



AZGARD-9



Beyond Boundaries

Annual Report 2008

# Azgard Nine

## The Origins and the inception

In the ancient legend "Azgard" was one of nine worlds in Norse mythology- it was protected by "Heimdall" the son of nine different mothers each attributing him with a particular skill and power- and thus he would protect Azgard from the powers that be.

The significance of Nine for our company is not just based on this mythology but also connected with the auspicious nature of this number throughout many different elements in and out of the world today that affect humans and their behaviours. The number Nine is considered to be an auspicious and important number in Indian, Chinese, Japanese and Greek cultures for various different reasons.

In Chinese culture the number Nine represents 'Change' and 'Transformation', as is the case with Azgard Nine which is changing and transforming itself into an entity with new goals, aspirations and targets.

Nine in much of ancient Greek mythology also has represented gestation and fulfilment of creation as it does for us at Azgard Nine. The 'fulfilment of creation' for us being the forming of this global entity by nine members on the ninth day of February sowing the seeds for an auspicious and rewarding future.

*Textile  
&  
Apparel*

### Vision

To become a major  
global Fashion Apparel  
Company

### Mission

To retain a leadership  
position as the  
largest value  
added denim products  
company in Pakistan

### Cultural Pillar

The High Speed Passionate  
Pursuit of Progress through  
Teamwork

*Fertilizers*

To become a major regional  
diversified Fertilizer Company

To become a diversified  
manufacturer of  
both Nitrogenous  
and Phosphatic  
Fertilizers, significantly  
contributing to the development  
of the Agriculture sector  
in Pakistan

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" Treat the Earth well. It was not given to you by your parents.  
It was loaned to you by your children "

*Kenyan Proverb*



## Company Information



### BOARD OF DIRECTORS

Mr. Mueen Afzal  
Chairman  
Mr. Ahmed H. Shaikh  
Chief Executive  
Chief Justice (Retd.) Mian Mahboob Ahmad  
Mr. Aehsun M.H. Shaikh  
Mr. Ali J. Siddiqui  
Mr. Khalid A.H. Al-Sagar  
Mr. Mohammed Khaishgi

### COMPANY SECRETARY

Mr. Muhammad Ijaz Haider

### CHIEF FINANCIAL OFFICER

Mr. Abid Amin

### AUDIT COMMITTEE

Chief Justice (Retd.) Mian Mahboob Ahmad  
Chairman  
Mr. Mueen Afzal  
Mr. Aehsun M.H. Shaikh  
Mr. Ali J. Siddiqui  
Mr. Khalid A.H. Al-Sagar

### FINANCE COMMITTEE

Mr. Ahmed H. Shaikh  
Mr. Ali J. Siddiqui  
Mr. Tariq Mohammad Khan

### MANAGEMENT TEAM

Mr. Ahmed H. Shaikh  
Mr. Atif Farooqi  
Mr. Ahmed Jaudet Bilal  
Mr. Tariq Mohammad Khan  
Mr. Abid Amin  
Mr. Aamer Ghias  
Mr. Irfan Nazir  
Ms. Maliha Azam  
Mr. Tahir Munir  
Mr. Usman Rasheed  
Mr. Salim Khan

### HUMAN RESOURCE COMMITTEE

Mr. Ahmed H. Shaikh  
Mr. Tariq Mohammad Khan  
Mr. Salim Khan

### LEGAL ADVISORS

Hamid Law Associates

### AUDITORS

Rahman Sarfaraz Rahim Iqbal Rafiq  
Chartered Accountants  
A member firm of Russell Bedford International

### BANKERS

JS Bank Limited  
MCB Bank Limited  
Citibank N.A.  
Royal Bank of Scotland  
Faysal Bank Limited  
Habib Bank Limited  
Saudi Pak Industrial & Agricultural  
Investment Company Limited  
HSBC Bank (Middle East) Limited  
United Bank Limited  
Standard Chartered Bank (Pakistan) Limited  
NIB Bank Limited  
National Bank of Pakistan  
Allied Bank Limited  
My Bank Limited  
KASB Bank Limited  
Pak Oman Investment Company Limited  
Saudi Pak Commercial Bank Limited  
Atlas Bank Limited  
Emirates Global Islamic Bank Limited  
Habib Metropolitan Bank Limited

### REGISTERED OFFICE

Ismail Aiwan-e-Science  
Off Shahrah-e-Roomi Lahore, 54600  
Ph: +92 (0)42 111-786-645  
Fax: +92 (0)42 576-1791

## PROJECT LOCATIONS

### Textile & Apparel

#### Unit I

2.5 KM off Manga, Raiwind Road,  
District Kasur.  
Ph: +92 (0)42 5384081  
Fax: +92 (0)42 5384093

#### Unit II

Alipur Road, Muzaffargarh.  
Ph: +92 (0)661 422503, 422651  
Fax: +92 (0)661 422652

#### Unit III

20 KM off Ferozepur Road,  
6 KM Badian Road on Ruhi Nala,  
Der Khurd, Lahore.  
Ph: +92 (0)42 8460333, 8488862

### Fertilizer

#### Unit I

Pak American Fertilizers Ltd.  
Iskanderabad,  
District Mianwali.  
Ph: +92 (0)459 392346-49

#### Unit II

Hazara Phosphate Fertilizers (Pvt.) Ltd.  
Hattar Road,  
Haripur.  
Ph: +92 (0)995 616124-5



## Board of Directors



**Mr. Mueen Afzal**  
Chairman

Mr. Mueen Afzal is Chairman of the Azgard Nine Board since March 2004. He also serves on the boards of ICI Pakistan Limited, Pakistan Tobacco Co. Ltd., Murree Brewery Co. Ltd., Al-Shifa Trust, Pakistan Philanthropy Centre, Pakistan Poverty Alleviation Fund, Sanjan Nagar Trust, Beaconhouse National University Foundation and previously PIA Corporation. He has extensive experience in the Civil Services of Pakistan, acting as Health Secretary and Finance Secretary in his tenure. He holds an M.A. in Philosophy, Political Science and Economics from Oxford University.



