Annual Report for the year ended December 31, 2011

Committed to transparent and sustainable growth

pakarab
FERTILIZERS LIMITED

Contents

Core Values

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

Innovation
We encourage creativity and recognize new ideas

Teamwork
We work collectively towards a common goal

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

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

Excellence
We strive to excel in everything we do

Valuing People
We value our people as our greatest resource

Our Vision and Mission

Vision

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

Mission

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

Code of Conduct

A commitment to honesty, ethical conduct and integrity is the supreme objective of the Company. To assist employees in achieving this objective and implement its commitment, the Company has developed a comprehensive Code of Conduct which guides the behaviour of directors, officers and employees of the Company and is reproduced in the form of a Policy Statement of Ethics and Business Practices 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. Haroon Waheed
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
Pakoman Investment Company Limited
Pakistan Kuwait Investment Company (Private) Limited
Standard Chartered Bank (Pakistan) Limited
Summit Bank Limited
Soneri Bank Limited
United Bank Limited
Zarai Taraqiati Bank Limited

Registered / Head Office

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

Karachi Office

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

Plant Site

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

Company Profile

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

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

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

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

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

The reduction of green house effect of these gases shows the new management's commitment towards a cleaner environment.

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

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 28 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

Mr. Fazal Ahmed Sheikh
Executive Director

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

Mr. Faisal Ahmed Mukhtar is a Director of the Company. He holds a Law degree from Bahauddin Zakariya University, Multan. He is the former Mayor 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
Non-Executive Director

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

Mr. Abdus Samad
Non-Executive Director

Mr. Abdus Samad has earned his Master's degree in Business Administration in 2001. He has more than 14 years of experience, including 9 years working in the financial services industry at various senior level positions. He began his career with Arif Habib Corporation Limited as an Investment Analyst, then served the company at various executive positions including Executive Sales and Business Promotions, Company Secretary, Head of Marketing, etc. He has also served as the Chairman and Chief Executive of Arif Habib Limited. He also holds the following portfolio:

Chief Executive
- Javedan Corporation Limited

Director
- Arif Habib Corporation Limited
- Arif Habib Investment Management Limited
- Real Estate Modaraba Management Company Limited
- Nooriabad Spinning Mills (Pvt.) Limited
- Arif Habib REIT Management Limited

Mr. Muhammad Kashif Habib
Non-Executive Director

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

Board Structure and Committees

Board Structure

PFL's Board is comprised of eight directors who have been elected by the shareholders for a term of three years expiring on December 31, 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:

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

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

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

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

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

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

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

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

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

l) determination of compliance with relevant statutory requirements;

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

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

Human Resource and Remuneration Committee

Composition

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

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

Terms of Reference

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

1. Duties and Responsibilities

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

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

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

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

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

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

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

2. Reporting Responsibilities

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

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

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

3. Authorities and Powers

The Committee is authorised and empowered:

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

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

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

Profile of the Key Management

Mr. M. Abad Khan
Advisor to CEO

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 6 years and played significant role in establishment of Fatima Fertilizer.

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

Mr. Qadeer Ahmed Khan
Director 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 3 years of experience in Pakarab Fertilizers Limited as Director Operations.

Mr. Muhammad Zahir
Director Marketing

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

Mr. Haroon Waheed
Group Head of Human Resource

Mr. Haroon has done his LL.M from Monash University, Melbourne, Australia. He has 20+ years of national & international broad based functional business experience with Unilever and has been associated with Pakistan Society of HR Management as President. In addition to representation in the HR & Management Development conferences at the National Level. Mr. Haroon has won the International best HR Leadership award in 2010.

Mr. Arif Hamid Dar
Chief Financial Officer

Mr. Arif Hamid Dar is 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.

Mr. Ausaf Ali Qureshi
Company Secretary

Mr. Ausaf Ali Qureshi is a Fellow Member of Institute of Chartered Accountants of Pakistan. He has over 27 years of experience with Fauji 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.

Mr. 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. He joined the Company in October, 2010.

Mr. Iftikhar Mahmood Baig
GM Business Development

Mr. Iftikhar Mahmood Baig is working as GM Business Development of Fatima Group. He is also director of Fatima Energy Limited, Reliance Sacks Limited, Pakistan Mining Company Limited and member of the Workers Welfare Board-Pakarab Fertilizers Limited. He is a Fellow member of Institute of Chartered Secretaries and Managers of Pakistan. Mr. Baig is associated with Fatima Group since 1996 and has held various senior level management positions. He has over 28 years of experience in new venture development, Corporate, Finance, Government Relations and Strategic Planning.

Profile of the Key Management

Mr. Shahid Saeed
Head of Information Technology

Mr. Shahid Saeed holds a Masters degree in Information Technology, from the UK. He has more than 26 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.

Mr. Javed Akbar
Head of Procurement

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

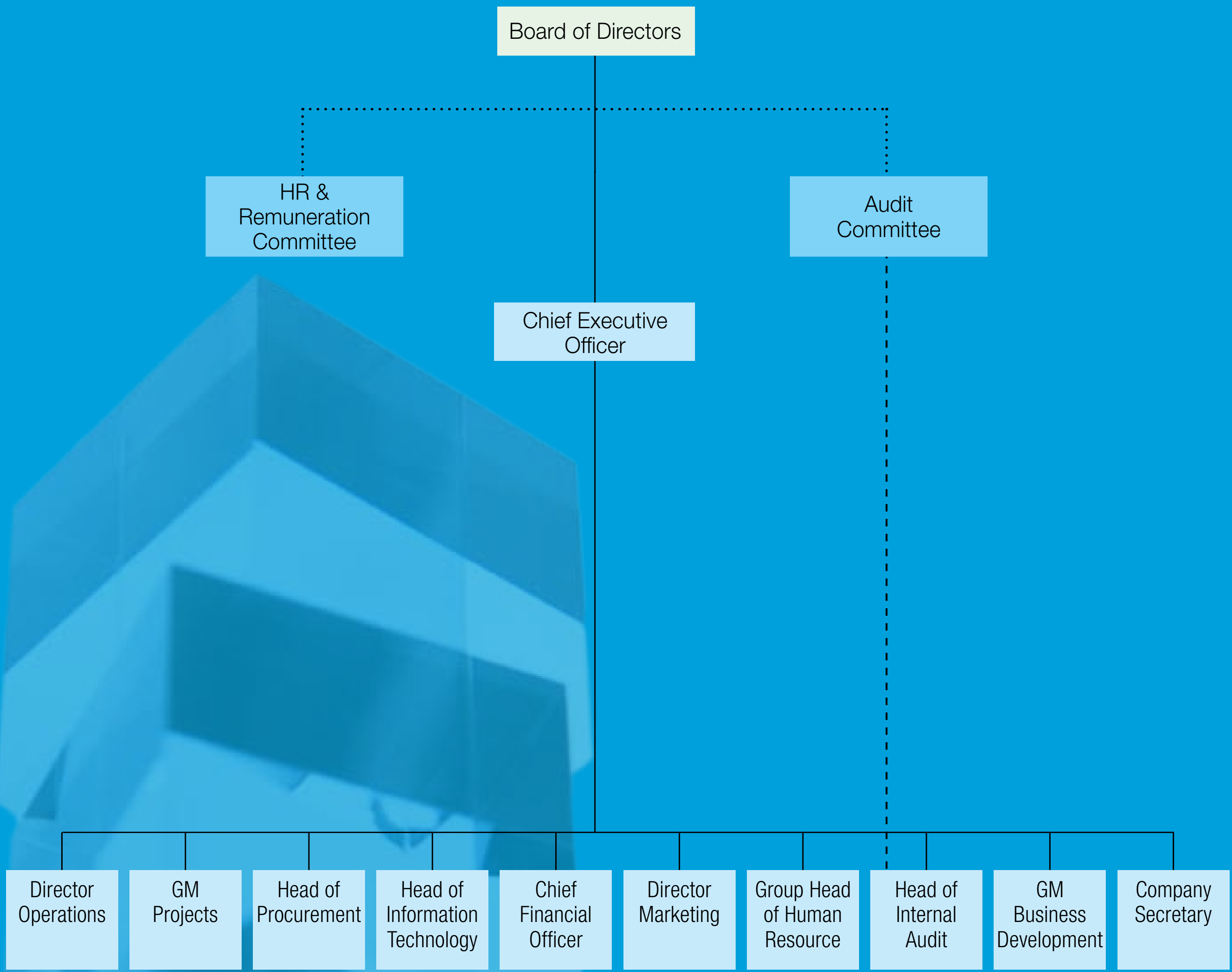
Brig (Retd) Muhammad Ali Asif Sirhindi SI(M) joined Pakarab Fertilizers Limited team in September 2009 as General Manager (Administrative Services). He is a Graduate of Command and Staff College and has more than 30 Years of rich Army experience. In the Army he has served on important assignments of 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.

Mr. Muhammad Saleem Zafar
General Manager Projects

Mr. Muhammad Saleem Zafar is General Manager (Projects). He did his M. Sc. Chemistry from Punjab University Lahore in 1971 with academic Role Of Honour. He has over 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.

Organization Chart



Notice of Thirty Ninth Annual General Meeting

Notice is hereby given that the Thirty Ninth Annual General Meeting of the shareholders of PAKARAB FERTILIZERS LIMITED (the 'Company' or 'PFL') will be held on Monday, April 16, 2012 at 10:30 a.m. at E-110, Khayaban-e-Jinnah, Lahore Cantt., to transact the following business:

Ordinary Business

1. To confirm minutes of the Annual General Meeting held on March 31, 2011.

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, 2011 together with the audited consolidated financial statements of Pakarab Fertilizers Limited and subsidiary Reliance Sacks Limited for the year ended December 31, 2011 and the Auditors' Reports thereon.

3. To appoint Auditors for the year ending December 31, 2012 and to fix their remuneration. The Audit Committee and the Board of Directors have recommended for reappointment of M/s A. F. Ferguson & Co., Chartered Accountants as external auditors.

Other Business

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

By order of the Board

Ausaf Ali Qureshi
Company Secretary

Lahore: March 26, 2012.

Notes:

1. The share transfer books of the Company will remain closed from March 30, 2012 to April 16, 2012 (both days inclusive). Transfers received in order at the registered office of the Company by the close of business on March 29, 2012 will be treated in time.

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

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

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

Financial Highlights

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

		FY 2006	FY 2007	Dec 31, FY 2007 (Transitional)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011
Income Statement								
Turnover	Rs.	7,069	9,102	5,164	18,887	16,706	18,248	16,701
Cost of Goods Sold	Rs.	(4,255)	(5,658)	(2,473)	(6,378)	(9,796)	(9,051)	(7,188)
Gross Profit	Rs.	2,814	3,444	2,691	12,509	6,910	9,197	9,513
Admin Cost	Rs.	(148)	(198)	(144)	(590)	(610)	(780)	(969)
Distribution Cost	Rs.	(97)	(250)	(178)	(583)	(898)	(994)	(829)
Financial Cost	Rs.	(1,088)	(1,093)	(660)	(2,296)	(3,160)	(3,590)	(3,472)
Other Expenses	Rs.	(673)	(315)	(121)	(1,019)	(244)	(386)	(510)
Re-measurement gain	Rs.	-	-	-	-	2,866	(121)	741
Interest Income	Rs.	125	79	21	37	146	543	736
Other Income	Rs.	17	35	21	34	196	866	1,119
Share gain/(loss) of associated company	Rs.	-	-	6	(57)	(25)	(39)	(18)
Profit before Tax	Rs.	950	1,702	1,636	8,035	5,182	4,696	6,311
Profit after Tax	Rs.	1,442	1,359	1,337	7,090	4,739	3,232	4,590
EBITDA	Rs.	2,617	3,208	2,543	10,815	8,342	8,943	10,665
Balance Sheet								
Paid up Capital	Rs.	743	743	3,000	3,000	4,500	4,500	4,500
Shareholder's Equity	Rs.	5,839	7,069	6,156	11,976	14,847	12,248	10,414
Long term borrowings	Rs.	7,920	7,040	10,905	13,805	16,191	13,372	8,484
Capital employed	Rs.	18,747	19,166	24,633	33,713	39,426	33,989	43,880
Deferred liabilities	Rs.	4,389	4,364	4,417	4,656	5,021	5,631	11,058
Property, plant & equipment	Rs.	13,808	14,305	16,784	20,279	21,285	21,916	37,937
Long term assets	Rs.	17,485	18,585	23,703	32,047	35,039	33,178	46,336
Net current assets / Working capital	Rs.	1,262	581	930	1,666	4,388	811	(2,456)
Total Assets	Rs.	23,225	25,167	30,645	45,523	52,126	50,637	65,341
Cash Flows								
Operating activities	Rs.	3,202	2,512	240	2,780	6,712	4,109	4,023
Investing activities	Rs.	11	(1,935)	(5,000)	(10,278)	(10,353)	(2,989)	(710)
Financing activities	Rs.	(2,952)	(218)	2,864	3,100	3,467	(316)	(2,643)
Changes in cash & cash equivalents	Rs.	261	359	(1,896)	(4,398)	(174)	804	669
Cash & cash equivalents - Year end	Rs.	789	1,147	(748)	(5,146)	(5,321)	(4,517)	(3,847)
Key Indicators:								
Operating:								
Gross Profit Margin	%	39.81	37.84	52.11	66.23	41.36	50.40	56.96
Pre tax margin	%	13.44	18.70	31.68	42.54	31.02	25.73	37.79
Net profit margin	%	20.40	14.93	25.89	37.54	28.37	17.71	27.48
EBITDA %age to sale	%	37.02	35.25	49.24	57.26	49.93	49.01	63.86
Earning per share (Rs.) Basic	Rs.	19.40	18.29	4.46	23.63	10.53	7.18	10.20
Performance:								
Book Value per share (excluding revaluation)	Rs.	56.07	95.14	20.52	39.92	32.99	27.22	23.14
Book Value per share (including revaluation)	Rs.	56.07	95.14	28.77	48.17	38.50	32.72	49.68
Return on assets	%	6.21	5.32	4.36	15.57	9.09	6.38	7.02
Total Assets Turnover	Times	0.30	0.36	0.17	0.41	0.32	0.36	0.26
Fixed Assets Turnover	Times	0.51	0.63	0.31	0.93	0.77	0.82	0.44
Debtors turnover	Times	9.00	21.34	4.85	19.18	11.80	11.13	12.19
Debtors turnover	Days	41	17	38	19	31	33	30
Inventory turnover	Times	2.76	3.30	1.21	1.43	1.80	1.82	1.45
Inventory turnover	Days	132	111	152	255	203	200	251
Return on Share Capital	%	194.08	183.04	44.57	236.33	105.31	71.82	102.00
Return on Equity	%	34.61	19.22	21.72	59.20	31.92	26.39	44.08
Leverage:								
Long Term Debt : Equity		58:42	50:50	64:36	54:46	54:46	59:41	40:60
Interest cover		2.03	2.60	4.41	5.21	2.64	2.31	2.82
Liquidity:								
Current Ratio		1.28	1.10	1.15	1.14	1.35	1.05	0.89
Quick ratio		0.88	0.85	0.70	0.62	0.98	0.73	0.67
Valuation								
Earnings per share(before tax)	Rs.	12.79	22.91	5.46	26.78	11.52	10.44	14.02
Earnings per share(after tax)	Rs.	19.41	18.30	4.46	23.63	10.53	7.18	10.20
Earnings Growth	%	110.50	(5.72)	(1.64)	430.29	(55.44)	(31.80)	42.02
Cash dividend	%	-	-	-	-	-	-	-
Bonus dividend	%	2,562.10	-	303.73	50.00	-	-	-
Specie dividend	%	-	-	75.00	50.00	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

Balance Sheet

	Rupees in Million						Variance in %				
	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	2007 (Trans.) Vs. 2007	2008 Vs 2007 (Trans.)	2009 Vs 2008	2010 Vs 2009	2011 Vs 2010
Issued, subscribed and paid up capital	743	3,000	3,000	4,500	4,500	4,500	303.77	-	50.00	-	-
Reserves	6,326	3,156	8,736	10,147	7,548	5,714	(50.10)	176.78	16.15	(25.61)	(24.30)
Share deposit money	-	-	240	200	200	200	-	-	(16.67)	-	-
Revaluation reserve	-	2,476	2,476	2,476	2,476	11,942	-	-	-	-	382.31
	7,069	8,632	14,452	17,323	14,724	22,356	22.11	67.43	19.87	(15.00)	51.83
Non-current liabilities											
Long term finances	7,040	10,905	13,805	16,191	13,372	8,484	54.90	26.60	17.28	(17.41)	(36.55)
Supplier's credit - secured	-	-	-	-	-	1,796					
Liabilities against assets subject to finance lease	36	38	75	107	218	138	5.20	98.14	42.67	103.74	(36.70)
Payable against mining rights	-	-	-	52	-	-	-	-	-	(100.00)	-
Long term deposits	657	641	724	732	44	48	(2.35)	12.84	1.10	(93.99)	9.09
Deferred liabilities	15	23	42	46	57	91	52.27	83.61	8.95	24.57	59.65
Deferred taxation	4,349	4,394	4,614	4,975	5,574	10,967	1.03	5.01	7.82	12.04	96.75
	12,097	16,001	19,260	22,103	19,265	21,524	32.27	20.37	14.76	(12.84)	11.72
Current liabilities											
Current portion of long term liabilities	891	13	32	1,339	4,009	6,335	(98.53)	141.50	4,141.50	199.40	58.02
Finances under mark up arrangements - secured	11	935	5,231	5,556	4,702	4,644	8,401	459.43	6.20	(15.37)	(1.23)
Derivative financial instruments	-	-	52	-	-	-	-	-	-	-	-
Payable to Privatization Commission of Pakistan	2,198	2,198	2,198	2,198	2,198	2,198	-	-	-	-	-
Trade and other payables	2,339	1,940	3,045	2,491	4,458	3,121	(17.07)	56.97	(18.19)	78.96	(29.99)
Accrued finance cost	561	320	799	989	650	677	(42.90)	149.55	23.73	(34.28)	4.15
Dividend payable	-	-	-	-	-	3,755	-	-			
Provision for taxation	374	606	454	127	631	731	62.01	(25.10)	(72.01)	396.85	15.85
	6,374	6,012	11,811	12,700	16,648	21,461	(5.68)	96.45	7.53	31.09	28.91
	25,540	30,645	45,523	52,126	50,637	65,341	19.99	48.55	14.50	(2.86)	29.04

	Rupees in Million						Variance in %				
	FY 2007	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	2007 (Trans.) Vs. 2007	2008 Vs 2007 (Trans.)	2009 Vs 2008	2010 Vs 2009	2011 Vs 2010
Non-current assets											
Property, plant and equipment	14,305	16,784	20,279	21,285	21,916	37,937	17.33	20.82	4.96	2.96	73.10
Assets subject to finance lease	50	44	117	148	283	230	(12.04)	165.70	26.65	91.22	(18.73)
Intangibles	-	-	4	206	183	161	-	-	-	(11.17)	(12.02)
Goodwill	3,305	3,305	3,305	3,305	3,305	3,305	-	-	-	-	-
Investments - related party	744	3,562	8,334	7,882	2,930	130	378.79	133.95	(5.42)	(62.83)	(95.56)
Loan to subsidiary	-	-	-	2,196	4,516	4,516	-	-	-	105.65	-
Security deposits	182	8	8	17	45	57	(95.78)	5.52	109.67	164.71	26.67
	18,586	23,703	32,047	35,039	33,178	46,336	27.53	35.20	9.34	(5.31)	39.66
Current assets											
Stores and spare parts	1,033	1,277	1,777	1,880	2,310	2,583	23.58	39.21	5.80	22.87	11.82
Stock-in-trade	533	1,428	4,430	2,793	2,947	2,058	167.93	210.21	(36.95)	5.51	(30.17)
Trade debts	500	564	1,405	1,427	1,851	890	12.93	148.87	1.57	29.71	(51.92)
other receivables	3,477	3,486	5,779	6,814	3,583	5,300	0.26	65.79	17.91	(47.42)	47.92
Derivative	251	-	-	8	69	19	(100.00)	-	-	762.50	(72.46)
Investments	-	-	-	3,930	6,513	7,359	-	-	-	65.73	12.99
Cash and bank balances	1,160	187	85	235	186	796	(83.90)	(54.53)	176.47	(20.85)	327.96
	6,954	6,941	13,476	17,087	17,459	19,005	(0.18)	94.14	26.80	2.18	8.86
	25,540	30,645	45,523	52,126	50,637	65,341	19.99	48.55	14.50	(2.86)	29.04

Vertical Analysis

Balance Sheet

	Rupees in Million					Variance in %				
	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011
Issued, subscribed and paid up capital	3,000	3,000	4,500	4,500	4,500	9.79	6.59	8.63	8.89	6.89
Reserves	3,156	8,736	10,147	7,548	5,714	10.30	19.19	19.47	14.91	8.74
Share deposit money	-	240	200	200	200	-	0.53	0.38	0.39	0.31
Revaluation reserve	2,476	2,476	2,476	2,476	11,942	8.08	5.44	4.75	4.89	18.28
	8,632	14,452	17,323	14,724	22,356	28.17	31.75	33.23	29.08	34.21
Non-current liabilities										
Long term finances	10,905	13,805	16,191	13,372	8,484	35.58	30.33	31.06	26.41	12.98
Supplier's credit - secured	-	-	-	-	1,796	-	-	-	-	2.75
Liabilities against assets subject to finance lease	38	75	107	218	138	0.12	0.16	0.21	0.43	0.21
Payable against mining rights	-	-	52	-	-	-	-	0.10	-	-
Long term deposits	642	724	732	44	48	2.09	1.59	1.40	0.09	0.07
Deferred liabilities	23	42	46	57	91	0.07	0.09	0.09	0.11	0.14
Deferred taxation	4,394	4,614	4,975	5,574	10,967	14.34	10.14	9.54	11.01	16.78
	16,001	19,260	22,103	19,265	21,524	52.21	42.31	42.40	38.05	32.94
Current liabilities										
Current portion of long term liabilities	13	32	1,339	4,009	6,335	0.04	0.07	2.57	7.92	9.70
Finances under mark up arrangements - secured	935	5,231	5,556	4,702	4,644	3.05	11.49	10.66	9.29	7.11
Derivative financial instruments	-	52	-	-	-	-	-	-	-	-
Payable to Privatization Commission of Pakistan	2,198	2,198	2,198	2,198	2,198	7.17	4.83	4.22	4.34	3.36
Trade and other payables	1,940	3,045	2,491	4,458	3,121	6.33	6.69	4.78	8.80	4.78
Accrued finance cost	320	799	989	650	677	1.05	1.76	1.90	1.28	1.04
Dividend payable	-	-	-	-	3,755	-	-	-	-	5.75
Provision for taxation	606	454	127	631	731	1.98	1.00	0.24	1.25	1.12
	6,012	11,811	12,700	16,648	21,461	19.62	25.94	24.36	32.88	32.84
	30,645	45,523	52,126	50,637	65,341	100.00	100.00	100.00	100.00	100.00

	Rupees in Million					Variance in %				
	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011
Non-current assets										
Property, plant and equipment	16,784	20,279	21,285	21,916	37,937	54.77	44.55	40.83	43.28	58.06
Assets subject to finance lease	44	117	148	283	230	0.14	0.26	0.28	0.56	0.35
Intangibles	-	4	206	183	161	-	0.01	0.40	0.36	0.25
Goodwill	3,305	3,305	3,305	3,305	3,305	10.79	7.26	6.34	6.53	5.06
Investments - related party	3,562	8,334	7,882	2,930	130	11.62	18.31	15.12	5.79	0.20
Loan to subsidiary	-	-	2,196	4,516	4,516	-	-	4.21	8.92	6.91
Security deposits	8	8	17	45	57	0.03	0.02	0.03	0.09	0.09
	23,703	32,047	35,039	33,178	46,336	77.35	70.40	67.22	65.52	70.91
Current assets										
Stores and spare parts	1,277	1,777	1,880	2,310	2,583	4.17	3.90	3.61	4.56	3.95
Stock-in-trade	1,428	4,430	2,793	2,947	2,058	4.66	9.73	5.36	5.82	3.15
Trade debts	565	1,405	1,427	1,851	890	1.84	3.09	2.74	3.66	1.36
Other receivables	3,486	5,779	6,814	3,583	5,300	11.38	12.70	13.07	7.08	8.11
Derivative financial instruments	-	-	8	69	19	-	-	0.02	0.14	0.03
Investments	-	-	3,930	6,513	7,359	-	-	7.54	12.86	11.26
Cash and bank balances	187	85	235	186	796	0.61	0.19	0.45	0.37	1.22
	6,942	13,477	17,087	17,459	19,005	22.65	29.60	32.78	34.48	29.09
	30,645	45,523	52,126	50,637	65,341	100.00	100.00	100.00	100.00	100.00

