

DIRECTORS' REVIEW

Nine Months period ended September 30, 2006

Operational Highlights

The Board of Directors is pleased to present an overview of the operational and financial performance of the Company for the third quarter and nine months ended September 30, 2006. It has in fact been the best quarter from the production point of view. Production of ammonia at 123 kt was 23% higher than the output in the corresponding period of the last year, similarly, production of Granular urea i.e, 168 kt and DAP i.e, 119 kt were higher by 28% and 2% respectively.

Due to 27 days turnaround, production for the period Jan-Sep 2006 remained marginally below vis-a-vis same period of the last year, Ammonia remained at 317kt, which was 4 % below and Granular urea and DAP stood at 424 kt and 323 kt respectively, i.e, 5% lower. The Plant also faced gas curtailment by SSGC in January 2006 to meet their upcountry winter requirement.

Although the production was exceptionally well in the quarter, the profit was significantly low due to lesser sales.

Marketing Highlights

The urea market at the beginning of 2006 retained a high demand situation of the previous year. The urea inventory of 72 kt at the beginning of 2006 was 177% higher than opening inventory of 26 kt in the year 2005. During the first quarter, dealers had been building up their urea inventory but imports by Trading Corporation of Pakistan (TCP) resulted in oversupply situation which affected the sales adversely.

Industry urea sales recorded at 3,736 kt which were 1% higher than the sales of the same period of year 2005. Urea prices were raised by Rs 41 per bag which was necessary to offset rise in gas prices and the impact of inflation.

Industry urea production at 3,532 kt for the period was 2% higher comparing same period of the last year. 625 kt urea was imported by TCP, resultantly urea inventory at the end of September 2006 was 260% higher than the inventory at the end September 2005. DAP inventory of 292 kt at the beginning of the year 2006 was much higher as compared to 65 kt at the start of year 2005.

Industry DAP sales at 523 kt during Jan-Sep 2006 were 30% lower than 746 kt sales for the same period of the previous year. DAP prices were reduced by Rs 70 per bag during the first quarter of 2006, later raised by Rs 65 per bag in the subsequent months. News of GOP's intentions to subsidize Phosphatic and Potassic fertilizers adversely affected sales during the third quarter of the year.

Imports of DAP continued despite ample availability in the market i.e, 508 kt was imported which was 12 % lower the same period of year 2005. Due to high level of holding at the beginning of the year coupled with low sales, DAP inventory remained 156% higher vis-à-vis closing inventory of September 2005.

The Company sold 463 kt urea achieving 105% of the target. However, sales were lower by 4% comparing the last year. Company's share of urea market remained at 12.4% compared to 13% in the corresponding period.

DAP sales of the Company stood at 212 kt showing an achievement of 106% of the target, however, the sales were 34% lower. Company's share of DAP market stood at 40.4% as compared to 44.3% in the corresponding period.

Financial Highlights

During Jul-Sep quarter, Company's sales were reduced to Rs 2,703 million which were 40% lesser than the same period of the last year. The decrease in sales is mainly attributed to the GOP's late announcement of subsidy on phosphatic and potassic fertilizers. This led to piling up of huge DAP inventory and consequently lower profitability for the period under review. The profit after tax decreased to Rs 335 million which was 48% below the profit earned during the same period i.e, Rs 643 million. Similarly, per share earnings of the Company dropped to Rs 0.36 which was 48% below vis-a-vis the last year.

Company's sales during nine months remained at Rs 8,564 million which were 18% lower than the same period of the last year. Production cost during Jan-Sep period increased mainly due to increase in phosphoric acid price by 4.4% and fuel gas by 15%. Consequently, Company's after tax profit for the period stood at Rs 1,328 million, which was 33% below the profit earned during the same period last year.

Other income excluding Government compensation increased from Rs 286 million to Rs 382 million due to better treasury management and increase in mark up rates.

Per share earnings of the Company for the period under review stood at Rs 1.42 as compared to Rs 2.11 during the corresponding period of the last year.

Future Outlook

GOP's decision for subsidy on phosphatic and potassic fertilizers applicable from 1st October 2006 would go a long way in promoting the use of balanced fertilizer, thereby enhancing the per acre yield. Resultantly, DAP prices have been reduced by Rs 250 per bag at the retail stage. Pursuant to this decision, the Company expects to clear most of its DAP inventory which is likely to have positive impact on the results of the Company in the fourth quarter.

Balancing, Modernization, Revamping and Expansion

BMRE of the Plant is progressing satisfactorily, Ammonia project would be completed by end second quarter 2007, increasing ammonia capacity to 123% and DAP expansion by end 4th Quarter 2007, raising production capacity to 151%, Insha Allah.

Pakistan Maroc Phosphore S.A

Eighth Board of Directors' meeting of Pakistan Maroc Phosphore S.A was held on September 22, 2006. The Project is progressing within the overall budget of MAD 2,030 million. Approximately 85% of the capex budget has been committed against orders. Civil works at all areas of the Plant are in progress. Mechanical erection has started at Sulphuric Acid and Phosphoric Acid Plants.

For and on behalf of the Board

Rawalpindi
19 October 2006

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