**Mr. Ahmed H. Shaikh**  
CEO

Mr. Ahmed H. Shaikh is a director of Azgard Nine as well as PAFL, and is Azgard Nine's Chief Executive Officer, positions he has held since January 2003. He has been associated with Azgard Nine since its inception in 1992.

Mr. Shaikh holds a B.A. in Economics from Brown University.



**Mr. Aehsun M.H. Shaikh**  
Director

Mr. Aehsun M.H. Shaikh is a director of Azgard Nine as well as PAFL and is Azgard Nine's Creative Director, positions he has held since January 1993. He has previously worked with Burke Mills Inc., USA as Director from 1998 to 2000.

Mr. Shaikh holds an M.A. in Architecture from the Architectural Association School of Architecture, London, UK.



**Mr. Ali J. Siddiqui**  
Director

Mr. Ali J. Siddiqui is the Managing Partner of JS Private Equity, Pakistan's largest private equity firm. From 2002-03 he was an Executive Director of JS Investments Ltd. Prior to JS Group, Mr. Siddiqui was a Director with Crosby Capital Partners, an investment firm, and was based in Hong Kong. He is a member of the Board of Directors of a number of large private sector companies in Pakistan including Jehangir Siddiqui & Company, Airblue, Pakistan Reinsurance Company, Pakistan International Container Terminal and chairs the Board of Pak American Fertilizers Limited. Mr. Siddiqui holds a B.A. in Economics from Cornell University.





**Chief Justice (Retd.) Mian Mehboob Ahmad**  
Director

Chief Justice (Retired) Mian Mahboob Ahmad is a director of Azgard Nine since March 2004. He is Chairman of the boards of Liaqat National Hospital and Sir Ganga Ram Trust Hospital and also serves on the boards of Bank Islami Pakistan Limited, East West Insurance Co. Ltd., Metropolitan Life Assurance Co. of Pakistan Ltd. and Jahangir Siddiqui & Co. Ltd. He has been associated with the judiciary in Pakistan for over 30 years, having served in various positions including as Chief Justice of the Lahore High Court and the Federal Shariah Court and as the Acting Governor of Punjab. Chief Justice Ahmad holds a B.A. in Law from the University of Punjab in Lahore, Pakistan.



**Mr. Khalid A.H. Al-Sagar**  
Director

Mr. Khalid A.H. Al-Sagar has been a director of Azgard Nine since October 1997. He also serves on the boards of Kuwait Portland Cement Company, Kuwait Supply Company, Tele-Card Egypt, First National Bank (Lebanon) and Bahrain Flour Mills Co. Mr. Al-Sagar is a graduate of Bonn University, Germany and belongs to one of the most eminent business families of Kuwait.



**Mr. Mohammad Khaishgi**  
Director

Mr. Mohammad Khaishgi is Chief Operating Officer of TRG, Pakistan's largest business process outsourcing company. Prior to co-founding TRG, Mr. Khaishgi was Senior Director for Customer Relationship Management for Align Technology. Prior to Align, he spent five years at the International Finance Corporation (IFC), the private investment arm of the World Bank as Senior Investment Officer. Prior to IFC, he was a consultant for Arthur D. Little in its Middle East practice, where he assisted several Fortune 500 companies in developing market entry strategies for the region. Mr. Khaishgi holds an M.B.A. from Harvard Business School and an M.A. in Philosophy, Politics and Economics from Oxford University, Oxford, UK.



**Mr. Humayun N. Shaikh**  
Chairman Emeritus

Mr. Humayun Naseer Shaikh graduated from the Government College, Lahore. He then proceeded to Cambridge University, England to pursue his Economics Tripos. At Cambridge he proved to be an avid sportsman and demonstrated a keen proficiency in polo, going on to become the Captain of the Cambridge University Polo team, and wore his blue defeating Oxford. He joined his family business in 1965 and established many businesses in Europe, the UAE, USA, and Mexico. Mr. Shaikh continues an active involvement with many social and non profit organizations around the world.

# Directors' Report to the Shareholders

*The Directors along with the management team of Azgard Nine Limited, ("the Company") are pleased to present the Company's annual management report along with the audited financial statements for the year ended 31 December 2008.*

*In compliance with the Code of Corporate Governance, these financial statements have been endorsed by the Chief Executive Officer and Chief Financial Officer of the Company, recommended for approval by the Audit Committee of the Board and approved by the Board of Directors for presentation.*

## Principal activities

The Company's main business is the manufacture and marketing of Denim focused Textile and Apparel products from raw cotton to retail ready goods, and is the largest Denim Products Company by sales in Pakistan.

Azgard Nine, through its subsidiaries, is also engaged in the manufacture and marketing of both Nitrogenous and Phosphatic fertilizers.

## Overall market scenario and future outlook

The year presented unprecedented challenges. The global economic downturn resulted in a rapidly deteriorating trade and financial environment. This was followed by an unprecedented international financial crisis.

Domestically the financial markets became completely illiquid as a result of macroeconomic imbalance during the last quarter of the year. The rupee devalued approximately 30% during the year. Interest rates increased with lending rates crossing 17 ~ 18%. Inflation ranged between 20 ~ 25% while the fiscal deficit at one stage was over 7% of the GDP. Oil prices reached a level of \$ 145, and as the government started passing energy costs on to the consumer, the impact on inflation was compounded. All of these factors made trading and business conditions very volatile and extremely difficult to navigate.

## Textile and Apparel

Despite the aforesaid adverse conditions, the company managed to continue to grow. In our Textile Apparel business, the Company successfully concluded the acquisition of the Italian company, Montebello S.r.l, near Milan, making it the first company of Pakistani origin to become a true multinational in the sector. Montebello S.r.l sells and markets fabrics and jeans under its own brands.

