

*With our people we are building
a strong business to deliver
long-term value to our
shareholders and the community.*

**Half Yearly Accounts
June 30, 2003**





Company Information

Board of Directors

Lt Gen Syed Muhammad Amjad, HI, HI(M) (Retired)
Chairman

Lt Gen Mahmud Ahmed, HI(M) (Retired)
Chief Executive and Managing Director

Dr Haldor Topsoe

Brig Ghulam Hussain (Retired)

Mr Qaiser Javed

Brig Arshad Shah (Retired)

Mr Istaqbal Mehdi

Mr Abdul Hafeez Chaudhry

Mr Zaigham Mahmood Rizvi

Mr Tariq Iqbal Khan

Mr Mohammad Farooq Saleem

Mr Salim Batla

Brig Aftab Ahmed (Retired)

Secretary

Brig Muhammad Saleem Suleman, SI(M) (Retired)

Registered Office

93-Harley Street, Rawalpindi Cantt.

Plant Sites

Goth Machhi, Sadikabad,
(Distt: Rahim Yar Khan)

Mirpur Mathelo
(Distt: Ghotki)

Marketing Division

Lahore Trade Centre,
11 Shahrah-e-Aiwan-e-Tijarat, Lahore

Karachi Office

D-143, Block 4, KDA Scheme-5,
Kehkashan Clifton, Karachi

Auditors

A. F. Ferguson & Co.,
Chartered Accountants



Directors' Review

Dear Members

We are pleased to present the un-audited half yearly financial and operating performance of your Company as at June 30, 2003, duly reviewed by the Company auditors as required under the Code of Corporate Governance.

The second quarter of the year 2003 marked attainment of twenty-five years of excellent business performance of the Company on May 08, 2003. The first completed year of successful operations post PSFL acquisition was also achieved during this period on June 30, 2003.

With an integrated designed capacity of 952 thousand tonnes during the six months, combined production of all the three plants of the Company stood at 1,049 thousand tonnes, representing an operating efficiency of 110%, which is higher by 41% compared to production for the same period last year.

Exceptionally high urea sales in December 2002 coupled with GOP's expected announcement of reduction in prices had a very depressing effect during the first quarter of 2003. To ease the mounting pressure, the industry resorted to price reduction in May 2003, which boosted sales in the second quarter to arrest the decline. Sales of 'Sona' urea in the first quarter of 2003 were 23% lower than sales during corresponding period of 2002. The sales during the second quarter

of 2003 were, however, 19% higher than the volume achieved in the second quarter last year.

Urea sales for the period at 1,104 thousand tonnes, including marketing of 219 thousand tonnes of Sona (G) on behalf of FJFC, were higher by 18% compared with the sales for the corresponding period last year, attaining market share at 60% as opposed to 51% during same period last year. DAP sales for the period at 106 thousand tonnes were higher by 66% despite overall decline by 14% in the industry off-take, during January to June 2003 compared to the last year.

The industry is currently carrying large urea inventory of 506 thousand tonnes compared to 413 thousand tonnes at end June 2002 due to decline in off-take as a result of uncertainty in prices. The Company sold 84% of its production during the half year 2003 compared to 95% during the corresponding period last year. This, together with addition of Acquisition Unit production, contributed to increase in the Company's urea inventory level from 91 thousand tonnes as of June 30, 2002 to 244 thousand tonnes as at June 30, 2003.

Sales revenue for the period at Rs. 7.77 billion was higher by 33% as opposed to Rs. 5.84 billion in the corresponding period last year. Net of tax profit for the period at Rs. 1.17 billion was 18% higher than

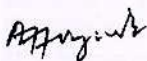
Review Report to the Members

We have reviewed the annexed balance sheet of Fauji Fertilizer Company Limited as at June 30, 2003 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (financial statements) for the half year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

The figures of profit and loss account for the quarter ended June 30, 2003 alongwith related corresponding figures have not been reviewed.

Based on our review and except for the matter referred to in the preceding paragraph, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.