Horizontal Analysis

Profit and Loss

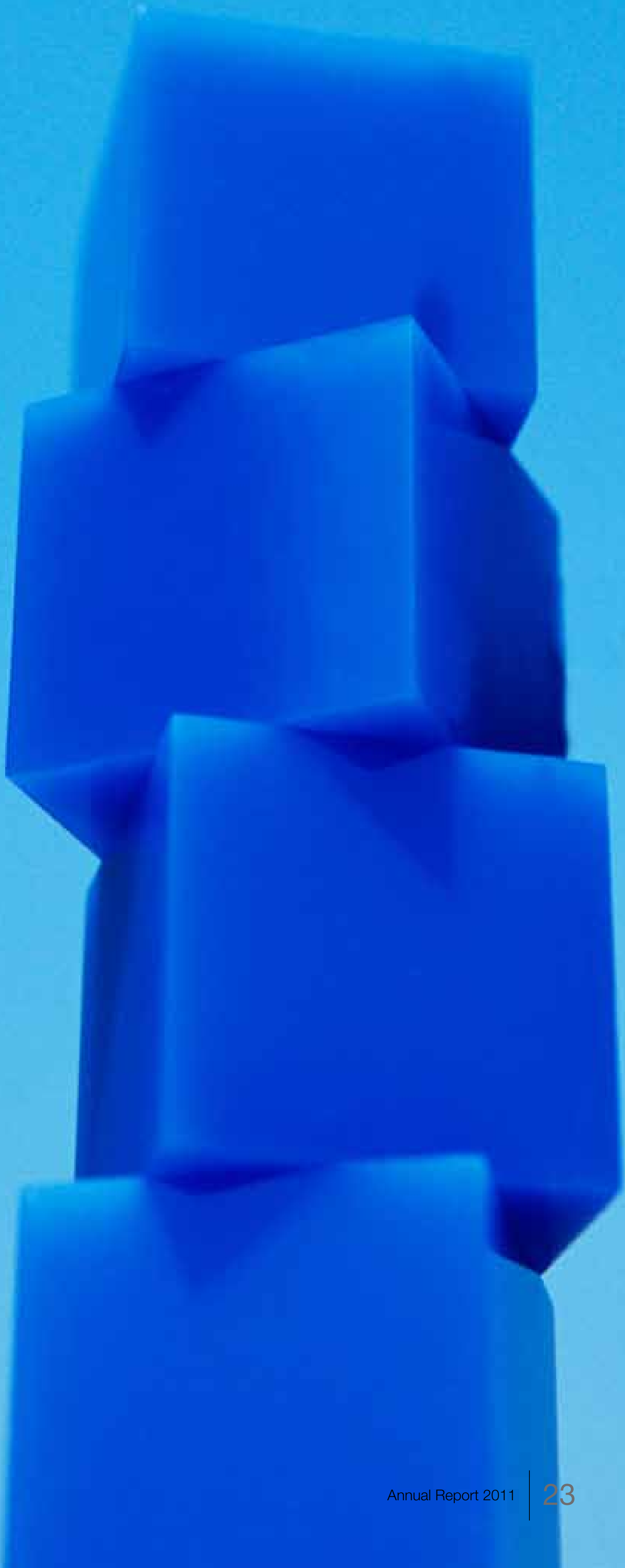
	Rupees in Million					Variance in %				
	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	2007 (Trans.) Vs. 2007	2008 Vs 2007 (Trans.)	2009 Vs 2008	2010 Vs 2009	2011 Vs 2010
Sales	10,233	18,887	16,706	18,248	16,701	12.43	84.57	(11.55)	9.23	(8.48)
Cost of Sales	(5,517)	(6,378)	(9,796)	(9,051)	(7,188)	(2.49)	15.61	53.59	(7.61)	(20.58)
Gross Profit	4,716	12,509	6,910	9,197	9,513	36.93	165.25	(44.76)	33.10	3.44
Administrative Expenses	(264)	(590)	(610)	(780)	(969)	33.33	123.48	3.39	27.87	24.23
Selling & Distribution Expenses	(363)	(583)	(898)	(994)	(829)	45.20	60.61	54.03	10.69	(16.60)
Other Operating Expenses	(377)	(1,019)	(244)	(387)	(510)	19.68	170.29	(76.05)	58.61	31.78
Other Operating Income	115	71	342	1,409	1,855	0.88	(38.26)	381.69	311.99	31.65
Operating Profit	3,827	10,388	5,501	8,445	9,060	36.92	171.44	(47.04)	53.52	7.28
Finance Cost	(1,247)	(2,296)	(3,160)	(3,590)	(3,472)	14.09	84.12	37.63	13.61	(3.29)
Share of profit /(loss) of associated co.	6	(57)	(25)	(39)	(18)	-	(1,050.00)	(55.78)	54.72	(53.85)
Re-measurement gain / (loss)	-	-	2,866	(121)	741	-	-	-	(104.22)	(712.40)
Profit before Taxation	2,586	8,035	5,182	4,696	6,311	51.94	210.71	(35.51)	(9.38)	34.39
Taxation	(365)	(945)	(444)	(1,464)	(1,721)	6.73	158.90	(53.02)	229.73	17.55
Profit after Taxation	2,221	7,090	4,739	3,232	4,590	63.31	219.23	(33.16)	(31.80)	42.02

Vertical Analysis

Profit and Loss

	Rupees in Million					Variance in %				
	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009 Restated	Dec 31, 2010	Dec 31, 2011	2007 (Trans.)*	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011
Sales	10,233	18,887	16,706	18,248	16,701	100.00	100.00	100.00	100.00	100.00
Cost of Sales	(5,517)	(6,378)	(9,796)	(9,051)	(7,188)	(53.91)	(33.77)	(58.64)	(49.60)	(43.04)
Gross Profit	4,716	12,509	6,910	9,197	9,513	46.09	66.23	41.36	50.40	56.96
Administrative Expenses	(264)	(590)	(610)	(780)	(969)	(2.58)	(3.12)	(3.65)	(4.27)	(5.80)
Selling & Distribution Expenses	(363)	(583)	(898)	(994)	(829)	(3.55)	(3.09)	(5.38)	(5.45)	(4.96)
Other Operating Expenses	(377)	(1,019)	(244)	(387)	(510)	(3.68)	(5.40)	(1.46)	(2.12)	(3.05)
Other Operating Income	115	71	342	1,409	1,855	1.12	0.38	2.05	7.72	11.11
Operating Profit	3,827	10,388	5,501	8,445	9,060	37.40	55.00	32.93	46.28	54.25
Finance Cost	(1,247)	(2,296)	(3,160)	(3,590)	(3,472)	(12.19)	(12.16)	(18.92)	(19.67)	(20.79)
Share of profit / (loss) of associated co.	6	(57)	(25)	(39)	(18)	0.06	(0.30)	(0.15)	(0.21)	(0.11)
Re-measurement gain / (loss)	-	-	2,866	(121)	741	-	-	17.16	(0.66)	4.44
Profit before Taxation	2,586	8,035	5,182	4,696	6,311	25.27	42.54	31.02	25.73	37.79
Taxation	(365)	(945)	(444)	(1,464)	(1,721)	(3.57)	(5.00)	(2.66)	(8.02)	(10.30)
Profit after Taxation	2,221	7,090	4,739	3,232	4,590	21.70	37.54	28.37	17.71	27.48

Entity Ratings by JCR-VIS



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

Rs. 5.0 billion TFCs
Rating AA (Long Term)

Rs. 6.5 billion PPTFCs
AA (Long Term)

Definitions:

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

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

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

CEO’s Message

Fawad Ahmed Mukhtar
Chief Executive Officer

“Your Company successfully faced challenges in 2011 and we must thank the Almighty for the many blessings bestowed on us.

Despite gas shortages for the fertilizer industry, Pakarab continued to perform as per expectations. We are working diligently within the limitations to attain efficient solutions and best possible outcomes for our valued customers, other stakeholders and the economy of Pakistan. The “Sarsabz” brand continued to thrive.

Moreover, many new and employee friendly policies have been initiated. We intend to build a strong employer brand that is respected. For this purpose, we have built a strategic HR function that is aware of the market trends and modern human resource management tools.

Based on our dynamic management, state-of-the-art production techniques and our steadfast commitment to the sustainable development of Pakistan, we look forward to a promising, productive and prosperous 2012.”

Directors' Report to the Members

Arif Habib
Chairman

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, 2011 together with auditors' report thereon and a brief overview of financial and operational performance of the Company.

Fertilizer Market Review

International Scenario

The global fertilizer business continued to recover in 2011 showing a positive trend. It is estimated that fertilizer demand increased by 6.2% in 2011 to 173 Million Metric tons (MT). This growth was triggered by rebounding of economic activity and firm agricultural commodity markets. Nitrogen fertilizer demand, which fully recovered in 2009-10 from economic downturn, is seen up by 2.6% to 104.5 Million Metric tons (MT). Phosphate fertilizer demand is estimated to have increased by a significant 8.8% to 40.7 Million Metric tons (MT). Global nutrient capacity grew at a slower rate than production, confirming the tightness of supply seen throughout 2011, because of delays in new capacity commissioning and stronger than expected demand. Overall, the pricing trend for Ammonia, Urea and DAP remained positive rising to around $700 per ton, $500 per ton and $625 per ton respectively. As regards the two key crops for Pakistan, world cotton prices softened during the year and wheat prices also witnessed a downward trend in 2011 due to significant expansion in production in Kazakhstan, Brazil and Russia.

Domestic market

2011 saw unprecedented increase in prices of fertilizers as continued curtailment and prolonged shut down (due to gas outage on the national gas network based fertilizer plants and limited curtailment on the Mari field plants), reduced production significantly. The country was therefore once again forced to import urea despite indigenous capacity to produce and indeed export. To fulfill needs of domestic agricultural market and deal with fertilizer shortages Government imported 1.2 Million tons of Urea. This major import cost the economy both huge out flow of precious foreign exchange and hefty amounts in subsidy. The rise in prices was further compounded by the imposition of General Sales Tax on all fertilizers.

On the back of price increases during the year and floods in lower Sind Urea demand registered a further slowdown over the previous year. It is estimated that the Urea market declined by 3% compared to 2010 to approximately 5.9 million tons. The phosphate market showed major shrinkage as sales dropped by a significant 15% for the year over the same period last year. Global prices of DAP, which had commenced appreciating in 2010 and had increased by 40% by the end of 2010, further spiraled by another 34% at the end of 2011. The agriculture commodities on the other hand registered reduction in their rates. Wheat prices saw a dip in mid-year due to Russia's wheat price hitting rock bottom in international market but the Government of Pakistan raised its support price too late in the year to improve farmer response. Cotton prices saw a decrease of 30% from 2010 to 2011. Maize prices also decreased particularly in the third and fourth quarter. Sugarcane prices remained higher whereas rice prices decreased over the course of year making it one of the preferred export items after Thailand's losing out on its rice due to 2011 floods.

Company performance

Sales of all the products were severely restricted due to gas outages and curtailment during the year. Thus CAN sales volume declined by 22%, NP by 42.7% and Urea by 62.1%. However the decline in volumes was partially mitigated by price increases during the year for all the products.

The Company launched its brand "Sarsabz" in January supported by aggressive media and outdoor campaigns in the main growing seasons. The initial reports on awareness levels on our brand are extremely encouraging. Additionally the dealer network underwent major expansion as the business more than doubled its reach. The farmer outreach programme through the technical service team was launched with significant improvement in farmer contact. Warehouse rationalization resulted in improving efficiencies whilst controlling costs.

Extensive farmer training was conducted through seminars, farmer gatherings, farm visits and demonstration plots. These activities were conducted during Kharif and Rabi and on major crops. The state of the arts soil analysis lab at our sister concern Fatima's plant site was made operational to provide farmers with comprehensive soil analysis and supporting fertilizer usage solutions to improve yields.

Financial Performance Review

The year 2011 was another difficult year for the industry as a whole due to hard hitting gas crisis impacting companies like your company that are on the National gas network. The curtailment/stoppage of gas during the year was the highest since the emergence of gas crisis. Production planned for 2011 could not be achieved due to gas stoppages/ curtailments. Product mix was adjusted and improved through internal process improvements to achieve better margins.

Despite the current strained economic conditions and gas curtailments/ stoppages, your company managed to earn Rs. 4.6 billion after tax profit as compared to Rs. 3.2 billion last year, which is mainly attributable to gain on re-measurement, other income and reduction in finance cost.

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 amounts to Rs. 2,366 million as against Rs. 1,344 million last year.

Post Balance Sheet Events

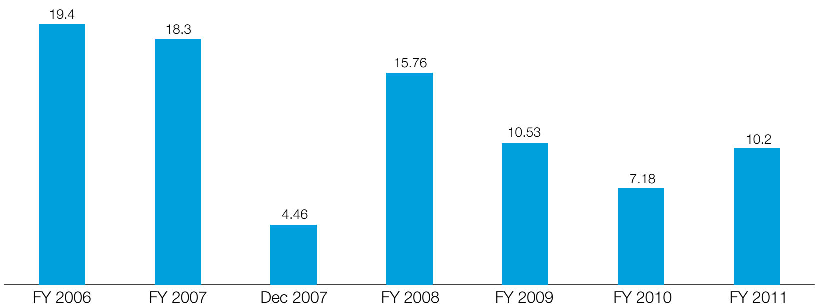
There have been no material post-balance sheet events that would require disclosure or adjustment to these financial statements.

Rupees in million

	December 31, 2011	December 31, 2010
Sales	16,701	18,248
Gross Profit	9,513	9,197
Other Operating Income	1,855	1,409
Operating Profit	9,060	8,445
Finance Cost	(3,472)	(3,590)
Re-measurement of financial assets at fair value	741	(121)
Profit after tax	4,590	3,232

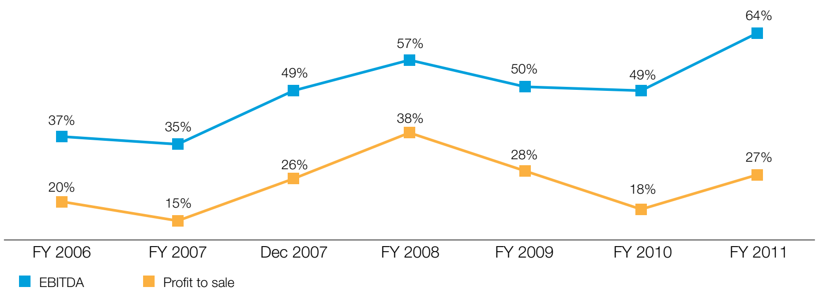
Earnings Per Share

(Rupees)



Net Profit & EBITDA Margin

(Percentage)



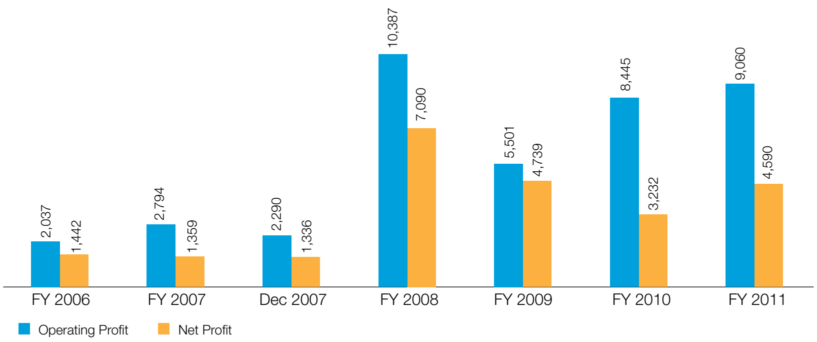
Appropriations

Appropriations during the year were as follows:

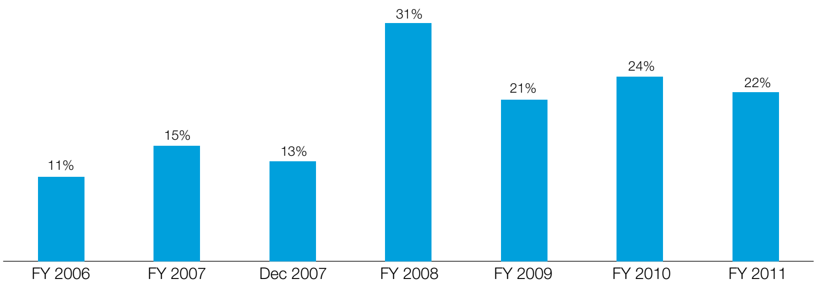
Rupees in million

	General reserve	Un-Appropriated Profit
Balance as at December 31, 2010	4,995	2,553
Total Comprehensive income for the year		4,590
Final specie dividend for the year 2010	(2,897)	
Interim specie dividend for the year 2011		(3,755)
Realization of surplus on revaluation of operating fixed assets through incremental depreciation		228
	2,098	3,616

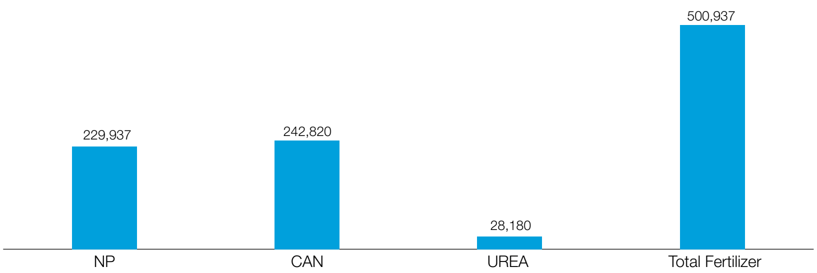
Operating & Net Profit
(Rs. in million)



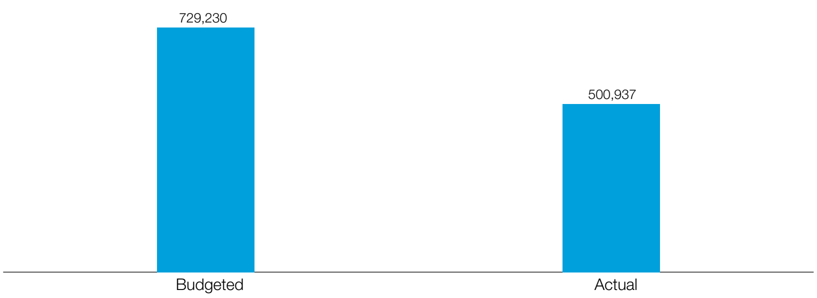
Return on Capital Employed
(In Pecrentage)



Production of Various Fertilizers in 2011
(Product M-Tons)



Total Fertilizers Actual Vs Budget comparison 2011



Operational Review

During 2011, total fertilizer production was 501 KT. This was 32% less than the last year's production. The Lower production was mainly due to gas curtailment and shutdowns throughout the year.

Natural gas availability was 30.5% less as compared to year 2010 and full allocation of Natural Gas was not available even for a single day in 2011.

Production of NP, CAN and Urea for the year 2011 was lower by 27%, 31% and 62% respectively as compared to last year mainly due to frequent natural gas shutdowns and curtailment through the year.

Production targets in 2011 were not achieved. Production was short by 228,293 tons mainly due to frequent shut downs and low load operation owing severe natural gas curtailment throughout the year.

Plant Reliability and improvements

Catalyst Replacement

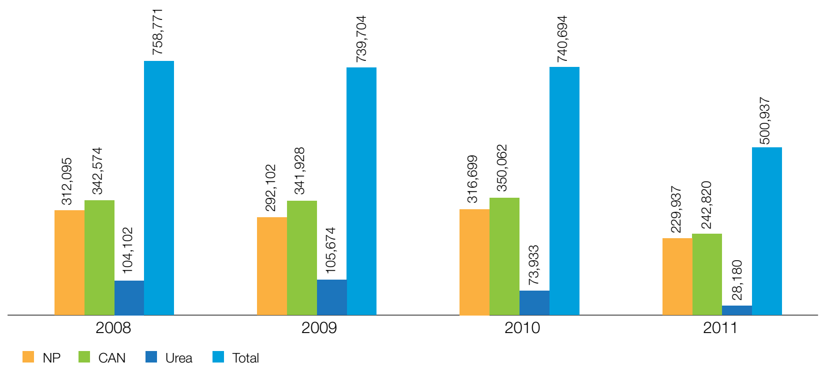
Low Temperature Synthesis (LTS) catalyst at Ammonia plant replacement was the most critical activity of GOMP-2012, safe and successful replacement done.
The Primary reformer catalyst was at end of its life, therefore complete charge of primary reformer catalyst was procured. Replacement is planned in 2013-14.

Alternate Feed-Fuel Project

Keeping in view the current scarcity of natural gas for fertilizer sector, different options were studied for alternate feed and fuel gas supplies. Efforts on this will continue in 2012 as well.

Directors' Report to the Members

Production Statistics from year 2008 to 2011



Product	2010 M. Tons	2011 M. Tons	Variance M. Tons
NP	316,699	229,937	(86,762)
CAN	350,062	242,820	(107,242)
Urea	73,933	28,180	(45,753)
Total	740,694	500,937	(239,757)

Ammonia Revamp Project

Preliminary study for 1400 MTPD Ammonia has been completed by KBR international consultants. The project continues to be the focus of our operational excellence and will be initiated on restoration of consistent gas supply.

Operational Excellence and Product Quality Improvements

Urea

- Improved product quality with average prill size >2.0 mm and fine <1.0 % was achieved through a comprehensive program of upgrading and quality/operational controls.

- To restrict caking of product, anti-caking agent was identified and test runs completed. Product coating will be done on need basis from 2012 onwards.

NP

- Undersize product recycling initiated, resulting reduction in fines from 5% to 3%. This has also reduced the caking tendency of product.

CAN

- Major repair of lime conveying duct carried out during Annual Turnaround. This helped in ensuring correct lime supply hence giving improved Nitrogen content control in the product.

People Development

In addition to the training and skills upgrade reviewed in the Human Resource section below, the Technical Operations function completed job skill certifications for all staff employees on respective job/posts in line with the newly laid down procedure that require all employees to get be certified for the jobs they are posted on.

Training of 100 management employees carried out on use of ERP Inventory module.

Safety & Environment

Safety Milestones achieved

- No Lost Work Injury during the year
- Safely Commissioned new Ammonia storage tank (double integrity double wall)
- Safety Management Information System (SMIS) introduced for effective control and monitoring of safety KPI's
- Three of our engineers presented papers in three national HSE seminars held in Karachi and Lahore
- British Safety Council awarded the International Safety Award for 2010 for PFL's demonstrated commitment and improvement in health and safety management systems. This International Safety Award recognizes and rewards organizations that show a real commitment to improving corporate health and safety
- One of our safety engineers was recognized as Rising Star of Safety Award by USA National Safety Council

Period	2008	2009	2010	2011
Loss Time Injury	0	0	1	0
First Aid Cases	2	7	2	7
Medical Treatment Cases	0	2	2	1
Process Fires	1	2	2	0
Fire Incident-Minor	2	2	2	5
Total Recordable Injury Rate		0.22	0.33	0.10

Safety Performance

The safety performance remains in the top league within the industry

- Total Man Hours in 2011 "without" LTI (YTD) : 1.97 M
- Last LTI Incident : January 22, 2010

Environment Highlights

Environmental concerns linked with our business activities are among the core values of PFL. We are an ISO-14001:2004 certified company since 2008 which also advocates our commitment in developing a robust Environmental Management System (EMS)

- Monthly reporting of our analysis to EPA under smart program shows our deep sense of responsibility and desire to contribute towards protection of the environment
- Our environment team is working to reduce our burden on the existing underground water sources by recycling Cooling Tower Blow down for horticulture purpose
- Initiative has been taken for plantation
- CW Treatment system for Old Cooling Tower, switched over to environment friendly Phosphate based system
- Lime slippage in drain channels was reduced by about 40%. Work on this will continue in 2012

Awards

PFL received Ecomagination Leadership Award from GE Water and Process Technology on reducing environmental impact of cooling system treatment by investing in switching to environment friendlier chemicals.

Celebration of Environment day

To raise awareness among PFL employees and their families, Environmental day was celebrated on June 5, 2011. Tree plantation was also done on this occasion.

Human Resource Management

Your Company is committed to improving business performance by solving the human capital issue in the areas of compensation and benefit. For this purpose, we participated in the Mercer's survey. Mercer survey and benchmarking tools provide reliable HR information to help manage pays and benefits.

Your Company has revised and formulated policies for the betterment of the human capital. These policies include the recruitment policy, Company Assigned Car and Car Allowance Policy, leave policy, medical policy, transfer policy and harassment policy.

As part of our new hiring program, in year 2011 we visited the following universities and conducted recruitment drives:

1. LUMS
2. IBA, Karachi
3. NUST, Islamabad
4. Ghulam Ishaq Khan Institute
5. NED, Karachi
6. Lahore School of Economics
7. UET, Lahore
8. Punjab University, Lahore

Training and Development

The Training and Development roadmap has two basic T&D streams:

1. Core T&D Stream

All management employees are required to be trained in the CORE T&D program which builds skills and efficiencies in the following areas:

1. Management Essentials
2. Business Skills
3. Leadership Competencies

The CORE program courses are designed separately for each management level. The program is mandatory for employees to progress from one level to another.

2. Strategic T&D Stream

T&D stream offers programs to managers to meet the following business and organizational requirements:

1. Functional Competencies identified through TNA (training needs analysis)

2. Development of medium and high potential employees as per their IDPs (Individual Development Plans)

3. Project and/or change initiative-based training

Management Level	Management Essentials Building organisational Excellence	Business Skills Driving Growth and Profitability	Leadership Competencies Building and Leading World Class teams and Business
Junior Management Officer Total population: 519	1) Introduction to Management 2) Best Workplace Practices 3) Supervisory Skills 4) Performance Management 5) Teamwork skills 6) HSE skills – Level 1	1) Introduction to Business Management 2) Finance for non-financial managers/Planning and Budgeting 3) Business writing skills	1) Leadership Competencies – Level 1
Middle Management (Executive and Sr. Executive) Total population: 102	1) Leading and building high performance Teams 2) Advance Management skills 3) Coaching for High Performance 4) Change Management Level 1: Facilitating Change 5) Train The Trainer 6) HSE skills – Level 2 (Human Factors based training)	1) Business Strategy – I (competitive analysis and plan) 2) Entrepreneurial skills 3) Business Process engineering (PCAT model)	1) Leadership Competencies – Level 2 2) Leadership Grid 3) Situational leadership skills
Senior Management (Department Managers and above) Total population: 25	1) Change Management: Driving change and organisational development 2) Thought Leadership 3) Building employee engagement 4) HSE Management – advanced 5) Quality Systems and Compliance Management	1) Business Leadership 2) Corporate strategy	1) Leadership competencies – Level 3

Trainings conducted in 2011

- Effective contract management
- Leadership Grid
- Management by Objectives (MBO)
- Introduction to Management
- Advanced training for MS Excel
- Succession Management
- Compensation & Benefits
- High performance Sales Management
- HSE Skills-Human Factors based Safety
- Brand Matrix
- Leveraging Organizational & cultural Change
- Leadership - Great Leaders, Great Teams, Great Results
- Team-building at Green Field Country Club

Corporate Social Responsibility

Your Company is a socially responsible corporate entity and is working diligently for the welfare of the communities where we operate and the society in general. The Company recognizes that we have a unique and important role to play in promoting sustainable growth for the economy and making a positive impact on the society. We are working in collaboration with various reputable organizations and institutions, to make substantial contributions in important sectors such as health and education.

The Company's aim is the effective internalization of CSR practices in a manner that it fulfills its mission and expectations of the society.

Pakarab Worker Welfare Board (PWWB)

On October 8, 2010, an agreement was signed between Governing Body of Worker Welfare Fund, Ministry of Labour and Manpower and Pakarab Fertilizers Limited for the construction of Mukhtar A. Sheikh Memorial Welfare Hospital, Multan, at a cost of approximately Rs. 2 billion. 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. Land for the Project has been provided by Pakarab Fertilizers Limited. Work has been ongoing in 2011 and on completion, it will be a self-sustaining hospital. Mukhtar A. Sheikh Memorial Welfare Hospital will provide free Kidney and Psychiatric treatment to all workers registered with EOBI or ESSI. It is also important to note that this is the first Worker Welfare Board of its kind and only the fifth after the four provincial worker welfare funds.

Rehabilitation of Flood Affectees

The devastation caused by raging floodwater in Pakistan, destroyed hundreds of thousands of homes, washed away entire crops and killed livestock on a massive scale. Along with all the companies under the Fatima Group banner, your Company became active with its efforts from the very outset of the disaster. Relief goods by your Company have reached flood hit areas of Punjab, supporting around 14,000 flood victims in Muzaffargarh, Rahimyar Khan, Kot Addu, Bhong, Alipur, Sadiqabad and Liaqatpur. The aid amounting to Rs. 12 million was dispatched initially. Continuing its maximum support during the preliminary stage of providing instant relief to the flood affectees, your Company plans to actively involve itself in the proceeding phase of rehabilitation of the displaced persons. The rehabilitation process is being chalked out, in view of the damage assessment of the affected areas, and a plan to bring about massive infrastructure uplift will be initiated simultaneously.