## Fertilizers

Pak American Fertilizers Limited, a 100% owned subsidiary of the Company, successfully completed the acquisition of Hazara Phosphate Fertilizers (Pvt.) Limited from the Government of Pakistan as part of its ongoing privatization initiative. Now the Company (through its subsidiaries) owns and operates the country's newest and most efficient urea plant, Pak American Fertilizers Limited, and also the largest Single Super Phosphate (SSP) manufacturing plant in the country, Hazara Phosphate Fertilizers (Pvt.) Limited. This completes the Company's vitally important strategic goal to become a diversified fertilizer manufacturer producing both nitrogenous and phosphatic fertilizers.

Hence, this year marks the fulfilment of the two missions of the company.

Textile  
&  
Apparel

To achieve our target of becoming Pakistan's largest denim products company by sales.

Fertilizers

To become a diversified manufacturer of both Nitrogenous and Phosphatic Fertilizers.

## Operating Financial Results of Azgard Nine Limited. (Stand alone).

	2008	2007	Change
Sales - Net	10,113,499,351	6,628,341,926	53%
Operating Profit	2,849,745,841	1,572,167,903	81%
Finance Cost	2,470,391,655	1,061,933,212	133%
Profit before Tax	999,502,775	1,151,459,574	(13%)
Profit after Tax	897,283,923	1,079,452,501	(17%)
Earning per share	2.65	3.26	(19%)

## Consolidated Results Including Subsidiaries

	2008	2007	Change
Sales - Net	19,737,423,815	12,308,604,885	60%
Operating Profit	5,586,657,390	3,732,582,148	50%
Finance Cost	4,617,259,155	2,152,438,490	115%
Profit before Tax	1,629,430,415	1,916,323,994	(15%)
Profit after Tax	1,397,393,138	1,453,488,184	(4%)
Earning per share	4.22	4.46	(5%)

While the aforementioned challenging and volatile trading conditions had an impact on our performance, topline growth remained robust both on a standalone and consolidated basis and the operating performance of the businesses also depicted a healthy growth trend.

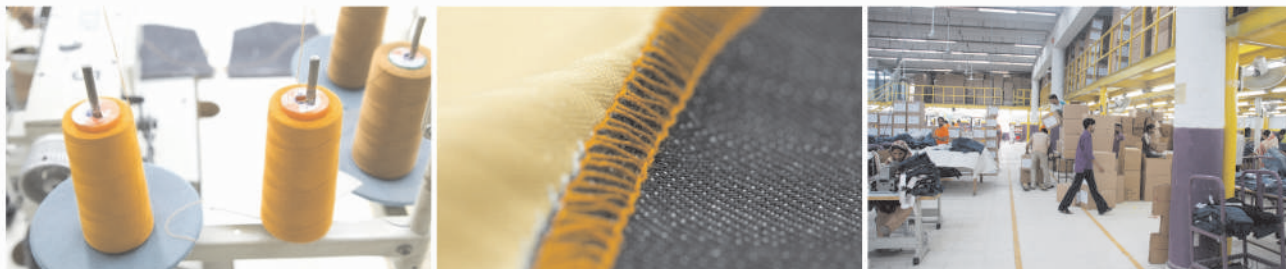
However, the increase in financial costs was greater than the growth in income which significantly affected the bottom line. These very high costs are partly due to the effect of the rapid devaluation of Pakistani Rupee in the second half of the year as well as the escalation in interest rates domestically.

The Company had borrowings in foreign currencies either through foreign currency loans or through rupee loans swapped into foreign currencies, causing it to suffer increased financial charges due to the said devaluation of the Pakistani Rupee. Subsequently, in response, however, the company unwound most of these contracts and therefore does not expect to face the same situation again.

Furthermore, following the said devaluation, the Company was exposed to very high rupee borrowing rates. This was a major shock for the Company.

The trading conditions remain challenging and volatile for 2009.

## Textile & Apparel



### Industry overview

The Textiles & Apparel sector is amongst the largest and most significant in Pakistan's economy, accounting for over 60% of total merchandise exports and providing employment to 38% of large scale manufacturing sector workforce.

There is an abundant supply of local raw material as Pakistan is the 4<sup>th</sup> largest producer of cotton in the world. There is also an abundance of local labour available at a competitive cost when benchmarked against regional competitors.

Against this backdrop the industry remains largely fragmented with few large scale integrated players.

Worldwide denim production capacity is over 6 billion linear meters. Denim is the world's largest cotton textile product with estimated per annum global sales of 4 billion units.

The denim sector has been growing and prospering in Pakistan, which is now the world's second largest producer of denim with a capacity of approximately 500 million linear meters per annum.

*Azgard 9 is Pakistan's largest denim products business by sales with a fully vertically integrated manufacturing chain, from cotton to retail ready apparel products. In house capabilities for spinning, weaving, design, finishing and stitching enables control over the entire value chain and provides a significant competitive advantage in facilitating faster speed to market and control over product quality.*

With longstanding relationships with global retailers and brands, and an ability to rapidly build up manufacturing capacity, Azgard Nine is well poised to cater to an expected increase in global demand for denim products.

### 2008 in review

The year 2008 proved very challenging due to a globally recessionary climate affecting all facets of the business. While the business remained under pressure, Azgard Nine was able to protect its value proposition by adding a basket of value added services to its product portfolio. The key focus remained on meeting and indeed finding ways to exceed customer expectations.

In addition to Azgard Nine's vertical manufacturing capabilities which were already providing customer value, a complete customer solution concept was added. The company now offers the client a choice of full product development, product design and a complete logistics solution. Traditionally the customer has been sourcing supply of the product only. Now the client has the option to source a full supply chain solution directly from the Company. This value enhancement helped Azgard Nine to grow with its existing customers and add new customers as well during a difficult period.

### Future outlook

With global pricing under pressure for the foreseeable future, our challenge remains to maintain pricing and margins and to grow the top line. This will be done through further enhancing our product and services portfolio and ensuring seamless business process interaction with our customers in order to create a highly integrated supply chain, leading to enhanced customer loyalty and value appreciation.



*Things done well and with care,  
exempt themselves from fear*

## Our Brands and Products



### *Yarns*

A market driven specialty yarn brand.