Chartered Accountants
Islamabad
July 30, 2003



 **FFC**

Balance Sheet

	Note	June 30, 2003	December 31, 2002
(Rupees '000)			
SHARE CAPITAL AND RESERVES			
Share capital			
Authorised		3,000,000	3,000,000
Issued, subscribed and fully paid		2,564,959	2,564,959
Capital reserve		160,000	160,000
Revenue reserves	4	9,419,012	8,038,098
		12,143,971	10,763,057
REDEEMABLE CAPITAL	5	3,949,470	4,420,014
LONG TERM LOANS	6	1,488,521	1,283,481
DEFERRED TAXATION		2,575,000	2,690,000
CURRENT LIABILITIES AND PROVISIONS			
Current maturity			
Redeemable capital	5	150,300	379,946
Long term loans	6	1,741	538,045
Short term finances	7	4,505,532	3,388,897
Creditors, accrued and other liabilities		2,276,240	2,829,008
Taxation		149,371	975,960
Dividend payable		769,488	641,240
Proposed dividend		577,116	256,496
		8,429,788	9,009,592
CONTINGENCIES AND COMMITMENTS	8		
		28,586,750	28,166,144

The annexed notes form an integral part of these accounts.

	Note	June 30, 2003	December 31, 2002
(Rupees '000)			
FIXED CAPITAL EXPENDITURE			
Fixed assets	9	9,075,581	9,378,161
Capital work in progress		103,857	138,313
		<u>9,179,438</u>	<u>9,516,474</u>
GOODWILL		1,935,387	1,987,694
LONG TERM INVESTMENTS	10	8,547,759	7,077,892
ADVANCE AGAINST INVESTMENT	11	750,000	-
LONG TERM LOANS AND ADVANCES		61,739	50,137
LONG TERM DEPOSITS, PREPAYMENTS AND DEFERRED COSTS		99,397	128,495
CURRENT ASSETS			
Stores and spares		1,639,878	1,618,373
Stock in trade		2,448,339	630,808
Trade debts		1,687,184	1,400,893
Loans, advances, deposits, prepayments and other receivables		743,889	1,068,419
Short term investments	12	96,970	2,792,279
Cash and bank balances		1,396,770	1,894,680
		<u>8,013,030</u>	<u>9,405,452</u>
		<u>28,586,750</u>	<u>28,166,144</u>



Chairman



Chief Executive



Director

Profit and Loss Account

for the half year ended June 30, 2003 (Un-Audited)

	Note	For the quarter ended		For the half year ended	
		June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
		(Rupees '000)		(Rupees '000)	
Sales		3,777,967	3,097,443	7,774,211	5,842,783
Less: Cost of goods sold	13	2,333,912	1,734,884	4,763,663	3,138,168
GROSS PROFIT		1,444,055	1,362,559	3,010,548	2,704,615
Less: Selling and distribution expenses		396,676	268,478	840,704	520,042
Financial charges		146,891	108,947	348,011	149,714
		543,567	377,425	1,188,715	669,756
		900,488	985,134	1,821,833	2,034,859
Other income		81,781	216,225	220,634	472,412
		982,269	1,201,359	2,042,467	2,507,271
Less: Other charges		99,579	86,733	199,858	180,867
NET PROFIT BEFORE TAXATION		882,690	1,114,626	1,842,609	2,326,404
Provision for taxation		325,000	386,000	676,000	836,000
NET PROFIT AFTER TAXATION		557,690	728,626	1,166,609	1,490,404
Unappropriated profit brought forward		57,634	373,784	218,203	253,246
Profit available for appropriation		615,324	1,102,410	1,384,812	1,743,650
APPROPRIATIONS:					
Dividends:					
First interim @ 30% (2002: @ 25%)		-	-	769,488	641,240
Second interim @ 22.50% (2002: @ 30%)		577,116	769,488	577,116	769,488
		577,116	769,488	1,346,604	1,410,728
UNAPPROPRIATED PROFIT CARRIED FORWARD		38,208	332,922	38,208	332,922
Earnings per share		(Rupees) 2.17	2.99	(Rupees) 4.55	5.81

The annexed notes form an integral part of these accounts.