For the rehabilitation flood victims, a project worth Rs. 22 million has been undertaken to set up Fatima Model Village at Mehmood Kot District, Muzaffargarh and 50 houses are being built.

The Floods in Sindh, in the South-East Pakistan impacted millions of people, leaving over 300 dead, over 550 injured, over a million homes affected, millions of acres of land has submerged in monsoon rains, which included cultivated areas leaving 80% of the cash crops damaged. Situation in 14 districts of Sindh is dire, with Badin, Naushero Feroz, Nawabshah and Mirpur Khas being the worst affected areas. A catastrophe required our immediate response. Given the devastation caused, your Company made significant contributions for the relief and rehabilitation of the victims.

Tree Plantation activity

In line with our HSE objectives, your Company greatly values, takes particular care and supports efforts towards improving the environment through various initiatives. The company is executing a green strategy with noticeable success whereby it is not only protecting the existing trees but also planting new trees. Your Company has undertaken a tree plantation activity in Multan and approximately 13,000 trees will be planted. The management in Multan is working with Horticulture Department Multan to determine the right species which will benefit the environment.

In the last rainy season, Administrative Services Department has planted almost 700 new plantlets in the township, plant site and outside the boundary wall on the Khanewal Road.

Pakarab Public School

Your Company will provide free books and stationary to children of staff employees enrolled at Pakarab Public School (PPS). At Pakarab, we value our staff greatly and this is an effort to support them in every capacity. A fully equipped library, with books on every subject, has been set up and funds have been provided for a computer lab at PPS, in an effort to improve the educational facilities available.

LUMS – National Outreach Program (NOP)

Your Company participated in Lahore University of Management Sciences (LUMS) National Outreach program. National Outreach Program is an initiative that was launched in 2001 and the objective of this program is to provide educational opportunities to bright students from smaller cities, villages and inner city areas of large urban centers, unable to meet the regular fee requirements. 8 deserving students from Southern Punjab will be sponsored by Pakarab Fertilizers Limited through the four year degree program.

Auditorium at LUMS

Given our unwavering commitment towards the educational sector, your Company has also donated Rs. 7 million for the construction of an auditorium at LUMS.

Dastkari School at PFL

A dastkari school is functioning at PFL, where girls are taught skills such as embroidery. Efforts are underway to affiliate the school with a vocational institute so that the degree is recognized.

Contribution to SIUT

Your Company contributed Rs. 500,000 to the Sindh Institute of Urology and Transplantation. SIUT is a public health sector organization providing comprehensive and modern medical facilities free of cost to patients from predominantly rural and urban strata with virtually no access to medical facilities.

Contribution to PEN

Progressive Education Network (PEN) is an organization working to foster a wider network of schools across Pakistan, improving enrollment and providing quality education to underprivileged children. Your Company contributed Rs. 1 million to further this cause.

Contribution to Karachi Education Initiative

Further strengthening our commitment to the education sector of Pakistan, the Company contributed 12.5 million to the Karachi Education Initiative. The Karachi Education Initiative (KEI) is a not-for-profit entity registered under Section 42 of the Companies Ordinance. The KEI is the sponsoring and fund raising entity of the Karachi School for Business & Leadership. The Chairman of Pakarab Fertilizers Limited, Mr. Arif Habib, is on the Board of Directors of Karachi Education Initiative.

The establishment of the Karachi School for Business & Leadership, a new world-class graduate business school in this country, is a transformative event for the country of Pakistan. KSBL aims to provide its students with tools and knowledge to give local and international companies a competitive advantage, with executive education programs that are taught in Karachi by faculty from the top-ranked University of Cambridge, Judge Business School. The full-time MBA program will commence in the fall of 2012 followed by the working professional MBA program in 2014.

Information Technology Review

Following the upgrade of the core ERP system, 2011 saw the stabilization of ERP and implementation of additional modules:

- Oracle budgeting module within General Ledger that facilitates comparison between actual vs. budgeted transactions
- Oracle Core HRMS module that allows personnel management including medical reimbursement, vehicle management and employee training through ERP system

The design for Enterprise Data Network (EDN) and Wide Area Network (WAN) was finalized and will now move to execution phase in early 2012.

Standardization of IT assets was completed. We will be evaluating all services to determine the feasibility of outsourcing for improved efficiency and reduced cost.

The IT Security department was established with the aim to deliver and maintain a security program that safeguards information assets against unauthorized use, disclosure, modification, damage or loss. An exhaustive Infrastructure risk assessment exercise was undertaken and based on the results, an IT security roadmap was formulated, the implementation of which will ensure the basic principal of confidentiality, integrity and secure availability of Information and Information Assets. In addition the infrastructure risk assessment exercise, IT Security policies, procedures and processes based on the International organization of Standardization (ISO) 27001 have been designed and will be implemented across the Group.

Project Management Office (PMO) department was created to introduce governance, methodologies, standards, guidance and metrics on the practice of project management and execution. The department has already started showing results by providing transparency into all initiatives through the executive level dashboards, resource management and mitigation of risks for all key projects.

Code of Corporate Governance

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

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.

a) Proper books of account of the Company have been maintained

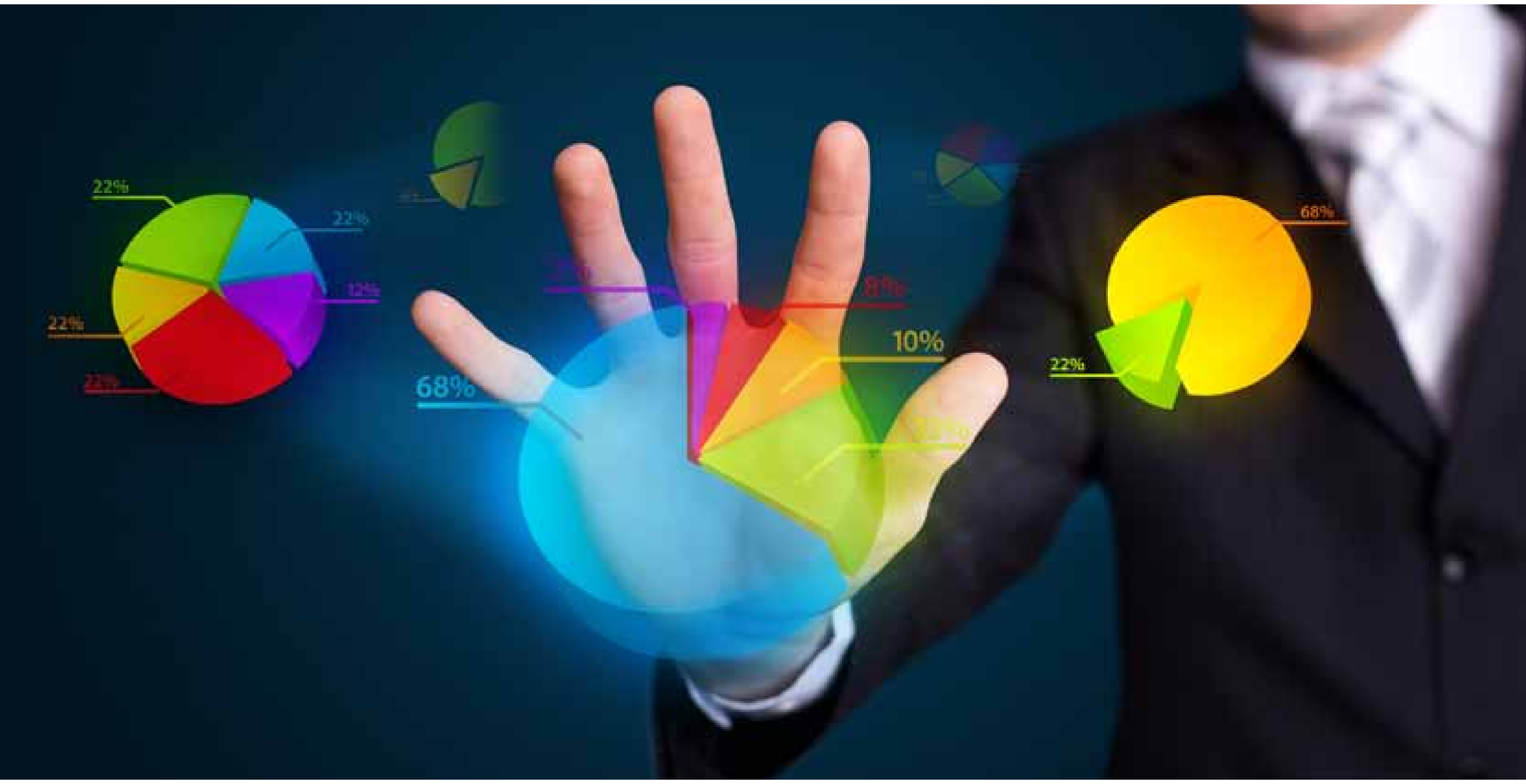
b) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment

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

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

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

f) 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, seven meetings of the Board of Directors and five meetings of the Audit Committee were held from January 01, 2011 to December 31, 2011. The attendance of the Board and Audit Committee members was as follows:

Name of Director	Board Meetings	Audit Committee Meetings
Mr. Arif Habib	6	N/A
Mr. Fawad Ahmed Mukhtar	5	N/A
Mr. Fazal Ahmed Sheikh	6	3
Mr. Faisal Ahmed Mukhtar	4	N/A
Mr. Nasim Beg	7	5
Mr. Rehman Naseem	2	1
Mr. Muhammad Kashif Habib	5	4
Mr. Abdus Samad	6	N/A

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

Pattern of Shareholding

The detailed pattern of the shareholding and categories of shareholders of the Company as at December 31, 2011, as required under the listing regulations, have been appended to the Annual Report on page 166.

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 19.

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. 216.49 Millions. According to actuarial valuation, Fair value of the assets of the funded defined benefit gratuity plan for both management & non-management staff is Rs. 64.82 Millions as on December 31, 2011.

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.

Directors' Report to the Members

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 and Secretarial Compliance

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

Ethics and Business Practices

As per the Corporate Governance guidelines, the Company has circulated a "Statement of Ethics and Business Practices" for compliance and has also posted the same on the website of the Company. It has been signed by all director and employees of the Company in acknowledgement of their understanding and acceptance of the standard of conduct.

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 have recommended their re-appointment by the shareholders at the 39th Annual General Meeting, as auditors of the Company for the year ending December 31, 2012 at a fee to be mutually agreed.

Future Outlook

The imposition of Infrastructure Development Cess on natural gas has forced the fertilizer industry to further increase prices of urea. Despite some softening in global prices of phosphate the relief in the context of local costs will not be significant. This will burden the farmer further and with weak commodity prices continuing the demand for fertilizer is expected to remain stagnant. The local industry will continue to face curtailment. The Government has gone ahead with imports of urea well above the agriculture sectors requirements further burdening the economy with no relief in prices to the farmer. Hence sales are expected to remain depressed in the first quarter of the year for both Nitrogen and Phosphates. There is likelihood of improvement with the commencement of the Kharif season.

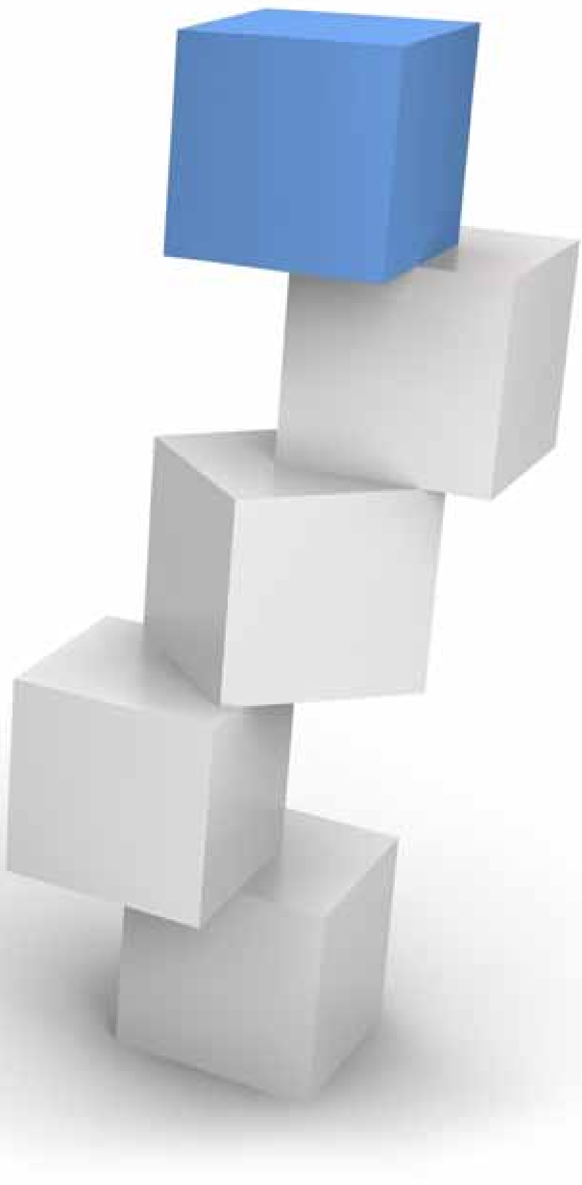
Acknowledgements

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

For and on behalf of Board

Lahore
March 9, 2012

Arif Habib
Chairman



Statement of Compliance

with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

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

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

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancies occurred in the Board during the year 2011.

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

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

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

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

9. The Board arranged one orientation course for its directors during the year 2011 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

Statement of Compliance
with the Code of Corporate Governance

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

Financial Statements of

Pakarab Fertilizers Limited

for the year ended December 31, 2011

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 ('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, 2011.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: March 09, 2012

Engagement Partner: Muhammad Masood

Auditors' Report to the Members

We have audited the annexed balance sheet of Pakarab Fertilizers Limited ('company') as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2011 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: March 09, 2012

Engagement Partner: Muhammad Masood

Balance Sheet
as at December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital 1,000,000,000 (2010: 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 (2010: 450,000,000) ordinary shares of Rs 10 each	5	4,500,000	4,500,000
Share deposit money	6	200,000	200,000
Reserves	7	5,714,040	7,548,456
		10,414,040	12,248,456
SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS	8	11,942,294	2,475,847
NON-CURRENT LIABILITIES			
Long term finances - secured	9	8,484,223	13,371,890
Supplier's credit - secured	10	1,796,000	-
Liabilities against assets subject to finance lease	11	138,018	217,379
Payable against mining rights	12	-	-
Long term deposits	13	47,345	44,031
Deferred liabilities	14	90,684	57,366
Deferred taxation	15	10,967,290	5,574,152
		21,523,560	19,264,818
CURRENT LIABILITIES			
Current portion of long term liabilities	16	6,335,181	4,008,533
Short term borrowings - secured	17	4,643,806	4,702,528
Payable to Privatization Commission of Pakistan	18	2,197,901	2,197,901
Trade and other payables	19	3,120,353	4,458,237
Accrued finance cost	20	677,086	650,151
Dividend payable		3,755,250	-
Provision for taxation		731,455	630,936
		21,461,032	16,648,286
CONTINGENCIES AND COMMITMENTS	21		
		65,340,926	50,637,407

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

Chief Executive

	Note	2011	2010
		(Rupees in thousand)	
ASSETS			
NON–CURRENT ASSETS			
Property, plant and equipment	22	37,937,267	21,916,392
Assets subject to finance lease	23	229,382	282,714
Intangible assets	24	161,000	183,347
Goodwill	25	3,305,163	3,305,163
Investments	26	130,482	2,930,231
Long term loans - unsecured	27	4,515,565	4,515,565
Security deposits		57,036	45,018
		46,335,895	33,178,430
CURRENT ASSETS			
Stores and spare parts	28	2,583,273	2,309,564
Stock-in-trade	29	2,057,363	2,946,995
Trade debts	30	890,573	1,850,695
Advances, deposits, prepayments and other receivables	31	5,299,913	3,582,964
Derivative financial instruments	32	18,756	69,958
Investments	33	7,358,830	6,513,126
Cash and bank balances	34	796,323	185,675
		19,005,031	17,458,977
		65,340,926	50,637,407

Director

Profit and Loss Account
for the year ended December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
Sales	35	16,700,794	18,247,829
Cost of sales	36	(7,188,147)	(9,050,836)
Gross profit		9,512,647	9,196,993
Administrative expenses	37	(968,729)	(780,046)
Selling and distribution expenses	38	(828,717)	(993,556)
Other operating expenses	39	(510,568)	(386,735)
Other operating income	40	1,855,015	1,408,607
Profit from operations		9,059,648	8,445,263
Finance cost	41	(3,472,405)	(3,589,819)
Gain/(loss) on re-measurement of financial assets at fair value through profit or loss		741,050	(120,720)
Share of loss of associate		(17,612)	(39,002)
Profit before taxation		6,310,681	4,695,722
Taxation	42	(1,720,542)	(1,463,760)
Profit for the year		4,590,139	3,231,962
Earnings per share in Rupees	43	10.20	7.18

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, 2011

	2011	2010
	(Rupees in thousand)	
Profit for the year	4,590,139	3,231,962
Other comprehensive income		
Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	227,734	-
Total comprehensive income for the year	4,817,873	3,231,962

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, 2011

	Share capital	Share deposit money	Revenue reserves: General reserve	Revenue reserves: Unappropriated profit	Total
			(Rupees in thousand)		
Balance as on January 01, 2010 - restated	4,500,000	200,000	4,995,352	5,152,449	14,847,801
Profit for the year	-	-	-	3,231,962	3,231,962
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	3,231,962	3,231,962
Specie dividend to equity holders of the company	-	-	-	(5,831,307)	(5,831,307)
Total contributions by and distributions to owners of the company recognised directly in equity	-	-	-	(5,831,307)	(5,831,307)
Balance as on December 31, 2010	4,500,000	200,000	4,995,352	2,553,104	12,248,456
Profit for the year	-	-	-	4,590,139	4,590,139
Other comprehensive income for the year:					
Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	-	-	-	227,734	227,734
Total comprehensive income for the year	-	-	-	4,817,873	4,817,873
Specie dividend to equity holders of the company	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Total contributions by and distributions to owners of the company recognised directly in equity	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Balance as on December 31, 2011	4,500,000	200,000	2,098,313	3,615,727	10,414,040

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, 2011

	Note	2011	2010
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	44	8,090,550	8,454,216
Finance cost paid		(3,445,470)	(3,929,090)
Taxes paid		(581,191)	(379,235)
Retirement benefits paid		(41,345)	(36,713)
Net cash inflow from operating activities		4,022,544	4,109,178
Cash flows from investing activities			
Purchase of property, plant and equipment		(637,189)	(1,193,641)
Security deposits		(12,018)	(27,472)
Sale proceeds of property, plant and equipment disposed		26,581	22,255
Investments made		(103,133)	(20,000)
Proceeds from sale of investment		-	150,000
Long term loans to related party		-	(2,319,245)
Interest received from related party		-	386,602
Profit on bank deposits received		15,622	12,593
Net cash outflow from investing activities		(710,137)	(2,988,908)
Cash flows from financing activities			
Repayment of redeemable capital		(2,625,000)	(297,000)
Proceeds from long term loans acquired		1,437,836	1,066,201
Repayment of long term loans		(1,277,419)	(943,270)
Payment of liability against mining rights		(84,000)	(52,500)
Repayment of finance lease liability		(94,454)	(89,849)
Net cash outflow from financing activities		(2,643,037)	(316,418)
Net increase in cash and cash equivalents		669,370	803,852
Cash and cash equivalents at the beginning of the year		(4,516,853)	(5,320,705)
Cash and cash equivalents at the end of the year	45	(3,847,483)	(4,516,853)

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

Chief Executive | **Director**

1. The company and its activities

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

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

2. Basis of preparation

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

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

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

2.2.1 Amendments to published standards effective in current year

New and amended standards, and interpretations mandatory for the first time for the financial year beginning on or after January 01, 2011 that are either not relevant to the company's current operations (although they may affect the accounting for future transactions and events) or are not expected to have significant impact on the company's financial statements other than certain additional disclosures:

– IFRS 7 (Amendments), 'Financial Instruments', emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

– IAS 1 (Amendments), clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

– Revised IAS 24, 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24, 'Related Party Disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

– 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

– 'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). 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 this. The amendments should be applied retrospectively to the earliest comparative period presented.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

2.2.2 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 1, 2012 or later periods, but the company has not early adopted them:

- IFRS 7 - 'Financial Instruments: Disclosures' (Amendments). These are applicable on accounting periods beginning on or after July 01, 2011. These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Earlier application is permitted. The company will apply these amendments from January 01, 2012 and does not expect to have any material impact on its financial statements.

- IFRS 9, 'Financial Instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 01, 2013 but is available for early adoption. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace IAS 39, 'Financial Instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. There will be no impact on the company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the company does not have any such liabilities.

- IFRS 10, 'Consolidated Financial Statements', applicable from January 01, 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The company will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

- IFRS 11, 'Joint Arrangements', applicable from January 01, 2013, is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The company will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

- IFRS 12 - 'Disclosures of interests in other entities'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IFRS 13 - 'Fair value measurement'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The company will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IAS 1 - 'Financial statement presentation' (Amendment). This is applicable on accounting periods beginning on or after July 01, 2012. The main change resulting from this amendment is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. The company will apply this amendment from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IAS 12 - 'Income Taxes' (Amendments). These are applicable on accounting periods beginning on or after January 01, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The company will apply these amendments from January 01, 2012 and does not expect to have any material impact on its financial statements.

– IAS 19 - 'Employee Benefits' (Amendment). This is applicable on accounting periods beginning on or after January 01, 2013. The amendment will eliminate the corridor approach and calculate finance costs on a net funding basis. The company will apply this amendment from January 01, 2013 and does not expect to have any material impact on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

3. Basis of measurement

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

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

a) Employee retirement benefits

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

b) Provision for taxation

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

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

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

d) **Estimated impairment of goodwill**

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

4. Significant accounting policies

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

4.1 Taxation

Current

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

Deferred

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

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

4.2 Employee retirement benefits

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

(a) **Defined benefit plan - Gratuity**

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

The latest actuarial valuation for the gratuity scheme was carried out as at December 31, 2011. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

- Discount rate 12.50% per annum
- Expected rate of increase in salary level 11.50% per annum
- Expected rate of return 13.00% per annum

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

(b) Defined contribution plan - Provident Fund

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

(c) Accumulating compensated absences

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

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

4.3 Property, plant and equipment

4.3.1 Operating fixed assets

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

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

Depreciation on operating fixed assets is charged to profit on the straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates given in note 22.1 after taking into account their residual values. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The company's estimate of the residual value of its operating fixed assets as at December 31, 2011 has not required any adjustment as its impact is considered insignificant.

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

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

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

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

4.3.2 Capital work-in-progress

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

4.4 Intangible assets

4.4.1 Computer software

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

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

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

4.4.2 Mining rights

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

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

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

4.5 Impairment of non-financial assets

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

4.6 Leases

The company is the lessee.

4.6.1 Finance leases

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

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

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

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

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

4.6.2 Operating leases

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

4.7 Goodwill

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

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

4.8 Investments

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

4.8.1 Investment in equity instruments of subsidiary

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

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

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

4.8.2 Investment in equity instruments of associate

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

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

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

4.9 Financial assets

4.9.1 Classification

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Held to maturity

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

4.9.2 Recognition and measurement

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

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

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

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

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

4.10 Financial liabilities

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

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

4.11 Offsetting of financial assets and financial liabilities

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

4.12 Derivative financial instruments

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

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

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

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

4.13 Stores and spare parts

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

4.14 Stock-in-trade

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

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

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

4.15 Trade debts and other receivables

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

4.16 Cash and cash equivalents

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

4.17 Borrowings

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

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

4.18 Trade and other payables

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

4.19 Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.20 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

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

4.21 Borrowing costs

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.

4.22 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and the revenue can be measured reliably.

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

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

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

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

4.23 Share capital

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

4.24 Dividend

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

4.25 Segment reporting

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

5. Issued, subscribed and paid up share capital

2011	2010		2011	2010
(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

	2011	2010
	(Number of shares)	
Ordinary shares of the company held by associated undertakings as at year end are as follows:		
Reliance Commodities (Private) Limited	7,136,613	7,136,613
Fatima Sugar Mills Limited	71,250,558	71,250,558
Fazal Cloth Mills Limited	25,790,610	25,790,610
Arif Habib Corporation Limited	135,000,000	135,000,000
	239,177,781	239,177,781

6. Share deposit money

This represents contribution towards the share capital of the company against which shares have not been issued. It has been contributed by a related party, 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 16.40% to 16.70% per annum.

	2011	2010
	(Rupees in thousand)	
7. Reserves		
Revenue:		
– General reserve	2,098,313	4,995,352
– Un-appropriated profit	3,615,727	2,553,104
	5,714,040	7,548,456

8. Surplus on revaluation of operating fixed assets

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

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

		2011	2010
		(Rupees in thousand)	
Opening balance - net of tax		2,475,847	2,475,847
Revaluation surplus during the year	– note 22.1	14,048,486	-
Deferred tax on revaluation	– note 15	(4,434,012)	-
Surplus transferred to other comprehensive income for the year on account of incremental depreciation - net of tax		(148,027)	-
Closing balance - net of tax	– note 8.1	11,942,294	2,475,847

8.1 Includes surplus on revaluation of freehold land amounting to Rs 3,855.69 million (2010: Rs 2,475.85 million).

9. Long term finances - secured

		2011	2010
		(Rupees in thousand)	
Redeemable capital	– note 9.1	4,750,000	8,575,000
Long term loans	– note 9.2	2,375,890	2,759,390
Syndicated term finance	– note 9.3	1,358,333	2,037,500
		8,484,223	13,371,890

9.1 Redeemable capital

This is composed of:			
Listed Term Finance Certificates	– note 9.1.1	3,700,000	4,700,000
Privately Placed Term Finance Certificates	– note 9.1.2	4,875,000	6,500,000
		8,575,000	11,200,000
Less: Current portion shown under current liabilities	– note 16	3,825,000	2,625,000
		4,750,000	8,575,000

9.1.1 Listed Term Finance Certificates

Opening balance	4,700,000	4,997,000
Redeemed during the year	(1,000,000)	(297,000)
	3,700,000	4,700,000
Less: Current portion shown under current liabilities	2,200,000	1,000,000
	1,500,000	3,700,000

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 ending on February 28, 2013 .The company has an option to redeem in full (Call Option) or part (Partial Call Option) of the outstanding amount without any premium by giving written notice to the Trustee at least sixty days prior to the option date. The Call Option is exercisable only on mark up payment dates.

Rate of return

The return on TFCs is payable semi-annually and is calculated at the rate of six months Karachi Inter-Bank Offered Rate (KIBOR) plus 1.5% per annum with no floor or cap. The effective mark up rate charged during the year on the outstanding balance ranges from 14.37% to 15.26% per annum.