Uses collaborative product development process with the customer, based on latest market trends.

Off the shelf availability for small lots and quick turnaround.

*The art of Denim*



### *Fabrics*

Focused on a global best buy value proposition, Azgard-9 is positioned as a cutting edge product incorporating European product development and European commercial front end, while producing high value through low cost manufacturing in Pakistan.

Both denim and jeans are sold under the Azgard-9 label.



Fashion forward denim fabric providing a wide choice of textures and washes.

Positioned for a largely European target market.

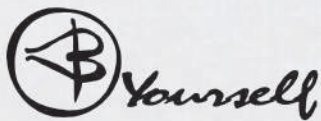


# The art of Denim



A high end denim fabric developed for the designer jeans market. Positioned at the leading edge of specialty and fashion products.

## Denim Garments



Targets the highly exclusive market segment respresented by Jacob Cohen, Kiton, D Squared, Seven and Polo Ralph Lauren.

Offers a wide variety of fabric and wash choices with exclusive design elements developed at our product development centers in Europe.



Caters to the high end market represented by brands such as Diesel and Replay.

Focuses on combinations of fabrics and washes to offer a highly versatile product range.



Competes in the category of Oviessa, Coin, Conbipel and Rinascente.

Caters to a wide target market for diverse age groups and offers a quick, versatile and high value solution to market needs.

# Fertilizers



## Industry overview

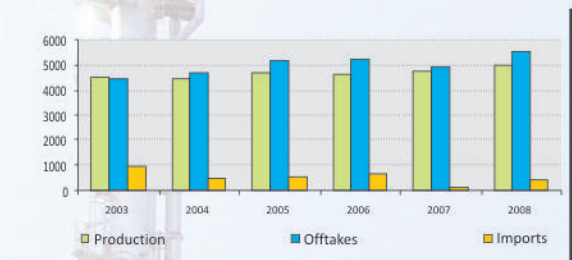
Urea industry in 2008 remained structurally short despite a 5% increase in production over 2007 (reaching 4.98 million tons). Late arrival of imports further compounded the shortage across all the provinces. Total imports by the Trading Corporation of Pakistan (TCP) during 2008 aggregated 450,000 tons. The shortage was managed by collaboration between the Federal & Provincial Governments and the Fertilizer Industry by systematically rationing the available stocks. The Government of Pakistan, in an effort to counter shortages, utilized the networks of National Fertilizer Marketing Limited (NFML) & Utility Stores Corporation of Pakistan for selling 50% of local production during Nov-Dec 2008. Pak American Fertilizers Ltd. played an active role in coordination with the relevant Government departments, to ensure availability of fertilizer in various districts of Punjab and NWFP.

Industry Urea sales in 2008 saw an increase of 11% over 2007 and reached 5.5 million tons. This increase is attributed to demand switch by farmers from phosphates to urea due to the unprecedented price increase of phosphates in the international market.

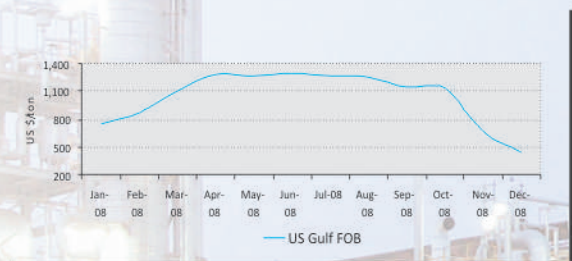
## Subsidy contribution by the industry

The fertilizer industry supported the farmers in passing on various subsidies received. The fertilizer industry also contributed an additional subsidy of Rs. 129.5 billion on top of the subsidy of Rs. 20.7 billion given by the Government of Pakistan (GOP) in shape of lower gas prices to the fertilizer industry in 2008. The GOP also provided additional subsidy of Rs. 14.5 billion on account of subsidy on imported urea. Thus local Urea prices during 2008 averaged US\$ 165.7 per ton, significantly lower than the average international Urea price of US\$ 550 per ton in 2008.

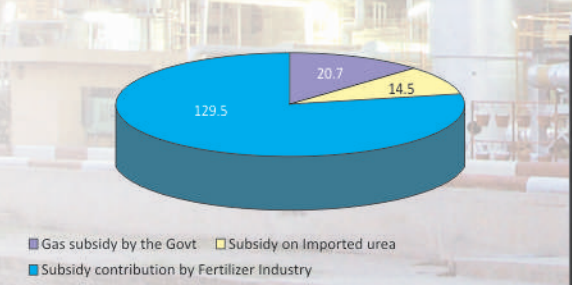
## Urea Supply Demand



## DAP Prices



## Subsidy breakup (Rs. Billion)





*What a business produces, how it buys and sells, how it affects the environment, how it recruits, trains and develops its own people, how it invests in the community and respects the rights of people, all these add together to form the impact of that business on society*



## Phosphates industry in 2008

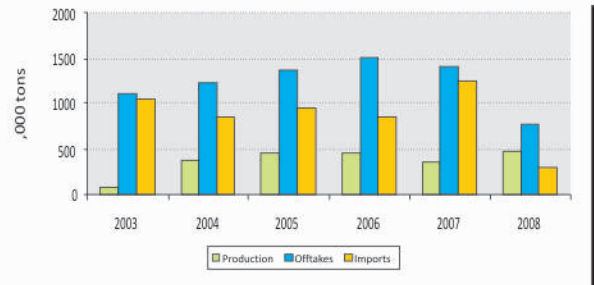
Global phosphates industry exhibited two completely disparate trends during 2008. During the 1st half of 2008 international DAP prices registered a spectacular increase from US\$ 753 per ton CFR Karachi (Jan 2008) to US\$ 1300 per ton CFR Karachi (Jun 2008). This increase is attributed to a sharp spike in phosphate demand due to historically high grain prices. DAP prices however fell dramatically during the 2nd half of 2008 and reached US\$ 440 per ton CFR Karachi by Dec 2008. The global financial crisis followed by crash of grain prices were the major causes for this decline.

