,707	4,450	985	125,156	95,692
Insurance	250,123	180,106	3,990	5,168	254,113	185,274
Depreciation on operating fixed assets - note 21.1.4	404,717	360,091	8,577	8,001	413,294	368,092
Depreciation on assets subject to finance lease - note 22.1	25,804	18,084	-	-	25,804	18,084
Amortisation on intangible assets - note 23.1	21,000	7,000	-	-	21,000	7,000
Others	53,937	23,555	11,137	8,595	65,074	32,150
	8,621,626	8,791,154	53,945	46,962	8,675,571	8,838,116
Opening stock of mid products	12,153	9,324	-	-	12,153	9,324
Closing stock of mid products	(17,368)	(12,153)	-	-	(17,368)	(12,153)
	(5,215)	(2,829)	-	-	(5,215)	(2,829)
Cost of goods manufactured	8,616,411	8,788,325	53,945	46,962	8,670,356	8,835,287
Opening stock of finished goods	462,643	1,424,415	8,445	7,005	471,088	1,431,420
Stock written off	(762)	-	-	-	(762)	-
Closing stock of finished goods	(362,042)	(462,643)	(20,934)	(8,445)	(382,976)	(471,088)
	99,839	961,772	(12,489)	(1,440)	87,350	960,332
Cost of goods sold - own manufactured	8,716,250	9,750,097	41,456	45,522	8,757,706	9,795,619
Cost of goods sold - purchased for resale - note 35.3	293,130	-	-	-	293,130	-
	9,009,380	9,750,097	41,456	45,522	9,050,836	9,795,619

35.1 Includes expenses of Rs 32.314 million for extraction of rock phosphate by a related party, Pakistan Mining Company Limited.

	2010	2009 Restated
	(Rupees in thousand)	
35.2 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	9,104	8,926
Interest cost for the year	2,990	3,427
Expected return on plan assets	(2,328)	(2,201)
Past service cost	(245)	1,517
	9,521	11,669

In addition to the above, salaries, wages and other benefits include Rs 11.906 million (2009: Rs 10.543 million) and Rs 8.733 million (2009: Rs 0.823 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

35.3 This represents fertilizer purchased from an associated company, Fatima Fertilizer Company Limited.

36. Administrative expenses

		2010	2009 Restated
		(Rupees in thousand)	
Salaries, wages and other benefits	- note 36.1	262,023	196,460
Travelling and conveyance		50,379	35,179
Telephone, telex and postage		12,860	9,808
Stationery, printing and periodicals		6,469	7,320
Rent, rates and taxes		13,841	7,515
Repairs and maintenance		69,309	45,449
Aircraft operating expenses	- note 36.2	60,267	49,996
Insurance		10,899	7,019
Legal and professional charges	- note 36.3	20,389	19,113
Vehicle running expenses		8,090	5,617
Entertainment		4,104	4,136
Advertisement		1,409	1,233
Stock written off		762	-
Depreciation on operating fixed assets	- note 21.1.4	151,063	141,698
Depreciation on assets subject to finance lease	- note 22.1	33,277	18,252
Amortization on intangible assets	- note 23.1	1,346	1,346
CDM administrative expenses		14,507	17,335
Others		59,052	42,677
		780,046	610,153

	2010	2009 Restated
36.1 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	3,094	2,210
Interest cost for the year	1,016	849
Expected return on plan assets	(791)	(545)
Past service cost	(83)	376
	3,236	2,890

In addition to the above, salaries, wages and other benefits include Rs 3.566 million (2009: Rs 2.340 million) and Rs 3.348 million (2009: Rs 0.059 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively

36.2 Includes expenses of Rs 22.258 million (2009: Rs 49.996 million) for flying and maintenance services of the company's aircraft by Air One (Private) Limited, an associated undertaking.