Trustee

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

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

Security

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

		2011	2010
		(Rupees in thousand)	
9.1.2	**Privately Placed Term Finance Certificates (PPTFCs)**		
	Opening balance	6,500,000	6,500,000
	Redeemed during the year	(1,625,000)	-
		4,875,000	6,500,000
	Less: Current portion shown under current liabilities	1,625,000	1,625,000
		3,250,000	4,875,000

On December 15, 2009, the company converted the bridge finance of Rs 6,500 million from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) to Term Finance Certificates having unit value of Rs 5,000 each by way of private placement. As of December 31, 2011, HBL and NBP hold 400,000 units and 889,137 units respectively while the remaning 10,863 units are held by other private investors.

Terms of redemption

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

Rate of return

The return on PPTFCs is payable semi-annually and is calculated on the outstanding balance at the rate of six months KIBOR plus 2.5% per annum. The effective mark up rate charged during the year on the outstanding balance ranges from 14.46% to 16.28% per annum.

Trustee

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

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

Security

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

			2011	2010
			(Rupees in thousand)	
9.2	**Long term loans**			
	These have been obtained from the following financial institutions:			
	Habib Bank Limited - Loan 1	– note 9.2.1	486,000	810,000
	Habib Bank Limited - Loan 2	– note 9.2.2	96,476	155,116
	Dubai Islamic Bank Limited	– note 9.2.3	262,500	612,499
	MCB Bank Limited	– note 9.2.4	1,033,334	1,377,778
	Standard Chartered Bank (Pakistan) Limited	– note 9.2.5	900,000	1,000,000
	National Bank of Pakistan	– note 9.2.6	437,500	-
	Pakistan Kuwait Investment Company (Private) Limited	– note 9.2.7	500,000	-
	Soneri Bank Limited	– note 9.2.8	400,000	-
			4,115,810	3,955,393
	Less: Current portion shown under current liabilities	– note 16	1,739,920	1,196,003
			2,375,890	2,759,390

9.2.1 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 three 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 450 million, while on the remaining Rs 36 million, markup is payable at the rate of six months KIBOR plus 3% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 12.92% to 16.75% per annum. It is secured by a registered first pari passu charge on present and future fixed assets of the company excluding the Cessna aircraft.

9.2.2 This represents a term loan facility for financing the purchase of ammonia storage tank. It is repayable in two semi-annual installments of Rs 48.238 million each ending on September 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 14.93% to 16.58% per annum. It is secured by a registered first pari 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.

9.2.3 This represents Shirkat El Melk facility for financing the carbon dioxide recovery/ liquefaction plant. It is repayable in three 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 13.97% to 15.79% 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.

9.2.4 This represents a term loan facility and is repayable in six 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 800.001 million, while on the remaining of Rs 233.333 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 800.001 million ranges from 12.60% to 14.36% per annum, while on the outstanding balance of Rs 233.333 million, the effective markup rate charged during the year ranges from 14.95% to 16.71% per annum. It is secured by a registered first pari passu charge on all present and future fixed assets of the company excluding the assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the Lamont boiler for nitric acid.

9.2.5 This represents a term loan facility 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 ending on March 15, 2014. 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 15.24% to 16.09% per annum. The loan is secured by a registered charge over fixed assets comprising the Clean Development Mechanism (CDM).

9.2.6 This represents credit facility of Rs 500 million to cover debt swap of expensive debts outstanding with financial institutions. It is repayable in seven equal quarterly installments of Rs 62.5 million each ending on September 25, 2013 and carries mark up at the rate of three months KIBOR plus 2.5% per annum, payable quarterly. The effective markup rate charged during the year on the outstanding balance ranges from 14.44% to 16.04% per annum. It is secured by a first exclusive hypothecation charge over the Cessna aircraft, pledge of ordinary shares of Fatima Fertilizer Company Limited held by the company and ranking charge over current assets excluding the receivables of CERs revenue.

9.2.7 This represents term finance facility of Rs 500 million to finance the company's capacity expansion. It is repayable in eight equal semi-annual installments of Rs 62.5 million each commencing December 29, 2012 and carries mark up at the rate of six months KIBOR plus 2.25% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 14.26% to 16.03% per annum. It is secured by a pari passu charge on all present and future movable fixed assets excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories.

9.2.8 This represents term finance facility of Rs 400 million to meet the company's capital expenditure / repayment of expensive debt. It is repayable in six equal semi-annual installments of Rs 66.667 million each commencing March 30, 2014 and carries mark up at the rate of six months KIBOR plus 1.75% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance was 13.65% per annum. It is secured by a first pari passu charge on the company's present and future fixed assets including land and building and machinery excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories and the land and buildings related to these assets.

			2011	2010
			(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
	Less: Current portion shown under current liabilities	- note 16	679,167	-
			1,358,333	2,037,500

It represents a syndicated term finance facility (STFF) of Rs 2,119 million to finance equity investment / debt financing in Fatima Fertilizer Company Limited, a related party. 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 15.36% to 16.26%. The facility is secured by a registered first pari passu charge on all present and future fixed assets of the company including plant and machinery, fixtures, fittings, vehicles, tools and equipment but excluding immovable property, land and buildings, Lamont Boiler for nitric acid, Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project and the complete carbon dioxide recovery plant/liquefaction plant along with carbon dioxide static storage tank, its spares, tools and accessories. Of the aggregate facility of Rs 2,119 million, the amount availed as at December 31, 2011 is Rs 2,037.5 million.

10. Supplier's credit - secured

This represents an interest free amount of USD 20 million payable to Bombardier Inc., Canada secured through deferred payment letter of credit of 720 days against purchase of an aircraft. The letter of credit is secured through an exclusive hypothecation charge over the aircraft with all accessories, spares and parts installed or which may be installed in future.

		2011	2010
		(Rupees in thousand)	
11. Liabilities against assets subject to finance lease			
Present value of minimum lease payments	– note 11.1	208,112	299,909
Less: Current portion shown under current liabilities	– note 16	70,094	82,530
		138,018	217,379

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 12.58% to 16.86%. 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	
			2011	2010
	(Rupees in thousand)			
Not later than one year	90,263	20,169	70,094	82,530
Later than one year and not later than five years	149,778	11,760	138,018	217,379
	240,041	31,929	208,112	299,909

11.1 These include balance of Rs 5.466 million (2010: Rs 31.794 million) of a related party, Summit Bank Limited.

12. 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 opening balance of Rs 105 million was rescheduled last year and was payable in two semi annual installments of Rs 52.5 million each on February 28, 2011 and August 28, 2011, respectively. The company has paid the full amount of Rs 52.5 million installment due on February 28, 2011 while it has paid Rs 31.5 million out of the Rs 52.5 million installment due on August 28, 2011. Since the company has failed to pay the installments on the rescheduled dates, the mining rights can be cancelled by the GOKP. As referred to in note 26.2, it has also pledged its investment in Defence Saving Certificates as security with the Director General, Mines & Minerals, GOKP as per the terms of the mining agreement. The movement of the balance is as follows:

		2011	2010
		(Rupees in thousand)	
Opening balance		105,000	157,500
Paid during the year		84,000	52,500
		21,000	105,000
Less: Current portion shown under current liabilities (overdue)	– note 16	21,000	105,000
		-	-

13. 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.

14. Deferred liabilities

		2011	2010
		(Rupees in thousand)	
Accumulating compensated absences	– note 14.1	66,001	42,664
Retirement benefits - gratuity fund	– note 14.2	24,683	14,702
		90,684	57,366

14.1 Accumulating compensated absences

	2011	2010
Opening balance	42,664	29,233
Provision for the year	25,269	15,292
	67,933	44,525
Less: Payments made during the year	1,932	1,861
Closing balance	66,001	42,664

14.2 Gratuity fund

The amounts recognised in the balance sheet are as follows:

	2011	2010
Present value of defined benefit obligation	88,126	53,709
Fair value of plan assets	(64,824)	(45,505)
Unrecognised actuarial gains	1,381	6,498
Liability as at year end	24,683	14,702
Opening net liability	14,702	16,527
Charge to profit and loss account	23,977	14,702
Charge to related party	706	-
Contribution by the company	(14,702)	(16,527)
Liability as at year end	24,683	14,702

	2011	2010
	(Rupees in thousand)	
The movement in the present value of defined benefit obligation is as follows:		
Opening present value of defined benefit obligation	53,709	38,481
Service cost	23,719	14,057
Interest cost	6,982	4,618
Benefits due but not paid to out-going members during the year	–	(150)
Benefits paid to out-going members during the year	(1,877)	(4,521)
Experience loss/(gain)	5,593	1,224
Present value of defined benefit obligation as at year end	88,126	53,709
The movement in fair value of plan assets is as follows:		
Opening fair value	45,505	29,959
Expected return on plan assets	5,916	3,595
Company contributions	14,702	16,527
Benefits due but not paid to out-going members during the year	–	(150)
Benefits paid to out-going members during the year	(1,877)	(4,521)
Experience gain	578	95
Fair value as at year end	64,824	45,505
Plan assets are comprised as follows:		
Mixed funds	62,777	29,284
Cash	2,047	16,371
Payable to outgoing members	–	(150)
	64,824	45,505

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

	2011	2010	2009	2008	2007
			(Rupees in thousand)		
Present value of defined benefit obligation	88,126	53,709	38,481	32,356	17,960
Fair value of plan assets	64,824	45,505	29,959	20,783	4,807
Loss	(23,302)	(8,204)	(8,522)	(11,573)	(13,153)
Experience adjustment on obligation	6%	2%	-21%	5%	3%
Experience adjustment on plan assets	0.89%	0.21%	2%	3%	10%

		2011	2010
		(Rupees in thousand)	

15. Deferred taxation

The liability for deferred taxation comprises temporary differences relating to:

	2011	2010
Accelerated tax depreciation	10,183,663	5,308,553
Accumulating compensated absences	(23,100)	(14,932)
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	7,444	12,182
Interest receivable	336,500	84,520
Accrued preference dividend	400,390	190,978
Unrealised recovery of chemical catalyst	69,542	-
	10,967,290	5,574,152

The gross movement in deferred tax liability during the year is as follows:

		2011	2010
Opening balance		5,574,152	4,975,084
Deferred tax on revaluation surplus during the year	– note 8	4,434,012	-
Transferred to other comprehensive income for the year on account of incremental depreciation		(79,706)	-
Charged to profit and loss account		1,038,832	599,068
Closing balance		10,967,290	5,574,152

16. Current portion of long term liabilities

Long term finances - secured:

		2011	2010
– Redeemable capital	– note 9.1	3,825,000	2,625,000
– Long term loans	– note 9.2	1,739,920	1,196,003
– Syndicated term finance	– note 9.3	679,167	-
Liabilities against assets subject to finance lease	– note 11	70,094	82,530
Payable against mining rights	– note 12	21,000	105,000
		6,335,181	4,008,533

17. Short term borrowings - secured

		2011	2010
Running finances	– note 17.1	3,494,806	3,753,528
Term finances	– note 17.2	1,149,000	949,000
		4,643,806	4,702,528

17.1 Running finances

Short term running finance facilities available from commercial banks under mark-up arrangements amount to Rs 7,101 million (2010: Rs 6,218 million). The rates of mark-up range from Rs 0.361 to Rs 0.480 per Rs 1,000 per diem on the outstanding balance or part thereof. The aggregate running finances are secured against pledge of stock-in-trade as referred to in note 29.1 and registered hypothecation charge on current assets (excluding CER receivables) of the company. Included in the above are running finances of Rs 400 million (2010: Rs 400 million) from a related party, Summit Bank Limited.

17.2 Term finances

Term finance facilities available from various commercial banks under profit arrangements amount to Rs 1,149 million (2010: Rs 949 million). The rates of profit range from Rs 0.365 to Rs 0.442 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 29.1 and first pari passu charge over all current assets of the company.

17.3 Letters of credit and guarantees

Of the aggregate facility of Rs 5,313 million (2010: Rs 5,000 million) for opening letters of credit and Rs 100 million (2010: Rs 100 million) for guarantees, the amount utilised at December 31, 2011 was Rs 652.554 million (2010: Rs 1,311.61 million) and Rs 8.846 million (2010: Rs 8.846 million) respectively. The facility for opening letters of credit is secured against import documents and facility for guarantees is secured by registered joint pari passu charge over current assets.

18. Payable to Privatization Commission of Pakistan

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

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

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

19. Trade and other payables

		2011	2010
		(Rupees in thousand)	
Trade creditors		906,781	2,198,291
Sui gas bill payable		135,612	239,601
Security deposits		33,333	25,125
Accrued liabilities		424,228	453,137
Workers' profit participation fund	– note 19.1	803,274	613,236
Workers' welfare fund	– note 19.2	182,545	180,248
Customers' balances		504,011	708,660
Bank guarantees discounted		100,968	-
Due to related parties		-	22,584
Due to employees' provident fund trust		5,196	4,040
Withholding tax payable		10,549	8,699
Electricity duty payable		12,214	4,050
Excise duty payable		1,642	566
		3,120,353	4,458,237

		2011	2010
		(Rupees in thousand)	
19.1 Workers' profit participation fund			
Opening balance		613,236	445,134
Provision for the year	– note 39	290,232	260,594
Interest for the year	– note 41	27,046	33,692
		930,514	739,420
Less: Payments made during the year		127,240	126,184
Closing balance		803,274	613,236

During the previous year, the company 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 used for establishing a hospital for the workers as per the mechanism defined in that agreement.

		2011	2010
		(Rupees in thousand)	
19.2 Workers' welfare fund			
Opening balance		180,248	186,389
Provision for the year	– note 39	40,619	95,831
		220,867	282,220
Less: Payments made during the year		38,322	101,972
Closing balance		182,545	180,248

20. Accrued finance cost

	2011	2010
Accrued mark-up on:		
– redeemable capital - secured	221,873	279,938
– long term loans - secured	89,199	88,689
– syndicated term finance - secured	112,509	108,610
– short term borrowings - secured	124,373	172,914
Acceptance commission on letter of credit	129,132	-
	677,086	650,151

21. Contingencies and commitments

21.1 Contingencies

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

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

– Sui Northern Gas Pipelines Limited against gas sale amounting to Rs 8.846 million (2010: Rs 8.846 million).

– Fatima Fertilizer Company Limited ('FATIMA'), a related party and Habib Bank Limited (the Security Trustee) in respect of the company's obligations for equity contributions in FATIMA under the terms of the Sponsor Support Agreement dated March 6, 2009 between the company, FATIMA and its sponsors and lenders.

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

(iii) Indemnity bonds aggregating Rs 354.88 million (2010: Rs 167.17 million) issued to the Customs authorities in favour of The President of Islamic Republic of Pakistan under SRO 489(I)/2000 for the value of goods exported and to be re-imported.

(iv) Post dated cheques furnished by the company in favour of the Collector of Customs to cover import levies against imports aggregating Rs 150 million (2010: Rs 4.32 million).

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

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

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

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

(vii) The amendment earlier carried out in respect of tax year 2006 through amendment order passed under section 122 the Income Tax Ordinance, 2001 ('Ordinance'), raised a demand of Rs 451.418 million along with penalty of Rs 169.196 million, has been annulled by Commissioner Inland Revenue (Appeals) ['CIR(A)'] through order dated June 25, 2011. While such demand no longer holds the field legally, following a prudent approach, amount of Rs 178.342 million, earlier recognized as tax expense against such demand, has not been written back. Such amount would be written back upon confirmation of relief by higher appellate authorities.

(viii) The Additional Commissioner Inland Revenue ('AdCIR'), through separate orders passed under section 122(5A) of the Ordinance for tax years 2007 to 2009, raised income tax demands aggregating to Rs 1,562.454 million. The primary issue raised by AdCIR through such orders is that tax deductible expenditure claimed by the company against taxable income were also allocable to 'subsidy' received from the Federal Government and revenue derived from sale of 'emission reduction certificates . The company has agitated the amendment orders before CIR(A), which are pending adjudication. Since, it is the management's assertion that company's stance is supported by relevant legal position and the underlying facts, 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 Appellate Tribunal

Inland Revenue ('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) The ACIR, through Order-In-Original dated May 21, 2011 raised sales tax and federal excise duty demands aggregating Rs 1,146 million along with applicable default surcharge and penalties. Such demands were principally raised on the grounds that self consumption of mid-products constituted a 'taxable supply' and hence attracted the levies of sales tax and special excise duty. Against the subject order, company's management preferred an appeal before CIR(A) who has allowed relief to the extent of Rs 285 million. The company has preferred second appeal before ATIR which is pending adjudication. Company's management considers that reasonable grounds exist to support its stance in the appeal and is of the view that the decision would be in company's favour. Consequently, the demand raised against the company has not been recognized as an expense in these financial statements.

(xii) Included in trade debts is an amount of Rs 28.511 million (2010: 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, no provision has been made in these financial statements on this account.

(xiii) Claims against the company not acknowledged as debts Rs 23.051 million (2010: Rs 23.051 million)

21.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 312.650 million (2010: Rs 416.697 million).

(ii) Letters of credit other than for capital expenditure Rs 233.937 million (2010: Rs 894.892 million).

(iii) Purchase orders aggregating Rs 4.818 million (2010: Rs 3.940 million) were placed and letters of credit were established subsequently.

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

	2011	2010
	(Rupees in thousand)	
Not later than one year	52,564	35,538
Later than one year and not later than five years	106,950	63,898
	159,514	99,436

		2011	2010
		(Rupees in thousand)	
22. Property, plant and equipment			
Operating fixed assets	– note 22.1	37,643,602	21,712,407
Capital work-in-progress	– note 22.2	293,665	203,985
		37,937,267	21,916,392

22.1 Operating fixed assets

(Rupees in thousand)

	Freehold land	Buildings on freehold land	Railway siding	Plant and machinery	Aircrafts	Furniture and fixtures	Tools and other equipment	Vehicles	Catalyst	Total
COST										
Balance as at January 01, 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
Balance as at January 01, 2011	3,387,787	2,312,174	30,673	20,415,421	505,796	66,140	508,652	193,128	45,547	27,465,318
Additions during the year	–	23,676	–	193,764	2,273,109	12,016	68,811	22,777	56,555	2,650,708
Revaluation – note 22.1.1	1,379,847	439,234	27,006	11,933,148	–	–	269,251	–	–	14,048,486
Transfers in from assets subject to finance lease	–	–	–	–	–	–	–	77,688	–	77,688
Disposals during the year	–	–	–	–	–	–	–	(50,085)	–	(50,085)
Elimination of accumulated depreciation against cost on revaluation	–	(846,533)	(20,879)	(4,475,964)	–	(13,534)	(224,342)	–	–	(5,581,252)
Balance as at December 31, 2011	4,767,634	1,928,551	36,800	28,066,369	2,778,905	64,622	622,372	243,508	102,102	38,610,863
DEPRECIATION										
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
Balance as at January 01, 2011	–	795,834	19,183	4,225,549	286,234	8,269	248,996	130,240	38,606	5,752,911
Charge for the year	–	84,779	4,897	467,734	138,929	7,559	34,840	25,525	9,955	774,218
Transfers in from assets subject to finance lease	–	–	–	–	–	–	–	54,722	–	54,722
Charge on disposals	–	–	–	–	–	–	–	(33,338)	–	(33,338)
Elimination of accumulated depreciation against cost on revaluation	–	(846,533)	(20,879)	(4,475,964)	–	(13,534)	(224,342)	–	–	(5,581,252)
Balance as at December 31, 2011	–	34,080	3,201	217,319	425,163	2,294	59,494	177,149	48,561	967,261
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
Book value as at December 31, 2011	4,767,634	1,894,471	33,599	27,849,050	2,353,742	62,328	562,878	66,359	53,541	37,643,602
Annual depreciation rate %	–	4 to 5.26	10	4 to 5.26	20	10	4 to 25	20	7 to 67	

21.1.1 During the year, freehold land, buildings on freehold land, railway siding, plant and machinery and tools and other equipment have been revalued by an independent valuer M/s Pirsons Chemical Engineering (Private) Limited on September 30, 2011 on current market value basis. The revaluation surplus net of deferred tax has been credited to surplus on revaluation of operating fixed assets. Had there been no revaluation, the carrying amounts of the following classes of assets as at December 31, 2011 would have been as follows:

	(Rupees in thousand)
Freehold land	3,387,787
Buildings on freehold land	1,462,942
Railway siding	8,844
Plant and machinery	16,020,581
Tools and other equipment	302,731
	21,182,885

22.1.2 Included in additions is plant and machinery of Rs 13.464 million which has been purchased from Fatima Fertilizer Company Limited, a related party.

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

		2011	2010
		(Rupees in thousand)	
22.1.4 The depreciation charge for the year has been allocated as follows:			
Cost of sales	– note 36	570,163	413,294
Administrative expenses	– note 37	201,376	151,063
Selling and distribution expenses	– note 38	2,679	4,113
		774,218	568,470

22.1.5 Disposal of operating fixed assets

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

Particulars	Sold to	2011 (Rupees in thousand) Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
	Vehicle theft	922	231	691	868	Insurance claim
	Vehicle theft	690	310	380	650	- do -
	Imran Rasheed	649	465	184	126	As per company policy
	Tanveer H. Qureshi	1,874	873	1,001	989	- do -
	Kashif Rasheed	1,054	737	317	1,068	- do -
	Mansoor Ahmed Janjua	963	673	290	779	- do -
	Muhammad Amin	910	819	91	176	- do -
	Zarar Saleem	604	544	60	119	- do -
	Muhammad Rizwan Nazar	604	544	60	119	- do -
	Tofique Ahmed	924	708	216	178	- do -
	Muhammad Nasir	865	663	202	231	- do -
	Arif-Ur-Rehman	1,286	985	301	249	- do -
	Arif-Ur-Rehman	652	488	164	126	- do -
	Malik Muhammad Rehan	923	707	216	178	- do -
	Rehmat Ullah Shah	604	544	60	119	- do -
	Zaheer Abbas	605	554	51	110	- do -
	Muhammad Jahanzeb Sohail	628	471	157	122	- do -
	Ghulam Sabir Hussain	604	544	60	119	- do -
	Iftikhar Mehmood Baig	1,258	1,152	106	244	- do -
	Mumtaz Ali Soomro	604	544	60	119	As per company policy
	Muhammad Saleem Malik	607	576	31	119	- do -
	Abu Saeed	870	870	-	170	- do -
	Amir Faisal	628	502	126	122	- do -
	Muhammad Imran	607	576	31	119	- do -
	Khurram Shahzad	628	502	126	122	- do -
	Umar Waqas	495	396	99	96	- do -
	Asghar Ali Rana	1,016	863	153	268	- do -
	Mohammad Saeed Iqbal	628	523	105	122	- do -
	Khalid Iqbal Sippal	628	534	94	122	- do -
	Syed Waheed Ullah	927	726	201	179	- do -
	Related parties					
	Reliance Weaving Mills Limited	142	142	-	28	Negotiation
	Reliance Weaving Mills Limited	600	600	-	120	- do -
	Reliance Weaving Mills Limited	941	941	-	188	- do -
	Fatima Sugar Mills Limited	604	594	10	121	- do -
	Reliance Weaving Mills Limited	982	982	-	196	- do -
		50,085	33,338	16,747	26,581	

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2010 (Rupees in thousand)				
Vehicles	**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 -
	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 -

Particulars	Sold to	2010 (Rupees in thousand) Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Employees**					
	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 related party					
	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 related party					
	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	

	2011 (Rupees in thousand)	2010
22.2 Capital work-in-progress		
Plant and machinery	9,965	8,793
Civil works	23,709	7,774
Advances against purchase of plant and machinery - considered good	203,570	35,136
Leased vehicles in transit	–	52,002
Others	56,421	100,280
	293,665	203,985

(Rupees in thousand)

23. Assets subject to finance lease		**Vehicles**
Cost		
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
Balance as at January 01, 2011		394,481
Additions during the year		54,659
Transfer to operating fixed assets during the year		(48,978)
Deletions during the year		(28,710)
Balance as at December 31, 2011		371,452
Depreciation		
Balance as at January 01, 2010		70,620
Charge for the year		66,901
Transfer to operating fixed assets during the year		(25,754)
Balance as at December 31, 2010		111,767
Balance as at January 01, 2011		111,767
Charge for the year	– note 23.1	85,025
Transfer to operating fixed assets during the year		(54,722)
Balance as at December 31, 2011		142,070
Book value as at December 31, 2010		282,714
Book value as at December 31, 2011		229,382
Annual depreciation rate %		20

		2011	2010
		(Rupees in thousand)	
23.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	– note 36	23,793	25,804
Administrative expenses	– note 37	42,706	33,277
Selling and distribution expenses	– note 38	18,526	7,820
		85,025	66,901

23.2 Vehicles of Rs 173.133 million (2010: Rs 154.514 million) are in possession and use of a related party, Fatima Fertilizer Company Limited.

		Computer software	Mining rights	Total
		(Rupees in thousand)		
24. Intangible assets				
Cost				
Balance as at January 01, 2010		6,759	210,000	216,759
Additions during the year		–	–	–
Balance as at December 31, 2010		6,759	210,000	216,759
Balance as at January 01, 2011		6,759	210,000	216,759
Additions during the year		–	–	–
Elimination of accumulated amortization against cost on revaluation		(4,932)	–	–
Balance as at December 31, 2011		1,827	210,000	216,759
Amortization				
Balance as at January 01, 2010		4,066	7,000	11,066
Charge for the year	– note 24.1	1,346	21,000	22,346
Balance as at December 31, 2010		5,412	28,000	33,412
Balance as at January 01, 2011		5,412	28,000	33,412
Charge for the year	– note 24.1	1,347	21,000	22,347
Elimination of accumulated amortization against cost on revaluation		(4,932)	–	–
Balance as at December 31, 2011		1,827	49,000	55,759
Book value as at December 31, 2010		1,347	182,000	183,347
Book value as at December 31, 2011		–	161,000	161,000
Annual amortization rate %		25	10	

		2011	2010
		(Rupees in thousand)	
24.1 The amortization charge for the year has been allocated as follows:			
Cost of sales (included in raw materials consumed)		21,000	21,000
Administrative expenses	– note 37	1,347	1,346
		22,347	22,346

25. Goodwill

This represents goodwill on amalgamation of REL and the company.

Goodwill has been allocated for impairment testing purposes to one individual cash generating unit, the fertilizers segment. The recoverable amount of the fertilizers segment has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18.23 per cent. Cash flows beyond that five-year period have been extrapolated using a steady 5.0 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.

		2011	2010
		(Rupees in thousand)	
26. Investments			
Available for sale:			
Subsidiary – unquoted			
Reliance Sacks Limited (incorporated in Pakistan) 2,350,000 (2010: Nil) fully paid ordinary shares of Rs 10 each Equity held 100% (2010: Nil)	– note 26.1	23,500	–
Associate – quoted:			
Fatima Fertilizer Company Limited Nil (2010: 450,000,000) fully paid ordinary shares of Rs 10 each Equity held Nil (2010: 22.5%)		–	5,811,691
Less: Classified under current assets – 225,000,000 fully paid ordinary shares of Rs 10 each		–	2,905,846
		–	2,905,845
Held to maturity:			
– Other	– note 26.2	27,349	24,386
Advance against purchase of shares in subsidiary – Reliance Sacks Limited		79,633	–
		130,482	2,930,231

26.1 Investment in Reliance Sacks Limited – at fair value

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

26.2 Investment – Other

This represents Defence Saving Certificates issued for a period of ten years, which will mature on September 11, 2019. Yield to maturity on these certificates is 12.15%. These certificates have been pledged as security with the Director General, Mines & Minerals, Government of Khyber Pakhtunkhwa as per the terms of the mining agreement as referred to in note 12.