Chairman



Chief Executive



Director

Cash Flow Statement

for the half year ended June 30, 2003 (Un-Audited)

	Note	2003 (Rupees '000)	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in) / generated from operations	14	(179,452)	2,357,577
Payments for:			
Financial charges		(371,190)	(105,936)
Income tax		(1,617,589)	(977,207)
Net cash (used in)/generated from operating activities		(2,168,231)	1,274,434
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(137,659)	(152,680)
Sale proceeds of fixed assets		7,095	3,338
Income received on loans, deposits and investments		287,707	460,828
Decrease / (increase) in investments		2,774,714	(6,344,762)
Revolving credit facility to an associated company		-	750,000
Advance against investment		(750,000)	(3,000,000)
Balance due from associated company		-	(19)
Net cash generated from/(used in) investing activities		2,181,857	(8,283,295)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redeemable capital - disbursements		1,000,000	-
- repayments		(1,700,190)	-
Long term loans - disbursements		205,910	2,445,000
- repayments		(223,212)	(264,112)
Increase in short term finances		1,116,635	5,152,198
Dividends paid		(910,554)	(1,388,881)
Net cash (used in)/generated from financing activities		(511,411)	5,944,205
Net decrease in cash and cash equivalents		(497,785)	(1,064,656)
Cash and cash equivalents at beginning of the year		1,894,680	2,270,358
Effect of exchange rate changes		(125)	(194)
Cash and cash equivalents at close of the half year representing cash and bank balances		1,396,770	1,205,508

The annexed notes form an integral part of these accounts.


Chairman


Chief Executive


Director

Statement of Changes In Equity

for the half year ended June 30, 2003 (Un-Audited)

	Share Capital	Capital Reserve	General Reserve	Fair value adjustment	Unappropriated Profit	Total
	(Rupees '000)					
Balance at December 31, 2001	2,564,959	160,000	7,200,000	(676,573)	253,246	9,501,632
Unrealised gain on remeasurement of Foreign Exchange Risk Insurance contracts as at January 1, 2002	-	-	-	-	1,075,270	1,075,270
Unrealised loss on remeasurement of foreign currency loans and interest, as at January 1, 2002	-	-	-	-	(1,075,270)	(1,075,270)
Net profit for the half year ended June 30, 2002	-	-	-	-	1,490,404	1,490,404
Adjustment arising from remeasurement to fair value of investment in associated company	-	-	-	315,734	-	315,734
Dividends	-	-	-	-	(1,410,728)	(1,410,728)
Balance at June 30, 2002	2,564,959	160,000	7,200,000	(360,839)	332,922	9,897,042
Net profit for the half year ended December 31, 2002	-	-	-	-	1,583,017	1,583,017
Adjustment arising from remeasurement to fair value of investment in associated company	-	-	-	180,734	-	180,734
Transfer to general reserve	-	-	800,000	-	(800,000)	-
Dividends	-	-	-	-	(897,736)	(897,736)
Balance at December 31, 2002	2,564,959	160,000	8,000,000	(180,105)	218,203	10,763,057
Net profit for the half year ended June 30, 2003	-	-	-	-	1,166,609	1,166,609
Adjustment arising from remeasurement to fair value of investment in associated company	-	-	-	1,560,909	-	1,560,909
Dividends	-	-	-	-	(1,346,604)	(1,346,604)
Balance at June 30, 2003	2,564,959	160,000	8,000,000	1,380,804	38,208	12,143,971

The annexed notes form an integral part of these accounts.



Chairman



Chief Executive



Director

Notes To The Accounts

for the half year ended June 30, 2003 (Un-audited)

1. These accounts, duly reviewed by the Company auditors, are being submitted to the shareholders in accordance with requirements of the Companies Ordinance, 1984.
2. Accounting policies adopted for preparation of these accounts are the same as those applied in preparation of the annual accounts for the year ended December 31, 2002. Accounting policy in respect of related party transactions and transfer pricing is as under:

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the Company to do so.

3. These accounts have been prepared in accordance with the requirements of International Accounting Standard IAS 34 'Interim Financial Reporting'.