Local phosphates demand declined by 44% from 1.39 million tons in 2007 to 0.78 million tons in 2008 because of historically high domestic prices. Local DAP prices increased from Rs. 1,620 per bag in Jan 2008 to Rs. 3,050 per bag at the start of Rabi season despite the increased DAP subsidy from Rs. 1,000 per bag to Rs. 2,200 per bag. The high prices of Phosphates in the international market, resulted in substitution by farmers from Phosphates to Urea and DAP imports in 2008 declined to 0.3 million tons from 1.24 million tons in 2007.

## PAFL overview

Pak American Fertilizers Limited (PAFL) continued to strengthen its position in all key areas post acquisition by Azgard Nine in 2006. In 2008 the company further improved its financial performance, while continuing to follow an aggressive growth strategy. PAFL's urea brand 'Tara' consolidated its market position by increasing

## DAP Supply Demand



its share to 8% of the domestic market and was awarded the 'Brand of the year' award by the Brand Council of Pakistan in the Fertilizer category in 2008.

With the acquisition of Hazara Phosphate Fertilizers (Pvt.) Limited (HPFL) in November 2008, the Company achieved a landmark goal in its product diversification strategy by adding Single Super Phosphate to its product range. Pak American is now the only fertilizer manufacturer in Pakistan servicing the farmers with local production of both Urea and Single Super Phosphate fertilizers marketed under the Brand Umbrella of 'Tara'.

Manufacturing efficiency continues to be a key focus for the company. The Process Engineering and Projects departments were further strengthened by establishing a Design Engineering team with a mandate to further reduce engineering costs and enhance indigenous project management capabilities.



## Financial review

Despite the globally recessive market and business environment of 2008, PAFL achieved record growth in sales and profitability. PAFL had sales of Rs. 9,907 million as compared to Rs. 5,678 million last year, recording a significant 69% increase. Gross profit for the period under review stood at Rs. 3,130 million against Rs. 2 million last year (22% increase). This healthy rise reflects the implementation of an aggressive sales and marketing strategy coupled with wide ranging cost management measures. As a result operating profit increased to Rs. 2,654 million from Rs. 2,161 million in 2007.

As part of its ongoing growth strategy, PAFL has embarked on an expansion project to increase production of Urea to 135% of the nameplate capacity. The project is expected to be completed by Q1-2010. In the meanwhile PAFL will continue to strive for high growth at the lowest cost, leveraging our management capability to expand operations even further.

### Brand Equity Development

*Mr. Burair Nazir, Brand Manager for 'Tara' receiving "Brand of Year Award" from the Prime Minister of Pakistan Mr. Syed Yousaf Raza Gilani*



### Customer focus

*Dealer meetings are held regularly to maintain a high level of interaction with customers*



## Our Human Capital



### Azgard's culture is based on four pillars:

- Speed
- Pursuit of Progress
- Passion
- Teamwork

Our corporate culture at Azgard Nine is nurtured through setting world class performance standards and then focusing, empowering, encouraging, and challenging all our employees to develop their capabilities to deliver. This mindset transcends all levels of the organization.

Teams and individuals are constantly engaged in developing their capabilities to question the status quo and reinvent themselves and their systems of work to confront the dynamics of a fast paced changing world. Your company believes in not only providing direct employment to approximately 12,000 people but also is ensuring that each person increases his skills and knowledge so as to improve manpower productivity and make the Pakistani workers match the best international standard.

Bureaucracy is constantly pruned to enable people to work with each other without being encumbered and to keep the focus on outcomes and delivery rather than just effort.



Regular review of performance benchmarks helps keep the spotlight on value added activities. Your company believes in fair standards of business conduct by all employees, and has introduced a comprehensive Ethics Code. All management staff have been trained to understand this code and are held accountable to its standards.

We have a strong commitment to meritocracy, and remain steadfast to our principle of being an equal opportunity employer.

*The conventional definition of management is getting work done through people, but real management is developing people through work*



# Corporate Social Responsibility



Azgard Nine Group is deeply committed to adopting and adhering to international norms and standards governing corporate social responsibility. We constantly strive to maintain a leadership role in this area and wholeheartedly support and fund outreach programs which have a beneficial impact on our environment, employees and the communities we live and work in. As part of this commitment, we are certified under the Social Accountability International's SA 8000 standard and various other related programs pertaining to the following broad areas.

## Social responsibility

*Community Relations.*  
*Impact on local communities.*  
*Participation in local communities.*  
*Management of Human Rights.*

## Environmental responsibility

*Impact on the environment.*  
*Energy awareness.*

## Corporate ethics

*Standards of ethical conduct.*  
*Recruitment and retainment of staff.*  
*Fair Pay scheme & wages.*  
*Rights of employees.*  
*Safe and secure environment.*  
*Compliance with local employment laws.*  
*Compliance with International Charter HR best practice policies.*

## Leadership values and integrity

Some of our key certifications and initiatives are mentioned below.

## International social accountability SA 8000 certification

SA 8000 is based on the UN Universal Declaration of Human Rights, Convention on the Rights of the Child and various International Labour Organization (ILO) conventions.



This certification affirms that the company is fulfilling all its social responsibilities and respects all applicable international / national rules and regulations relating to child labor, forced labor, freedom of association and right to collective bargaining, health and safety etc. This standard is also used to prevent violation of Human Rights, Child Labor/ Discrimination and to comply with existing Laws, Rules, Regulations, etc.

## OSHA Standards

OHS 18001 compliant proactive HSE program aims to prevent work-related injuries, illnesses and fatalities. This effort at Azgard Nine Group is independently monitored by a high level Corporate Manager of Health, Safety & Environment who has wide ranging mandate and authority to enforce (Health, Safety & Environment (HSE) standards throughout the company. Effort is complemented with Hearts & Minds Winning techniques for sustainable performance.