		2011	2010
		(Rupees in thousand)	
27. Long term loans – unsecured			
Considered good:			
Long term loan (from STFF)	– note 27.1	2,037,500	2,037,500
Long term loan	– note 27.2	2,478,065	2,478,065
		4,515,565	4,515,565

27.1 This represents unsecured loan provided to FATIMA, a related party, 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 ranges from 15.36% to 16.26%.

27.2 This represents unsecured loan to FATIMA, a related party, 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 on the outstanding balance during the year was 15.22%. 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.

		2011	2010
		(Rupees in thousand)	
28. Stores and spare parts			
Chemicals and catalysts	– note 28.1	1,013,577	826,577
Stores		108,586	94,666
Spare parts [including in transit Rs 41.216 million [(2010: Rs 199.052 million)]		1,537,334	1,464,545
		2,659,497	2,385,788
Less: Provision for obsolete items		76,224	76,224
		2,583,273	2,309,564

28.1 Included in chemicals and catalysts is platinum, rhodium and palladium of Rs 258.635 million (2010: Rs 1.795 million) held by Johnson Matthey Public Limited Company, United Kingdom on behalf of the company.

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

	2011	2010
	(Rupees in thousand)	
29. Stock-in-trade		
Raw materials	1,201,970	2,540,001
Packing materials	35,194	6,650
Mid products	16,964	17,368
Finished goods:		
– own manufactured fertilizers	788,873	362,042
– emission reductions	14,362	20,934
	2,057,363	2,946,995

29.1 Raw materials and finished goods amounting to Rs 1,439.669 million (2010: Rs 1,833.268 million) are pledged with lenders as security against short term borrowings as referred to in note 17.

		2011	2010
		(Rupees in thousand)	

30. Trade debts

	2011	2010
Considered good:		
– Secured (by way of bank guarantees and security deposits)	129,887	349,177
– Unsecured	760,686	1,501,518
	890,573	1,850,695

30.1 These are in the normal course of business and certain debts carry interest ranging from 1% to 9% (2010: 1% to 9%) per annum.

31. Advances, deposits, prepayments and other receivables

		2011	2010
		(Rupees in thousand)	
Advances - considered good:			
– To employees	– note 31.1	9,734	6,407
– To suppliers		108,758	77,170
Trade deposits		100	100
Prepayments		157,762	64,487
Due from related party:			
– Accrued preference dividend	– note 31.2	1,143,971	545,651
– Interest receivable on long term loans	– note 31.2	961,429	239,691
Interest receivable on bank deposits		–	1,795
Balances with statutory authorities:			
– Sales tax			
– considered good	– notes 31.3 & 31.4	398,441	122,815
– considered doubtful		8,911	8,911
		407,352	131,726
– Income tax recoverable	– note 31.5	2,479,352	2,479,352
– Custom duty recoverable		9,811	9,811
Letters of credit - margins, deposits, opening charges etc.		333	15,188
Security deposits		8,081	9,322
Other receivables - considered good		22,141	11,175
		5,308,824	3,591,875
Less: Provision for doubtful receivable		8,911	8,911
		5,299,913	3,582,964

31.1 Included in advances to employees are amounts due from executives of Rs 4.297 million (2010: Rs 6.272 million).

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

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

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

31.4 The company is in the process of filing an application under section 65 of the Sales Tax Act, 1990 to the Commissioner Inland Revenue, Multan regarding exemption of sales tax of approximately Rs 500 million inadvertently short levied/paid on its fertilizer product, Calcium Ammonium Nitrate for the period from April 18, 2011 to December 31, 2011. Based on the advice of the company's legal counsel and tax advisor, management considers that reasonable grounds exist that the exemption would be allowed to the company. Consequently, no provision has been recognised in these financial statements for the abovementioned amount.

31.5 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 42.1. The aggregate amount of provision for tax less payments, for the tax years 2005 through 2012 has been separately disclosed under current liabilities.

32. 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, 2011 have been marked to market and the resulting gain of Rs 18.756 million has been recognised in the profit and loss account with a corresponding asset.

		2011	2010
		(Rupees in thousand)	
33. Investments			
Available for sale:			
Related party - quoted			
Fatima Fertilizer Company Limited 360,000,000 (2010: 360,000,000) unquoted fully paid non-voting convertible cumulative preference shares of Rs 10 each. Extent of preference shares held 90%	– note 33.1	3,600,000	3,600,000
At fair value through profit or loss:			
Other - Wateen Telecom Limited 2,000,000 (2010: 2,000,000) fully paid ordinary shares of Rs 10 each	– note 33.1	3,580	7,280
		3,603,580	3,607,280
Classified from non-current investments		-	2,905,846
Investment held for distribution to members	– note 33.2	3,755,250	-
		7,358,830	6,513,126

33.1 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.

33.2 This represents the 225 million ordinary shares of FATIMA held by the company for distribution to members, which are pledged with the security trustee of the lenders against the loans of FATIMA.

		2011	2010
		(Rupees in thousand)	

34. Cash and bank balances

		2011	2010
At banks on:			
– Saving accounts	- note 34.1 & 34.2	645,471	132,871
– Current accounts [including USD 50,712 & EURO 31,648 (2010: USD 4,325 & EURO 4,402)]		146,427	49,543
		791,898	182,414
In hand		4,425	3,261
		796,323	185,675

34.1 Profit on balances in saving accounts ranges from 5% to 10% (2010: 5% to 10%) per annum.

34.2 Included in saving accounts is an amount of Rs 516.443 million (2010: Rs 118.788 million) which bears mark up at the rates ranging from 5% to 10% (2010: 5% to 10%) per annum and included in current accounts is an amount of Rs 6.962 million (2010: Rs 0.552 million), both placed with a related party, Summit Bank Limited.

		2011	2010
		(Rupees in thousand)	

35. Sales

		2011	2010
Fertilizer products:			
– Own manufactured	– note 35.1	14,421,756	16,482,847
– Purchased for resale	– note 35.1	654,226	311,342
		15,075,982	16,794,189
Certified Emission Reductions (CERs)		1,020,844	1,095,709
Mid products	– note 35.1	517,034	325,677
		16,613,860	18,215,575
Less:			
Sales incentive		79,251	80,058
Discount		2,544	28,050
		81,795	108,108
Rock phosphate	– note 35.1	82,378	29,027
Processing income	– note 35.2	86,351	111,335
		16,700,794	18,247,829

35.1 Sales are exclusive of sales tax and excise duty of Rs 1,584.711 million (2010: Rs 45.007 million) and Rs 5.622 million (2010: Rs 0.182) respectively.

35.2 This represents income from processing services rendered for a related party, Fatima Fertilizer Company Limited.

		2011	2010
		(Rupees in thousand)	
36. Cost of sales			
Raw material consumed	– note 36.1	3,050,050	4,406,402
Packing material consumed		281,867	318,791
		3,331,917	4,725,193
Salaries, wages and other benefits	– note 36.2	751,295	697,531
Fuel and power		1,131,008	1,542,168
Chemicals and catalysts consumed		220,199	384,940
Spare parts consumed		338,815	307,345
Stores consumed		108,913	113,953
Repairs and maintenance		206,694	125,156
Insurance		228,064	254,113
Depreciation on operating fixed assets	– note 22.1.4	570,163	413,294
Depreciation on assets subject to finance lease	– note 23.1	23,793	25,804
Amortisation on intangible assets	– note 24.1	–	21,000
Others		109,434	65,074
		7,020,295	8,675,571
Opening stock of mid products		17,368	12,153
Closing stock of mid products		(16,964)	(17,368)
		404	(5,215)
Cost of goods manufactured		7,020,699	8,670,356
Opening stock of finished goods		382,976	471,088
Stock written off		–	(762)
Closing stock of finished goods		(803,235)	(382,976)
		(420,259)	87,350
Cost of goods sold – own manufactured		6,600,440	8,757,706
Cost of goods sold – purchased for resale	– note 36.3	587,707	293,130
		7,188,147	9,050,836

36.1 Includes expenses of Rs 84.232 million for extraction of rock phosphate by a related party, Pakistan Mining Company Limited.

	2011	2010
	(Rupees in thousand)	
36.2 Salaries, wages and other benefits		
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	13,722	9,104
Interest cost for the year	4,039	2,990
Expected return on plan assets	(3,422)	(2,328)
Past service cost	(59)	(245)
Less: amount charged to related party	(706)	-
	13,574	9,521

In addition to the above, salaries, wages and other benefits include Rs 13.970 million (2010: Rs 11.906 million) and Rs 12.512 million (2010: Rs 8.733 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

36.3 This represents fertilizer purchased from a related party, Fatima Fertilizer Company Limited.

		2011	2010
		(Rupees in thousand)	

37. Administrative expenses

		2011	2010
Salaries, wages and other benefits	– note 37.1	354,764	262,023
Travelling and conveyance		62,070	50,379
Telephone, telex and postage		13,259	12,860
Stationery, printing and periodicals		2,792	6,469
Rent, rates and taxes		16,077	13,841
Repairs and maintenance		72,371	69,309
Aircraft operating expenses	– note 37.2	60,196	60,267
Insurance		9,831	10,899
Legal and professional charges	– note 37.3	25,963	20,389
Vehicle running expenses		5,006	8,090
Entertainment		3,686	4,104
Advertisement		2,987	1,409
Stock written off		–	762
Depreciation on operating fixed assets	– note 22.1.4	201,376	151,063
Depreciation on assets subject to finance lease	– note 23.1	42,706	33,277
Amortization on intangible assets	– note 24.1	1,347	1,346
CDM administrative expenses		9,545	14,507
Others	– note 37.4	84,753	59,052
		968,729	780,046

37.1 Salaries, wages and other benefits

	2011	2010
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	5,529	3,094
Interest cost for the year	1,628	1,016
Expected return on plan assets	(1,379)	(791)
Past service cost	–	(83)
Actuarial gain	(24)	–
	5,754	3,236

In addition to the above, salaries, wages and other benefits include Rs 7.776 million (2010: Rs 3.566 million) and Rs 6.099 million (2010: Rs 3.348 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

37.2 Includes expenses of Rs 26.741 million (2010: Rs 22.258 million) for flying and maintenance services of the company's aircraft by Air One (Private) Limited, a related party.

	2011	2010
	(Rupees in thousand)	

37.3 Professional services

	2011	2010
The charges for professional services include the following in respect of auditors' services for:		
– Statutory audit	1,900	1,700
– Half yearly review	750	750
– Tax services	5,353	3,488
– Assurance and other certification services	320	380
– Out of pocket expenses	701	592
	9,024	6,910

37.4 Includes expenses of Rs 11.214 million (2010: Nil) for research and development activities of the extracted rockphosphate, which has been carried out by a foreign consultant.

		2011	2010
		(Rupees in thousand)	
38. Selling and distribution expenses			
Salaries, wages and other benefits	– note 38.1	91,656	146,461
Travelling and conveyance		10,710	10,147
Telephone, telex and postage		8,189	4,393
Stationery, printing and periodicals		1,313	1,312
Rent, rates and taxes		40,266	24,686
Repairs and maintenance		8,417	3,357
Insurance		3,871	1,327
Vehicle running expenses		13,457	7,261
Entertainment		8,757	3,871
Advertisement and sale promotion		40,058	61,581
Depreciation on operating fixed assets	– note 22.1.4	2,679	4,113
Depreciation on assets subject to finance lease	– note 23.1	18,526	7,820
Transportation and freight		331,013	455,193
Utilities		1,270	900
Technical services		17,505	7,211
CERs share of Mitsubishi Corporation, Japan		230,760	253,506
Others		270	417
		828,717	993,556

38.1 Salaries, wages and other benefits

	2011	2010
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	4,467	1,860
Interest cost for the year	1,315	611
Expected return on plan assets	(1,114)	(476)
Past service cost	(19)	(50)
	4,649	1,945

In addition to the above, salaries, wages and other benefits include Rs 4.979 million (2010: Rs 3.349 million) and Rs 6.506 million (2010: Rs 3.363 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

		2011	2010
		(Rupees in thousand)	
39. Other operating expenses			
Workers' profit participation fund	– note 19.1	290,232	260,594
Workers' welfare fund	– note 19.2	40,619	95,831
Donations	– note 39.1	149,215	30,310
Exchange Loss		30,502	–
		510,568	386,735

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

	Directors of the company	Interest in donee	(Rupees in thousand)
Memon Medical Institute	Mr. Arif Habib	Trustee	2,200
Memon Health & Education Foundation	Mr. Arif Habib	Honorary Chairman	2,000
Karachi Education Initiative	Mr. Arif Habib	Director and Chairman, Finance & Fundraising Committee	12,500
Mukhtar A. Sheikh Trust	Mr. Fawad Ahmad Mukhtar & Mr. Faisal Ahmad Mukhtar	Trustees	101,675
			118,375

		2011	2010
		(Rupees in thousand)	
40. Other operating income			
Income from financial assets:			
Income on bank deposits		13,827	13,140
Income from related party, FATIMA:			
– Interest income on long term loan (from STFF)		325,744	307,715
– Interest income on long term loan		395,995	202,868
– Accrued dividend on preference shares		598,320	545,651
Exchange gain		–	14,589
Gain on cessation of associate		113,461	–
Unrealised gain on investment held to maturity		2,963	2,642
Mark–up on credit sale of fertilizers		11,490	16,656
Gain on derivative financial instruments		124,769	181,892
		1,586,569	1,285,153
Income from non–financial assets:			
Rental income	– note 40.1	44,348	13,714
Profit on disposal of operating fixed assets		9,833	4,608
Income from liquidated damages		–	21,516
Scrap sales and sundry income		12,579	23,793
Unrealised gain on recovery of chemical catalysts		198,690	–
Provisions and unclaimed balances written back		2,236	58,178
Income from biological laboratory		760	1,645
		268,446	123,454
		1,855,015	1,408,607

40.1 Includes rental income of Rs 30.155 million for vehicles in use of Fatima Fertilizer Company Limited, a related party.

		2011	2010
		(Rupees in thousand)	
41. Finance cost			
Interest/mark up on:			
– Listed TFCs – secured		615,205	690,140
– PPTFCs – secured		971,075	972,688
– Finance leases		22,725	26,612
– Share deposit money from related party		33,102	28,803
– Short term borrowings – secured		607,716	871,387
– Long term loans – secured		642,402	604,106
– Syndicated term finance – secured		325,743	307,714
– Workers' Profit Participation Fund	– note 19.1	27,046	33,692
Loan arrangement fees and other charges		24,297	15,408
Acceptance commission on letter of credit		185,738	–
Bank charges		17,356	39,269
		3,472,405	3,589,819
42. Taxation			
Current – for the year		681,710	864,692
Deferred		1,038,832	599,068
		1,720,542	1,463,760

42.1 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.

	2011	**2010**
	(%age)	
42.2 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	0.17	0.47
Exempt for tax purposes	(4.12)	(5.68)
Not taxable under the law	(4.13)	0.88
Chargeable at lower rate of tax	(0.18)	(0.07)
Chargeable at different rate of tax	0.36	–
Allowable as tax credit	(0.29)	–
Effect of change in prior years' tax	–	0.57
Others	0.45	–
	(7.74)	(3.83)
Average effective tax rate charged to profit and loss account	27.26	31.17

43. Earnings per share

43.1 Basic earnings per share

		2011	**2010**
Net profit for the year	Rupees in thousand	4,590,139	3,231,962
Weighted average number of ordinary shares	Number	450,000,000	450,000,000
Earnings per share	Rupees	10.20	7.18

43.2 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, 2011 and December 31, 2010 which would have any effect on the earnings per share if the option to convert is exercised.

		2011	2010
		(Rupees in thousand)	
44. Cash generated from operations			
Profit before taxation		6,310,681	4,695,722
Adjustments for non cash charges and other items:			
– Depreciation on operating fixed assets		774,218	568,470
– Depreciation on leased assets		85,025	66,901
– Amortization on intangible assets		22,347	22,346
– Retirement benefits accrued		75,820	48,815
– Profit on disposal of operating fixed assets		(9,833)	(4,608)
– Provisions and unclaimed balances written back		(2,236)	(58,178)
– Finance cost		3,472,405	3,589,819
– Income on bank deposits		(13,827)	(13,140)
– Interest income on long term loans to related party		(721,739)	(510,583)
– Unrealised (gain)/loss on re-measurement of investments		(854,511)	120,720
– Dividend income on preference shares of related party		(598,320)	–
– Unrealised gain on investment held to maturity		(2,963)	(2,642)
– Unrealised gain on recovery of catalyst		(198,690)	–
– Share of loss of associate		17,612	39,002
Profit before working capital changes		8,355,989	8,562,644
Effect on cash flow due to working capital changes			
– Increase in stores and spare parts		(75,019)	(429,369)
– Decrease/(increase) in stock–in–trade		889,632	(153,740)
– Decrease/(increase) in trade debts		963,436	(1,111,851)
– Increase in advances, deposits prepayments and other receivables		(347,484)	(456,617)
– (Decrease)/increase in trade and other payables		(1,696,004)	2,043,149
		(265,439)	(108,428)
		8,090,550	8,454,216
45. Cash and cash equivalents			
Short term borrowings		(4,643,806)	(4,702,528)
Cash and bank balances	– note 34	796,323	185,675
		(3,847,483)	(4,516,853)

46. Remuneration of Chief Executive, Directors and Executives

46.1 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		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
Short term employee benefits						
Managerial remuneration	7,241	7,241	13,241	13,241	230,533	148,520
Housing rent	3,259	3,259	3,259	3,259	84,414	66,834
Utilities	2,024	2,597	1,294	1,438	18,759	14,852
Conveyance	-	-	240	240	24,610	19,937
Incentives	7,845	3,621	7,845	3,621	93,846	68,290
Medical expenses	181	209	110	–	1,213	3,363
Leave passage	–	–	–	–	29,213	5,171
Club expenses	3,503	3,483	456	830	–	422
	24,053	20,410	26,445	22,629	482,588	327,389
Post employment benefits						
Contribution to provident and gratuity funds	–	–	–	–	32,355	19,046
Other long term benefits						
Accumulating compensated absences	–	–	–	–	24,241	18,658
	24,053	20,410	26,205	22,389	539,185	365,093
Number of persons	1	1	2	2	179	143

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

47. Transactions with related parties

The related parties comprise subsidiary, associated undertakings, other related parties, key management personnel and post employment benefit plans. The company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 46. Other significant transactions with related parties are as follows:

		2011	2010
		(Rupees in thousand)	
Relationship with the company	**Nature of transactions**		
i. Associated undertakings	Purchase of goods	-	39,647
	Sale of goods and services	340,391	-
ii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	80,286	53,543

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

		2011	2010
48. Capacity and production			
Urea			
Rated production capacity	M. Tons	92,400	92,400
Actual urea produced	M. Tons	28,180	73,933
The low production is due to shortage of natural gas and periodical maintenance.			
Nitro Phosphate (NP)			
Rated production capacity	M. Tons	304,500	304,500
Actual NP produced	M. Tons	229,937	316,699
The low production of NP is due to shortage of natural gas and periodical maintenance.			
Calcium Ammonium Nitrate (CAN)			
Rated production capacity	M. Tons	450,000	450,000
Actual CAN produced	M. Tons	242,820	350,062
The low production of CAN is due to shortage of natural gas and periodical maintenance.			

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, 2011 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 70.982 million (2010: Rs 65.057 million) lower / higher, mainly as a result of exchange losses / gains on translation of USD denominated financial instruments.

At December 31, 2011 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 7.246 million (2010: Rs 0.504 million) higher / lower, 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 interest rate risk.

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

	2011	2010
	(Rupees in thousand)	
Fixed rate instruments:		
Financial assets		
Investment	27,349	24,386
Trade debts	122,563	232,868
Bank balances - saving accounts	645,471	132,871
	795,383	390,125
Financial liabilities	-	-
Net exposure	795,383	390,125
Floating rate instruments:		
Financial assets		
Long term loans	4,515,565	4,515,565
Investment	3,600,000	3,600,000
Derivative financial instruments	18,756	69,958
	8,134,321	8,185,523
Financial liabilities		
Long term finances	14,728,310	17,192,893
Liabilities against assets subject to finance lease	208,112	299,909
Short term borrowings	4,643,806	4,702,528
	19,580,228	22,195,330
Net exposure	(11,445,907)	(14,009,807)

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 33.620 million (2010: Rs 33.376 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:

	2011	2010
	(Rupees in thousand)	
Investments	130,482	2,930,231
Long term loans	4,515,565	4,515,565
Security deposits	5,663	4,893
Trade debts	890,573	1,850,695
Advances, deposits and other receivables	2,244,813	900,087
Derivative financial instruments	18,756	69,958
Short term investments	7,358,830	6,513,126
Bank balances	791,898	182,414
	15,956,580	16,966,969

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:

	2011	2010
	(Rupees in thousand)	
Upto 90 days	243,082	601,088
91 to 180 days	326,332	296,686
181 to 270 days	160,739	209,452
271 to 360 days	122,596	334,770
above 360 days	37,824	408,699
	890,573	1,850,695

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

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

	Rating Short term	Rating Long term	Rating Agency	2011	2010
				(Rupees in thousand)	
Al Baraka Islamic Bank Limited	A1	A	PACRA	26,169	13,996
Allied Bank Limited	A1+	AA	PACRA	10,930	14,208
Summit Bank Limited	A-2	A	JCR-VIS	523,406	119,340
Askari Bank Limited	A1+	AA	PACRA	1,511	-
Bank Alfalah Limited	A1+	AA	PACRA	6,558	1,503
Deutsche Bank A.G	AA-	F1+	FITCH	2,067	4,079
Dubai Islamic Bank Limited	A-1	A	JCR-VIS	383	217
Faysal Bank Limited	A1+	AA	PACRA	35,522	1,602
Habib Bank Limited	A-1+	AA+	JCR-VIS	11,446	2,885
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	1,550	2,200
MCB Bank Limited	A1+	AA+	PACRA	1,021	1,760
Meezan Bank Limited	A-1+	AA-	JCR-VIS	4,412	391
National Bank of Pakistan	A-1+	AAA	JCR-VIS	21,865	5,696
The Royal Bank of Scotland	A1+	AA	PACRA	-	116
Silkbank Limited	A-2	A-	JCR-VIS	1	2
Soneri Bank Limited	A1+	AA-	PACRA	-	-
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	14,443	5,795
The Bank of Punjab	A1+	AA-	PACRA	-	-
United Bank Limited	A-1+	AA+	JCR-VIS	107,455	6,533
Zarai Taraqiati Bank Limited	A-1+	AAA	JCR-VIS	53	50
BankIslami Pakistan Limited	A1	A	PACRA	23,105	2,041
				791,898	182,414

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 45) 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, 2011

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

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

49.2 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

The following table presents the company's assets and liabilities that are measured at fair value at December 31, 2010.

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	7,280	-	-	7,280
Derivative financial instruments	-	69,958	-	69,958
Available for sale				
Preference shares of FATIMA	-	3,600,000	-	3,600,000
Total assets	7,280	3,669,958	-	3,677,238
Liabilities	-	-	-	-

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

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

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

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.
– The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
– Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

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, 2011					
Assets as per balance sheet					
Long term loans	-	-	-	4,515,565	4,515,565
Security deposits	-	-	-	5,663	5,663
Trade debts	-	-	-	890,573	890,573
Advances, deposits and other receivables	-	-	-	2,113,481	2,113,481
Derivative financial instruments	-	18,756	-	-	18,756
Investments	3,623,500	3,580	27,349	-	3,654,429
Cash and bank balances	-	-	-	796,323	796,323
	3,623,500	22,336	27,349	8,321,605	11,994,790

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

	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	77,238	24,386	7,353,287	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

49.4 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the company monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term finances obtained by the company as referred to in note 9 and note 16. 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, 2011 and December 31, 2010 is as follows:

		2011	2010
		(Rupees in thousand)	
Borrowings	– note 9 & 16	14,728,310	17,192,893
Less: Cash and cash equivalents	– note 45	3,847,483	4,516,853
Net debt		18,575,793	21,709,746
Total equity		22,356,334	14,724,303
Gearing ratio		45	60

50. Date of authorization for issue

These financial statements were authorized for issue on March 09, 2012 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 NIL (2010: 225 million) ordinary shares of its related party, FATIMA, having face value of Rs 10 each, to the members of the company as 'specie dividend' in the ratio of NIL (2010: 5) ordinary shares of FATIMA for every 10 (2010: 10) ordinary shares held of the existing issued, subscribed and paid up share capital of the company at their meeting held on March 09, 2012 for approval of the members at the Annual General Meeting to be held on April 16, 2012. 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**

Consolidated Financial Statements of

Pakarab Fertilizers Limited

for the year ended December 31, 2011

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Pakarab Fertilizers Limited (the holding company) and its subsidiary company (hereinafter referred to as 'the Group') as at December 31, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Pakarab Fertilizers Limited and its subsidiary company. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of Pakarab Fertilizers Limited and its subsidiary company (the Group) as at December 31, 2011 and the results of their operations for the year then ended.

A.F. Ferguson & Co.
Chartered Accountants
Lahore: March 09, 2012

Engagement Partner: Muhammad Masood

Consolidated Balance Sheet
as at December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised share capital 1,000,000,000 (2010: 1,000,000,000) ordinary shares of Rs 10 each		10,000,000	10,000,000
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued, subscribed and paid up share capital 450,000,000 (2010: 450,000,000) ordinary shares of Rs 10 each	5	4,500,000	4,500,000
Share deposit money	6	200,000	200,000
Reserves	7	5,711,183	7,548,456
		10,411,183	12,248,456
SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS	8	11,942,294	2,475,847
NON-CURRENT LIABILITIES			
Long term finances - secured	9	8,672,192	13,371,890
Supplier's credit - secured	10	1,796,000	-
Liabilities against assets subject to finance lease	11	138,018	217,379
Payable against mining rights	12	-	-
Long term deposits	13	47,345	44,031
Deferred liabilities	14	90,684	57,366
Deferred taxation	15	10,967,290	5,574,152
		21,711,529	19,264,818
CURRENT LIABILITIES			
Current portion of long term liabilities	16	6,335,181	4,008,533
Short term borrowings - secured	17	4,643,806	4,702,528
Payable to Privatization Commission of Pakistan	18	2,197,901	2,197,901
Trade and other payables	19	3,145,761	4,458,237
Accrued finance cost	20	677,821	650,151
Dividend payable		3,755,250	-
Provision for taxation		731,118	630,936
		21,486,838	16,648,286
CONTINGENCIES AND COMMITMENTS	21		
		65,551,844	50,637,407

The annexed notes 1 to 53 form an integral part of these financial statements.

