

Operational Highlights

The Board of Directors is pleased to present a brief overview of the operational and financial performance of the Company for the quarter ended March 31, 2007. Plant turnaround has commenced w.e.f. March 20, 2007 as planned, to implement phase II of Ammonia BMRE. Turnaround, spread over total of 55 days is progressing satisfactorily and Ammonia Plant capacity is expected to enhance upto 123% on completion.

With the grace of Almighty, production of ammonia, urea and DAP remained higher than the same period of the year 2006. Production of ammonia at 105 KT, was 6% higher than 99 KT of the last year, Granular urea stood at 134 KT i.e, 1% higher than that of 132 KT of the last year and DAP rose to 121 KT which was 17% higher than the production of the same period of the last year at 103 KT. Highest ever daily production of ammonia i.e, 1,419 MT was achieved on January 4, 2007. There has been no downtime in Ammonia Plant ever since completion of BMR Phase-I in April 2006, however, it operated on low load for 15 days in Jan 2007 due to gas curtailment.

During the quarter, the industry produced 1,209 KT urea, which was 2% higher than 1,181 KT of the same period in the last year. To narrow the gap between demand and supply, 55 KT urea was imported vis-a-vis 196 KT urea imports during the corresponding quarter of the last year.

Marketing Highlights

The year 2007 started with 233 KT urea inventory, which was 224% higher than 72 KT opening inventory of year 2006. Higher opening inventory with marketing companies, imports of 55 KT by Trading Corporation of Pakistan (TCP), large carry over urea stocks with dealers, continuous rains during Jan-Feb 2007 and low consumption have been the main contributory factors of an over supplied situation of urea during the first quarter.

Sales for the quarter remained at 862 KT comparing 1,339 KT of the same period in the last year, resulting in a decline of 36%. Consequently, inventory with the industry was built up to the level of 631 KT i.e, 6 times higher than March 2006. The inventory is also expected to rise further.

Urea prices were initially increased by Rs 10 per bag by all marketing companies. However, these were reduced by Rs 7 during February 2007, due to 10% reduction in the fuel gas charges.

DAP market witnessed a healthy trend, which was a continuation of high demand situation of the year 2006. Industry DAP inventory at the beginning of the year was 119 KT i.e, 59% lower comparing to 292 KT of the year 2006. DAP production during the first quarter was 121 KT i.e, 17% higher than 103 KT produced during Jan-Mar 2006.

DAP sales during the period are estimated at 153 KT i.e, 8% higher than 142 KT sales in the same period of the last year. DAP remained in high demand due to abnormal increase in International prices. The DAP inventory by the end March 2007 is estimated at 87 KT i.e, 68% lower than the same period of the last year due to stocks build up by the dealers and investors, in anticipation of DAP shortage.

Granular urea sales of the Company were 105% of the target in the quarter, 1 KT of imported urea was also sold. However, in the period total urea sales at 106 KT were 35% lower than 164 KT of the same period of year 2006 and our market share remained at 12%.

DAP sales of the Company rose to 123 KT during the quarter, which is 273% of the target. DAP sales were 105% higher as compared to 60 KT sales in the same period of the last year. Company's share of DAP market rose to 80%, compared to 44% in the same period of the last year.

Financial Highlights

The Company earned a gross profit of Rs. 920 million i.e, 21% higher than Rs 758 million during the same period last year. The increase is mainly due to rise in DAP sales. Consequently, the gross profit margin during the current quarter increased by 2% i.e, from 28% to 30% as compared with the same period of the last year.

Financial costs increased by Rs 45 million i.e, from Rs 99 million to Rs 144 million, mainly due to increase in one year T bill rates as well as KIBOR rates compared to the same period last year and higher utilization of working capital lines.

Other income increased by Rs 49 million i.e, from Rs 137 million to Rs 186 million due to better treasury management and enhanced markup rates, compared with same period of the last year.

As a result of the above, profit after tax increased by Rs 97 million i.e, from Rs 277 million to Rs 374 million, which is 2% higher compared to the same period last year. Owing to the increase in profit after tax, earning per share (EPS) has increased from Re 0.30 to Re 0.40 compared to the same period of last year.

GOP compensation amounting Rs 700 million accounted for in 2006 financial results, was received during this quarter. DAP subsidy, amounting Rs 1.3 billion at the end of this quarter, includes inventory claims of November and December 2006 together with production claims for the months of December 2006 to March 2007. GOP has assured that these balances will be cleared shortly.

Owing to global high demand, phosphate inventories remained in a very tight supply, which has resulted in a continuous rise in International DAP prices. During the last quarter, International DAP prices rose by 40% - 50% approximately i.e, from US\$ 300 to US\$ 425 / MT. High demand is expected to continue in the near future as well.

GOP, being aware of the situation has taken a right step to increase subsidy on DAP by Rs 150 per bag i.e, from Rs 250 to Rs 400 per bag to meet the objective of balanced fertilizers utilization and affordable price for the farmers.

Future Outlook

Ammonia Balancing, Modernization, Revamping Expansion

BMRE Phase-II commenced on March 20, 2007. It is progressing well. Significant maintenance and erection activities are in progress with over 4,000 personnel including 60 expatriate vendor servicemen on job. This project is expected to be completed as planned within two months, Insha Allah.



Balancing Modernization and Revamping of DAP Plant

DAP revamp project was initiated with completion target by the end 2007 for capacity enhancement from 100% to 151%. Basic engineering has already been completed, while detailed engineering is nearing completion. All out efforts are being made to accomplish the project by December 2007, in line with PMP's (Morocco) production.

Pakistan Maroc Phosphore S.A, Morocco (PMP)

The Project has entered into an advanced phase, whereby major civil works have been completed, approximately 96% orders have been placed and mechanical erection activities are in full swing. Despite high global demand and increase in the prices of equipment, the venture is expected to complete within the overall budget of 2,030 million Moroccan Dirhams. The project is expected to commence commercial operations in the fourth quarter of 2007, Insha Allah.



Foundation Power Company (Daharki) Limited (FPCDL)

The Company is investing an amount of Rs 1.5 billion in FPCDL, which is an independent 175 MW power plant, an associated company established by Fauji Foundation. National Electric Power Regulatory Authority (NEPRA) has approved a project cost of US\$ 196.472 million and determined levelized tariff of 7.24 cents / KWH with equity IRR of 15%, net of withholding tax on dividends.

Engineering, Procurement and Construction (EPC) Contract and Power Purchase Agreement (PPA) have been signed. Gas Supply Agreement (GSA) and Implementation Agreement (IA) shall be finalized in April 2007 and Financial Close by June 2007. The project is likely to commence commercial operations by mid 2009.

Rawalpini
April 19, 2007

Lt Gen Syed Arif Hasan, HI(M), (Retd)
Chairman