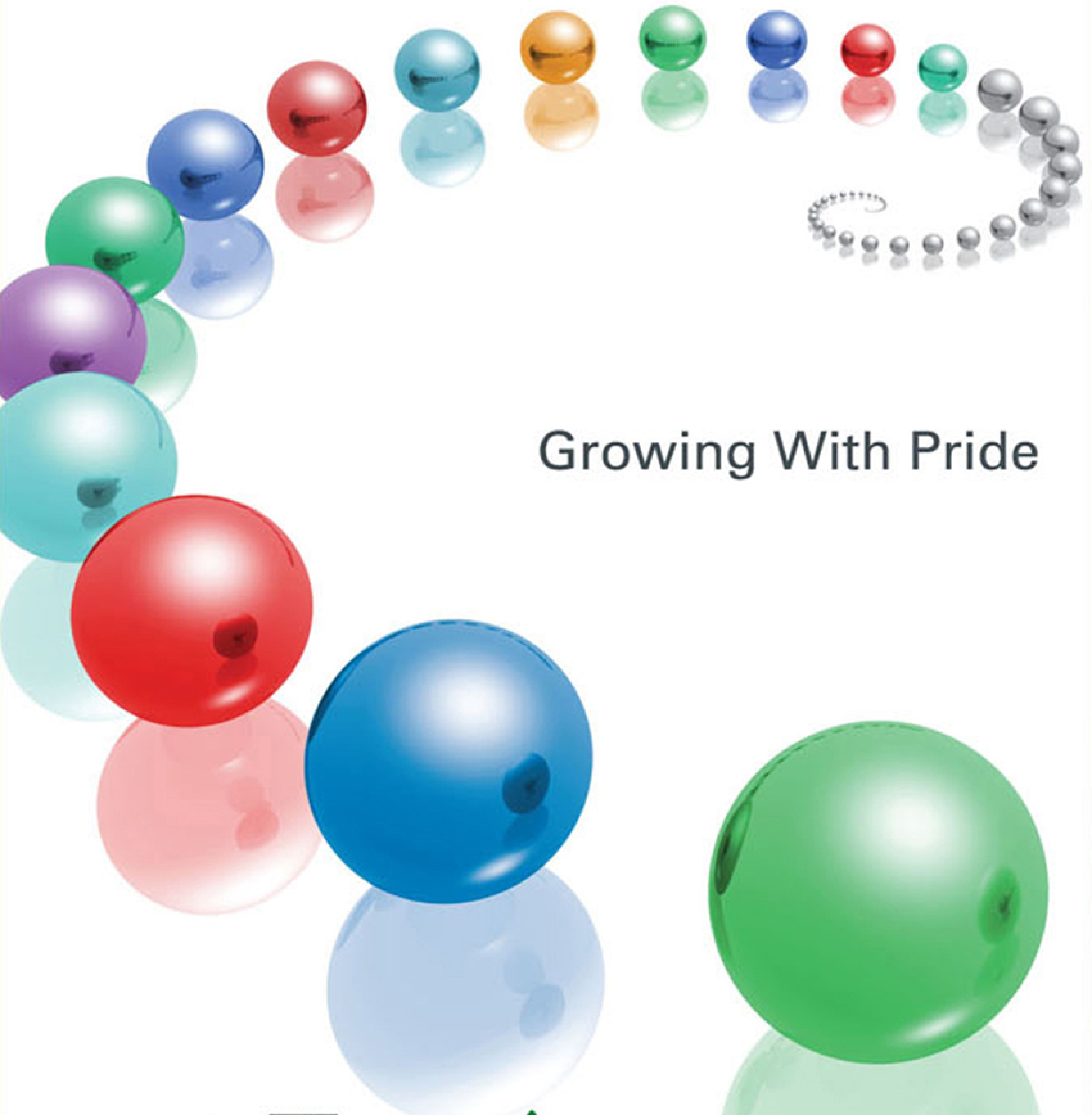
2007 Annual Report



Growing With Pride

vision

"To be the premier Pakistani enterprise with a global reach, passionately pursuing value creation for all stakeholders"

contents

Flowers at Engro Clinic, Daharki

Growing With Pride

- **In 2007, we delivered our strongest ever results with profit after tax of Rs. 3,155 million.**

- **Focus on safety remained our priority in all operating units and projects.**

- **All our business platforms made robust strides in their growth endeavours.**

  Urea expansion is on track for completion in mid 2010. With key contracts and financing in place and construction underway.

  Engro Polymers is on track with its expansion and back integration project slated for completion in 1st half 2009.

  Engro Vopak have commenced building Pakistan's first cryogenic ethylene storage.

  Post acquisition of United States based asset, Engro Innovative - our industrial automation business is poised for off shoring opportunities.

  Engro Foods continued expanding with additions to brand portfolio, milk production and distribution capacities.

  Engro energy concluded formalities for their innovative and cost effective independent power plant; targeting 2009 for 217 MW addition to the national grid.

  We achieved Phosphates market share of 35% to become the leading seller in Pakistan.

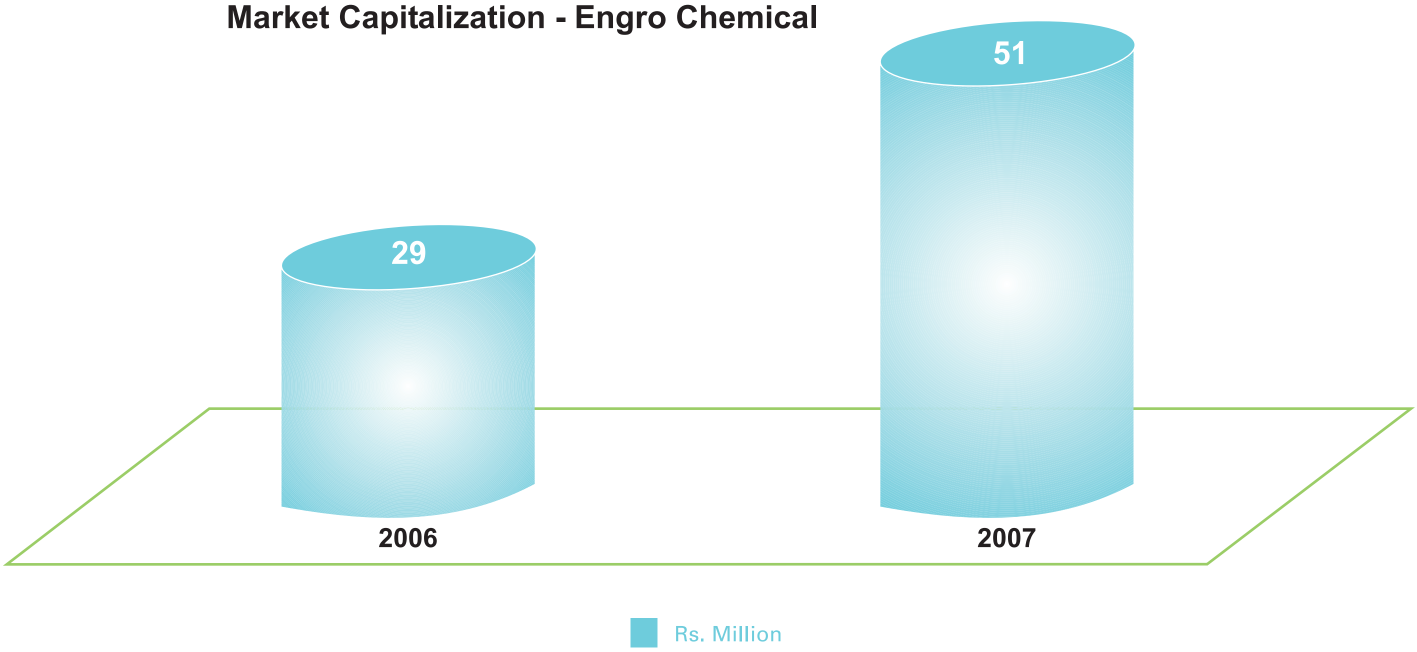
- **Total capital expenditure until 2010 is planned at Rs.100 billion.**

- **Our people did all this without breaking their stride when an unfortunate fire destroyed our offices at the PNSC building.**

Key Figures

		2007	2006
Sales Revenue	Rs. Million	23,183	17,602
Profit After Tax	Rs. Million	3,155	2,547
Number of Outstanding Shares	(000's)	193,469	168,234
Earnings Per Share - Basic and Diluted	Rs.	17.17	14.53
Dividend	Rs./share	7.00	9.00
Capital Expenditure	Rs. Million	8,024	391
Long Term Investments	Rs. Million	7,764	3,658
Total Assets	Rs. Million	38,157	15,981
Shareholders Equity	Rs. Million	15,482	9,370
Return on Capital Employed	%	30%	33%
Current Ratio		3.1	1.6
Debt: Equity Ratio		52:48	24:76
Market Capitalisation (Year End)	Rs. Million	51,414	28,684
Market Capitalisation (Year End)	US$ Million	830	470
Price to Earnings Ratio		15.48	11.73
Net Assets Per Share	Rs.	80.0	55.7
Interest Coverage Ratio		8.9	10.5
Fixed Assets Turnoner		2.3	2.6
Debtor Turnover		22.8	30.2
Inventory Turnover		10.1	9.4

Market Capitalization - Engro Chemical



company information

Hussain Dawood .... Chairman

Asad Umar .... President & Chief Executive

Arshad Nasar
Isar Ahmad
Shahzada Dawood
Shabbir Hashmi
Asif Qadir
Khalid Mansoor
Khalid S. Subhani
Ruhail Mohammed

Andalib Alavi .... Company Secretary

Engro urea, Daharki plant

Bankers:
ABN AMRO Bank N.V.
Allied Bank Limited
Askari Commercial Bank
Bank Al-Habib
Bank Al-Falah
Bank of Tokyo - Mitsubishi UFJ, Ltd.
Citibank N.A.
Crescent Commercial Bank Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
The Hongkong and Shanghai
  Banking Corporation Limited
Meezan Bank Limited
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank
United Bank Limited
JS Bank Limited
Dubai Islamic Bank

Auditors:
KPMG Taseer Hadi & Co.
Chartered Accountants

Registered Office:
4th Floor, Executive Tower
Dolmen City,
Block-4, Marine Drive, Clifton,
Karachi.

Employees	Contract employees	Customers	Consumers	Vendors
1,664	3,005	68,000	3,100,000	3,500

Lives We Touch

Shareholders	Dairy farmers	Students **	Patients **	Total Lives touched
11,365	51,000	4,300	32,500	3,275,334

*All figures are approximate

**Schools & Hospitals run & financed by Engro

Engro Vopak, Port Qasim

notice of meeting

NOTICE IS HEREBY GIVEN that the Forty Second Annual General Meeting of Engro Chemical Pakistan Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Friday, March 28, 2008 at 10.30 a.m. to transact the following business:

A) ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 3l, 2007 and the Directors' and Auditors' Reports thereon.

(2) To declare a final dividend at the rate of Rs. 3.00 per share for the year ended December 3l, 2007.

(3) To appoint Auditors and fix their remuneration.

B) SPECIAL BUSINESS

(4) To consider, and if thought fit, to pass the following resolution as a Special Resolution:

RESOLVED that the Articles of Association of the Company be altered by substituting the first sentence of Article 61, by the following:

“The remuneration of a Director for attending meetings of the Board or a Committee formed by the Board shall from time to time be determined by the Board of Directors, provided that a Director who is an executive of the Company shall not be entitled to any remuneration for attending meetings of the Board or a Committee formed by the Board.”

By Order of the Board

Karachi,
Dated: February 20, 2008

ANDALIB ALAVI
General Manager Legal
& Company Secretary

N.B.

(1) The Share Transfer Books of the Company will be closed from Friday, March 14, 2008 to Friday, March 28, 2008 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. Ferguson Associates (Private) Limited, 4th Floor, State Life Building No. 2-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00 p.m) on Thursday, March 13, 2008 will be treated in time for the purpose of payment of final dividend to the transferees, and to attend the meeting.

(2) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

Statement under Section 160 of the Companies Ordinance, 1984

This Statement is annexed to the Notice of the Forty Second Annual General Meeting of Engro Chemical Pakistan Limited to be held on March 28, 2008 at which certain Special business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special business.

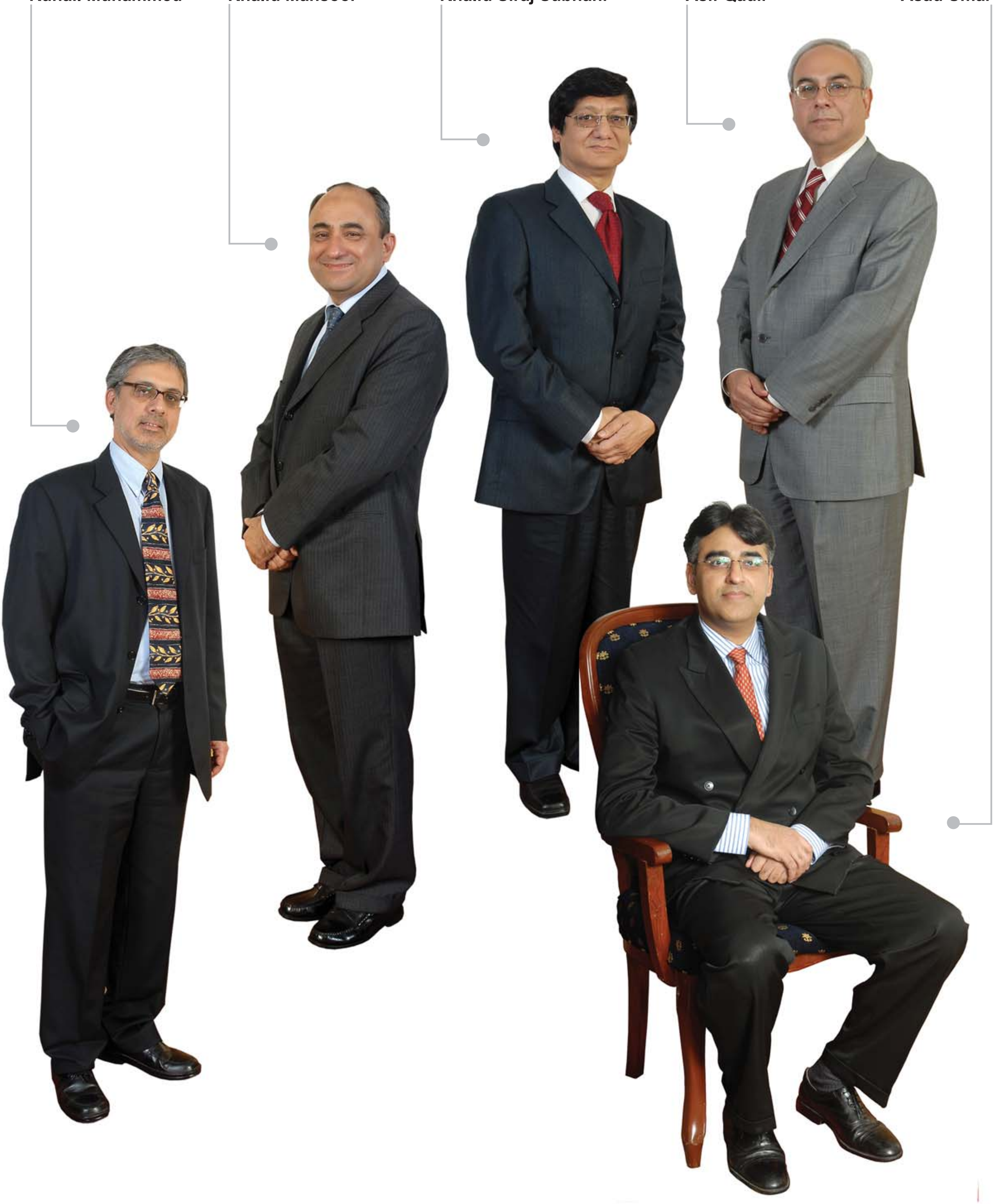
ITEM (4) OF THE AGENDA

The existing first sentence of Article 61 imposed a limitation of Rs. 10,000 per meeting as the remuneration payable to non-executive directors for attending meetings of the Board and Board Committees. This figure was fixed two years ago and it is now proposed to empower the Board to decide this matter from time to time. The fees paid by other reputable companies would be used as a yardstick to fix the fees payable.