		2010	2009 Restated
		(Rupees in thousand)	
36.3 Professional services			
The charges for professional services include the following in respect of auditors' services for:			
- Statutory audit		1,700	1,500
- Half yearly review		750	650
- Tax services		3,488	4,050
- Other certification services		380	160
- Out of pocket expenses		592	671
		6,910	7,031

37. Selling and distribution expenses

		2010	2009 Restated
Salaries, wages and other benefits	- note 37.1	146,461	98,426
Travelling and conveyance		10,147	4,744
Telephone, telex and postage		4,393	4,020
Stationery, printing and periodicals		1,312	1,478
Rent, rates and taxes		24,686	19,935
Repairs and maintenance		3,357	3,004
Insurance		1,327	1,221
Vehicle running expenses		7,261	4,979
Entertainment		3,871	4,655
Advertisement and sale promotion		61,581	69,723
Depreciation on operating fixed assets	- note 21.1.4	4,113	5,082
Depreciation on assets subject to finance lease	- note 22.1	7,820	849
Transportation and freight		455,193	342,648
Utilities		900	585
Technical services		7,211	2,104
CERs share of Mitsubishi Corporation, Japan		253,506	333,569
Commission on sale of CERs		-	517
Others		417	198
		993,556	897,737

37.1 Salaries, wages and other benefits

Salaries, wages and other benefits include following in respect of gratuity:

	2010	2009 Restated
Current service cost	1,860	1,504
Interest cost for the year	611	578
Expected return on plan assets	(476)	(371)
Past service cost	(50)	256
	1,945	1,967

In addition to the above, salaries, wages and other benefits include Rs 3.349 million (2009: Rs 2.158 million) and Rs 3.363 million (2009: Rs 0.212 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

		2010	2009 Restated
		(Rupees in thousand)	
38. Other operating expenses			
Workers' profit participation fund	- note 18.3	260,594	128,805
Workers' welfare fund	- note 18.4	95,831	106,274
Donations	- note 38.1	30,310	8,840
		386,735	243,919

38.1 The Chairman of the Board of Directors of the company, Mr Arif Habib, is the director of Karachi Education Initiative and chairman of Memon Health and Education Foundation to which donations of Rs 25.3 million and Rs 1.2 million respectively, were made.

		2010	2009 Restated
		(Rupees in thousand)	
39. Other operating income			
Income from financial assets:			
Income on bank deposits		13,140	7,715
Income from associated company, FATIMA:			
- Interest income on long term loan (from STFF)		307,715	113,061
- Interest income on long term loan		202,868	2,649
- Accrued dividend on preference shares		545,651	-
Exchange gain		14,589	53,565
Unrealised gain on investment held to maturity		2,642	744
Mark-up on credit sale of fertilizers		16,656	21,982
Gain on derivative financial instruments		181,892	29,246
		1,285,153	228,962
Income from non-financial assets:			
Rental income		13,714	13,462
Profit on disposal of operating fixed assets		4,608	693
Income from liquidated damages		21,516	-
Scrap sales and sundry income		23,793	18,069
Provisions and unclaimed balances written back		58,178	79,704
Income from biological laboratory		1,645	1,510
		123,454	113,438
		1,408,607	342,400
40. Finance cost			
Interest/mark up on:			
- Listed TFCs - secured		690,140	723,137
- PPTFCs - secured		972,688	42,568
- Finance leases		26,612	10,405
- Loans from related parties - unsecured		-	83,896
- Share deposit money from associated company		28,803	31,350
- Short term borrowings - secured		871,387	685,156
- Bridge finances - secured		-	1,089,674
- Long term loans - secured		604,106	229,785
- Syndicated term finance - secured		307,714	113,061
- Workers' Profit Participation Fund	- note 18.3	33,692	30,946
Loan arrangement fees and other charges		15,408	85,858
Bank charges		39,269	33,668
		3,589,819	3,159,504

	2010	2009 Restated
	(Rupees in thousand)	
41. Taxation		
For the year		
- Current	864,692	82,811
- Deferred	571,907	360,454
	1,436,599	443,265
Prior year		
- Current	-	-
- Deferred	27,161	394
	27,161	394
	1,463,760	443,659

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

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

	2010	2009 Restated
	% age	% age
41.2 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
Not deductible for tax purposes	0.47	0.17
Exempt for tax purposes	(5.68)	(7.20)
Not taxable under the law	0.88	(19.37)
Chargeable at lower rate of tax	(0.07)	(0.05)
Effect of change in prior years' tax	0.57	0.01
	(3.83)	(26.44)
Average effective tax rate charged to profit and loss account	31.17	8.56

		2010	2009 Restated
		(Rupees in thousand)	

42. Earnings per share

42.1 Basic earnings per share

		2010	2009 Restated
Net profit for the year	Rupees in thousand	3,231,962	4,738,546
Weighted average number of ordinary shares	Number	450,000,000	450,000,000
Earnings per share	Rupees	7.18	10.53

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, 2010 and December 31, 2009 which would have any effect on the earnings per share if the option to convert is exercised.

