

Director's Review

For the quarter ended 31 March 2009

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 31 Mar 2009.

By the grace of Almighty Allah, overall performance of the plants remained satisfactory and no major operational problem was confronted during the quarter. DAP plant turnaround commenced on 1 Jan 2009 and was successfully concluded on 26 Jan 2009 as per plan. Similarly, annual turnaround of Ammonia and Urea Plants, commencing 13 Jan was completed on 6 Feb 2009. The objectives set for plants turnaround were effectively achieved by the Company.

Production of Ammonia at 81 thousand tonnes and Urea at 114 thousand tonnes is lesser than the corresponding period by 16% and 30%, respectively. DAP production at 52 thousand tonnes is, however, higher by 101%, due to shutdown of plant for BMR activities in the same period last year.

Marketing Highlights

Urea

Urea remained in high demand during the quarter. Industry urea sales of 1,532 thousand tonnes for the period under review, are 9% higher than the sales of corresponding period of the last year. 332 thousand tonnes of urea, imported by Trading Corporation of Pakistan (TCP) during the period, was given to National Fertilizer Marketing Limited (NFML) for distribution. GOP, in order to manage the shortage of the product, preferred selling Urea directly to the farmers under its supervision through NFML. However, due to product handling and distribution issues encountered by NFML, GOP revoked the decision of apportioning 50% local urea production by the manufacturers to NFML, stopping supplies of branded urea to NFML, effective 26 Jan 2009.

The urea inventory of 140 thousand tonnes, at the beginning of the year was 12% lower than 159 thousand tonnes of the corresponding period. Even under situation of improved product availability, branded urea was sold at higher than the proposed prices. Fertilizer marketing companies raised urea prices by Rs 40/- per bag during the period under review on account of increase in the fuel gas prices by GOP in January, coupled with the overall impact of inflation. Industry urea production of 1,147 thousand tonnes during the period is 5% lower as compared to 1,204 thousand tonnes of the corresponding period. Urea inventory at the end of Mar 2009 is estimated at 83 thousand tonnes i.e, 8% lower than the inventory of 91 thousand tonnes of the same period, last year.

DAP

DAP inventory of 339 thousand tonnes at the beginning of the year 2009 was 23% higher than 276 thousand tonnes inventory at the start of 2008. During the quarter ended 31 Mar 2009, estimated DAP industry sales are 192 thousand tonnes i.e, 106% higher against 93 thousand tonnes sales of the same period last year. DAP production during the quarter is about 52 thousand tonnes alongwith imports, estimated as 30 thousand tonnes. DAP inventory at the end of Mar 2009 was 232 thousand tonnes i.e, 39% lower as compared to 382 thousand tonnes closing inventory of the corresponding period. DAP prices were reduced by Rs 1,147 per bag during the quarter due to decline in international prices and the domestic market situation.



FFBL Sales Performance

Sona Urea (Granular) sales during the quarter ended 31 Mar 2009 are 114 thousand tonnes showing an achievement of 134% against the target, however, this was 30% lower as compared to the sales of 164 thousand tonnes for the same period of 2008. These sales were limited to product availability during the period under review.

Sona DAP sales during the quarter are 105 thousand tonnes, showing an achievement of 192% against the target, whereas 8 thousand tonnes of DAP was sold in the corresponding period of the last year.

FFBL share in urea and DAP markets remained 7% and 55%, respectively during the period under review.



Financial Highlights

The Company earned a gross profit of Rs 824 Million during the quarter, which is 37% higher than Rs 603 Million earned in the corresponding period last year. The increase is mainly due to volumetric growth in sales of DAP (105 thousand tonnes vis-à-vis 8 thousand tonnes in the same period last year). The gross profit margin during the current period, however, declined to 14% from 30% of the corresponding period, mainly due to the impact of significant increase in Ammonia cost for 2009, as the Company completed its 10 years of subsidized feed gas on 31 Dec 2008. Moreover, phos acid prices during the period remained higher in relation to DAP prices, as such squeezing the DAP margins. An additional maintenance cost on account of planned turnaround of Ammonia, Urea and DAP plants has also been included in the cost of sales for the period under review, thus impacting gross profit margins.

Company's finance cost significantly increased to Rs 628 Million at 31 Mar 2009 from Rs 195 Million of the corresponding period. The Company was forced to arrange and utilize substantial working capital lines at high interest rates. This was mainly due to the delay in receipt of huge outstanding receivables from GOP on account of DAP subsidy. The receivables grew as high as Rs 12.44 Billion at 31 Dec 2008 and the same stood at Rs 4.93 Billion on 31 Mar 2009. Consequently, the Company is likely to continue bearing the brunt of the outstanding amount through higher financial charges, till it is fully recovered.

As a result, profit after tax during the period decreased by Rs 149 Million i.e, from Rs 162 Million to Rs 12.5 Million, compared to the last year, with a resultant decline in earnings per share (EPS) from Re 0.17 to Re 0.01.

Pakistan Maroc Phosphore S.A

Pakistan Maroc Phosphore S.A (PMP) completed its first year of operations on 31 Dec 2008 (approximately seven months of effective operations) and reported a profit after tax of Moroccan Dirhams (MAD) 60 Million. PMP Board of Directors declared maiden dividend of 5% in their meeting held in March 2009. FFBL share of the dividend is MAD 10 Million, equivalent to approximately Rs 95 Million, which shall be accounted for on approval by PMP shareholders in the Annual General Meeting in June 2009. This dividend shall not impact the profitability of FFBL, since share of profit from PMP has already been accounted for.

Future Outlook & Challenges

Subsequent to 31 Mar 2009, the Company received another amount of Rs 2.3 Billion from GOP on account of subsidy pertaining to November 2008. Remaining amount of Rs 2.6 Billion for December 2008 is likely to be received in the second quarter of 2009. Moreover, phos acid price for second quarter has been set at \$ 630 per MT cfr India, i.e, a decrease of \$ 130 per MT (17%) against the first quarter price. With expected stable outlook of DAP prices internationally, this should bode well for FFBL in the coming days.

The unprecedented global economic slowdown and turmoil in the global markets is adversely impacting all businesses across the globe. Fertilizer industry is no exception to this. Harnessing all its efforts, resources and skills, FFBL will however, remain focused in producing the best possible results for its valued shareholders in days to come, Insha-Allah.

For and on behalf of the Board

Lt Gen Hamid Rab Nawaz (Retired)
Chairman