The non-executive directors of ECPL are interested in the Item as they may receive increased remuneration for attending meetings of the Board and Committees of the Board.

the board of directors

Ruhail Muhammed | Khalid Mansoor | Khalid Siraj Subhani | Asif Qadir | Asad Umar



Hussain Dawood Shabbir Hashmi Shahzada Dawood Isar Ahmad Arshad Nasar

directors' profile

Hussain Dawood (CHAIRMAN)
is Chairman of Engro Chemical Pakistan Limited, Dawood Hercules Chemicals Limited, Central Insurance Company Limited and Dawood Lawrencepur Limited. He is a Director on the Board of Sui Northern Gas Pipelines Limited, Shell Pakistan Limited and Pakistan Centre for Philanthropy.

His Social responsibilities include Chairmanship of the Board of Directors of the Pakistan Poverty Alleviation Fund, which is one of the largest World Bank financed social funds globally. He also serves as a Director of the Pakistan Business Council, Beacon House National University & Institute of Strategic Studies, is a Global Charter Member of The Indus Entrepreneurs and a member of the World Economic Forum in Davos. He is the Honorary Consul of Italy, in Lahore.

He is a MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK. He joined the ECPL Board in 2003.

Arshad Nasar (DIRECTOR)
is currently the Chairman and Chief Executive Officer of Oil & Gas Development Company Limited. He holds a Masters degree in Economics as well as Political Science. He joined ECPL Board in 2002.

Prior to his current assignment, he was the Country Chairman and Managing Director of Caltex Oil Pakistan Limited and has served as a Director on the Boards of Pakistan Refinery Limited and Pak Arab Pipeline Company Limited. He is also a former President of the American Business Council of Pakistan and has undertaken several key assignments with Caltex Oil both in-country and overseas.

Arshad is also serving as a Director on the Boards of PIDC and Mari Gas Company Limited.

Isar Ahmad (DIRECTOR)
is Group Director, Strategy and Business Development at the Dawood Group. He has had the experience of working in senior management positions in multinational and large Pakistani Organisations. He held the position of Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman) and was the Managing Director Haleeb Foods (previously CDL Foods Limited). He has also been the Financial Advisor at Indus Motor Company Limited. He holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants of England & Wales, he joined the ECPL Board in 2006.

Shahzada Dawood (DIRECTOR)
is the Chief Executive of Dawood Hercules Chemicals Limited. He is also a Director of Sui Northern Gas Pipelines Limited and a number of other companies. A Masters in Global Textile Marketing and an LL.B, he has been on the Board of ECPL since 2003.

Shabbir Hashmi (DIRECTOR)
joined Actis Assets Limited (formerly CDC Group Plc) in 1994. He leads private equity investment activities out of Karachi for Pakistan and Bangladesh. Prior to joining Actis he worked for 8 years with the World Bank and US Aid specialising in the energy sector. He is an Engineer from DCET, Pakistan and holds an MBA from JF Kennedy University, USA. He has previously been on Engro's Board as CDC nominee in 2001/02 and rejoined the Board in 2006 as an independent director.

Asad Umar (CHIEF EXECUTIVE)
is President and Chief Executive of Engro Chemical Pakistan Limited and Chairman of Engro Polymer & Chemicals Limited, Engro Vopak Terminal Limited, Engro Foods Limited, Engro Energy (Pvt) Limited, Engro Innovative Automation (Pvt) Limited and Advanced Automation LP. He is also a member of the Board of Directors of Oil & Gas Development Company Limited, Pakistan Business Council and Member of the Board of Trustees of Lahore University of Management Sciences (LUMS). He has held key assignments at Engro and with Exxon Chemical in Canada. A Masters in Business Administration, he joined the ECPL Board in 2000.

Asif Qadir (DIRECTOR)
is a Senior Vice President of Engro Chemical Pakistan Limited and Chief Executive of Engro Polymer & Chemicals Limited. He is Chairman and Chief Executive of Engro Polymer Trading (Pvt) Limited and a director of Engro Energy (Pvt) Limited. He has held key assignments at Engro and with Exxon Chemical Canada. A Chemical Engineer by qualification, he joined the ECPL Board in 1997.

Khalid Mansoor (DIRECTOR)
is a Senior Vice President of Engro Chemical Pakistan Limited. He has held various key assignments at Engro and with Esso Chemical Canada including leading various major expansion projects. He is a Director on the Boards of Engro Polymer & Chemicals Limited and Chief Executive of Engro Energy (Pvt) Limited. A Graduate in Chemical Engineering, he joined the ECPL Board in 2006.

Ruhail Mohammed (DIRECTOR)
is a Vice President and Chief Financial Officer of Engro Chemical Pakistan Limited. He has worked for many years in various senior positions in Pakistan, UAE and Europe. He is on the Boards of Engro Foods Limited, Engro Energy (Pvt) Limited, Engro Innovative Automation (Pvt) Limited, Sigma Leasing Corporation Limited and Chief Executive of Engro Management Services (Pvt) Limited. A Masters in Business Administration in Finance, he joined ECPL Board in 2006.

Khalid S. Subhani (DIRECTOR)
is a Senior Vice President of Engro Chemical Pakistan Limited. He has held key positions at Engro Chemical and with Esso Chemical Canada. He is a Director on the Boards of Engro Vopak Terminal Limited and Engro Polymer & Chemicals Limited. A Graduate in Chemical Engineering, he joined ECPL Board in 2006.

the directors' report

The Directors of Engro Chemical Pakistan Limited are pleased to submit the forty second annual report and the audited accounts for the year ended December 31, 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company are manufacturing and marketing of fertilizers and joint venture / subsidiaries engaged in chemical terminal and storage, PVC resin manufacturing & marketing, Control & Automation, Food and Energy businesses.

BUSINESS REVIEW

Urea

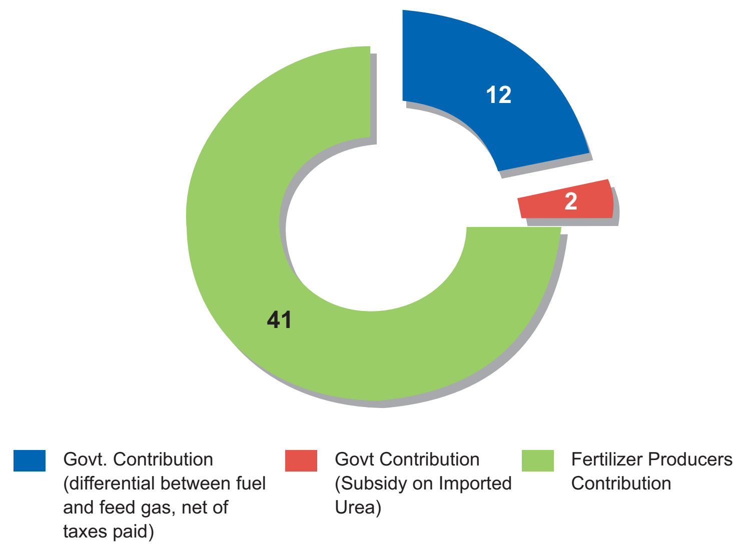
Industry sales were 4.9 million tons during 2007, a 6% decline compared to 2006. The year constitutes a correction of 0.25 million tons, following 5.2% annual growth in industry sales during the preceding three years. Some 70,000 tons of lost sales are attributable to nation wide closure during December, which is a peak selling month. Due to lower demand, imports were 0.1 million tons versus 0.65 million tons in 2006. Sales are expected to rebound in 2008.

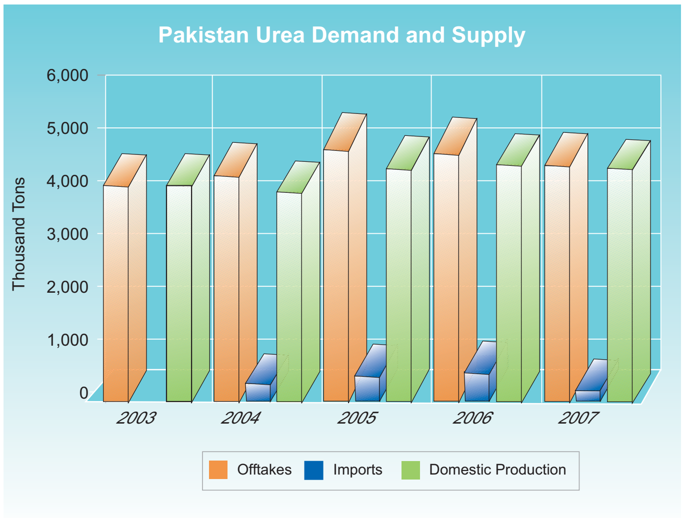
Domestic production was marginally lower to close the year at 4.76 million tons.

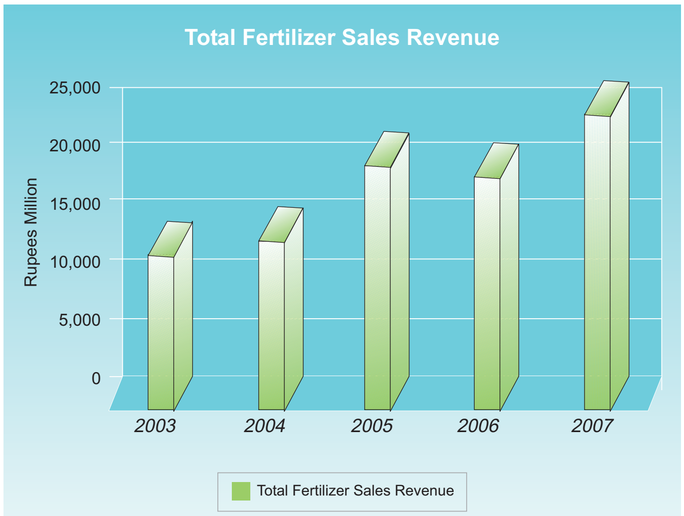
Price differential between local urea and imported urea remained high. Average imported urea cost was around Rs. 1,045 per bag as compared to local urea price of Rs. 538 per bag. Fertilizer industry continued to sell Urea domestically at substantially lower prices than international prices resulting in net benefit of Rs. 55 billion to the farmers of Pakistan. Out of total benefit of Rs. 55 billion, Rs 14 billion were contributed by the Government of Pakistan (including Rs. 1.2 billion subsidy on imported urea) and the remaining Rs 41 billion by the fertilizer industry.

In 2007, Engro Urea production stood at 954,000 tons. It was 1.5% lower than 969,000 tons achieved in 2006 due to two unforeseen outages.

Total Benefits to Farmer (Rs. Billion)

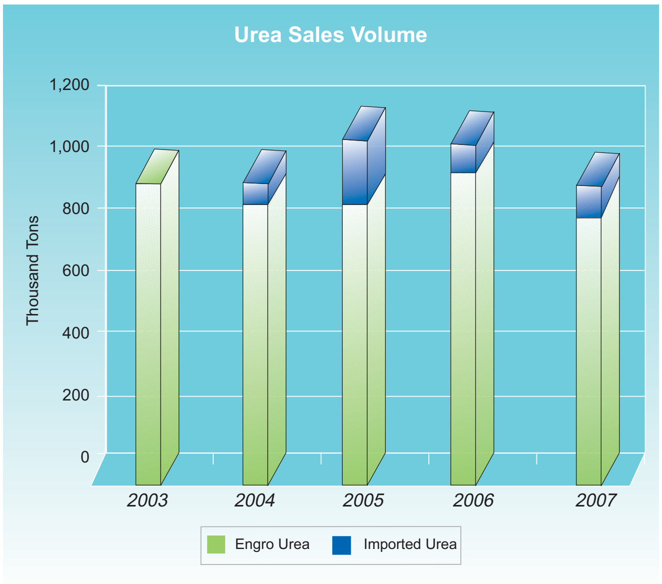


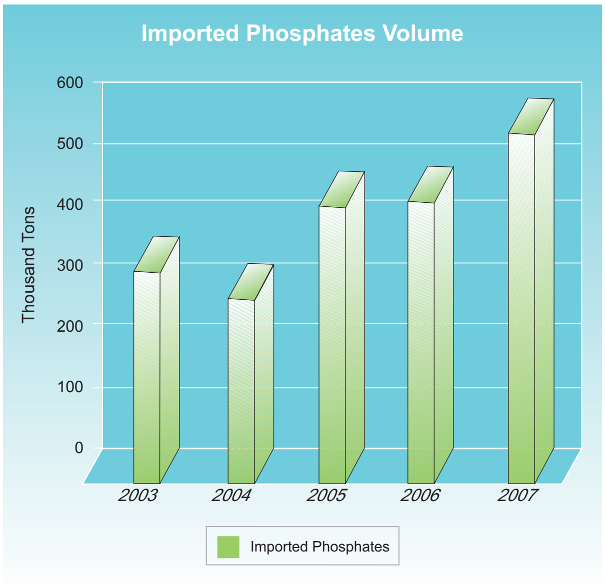




Total Fertilizer Sales Volume (Thousand Metric Tons)

2003	2004	2005	2006	2007
1,306	1,255	1,522	1,514	1,523





Urea Expansion Project – the largest private sector investment ever by a national corporate, entered implementation phase in April 2007 and **is on track for commercial production from mid 2010.**

In 2007, nine months of project execution was completed with 2.18 million man-hours without lost work injury and total recordable incident rate of 0.28. Major contracts for Engineering & Procurement were awarded to Saipem Group, Italy, and for Construction to Descon Pakistan. Ordering of major long lead equipment was completed.