	June 30, 2003	December 31, 2002
	(Rupees '000)	
4. REVENUE RESERVES		
General reserve	8,000,000	8,000,000
Adjustment arising from remeasurement to fair value of investment in associated company	1,380,804	(180,105)
Unappropriated profit	38,208	218,203
	<u>9,419,012</u>	<u>8,038,098</u>
5. REDEEMABLE CAPITAL - SECURED (non participatory)		
Long term finances under markup arrangements	3,150,000	3,850,000
Term Finance Certificates	949,770	949,960
	4,099,770	4,799,960
Less: Current portion shown under current liabilities	150,300	379,946
	<u>3,949,470</u>	<u>4,420,014</u>
6. LONG TERM LOANS - SECURED		
Government of Pakistan loan - Base unit	4,352	5,222
Foreign currency loan - Expansion unit	-	536,304
Local currency loan - PSFL acquisition	1,485,910	1,280,000
	1,490,262	1,821,526
Less: Amount payable within twelve months shown as current maturity	1,741	538,045
	<u>1,488,521</u>	<u>1,283,481</u>
7. SHORT TERM FINANCES - SECURED		
Short term running finance	1,809,000	797,314
Short term loan	1,340,000	1,355,000
Short term import credit	1,356,532	1,236,583
	<u>4,505,532</u>	<u>3,388,897</u>

Notes To The Accounts

for the half year ended June 30, 2003 (Un-audited)

	June 30, 2003	December 31, 2002
	(Rupees '000)	
8. CONTINGENCIES AND COMMITMENTS		
(a) Contingent liabilities		
(i) Guarantees issued by banks on behalf of the Company	17,987	14,020
(ii) Demand in respect of import of duty-free first charge catalysts for the expansion unit, which matter has been decided in favour of the Company by the High Court of Sindh. This issue is currently pending in the Supreme Court on appeal filed by the Customs authorities.	179,000	179,000
(iii) Income tax demands related to disallowance of Workers' Profit Participation Fund contribution claimed by PSFL and demand for levy of contribution to Workers' Welfare Fund, which matters have been decided in favour of the Company by the income tax appellate authorities. The department has moved an application against the above decision through the appellate tribunal for reference to the High Court of Sindh. The management is confident that there are reasonable grounds for ultimate decision in favour of the Company.	295,590	295,590
(iv) Claims against the Company and/or potential exposure not acknowledged as debt.	64,215	42,175
(b) Commitments in respect of:		
(i) Capital expenditure	441,263	401,111
(ii) Purchase of fertilizer, stores, spares and other revenue items.	246,630	188,309
(iii) Rentals under operating lease agreements in respect of premises and vehicles are as follows:		
Premises	131,590	94,892
Vehicles	188,163	106,293

9. FIXED ASSETS

The Company has changed its annual depreciation rate for plant and machinery from 10% to 5% due to change in useful life as determined by independent valuers effective January 1, 2003. Had the rate of depreciation not been changed, the profit for the half year ended June 30, 2003 would have been lower by Rs 232,154 thousand.

Notes To The Accounts

for the half year ended June 30, 2003 (Un-audited)

	June 30, 2003	December 31, 2002
	(Rupees '000)	
10. LONG TERM INVESTMENTS		
Investment in associated company		
FFC - Jordan Fertilizer Company Limited (FJFC) - at cost	4,002,330	4,002,330
Adjustment arising from remeasurment to fair value	1,380,804	(180,105)
	5,383,134	3,822,225
Investments available for sale		
Term deposits	229,155	250,225
Government of Pakistan Special US Dollar Bonds	1,144,800	1,155,572
Pakistan Investment Bonds	700,000	700,000
National Savings Certificates	1,000,000	1,000,000
Term Finance Certificates	149,900	149,930
	3,223,855	3,255,727
	8,606,989	7,077,952
Less: Maturing within twelve months shown under current Term Finance Certificates	59,230	60
	8,547,759	7,077,892

11. ADVANCE AGAINST INVESTMENT

This represents advance subscription paid to FJFC against 75,000,000 ordinary shares to be issued at par.