*" Sustainable development is a dynamic process which enables all people to realise their potential, and to improve their quality of life, in ways which simultaneously protect and enhance the Earth's life support systems."*



## GOTS and OE (organic exchange) member



The Global Organic Textile Standard (GOTS) is a comprehensive Standard that covers all aspects of the production of natural fibers including processing, manufacturing, packaging, labeling, exportation, importation and distribution. The goal of GOTS is "to define world-wide recognized requirements that ensure organic status of textiles, from harvesting of the raw materials, through environmentally and socially responsible manufacturing up to labeling in order to provide an auditable and credible assurance to the end consumer". By creating an international, uniform Standard, the GOTS working group sought to enable organic textile manufacturers and marketers to export their goods anywhere in the world with one universally accepted organic certification.

In organic production, GMO (Genetically modified organisms) are prohibited. In the certification of Organic Exchange, it is certified that the fiber (i.e cotton) is free from GMO and was grown organically.

## Fair Trade (NGO) registration in process

Azgard Nine is in the process of registering under the Fair Trade NGO. This endeavor aims to underwrite social responsibility in real monetary terms whereby a part of the corporate profits are formally invested in the development of the community.

## ISO 14001



ISO 14001 is an organizational system standard for monitoring, controlling, and improving quality of the environment. The ISO 14001 Environmental Management standards exist to help organizations minimize how their operations affect the environment (cause adverse changes to air, water, or land) and comply with applicable laws and regulations.

## BSCI



In March 2003, the FTA formally founded the Business Social Compliance Initiative (BSCI). This is the broadest business driven platform for the improvement of social compliance in the global supply chain. The experience and the know-how gained by companies and associations from their monitoring systems were cornerstones for the development of the approach and management instruments of the BSCI. In the spring of 2004 the development phase was achieved and since then the system has been implemented worldwide. The ultimate goal of the BSCI is to improve the working conditions in the global supply chain worldwide.

## Oeko Tex 100



The Oeko-Tex standard 100 mark "confidence in textiles- tested for harmful substances according to Oeko-tex standard 100" states that the marked product fulfills the conditions specified in the standard of Oeko-Tex 100, and that the product and its conformity test, as specified in this standard are under the supervision of an institute belonging to the international association for research and testing in the field of textile ecology. This certification ensures the absence of all internationally banned chemicals and dyes and that the product is not harmful for human skin.

## ISO 9001

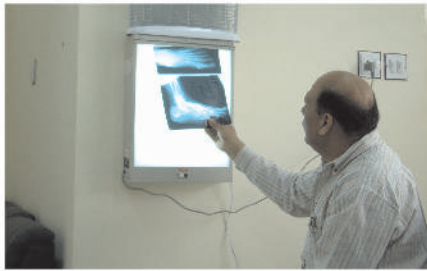


ISO 9001 is a family of standards for quality management systems. ISO 9001 is maintained by ISO, the International Organization for Standardization and is administered by authorized accreditation and certification bodies. The requirements of ISO 9001 include maintaining a set of procedures that cover all key processes in the business, to ensure they are effective, maintain adequate records, check output for defects, with appropriate and corrective action where necessary. The ISO 9001 family of standards also require regular reviews of individual processes and the quality system itself for effectiveness, and to facilitate continuous improvement.



# Health, Safety and Environment

Business success through HSE excellence



## Zero harm to people and environment!

*That's the commitment we have made to our employees, contractors, partners, and the communities where we live and work.*

### HSE Goals

Our company's Health, Safety and Environment initiative lays emphasis on and ensures;

*Compliance with relevant local laws and regulations and taking additional measures considered necessary as per the chosen (OSHA) standards.*

*Continuous improvement in Health, Safety and Environment performance.*

*Taking measures to minimize waste, prevent pollution and conserve natural resources.*

*Requiring every member of staff, and those who work on our behalf, to exercise personal responsibility in preventing harm to themselves, others and the environment.*

*Providing resources and systems to prevent occupational illnesses to the staff.*

*Providing appropriate Health, Safety and Environmental training and information to all Azgard Nine Limited employees, contractors and other stakeholders.*

*Including HSE performance in the appraisal of all staff and reward/recognize accordingly.*

*Managing HSE matters just as any other critical business activity.*



### HSE Vision

Safety is our number one priority, and we believe that all accidents and incidents are preventable.

Excellence in HSE performance in all Azgard Nine Businesses.

### HSE Strategic Objectives

Elimination of fatal incidents.

Elimination of fires, explosions, and major spills.

Minimizing the impact to the people from our operations, products, processes and services.

## HSE Management system

To achieve our Goals, Vision & Strategic Objectives, the Company is implementing an HSE Management System, a structured and systematic approach which ensures Hazards Identification & Risk Assessment of our critical operations & industrial processes. Our focus is on compliance with both local laws and global customer requirements.

At Azgard Nine, people are at the heart of all activities. We strive to prevent injury and occupational illness and ensure the presence of a free and motivating work environment.

The Company has initiated a number of projects and programs in the following areas of Health, Safety & Environment.

### Health

- *Minimum Health Management Standards.*
- *Health Risk Assessment.*
- *Health Surveillance Program (in house Audio & Spirometry Procedures).*
- *Medical Emergency Response & Plan.*
- *First Aid Basic & Advanced CPR Training.*
- *In house Health Facilities.*
- *Health Screening Programs.*
- *Fitness to Work Protocols.*

### Safety

- *Fire fighting equipment & hydrant system.*
- *Hazards Identification & Risk Assessment.*
- *Personal Protective Equipment Program.*
- *Road Transport Safety Program.*
- *Permit to Work Systems.*
- *Change Management.*

### Environment

- *ISO 14001 Certification.*
- *Effluent Treatment Plants.*
- *Energy Conservation Program.*
- *Solid & Biological Waste Management Program.*
- *Spill Control program.*



- 1 Commitment & Leadership
- 2 HSE Organization & Competency
- 3 Information & Documentation
- 4 Communication
- 5 Operations & Maintenance
- 6 Occupational Health & Hygiene
- 7 Environmental Protection
- 8 Risk Management
- 9 Crisis & Emergency Management
- 10 Incident Reporting, Investigation & Analysis
- 11 Contractor & Third Party HSE Management
- 12 Audit & Continuous Improvement

Azgard Nine Limited has established 'Minimum Health Management Standards' which cover the following areas:

*Health Risk Assessment.*  
*Monitoring of Health Performance.*  
*Occupational Illness Incident Reporting.*  
*Fitness to Work.*  
*Local Health Facilities and Emergency Response.*  
*Human Factors Engineering in New Projects.*  
*Product Stewardship.*  
*Health Impact Assessment.*  
*Community Health Projects.*

Compliance with National Statutory Requirements is mandatory for all aspects of health management. Currently accepted scientific knowledge is applied while interpreting these standards.