Financial close for this US$ 1 billion project was achieved in October, 2007, comprising of US$ 750 million equivalent debt and phased equity input. The debt includes Rs. 18.3 billion syndicated bank loan, US$ 235 million offshore loans and three local bonds aggregating US$ 215 million.

With an annual production capacity of 1.3 million tons, this world scale plant employs state of the art proven technologies for energy efficiency and benefits from brown field location synergies.

Additionally, the Company continues to explore offshore fertilizer opportunities to compliment its domestic fertilizer business.

Phosphates

In 2007, global phosphatic fertilizer market saw an unprecedented hike in prices. The market moved from US$ 300 per ton CFR Karachi at the start of the year to around US$ 750 per ton CFR Karachi by the year end - a 250% increase, driven by increase in crude oil prices and resulting emphasis on cultivation for Bio-fuels. The high prices of Bio-fuels increased the profitability of US maize farmers, resulting in enormous increase in maize area. Also, the increase in consumption of processed foods and cereals continues in the region. This increased demand pushed up prices of all fertilizers.

Local prices of DAP increased from Rs 800 per bag at the start of the year to Rs 1285 at the end of the year (ex-KHI prices) despite GOP enhancing subsidy from Rs 250 per bag to Rs 470 per bag. Local phosphate sales declined by 14% to close at 1.46 million tons for 2007 - this decline is attributable to rising cost pressure throughout the year, as international prices continued to react to demand for the commodity in the region and beyond.

Engro achieved industry leading 35% phosphate nutrient market share in 2007. The imported DAP sales grew 47% to a record 433,000 tons from 295,000 tons in 2006. Additionally, 54,000 tons of "Zorawar" was sold. Recent surveys show that the re-positioning strategy of 2006, identifying the Zorawar brand with healthy root growth is leaving positive marks. Engro is investing aggressively in promoting the brand and building its image as the preferred Phosphatic fertilizer.

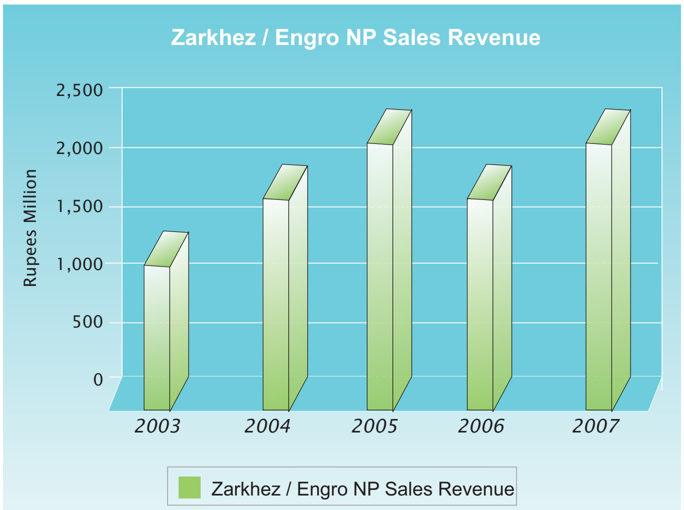
In an environment of increasing phosphate prices, Engro made timely purchase decisions and gained considerable cost advantage over competition.

During the year Engro introduced brown colored MAP, and sold 27,000 tons under the name of Engro Phosphate (EPHOS) with a view to providing a low cost yield enhancing alternative.

Overall, the Company sold 514,000 tons which is the highest ever for this segment of business in any year.

Zarkhez

The year proved to be a good one for Zarkhez. Total Zarkhez sales registered a growth of 25% over last year's sales of 77,000 tons - securing a year end total of 96,000 tons for 2007. This was mainly due to our focus on consumption of Zarkhez at grass roots level and brand re-launch with grade rationalization from six to three.



Zarkhez / Engro NP Sales Volume (Thousand Metric Tons)				
2003	2004	2005	2006	2007
86	114	143	116	135

Field activities included over 30 farmer information seminars, over 50 events and sponsorships at regional level and innovative BTL activities, such as, declamation contests at academic institutions and entertaining documentary dramas. Creating awareness through documentary dramas was a first in agriculture marketing in Pakistan.

Engro NP sales for 2007 were unchanged from last year at 39,000 tons. Zarkhez and Engro NP production for 2007 was 125,000 tons compared to 108,000 tons in the previous year.

Micro Nutrients

The company sold 1,158 metric tons of Zingro (Zinc Sulphate) during 2007- lower by 31% versus last year. The decline is owed mainly to an increase of 40% in selling price of Zingro which is attributable to increase in Zinc metal prices globally. By-product based local Zinc Sulphate producers were able to hold prices, thereby contributing to lower Zingro off-takes.

joint venture and subsidiary companies

ENGRO VOPAK TERMINAL LTD.

Chief Executive: S. Imran ul Haque

This 50:50 joint venture with Royal Vopak of the Netherlands, completed 10 years of safe operations without lost work injury in November 2007. This modern chemical and LPG terminal continued to maintain health, safety and quality standards - OHSAS 18001, ISO 9001 and 14001. During the year, EVTL won Best Practices - Occupational Health and Safety award given by Employees Federation of Pakistan.

The Company finalized a Terminal Service Agreement with Engro Polymer and Chemicals Ltd (EPCL) for Ethylene storage services. Accordingly, EPC contracts were finalized with Weir Liquid Gas Equipment Limited and China National Chemical Engineering Corporation for design, engineering and construction of Pakistan's first cryogenic storage facility, planned for completion by first quarter 2009.

Financing arrangements are in place for the US$ 30 million project which is fully debt financed. Additionally, efforts continued to position EVTL for the LNG import terminal at Port Qasim.

Throughput for the year was 800,000 tons versus 897,000 tons in 2006. EVTL's profit after tax was Rs. 487 million (2006: Rs 474 million) and paid out a dividend of 50% (2006: 50%). Engro's share of the dividend amounts to Rs. 225 million.

ENGRO POLYMER & CHEMICALS LTD.

(Formerly Engro Asahi Polymer & Chemicals Ltd.)

Chief Executive: Asif Qadir

The Company is involved in manufacturing, marketing and selling Poly Vinyl Chloride (PVC). The name of the Company was changed from Engro Asahi Polymer & Chemicals Ltd to Engro Polymer & Chemicals Ltd. as part of the agreement with Asahi Glass at the time of their divestment.

EPCL achieved 3.92 Million man-hours without Lost Work Injury and won the Annual Environmental Excellence Award 2007 by National Forum for Environment and Health. Domestic sales in 2007 were the highest ever at 94,000 tons and resulted in complete sell out of plant production. The manufacturing operations for the year were also very smooth and 94,000 tons of PVC was produced. A slight decrease in production over last year was due to the non availability of the major raw material from the primary suppliers resulting in a production outage.

The profit after tax for 2007 was a record Rs. 421 million as compared to Rs. 379 million in 2006. The increase in profitability was attributable to growth in domestic volumes. Engro's net share of dividend amounted to Rs. 229 million (2006: Rs 165 million).

In the year 2007, EPCL achieved accreditation by Investors' in People for its non manufacturing operations. The manufacturing operations had passed this milestone earlier.

EPCL's US$ 220 million expansion and back integration project is expected to come on-stream in a phased manner by first half of 2009. The project continued to progress smoothly during the year without occurrence of any safety incident. The EDC-VCM plant was dismantled and shipped from United States to the construction site. Plants and equipment from other locations have also started to be shipped and are expected to reach the destinations shortly. The project includes setting up of a new PVC plant enhancing the manufacturing capacity to 150,000 tons per annum and a backward integrated facility with a capability to produce other intermediary products and Caustic Soda. As part of the project financing, EPCL raised equity from various investors. Engro invested Rs. 1.5 billion as equity in EPCL.

ENGRO INNOVATIVE AUTOMATION (PVT.) LTD.

Chief Executive: Bakhtiar Wain

The Company is now a 63% owned subsidiary of Engro Chemical Pakistan Ltd. The Company is a market leader in industrial automation business providing process control solutions to leading industrial units in the country. EIAL's current focus is to create a world class engineering back office which is capable of carrying out outsourced work from other countries.

In early 2007, the Company acquired a 70% stake in Advanced Automation LP (AALP), an automation engineering company in the United States. Engro chemical Pakistan Limited injected Rs. 300m into EIAL to finance this transaction which increased ECPL's shareholding in EIAL from 51% to 63%.

EIAL's 2007 revenue in Pakistan was Rs 349m, lower than Rs 656m recorded in the previous year due to lower capital spending by customers. A similar decline in revenue was experienced in UAE operations. Lower revenue led to an after tax loss of Rs 119m for Pakistan and UAE business (2005: PAT Rs. 49 million).

Advanced Automation LP revenues exceeded its business plan. Additional costs for ramping up and lower margins towards the end of the year due to manufacturing slowdown resulted in a loss of $2m during the year.

ENGRO FOODS LIMITED

Chief Executive: Sarfaraz A. Rehman

Engro Foods, a wholly owned subsidiary, had its first full year of operation in 2007.

One highlight was the phenomenal launch of Tarang - a tea whitening liquid brand, initially introduced in 6 towns in August 2007. This young brand achieved exceptional brand scores in the first 4 months of launch. The sales for Tarang touched high numbers which are growing at an ever-increasing rate. With this latest launch the portfolio now boasts four impressive brands: Olper's milk, Olper's cream, Olwell and Tarang.

Commercial production commenced at Engro Food's second state-of-art plant in December, 2007. With this plant at Sahiwal, production capacity increased threefold with better access to large milk volumes and improved logistics.

The Company's milk collection infrastructure developed considerably over the year and total milk collection doubled versus 2006. The network now boasts over 700 village milk collectors (VMCs) and 400 Milk collection centers (MCCs) in milk shed area of EFL. Covering 2400 villages across Pakistan and touching the lives of almost 51,000 farmers. Engro Foods is playing a pivotal role in poverty alleviation in rural Sindh & Punjab by procuring milk directly from small and landless farmers. The effect is two fold: it not only eliminates the influence of middleman in the Milk Distribution Channel but also generates "Self Employment" for the farming community by introducing the concept of VMCs.

To enhance the milk productivity of the live stock, the Company offered services like Introduction & Marketing of new and improved varieties of green fodder seed, awareness workshops in Animal Health & Preventive measures, provision of vaccination & de-worming facilities at the farmer door step.

Engro Foods are contributing to women empowerment in rural Sindh with United Nations Development Program funding. The program imparts training to a cadre of Lady Live stock workers (LLW's) to deliver primary livestock management, production and extension services - thereby creating self employment for the women in the Live stock Sector.

In only the first full year of operation, Olper's market share peaked at almost 17% in October 2007, which is commendable. The family grew stronger with the

introduction of 1.5 liter family pack, now sporting a total of 4 SKUs. Olper's campaigns received several accolades, it also won the best campaign and best television commercial honors by the credible Business Recorder. The Olper's consumer franchise deepened considerably in 2007, with increasingly positive brand health scores and an ever-widening distribution network. Olper's is now available in over 100 towns.

EFL grew its sales an impressive 2.5 times compared to 2006. The Company sold a total of over 77 million litres (2006: 36 million litres) of products with total revenue of Rs 3.6 billion (2006: Rs 1.5 billion) and posted a loss of Rs 620 million, which was as per plan (2006: Rs 428 million). Brand investment continues to be high to build brand awareness. In addition to this EFL continues to invest in infrastructure development for future growth.

In line with Engro's long term strategy, EFL Board has approved a dairy farm to be set up in Sindh. This farm will be a first of its kind, state of the art facility in Pakistan and will comprise of imported cattle heads with milking expected to start in second quarter 2009. The high quality milk will open more avenues.

Another exciting venture is the diversification of dairy portfolio into ice cream. Work has commenced full throttle for detailed engineering and market study with a view to launch of first ice cream in 2009.

Additionally, the Company plans to invest over Rs. 1.8 billion in 2008 for capacity expansion of milk collection infrastructure, Sukkur and Sahiwal Plants.

ENGRO ENERGY (PVT) LTD.

Chief Executive: Khalid Mansoor

This wholly owned subsidiary was formed in 2006 to pursue power generation opportunities. The company has started construction of its first combined cycle power project with net output of 217 MW, based on low BTU permeate gas from Qadirpur gas field in Ghotki District which is currently being flared. The project will be implemented at a total cost of US$ 205 million. Key financing documents have been signed with the lenders for 75% offshore debt. The remaining funding is through sponsor equity. Financial close is expected during 1st Quarter 2008.

In 2007, Implementation Agreement & Power Purchase Agreement were signed with Government of Pakistan and National Transmission & Despatch Company respectively. In addition to that, NEPRA has approved tariff for the project based on dual fuel (permeate gas and HSD) usage.

EPC Contracts were signed with China National Chemical Engineering Corporation and China Tianchen Chemical Engineering Corporation. Project commercial operation is expected to commence in 4th quarter 2009.

EEL declared pre commercial period loss of Rs. 6.9 million in 2007 and accumulated loss of Rs. 98.8 million.

There was no progress on privatization of Jamshoro Power Company for which Engro had been prequalified. The company intends to participate in the bidding whenever announced by GoP.

The company intends to increase its power generation capacity in Pakistan and abroad. A detailed strategic growth plan is currently under development.

ENGRO EXIMP (PVT) LTD.

Chief Executive: A. Samad Khan

Engro Eximp is a wholly owned subsidiary in the trading business of fertilizer imports. During the year, EEPL imported and sold 578,000 tons (2006: 356,000 tons) of phosphatic product at port to Engro at market prices.

health, safety, environment and quality

The urea plant at Daharki operated without Lost Work Day Injuries (LWIs) to either ECPL or contractor employees. The site has achieved 2.5 million man-hours (MMH) without LWI to employees and 2.4 MMH without LWI to any employee of contractors.

This was accomplished by alignment of site safety systems with DuPont Best Practices which was embarked upon, in a phased manner, in 2003 & through sustained focus on both behavioral & process safety aspects in order to arrest injury causes & those unsafe situations that could result in injuries. The major steps taken in 2007 included; identifying and addressing unsafe situations pro-actively by utilizing safety audits by the management team and, developing site leading indicators that identify and improve weak areas. Internal evaluation and safety results at end of year indicate that safety awareness has improved as a result of this effort. The behavioral safety management system is now close to the DuPont Best Practices skill level. The total recordable incident rate was 0.42 in 2007 versus 1.31 in 2006.

Zarkhez plant at Port Qasim continued its operation without LWI and achieved 0.6 MMH without LWI to an ECPL employee over a period of 6 years. In addition, site completed 2.45 MMH without LWI to any employee of contractors over a period of 3 years. Both behavioral and process safety programs were launched in 2007, including commencement of management safety audits.

Engro non-manufacturing functions achieved 6.85 MMH over a period of nearly 22 years without LWI.

