DIRECTORS' REVIEW

Nine Months Period Ended 30 September 2008

Operational Highlights

The Board of Directors is pleased to present a brief overview of the operational and financial performance of the Company for the period, ended 30 September, 2008.

Overall performance of the plants remained satisfactory during the period under review. Ammonia and DAP plants achieved ever-highest daily production of 1,589 MT (125% of its name plate capacity) and 2,383 MT (177% of original name plate capacity) on 8 August and 24 September 2008, respectively.

Ammonia, Urea and DAP produced during the period was 354 thousand tonnes, 497 thousand tonnes and 302 thousand tonnes, respectively against 247 thousand tonnes, 314 thousand tonnes and 279 thousand tonnes, produced during the corresponding period of the last year. DAP production, however, remained lower than the target by about 19% due to varying composition of the acid being supplied. The situation is expected to improve through in-house modifications and adjustment of operating parameters.

Marketing Highlights

Urea

The industry Urea sales at about 4,021 thousand tonnes during nine months were 18% higher than the corresponding period sales of 3,403 thousand tonnes. This was mainly due to enhanced use of Urea, owing to unprecedented hike in DAP prices during the period, thereby restricting use of DAP by the farmers. The net increase of Rs 77 per bag in Urea prices during the period comprises an impact of Rs 31 per bag on account of increase in feed and fuel gas price and Rs 46 per bag net impact of disallowance in adjustment of GST on fertilizers, by GOP and high rate of inflation.

DAP

DAP sales had been exceptionally low, compared to the same period last year. Industry DAP sales at about 289 thousand tonnes were 62% lower than the corresponding period sales of 766 thousand tonnes. This substantial decline in the off-take was primarily due to un-precedent hike in DAP price, both at international and domestic levels. The high price of DAP was not well received by the farmers, as such causing significant reduction in use of the DAP. Delay in GOP's decision on subsidy of phosphatic fertilizers aggravated the situation further. However, this issue now stands settled with the announcement of Rs 2,200 per bag subsidy on DAP by GOP, for the period July-December 2008. Company's subsidy claim against GOP was about Rs 8 billion by 30 September 2008. Announcement of subsidy and wheat support price for Rs 950 per 40 kg bag are likely to augment DAP off-take in the coming months of Rabi season, which may help the Government attain the targets, set for various crops, particularly the wheat.

The industry is witnessing a significantly higher DAP inventory of around 648 thousand tonnes (250 thousand tonnes of FFBL-Rs 10 billion approximately), as compared to 338 thousand tonnes in the corresponding period of the last year.

FFBL Sales Performance

Owing to enhanced use of Urea, total Urea sales of FFBL during the period were 524 thousand tonnes including 12 thousand tonnes of imported urea i.e, 123% against target and 77% higher than the sales of corresponding period. DAP sales during the nine months were 58 thousand tonnes i.e, an achievement of 22% against the target and 77% lower than the corresponding period, due to unprecedented hike in DAP price and ambiguity over subsidy by the GOP. Company's share in Urea and DAP markets remained 13% and 23% respectively, as compared to 9% and 33% in the year 2007.

Financial Highlights

The Company earned a gross profit of Rs 2,849 million i.e, Rs 149 million higher than Rs 2,700 million, earned during the same period of the last year. The increase is mainly due to higher Urea sales during the period under review as the sales in the corresponding period were significantly low due to shutdown of plants for Ammonia BMR. However, due to substantial increase in production cost, in particular the DAP, owing to high price of phos acid, Company's gross profit margin reduced by 3% during the period under review i.e, 31% as compared to 34% in the corresponding period last year.

The Company's net profitability, however, has been affected adversely by an unprecedented increase in financial charges, i.e, Rs 1,904 million against Rs 454 million in the year 2007. This includes Rs 1,025 million on account of foreign exchange loss over import of phos acid, on the back of about 30% devaluation of Pak Rupee against US Dollar during the last nine months. Economic down-turn in the Country on account of increasing current account deficit, depleting foreign currency reserves, ban on forward bookings on L/Cs by SBP, and rating downgrading by international rating agencies, are the major factors for such a substantial decline in Pak Rupee value. On the other hand, significant increase in lending rates by banks due to tightening of monetary policy by SBP and worsening inter-bank market conditions, have substantially escalated the borrowing cost of the entire corporate sector, including FFBL.

Since, Company's cash cycle had been badly affected due to significantly lower off-take of the product and delay in receipt of DAP subsidy claim from GOP, there had been an unprecedented increase in utilization of working capital lines at high costs (Rs 16 billion approximately at 30 September 2008), which contributed substantially towards increased financial charges of the Company.

However, it is pertinent to note that arranging funds from financial institutions to such a high extent, without affecting plant operations even for a single day for want of funds under present circumstances of extremely tight liquidity in the Country, is itself a commendable job done by the management of the Company.

The adverse factors, stipulated above had translated the third quarter into loss of Rs 174 million, as such Company's overall net profit for nine months reached Rs 544 million against Rs 1,545 million in the year 2007 i.e, a 65% decline over same period of the last year. This translates into an EPS of Re 0.58 against Rs 1.65 in the corresponding period.

The timely announcement of wheat support price and DAP subsidy are the steps taken in the right direction by GOP. The effect, in turn, should substantially improve the financial results of the Company in the fourth quarter, thereby enhancing the overall earnings for the financial year 2008.

Pakistan Maroc Phosphore S.A, Morocco (PMP)

Overall plant performance remained satisfactory during the period.

Inauguration ceremony of PMP is scheduled on 30 Oct 08 at Jorf Lasfar, Morocco which will be attended by high dignitaries from both the Countries. King Mohammed VI of Kingdom of Morocco will be the Chief Guest on the occasion.

For and on behalf of the Board

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

Rawalpindi
27 October 2008