## HSE training program

Your company has established a comprehensive training program which caters to all layers of staff and contractors. Training modules are based on local laws, OSHA, Global Customers Code of Conduct Audit findings & ISO certification requirements.

**5,493 man-hours training was imparted at various Azgard Nine sites during 2008.**

### Key training modules

- *Hazards & Risk Assessment.*
- *Chemicals Safety / MSDS.*
- *Hearing Conservation Program.*
- *Environmental Management System (ISO 14001).*
- *Incident / Accident Reporting & Investigation Techniques / Tripod Analysis.*
- *Personal Protective Equipment Program.*
- *Heat Stress Management.*
- *Forklift Safety.*
- *Defensive Driving Course.*
- *Hearts & Minds Safety Program.*
- *Manual Handling / Backache Prevention Program.*
- *Emotional Stress Management / Work-Life Balance.*



## Health surveillance program

Azgard Nine Limited is the only textile company in Pakistan to have a structured in house Health Surveillance Program. Specialized procedures like Audio & Spirometry are being carried out against hazards such as high noise levels and chemical vapors & cotton dust. The objective is health protection and early detection of potential health damage on account of any harmful occupational exposure. Latest equipment has been procured and in house doctors have undergone extensive training to help meet this objective.

## Effluent treatment

By adhering to international environment regulations, Azgard Nine is playing a leading role in maintaining a clean environment wherever it is operating.

The effluent treatment plants at both Manga and FPR have the capability to filter solid particles, separate grease, oils, dyes and other chemicals, remove organic decomposition and disinfect the water making it suitable for irrigation.



## Community Programs



### Educational facilities

Azgard Nine Group is committed to a quality education for its employees and its communities. The group has established and fully funds and manages several educational institutions in the community including Higher Secondary School for girls, Girls High School, Boys High School, Model High School and the Educators school. Over 2,800 students are enrolled at these schools managed by over 100 professional teaching and support staff. This program has a profound impact on the well being of our communities.

### Community health center

Azgard Nine Group is committed to the health and well being of its communities and employees. It operates a hospital at its Daudkhel facility equipped with an operation theater, labor and gynecological center and an emergency unit.

PAFL has recently upgraded the health facility at Daudkhel, which provides subsidized medical facilities to employees and the community. At an annual cost of over Rs. 14 million, the hospital has 6 beds and provides minor surgery, labour room facilities, radiology and ECG services, and an outpatient ward. It is staffed with 2 permanent doctors and other support and technical staff round the clock.

### Tree plantation drive

Realizing the critical need for a sustainable green environment, Azgard Nine Group continues to

plant trees in the neighboring communities. So far it has planted over 1,000 fruit trees and plans to accelerate the effort.

### Scholarships for students

Children of employees and local community residents are eligible for need based scholarships which are regularly granted by Azgard Nine. Currently 11 students are sponsored by Azgard Nine for their secondary and professional education.