The Agri business also embarked on safety system up-gradation and focused on key areas; field warehouse operations, product transportation and vehicle safety. The effort has been started by carrying out a gap analysis of existing system, developing action plans to address these gaps and improving the incident & injury reporting. From 2007, the safety improvement effort is being coordinated by a dedicated HSE resource. Despite dedicated efforts, field warehouse operations recorded 4 LWIs and one fatality to contractor employee during the year. These injuries & fatality were thoroughly investigated and recommendations worked upon to enhance field warehouse operations safety. Road safety focus of the sales force remained high as they crossed 20 million kilometers of safe driving during the year and 27 years without suffering LWI.

Based on DuPont guidance on occupational health and industrial hygiene (OH & IH), a comprehensive system was developed and implementation started in 2007 for Daharki Urea Plant which will be major focus area in 2008.

100% compliance of National Environmental Quality Standards (NEQS) was achieved for effluents & emissions and transparent reporting to governmental bodies continued during 2007. A major break through was environmentally friendly disposal of hazardous waste that was achieved by recycling / reusing the entire on-site inventory of spent catalysts & resins and mercury lights for metal extraction and manufacturing of salts / micro nutrients. Similarly, environmentally friendly disposal of chromate sludge was started. After discontinuation of Ozone depleting Chlorofluorocarbons (CFC's), replacement of Hydro CFC's is underway in a phased manner (normal replacement cycle of air conditioners). Engro has also won consecutively four National Forum of Environment & Health annual environment excellence awards.

Environmental Foot Print performance was published in Sustainability Report. The company has gone one step forward towards carbon trading (Clean Development Mechanism) by signing a contract with consultants on Project Development Document (PDD) for development of possible Clean Development Mechanism projects.

TECHNICAL SERVICES

Technical Services continued to disseminate knowledge of best management practices for crops and balanced use of crop nutrients through individual and mass contact with farmers to enhance farm productivity and increase farm income. The extent of individual farm visits by our field representatives increased by 55% from 21,150 in 2006 to 32,851 in 2007.

Use of Potato seed cum fertilizers planters developed by ECPL Research & Development were introduced amongst selected progressive potato growers of Okara district free of cost. Farmer's acceptance was very high due to saving of cost of labor and fertilizer, ease of operations and prospects of better yields by increased efficiency of applied compound fertilizer.

Quarterly "Behter Zindagi Magazine" was published regularly in 2007. The articles were contributed by our Technical Services Officers, Agriculture Extension Experts and Agriculture Research Scientists. There is overwhelming demand for this magazine amongst farmers.

EMPLOYEE RELATIONS AND ORGANIZATION DEVELOPMENT

Owing to unprecedented domestic and regional economic growth, demand for quality human resources intensified locally and overseas. To mitigate these pressures and secure adequate resources for projects at hand, medium term retention schemes based on share options and asset building have been planned. These schemes will be implemented during 2008 and are tailored to specifically retain resources through the current growth cycle at Engro and its affiliates. Further, with a view to attracting optimum resources and improve customer focus, the company has put together a restructuring plan for its Agribusiness Division; this initiative is also slated for roll out in 2008.

Employee development remained one of the pivotal areas for HR during the year. To enrich organizational competence levels, new training programs encompassing Performance Management, Leadership, and Competency Development were introduced.

Attrition remained high during 2007 as opportunities within domestic, as well as regional corporate domain increased. This is understandable, given the sustained economic growth in the region and the mobility of available talent across industries and national borders.

The overall industrial climate and employee relations remained cordial. Collective Labour Agreement with the Karachi Staff Union expired on June 30, 2007 and a new agreement was negotiated and signed on July 13, 2007 for a period of 36 months effective July 01, 2007.

PNSC FIRE INCIDENT

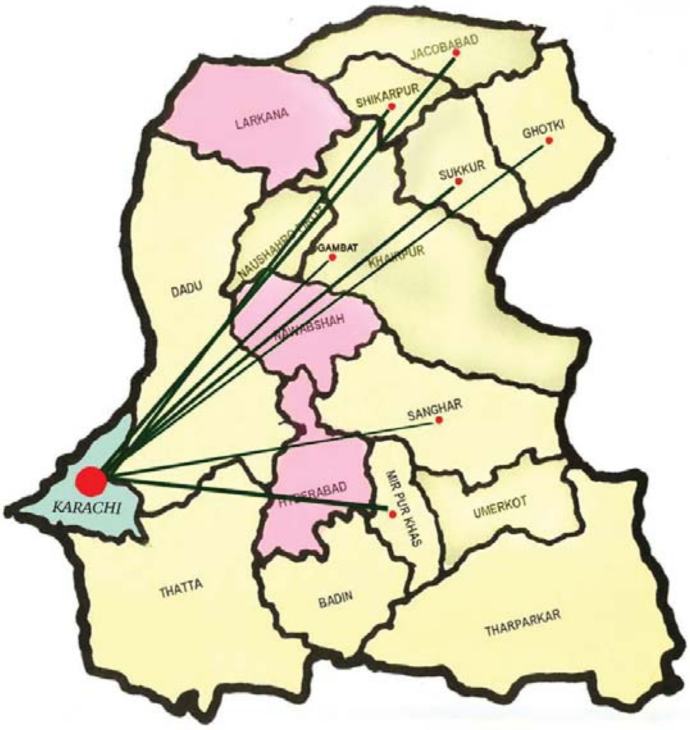
During the third quarter of the financial year, a fire broke out at PNSC Building, Karachi where the Head Office and registered office of the Company was located. Immediately following this event the Company launched its Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal.

Along with the Company's offices, the fire also destroyed a substantial portion of its hard copy records related to the financial years 2005, 2006 and the period January 01, 2007 to August 19, 2007 although, electronic data remained largely intact due to the Company's Disaster Recovery Plan. The Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the current reported financial year.

social citizenship

Students at Engro Katcha School

The Company launched its second edition of CSR report, in line with Global Reporting Initiative guidelines, continuing the tradition of transparent disclosure, the report was voluntarily published on recycled paper. Engro's social investments were about 1% of pre tax profits. The company sustained compliance with National Environmental Quality Standards in its facilities with the goal of achieving world class HSE performance. As commitment to continual improvement in environmental performance, company's environmental foot print has significantly reduced this year. Engro's focus remains on linking performance and responsibility in a way that business functions are in harmony with environmental and social goals.



Map showing
7 Telemedicine spokes

Sahara Welfare Society

Education and health programs of employee-managed not-for-profit organization at Daharki continued with ever increasing reach. Currently more than 300 students are benefiting from formal primary school and non-formal education program. Additionally around 50 students are enrolled in adult literacy program.

A new block for clinic and vocational training school was commissioned during the year helping Sahara increase the reach of its programs.

The reach of vocational training program was increased with co-funding of USAID and International Youth Foundation's program - Education and Employment Alliance. 216 students have acquired skills in stitching, cutting, and embroidery from the program. More than 9000 patients were treated in Sahara's free clinic in 2007.

HEALTH

Project Hope (Telemedicine)

Project Hope now links seven rural spokes (2006: five spokes) via video-conferencing to a hub in JPMC Karachi, where specialist doctors can access x-rays, ECG and other diagnostics in real time. The project covers some of the least developed areas in the country, having low literacy, very few medical facilities, and high poverty, with ratio of doctors to population of 1:3000. It makes available no less than fifteen medical specialists ranging from neonatology to cardiology on a daily basis to rural communities located hundreds of kilometers away.

This year, specialist doctors provided on-line consultation to more than 6,093 patients. In addition over 10 Continuing Medical Education (CME) sessions were conducted to train doctors at remote terminals by delivering live & interactive lectures by top specialists from JPMC hub at Karachi.

The project received international recognition in 2006 when it was selected as the best project among 178 entries from 14 countries by Asian Institute of Management (AIM), Manila, Philippines.

Maternal & Child care center

Shikarpur area lacked proper facilities for Maternal and child care. An old vacant hospital was converted to a modern hospital with needed equipment and facilities. ECPL's funds were utilized for procurement of hospital equipment. The project is self sustainable via the subsidized rates charged to patients.

Snake Bite Treatment Facility

Snakebite treatment facility in Engro Daharki clinic continued to provide free treatment and attended to 5,516 patients in 2007.

Engro Thalassaemia Centre

More than 5990 blood transfusions took place in 2007 in Engro Thalassaemia centre in Sukkur.

Hepatitis B Awareness & Vaccination Program

Second round of vaccinations took place in Jing village, which is a high risk area for Hepatitis B and remaining population of 737 individuals were vaccinated during the year.

Eye Care

The Eye Care Centre, established in rural health centre Daharki, has provided eye-care facilities to more than 6000 patients in 2007.

EDUCATION

NED University

Engro assisted this National Engineering University at Karachi by establishment of a much needed Chemical Engineering Department Library. Engro supported by procurement of books and periodicals for the Library. Engro will further assist NED Chemical Engineering Department in 2008 by providing equipment for the newly constructed Laboratories.

Schools in Katcha (Riverine Belt of Indus)

Engro's unique program which runs 11 formal primary schools continued in 2007 with enrollment of about 1000 students. Plans for increasing the reach of program have been rolled out with construction of the first middle school in Noor Lakhan village, which is expected to start operations from August 2008.

School Adoption Program

2358 students enrolled in 6 government primary schools are benefiting from this public-private partnership. Surveys for increasing the reach of program in plant vicinity at Daharki were carried out and extended program will be rolled out with the new academic year.

Sahara School, Engro Daharki

OTHER INITIATIVES

Earthquake Victims Revival Program

Earthquake victims revival program commenced at village Battal, district Mansehra, in partnership with The Citizens Foundation Relief Fund. Construction of 69 houses has been completed in 2007 based on designs approved by Earthquake Reconstruction & Rehabilitation Authority and remaining 31 houses are in finishing stage. The program is expected to complete the construction of all houses and the related infrastructure of retaining walls, school, mosque, access road, water supply and sanitation by mid 2008.

Indus Dolphin Conservation Program

Engro Chemical Pakistan Limited through Engro Foods Limited entered into largest ever corporate partnership with WWF Pakistan by supporting Indus Dolphin Conservation Program, run by WWF Pakistan and Sindh Wildlife Department. The Company's support enabled dolphin rescue activities of Indus dolphin conservation centre.

Neighborhood Care Program with Citizen's Police Liaison Committee

Project initiated with CPLC Karachi to provide civic amenities & security to residents of Clifton and DHA area Karachi. Fully operational control center has been established at Sea View, Karachi.

corporate awards

Top 25 Companies Award

In recognition of its financial performance, the Company was once again selected for the "Top 25 Companies Award" of the Karachi Stock Exchange for year 2006. The Company has won this award for the 25 time and holds the distinction of being the most frequent winner amongst all the companies quoted on the Karachi Stock Exchange.

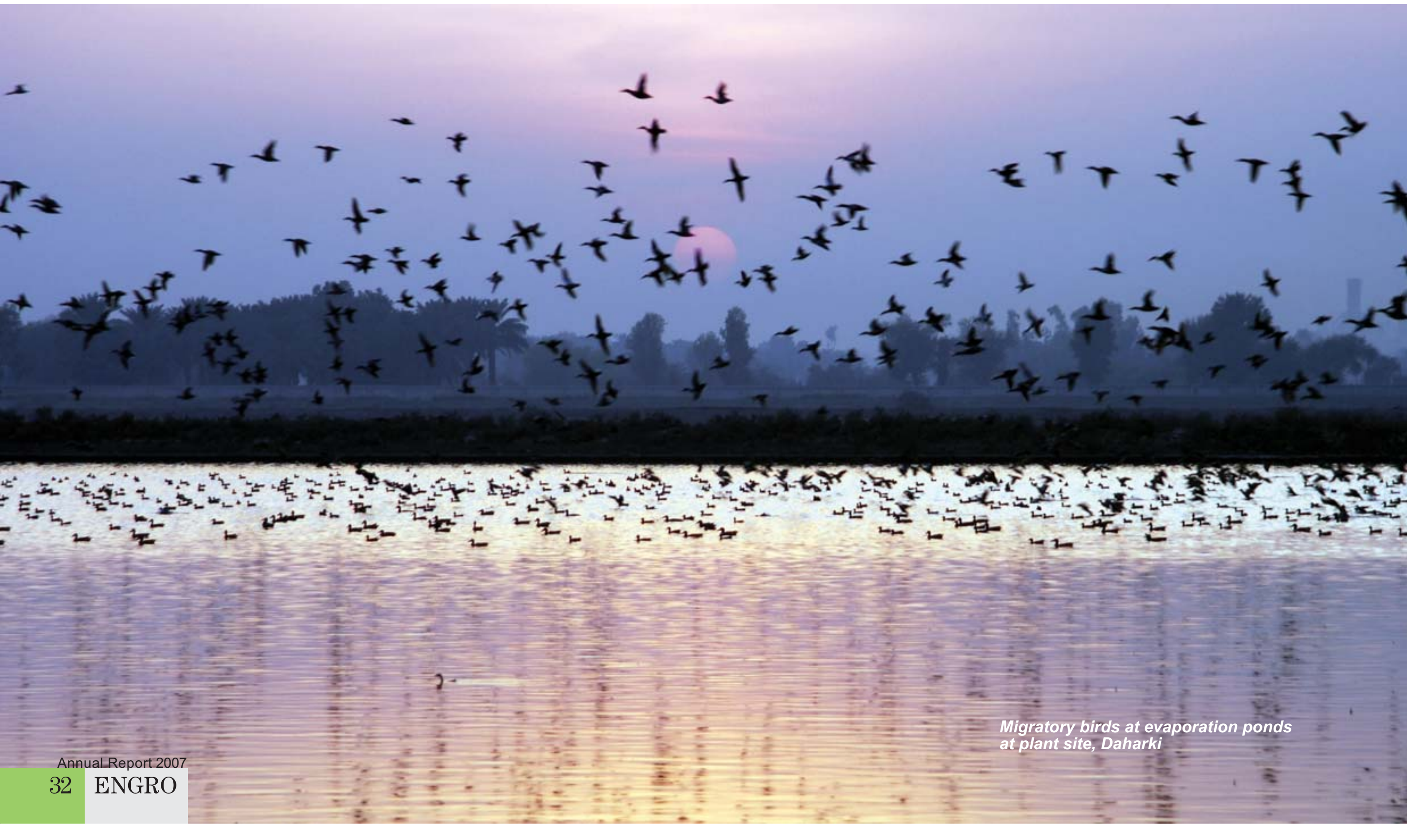
Environment Excellence Award

Engro has also won consecutively for 4TH year National Forum Environment and Health Excellence Award on account of excellent environmental performance and successful implementation of environmental & quality management systems.

Other Awards

In addition to the above, Engro has received many other prestigious awards including:

- Annual reports award in Chemical & Fertilizer sector awarded by the Joint Committee of ICMAP and ICAP.
- EVTL won Best Practices - Occupational Health and Safety award given by Employees Federation of Pakistan.
- EPCL won the Annual Environmental Excellence Award 2007 by National Forum for Environment and Health.
- Olpers' Milk was adjudged Best Brand Campaign and Best Television Commercial - 2007 by Business Recorder.