43. Cash generated from operations

	2010	2009 Restated
	(Rupees in thousand)	
Profit before taxation	4,695,722	5,182,205
Adjustments for non cash charges and other items:		
- Depreciation on operating fixed assets	568,470	514,872
- Depreciation on leased assets	66,901	37,185
- Amortization on intangibles	22,346	8,346
- Retirement benefits accrued	48,815	32,661
- Profit on disposal of operating fixed assets	(4,608)	(693)
- Provisions and unclaimed balances written back	(58,178)	(79,704)
- Finance cost	3,589,819	3,159,504
- Income on bank deposits	(13,140)	(7,715)
- Interest income on long term loans to associated company	(510,583)	-
- Unrealised loss/(gain) on re-measurement of investments	120,720	(2,866,388)
- Unrealised gain on investment held to maturity	(2,642)	(744)
- Share of loss of associate	39,002	25,207
Profit before working capital changes	8,562,644	6,004,736
Effect on cash flow due to working capital changes		
- (Increase) in stores and spare parts	(429,369)	(103,009)
- (Increase)/decrease in stock-in-trade	(153,740)	1,631,900
- (Increase)/decrease in trade debts	(1,111,851)	429,223
- (Increase)/decrease in advances, deposits prepayments and other receivables	(456,617)	2,708,102
- Increase/(decrease) in trade and other payables	2,043,149	(552,553)
	(108,428)	4,113,663
	8,454,216	10,118,399

44. Cash and cash equivalents

		2010	2009 Restated
Short term borrowings		(4,702,528)	(5,555,693)
Cash and bank balances	- note 33	185,675	234,988
		(4,516,853)	(5,320,705)

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	
	2010	2009 Restated	2010	2009 Restated	2010	2009 Restated
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
Short term employee benefits						
Managerial remuneration	7,241	7,217	13,241	13,217	148,520	105,703
Housing rent	3,259	3,248	3,259	3,487	66,834	47,566
Utilities	2,597	3,402	1,438	1,069	14,852	10,570
Incentives	3,621	-	3,621	-	68,290	65,564
Medical expenses	209	26	-	-	3,363	1,811
Leave passage	-	-	-	-	5,171	12,015
Club expenses	3,483	-	830	-	422	619
Others	-	-	-	-	19,937	9,463
	20,410	13,893	22,389	17,773	327,389	253,311
Post employment benefits						
Contribution to provident and gratuity funds	-	-	-	-	19,046	17,253
Other long term benefits						
Accumulating compensated absences	-	-	-	-	18,658	12,015
	20,410	13,893	22,389	17,773	365,093	282,579
Number of persons	1	1	2	2	143	107

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

		2010	2009 Restated
		(Rupees in thousand)	
Relationship with the company	**Nature of transactions**		
i. Associated undertakings	Purchase of goods and services	39,647	16,110
	Sale of goods	-	10,553
ii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	53,543	37,794

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

		2010	2009 Restated

47. Capacity and production

Urea

		2010	2009 Restated
Rated production capacity	M. Tons	92,400	92,400
Actual urea produced	M. Tons	73,933	105,674

The low production is due to shortage of natural gas and periodical maintenance.

Nitro Phosphate (NP)

		2010	2009 Restated
Rated production capacity	M. Tons	304,500	304,500
Actual NP produced	M. Tons	316,699	292,102

The high production of NP is due to production efficiencies.

Calcium Ammonium Nitrate (CAN)

		2010	2009 Restated
Rated production capacity	M. Tons	450,000	450,000
Actual CAN produced	M. Tons	350,062	341,928

The low production of CAN is due to shortage of natural gas and periodical maintenance.

48. Segment information

A business segment is a group of assets and operations engaged in providing products that are subject to risk and returns that are different from those of other business segments.

Types of segments	Nature of business
Fertilizers	Manufacture and sale of fertilizers
Clean Development Mechanism (CDM)	Generation and sale of Certified Emission Reductions (CERs).

