

## **DIRECTORS' REVIEW**

**Half year ended June 30<sup>th</sup>, 2006**

### **Operational Highlights**

The Board of Directors is pleased to present an overview of the operational and financial performance of the Company for the half year ended June 30<sup>th</sup>, 2006 together with Auditor's review thereon. The significant difference between year 2006 vis-à-vis 2005 is 27 days turnaround aimed at improving reliability and increased capacity of Ammonia thereby increasing production of Urea & DAP plants.

Alhamdulillah the Company has successfully completed the first phase of ammonia BMRE from March 21<sup>st</sup> to April 16<sup>th</sup>, 2006. Resultantly, ammonia plant's capacity has improved by 2%.

Due to 27 days shutdown, production of ammonia remained at 193 kt, which was 16% below the production in the corresponding period of the last year. Similarly, production of Granular urea and DAP remained at 256 kt and 203 kt, which was 19% and 8% lower than the production in the corresponding period. The plant also faced gas curtailment by SSGC in January 2006 to meet their upcountry winter requirement.

### **Marketing Highlights**

At the beginning of the year 2006, the urea market showed a healthy trend which was a continuation of robust demand situation of the year 2005. The urea inventory of 72kt at the beginning of year 2006 was 177% higher than opening inventory of 26 kt of year 2005. During the half year, industry urea sales at 2,569 kt were 9% higher than 2,358 kt sales for the corresponding period of the last year. Fertilizer marketing companies increased urea prices by Rs 26 per bag, an increase of 10%. Prices were increased in two stages i.e, Rs 16 per bag in January and Rs 10 per bag in April, 2006 due to 15% rise in fuel gas price and higher transportation/other costs.

Industry urea production of 2,374 kt for the period was 5% higher than 2,262 kt of last year. 397 kt urea was also imported to bridge the gap between local production and the demand. Due to early imports, urea inventory at the end of June 2006 of 262 kt was 435% higher than the inventory of 49 kt at the end of June 2005.

Industry DAP inventory of 292 kt at the beginning of the year 2006 was much higher compared to 65 kt at the beginning of year 2005 and sales of 368 kt were 5% higher than 349 kt sales of the preceding year.

DAP prices were reduced on an average by Rs 30 per bag during the period from December 2005 prices. However, average sale prices of DAP were higher by 3% over the prices of last year.

Import of DAP continued, despite ample availability in the market, 233 kt DAP was imported which was lower by 9% as compared to 257 kt imports made during the same period of last year.

The Company sold 305 kt (including 49 kt of imported) urea during the period under review showing 112% achievement against the target. However, sales were lower by 8% as compared to 331 kt of last year. The Company's share of urea market was 12% compared to 14%. The Granular urea inventory at June 30, 2006 was 4 kt because of higher demand during the period.

DAP sales of the Company stood at 153 kt which were 7% below the sales in the first half of year 2005. Company's share of DAP market stood at 41% as compared to 47% in the last year.

#### **Financial Highlights**

The Company earned a gross profit of Rs. 1,493 million. This is 25% lower than corresponding period mainly due to decrease in urea and DAP production owing to plant turnaround. The production cost increased by Rs 181 million mainly on account of phosphoric acid price rise by 4%, fuel gas price by 15% and annual turnaround cost Rs 94 million. Profit after tax reduced by 25% i.e, from Rs 1,326 million to Rs 992 million.

As a result of rise in fuel and transportation charges, distribution cost increased from Rs 575 million to Rs 621 million.

Financial costs rose from Rs 106 million to Rs 200 million, due to increase in borrowing rates and higher utilization of working capital lines. Other expenses decreased from Rs 72 million to Rs 62 million mainly due to decrease in WPPF owing to lower profit.

Other income excluding Government compensation increased from Rs 166 million to Rs 270 million due to better treasury management and increase in mark up rates compared with the corresponding period of the last year.

Government compensation of Rs 700 million for the year 2005 has been received in the month of June 2006. Consistent with the last year, compensation of Rs 700 million for the year 2006 has been recognized as income on accrual basis in the accounts under review.

#### **Future Outlook**

The international prices of urea are expected to stay firm which presently are more than double the domestic price. The Country will remain in the import regime as domestic demand continues to grow as compared to the indigenous production. In order to address this shortfall, Government should decide gas allocations for at least 1-2 urea plants on priority.

#### **Balancing, Modernization, Revamping and Expansion**

To ensure profitable growth and enhance shareholders value, the Company has already started a BMRE project of ammonia plant to increase its production capacity and efficiency.

This project Inshallah will be completed by end second quarter of 2007 thereby increasing ammonia capacity to 123%. Expansion of DAP plant to 151% of its capacity has also started, which is expected to complete by end 4<sup>th</sup> Quarter 2007, Inshallah. Contract for basic and detailed engineering with Ms Jacobs Engineering Inc of USA has been signed and work on the project has commenced. It is pertinent to note that these projects are being financed from Company's own resources.

#### **International Certification Integrated Management System (IMS)**

The Company developed and implemented the following three international standards to improve in the fields of quality, environment and health & safety:-

- ✓ ISO 9001: 2000 - Quality Management System
- ✓ ISO 14001: 2004 - Environmental Management System
- ✓ OHSAS 18001: 1999 - Occupational Health & Safety Assessment Series.

Our work practices, emissions and safety procedures at the Head Office and Plantsite were verified by world renowned international certification agent, M/s BVQI, during March 2006. Alhamdulillah, we were certified for all three standards in the first attempt.

#### **Pakistan Maroc Phosphore S.A**

The project is progressing according to schedule and within the overall budget. Approximately 75% of the budget has been committed against the orders. Delivery of first consignment of the equipment of sulphuric acid plant has been made at the site. Civil work has commenced on sulphuric acid, water treatment and power plants. The project is expected to complete in time and commence commercial production by third quarter of 2007, Inshallah.

**For and on behalf of the Board**

**Lt Gen Syed Arif Hassan HI(M) (Retd)  
Chairman**

**Rawalpindi  
25 July 2006**