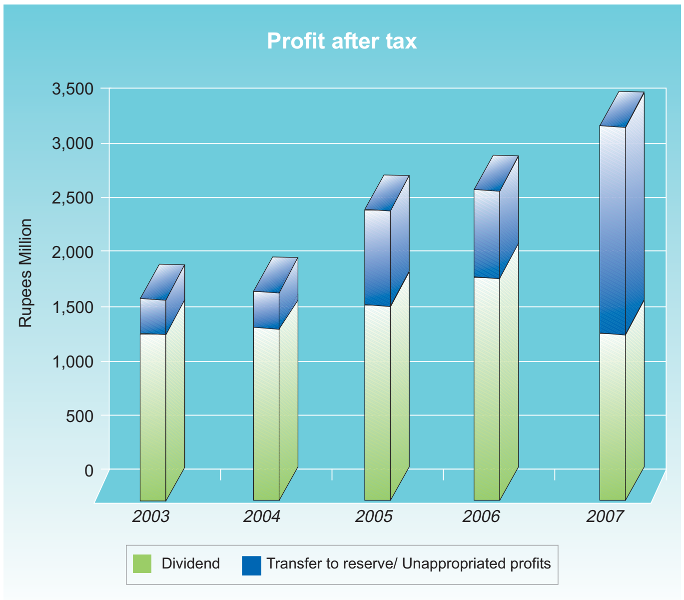
Migratory birds at evaporation ponds at plant site, Daharki

results for the year

Sales for the year were Rs 23.2 billion, higher by 32% due mainly to higher turnover of Phosphates and Zarkhez.

Profit before tax at Rs.4.2 billion was 23% higher than 2006 principally because of higher other income from joint ventures and subsidiaries.

Profit after tax was Rs.3.15 billion which is a new record for the Company and is higher by 24% over the 2006 profit of Rs.2.55 billion.



Profit after tax (US$ Million)				
2003	2004	2005	2006	2007
27	27	39	42	51

dividends

The Board is pleased to propose a final dividend of Rs 3.00 per share. Together with the two interim dividends amounting to Rs 4.00 per share, the total dividend attributable to the year is Rs 7.00 per share versus Rs. 9.00 per share paid last year.

The appropriations approved by the Board of Directors are as follows:

	Million Rupees
Un-appropriated profit from prior years	2,190
Final dividend for the year 2006 on 168,234,086 shares of Rs. 10 each at Rs. 3.00 per share declared on January 20, 2007	(505)
Profit for the year after taxation	3,155
Disposable profit for appropriation	4,840
First interim dividend on 168,234,087 shares of Rs 10 each at Rs. 2.00 per share declared on July 19, 2007	(336)
Second interim dividend on 193,469,198 shares of Rs 10 each at Rs. 2.00 per share declared on October 26, 2007	(387)
Un-appropriated profit carried forwarded	4,117
Subsequent Effect Proposed final dividend on 193,469,198 shares of Rs. 10 each at Rs.3.00 per share	(580)
Total Dividend for the year Rs. 7.00 per share	1,303

Key operating and financial data for 10 years is summarized on page 150 Earnings Per Share (EPS) / Dividends Per Share (DPS)

EARNINGS PER SHARE (EPS) / DIVIDENDS PER SHARE (DPS)

The Company's post tax EPS registered constant increase over the last 5 years which demonstrate our business strength, leadership position and successful diversification.

Rupees per share

	2003	2004	2005	2006	2007
EPS*	10.18	10.53	14.37	15.47	17.17
DPS	8.00	8.50	11.00	9.00	7.00

value addition

	2007 Rupees in Million	%	2006 Rupees in Million	%
Wealth Generated				
Total revenue inclusive of sales tax and other income	26,500		20,411	
Bought-in-material and services	(16,160)		(11,261)	
	10,340		9,150	
Wealth Distributed				
To Employees				
Salaries, benefits and other costs	1,050	10.15%	950	10.38%
To Government				
Taxes, duties & development surcharge	5,890	56.96%	4,633	50.63%
To Society				
Donation towards education, health, environment and natural disaster	41	0.40%	35	0.38%
To Providers of Capital				
- Dividend to shareholders	1,228	11.88%	1,774	19.39%
- Mark-up / interest expense on borrowed money	535	5.17%	363	3.97%
Retained for reinvestment & future growth				
Depreciation, amortization & retained profit	1,596	15.44%	1,395	15.25%
	10,340		9,150	

CASH FLOW AND CAPITAL INVESTMENT

Cash generated from operations during the year was Rs. 2,803 million (2006: Rs. 2,561 million).

This is after adjusting for increase in working capital of Rs.676 million (2006: Rs.784 million) mainly on account of increase in stock in trade and trade debts at year end. Taxes paid for the year amounted to Rs.507 million (2006: Rs.745 million) based on the regulations of Income Tax.

Total Long term investments of Rs 4,108 million were made as follows: Rs.798 million (2006: Rs.854 million) and Rs.1,580 million (2006: Rs. 98) in food and energy businesses respectively. 150 million additional shares in Engro Polymer were acquired at a cost of Rs.1,430 million which is net of Rs.70 million pre-acquisition dividend. Also, a further 19.96 million shares were acquired in Engro Innovative at a cost of Rs. 300 million.

Additions to property, plant and equipment mainly represents expenditure incurred towards construction of the Urea Expansion plant which amounted to Rs.8,024 million (2006: Rs.391 million) by the year end.

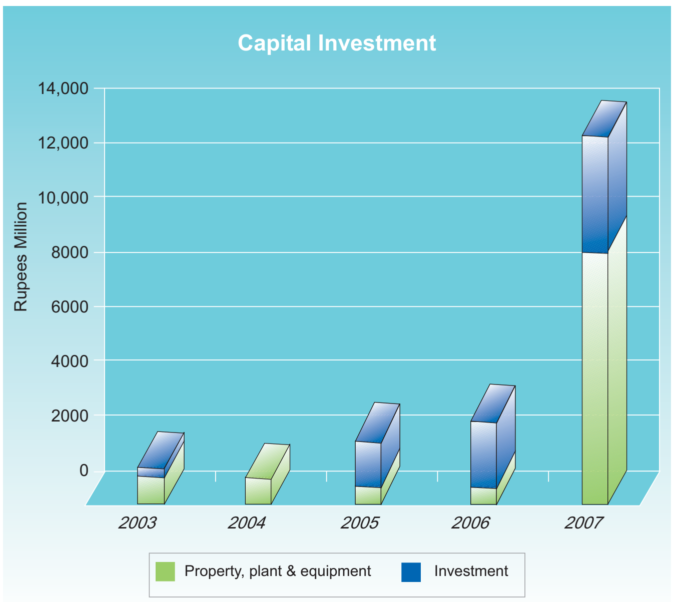
CAPITAL INVESTMENT, CAPITAL STRUCTURE AND FINANCE

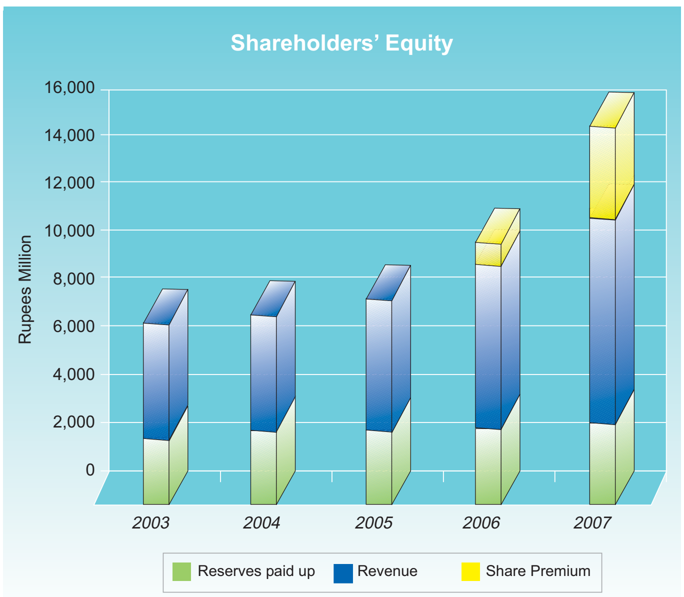
In order to partially fund the Fertilizer expansion project, the Company offered 15% right shares at Rs.125 per share to the shareholders including premium of Rs.115 per share. The total issue including share premium amounted to Rs.3.148 billion net of issuance costs.

Shareholders' funds at the year end totaled Rs.15.48 billion (2006: Rs.9.37 billion). The increase is largely due to the rights issue mentioned earlier as well as retained profits.

Net long term borrowings at the year end increased to Rs.16.72 billion (2006: Rs.2.89 billion) primarily for financing the Company's Urea expansion project. The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2007 is 52:48 (2006 – 24:76). The liquidity position of the Company is comfortable with a year ended current ratio of 3.1 (2006 - 1.6).

To finance growth, new long term loan agreements of Rs.46 billion were finalized during 2007.





MAJOR JUDGEMENT AREAS

Taxation

The Company has filed tax returns up to income year 2006. All assessments up to income year 2002 have been finalized by the Department and appealed against.

For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

For income years ending June 1997, Dec 1997 and Dec 1998, appeals have been decided in favor of the Company by the appellate authorities. For June 1997 and Dec 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which the Company believes to be an error of fact and should be rectified. For Dec 1998, the Company has received favorable decision from Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the Company is in Appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The Company filed reference with Alternative Disposal Resolution Committee (ADRC) of Federal Board of Revenue (FBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. A favorable decision in this respect has been received subsequent to year-end. For these four years, the Department has also filed appeals with ITAT on certain issues which had already been decided in favor of the Company by the Commissioner (Appeals).

For income years December 2003, December 2004, December 2005 and December 2006, income tax returns have been filed under self assessment schemes.

The Company is confident that all pending issues will be ultimately resolved without any additional liability.

The Company has claimed the benefit of Group Relief under section 59 B of Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company - more particularly explained in note 31 of these accounts.

Marketing Incidentals

In 1988, the Company had commenced two separate arbitration proceedings against the Government of Pakistan for nonpayment of the marketing incidentals for years 1983-1984 and 1985-1986. The sole arbitrator in the later case awarded the Company Rs 47.8 million in 2002 but the Government filed objections in 2003 and the case is now pending hearing in the High Court. The award for the earlier years (where a similar amount is claimed) is awaiting decision before two arbitrators and it is hoped that both the decisions will be announced soon. The award for 1985-1986 arbitration has not been recognized due to inherent uncertainties arising from its challenge in the High Court.

MANAGEMENT INFORMATION SYSTEMS

The Company continues to enhance efficiencies which resulted through implementing SAP, an Enterprise Resource Planning system for its financial, accounting and human resource requirements which replaced our legacy applications.

ACCOUNTING STANDARDS

The accounting policies of the Company fully reflect the requirements of the Companies Ordinance 1984 and such approved International Accounting Standards and International Financial Reporting Standard as notified under this Ordinance and directives issued by the Securities and Exchange Commission of Pakistan.

CREDIT RATING

Pakistan Credit Rating Agency in its recent annual review of the Company's creditworthiness has maintained Engro's long term ratings and maintained its short term ratings as AA "Double A" and " A One Plus" respectively. These ratings reflect the Company's financial and management strength and denote a low expectation of credit risk and the capacity for timely payment of financial commitment.

TREASURY MANAGEMENT

The Company's treasury activities are controlled and are carried out in accordance with the policies approved by the Board. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available to the Company at all times and that exposure to financial risk is minimized. The risks managed by the Treasury function are funding risk, interest rate and currency risk. Investments made as part of the arbitrage activities were only in the Board approved securities and institution for the Company funds. Engro uses financial instruments such as interest rate swaps and forward currency contracts to manage both interest and currency rates on the underlying business activities. The treasury function does not operate as a profit centre.

Interest Rate Management

At the end of 2007, ECPL's core borrowings were Rs 16.7 billion. The Company has a policy of managing its exposure to interest rate fluctuations, whenever deemed necessary.

Liquidity Risk

In order to maintain adequate liquidity for it's working capital requirements, the Board has approved short term funded facilities of Rs.5.0 billion for the forth coming year. Engro's policy is to ensure that adequate medium term funding and committed bank facilities are available to meet the forecast peak borrowing requirements.

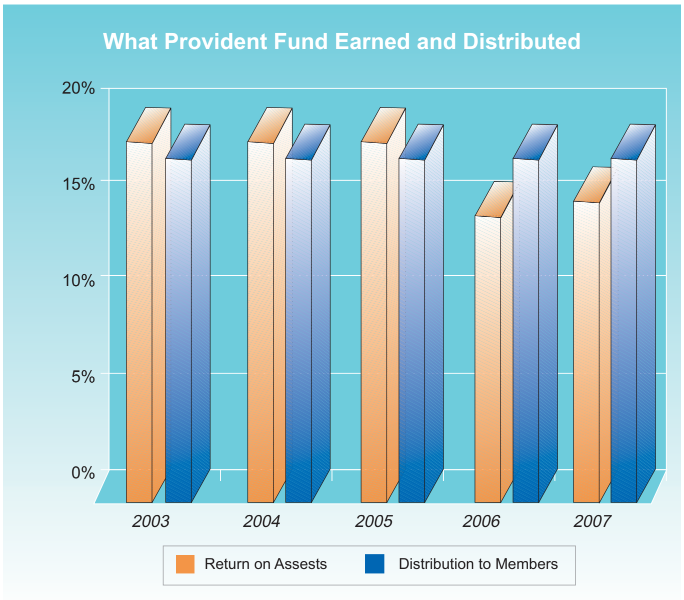
Foreign Currency Risk

Since the Company's manufacturing and trading operations are only in Pakistan, the receipts and payments of the local currency are thereof not hedged. Where deemed appropriate, it eliminates currency exposure on transactions on purchases of goods in foreign currency through the use of forward exchange contracts / options.

PENSION, GRATUITY AND PROVIDENT FUND

The Company maintains plans that provide post-employment and retirement benefits to its employees. These include a contributory provident fund, a defined contributory pension (DC) plan, a non contributory gratuity scheme for all employees and a Defined Benefit (DB) pension scheme for the annuitants retired before July 1, 2005.

The above mentioned plans are funded schemes recognized by the tax authorities. The latest actuarial valuation of management pension and gratuity schemes was carried out at December 31, 2007 and the financial statements of these have been audited upto December 31, 2006. The latest audited accounts for the provident fund cover year ended June 30, 2007. The Company has fully paid all its obligations on all the above schemes.