Chief Executive

	Note	2011	2010
		(Rupees in thousand)	
ASSETS			
NON–CURRENT ASSETS			
Property, plant and equipment	22	38,248,373	21,916,392
Assets subject to finance lease	23	229,382	282,714
Intangible assets	24	161,000	183,347
Goodwill	25	3,305,163	3,305,163
Investments	26	27,349	2,930,231
Long term loans - unsecured	27	4,515,565	4,515,565
Security deposits		57,036	45,018
		46,543,868	33,178,430
CURRENT ASSETS			
Stores and spare parts	28	2,583,273	2,309,564
Stock-in-trade	29	2,057,363	2,946,995
Trade debts	30	890,573	1,850,695
Advances, deposits, prepayments and other receivables	31	5,302,845	3,582,964
Derivative financial instruments	32	18,756	69,958
Investments	33	7,358,830	6,513,126
Cash and bank balances	34	796,336	185,675
		19,007,976	17,458,977
		65,551,844	50,637,407

Director

Consolidated Profit and Loss Account

for the year ended December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
Sales	35	16,700,794	18,247,829
Cost of sales	36	(7,188,147)	(9,050,836)
Gross profit		9,512,647	9,196,993
Administrative expenses	37	(969,535)	(780,046)
Selling and distribution expenses	38	(828,717)	(993,556)
Other operating expenses	39	(511,839)	(386,735)
Other operating income	40	1,855,015	1,408,607
Profit from operations		9,057,571	8,445,263
Finance cost	41	(3,472,416)	(3,589,819)
Gain/(loss) on re-measurement of financial assets at fair value through profit or loss		741,050	(120,720)
Share of loss of associate		(17,612)	(39,002)
Profit before taxation		6,308,593	4,695,722
Taxation	42	(1,720,542)	(1,463,760)
Profit for the year		4,588,051	3,231,962
Profit attributable to owners of the parent		4,588,051	3,231,962

The annexed notes 1 to 53 form an integral part of these financial statements.

Chief Executive **Director**

Consolidated Statement of Comprehensive Income
for the year ended December 31, 2011

	2011	2010
	(Rupees in thousand)	
Profit for the year	4,588,051	3,231,962
Other comprehensive income		
Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	227,734	-
Total comprehensive income for the year	4,815,785	3,231,962
Attributable to owners of the parent	4,815,785	3,231,962

The annexed notes 1 to 53 form an integral part of these financial statements.

Chief Executive

Director

Consolidated Statement of Changes in Equity
for the year ended December 31, 2011

	Attributable to the owners of the parent				
			Revenue reserves		
	Share capital	Share deposit money	General reserve	Unappropriated profit	Total
	(Rupees in thousand)				
Balance as on January 01, 2010 - restated	4,500,000	200,000	4,995,352	5,152,449	14,847,801
Profit for the year	-	-	-	3,231,962	3,231,962
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	3,231,962	3,231,962
Specie dividend to owners of the parent company	-	-	-	(5,831,307)	(5,831,307)
Total contributions by and distributions to owners of the parent company recognised directly in equity	-	-	-	(5,831,307)	(5,831,307)
Balance as on December 31, 2010	4,500,000	200,000	4,995,352	2,553,104	12,248,456
Profit for the year	-	-	-	4,588,051	4,588,051
Share issuance cost, net	-	-	-	(769)	(769)
Other comprehensive income for the year:					
Surplus on revaluation of operating fixed assets realised through incremental depreciation charged on related assets for the year	-	-	-	227,734	227,734
Total comprehensive income for the year	-	-	-	4,815,016	4,815,016
Specie dividend to owners of the parent company	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Total contributions by and distributions to owners of the parent company recognised directly in equity	-	-	(2,897,039)	(3,755,250)	(6,652,289)
Balance as on December 31, 2011	4,500,000	200,000	2,098,313	3,612,870	10,411,183

The annexed notes 1 to 53 form an integral part of these financial statements.

Chief Executive **Director**

Consolidated Cash Flow Statement
for the year ended December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
Cash flows from operating activities			
Cash generated from operations	43	8,110,966	8,454,216
Finance cost paid		(3,445,481)	(3,929,090)
Taxes paid		(581,528)	(379,235)
Retirement benefits paid		(41,345)	(36,713)
Net cash inflow from operating activities		4,042,612	4,109,178
Cash flows from investing activities			
Purchase of property, plant and equipment		(947,577)	(1,193,641)
Security deposits		(12,018)	(27,472)
Sale proceeds of property, plant and equipment disposed		26,581	22,255
Investments made		-	(20,000)
Proceeds from sale of investment		-	150,000
Long term loans to related party		-	(2,319,245)
Interest received from related party		-	386,602
Profit on bank deposits received		15,622	12,593
Net cash outflow from investing activities		(917,392)	(2,988,908)
Cash flows from financing activities			
Repayment of redeemable capital		(2,625,000)	(297,000)
Proceeds from long term loans acquired		1,437,836	1,066,201
Repayment of long term loans		(1,089,450)	(943,270)
Share issuance costs		(769)	-
Payment of liability against mining rights		(84,000)	(52,500)
Repayment of finance lease liability		(94,454)	(89,849)
Net cash outflow from financing activities		(2,455,837)	(316,418)
Net increase in cash and cash equivalents		669,383	803,852
Cash and cash equivalents at the beginning of the year		(4,516,853)	(5,320,705)
Cash and cash equivalents at the end of the year	44	(3,847,470)	(4,516,853)

The annexed notes 1 to 53 form an integral part of these financial statements.

Chief Executive **Director**

1. Legal status and nature of business

Pakarab Fertilizers Limited ('the parent company') was incorporated as a private limited company in Pakistan under the Companies Act, 1913, (now Companies Ordinance, 1984). The parent company's status changed to a non-listed public company from June 7, 2007. The parent company's Term Finance Certificates are listed at the Karachi Stock Exchange (Guarantee) Limited ('KSE'). On April 12, 2011, the parent company incorporated a wholly owned subsidiary company, Reliance Sacks Limited (together, 'the Group'). Reliance Sacks Limited is a non-listed public company incorporated in Pakistan under the Companies Ordinance, 1984. The parent company is principally engaged in the manufacturing and sale of chemical fertilizers and generation and sale of Certified Emission Reductions (CERs) while the subsidiary company is in the process of setting up the project at Mukhtar Garh, Sadiqabad to manufacture polypropylene sacks on land that is leased out to the Group by Fatima Fertilizer Company Limited, a related party. The address of the registered offices of both the companies is E-110, Khayaban-e-Jinnah, Lahore Cantt. The manufacturing facilities of the parent and subsidiary company are located in Multan and Sadiqabad respectively. The subsidiary company is in its setup phase and has not yet commenced commercial operations.

2. Basis of preparation

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

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

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

2.2.1 Amendments to published standards effective in current year

New and amended standards, and interpretations mandatory for the first time for the financial year beginning on or after January 01, 2011 that are either not relevant to the Group's current operations (although they may affect the accounting for future transactions and events) or are not expected to have significant impact on the Group's financial statements other than certain additional disclosures:

– IFRS 7 (Amendments), 'Financial Instruments', emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

– IAS 1 (Amendments), clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

– Revised IAS 24, 'Related Party Disclosures', issued in November 2009. It supersedes IAS 24, 'Related Party Disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

– 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

– Prepayments of a minimum funding requirement' (amendments to IFRIC 14). 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 this. The amendments should be applied retrospectively to the earliest comparative period presented.

– IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

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

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2012 or later periods, but the Group has not early adopted them:

– IFRS 7 - 'Financial Instruments: Disclosures' (Amendments). These are applicable on accounting periods beginning on or after July 01, 2011. These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Earlier application is permitted. The Group will apply these amendments from January 01, 2012 and does not expect to have any material impact on its financial statements.

– IFRS 9, 'Financial Instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 01, 2013 but is available for early adoption. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace IAS 39, 'Financial Instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities.

– IFRS 10, 'Consolidated Financial Statements', applicable from January 01, 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IFRS 11, 'Joint Arrangements', applicable from January 01, 2013, is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IFRS 12 - 'Disclosures of interests in other entities'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IFRS 13 - 'Fair value measurement'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group will apply this standard from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IAS 1 - 'Financial statement presentation' (Amendment). This is applicable on accounting periods beginning on or after July 01, 2012. The main change resulting from this amendment is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. The Group will apply this amendment from January 01, 2013 and does not expect to have any material impact on its financial statements.

– IAS 12 - 'Income Taxes' (Amendments). These are applicable on accounting periods beginning on or after January 01, 2012. IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Group will apply these amendments from January 01, 2012 and does not expect to have any material impact on its financial statements.

– IAS 19 - 'Employee Benefits' (Amendment). This is applicable on accounting periods beginning on or after January 01, 2013. The amendment will eliminate the corridor approach and calculate finance costs on a net funding basis. The Group will apply this amendment from January 01, 2013 and does not expect to have any material impact on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. Basis of measurement

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

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

a) Employee retirement benefits

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

b) Provision for taxation

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

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

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

d) Estimated impairment of goodwill

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

4. Significant accounting policies

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

4.1 Principles of consolidation

a) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

c) Disposal of subsidiaries

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

d) Associates

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

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

4.2 Taxation

Current

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

Deferred

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

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

4.3 Employee retirement benefits

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

(a) Defined benefit plan - Gratuity

The Group 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, 2011. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

– Discount rate 12.50% per annum

– Expected rate of increase in salary level 11.50% per annum

– Expected rate of return 13.00% per annum

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

(b) Defined contribution plan - Provident Fund

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

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

Depreciation on operating fixed assets is charged to profit on the straight line method so as to write off the depreciable amount of an asset over its estimated useful life at the annual rates given in note 22.1 after taking into account their residual values. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Group's estimate of the residual value of its operating fixed assets as at December 31, 2011 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 Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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

4.4.2 Capital work-in-progress

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

4.5 Intangible assets

4.5.1 Computer software

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

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

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

4.5.2 Mining rights

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

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

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

4.6 Impairment of non-financial assets

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

4.7 Leases

The Group is the lessee.

4.7.1 Finance leases

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

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

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

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

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

4.7.2 Operating leases

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

4.8 Goodwill

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

4.9 Investments

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

4.10 Financial assets

4.10.1 Classification

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

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available-for-sale financial assets

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

d) Held to maturity

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

4.10.2 Recognition and measurement

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

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

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

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

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

4.11 Financial liabilities

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

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

4.12 Offsetting of financial assets and financial liabilities

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

4.13 Derivative financial instruments

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

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

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

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

4.14 Stores and spare parts

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

4.15 Stock-in-trade

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

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

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

4.16 Trade debts and other receivables

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

4.17 Cash and cash equivalents

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

4.18 Borrowings

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

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

4.19 Trade and other payables

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

4.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.21 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

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

4.22 Borrowing costs

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.

4.23 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably.

Revenue 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.

4.24 Share capital

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

4.25 Dividend

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

4.26 Segment reporting

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

5. Issued, subscribed and paid up share capital

2011	2010		2011	2010
(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

	2011	2010
	(Number of shares)	
Ordinary shares of the parent company held by associated undertakings as at year end are as follows:		
Reliance Commodities (Private) Limited	7,136,613	7,136,613
Fatima Sugar Mills Limited	71,250,558	71,250,558
Fazal Cloth Mills Limited	25,790,610	25,790,610
Arif Habib Corporation Limited	135,000,000	135,000,000
	239,177,781	239,177,781

6. Share deposit money

This represents contribution towards the share capital of the parent company against which shares have not been issued. It has been contributed by a related party, Fazal Cloth Mills Limited. Since the parent 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 16.40% to 16.70% per annum.

	2011	2010
	(Rupees in thousand)	
7. Reserves		
Revenue:		
– General reserve	2,098,313	4,995,352
– Un-appropriated profit	3,612,870	2,553,104
	5,711,183	7,548,456

8. Surplus on revaluation of operating fixed assets

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

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

		2011	2010
		(Rupees in thousand)	
Opening balance – net of tax		2,475,847	2,475,847
Revaluation surplus during the year	– note 22.1	14,048,486	-
Deferred tax on revaluation	– note 15	(4,434,012)	-
Surplus transferred to other comprehensive income for the year on account of incremental depreciation - net of tax		(148,027)	-
Closing balance – net of tax	– note 8.1	11,942,294	2,475,847

8.1 Includes surplus on revaluation of freehold land amounting to Rs 3,855.69 million (2010: Rs 2,475.85 million).

		2011	2010
		(Rupees in thousand)	

9. Long term finances - secured

Redeemable capital	– note 9.1	4,750,000	8,575,000
Long term loans	– note 9.2	2,563,859	2,759,390
Syndicated term finance	– note 9.3	1,358,333	2,037,500
		8,672,192	13,371,890

9.1 Redeemable capital

This is composed of:			
Listed Term Finance Certificates	– note 9.1.1	3,700,000	4,700,000
Privately Placed Term Finance Certificates	– note 9.1.2	4,875,000	6,500,000
		8,575,000	11,200,000
Less: Current portion shown under current liabilities	– note 16	3,825,000	2,625,000
		4,750,000	8,575,000

9.1.1 Listed Term Finance Certificates

Opening balance	4,700,000	4,997,000
Redeemed during the year	(1,000,000)	(297,000)
	3,700,000	4,700,000
Less: Current portion shown under current liabilities	2,200,000	1,000,000
	1,500,000	3,700,000

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 ending on February 28, 2013 .The group has an option to redeem in full (Call Option) or part (Partial Call Option) of the outstanding amount without any premium by giving written notice to the Trustee at least sixty days prior to the option date. The Call Option is exercisable only on mark up payment dates.

Rate of return

The return on TFCs is payable semi-annually and is calculated at the rate of six months Karachi Inter-Bank Offered Rate (KIBOR) plus 1.5% per annum with no floor or cap. The effective mark up rate charged during the year on the outstanding balance ranges from 14.37% to 15.26% per annum.

Trustee

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

In case the group 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 parent company excluding assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the lamont boiler for nitric acid.

		2011	2010
		(Rupees in thousand)	
9.1.2	**Privately Placed Term Finance Certificates (PPTFCs)**		
	Opening balance	6,500,000	6,500,000
	Redeemed during the year	(1,625,000)	-
		4,875,000	6,500,000
	Less: Current portion shown under current liabilities	1,625,000	1,625,000
		3,250,000	4,875,000

On December 15, 2009, the parent company converted the bridge finance of Rs 6,500 million from Habib Bank Limited (HBL) and National Bank of Pakistan (NBP) to Term Finance Certificates having unit value of Rs 5,000 each by way of private placement. As of December 31, 2011, HBL and NBP hold 400,000 units and 889,137 units respectively while the remaning 10,863 units are held by other private investors.

Terms of redemption

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

Rate of return

The return on PPTFCs is payable semi-annually and is calculated on the outstanding balance at the rate of six months KIBOR plus 2.5% per annum. The effective mark up rate charged during the year on the outstanding balance ranges from 14.46% to 16.28% per annum.

Trustee

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

In case the Group 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 parent company excluding land and buildings and lamont boiler for nitric acid, the Cessna aircraft, Clean Development Mechanism (CDM) project and carbon dioxide recovery plant / liquefaction plant.

			2011	2010
			(Rupees in thousand)	
9.2	**Long term loans**			
	These have been obtained from the following financial institutions:			
	Habib Bank Limited - Loan 1	– note 9.2.1	486,000	810,000
	Habib Bank Limited - Loan 2	– note 9.2.2	96,476	155,116
	Dubai Islamic Bank Limited	– note 9.2.3	262,500	612,499
	MCB Bank Limited	– note 9.2.4	1,033,334	1,377,778
	Standard Chartered Bank (Pakistan) Limited	– note 9.2.5	900,000	1,000,000
	National Bank of Pakistan	– note 9.2.6	437,500	–
	Pakistan Kuwait Investment Company (Private) Limited	– note 9.2.7	500,000	–
	Soneri Bank Limited	– note 9.2.8	400,000	–
	Meezan Bank Limited	– note 9.2.9	187,969	–
			4,303,779	3,955,393
	Less: Current portion shown under current liabilities	– note 16	1,739,920	1,196,003
			2,563,859	2,759,390

9.2.1 The purpose of this term finance facility was to finance the purchase of heat recovery steam generators for the power plant of the parent company. It is repayable in three 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 450 million, while on the remaining Rs 36 million, markup is payable at the rate of six months KIBOR plus 3% per annum. The effective markup rate charged during the year on the outstanding balance ranges from 12.92% to 16.75% per annum. It is secured by a registered first pari passu charge on present and future fixed assets of the parent company excluding the Cessna aircraft.

9.2.2 This represents a term loan facility for financing the purchase of ammonia storage tank. It is repayable in two semi-annual installments of Rs 48.238 million each ending on September 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 14.93% to 16.58% per annum. It is secured by a registered first pari 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.

9.2.3 This represents Shirkat El Melk facility for financing the carbon dioxide recovery/ liquefaction plant. It is repayable in three 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 13.97% to 15.79% per annum. The facility is secured by first exclusive hypothecation charge over the parent company's carbon dioxide recovery/ liquefaction plant and ranking charge on present and future fixed assets excluding land and building.

9.2.4 This represents a term loan facility and is repayable in six 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 800.001 million, while on the remaining of Rs 233.333 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 800.001 million ranges from 12.60% to 14.36% per annum, while on the outstanding balance of Rs 233.333 million, the effective markup rate charged during the year ranges from 14.95% to 16.71% per annum. It is secured by a registered first pari passu charge on all present and future fixed assets of the parent company excluding the assets comprising the Clean Development Mechanism (CDM) project, the Cessna aircraft and the Lamont boiler for nitric acid.

9.2.5 This represents a term loan facility 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 ending on March 15, 2014. 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 15.24% to 16.09% per annum. The loan is secured by a registered charge over fixed assets comprising the Clean Development Mechanism (CDM).

9.2.6 This represents credit facility of Rs 500 million to cover debt swap of expensive debts outstanding with financial institutions. It is repayable in seven equal quarterly installments of Rs 62.5 million each ending on September 25, 2013 and carries mark up at the rate of three months KIBOR plus 2.5% per annum, payable quarterly. The effective markup rate charged during the year on the outstanding balance ranges from 14.44% to 16.04% per annum. It is secured by a first exclusive hypothecation charge over the Cessna aircraft, pledge of ordinary shares of Fatima Fertilizer Company Limited held by the parent company and ranking charge over current assets excluding the receivables of CERs revenue.

9.2.7 This represents term finance facility of Rs 500 million to finance the parent company's capacity expansion. It is repayable in eight equal semi-annual installments of Rs 62.5 million each commencing December 29, 2012 and carries mark up at the rate of six months KIBOR plus 2.25% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance ranges from 14.26% to 16.03% per annum. It is secured by a pari passu charge on all present and future movable fixed assets excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories.

9.2.8 This represents term finance facility of Rs 400 million to meet the parent company's capital expenditure / repayment of expensive debt. It is repayable in six equal semi-annual installments of Rs 66.667 million each commencing March 30, 2014 and carries mark up at the rate of six months KIBOR plus 1.75% per annum, payable semi-annually. The effective markup rate charged during the year on the outstanding balance was 13.65% per annum. It is secured by a first pari passu charge on the parent company's present and future fixed assets including land and building and machinery excluding the assets comprising of Ammonia Converter Basket, the Lamont Boiler for Nitric Acid, the Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project, the complete carbon dioxide recovery plant / liquefaction plant along with carbon dioxide static storage tank, tools and its spares, tools and accessories and the land and buildings related to these assets.

9.2.9 This represents diminishing musharakah facility of Rs 250 million from a banking company, Meezan Bank Limited, and the purpose of this facility is to finance the purchase of both local and imported plant and machinery for the subsidiary company. It has a tenor of 5 years including a grace period of one and a half year. It is repayable in fourteen equal quarterly installments of Rs 17,857,143 each commencing June 16, 2013 and carries markup at the rate of six months Karachi Inter-Bank Offered Rate (KIBOR) plus 3% per annum with a floor of 12% and a cap of 25%. The effective markup rate charged during the period on the outstanding balance is 14.98% per annum. The facility is secured by a registered mortgage of Rs 100 million over the building/superstructure on the subsidiary company's leasehold land and an exclusive hypothecation charge on plant and machinery.

			2011	2010
			(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
	Less: Current portion shown under current liabilities	- note 16	679,167	-
			1,358,333	2,037,500

It represents a syndicated term finance facility (STFF) of Rs 2,119 million to finance equity investment / debt financing in Fatima Fertilizer Company Limited, a related party. 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 15.36% to 16.26%. The facility is secured by a registered first pari passu charge on all present and future fixed assets of the parent company including plant and machinery, fixtures, fittings, vehicles, tools and equipment but excluding immovable property, land and buildings, Lamont Boiler for nitric acid, Cessna aircraft, the assets comprising of the Clean Development Mechanism (CDM) project and the complete carbon dioxide recovery plant/liquefaction plant along with carbon dioxide static storage tank, its spares, tools and accessories. Of the aggregate facility of Rs 2,119 million, the amount availed as at December 31, 2011 is Rs 2,037.5 million.

10. Supplier's credit - secured

This represents an interest free amount of USD 20 million payable to Bombardier Inc., Canada secured through deferred payment letter of credit of 720 days against purchase of an aircraft. The letter of credit is secured through an exclusive hypothecation charge over the aircraft with all accessories, spares and parts installed or which may be installed in future.

		2011	2010
		(Rupees in thousand)	
11. Liabilities against assets subject to finance lease			
Present value of minimum lease payments	– note 11.1	208,112	299,909
Less: Current portion shown under current liabilities	– note 16	70,094	82,530
		138,018	217,379

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 12.58% to 16.86%. Since the implicit interest rate is linked with KIBOR so the amount of minimum lease payments and finance charge may vary from period to period. The lessee has the option to purchase the assets after expiry of the lease term.

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

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

	Minimum lease payments	Future finance cost	Present value of lease liability	
			2011	2010
	(Rupees in thousand)			
Not later than one year	90,263	20,169	70,094	82,530
Later than one year and not later than five years	149,778	11,760	138,018	217,379
	240,041	31,929	208,112	299,909

11.1 These include balance of Rs 5.466 million (2010: Rs 31.794 million) of a related party, Summit Bank Limited.

12. 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 opening balance of Rs 105 million was rescheduled last year and was payable in two semi annual installments of Rs 52.5 million each on February 28, 2011 and August 28, 2011, respectively. The Group has paid the full amount of Rs 52.5 million installment due on February 28, 2011 while it has paid Rs 31.5 million out of the Rs 52.5 million installment due on August 28, 2011. Since the Group has failed to pay the installments on the rescheduled dates, the mining rights can be cancelled by the GOKP. As referred to in note 26.2, it has also pledged its investment in Defence Saving Certificates as security with the Director General, Mines & Minerals, GOKP as per the terms of the mining agreement. The movement of the balance is as follows:

		2011	2010
		(Rupees in thousand)	
Opening balance		105,000	157,500
Paid during the year		84,000	52,500
		21,000	105,000
Less: Current portion shown under current liabilities (overdue)	– note 16	21,000	105,000
		-	-

13. Long term deposits

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

14. Deferred liabilities

		2011	2010
		(Rupees in thousand)	
Accumulating compensated absences	– note 14.1	66,001	42,664
Retirement benefits - gratuity fund	– note 14.2	24,683	14,702
		90,684	57,366

14.1 Accumulating compensated absences

	2011	2010
Opening balance	42,664	29,233
Provision for the year	25,269	15,292
	67,933	44,525
Less: Payments made during the year	1,932	1,861
Closing balance	66,001	42,664

14.2 Gratuity fund

The amounts recognised in the balance sheet are as follows:

	2011	2010
Present value of defined benefit obligation	88,126	53,709
Fair value of plan assets	(64,824)	(45,505)
Unrecognised actuarial gains	1,381	6,498
Liability as at year end	24,683	14,702

	2011	2010
Opening net liability	14,702	16,527
Charge to profit and loss account	23,977	14,702
Charge to related party	706	-
Contribution by the company	(14,702)	(16,527)
Liability as at year end	24,683	14,702

	2011	2010
	(Rupees in thousand)	
The movement in the present value of defined benefit obligation is as follows:		
Opening present value of defined benefit obligation	53,709	38,481
Service cost	23,719	14,057
Interest cost	6,982	4,618
Benefits due but not paid to out-going members during the year	–	(150)
Benefits paid to out-going members during the year	(1,877)	(4,521)
Experience loss/(gain)	5,593	1,224
Present value of defined benefit obligation as at year end	88,126	53,709
The movement in fair value of plan assets is as follows:		
Opening fair value	45,505	29,959
Expected return on plan assets	5,916	3,595
Group contributions	14,702	16,527
Benefits due but not paid to out-going members during the year	–	(150)
Benefits paid to out-going members during the year	(1,877)	(4,521)
Experience gain	578	95
Fair value as at year end	64,824	45,505
Plan assets are comprised as follows:		
Mixed funds	62,777	29,284
Cash	2,047	16,371
Payable to outgoing members	–	(150)
	64,824	45,505

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

	2011	2010	2009	2008	2007
			(Rupees in thousand)		
Present value of defined benefit obligation	88,126	53,709	38,481	32,356	17,960
Fair value of plan assets	64,824	45,505	29,959	20,783	4,807
Loss	(23,302)	(8,204)	(8,522)	(11,573)	(13,153)
Experience adjustment on obligation	6%	2%	-21%	5%	3%
Experience adjustment on plan assets	0.89%	0.21%	2%	3%	10%

		2011	2010
		(Rupees in thousand)	

15. Deferred taxation

The liability for deferred taxation comprises temporary differences relating to:

		2011	2010
Accelerated tax depreciation		10,183,663	5,308,553
Accumulating compensated absences		(23,100)	(14,932)
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		7,444	12,182
Interest receivable		336,500	84,520
Accrued preference dividend		400,390	190,978
Unrealised recovery of chemical catalyst		69,542	-
		10,967,290	5,574,152

The gross movement in deferred tax liability during the year is as follows:

		2011	2010
Opening balance		5,574,152	4,975,084
Deferred tax on revaluation surplus during the year	– note 8	4,434,012	-
Transferred to other comprehensive income for the year on account of incremental depreciation		(79,706)	-
Charged to profit and loss account		1,038,832	599,068
Closing balance		10,967,290	5,574,152

16. Current portion of long term liabilities

Long term finances - secured:

		2011	2010
– Redeemable capital	– note 9.1	3,825,000	2,625,000
– Long term loans	– note 9.2	1,739,920	1,196,003
– Syndicated term finance	– note 9.3	679,167	-
Liabilities against assets subject to finance lease	– note 11	70,094	82,530
Payable against mining rights	– note 12	21,000	105,000
		6,335,181	4,008,533

17. Short term borrowings - secured

		2011	2010
Running finances	– note 17.1	3,494,806	3,753,528
Term finances	– note 17.2	1,149,000	949,000
		4,643,806	4,702,528

17.1 Running finances

Short term running finance facilities available from commercial banks under mark-up arrangements amount to Rs 7,101 million (2010: Rs 6,218 million). The rates of mark-up range from Rs 0.361 to Rs 0.480 per Rs 1,000 per diem on the outstanding balance or part thereof. The aggregate running finances are secured against pledge of stock-in-trade as referred to in note 29.1 and registered hypothecation charge on current assets (excluding CER receivables) of the parent company. Included in the above are running finances of Rs 400 million (2010: Rs 400 million) from a related party, Summit Bank Limited.