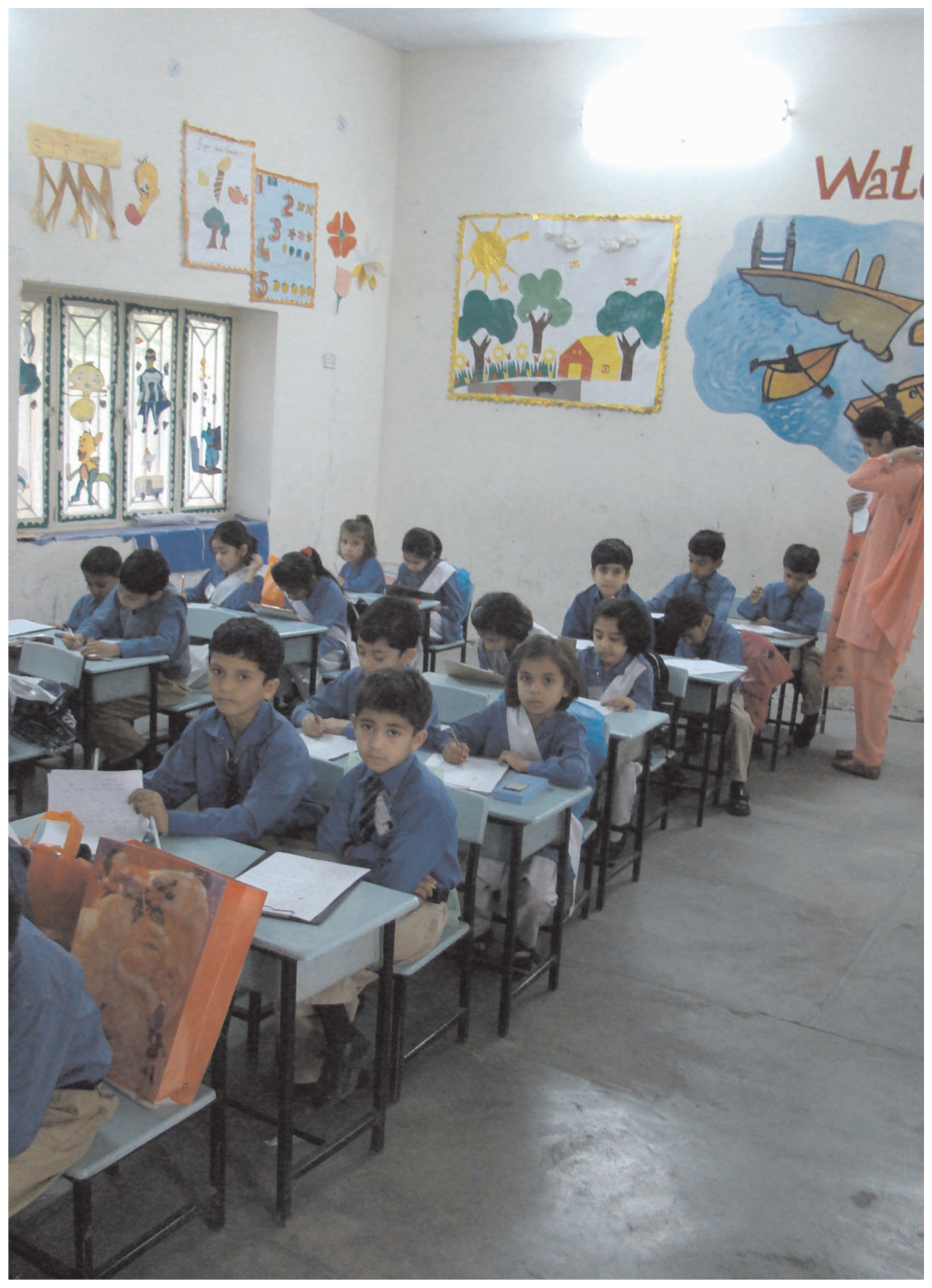
### Recreational facilities

Recognizing that a healthy body is a first prerequisite to a healthy mind, extensive sports and recreational facilities have been made available to the community.

### Fair price shop

Through its collective purchasing power, the group arranges discounted groceries for its employees and their families and makes them available at subsidized rates through its fair price shop.





Water

1  
2  
3  
4  
5



## Earning per share

The earning per share of the Company for the period ended 31 December 2008 was Rs. 2.65 per share.

## Dividend

The Directors are pleased to recommend 20% Bonus Shares to the Ordinary Shareholders (Voting) and Ordinary Shareholders (Non-Voting) of the Company subject to the approval of the members of the Company in their meeting scheduled for 30 April 2009.

The Company has already paid interim preferred dividend to the Preference Shareholders for the Fourth year ending 24 September 2008 @ 8.95% (i.e Rs. 0.895 per share). The said interim dividend will be recommended as final dividend to the Preference Shareholders for the Fourth year ending 24 September 2008.

## Investments by post employment benefits plan

The value of investments made by Post Employment Benefits Plan operated by Azgard Nine Limited, as per its audited financial statement for the year ended 31 December 2008 amounts to Rs. 73.291 Million (2007: Rs. 79.859 Million).

## Corporate governance & financial reporting framework

As required by the Code of Corporate Governance, the directors are pleased to report that:

- The financial statements prepared by the management of the Company present accurate state of Company's operations, cash flows and changes in equity;
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- International accounting standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
  - The system of internal controls is sound and has been effectively implemented and monitored.
  - The Board is satisfied that the Company is performing well as a going concern under the Code of Corporate Governance.
  - There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.
  - Key operating and financial data for the last six years is annexed.
  - There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on December 31, 2008 except for those disclosed in the financial statements.
  - The value of the provident fund investments as on 31 December 2008 was Rs. 73.291 Million (31 December 2007: 79.859 Million)
- No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this balance sheet relates and the date of the Directors' Report.

## Board of directors

The Board of Directors of the Company is predominantly independent which ensures transparency and good corporate governance. The Board comprises five non executive Directors including the Chairman and two Executive Directors (including the Chief Executive Officer). The Non Executive Directors bring to the Company their vast experience of business, government and law, contributing valuable input and ensuring the Company's operations at a high standard of the principles of legal and corporate compliance.

During the period under review, nine meetings of the Board of Directors were held and the attendance by each director is as follows:

<i>Name of Director</i>	<i>Eligibility</i>	<i>Attended</i>
Mr. Mueen Afzal	4	3
Mr. Ahmed H. Shaikh	4	4
Chief Justice (R) Mian Mahboob	4	3
Mr. Aehsun M. H. Shaikh	4	4
Mr. Ali Jehangir Siddiqui	4	3
Mr. Khalid A.H. Al-Sagar	4	4
Mr. Mohammed Khaishgi	4	1

Leave of absence was granted to the members who could not attend the meetings.

### Audit committee

The Board of Directors constituted a fully functional Audit Committee comprising five members of whom four are Non Executive Directors and one Executive Director. The terms of reference of the committee, inter alia, consist of ensuring transparent internal audits, accounting and control systems, reporting structure auditors as well as determining appropriate measures to safeguard the Company's assets.

### Internal audit function

The Board set up an efficient and energetic internal control system with operational, financial and compliance controls to carry on the businesses of the Company. Internal audit findings are reviewed by the Audit Committee, and where necessary, action is taken on the basis of recommendations contained in the internal audit reports.

### Consolidated financial statements

Consolidated financial statements of the Company together with its subsidiary companies Montebello S.r.l, Pak American Fertilizers Limited and Hazara Phosphate Fertilizer (Pvt.) Limited are also included.

### Auditors

Messrs Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, member firm of Russell Bedford International, a reputable Chartered Accountants firm completed its tenure of appointment with the Company and being eligible has offered its services for another term.

### Shareholding pattern

The shareholding pattern as at December 31, 2008 including the information under the Code of Corporate of Governance, for ordinary and preference shares, is annexed.

### Web presence

Annual and periodical financial statements of the Company are also available on the Azgard Nine website [www.azgard9.com](http://www.azgard9.com) for information of the shareholders and others.

### Acknowledgment

The Board takes this opportunity to thank the Company's valued customers and the financial institutions whose faith and support over the years has cultivate a mutually beneficial relationship, playing a key role in the growth of the businesses.

The Board also wishes to place on record its appreciation for the employees of the Company. All this has been possible with their hard work and commitment.

On behalf of the Board of Directors

Chief Executive Officer

06 April 2009

# Annual Report 2008



AZGARD-9



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