	June 30, 2003	December 31, 2002
	(Rupees '000)	
12. SHORT TERM INVESTMENTS		
Term deposits with banks and financial institutions		
Local currency	924	2,691,001
(net of provision for doubtful recovery Rs 13,000 thousand; 2002: Rs 13,000 thousand)		
Foreign currency	36,816	101,218
Current maturity of Term Finance Certificates	59,230	60
	96,970	2,792,279

Notes To The Accounts

for the half year ended June 30, 2003 (Un-audited)

	For the quarter ended		For the half year ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
	(Rupees '000)		(Rupees '000)	
13. COST OF GOODS SOLD				
Raw materials consumed	825,099	405,036	1,555,708	800,940
Fuel and power	542,127	320,465	1,106,279	633,795
Chemicals and supplies	30,412	17,288	52,066	31,009
Salaries, wages and benefits	257,263	162,846	486,697	318,938
Rent, rates and taxes	2,470	2,208	4,635	3,813
Insurance	21,621	16,038	41,234	32,133
Travel and conveyance	18,983	9,706	35,372	15,175
Repairs and maintenance (Includes stores and spares consumed Rs. 290,396 thousand; 2002: Rs. 115,083 thousand)	273,212	62,223	369,174	143,035
Amortisation of deferred costs	17,748	20,432	34,945	40,864
Depreciation	254,269	208,674	436,200	416,253
Communication, establishment and other expenses	79,525	37,270	147,713	65,488
Provision for slow moving and surplus spares	10,103	17,231	10,103	17,231
Opening stock - work in process	19,198	7,248	12,313	11,924
Closing stock - work in process	(22,034)	(7,583)	(22,034)	(7,583)
Cost of goods manufactured	2,329,996	1,279,282	4,270,405	2,523,015
Opening stock - manufactured urea	808,664	154,510	365,250	176,761
- Purchased fertilizers	187,173	389,528	223,821	224,354
Purchase of fertilizers for resale	1,118,825	326,546	2,014,933	629,020
	4,444,658	2,149,866	6,874,409	3,553,150
Closing stock - manufactured urea	(1,140,509)	(305,075)	(1,140,509)	(305,075)
- Purchased fertilizers	(970,237)	(109,907)	(970,237)	(109,907)
	<u>2,333,912</u>	<u>1,734,884</u>	<u>4,763,663</u>	<u>3,138,168</u>

Notes To The Accounts

for the half year ended June 30, 2003 (Un-audited)

	June 30, 2003	June 30, 2002
(Rupees '000)		
14. CASH GENERATED FROM OPERATIONS		
Profit before taxation	1,842,609	2,326,404
Adjustments for non cash charges and other items		
Depreciation (net of Rs 1,182 thousand charged to an associated company; 2002: Rs 1,530 thousand)	441,570	421,435
Amortization of goodwill	52,308	-
Amortization of deferred costs	34,945	40,864
Provision for slow moving and surplus spares	10,103	17,231
Financial charges	348,011	149,714
Income on loans, deposits and investments	(224,191)	(448,467)
Loss/(gain) on sale of fixed assets	24,848	(2,347)
Exchange gain on foreign currency deposits	(12,790)	-
Old liabilities written back	-	(2,796)
	674,804	175,634
	2,517,413	2,502,038
Changes in working capital		
(Increase)/decrease in current assets:		
Stores and spares	(31,608)	(5,220)
Stock in trade	(1,817,531)	174,918
Trade debts	(286,291)	(325,247)
Loans, advances, deposits, prepayments and other receivables	(59,735)	(39,582)
(Decrease) / increase in current liabilities:		
Creditors, accrued and other liabilities (excluding accrual of financial charges)	(484,251)	52,586
	(2,679,416)	(142,545)
Changes in long term loans and advances	(11,602)	(1,932)
Changes in long term deposits, prepayments and deferred costs	(5,847)	16
	(179,452)	2,357,577

15. FACILITIES OF LETTERS OF GUARANTEE AND LETTERS OF CREDIT

Facilities of letters of guarantee and letters of credit amounting to Rs 20,000 thousand and Rs 1,525,000 thousand (2002: Rs 20,000 thousand and Rs 1,525,000 thousand) respectively are also available to the Company under a lien against investments and first charge by way of equitable mortgage on all fixed assets of the Company.

16. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, where ever necessary, for the purpose of comparison.

17. These accounts have been authorised for issue by the Board of Directors of the Company on July 30, 2003.



Chairman



Chief Executive



Director



FOSTERING FARMING COMMUNITY