17.2 Term finances

Term finance facilities available from various commercial banks under profit arrangements amount to Rs 1,149 million (2010: Rs 949 million). The rates of profit range from Rs 0.365 to Rs 0.442 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 29.1 and first pari passu charge over all current assets of the parent company.

17.3 Letters of credit and guarantees

Of the aggregate facility of Rs 5,313 million (2010: Rs 5,000 million) for opening letters of credit and Rs 100 million (2010: Rs 100 million) for guarantees, the amount utilised at December 31, 2011 was Rs 652.554 million (2010: Rs 1,311.61 million) and Rs 8.846 million (2010: Rs 8.846 million) respectively. The facility for opening letters of credit is secured against import documents and facility for guarantees is secured by registered joint pari passu charge over current assets.

18. Payable to Privatization Commission of Pakistan

Reliance Exports (Private) Limited (REL), under the terms and conditions stated in the 'Share Purchase Agreement' (the Agreement), acquired 100% shares in the parent company on July 14, 2005 through the process of privatization. Under the terms of the Agreement, the purchase consideration, in addition to lump sum cash payment, included a further payment equivalent to 90% of the parent 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 parent 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 parent 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 parent 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 parent company on July 14, 2005, this liability was recognised in the books of the parent company being the surviving entity upon REL's amalgamation with the parent company in accordance with the Scheme of Arrangement for Amalgamation.

		2011	2010
		(Rupees in thousand)	
19. Trade and other payables			
Trade creditors		926,113	2,198,291
Sui gas bill payable		135,612	239,601
Security deposits		33,333	25,125
Accrued liabilities		424,228	453,137
Workers' profit participation fund	- note 19.1	803,274	613,236
Workers' welfare fund	- note 19.2	182,545	180,248
Customers' balances		504,011	708,660
Bank guarantees discounted		100,968	-
Due to related parties	- note 19.3	429	22,584
Due to employees' provident fund trust		5,196	4,040
Withholding tax payable		10,995	8,699
Electricity duty payable		12,214	4,050
Excise duty payable		1,642	566
Retention money		475	-
Others		4,726	-
		3,145,761	4,458,237

		2011	2010
		(Rupees in thousand)	
19.1 Workers' profit participation fund			
Opening balance		613,236	445,134
Provision for the year	– note 39	290,232	260,594
Interest for the year	– note 41	27,046	33,692
		930,514	739,420
Less: Payments made during the year		127,240	126,184
Closing balance		803,274	613,236

During the previous year, the parent company 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 used for establishing a hospital for the workers as per the mechanism defined in that agreement.

		2011	2010
		(Rupees in thousand)	
19.2 Workers' welfare fund			
Opening balance		180,248	186,389
Provision for the year	– note 39	40,619	95,831
		220,867	282,220
Less: Payments made during the year		38,322	101,972
Closing balance		182,545	180,248

19.3 These are in the normal course of business and are interest free.

20. Accrued finance cost

	2011	2010
Accrued mark-up on:		
– redeemable capital - secured	221,873	279,938
– long term loans - secured	89,934	88,689
– syndicated term finance - secured	112,509	108,610
– short term borrowings - secured	124,373	172,914
Acceptance commission on letter of credit	129,132	-
	677,821	650,151

21. Contingencies and commitments

21.1 Contingencies

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

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

– Sui Northern Gas Pipelines Limited against gas sale amounting to Rs 8.846 million (2010: Rs 8.846 million).

– Fatima Fertilizer Company Limited ('FATIMA'), a related party and Habib Bank Limited (the Security Trustee) in respect of the parent company's obligations for equity contributions in FATIMA under the terms of the Sponsor Support Agreement dated March 6, 2009 between the parent company, FATIMA and its sponsors and lenders.

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

(iii) Indemnity bonds aggregating Rs 354.88 million (2010: Rs 167.17 million) issued to the Customs authorities in favour of The President of Islamic Republic of Pakistan under SRO 489(I)/2000 for the value of goods exported and to be re-imported.

(iv) Post dated cheques furnished by the Group in favour of the Collector of Customs to cover import levies against imports aggregating Rs 182.347 million (2010: Rs 4.32 million).

(v) As at June 30, 2004, the parent 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 parent 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 parent company as part of dividend for the year ended June 30, 2005 under the Share Purchase Agreement. Out of the aggregate amount, Rs 89.39 million represents the value of certain catalysts recovered in consequence of clean down operations of the plant prior to undertaking the process of privatization, which was accounted for as income in the financial statements for the year ended June 30, 2005 in the light of applicable financial reporting framework.

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

(vii) The amendment earlier carried out in respect of tax year 2006 through amendment order passed under section 122 the Income Tax Ordinance, 2001 ('Ordinance'), raised a demand of Rs 451.418 million along with penalty of Rs 169.196 million, has been annulled by Commissioner Inland Revenue (Appeals) ['CIR(A)'] through order dated June 25, 2011. While such demand no longer holds the field legally, following a prudent approach, amount of Rs 178.342 million, earlier recognized as tax expense against such demand, has not been written back. Such amount would be written back upon confirmation of relief by higher appellate authorities.

(viii) The Additional Commissioner Inland Revenue ('AdCIR'), through separate orders passed under section 122(5A) of the Ordinance for tax years 2007 to 2009, raised income tax demands aggregating to Rs 1,562.454 million. The primary issue raised by AdCIR through such orders is that tax deductible expenditure claimed by the parent company against taxable income were also allocable to 'subsidy' received from the Federal Government and revenue derived from sale of 'emission reduction certificates . The parent company has agitated the amendment orders before CIR(A), which are pending adjudication. Since, it is the management's assertion that parent company's stance is supported by relevant legal position and the underlying facts, 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 parent company had not deducted withholding tax on distribution of Rs 2,250 million as 'specie dividends'. While the matter has been decided in parent company's favour and assessment order has been vacated by Appellate Tribunal Inland Revenue ('ATIR'), departmental officials have assailed the finding of ATIR through a reference filed before Lahore High Court, which is pending adjudication. Since, parent 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 parent 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 parent 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 parent 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 parent company's management considers that under the relevant statutory provisions, adjustments cannot be denied to the parent 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) The ACIR, through Order-In-Original dated May 21, 2011 raised sales tax and federal excise duty demands aggregating Rs 1,146 million along with applicable default surcharge and penalties. Such demands were principally raised on the grounds that self consumption of mid-products constituted a 'taxable supply' and hence attracted the levies of sales tax and special excise duty. Against the subject order, parent company's management preferred an appeal before CIR(A) who has allowed relief to the extent of Rs 285 million. The parent company has preferred second appeal before ATIR which is pending adjudication. Parent company's management considers that reasonable grounds exist to support its stance in the appeal and is of the view that the decision would be in parent company's favour. Consequently, the demand raised against the parent company has not been recognized as an expense in these financial statements.

(xii) Included in trade debts is an amount of Rs 28.511 million (2010: 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 parent 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 parent company's customers. The parent company preferred an appeal before the District and Sessions Court, Multan which set aside the order of the Civil Court. The parent 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 parent company's legal counsel, the parent company's management considers that there are meritorious grounds to defend the parent company's stance and hence, no provision has been made in these financial statements on this account.

(xiii) Claims against the Group not acknowledged as debts Rs 23.051 million (2010: Rs 23.051 million)

21.2 Commitments in respect of

(i) Contracts for capital expenditure Rs 334.630 million (2010: Rs 416.697 million).

(ii) Letters of credit other than for capital expenditure Rs 233.937 million (2010: Rs 894.892 million).

(iii) Purchase orders aggregating Rs 4.818 million (2010: Rs 3.940 million) were placed and letters of credit were established subsequently.

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

	2011	2010
	(Rupees in thousand)	
Not later than one year	53,089	35,538
Later than one year and not later than five years	109,630	63,898
Later than five years	775	-
	163,494	99,436

		2011	2010
		(Rupees in thousand)	

22. Property, plant and equipment

		2011	2010
Operating fixed assets	– note 22.1	37,643,761	21,712,407
Capital work-in-progress	– note 22.2	604,612	203,985
		38,248,373	21,916,392

22.1 Operating fixed assets

(Rupees in thousand)

	Freehold land	Buildings on freehold land	Railway siding	Plant and machinery	Aircrafts	Furniture and fixtures	Tools and other equipment	Vehicles	Catalyst	Total
COST										
Balance as at January 01, 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
Balance as at January 01, 2011	3,387,787	2,312,174	30,673	20,415,421	505,796	66,140	508,652	193,128	45,547	27,465,318
Additions during the year	–	23,676	–	193,764	2,273,109	12,034	68,969	22,777	56,555	2,650,884
Revaluation – note 22.1.1	1,379,847	439,234	27,006	11,933,148	–	–	269,251	–	–	14,048,486
Transfers in from assets subject to finance lease	–	–	–	–	–	–	–	77,688	–	77,688
Disposals during the year	–	–	–	–	–	–	–	(50,085)	–	(50,085)
Elimination of accumulated depreciation against cost on revaluation	–	(846,533)	(20,879)	(4,475,964)	–	(13,534)	(224,342)	–	–	(5,581,252)
Balance as at December 31, 2011	4,767,634	1,928,551	36,800	28,066,369	2,778,905	64,640	622,530	243,508	102,102	38,611,039
DEPRECIATION										
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
Balance as at January 01, 2011	–	795,834	19,183	4,225,549	286,234	8,269	248,996	130,240	38,606	5,752,911
Charge for the year	–	84,779	4,897	467,734	138,929	7,560	34,856	25,525	9,955	774,235
Transfers in from assets subject to finance lease	–	–	–	–	–	–	–	54,722	–	54,722
Charge on disposals	–	–	–	–	–	–	–	(33,338)	–	(33,338)
Elimination of accumulated depreciation against cost on revaluation	–	(846,533)	(20,879)	(4,475,964)	–	(13,534)	(224,342)	–	–	(5,581,252)
Balance as at December 31, 2011	–	34,080	3,201	217,319	425,163	2,295	59,510	177,149	48,561	967,278
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
Book value as at December 31, 2011	4,767,634	1,894,471	33,599	27,849,050	2,353,742	62,345	563,020	66,359	53,541	37,643,761
Annual depreciation rate %	–	4 to 5.26	10	4 to 5.26	20	10	4 to 33	20	7 to 67	

21.1.1 During the year, freehold land, buildings on freehold land, railway siding, plant and machinery and tools and other equipment have been revalued by an independent valuer M/s Pirsons Chemical Engineering (Private) Limited on September 30, 2011 on current market value basis. The revaluation surplus net of deferred tax has been credited to surplus on revaluation of operating fixed assets. Had there been no revaluation, the carrying amounts of the following classes of assets as at December 31, 2011 would have been as follows:

	(Rupees in thousand)
Freehold land	3,387,787
Buildings on freehold land	1,462,942
Railway siding	8,844
Plant and machinery	16,020,581
Tools and other equipment	302,872
	21,183,026

22.1.2 Included in additions is plant and machinery of Rs 13.464 million which has been purchased from Fatima Fertilizer Company Limited, a related party.

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

		2011	2010
		(Rupees in thousand)	
22.1.4 The depreciation charge for the year has been allocated as follows:			
Cost of sales	– note 36	570,163	413,294
Administrative expenses	– note 37	201,382	151,063
Selling and distribution expenses	– note 38	2,679	4,113
Unallocated expenditure	– note 22.2.4	11	–
		774,235	568,470

22.1.5 Disposal of operating fixed assets

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2011 (Rupees in thousand)				
Vehicles	**Ex - employees**					
	Shahid Mehmood Mirza	1,054	632	422	936	As per parent company's policy
	M. Ashfaq Anwar	864	202	662	963	- do -
	Sabahat Fatima	526	324	202	310	- do -
	Muhammad Zubair Khan	920	567	353	786	- do -
	Hamza Mehmood Manj	878	541	337	739	- do -
	Dr. Salman Ayyaz	525	324	201	437	- do -
	Syed Sarfraz Ali	826	302	524	791	- do -
	Asif Masood Khan	638	393	245	487	- do -
	Muhammad Asif Baig	790	407	383	758	- do -
	Shmaz Mir	1,448	362	1,086	1,472	- do -
	Muhammad Hamid Mehmood	785	418	367	402	- do -
	Hyder Ali	878	541	337	726	- do -
	Vehicle theft	1,298	540	758	1,225	Insurance claim
	Vehicle theft	1,542	231	1,311	1,479	- do -
	Ghulam Yasin	927	679	248	179	As per parent company's policy
	Syed Saqib Hussain	596	397	199	389	- do -
	Zafar Ullah	785	444	341	674	- do -
	Rana Kashif	827	343	484	783	- do -
	Muhammad Shahzad	820	301	519	520	- do -
	M. Nadeem Lasi	827	371	456	421	- do -
	Syed Muhammad Sibtain	879	674	205	370	- do -
	Syed Yawer Ali	511	358	153	318	- do -
	Muhammad Wqas Qureshi	649	454	195	444	- do -
	Saira Ashraf	622	436	186	411	- do -
	Muhammad Wasim Anjum	671	290	381	621	- do -
	Abid Ali Abid	949	680	269	705	- do -

Particulars	Sold to	2011 (Rupees in thousand) Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
	Tahir Hussain	524	244	280	454	- do -
	Vehicle theft	922	231	691	868	Insurance claim
	Vehicle theft	690	310	380	650	- do -
	Imran Rasheed	649	465	184	126	As per parent company's policy
	Tanveer H. Qureshi	1,874	873	1,001	989	- do -
	Kashif Rasheed	1,054	737	317	1,068	- do -
	Mansoor Ahmed Janjua	963	673	290	779	- do -
	Muhammad Amin	910	819	91	176	- do -
	Zarar Saleem	604	544	60	119	- do -
	Muhammad Rizwan Nazar	604	544	60	119	- do -
	Tofique Ahmed	924	708	216	178	- do -
	Muhammad Nasir	865	663	202	231	- do -
	Arif-Ur-Rehman	1,286	985	301	249	- do -
	Arif-Ur-Rehman	652	488	164	126	- do -
	Malik Muhammad Rehan	923	707	216	178	- do -
	Rehmat Ullah Shah	604	544	60	119	- do -
	Zaheer Abbas	605	554	51	110	- do -
	Muhammad Jahanzeb Sohail	628	471	157	122	- do -
	Ghulam Sabir Hussain	604	544	60	119	- do -
	Iftikhar Mehmood Baig	1,258	1,152	106	244	- do -
	Mumtaz Ali Soomro	604	544	60	119	As per parent company's policy
	Muhammad Saleem Malik	607	576	31	119	- do -
	Abu Saeed	870	870	-	170	- do -
	Amir Faisal	628	502	126	122	- do -
	Muhammad Imran	607	576	31	119	- do -
	Khurram Shahzad	628	502	126	122	- do -
	Umar Waqas	495	396	99	96	- do -
	Asghar Ali Rana	1,016	863	153	268	- do -
	Mohammad Saeed Iqbal	628	523	105	122	- do -
	Khalid Iqbal Sippal	628	534	94	122	- do -
	Syed Waheed Ullah	927	726	201	179	- do -
	Related parties					
	Reliance Weaving Mills Limited	142	142	-	28	Negotiation
	Reliance Weaving Mills Limited	600	600	-	120	- do -
	Reliance Weaving Mills Limited	941	941	-	188	- do -
	Fatima Sugar Mills Limited	604	594	10	121	- do -
	Reliance Weaving Mills Limited	982	982	-	196	- do -
		50,085	33,338	16,747	26,581	

		2010 (Rupees in thousand)				
Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
Vehicles	**Ex - employees**					
	Abdul Majid Tariq	1,261	883	378	325	As per parent company's 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 parent company's 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 -
	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 -

Particulars	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		2010 (Rupees in thousand)				
	Ex - employees of related party					
	M. Nasir Butt	1,261	1,009	252	252	As per parent company's policy
	M. Nasir Butt	1,794	598	1,196	1,196	- do -
	Brig. (R) Abid Abaidullah	1,380	920	460	529	- do -
	Employees of related party					
	Mahmood Ali	913	624	289	322	As per parent company's 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 -
		61,459	39,792	17,647	22,255	

			2011	2010
			(Rupees in thousand)	
22.2	**Capital work-in-progress**			
	Plant and machinery	– note 22.2.1	224,117	8,793
	Civil works	– note 22.2.2 & 22.2.3	72,518	7,774
	Advances - considered good			
	– against purchase of plant and machinery		203,570	35,136
	– to contractor		11,427	-
	– to suppliers		33,151	-
	– to employee for capital expenditure		125	-
	Leased vehicles in transit		-	52,002
	Others		56,421	100,280
	Unallocated expenditure	– note 22.2.4	3,283	-
			604,612	203,985

22.2.1 Includes purchases of Rs 8.863 million from Fatima Fertilizer Company Limited, a related party.

22.2.2 Includes purchases of Rs 0.370 million from Fatima Fertilizer Company Limited, a related party.

22.2.3 Includes finance cost of Rs 0.735 million.

		2011 (Rupees)
22.2.4 Unallocated expenditure		
Salaries, wages and other benefits		1,964
Rent, rates and taxes	– note 22.2.5	126
Legal and professional charges		304
Travelling and conveyance		730
Repairs and maintenance		15
Vehicle running expenses		133
Depreciation on operating fixed assets	– note 22.1.4	11
		3,283

22.2.5 Includes rent of Rs 0.029 million against lease of land to Fatima Fertilizer Company Limited, a related party, on which the manufacturing facility of the subsidiary is being set up.

23. Assets subject to finance lease

		(Rupees in thousand) Vehicles
Cost		
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
Balance as at January 01, 2011		394,481
Additions during the year		54,659
Transfer to operating fixed assets during the year		(48,978)
Deletions during the year		(28,710)
Balance as at December 31, 2011		371,452
Depreciation		
Balance as at January 01, 2010		70,620
Charge for the year		66,901
Transfer to operating fixed assets during the year		(25,754)
Balance as at December 31, 2010		111,767
Balance as at January 01, 2011		111,767
Charge for the year	– note 23.1	85,025
Transfer to operating fixed assets during the year		(54,722)
Balance as at December 31, 2011		142,070
Book value as at December 31, 2010		282,714
Book value as at December 31, 2011		229,382
Annual depreciation rate %		20

		2011	2010
		(Rupees in thousand)	
23.1 The depreciation charge for the year has been allocated as follows:			
Cost of sales	– note 36	23,793	25,804
Administrative expenses	– note 37	42,706	33,277
Selling and distribution expenses	– note 38	18,526	7,820
		85,025	66,901

23.2 Vehicles of Rs 173.133 million (2010: Rs 154.514 million) are in possession and use of a related party, Fatima Fertilizer Company Limited.

24. Intangible assets

		(Rupees in thousand)		
		Computer software	Mining rights	Total
Cost				
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
Balance as at January 01, 2011		6,759	210,000	216,759
Additions during the year		–	–	–
Elimination of accumulated amortization against cost on revaluation		(4,932)	–	–
Balance as at December 31, 2011		1,827	210,000	216,759
Amortization				
Balance as at January 01, 2010		4,066	7,000	11,066
Charge for the year	– note 24.1	1,346	21,000	22,346
Balance as at December 31, 2010		5,412	28,000	33,412
Balance as at January 01, 2011		5,412	28,000	33,412
Charge for the year	– note 24.1	1,347	21,000	22,347
Elimination of accumulated amortization against cost on revaluation		(4,932)	–	–
Balance as at December 31, 2011		1,827	49,000	55,759
Book value as at December 31, 2010		1,347	182,000	183,347
Book value as at December 31, 2011		–	161,000	161,000
Annual amortization rate %		25	10	

		2011	2010
		(Rupees in thousand)	
24.1 The amortization charge for the year has been allocated as follows:			
Cost of sales (included in raw materials consumed)		21,000	21,000
Administrative expenses	– note 37	1,347	1,346
		22,347	22,346

25. Goodwill

This represents goodwill on amalgamation of REL and the parent company.

Goodwill has been allocated for impairment testing purposes to one individual cash generating unit, the fertilizers segment of the Group. 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 18.23 per cent. Cash flows beyond that five-year period have been extrapolated using a steady 5.0 per cent growth rate. This growth rate does not exceed the long-term average growth rate for the fertilizer products manufactured by the Group. 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.

		2011	2010
		(Rupees in thousand)	
26. Investments			
Available for sale:			
Associate – quoted:			
Fatima Fertilizer Company Limited Nil (2010: 450,000,000) fully paid ordinary shares of Rs 10 each Equity held Nil (2010: 22.5%)		–	5,811,691
Less: Classified under current assets – 225,000,000 fully paid ordinary shares of Rs 10 each		–	2,905,846
		–	2,905,845
Held to maturity:			
– Other	– note 26.1	27,349	24,386
		27,349	2,930,231

26.1 Investment – Other

This represents Defence Saving Certificates issued for a period of ten years, which will mature on September 11, 2019. Yield to maturity on these certificates is 12.15%. These certificates have been pledged as security with the Director General, Mines & Minerals, Government of Khyber Pakhtunkhwa as per the terms of the mining agreement as referred to in note 12.

		2011	2010
		(Rupees in thousand)	
27. Long term loans – unsecured			
Considered good:			
Long term loan (from STFF)	– note 27.1	2,037,500	2,037,500
Long term loan	– note 27.2	2,478,065	2,478,065
		4,515,565	4,515,565

27.1 This represents unsecured loan provided to FATIMA, a related party, 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 parent 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 parent company. The effective rate of markup charged during the year on outstanding balance ranges from 15.36% to 16.26%.

27.2 This represents unsecured loan to FATIMA, a related party, for the purpose of project financing. The rate of mark up is equal to the borrowing cost of the parent company. The effective rate of mark up charged on the outstanding balance during the year was 15.22%. 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.

		2011	2010
		(Rupees in thousand)	
28. Stores and spare parts			
Chemicals and catalysts	– note 28.1	1,013,577	826,577
Stores		108,586	94,666
Spare parts [including in transit Rs 41.216 million [(2010: Rs 199.052 million)]		1,537,334	1,464,545
		2,659,497	2,385,788
Less: Provision for obsolete items		76,224	76,224
		2,583,273	2,309,564

28.1 Included in chemicals and catalysts is platinum, rhodium and palladium of Rs 258.635 million (2010: Rs 1.795 million) held by Johnson Matthey Public Limited Company, United Kingdom on behalf of the Group.

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

	2011	2010
	(Rupees in thousand)	
29. Stock-in-trade		
Raw materials	1,201,970	2,540,001
Packing materials	35,194	6,650
Mid products	16,964	17,368
Finished goods:		
– own manufactured fertilizers	788,873	362,042
– emission reductions	14,362	20,934
	2,057,363	2,946,995

29.1 Raw materials and finished goods amounting to Rs 1,439.669 million (2010: Rs 1,833.268 million) are pledged with lenders as security against short term borrowings as referred to in note 17.

		2011	2010
		(Rupees in thousand)	
30. Trade debts			
Considered good:			
– Secured (by way of bank guarantees and security deposits)		129,887	349,177
– Unsecured		760,686	1,501,518
		890,573	1,850,695

30.1 These are in the normal course of business and certain debts carry interest ranging from 1% to 9% (2010: 1% to 9%) per annum.

		2011	2010
		(Rupees in thousand)	
31. Advances, deposits, prepayments and other receivables			
Advances - considered good:			
– To employees	– note 31.1	9,738	6,407
– To suppliers		108,758	77,170
Trade deposits		100	100
Prepayments		157,762	64,487
Due from related party:			
– Accrued preference dividend	– note 31.2	1,143,971	545,651
– Interest receivable on long term loans	– note 31.2	961,429	239,691
Interest receivable on bank deposits		–	1,795
Balances with statutory authorities:			
– Sales tax			
– considered good	– notes 31.3 & 31.4	401,069	122,815
– considered doubtful		8,911	8,911
		409,980	131,726
– Income tax recoverable	– note 31.5	2,479,352	2,479,352
– Custom duty recoverable		9,811	9,811
Letters of credit - margins, deposits, opening charges etc.		333	15,188
Security deposits		8,381	9,322
Other receivables - considered good		22,141	11,175
		5,311,756	3,591,875
Less: Provision for doubtful receivable		8,911	8,911
		5,302,845	3,582,964

31.1 Included in advances to employees are amounts due from executives of Rs 4.297 million (2010: Rs 6.272 million).

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

31.3 Includes Rs 134.022 million which primarily represents the input sales tax paid by the parent company in respect of raw materials acquired before June 11, 2008 on which date fertilizer products manufactured by the parent company were exempted from levy of sales tax through notification SRO 535(I)/2008. The amount stood refundable to the parent company there being no output sales tax liability remaining payable on fertilizer products manufactured by the parent company against which such input sales tax was adjustable. The parent 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.

Parent 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 parent 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.

31.4 The Group is in the process of filing an application under section 65 of the Sales Tax Act, 1990 to the Commissioner Inland Revenue, Multan regarding exemption of sales tax of approximately Rs 500 million inadvertently short levied/ paid on its fertilizer product, Calcium Ammonium Nitrate for the period from April 18, 2011 to December 31, 2011. Based on the advice of the Group's legal counsel and tax advisor, management considers that reasonable grounds exist that the exemption would be allowed to the Group. Consequently, no provision has been recognised in these financial statements for the abovementioned amount.

31.5 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 42.1. The aggregate amount of provision for tax less payments, for the tax years 2005 through 2012 has been separately disclosed under current liabilities.

32. This represents the derivative cross currency swaps the Group had entered into with various banks. Under the terms of certain cross currency swap arrangements, the Group pays London Inter-Bank Offered Rate (LIBOR) plus bank spread to the arranging banks on the notional USD amount for the purposes of the cross currency swap, and receives KIBOR from the arranging banks. Similarly, under the terms of certain other cross currency swap arrangements, the Group 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, 2011 have been marked to market and the resulting gain of Rs 18.756 million has been recognised in the profit and loss account with a corresponding asset.

		2011	2010
		(Rupees in thousand)	
33. Investments			
Available for sale:			
Related party - quoted			
Fatima Fertilizer Company Limited 360,000,000 (2010: 360,000,000) unquoted fully paid non-voting convertible cumulative preference shares of Rs 10 each. Extent of preference shares held 90%	– note 33.1	3,600,000	3,600,000
At fair value through profit or loss:			
Other - Wateen Telecom Limited 2,000,000 (2010: 2,000,000) fully paid ordinary shares of Rs 10 each	– note 33.1	3,580	7,280
		3,603,580	3,607,280
Classified from non-current investments		-	2,905,846
Investment held for distribution to members	– note 33.2	3,755,250	-
		7,358,830	6,513,126

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

33.2 This represents the 225 million ordinary shares of FATIMA held by the parent company for distribution to members, which are pledged with the security trustee of the lenders against the loans of FATIMA.