	Rupees in million		
	Provident Fund	Pension Fund	Gratuity Fund
Audited upto	June 30, 2007	December 31, 2006	December 31, 2006
Net Assets as per last audited financial statements	611	864	229
DSC/PIB/WAPDA Bonds	295	570	92
Equity based mutual funds	-	7	2
Income based mutual funds	145	99	25
TFC	78	82	-
Shares	2	62	32
Bank Deposits	50	120	78
Others	41	(76)	-
Total	611	864	229

AUDITORS

The auditors, KPMG Taseer Hadi & Co. retire and offer themselves for re-appointment. The Board Audit Committee and the Board of Directors of the Company have endorsed their appointment for shareholders consideration at the forthcoming annual general meeting. The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

PATTERN OF SHAREHOLDING

Major shareholders of Engro Chemical are The Dawood Group including Dawood Hercules Chemicals Limited (DH), Engro employees, annuitants and their relatives. Other Shareholders are local and foreign institutions and the general public.

A statement of the general pattern of shareholding along with pattern of shareholding of certain classes of shareholders whose disclosure is required under the reporting framework and the statement of purchase and sale of shares by Directors, Company Secretary and their spouses including minor children during 2007 is shown on page 44 of this report.

The Company's stock is amongst the actively traded shares on all the Stock Exchanges of the country.

BOARD OF DIRECTORS

Statement of Director Responsibilities

The directors confirm compliance with Corporate and Financial Reporting Framework of the SECP Code of Governance for the following:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

2. Proper books of accounts of the Company have been maintained.

3. Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable prudent judgment.

4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure therefrom have been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There are no significant doubts upon the Company's ability to continue as a going concern.

7. There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

BOARD MEETINGS AND ATTENDANCE

In 2007, the Board of Directors held 6 meetings to cover its complete cycle of activities. The attendance record of the Directors is as follows:

Director's Name	Meetings Attended
Mr. Hussain Dawood	6
Mr. Asad Umar	6
Mr. Isar Ahmad	6
Mr. Shahzada Dawood	5
Mr. Shabbir Hashmi	6
Mr. Khalid Mansoor	6
Mr. Ruhail Mohammed	6
Mr. Arshad Nasar	2
Mr. Asif Qadir	6
Mr. Khalid S. Subhani	5

OUTLOOK AND CHALLENGES

In the year 2008, Engro's focus will be on flawless implementation of the significant growth initiatives in all businesses, viz., fertilizer, food, energy, chlor-vinyls, chemical storage and industrial automation. Engro has also put in place plans to continue to source and retain quality people to sustain it's growth ambitions.

Urea demand is expected to be robust whilst Phosphates demand is expected to be affected by high international prices.

The Board would like to take the opportunity to express its appreciation to the dealers, customers and employees for their dedication throughout the year. The Board also acknowledges the support and cooperation received from the Government, joint venture partners, bankers, suppliers, contractors and other stakeholders.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

February 20, 2008

key shareholding and shares traded

Information of shareholding required under reporting framework is as follows:

1.	Associated Companies, undertakings & related parties	
	Dawood Hercules Chemicals Ltd.	73,779,462
	Central Insurance Co. Ltd.	7,000,150
2.	NIT and ICP	
	National Investment Trust	972,925
	Investment Corporation of Pakistan	5,067
3.	Directors, CEO & their spouses & minor children	
	Isar Ahmad	1,150
	Hussain Dawood	139,999
	Shahzada Dawood	120,704
	Shabbir Hashmi	115
	Khalid Mansoor	66,499
	Ruhail Mohammed	29,451
	Arshad Nasar	126
	Asif Qadir	404,768
	Khalid S. Subhani	239,174
	Asad Umar	280,143
	Mrs. Kulsoom Dawood (w/o. Mr. Hussain Dawood)	122,025
	Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	16,000
4.	Executives	3,444,000
	The Company's employees, annuitants and their family members collectively hold approximately 10% shares of the Company.	
5.	Public Sector Companies & Corporations	5,722,851
6.	Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	32,213,256
7.	Shareholder holding ten percent or more voting interest in the Company	
	Dawood Hercules Chemicals Ltd.	73,779,462

8. Details of purchase/sale of shares by Directors/ Company Secretary/Chief Financial Officer and their spouses/minor children during 2007

Name	Dated	Purchase	Sale	Rate Rs./Share
Isar Ahmad	Sept. 06	150*	-	125.00
Hussain Dawood	Sept. 06	521*	-	125.00
	Nov. 11	26000**	-	255.13
	Nov. 20	100000**	-	257.24
	Nov. 21	10000**	-	252.90
Shahzada Dawood	Mar. 03	58000**	-	178.24
	Sept. 06	9626*	-	125.00
	Nov. 19	21500**	-	255.97
	Nov. 20	20400**	-	256.90
	Nov. 21	5000**	-	252.40
Shabbir Hashmi	Sept. 06	15*	-	125.00
Khalid Mansoor	Mar. 26	7400***	-	-
	Mar. 26	30700****	-	32.00
	Sept. 06	8673*	-	125.00
Ruhail Mohammed	Mar. 26	5160***	-	-
	May 05	20000****	-	32.00
	Sept. 06	3841*	-	125.00
Arshad Nasar	Sept. 06	16*	-	125.00
Asif Qadir	Mar. 26	8250***	-	-
	Mar. 26	33800****	-	32.00
	Sept. 06	24969*	-	125.00
Khalid S. Subhani	Mar. 26	7470***	-	-
	Mar. 26	31000****	-	32.00
	Sept. 06	31196*	-	125.00
Asad Umar	Mar. 26	10220***	-	-
	Mar. 26	43600****	-	32.00
	Sept. 06	36540*	-	125.00
Andalib Alavi	Mar. 26	5590***	-	-
	Mar. 26	21500****	-	32.00
	Sept. 06	6336*	-	125.00
Mrs. Kulsoom Dawood (w/o. Mr. Hussain Dawood)	Mar. 05	61500**	-	177.94
	Sept. 06	9225*	-	125.00
	Sept. 05	9000**	-	223.25
	Nov. 19	34900**	-	256.41
	Nov. 20	7400**	-	256.89
Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	Sept. 06	16000*	-	125.00

*15% Rights Shares of ECPL
**Shares purchased from Karachi Stock Exchange
***Shares donated by the ECPL Employees Trust
****Shares purchased from the ECPL Employees Trust

pattern of holding of shares

Pattern of holding of the shares held by the Shareholders of Engro Chemical Pakistan Ltd. as at December 31, 2007

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
2343	1	100	106,102
2477	101	500	723,646
1416	501	1,000	1,099,671
3008	1,001	5,000	7,349,680
882	5,001	10,000	6,272,873
334	10,001	15,000	4,095,109
175	15,001	20,000	3,045,424
113	20,001	25,000	2,550,832
90	25,001	30,000	2,493,151
57	30,001	35,000	1,860,527
44	35,001	40,000	1,659,932
24	40,001	45,000	1,019,738
37	45,001	50,000	1,769,812
23	50,001	55,000	1,206,336
20	55,001	60,000	1,157,396
30	60,001	65,000	1,873,224
16	65,001	70,000	1,074,372
17	70,001	75,000	1,241,311
18	75,001	80,000	1,394,628
9	80,001	85,000	740,979
9	85,001	90,000	797,139
8	90,001	95,000	740,569
12	95,001	100,000	1,186,054
4	100,001	105,000	405,287
6	105,001	110,000	648,433
8	110,001	115,000	900,860
3	115,001	120,000	349,428
9	120,001	125,000	1,111,175
5	125,001	130,000	637,986
3	130,001	135,000	393,915
4	135,001	140,000	551,951
2	140,001	145,000	290,000
3	145,001	150,000	442,195
2	150,001	155,000	306,451
4	155,001	160,000	630,875
2	160,001	165,000	321,670
3	165,001	170,000	506,679
3	170,001	175,000	521,025
3	175,001	180,000	532,150
2	180,001	185,000	363,400
1	185,001	190,000	186,200
1	190,001	195,000	194,925
5	195,001	200,000	995,150
1	200,001	205,000	202,683
3	205,001	210,000	622,710
3	210,001	215,000	641,305
3	215,001	220,000	649,070
3	220,001	225,000	671,311
1	225,001	230,000	228,115
1	230,001	235,000	231,500
2	235,001	240,000	479,074
1	245,001	250,000	247,300
3	250,001	255,000	752,862

Number of Shareholders	Shareholding From	To	Total Shares Held
1	255,001	260,000	258,142
1	260,001	265,000	261,100
3	270,001	275,000	822,330
3	280,001	285,000	842,501
1	295,001	300,000	300,000
1	300,001	305,000	302,689
1	305,001	310,000	307,507
2	310,001	315,000	625,487
1	315,001	320,000	317,550
1	325,001	330,000	325,312
1	335,001	340,000	339,332
3	345,001	350,000	1,046,197
1	365,001	370,000	367,332
1	375,001	380,000	378,051
2	400,001	405,000	807,768
1	415,001	420,000	415,700
2	425,001	430,000	856,199
1	450,001	455,000	454,600
2	480,001	485,000	964,638
2	515,001	520,000	1,036,136
1	520,001	525,000	525,000
1	550,001	555,000	554,580
1	580,001	585,000	583,542
1	590,001	595,000	591,718
1	610,001	615,000	612,000
1	635,001	640,000	636,429
1	640,001	645,000	641,800
1	645,001	650,000	649,500
1	660,001	665,000	661,001
1	665,001	670,000	669,000
1	705,001	710,000	709,000
1	715,001	720,000	718,750
1	740,001	745,000	743,981
1	780,001	785,000	780,400
1	830,001	835,000	834,934
1	845,001	850,000	847,500
1	850,001	855,000	854,830
1	860,001	865,000	864,978
2	875,001	880,000	1,757,847
1	895,001	900,000	899,900
1	910,001	915,000	913,004
1	940,001	945,000	945,000
1	1,065,001	1,070,000	1,067,537
1	1,120,001	1,125,000	1,123,036
1	1,150,001	1,155,000	1,150,973
1	1,320,001	1,325,000	1,323,180
1	1,415,001	1,420,000	1,417,025
1	1,680,001	1,685,000	1,682,185
1	2,105,001	2,110,000	2,108,516
1	5,670,001	5,675,000	5,672,766
1	7,000,001	7,005,000	7,000,119
1	8,645,001	8,650,000	8,646,944
1	73,775,001	73,780,000	73,779,462
11,321			**193,469,198**

Category of shareholding as at December 31, 2007

S.No.	Shareholders category	Number of shareholders	No. of shares	Percentage
1	INDIVIDUALS	10,845	49,326,196	25.50
2	INVESTMENT COMPANIES	95	19,985,261	10.33
3	INSURANCE COMPANIES	19	16,128,433	8.35
4	JOINT STOCK COMPANIES	156	77,345,073	39.98
5	FINANCIAL INSTITUTIONS	109	27,055,857	13.98
6	MODARABA COMPANIES	11	167,727	0.08
7	COOPERATIVE SOCIETIES	3	18,254	0
8	SECURITIES & EXCHANGE COMMISSION OF PAKISTAN	1	1	0.00
9	OTHERS	82	3,442,396	1.78
	TOTAL	**11,321**	**193,469,198**	**100.00**

On behalf of the Board of Directors

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

shareholder information

ANNUAL GENERAL MEETING

The annual shareholders meeting will be held at 10:30 a.m. on March 28, 2008 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of March 14, 2008 are encouraged to participate and vote.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the company at least 48 hours before the meeting time.

CDC Shareholders or their Proxies are requested to bring with them copies of their National Identity Card or passport alongwith the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

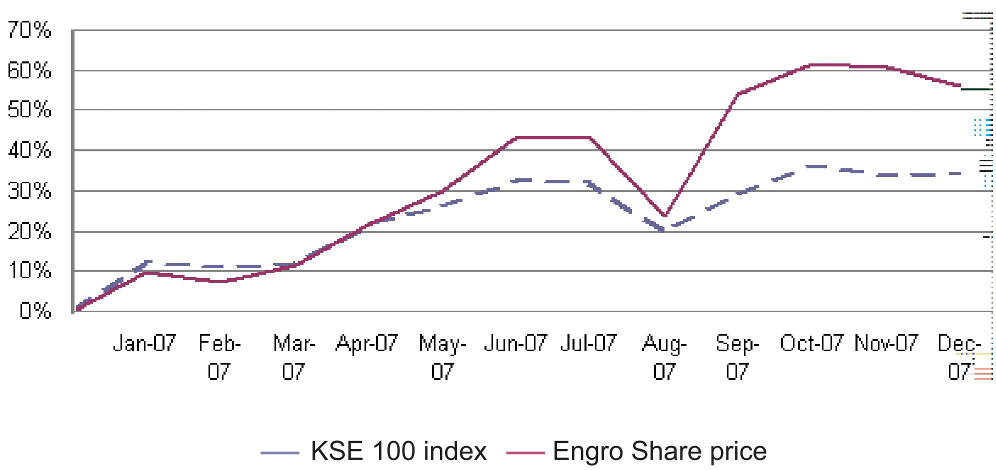
Ownership

On December 31, 2007 there were 11,321 holders on record of the Company's ordinary shares.

Dividend Payment

The proposal of the board of directors for dividend payment will be considered at the annual general meeting. Provided the proposal is approved, the dividend warrants will be sent soon thereafter to persons listed in the register of members on March 14, 2008. Income Tax will be deducted in accordance with the current regulations. Shareholders who wish to have the dividends deposited directly in their bank accounts should contact our Registrar's, M/s. Ferguson Associates (Private) Ltd.

ECPL VS. KSE 100 (2007)



Quarterly Results

Engro Chemical Pakistan Ltd. issues quaterly financial statements. The planned dates for release of the quarterly results in 2008 are:

1st quarter :	April 23
2nd quarter:	July 23
3rd quarter:	October 22

The Company holds quarterly briefings with Security Analysts to discuss the results and the business environment. These sessions are planned to be held on:

1st quarter :	April 25
2nd quarter:	July 25
3rd quarter:	October 24

All annual/quarterly reports and presentations from quarterly briefings are regularly posted at the Company's website: www.engro.com

The Company reserves the right to change any of the above dates.

Change of Address

All registered shareholders should send information on changes of address to:

M/s. Ferguson Associates (Private) Limited
4th Floor, State Life Building No. 2-A
I.I. Chundrigar Road
Karachi-74000

Statement of Compliance with the code of Corporate Governance

Review Report to the Members on Statement of Compliance with best practices of Code of Corporate Governance

Auditors' Report to the Members

Financial Statements

statement of compliance with the code of corporate governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes five independent non-executive directors and of the remaining five, who are all Executives of the Company, two have been appointed as chief executives of Engro Polymer & Chemicals Limited and Engro Energy (Private) Limited and do not therefore devote their full time to the business of the Company. Due to the diversified nature of the shareholding structure of the Company there is no single majority shareholder as such.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The Company has prepared a ‘Statement of Ethics and Business Practices’, which has been signed by all the directors and employees of the Company.

5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

6. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

7. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda, were circulated at least seven days before the meetings.