(Rupees in thousand)

	Fertilizers		Clean Development Mechanism		Total	
	2010	**2009 Restated**	**2010**	**2009 Restated**	**2010**	**2009 Restated**
Sales	17,152,120	15,321,372	1,095,709	1,384,184	18,247,829	16,705,556
Cost of sales	(9,009,380)	(9,750,097)	(41,456)	(45,522)	(9,050,836)	(9,795,619)
Gross profit	8,142,740	5,571,275	1,054,253	1,338,662	9,196,993	6,909,937
Administrative expenses	(765,539)	(592,818)	(14,507)	(17,335)	(780,046)	(610,153)
Selling and distribution expenses	(740,050)	(563,651)	(253,506)	(334,086)	(993,556)	(897,737)
	(1,505,589)	(1,156,469)	(268,013)	(351,421)	(1,773,602)	(1,507,890)
Segment results	6,637,151	4,414,806	786,240	987,241	7,423,391	5,402,047
Other operating expenses					(386,735)	(243,919)
Operating profit					7,036,656	5,158,128
Finance costs					(3,589,819)	(3,159,504)
Interest income					523,723	123,425
Other operating income					884,884	218,975
Investment (loss) / income					(120,720)	2,866,388
Share of loss from associate					(39,002)	(25,207)
Taxation					(1,463,760)	(443,659)
Profit for the year					3,231,962	4,738,546
48.1 Segment assets	48,574,098	50,752,622	2,063,309	1,373,838	50,637,407	52,126,460
48.2 Segment liabilities	35,197,133	34,293,067	715,971	509,745	35,913,104	34,802,812
48.3 Depreciation on property, plant and equipment	559,893	504,493	8,577	10,379	568,470	514,872
48.4 Depreciation on leased assets	66,901	37,185	–	–	66,901	37,185

48.5 Information by geographical area

	Revenue		Non-current assets	
	2010	**2009 Restated**	**2010**	**2009 Restated**
Pakistan	18,247,829	16,705,556	33,178,430	35,039,191

Sales are allocated to geographical areas according to the location of the country producing the goods or providing services.

48.6 Information about major customers

Included in the total revenue is revenue from Mitsubishi Corporation, Japan from the CDM segment which represents approximately Rs 1,095.709 million of the company's total revenue.

49. Financial risk management

49.1 Financial risk factors

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

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

a) Market risk

i) Currency risk

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

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

At December 31, 2010 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 65.057 million (2009: Rs 79.379 million) lower / higher, mainly as a result of exchange gains / losses on translation of USD denominated financial instruments.

At December 31, 2010 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 0.504 million (2009: Rs 4.553 million) lower / higher, mainly as a result of exchange gains / losses on translation of Euro denominated financial instruments.

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

ii) Other price risk

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

iii) Interest rate risk

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

The company's interest rate risk arises from long term finances, lease liabilities, short term borrowings, derivative financial instruments and 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:

	2010	2009 Restated
	(Rupees in thousand)	
Fixed rate instruments:		
Financial assets		
Investment	24,386	21,744
Trade debts	232,868	667,316
Bank balances - saving accounts	132,871	56,861
	390,125	745,921
Financial liabilities	-	-
Net exposure	390,125	745,921
Floating rate instruments:		
Financial assets		
Long term loans	4,515,565	2,196,320
Investment	3,600,000	-
Derivative financial instruments	69,958	7,882
	8,185,523	2,204,202
Financial liabilities		
Long term finances	17,192,893	17,366,962
Liabilities against assets subject to finance lease	299,909	164,000
Short term borrowings	4,702,528	5,555,693
	22,195,330	23,086,655
Net exposure	(14,009,807)	(20,882,453)

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 33.376 million (2009: Rs 114.677 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:

	2010	2009 Restated
	(Rupees in thousand)	
Investments	2,930,231	7,881,744
Long term loans	4,515,565	2,196,320
Security deposits	4,893	3,900
Trade debts	1,850,695	1,427,054
Advances, deposits and other receivables	900,087	4,029,364
Derivative financial instruments	69,958	7,882
Short term investments	6,513,126	3,930,000
Bank balances	182,414	232,180
	16,966,969	19,708,444

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:

	2010	2009 Restated
	(Rupees in thousand)	
Upto 90 days	601,088	891,365
90 to 180 days	296,686	409,965
180 to 270 days	209,452	125,724
270 to 360 days	334,770	-
above 360 days	408,699	-
	1,850,695	1,427,054