		2011	2010
		(Rupees in thousand)	
34. Cash and bank balances			
At banks on:			
– Saving accounts	- note 34.1 & 34.2	645,471	132,871
– Current accounts [including USD 50,712 & EURO 31,648 (2010: USD 4,325 & EURO 4,402)]		146,427	49,543
		791,898	182,414
In hand		4,438	3,261
		796,336	185,675

34.1 Profit on balances in saving accounts ranges from 5% to 10% (2010: 5% to 10%) per annum.

34.2 Included in saving accounts is an amount of Rs 516.443 million (2010: Rs 118.788 million) which bears mark up at the rates ranging from 5% to 10% (2010: 5% to 10%) per annum and included in current accounts is an amount of Rs 6.962 million (2010: Rs 0.552 million), both placed with a related party, Summit Bank Limited.

		2011	2010
		(Rupees in thousand)	
35. Sales			
Fertilizer products:			
– Own manufactured	– note 35.1	14,421,756	16,482,847
– Purchased for resale	– note 35.1	654,226	311,342
		15,075,982	16,794,189
Certified Emission Reductions (CERs)		1,020,844	1,095,709
Mid products	– note 35.1	517,034	325,677
		16,613,860	18,215,575
Less:			
Sales incentive		79,251	80,058
Discount		2,544	28,050
		81,795	108,108
Rock phosphate	– note 35.1	82,378	29,027
Processing income	– note 35.2	86,351	111,335
		16,700,794	18,247,829

35.1 Sales are exclusive of sales tax and excise duty of Rs 1,584.711 million (2010: Rs 45.007 million) and Rs 5.622 million (2010: Rs 0.182) respectively.

35.2 This represents income from processing services rendered for a related party, Fatima Fertilizer Company Limited.

		2011	2010
		(Rupees in thousand)	

36. Cost of sales

		2011	2010
Raw material consumed	– note 36.1	3,050,050	4,406,402
Packing material consumed		281,867	318,791
		3,331,917	4,725,193
Salaries, wages and other benefits	– note 36.2	751,295	697,531
Fuel and power		1,131,008	1,542,168
Chemicals and catalysts consumed		220,199	384,940
Spare parts consumed		338,815	307,345
Stores consumed		108,913	113,953
Repairs and maintenance		206,694	125,156
Insurance		228,064	254,113
Depreciation on operating fixed assets	– note 22.1.4	570,163	413,294
Depreciation on assets subject to finance lease	– note 23.1	23,793	25,804
Amortisation on intangible assets	– note 24.1	–	21,000
Others		109,434	65,074
		7,020,295	8,675,571
Opening stock of mid products		17,368	12,153
Closing stock of mid products		(16,964)	(17,368)
		404	(5,215)
Cost of goods manufactured		7,020,699	8,670,356
Opening stock of finished goods		382,976	471,088
Stock written off		–	(762)
Closing stock of finished goods		(803,235)	(382,976)
		(420,259)	87,350
Cost of goods sold – own manufactured		6,600,440	8,757,706
Cost of goods sold – purchased for resale	– note 36.3	587,707	293,130
		7,188,147	9,050,836

36.1 Includes expenses of Rs 84.232 million for extraction of rock phosphate by a related party, Pakistan Mining Company Limited.

	2011	2010
	(Rupees in thousand)	

36.2 Salaries, wages and other benefits

	2011	2010
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	13,722	9,104
Interest cost for the year	4,039	2,990
Expected return on plan assets	(3,422)	(2,328)
Past service cost	(59)	(245)
Less: amount charged to related party	(706)	-
	13,574	9,521

In addition to the above, salaries, wages and other benefits include Rs 13.970 million (2010: Rs 11.906 million) and Rs 12.512 million (2010: Rs 8.733 million) in respect of provident fund contribution by the Group and accumulating compensated absences respectively.

36.3 This represents fertilizer purchased from a related party, Fatima Fertilizer Company Limited.

		2011	2010
		(Rupees in thousand)	

37. Administrative expenses

		2011	2010
Salaries, wages and other benefits	– note 37.1	354,814	262,023
Travelling and conveyance		62,070	50,379
Telephone, telex and postage		13,278	12,860
Stationery, printing and periodicals		2,807	6,469
Rent, rates and taxes		16,181	13,841
Repairs and maintenance		72,371	69,309
Aircraft operating expenses	– note 37.2	60,196	60,267
Insurance		9,831	10,899
Legal and professional charges	– note 37.3	26,575	20,389
Vehicle running expenses		5,006	8,090
Entertainment		3,686	4,104
Advertisement		2,987	1,409
Stock written off		–	762
Depreciation on operating fixed assets	– note 22.1.4	201,382	151,063
Depreciation on assets subject to finance lease	– note 23.1	42,706	33,277
Amortization on intangible assets	– note 24.1	1,347	1,346
CDM administrative expenses		9,545	14,507
Others	– note 37.4	84,753	59,052
		969,535	780,046

37.1 Salaries, wages and other benefits

	2011	2010
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	5,529	3,094
Interest cost for the year	1,628	1,016
Expected return on plan assets	(1,379)	(791)
Past service cost	–	(83)
Actuarial gain	(24)	–
	5,754	3,236

In addition to the above, salaries, wages and other benefits include Rs 7.776 million (2010: Rs 3.566 million) and Rs 6.099 million (2010: Rs 3.348 million) in respect of provident fund contribution by the Group and accumulating compensated absences respectively.

37.2 Includes expenses of Rs 26.741 million (2010: Rs 22.258 million) for flying and maintenance services of the parent company's aircraft by Air One (Private) Limited, a related party.

37.3 Professional services

	2011	2010
	(Rupees in thousand)	
The charges for professional services include the following in respect of auditors' services for:		
– Statutory audit	2,025	1,700
– Half yearly review	750	750
– Tax services	5,353	3,488
– Assurance and other certification services	485	380
– Out of pocket expenses	711	592
	9,324	6,910

37.4 Includes expenses of Rs 11.214 million (2010: Nil) for research and development activities of the extracted rockphosphate, which has been carried out by a foreign consultant.

		2011	2010
		(Rupees in thousand)	

38. Selling and distribution expenses

		2011	2010
Salaries, wages and other benefits	– note 38.1	91,656	146,461
Travelling and conveyance		10,710	10,147
Telephone, telex and postage		8,189	4,393
Stationery, printing and periodicals		1,313	1,312
Rent, rates and taxes		40,266	24,686
Repairs and maintenance		8,417	3,357
Insurance		3,871	1,327
Vehicle running expenses		13,457	7,261
Entertainment		8,757	3,871
Advertisement and sale promotion		40,058	61,581
Depreciation on operating fixed assets	– note 22.1.4	2,679	4,113
Depreciation on assets subject to finance lease	– note 23.1	18,526	7,820
Transportation and freight		331,013	455,193
Utilities		1,270	900
Technical services		17,505	7,211
CERs share of Mitsubishi Corporation, Japan		230,760	253,506
Others		270	417
		828,717	993,556

38.1 Salaries, wages and other benefits

	2011	2010
Salaries, wages and other benefits include following in respect of gratuity:		
Current service cost	4,467	1,860
Interest cost for the year	1,315	611
Expected return on plan assets	(1,114)	(476)
Past service cost	(19)	(50)
	4,649	1,945

In addition to the above, salaries, wages and other benefits include Rs 4.979 million (2010: Rs 3.349 million) and Rs 6.506 million (2010: Rs 3.363 million) in respect of provident fund contribution by the Group and accumulating compensated absences respectively.

		2011	2010
		(Rupees in thousand)	

39. Other operating expenses

		2011	2010
Workers' profit participation fund	– note 19.1	290,232	260,594
Workers' welfare fund	– note 19.2	40,619	95,831
Donations	– note 39.1	149,215	30,310
Exchange Loss		31,773	–
		511,839	386,735

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

	Directors of the company	Interest in donee	(Rupees in thousand)
Memon Medical Institute	Mr. Arif Habib	Trustee	2,200
Memon Health & Education Foundation	Mr. Arif Habib	Honorary Chairman	2,000
Karachi Education Initiative	Mr. Arif Habib	Director and Chairman, Finance & Fundraising Committee	12,500
Mukhtar A. Sheikh Trust	Mr. Fawad Ahmad Mukhtar & Mr. Faisal Ahmad Mukhtar	Trustees	101,675
			118,375

		2011	2010
		(Rupees in thousand)	
40. Other operating income			
Income from financial assets:			
Income on bank deposits		13,827	13,140
Income from related party, FATIMA:			
– Interest income on long term loan (from STFF)		325,744	307,715
– Interest income on long term loan		395,995	202,868
– Accrued dividend on preference shares		598,320	545,651
Exchange gain		–	14,589
Gain on cessation of associate		113,461	–
Unrealised gain on investment held to maturity		2,963	2,642
Mark–up on credit sale of fertilizers		11,490	16,656
Gain on derivative financial instruments		124,769	181,892
		1,586,569	1,285,153
Income from non–financial assets:			
Rental income	– note 40.1	44,348	13,714
Profit on disposal of operating fixed assets		9,833	4,608
Income from liquidated damages		–	21,516
Scrap sales and sundry income		12,579	23,793
Unrealised gain on recovery of chemical catalysts		198,690	–
Provisions and unclaimed balances written back		2,236	58,178
Income from biological laboratory		760	1,645
		268,446	123,454
		1,855,015	1,408,607

40.1 Includes rental income of Rs 30.155 million for vehicles in use of Fatima Fertilizer Company Limited, a related party.

		2011	2010
		(Rupees in thousand)	
41. Finance cost			
Interest/mark up on:			
– Listed TFCs – secured		615,205	690,140
– PPTFCs – secured		971,075	972,688
– Finance leases		22,725	26,612
– Share deposit money from related party		33,102	28,803
– Short term borrowings – secured		607,716	871,387
– Long term loans – secured		642,402	604,106
– Syndicated term finance – secured		325,743	307,714
– Workers' Profit Participation Fund	– note 19.1	27,046	33,692
Loan arrangement fees and other charges		24,297	15,408
Acceptance commission on letter of credit		185,738	–
Bank charges		17,367	39,269
		3,472,416	3,589,819
42. Taxation			
Current – for the year		681,710	864,692
Deferred		1,038,832	599,068
		1,720,542	1,463,760

42.1 For assessment years 1993-94 and 1995-96 through 2002-2003 and for tax years 2003 through 2005, the parent company, in view of the position taken by the tax authorities that the income of the parent 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 parent 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 parent 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 parent company feels that the decision of the apex court would also be in the favour of the parent company and hence in these financial statements, tax liabilities in respect of above referred assessment / tax years have been provided on the basis that parent 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.

	2011	2010
	(%age)	
42.2 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	0.17	0.47
Exempt for tax purposes	(4.12)	(5.68)
Not taxable under the law	(4.13)	0.88
Chargeable at lower rate of tax	(0.18)	(0.07)
Chargeable at different rate of tax	0.36	–
Allowable as tax credit	(0.29)	–
Effect of change in prior years' tax	–	0.57
Others	0.45	–
	(7.74)	(3.83)
Average effective tax rate charged to profit and loss account	27.26	31.17

		2011	2010
		(Rupees in thousand)	
43. Cash generated from operations			
Profit before taxation		6,308,593	4,695,722
Adjustments for non cash charges and other items:			
– Depreciation on operating fixed assets		774,235	568,470
– Depreciation on leased assets		85,025	66,901
– Amortization on intangible assets		22,347	22,346
– Retirement benefits accrued		75,820	48,815
– Profit on disposal of operating fixed assets		(9,833)	(4,608)
– Provisions and unclaimed balances written back		(2,236)	(58,178)
– Finance cost		3,472,416	3,589,819
– Income on bank deposits		(13,827)	(13,140)
– Interest income on long term loans to related party		(721,739)	(510,583)
– Unrealised (gain)/loss on re-measurement of investments		(854,511)	120,720
– Dividend income on preference shares of related party		(598,320)	-
– Unrealised gain on investment held to maturity		(2,963)	(2,642)
– Unrealised gain on recovery of catalyst		(198,690)	-
– Share of loss of associate		17,612	39,002
Profit before working capital changes		8,353,929	8,562,644
Effect on cash flow due to working capital changes			
– Increase in stores and spare parts		(75,019)	(429,369)
– Decrease/(increase) in stock-in-trade		889,632	(153,740)
– Decrease/(increase) in trade debts		963,436	(1,111,851)
– Increase in advances, deposits prepayments and other receivables		(350,416)	(456,617)
– (Decrease)/increase in trade and other payables		(1,670,596)	2,043,149
		(242,963)	(108,428)
		8,110,966	8,454,216
44. Cash and cash equivalents			
Short term borrowings		(4,643,806)	(4,702,528)
Cash and bank balances	– note 34	796,336	185,675
		(3,847,470)	(4,516,853)

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 group is as follows:

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in thousand)		(Rupees in thousand)		(Rupees in thousand)	
Short term employee benefits						
Managerial remuneration	7,241	7,241	13,241	13,241	230,533	148,520
Housing rent	3,259	3,259	3,259	3,259	84,414	66,834
Utilities	2,024	2,597	1,294	1,438	18,759	14,852
Conveyance	–	–	240	240	24,611	19,937
Incentives	7,845	3,621	7,845	3,621	93,846	68,290
Medical expenses	181	209	110	–	1,213	3,363
Leave passage	–	–	–	–	29,213	5,171
Club expenses	3,503	3,483	456	830	–	422
	24,053	20,410	26,445	22,629	482,590	327,389
Post employment benefits						
Contribution to provident and gratuity funds	–	–	–	–	32,355	19,046
Other long term benefits						
Accumulating compensated absences	–	–	–	–	24,241	18,658
	24,053	20,410	26,205	22,389	539,186	365,093
Number of persons	1	1	2	2	180	143

45.2 The Group 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 Group in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 46. Other significant transactions with related parties are as follows:

		2011	2010
		(Rupees in thousand)	
Relationship with the group	**Nature of transactions**		
i. Associated undertakings	Purchase of goods	-	39,647
	Sale of goods and services	340,391	-
ii. Post employment benefit plans	Expense charged in respect of retirement benefit plans	80,286	53,543

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

			2011	2010
47.	**Capacity and production**			
	Urea			
	Rated production capacity	M. Tons	92,400	92,400
	Actual urea produced	M. Tons	28,180	73,933
	The low production is due to shortage of natural gas and periodical maintenance.			
	Nitro Phosphate (NP)			
	Rated production capacity	M. Tons	304,500	304,500
	Actual NP produced	M. Tons	229,937	316,699
	The low production of NP is due to shortage of natural gas and periodical maintenance.			
	Calcium Ammonium Nitrate (CAN)			
	Rated production capacity	M. Tons	450,000	450,000
	Actual CAN produced	M. Tons	242,820	350,062
	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).
Sacks	Manufacture and sale of polypropylene sacks.

(Rupees in thousand)

	Fertilizers		Clean Development Mechanism		Sacks		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Sales	15,679,950	17,152,120	1,020,844	1,095,709	-	-	16,700,794	18,247,829
Cost of sales	(7,116,097)	(9,009,280)	(72,050)	(41,556)	-	-	(7,188,147)	(9,050,836)
Gross profit	8,563,853	8,142,840	948,794	1,054,153	-	-	9,512,647	9,196,993
Administrative expenses	(959,183)	(765,539)	(9,545)	(14,507)	(807)	-	(969,535)	(780,046)
Selling and distribution expenses	(597,957)	(740,050)	(230,760)	(253,506)	-	-	(828,717)	(993,556)
	(1,557,140)	(1,505,589)	(240,305)	(268,013)	(807)	-	(1,798,252)	(1,773,602)
Segment results	7,006,713	6,637,251	708,489	786,140	(807)	-	7,714,395	7,423,391
Other operating expenses							(511,839)	(386,735)
Operating profit							7,202,556	7,036,656
Finance costs							(3,472,416)	(3,589,819)
Interest income							735,566	523,723
Other operating income							1,119,449	884,884
Gain/(loss) on re-measurement of financial assets at fair value through profit or loss							741,050	(120,720)
Share of loss from associate							(17,612)	(39,002)
Taxation							(1,720,542)	(1,463,760)
Profit for the year							4,588,051	3,231,962
48.1 Segment assets	64,088,221	48,574,098	1,252,705	2,063,309	313,348	-	65,654,274	50,637,407
48.2 Segment liabilities	42,799,187	35,197,133	166,845	715,971	214,113	-	43,180,145	35,913,104
48.3 Depreciation on operating fixed assets	759,541	559,893	16,024	8,577	6	-	775,571	568,470
48.4 Depreciation on leased assets	84,730	66,901	295	-	-	-	85,025	66,901

48.5 Information by geographical area

	Revenue		Non-current assets	
	2011	2010	2011	2010
Pakistan	16,700,794	18,247,829	46,543,868	33,178,430
	16,700,794	18,247,829	46,543,868	33,178,430

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 1,020,844 million of the Group's total revenue.

49. Financial risk management

49.1 Financial risk factors

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

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

a) Market risk

i) Currency risk

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

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

At December 31, 2011 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 70.982 million (2010: Rs 65.057 million) lower / higher, mainly as a result of exchange losses / gains on translation of USD denominated financial instruments.

At December 31, 2011 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 7.246 million (2010: Rs 0.504 million) higher / lower, 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 Group is not materially exposed to equity price risk since there are no significant investments in equity instruments traded in the market either classified as available-for-sale or at fair value through profit or loss at the reporting date. The Group is also not exposed to commodity price risk since it does not hold any financial instrument based on commodity prices.

iii) Interest rate risk

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

The Group's interest rate risk arises from long term finances, lease liabilities, short term borrowings, derivative financial instruments and long term loans to related party. Borrowings obtained and loans provided at variable rates expose the Group to cash flow interest rate risk.

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

	2011	2010
	(Rupees in thousand)	
Fixed rate instruments:		
Financial assets		
Investment	27,349	24,386
Trade debts	122,563	232,868
Bank balances - saving accounts	645,471	132,871
	795,383	390,125
Financial liabilities	-	-
Net exposure	795,383	390,125
Floating rate instruments:		
Financial assets		
Long term loans	4,515,565	4,515,565
Investment	3,600,000	3,600,000
Derivative financial instruments	18,756	69,958
	8,134,321	8,185,523
Financial liabilities		
Long term finances	14,916,279	17,192,893
Liabilities against assets subject to finance lease	208,112	299,909
Short term borrowings	4,643,806	4,702,528
	19,768,197	22,195,330
Net exposure	(11,633,876)	(14,009,807)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

If interest rates on variable rate financial instruments, at the year end date, fluctuates by 1% higher / lower with all other variables held constant, post tax profit for the year would have been Rs 33.620 million (2010: Rs 33.376 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 Group 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 Group monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying values of financial assets which are neither past due nor impaired are as under:

	2011	2010
	(Rupees in thousand)	
Investments	27,349	2,930,231
Long term loans	4,515,565	4,515,565
Security deposits	5,663	4,893
Trade debts	890,573	1,850,695
Advances, deposits and other receivables	2,245,113	900,087
Derivative financial instruments	18,756	69,958
Short term investments	7,358,830	6,513,126
Bank balances	791,898	182,414
	15,853,747	16,966,969

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

	2011	2010
	(Rupees in thousand)	
Upto 90 days	243,082	601,088
91 to 180 days	326,332	296,686
181 to 270 days	160,739	209,452
271 to 360 days	122,596	334,770
above 360 days	37,824	408,699
	890,573	1,850,695

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

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

	Rating Short term	Rating Long term	Rating Agency	2011 (Rupees in thousand)	2010 (Rupees in thousand)
Al Baraka Islamic Bank Limited	A1	A	PACRA	26,169	13,996
Allied Bank Limited	A1+	AA	PACRA	10,930	14,208
Summit Bank Limited	A-2	A	JCR-VIS	523,406	119,340
Askari Bank Limited	A1+	AA	PACRA	1,511	-
Bank Alfalah Limited	A1+	AA	PACRA	6,558	1,503
Deutsche Bank A.G	AA-	F1+	FITCH	2,067	4,079
Dubai Islamic Bank Limited	A-1	A	JCR-VIS	383	217
Faysal Bank Limited	A1+	AA	PACRA	35,522	1,602
Habib Bank Limited	A-1+	AA+	JCR-VIS	11,446	2,885
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	1,550	2,200
MCB Bank Limited	A1+	AA+	PACRA	1,021	1,760
Meezan Bank Limited	A-1+	AA-	JCR-VIS	4,412	391
National Bank of Pakistan	A-1+	AAA	JCR-VIS	21,865	5,696
The Royal Bank of Scotland	A1+	AA	PACRA	-	116
Silkbank Limited	A-2	A-	JCR-VIS	1	2
Soneri Bank Limited	A1+	AA-	PACRA	-	-
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	14,443	5,795
The Bank of Punjab	A1+	AA-	PACRA	-	-
United Bank Limited	A-1+	AA+	JCR-VIS	107,455	6,533
Zarai Taraqiati Bank Limited	A-1+	AAA	JCR-VIS	53	50
BankIslami Pakistan Limited	A1	A	PACRA	23,105	2,041
				791,898	182,414

Due to the Group'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 Group. 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 Group's businesses, the Board maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors the forecasts of the Group's cash and cash equivalents (note 45) on the basis of expected cash flow. This is generally carried out in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group'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 Group'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, 2011

	Carrying amount	Less than one year	One to five years	More than five years
		(Rupees in thousand)		
Long term finances	14,916,279	6,244,087	8,672,192	-
Supplier's credit	1,796,000	-	1,796,000	-
Liabilities against assets subject to finance lease	208,112	70,094	138,018	-
Payable against mining rights	21,000	21,000	-	-
Long term deposits	47,345	-	-	47,345
Short term borrowings	4,643,806	4,643,806	-	-
Trade and other payables	1,884,116	1,884,116	-	-
Accrued finance cost	677,821	677,821	-	-
	24,194,479	13,540,924	10,606,210	47,345

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

49.2 Fair value estimation

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	3,580	-	-	3,580
Derivative financial instruments	-	18,756	-	18,756
Available for sale				
Preference shares of FATIMA	-	3,600,000	-	3,600,000
Total assets	3,580	3,618,756	-	3,622,336
Liabilities	-	-	-	-

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2010.

	Level 1	Level 2	Level 3	Total
		(Rupees in thousand)		
At fair value through profit or loss				
Ordinary shares of Wateen Telecom Limited	7,280	-	-	7,280
Derivative financial instruments	-	69,958	-	69,958
Available for sale				
Preference shares of FATIMA	-	3,600,000	-	3,600,000
Total assets	7,280	3,669,958	-	3,677,238
Liabilities	-	-	-	-

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

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

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

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments.
– The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
– Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

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, 2011					
Assets as per balance sheet					
Long term loans	-	-	-	4,515,565	4,515,565
Security deposits	-	-	-	5,663	5,663
Trade debts	-	-	-	890,573	890,573
Advances, deposits and other receivables	-	-	-	2,113,781	2,113,781
Derivative financial instruments	-	18,756	-	-	18,756
Investments	3,600,000	3,580	27,349	-	3,630,929
Cash and bank balances	-	-	-	796,336	796,336
	3,600,000	22,336	27,349	8,321,918	11,971,603

	Financial liabilities at amortized cost (Rupees in thousand)
As at December 31, 2011	
Liabilities as per balance sheet	
Long term finances	14,916,279
Supplier's credit	1,796,000
Liabilities against assets subject to finance lease	208,112
Payable against mining rights	21,000
Long term deposits	47,345
Short term borrowings	4,643,806
Trade and other payables	1,884,116
Accrued finance cost	677,821
Dividend payable	3,755,250
	27,949,729

	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	77,238	24,386	7,353,287	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

49.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. Consistent with others in the industry and the requirements of the lenders, the Group monitors the capital structure on the basis of gearing ratio. This ratio is calculated as borrowings divided by total capital employed. Borrowings represent long term finances obtained by the Group as referred to in note 9 and note 16. Total capital employed includes equity as shown in the balance sheet plus borrowings. The Group's strategy, which was unchanged from last year, was to maintain a gearing ratio of 60% debt and 40% equity. The gearing ratio as at December 31, 2011 and December 31, 2010 is as follows:

		2011	2010
		(Rupees in thousand)	
Borrowings	– note 9 & 16	14,916,279	17,192,893
Less: Cash and cash equivalents	– note 45	3,847,470	4,516,853
Net debt		18,763,749	21,709,746
Total equity		22,353,477	14,724,303
Gearing ratio		46	60

50. Details of subsidiary

Name of subsidiary	Accounting year end	Percentage of holding	Country of incorporation
Reliance Sacks Limited	December 31, 2011	100%	Pakistan

51. Date of authorization for issue

These financial statements were authorized for issue on March 09, 2012 by the Board of Directors.

52. Non-adjusting events after the balance sheet date

The Board of Directors have proposed to distribute NIL (2010: 225 million) ordinary shares of its related party, FATIMA, having face value of Rs 10 each, to the members of the parent company as 'specie dividend' in the ratio of NIL (2010: 5) ordinary shares of FATIMA for every 10 (2010: 10) ordinary shares held of the existing issued, subscribed and paid up share capital of the parent company at their meeting held on March 09, 2012 for approval of the members at the Annual General Meeting of the parent company to be held on April 16, 2012. These consolidated financial statements do not reflect this appropriation.

53. Corresponding figures

Previous year's figures represent that of the parent only as the subsidiary was incorporated during the year.

Chief Executive

Director

Pattern of Shareholding as at December 31, 2011

Disclosure Requirement under the Code of Corporate Governance

Details of holding as on December 31, 2011

		Shares held
1.	**Associated Companies, Undertakings and Related Parties**	
	Reliance Commodities (Pvt) Limited	7,136,613
	Fazal Cloth Mills Limited	25,790,610
	Fatima Sugar Mills Limited	71,250,558
	Arif Habib Corporation Limited	135,000,000
2.	**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	135,000,000

Pattern of Shareholding as at December 31, 2011

Shareholding From	Shareholding To	No. of Shareholders	Total Shares held	Percentage %
1	100	3	3	0.00
55,001	60,000	1	60,000	0.01
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, 2011
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	April 16, 2012
1st Quarter ending March 31, 2012	Third week of April, 2012
2nd Quarter ending June 30, 2012	Third week of August, 2012
3rd Quarter ending September 30, 2012	Third week of October, 2012
Year ending December 31, 2012	Last week of January, 2013

Form of Proxy
39th 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 39th Annual General Meeting of the Company to be held on April 16, 2012 and / or any adjournment thereof.

As witness my/our hand/seal this ____________________ day of ____________________ April, 2012.

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.