8. The Board had arranged an orientation course for its directors to apprise them of their duties and responsibilities.

9. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

10. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. The Company has complied with all the corporate and financial reporting requirements of the Code.

14. The Board has formed an audit committee. It comprises of 4 members all of whom are non-executive directors including the Chairman.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

16. The Board has set-up an effective internal audit function.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. We confirm that all other material principles contained in the Code have been complied with.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

February 20, 2008

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No.2,
Beaumont Road,
Karachi 75530 Pakistan

Telephone +92 (21) 568 5847
Fax +92 (21) 568 5095
Internet www.kpmg.com.pk

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Engro Chemicals Pakistan Limited** to comply with the Listing Regulation No. 37, 36 and Chapter VIII of the Karachi, Islamabad and Lahore Stock Exchanges respectively where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

Date: February 20, 2008
Karachi

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co.
Chartered Accountants
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Internet www.kpmg.com.pk

Auditors' Report to the Members

We have audited the annexed balance sheet of **Engro Chemical Pakistan Limited** as at 31 December 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) As more fully explained in note 1.2 to the financial statements, due to a fire at the Company's premises on 19 August 2007 certain records, documents and books of account of the Company relating to year ended 31 December 2007, 2006 and 2005 were destroyed. To date, the Company has been able to reconstruct books of account pertaining to the year ended 31 December 2007.

b) in our opinion, except for the matter referred to in paragraph a), proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

c) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

d) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 31 December 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

e) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to note 31.1 to these financial statements and as more fully explained therein, the Company has recognised the effect of acquisition of taxable losses of a subsidiary company amounting to Rs.1,051 thousand, pending designation from Securities and Exchange Commission of Pakistan as entity entitled for group relief under the Income Tax Ordinance, 2001.

KPMG Taseer Hadi & Co

Date: February 20, 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

balance sheet

as at December 31, 2007

(AMOUNTS IN THOUSAND)

	Note	2007		2006
			(Rupees)	
SHARE CAPITAL AND RESERVES				
Share Capital				
Authorized 300,000,000 (2006: 200,000,000) Ordinary shares of Rs. 10 each		3,000,000		2,000,000
Issued, subscribed and paid-up	4	1,934,692		1,682,340
Share premium	5	3,963,977		1,068,369
Hedging reserve	6	1,037,386		-
General reserve		4,429,240		4,429,240
Unappropriated profit		4,116,622		2,190,148
		13,547,225		7,687,757
		15,481,917		9,370,097
NON CURRENT LIABILITIES				
Redeemable capital	7	15,422,520		1,800,000
Deferred taxation	8	1,948,980		1,127,139
Retirement and other service benefits	9	38,560		41,165
		17,410,060		2,968,304
CURRENT LIABILITIES				
Current portion of:				
- redeemable capital	7	1,300,000		1,087,500
- other service benefits	9	18,662		16,477
- liability against asset subject to finance lease	10	-		2,321
Short term borrowings - secured	11	-		1,299,961
Trade and other payables	12	3,752,945		1,081,745
Taxation		-		72,051
Unclaimed dividends		193,067		82,360
		5,264,674		3,642,415
CONTINGENCIES AND COMMITMENTS	13			
		38,156,651		15,980,816

(AMOUNTS IN THOUSAND)

	Note	2007	2006
		(Rupees)	
NON CURRENT ASSETS			
Property, plant and equipment	14	13,811,683	6,557,603
Intangible assets	15	133,867	18,062
Long term investments	16	7,764,482	3,657,596
Long term loans, advances and other receivables	17	49,421	63,109
		21,759,453	10,296,370
CURRENT ASSETS			
Stores, spares and loose tools	18	740,873	688,568
Stock-in-trade	19	2,690,153	923,448
Trade debts	20	1,408,885	623,349
Loans, advances, deposits and prepayments	21	889,621	416,758
Other receivables	22	2,360,495	998,565
Taxation		535,699	-
Short term investments	23	6,153,948	228,518
Cash and bank balances	24	1,617,524	1,805,240
		16,397,198	5,684,446
		38,156,651	15,980,816

The annexed notes 1 to 42 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

profit & loss account
for the year ended December 31, 2007

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2007	2006
		(Rupees)	
Net sales	25	23,183,222	17,601,783
Cost of sales	26	(18,262,793)	(13,364,524)
GROSS PROFIT		4,920,429	4,237,259
Selling and distribution expenses	27	(1,641,724)	(1,481,730)
		3,278,705	2,755,529
Other income	28	1,831,260	1,338,854
Other operating charges	29	(339,430)	(287,176)
Finance cost	30	(535,023)	(362,551)
		(874,453)	(649,727)
PROFIT BEFORE TAXATION		4,235,512	3,444,656
Taxation	31	(1,080,929)	(897,330)
PROFIT AFTER TAXATION		3,154,583	2,547,326
Earnings per share - basic and diluted	32	Rs. 17.17	Rs. 14.53

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 42 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

statement of changes in equity

for the year ended December 31, 2007

(AMOUNTS IN THOUSAND)

	Share Capital	Share Premium	Hedging reserve	General reserve	Unappro-priated Profit	Total
			(Rupees)			
Balance as at January 1, 2006	1,529,400	-	-	4,429,240	1,416,926	7,375,566
Shares issued during the year in ratio of 1 for every 10 shares @ Rs. 80 per share (including share premium net of share issue cost)	152,940	1,068,369	-	-	-	1,221,309
Final Dividend for the year ended December 31, 2005 @ Rs. 5.00 per share	-	-	-	-	(764,700)	(764,700)
Total recognised income and expenses - net profit for the year ended December 31, 2006	-	-	-	-	2,547,326	2,547,326
Interim dividends:						
1st @ Rs. 3.00 per share	-	-	-	-	(504,702)	(504,702)
2nd @ Rs. 3.00 per share	-	-	-	-	(504,702)	(504,702)
Balance as at December 31, 2006	1,682,340	1,068,369	-	4,429,240	2,190,148	9,370,097
Shares issued during the year in ratio of 1.5 for every 10 shares @ Rs.125 per share (including share premium net of share issue cost)	252,352	2,895,608	-	-	-	3,147,960
Effective portion of changes in fair value of cash flow hedge - net	-	-	1,037,386	-	-	1,037,386
Profit for the year ended December 31, 2007	-	-	-	-	3,154,583	3,154,583
Total recognised income and expenses for the year December 31, 2007	-	-	1,037,386	-	3,154,583	4,191,969
Final Dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-	(504,702)	(504,702)
Interim dividends						
1st @ Rs. 2.00 per share	-	-	-	-	(336,468)	(336,468)
2nd @ Rs. 2.00 per share	-	-	-	-	(386,939)	(386,939)
Balance as at December 31, 2007	**1,934,692**	**3,963,977**	**1,037,386**	**4,429,240**	**4,116,622**	**15,481,917**

The annexed notes 1 to 42 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

cash flow statement

for the year ended December 31, 2007

(AMOUNTS IN THOUSAND)

	Note	2007	2006
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	2,803,462	2,561,033
Retirement and other service benefits paid		(102,035)	(76,445)
Financial charges paid		(237,246)	(362,558)
Taxes paid		(507,482)	(744,584)
Payment to Engro Foods Limited for acquisition of tax losses refer (note 31.1)		(428,744)	-
Long term loans and advances		13,688	2,533
Net cash inflow from operating activities		1,541,643	1,379,979
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(8,024,200)	(390,944)
Sale proceeds on disposal of property, plant and equipment		10,616	166,020
Income on deposits / other financial assets		133,395	49,269
Long term investment		(4,106,886)	(1,479,839)
Dividends received		1,619,850	966,810
Net cash (outflow) from investing activities		(10,367,225)	(688,684)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from redeemable capital		14,922,520	-
Proceeds from issue of shares (net)		3,147,960	1,221,309
Repayment of redeemable capital		(1,087,500)	(687,500)
Liabilities against asset subject to finance lease		(2,321)	(2,194)
Dividends paid		(1,117,402)	(1,769,614)
Net cash inflow / (outflow) from financing activities		15,863,257	(1,237,999)
Net increase / (decrease) in cash and cash equivalents		7,037,675	(546,704)
Cash and cash equivalents at the beginning of the year		733,797	1,280,501
Cash and cash equivalents at the end of the year	35	7,771,472	733,797

The annexed notes 1 to 42 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

notes to the financial statements
for the year ended December 31, 2007

1. STATUS AND NATURE OF BUSINESS

1.1 Engro Chemical Pakistan Limited (the Company) is a public listed company incorporated in Pakistan under Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore & Islamabad stock exchanges of Pakistan. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company also has investments in joint ventures / other entities engaged in chemical terminal and storage, PVC resin manufacturing and marketing, control and automation, food and energy businesses. During the year, the Company has acquired additional 11.67% interest in its subsidiary Engro Innovative and Automation (Private) Limited involved in control and automation business and its effective interest has reduced in another subsidiary Engro Polymer & Chemicals Limited (EPCL) [formerly Engro Asahi Polymer & Chemicals Limited] involved in manufacture, market and sale of PVC, PVC compound and other related chemicals to 65.92% by virtue of issuance of additional shares by EPCL.

The Company's registered office is situated at 4th floor, Executive Tower, Dolmen City, Block 4, Marine Drive, Clifton, Karachi-75600, Pakistan.

1.2 Significant event during the year

During the third quarter of the financial year, a fire broke out at PNSC Building, Karachi where the Head Office and registered office of the Company was located. Immediately following this event the Company launched its Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal.

Along with the Company’s offices, the fire also destroyed a substantial portion of its hard copy records related to the financial years 2005, 2006 and the period January 01, 2007 to August 19, 2007 although, electronic data remained largely intact due to the Company’s Disaster Recovery Plan. The Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the current reported financial year. Records related to the already reported financial years 2005 and 2006 have not been recreated to date.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the remeasurement of financial assets at fair value through profit or loss and derivative hedging instrument at fair value.

The fair value of interest rate swaps and forward exchange contract is based on banks' valuations. These valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates for similar instruments at the measurement date.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the Company's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in confirmity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 38.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as deduction from equity.

3.2 Financial Liabilities

Financial Liabilities include redeemable capital, liabilities against asset subject to finance lease, short-term borrowings, trade and other payables and unclaimed dividends. All financial liabilities are recognised initially at fair value less directly attributable transactions costs, if any, and subsequently measured at amortised cost using effective interest rate method.

3.3 Employee benefits

3.3.1 *Defined contribution plans*

A defined contribution plan is the post - employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.

- defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Company to the fund at rates ranging from 12.5% to 13.75% of basic salary.

3.3.2 *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than the defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method, related details of which are given in note 9 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

Contributions require assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

- The Company operates:
  - defined benefit funded pension scheme for its management employees.
  - defined benefit funded gratuity schemes for its management and non-management employees.
- The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme (note 9.2.1).
- Actuarial gains on curtailment of defined benefit pension scheme (curtailed) is recognised immediately once the certainty of recovery is established.
- The Company also operates unfunded scheme for resignation gratuity of certain management employees. Provision is made annually to cover the liability under the scheme.
- Annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Company’s employment.

3.3.3 *Employees' compensated absences*

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

3.4 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxation

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.5 Property, plant and equipment and capital work in progress

3.5.1 Owned assets

3.5.1.1 *Recognition & measurement*

- Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except freehold land and capital work in progress which are stated at cost.

- Cost includes expenditure that is directly attributable to the acquisition of the asset including borrowing costs (Note 3.17). The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

- Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipments.

- Disposal of assets is recognised when significant risks and rewards incidental to the ownership have been transferred to buyers.

- Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in profit or loss.

3.5.1.2 *Subsequent costs*

The costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as they are incurred.

3.5.2 Leased assets

- Leases in terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Outstanding obligations under the lease less finance cost allocated to future periods are shown as a liability.

- Finance cost under lease agreements are allocated to the periods during the lease term so as to produce a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

3.5.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over estimated useful lives of property, plant and equipment. Depreciable amount represents cost less estimated residual value, if any. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Company will obtain ownership by the end of lease term. Depreciation on additions is charged from the month following the one in which the asset is available for use and on disposal upto the month the asset is in use. Freehold land is not depreciated. The rates of depreciation are stated in note 14.

Depreciation method, useful lives and residual values are reviewed annually.

3.5.4 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. The assets (or disposal group) are measured at lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

3.6 Intangible assets

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs associated with maintaining computer software products are recognised as an expense as incurred.

3.7 Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. If any such indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversal of impairment losses are recognized in the profit and loss account. Reversal of impairment loss is restricted to the original cost of the asset.

3.8 Investments

Subsidiaries and joint venture companies

Investments in subsidiary and joint venture companies are initially recognised at cost. At subsequent reporting dates , the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognised as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognised in the profit and loss account.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. These are recorded at amortised cost using the effective interest method, less any amounts written off to reflect impairment.

Financial assets at fair value through profit or loss

An instrument is classified as 'fair value through profit or loss' if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the profit and loss account when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the profit and loss account.

Regular way purchases and sales of investments are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the investment.

Investments are treated as current assets where the intention is to hold the same for less than twelve months from the balance sheet date. Otherwise investments are treated as long term assets.

Available for sale investments

These are initially recognised at fair value plus directly attributable acquisition cost and at subsequent reporting dates measured at fair values. Gains or losses from changes in fair values are taken to equity until disposal at which time these are included in profit and loss account.

3.9 Stores, spares and loose tools

Stores, spares and loose tools are valued at weighted average cost except for items in transit which are stated at cost incurred upto the balance sheet date. For items which are slow moving and / or identified as surplus to the Company's requirements, adequate provision is made for any excess book value over estimated realizable value. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

3.10 Stock-in-trade

Stock in trade is valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material in transit which are stated at cost. Cost includes applicable purchase cost and manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.11 Financial assets other than investments

Financial assets includes trade debts, other receivables and loans, advances and deposits. These are recognised initially at fair value plus directly attributable transaction costs, if any and subsequently measured at amortised cost using effective interest rate method less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

3.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost or fair value as applicable. For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, balance with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts / short term borrowings that are repayable on demand and form an integral part of the Company's cash management.

3.13 Derivative financial instruments and hedging

Derivatives that do not qualify for hedge accounting are recognised in the balance sheet at fair value with corresponding effect to profit and loss. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

Changes in the fair value of the derivative hedging instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective and any remaining changes in the fair value are recognised in the profit and loss account.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

3.14 Foreign currency translation

Transactions in the foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at rates of exchange prevailing at the balance sheet date. Foreign exchange differences are recognised in the profit and loss account.

3.15 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Company has a legally enforceable right to offset the recognised amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.16 Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and is reduced for marketing allowances.

- Sales revenue is recognised when product is despatched to customers.

- Income on deposits and other financial assets is recognised on accrual basis

- Dividend income from investments is recognised when the Company’s right to receive payment has been established.

3.17 Borrowing costs

Borrowing costs attributable to the construction / acquisition of qualifying assets are capitalized. All other borrowing costs are recognised as an expense in the period in which these are incurred.