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	2010 (Rupees in thousand)	2009 Restated (Rupees in thousand)
Al Baraka Islamic Bank Limited	A2	A	PACRA	13,996	17,516
Allied Bank Limited	A1+	AA	PACRA	14,208	-
Summit Bank Limited (Formerly Arif Habib Bank Limited)	A2	A	JCR-VIS	119,340	5,299
Askari Bank Limited	A1+	AA	PACRA	-	10,174
Bank Alfalah Limited	A1+	AA	PACRA	1,503	120
Deutsche Bank A.G	A1	A+	STANDARD & POOR'S	4,079	2,468
Dubai Islamic Bank Limited	A1	A	JCR-VIS	217	6,987
Faysal Bank Limited	A1+	AA	PACRA	1,602	7,748
Habib Bank Limited	A1+	AA+	JCR-VIS	2,885	83,888
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	2,200	7,829
MCB Bank Limited	A1+	AA+	PACRA	1,760	52,531
Meezan Bank Limited	A1	AA-	JCR-VIS	391	2,030
National Bank of Pakistan	A1+	AAA	JCR-VIS	5,696	1,839
The Royal Bank of Scotland	A1+	AA	PACRA	116	801
Silkbank Limited	A2	A-	JCR-VIS	2	186
Soneri Bank Limited	A1+	AA-	PACRA	-	1
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	5,795	859
The Bank of Punjab	A1+	AA-	PACRA	-	1,287
United Bank Limited	A1+	AA+	JCR-VIS	6,533	12,646
Zarai Taraqiati Bank Limited	A1+	AAA	JCR-VIS	50	17,971
BankIslami Pakistan Limited	A1	A	PACRA	2,041	-
				182,414	232,180

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, 2010

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	17,192,893	3,821,003	13,371,890	-
Liabilities against assets subject to finance lease	299,909	82,530	217,379	-
Payable against mining rights	105,000	105,000	-	-
Long term deposits	44,031	-	-	44,031
Short term borrowings	4,702,528	4,702,528	-	-
Trade and other payables	2,938,738	2,938,738	-	-
Accrued finance cost	650,151	650,151	-	-
	25,933,250	12,299,950	13,589,269	44,031

At December 31, 2009 - restated

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	17,366,962	1,176,222	16,190,740	-
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	1,636,304	1,636,304	-	-
Accrued finance cost	989,422	989,422	-	-
	26,602,122	9,519,921	16,349,960	732,241

49.2 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 cost and are tested for impairment according to IAS 39. 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.

49.3 Financial instruments by categories

	Available for sale	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
			(Rupees in thousand)		
As at December 31, 2010					
Assets as per balance sheet					
Long term loans	-	-	-	4,515,565	4,515,565
Security deposits	-	-	-	4,893	4,893
Trade debts	-	-	-	1,850,695	1,850,695
Advances, deposits and other receivables	-	-	-	796,459	796,459
Derivative financial instruments	-	-	-	69,958	69,958
Investments	3,600,000	7,280	24,386	-	3,631,666
Cash and bank balances	-	-	-	185,675	185,675
	3,600,000	7,280	24,386	7,423,245	11,054,911

	Financial liabilities at amortized cost
	(Rupees in thousand)
As at December 31, 2010	
Liabilities as per balance sheet	
Long term finances	17,192,893
Liabilities against assets subject to finance lease	299,909
Payable against mining rights	105,000
Long term deposits	44,031
Short term borrowings	4,702,528
Trade and other payables	2,938,738
Accrued finance cost	650,151
	25,933,250

	Available for sale	Assets at fair value through profit or loss	Held to maturity	Loans and receivables	Total
			(Rupees in thousand)		
As at December 31, 2009 - Restated					
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	-	-	-	1,427,054	1,427,054
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	7,777,502	19,589,246

	Financial liabilities at amortized cost (Rupees in thousand)
As at December 31, 2009 - Restated	
Liabilities as per balance sheet	
Long term finances	17,366,962
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	1,636,304
Accrued finance cost	989,422
	26,602,122

49.4 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.

49.5 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 and note 15. Total capital employed includes equity as shown in the balance sheet plus borrowings. The company's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at December 31, 2010 and December 31, 2009 is as follows:

		2010	2009 Restated
		(Rupees in thousand)	
Borrowings - note 9 & 15		17,192,893	17,366,962
Less: Cash and cash equivalents - note 44		4,516,853	5,320,705
Net debt		21,709,746	22,687,667
Total equity		12,248,456	14,847,801
Gearing ratio	**Percentage**	64	60

50. Date of authorization for issue

These financial statements were authorized for issue on February 24, 2011 by the Board of Directors of the company.

51. Non-adjusting events after the balance sheet date

The Board of Directors have proposed to distribute 225 million (2009: 225 million) ordinary shares of the associate, 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 5 (2009: 5) ordinary shares of FATIMA for every 10 (2009: 10) ordinary shares held of the existing issued, subscribed and paid up share capital of the company at their meeting held on February 24, 2011 for approval of the members at the Annual General Meeting to be held on March 31, 2011. These financial statements do not reflect this appropriation.

52. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangement has been made.

Chief Executive **Director**

Pattern of Shareholding as at December 31, 2010

Disclosure Requirement under the Code of Corporate Governance

Details of holding on December 31, 2010

		Shares held
1.	**Associated Companies, Undertakings and Related Parties**	
	Reliance Commodities (Pvt) Limited	7,136,613
	Fazal Cloth Mills Limited	25,790,610
	Fatima Sugar Mills Limited	71,250,558
	Arif Habib Corporation Limited (Formerly Arif Habib Securities Limited)	135,000,000
2.	**NIT and ICP**	–
3.	**Directors, CEO and their spouse and minor children**	
	Mr. 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	60,000
	Mr. Nasim Beg	1
	Mr. Abdus Samad	1
	Mr. Muhammad Kashif Habib	1
	Mrs. Zetun Arif	39,375,120
	Mrs. Ambreen Fawad	3,577,410
	Miss Meraj Fatima	4,030,431
	Mr. Amin Rehman Fazal	6,203,702
	Mr. Sadek Rehman	6,204,052
4.	**Executives**	–
5.	**Public Sector Companies and Corporations**	–
6.	**Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds**	–
7.	**Shareholders holding ten percent or more voting interest**	
	Mr. Arif Habib	50,624,877
	Fatima Sugar Mills Limited	71,250,558
	Arif Habib Corporation Limited (Formerly Arif Habib Securities Limited)	135,000,000

Pattern of Shareholding as at December 31, 2010

Shareholding From	Shareholding To	No. of Shareholders	TotalShares held	Percentage %
1	100	3	3	0.00
55,001	60,000	1	60,000	0.01
500,001	505,000	1	502,188	0.11
900,001	905,000	1	904,425	0.20
3,575,001	3,580,000	1	3,577,410	0.80
4,030,001	4,035,000	4	16,121,724	3.58
6,200,001	6,205,000	2	12,407,754	2.76
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 December 31, 2010
Category-wise

Categories of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	184,462,062	40.99
Associated Companies, undertakings and related parties	239,177,781	53.15
NIT and ICP	-	-
Banks, Development Financial Institutions, Non Banking Financial Institutions	-	-
Insurance Companies	-	-
Modarabas and Mutual Funds	-	-
General Public	-	
a. Local	-	-
b. Foreign	-	-
Others	26,360,157	5.86
Total	**450,000,000**	**100.00**

Financial Calendar

The financial results will be announced as per the following tentative schedule:

Annual General Meeting	March 31, 2011
1st Quarter ending March 31, 2011	Last week of April, 2011
2nd Quarter ending June 30, 2011	Third week of August, 2011
3rd Quarter ending September 30, 2011	Third week of October, 2011
Year ending December 31, 2011	Second week of February, 2012

Form of Proxy

38th Annual General Meeting

I/We ____

of ____

being a member(s) of Pakarab Fertilizers Limited hold ______________________

Ordinary Shares hereby appoint Mr. / Mrs. / Miss ______________________

of ______________________ or falling him / her ______________________

of ______________________ as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 38th Annual General Meeting of the Company to be held on March 31, 2011 and / or any adjournment thereof.

As witness my/our hand/seal this ______________________ day of ______________________ March, 2011.

Signed by ____

in the presence of ____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on
Five Rupees
Revenue Stamp

The Signature should agree with the specimen registered with the Company

IMPORTANT:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, E-110, Khayaban-e-Jinnah, Lahore Cantt., not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
3. For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met.

- (i) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- (ii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- (iii) In case of a corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier alongwith proxy form to the Company).

AFFIX
CORRECT
POSTAGE

Company Secretary
PAKARAB FERTILIZERS LIMITED
E-110, Khayaban-e-Jinnah,
Lahore Cantt.

Pakarab Fertilizers Limited
E 110, Khayaban-e-Jinnah,
Lahore Cantt. Lahore 54000
Pakistan.

www.fatima-group.com