3.18 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.19 Research and development costs

Research and development costs are charged to income as and when incurred.

3.20 Government grant

Government grant that compensates the Company for expenses incurred is recognised in the profit and loss account on a systematic basis in the same period in which the expenses are recognised. Government grants are deducted in reporting the related expense.

3.21 Dividends and reserve appropriation

Dividends and reserve appropriations are recognized as a liability in the period in which these are declared / approved.

3.22 Transactions with related parties

Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

3.23 Initial application of a Standard or an Interpretation

Amendment to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 36.3 to the financial statements.

3.24 Standard or an Interpretation not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009)

- Revised IAS 23 - Borrowing costs (effective from 1 January 2009)

- IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

- IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)

- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)

- IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008)

(AMOUNTS IN THOUSAND)

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2007	2006		2007	2006
(Numbers)			(Rupees)	
80,881,119	55,646,007	Ordinary shares of Rs. 10 each fully paid in cash	808,812	556,460
112,588,079	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	1,125,880	1,125,880
193,469,198	168,234,086		1,934,692	1,682,340

4.1 Movement during the year

2007	2006		2007	2006
168,234,086	152,940,079	At January 1,	1,682,340	1,529,400
25,235,112	15,294,007	Ordinary shares of Rs 10 each issued during the year ended December 31 as fully paid right shares	252,352	152,940
193,469,198	168,234,086		1,934,692	1,682,340

4.2 Associated companies held 80,779,612 (2006: 70,243,141) ordinary shares in the Company at year end.

4.3 During the year the Company announced 'Employee Share Option Scheme' to grant options to purchase ordinary shares of the Company to its employees (Note 9.9).

5. SHARE PREMIUM

	2007	2006
	(Rupees)	
Balance as at January 01,	1,068,369	-
Shares issued during the year at the premium of Rs.115 (2006: Rs 70) per share (note 4.1)	2,902,038	1,070,581
Less: issue cost	(6,430)	(2,212)
Balance as at December 31,	3,963,977	1,068,369

(AMOUNTS IN THOUSAND)

6. HEDGING RESERVE

Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

During the first half of the year the Company purchased currency option contracts having a cost of Rs. 360,485 for a tenure of six months to hedge its Euro-Dollar currency exposure of Euros 342,620 representing the anticipated outflows for the Urea Expansion Project. On maturity, these contracts were restructured into forward exchange contracts for the remaining balance of commitments in Euros and any realised amounts were netted from the costs of these options included in the balance of hedging reserve.

At year end the Company had forward exchange contracts to purchase Euros 297,399 at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts amounted to USD 32,642 at the year end.

7. REDEEMABLE CAPITAL
Secured (Non-participatory)

Long term finance utilised under mark-up arrangements:

	Note ref.	Mark - up rate p.a.	Instalments Number	Instalments Commencing from	Unavailed credit As at year end	2007	2006
					(Rupees)		
National Bank of Pakistan		6 months T bills rate + 1.05%	2 half yearly	December 15, 2006	-	-	200,000
National Bank of Pakistan		6 months T bills rate +1.05 %	8 half yearly	June 17, 2004	-	-	87,500
United Bank Limited		6 months T bills rate +1 %	5 half yearly	September 30, 2006	-	368,000	736,000
MCB Bank Limited		6 months T bills rate +1 %	5 half yearly	September 30, 2006	-	272,000	544,000
Standard Chartered Bank		6 months T bills rate +1 %	5 half yearly	September 30, 2006	-	160,000	320,000
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	November 1, 2009	-	600,000	600,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 12, 2010	-	400,000	400,000
Habib Bank Limited		6 months KIBOR + 1.75%	8 half yearly	March 30, 2014	-	1,000,000	-
Allied Bank Limited		6 months KIBOR + 1.75%	8 half yearly	June 25, 2014	-	2,000,000	-
Askari Bank Limited		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	200,000	50,000	-
Citibank N.A. Pakistan		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	400,000	100,000	-
The Hongkong and Shanghai Banking Corporation		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	-	250,000	-
Standard Chartered Bank		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	400,000	100,000	-
National Bank of Pakistan		6 months KIBOR + 1.75%			1,500,000	-	-
Syndicated finance	7.2	6 months KIBOR + 1.8%			18,300,000	-	-
Islamic offshore finance	7.3	6 months LIBOR + 2.57%			9,150,000	-	-
DFI Consortium finance	7.4	6 months LIBOR + 2.6%			5,185,000	-	-
Certificates							
Term Finance Certificates	7.5	6 months KIBOR + 1.55%				3,972,271	-
Sukuk Certificates	7.6	6 months KIBOR + 1.5%				2,980,345	-
Subordinated Term Finance Certificates	7.7	6 months KIBOR + 1.7%				4,469,904	-
						16,722,520	2,887,500
Less: Current portion shown under current liabilities						1,300,000	1,087,500
						15,422,520	1,800,000

(AMOUNTS IN THOUSAND)

7.1 The Company has entered into long term finance agreements with Habib Bank Limited, Allied Bank Limited, Citi Bank N.A. Pakistan, Askari Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, National Bank of Pakistan and Standard Chartered Bank (Pakistan) Limited aggregating to Rs. 6,000,000.

7.2 The Company has entered into a syndicated finance agreement with Allied Bank Limited, Bank Alfalah Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Standard Chartered and United Bank Limited amounting to Rs.18,300,000 at 6 months KIBOR + 1.8%.

7.3 The Company has also entered into an offshore Islamic Finance Facility Agreement of US$ 150,000 with Citi Bank, Dubai Islamic Bank, Habib Bank Limited, National Bank of Pakistan, SAMBA Financial Group and Standard Chartered Bank with mark-up at the rate 2.57% over 6 months LIBOR.

7.4 The Company has also entered into an agreement amounting to US$ 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID with mark-up at the rate 2.6% over 6 months LIBOR.

7.5 The Company issued secured and listed Term Finance Certificates (TFCs) of Rs. 4,000,000. The TFCs are structured to redeem 0.28% of principal in the first 84 months and remaining 99.72% principal in two equal semi-annual instalments.

7.6 The Company has issued privately placed Sukuk Certificates based on diminishing Musharika amounting to Rs. 3,000,000. The principal amount is payable after seven years in two semi-annual equal instalments.

7.7 The Company, during the year, initiated the process of issuing sub-ordinated listed TFCs for Rs. 6,000,000 and received pre-IPO disbursement of Rs. 4,500,000 in this respect. The TFCs are perpetual in nature with a five year call and ten year put option. Subsequently the management has decided to issue unlisted TFCs and pre-IPO subscribers have been offered an option to receive back the amounts paid if they decide not to subscribe to the unlisted TFCs. Till date subscribers for Rs. 4,000,000 have confirmed their acceptance of the revision in the structure of the TFCs.

7.8 The above finances, excluding perpetual subordinated TFCs, are secured by an equitable mortgage upon the immovable property of the Company located at Daharki and hypothecation charge over current and future fixed assets of the Company. Perpetual subordinated TFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

7.9 In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these financial statements.

7.10 The above loans are being utilised for urea expansion project, base business operations and diversification initiatives.

7.11 The Company had entered into an interest rate swap agreement with Citi Bank N.A. Pakistan in 2005 to manage its interest rate exposure on floating rate borrowing for a notional amount of Rs. 400,000 (2006: Rs 800,000), amortizing upto September 2008. Under the swap arrangement, the Company would receive average of last three cut-off yields of six months Government Treasury Bills from Citi Bank N.A. Pakistan on notional amount and pay fixed 5.47% (2006: 5.47%) which will be settled semi-annually. The Company has the option of unwinding whole or part of the swap transaction at any semi-annual settlement date with prior notice to the bank. Fair value of the interest rate swap at the year end amounted to Rs 10,225.

7.12 The Company had entered into a matching swap in 2005 with United Bank Limited, effective from March 2006 to perfectly offset the earlier swap of Citi Bank N.A. Pakistan. Under this arrangement, the Company will pay average of last three cut-off yields of six months Government Treasury Bills on notional amount of Rs. 400,000 (2006: 800,000) and receive fixed at 9.5% (2006: 9.5%) which will be settled semi-annually. Fair value of the matching swap at the year end amounted to Rs 1,223.

(AMOUNTS IN THOUSAND)

8. DEFERRED TAXATION

	2007	2006
	(Rupees)	
Credit / (debit) balances arising on account of:		
- Accelerated depreciation allowance	1,161,384	1,155,821
- Net borrowing costs capitalised	128,079	-
- Fair Value of forward exchange contract	691,590	-
- Provision for - retirement benefits	(20,028)	(20,175)
- slow moving stores and spares / doubtful receivables	(7,487)	(4,383)
- Others	(4,558)	(4,124)
	1,948,980	1,127,139

9. RETIREMENT AND OTHER SERVICE BENEFITS

	2007	2006
Retirement benefits:		
Opening (receivable)/payable	(69,192)	3,945
Reversal of expense - net (note 9.4)	(10,010)	(107,905)
Amounts received	62,225	34,768
Closing receivable	(16,977)	(69,192)
Less: receivable from Pension Fund (note 22)	(17,629)	(73,120)
	652	3,928
Other service benefit plan	56,570	53,714
Less: Current portion shown under current liabilities	18,662	16,477
	37,908	37,237
	38,560	41,165

9.1 The amounts recognised in the balance sheet relating to retirement benefits are as follows:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded	Total
		(Rupees)		
Present value of funded obligation	358,974	228,681	-	587,655
Fair value of plan assets	(438,769)	(245,039)	-	(683,808)
Surplus	(79,795)	(16,358)	-	(96,153)
Present value of unfunded obligations	-	-	652	652
Unrecognised actuarial gain	62,166	16,358	-	78,524
Net (asset) / liability at the end of the year	(17,629)	-	652	(16,977)

9.2 Movement in net (asset) / liability recognised:

Net (asset) / liability at the beginning of the year	(73,120)	-	3,928	(69,192)
(Reversal)/expense recognised	(17,629)	7,619	-	(10,010)
Amount received / (paid) to the Fund	73,120	(7,619)	(3,276)	62,225
Net (asset) / liability at the end of the year	(17,629)	-	652	(16,977)

(AMOUNTS IN THOUSAND)

9.2.1 During the year the company recognised a gain of Rs.17,629 (2006: 113,047) on curtailed defined benefit plan. In 2005, the Company had setup a Defined Contribution Pension Scheme known as Engro Chemical Pakistan Limited MPT Employees Defined Contribution Pension Fund (the Fund) for the benefit of management employees. Employees joining the Company from July 1, 2005 onwards were to become members of the new Fund. Members of the then existing pension fund (a defined benefit plan) were given a one-time option exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005.

9.3 Movement in Plan assets

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Opening balance	485,243	237,624	-
Return on plan assets	47,295	22,737	-
(Repayment) / Company contribution during the year	(73,120)	7,619	-
Benefits paid during the year	(26,256)	(17,264)	-
Assets gain	5,607	(5,677)	-
Closing balance	438,769	245,039	-

9.4 The following amounts have been charged in the profit and loss account in respect of retirement benefit schemes.

	2007	2006
	(Rupees)	
Defined benefit plans		
Current service cost	13,047	11,799
Interest cost	51,741	46,554
Expected return on plan assets	(52,403)	(51,954)
Recognition of curtailment gain	(17,629)	(113,047)
Net actuarial gain recognised in current year	(4,766)	(1,257)
	(10,010)	(107,905)
Defined contribution plans	81,230	69,025

9.5 Expected future cost for the year ending December 31, 2008

- for MPT Pension Fund Rs.(10,012)
- for MPT Gratuity Fund Rs. 6,128
- for non-MPT Gratuity Fund Rs. 7,472

9.6 Principal actuarial assumptions

Projected unit credit method, based on the following significant assumptions, was used for valuation of the schemes mentioned above:

- discount rate at 10% (2006: 10%) per annum;
- expected long term rate of increase in salaries for employees at 10% (2006: 10%) per annum, in case of Non-management employees long range rate is 9% (2006: 9%) ;
- expected post retirement pension increase rate at 6% (2006: 6%) per annum; and
- expected long term rate of return on investment at 10% (2006: 10%) per annum.

(AMOUNTS IN THOUSAND)

9.7 Plan assets:

	Defined Benefit Pension Plan Funded		Defined Benefit Gratuity Plan Funded		Total	
	2007	2006	2007	2006	2007	2006
	------------(Rupees)------------					
Debts	144,159	481,893	97,744	94,292	241,903	576,185
Cash	203	3,350	15,326	69,503	15,529	72,853
Others	294,407	-	131,969	73,829	426,376	73,829
	438,769	**485,243**	**245,039**	**237,624**	**683,808**	**722,867**

9.8 Historical information of staff retirement benefits:

	2007	2006	2005	2004	2003
Present value of obligations	(587,655)	(536,209)	(538,407)	(962,105)	(819,966)
Fair value of plan assets	683,808	722,867	605,797	916,654	658,795
Surplus / (deficit)	**96,153**	**186,658**	**67,390**	**(45,451)**	**(161,171)**

9.9 Share based payment transactions

The Company has announced ownership-based compensation scheme namely “Employee Share Option Scheme (ESOS)” for executives and senior employees of the Company as per the guidelines contained in the Public Companies (Employee Stock Option Scheme) Rules, 2001. In accordance with the provisions of the plan, as approved by shareholders at an Extraordinary General Meeting held on August 23, 2007, senior employees who are critical to the business operations will be granted options to purchase ordinary shares at an exercise price of Rs. 277 per ordinary share. The total number of options that may be granted are for five million newly issued shares.

The number of options granted is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Remuneration Committee.

No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Vesting period shall begin from the date when the scheme is cleared by SECP and shall end on December 31, 2010, where after the options can be exercised.

No amount has been recognised in the current financial statements as clearance from SECP has not been received.

10. LIABILITY AGAINST ASSET SUBJECT TO FINANCE LEASE

The Company entered into a lease agreement with a financial institution for lease of a vehicle. The liability under this agreement was paid by the year ended December 31, 2007. This facility was subject to finance charge at the rate of 6% (2006: 6%) per annum used as discount factor. The Company has exercised its option to purchase the leased vehicle for Rs. 50 upon completion of the lease period.

11. SHORT TERM BORROWINGS - Secured

The facility for short term running finance available from various banks amounts to Rs. 3,000,000 (2006: Rs. 3,000,000).

The rates of mark-up range from 10.50% to 11.00% (2006: 10.07% to 11.53%) and the facilities are secured by floating charge upon all current and future moveable property of the Company.

(AMOUNTS IN THOUSAND)

12. TRADE AND OTHER PAYABLES

	2007	2006
	(Rupees)	
Creditors (note 12.1)	1,650,988	508,859
Payable to Engro Foods Limited (a subsidiary company) for taxable losses acquired (note 31.1)	622,103	-
Accrued liabilities	434,762	341,516
Payable to defined contribution pension fund	8,703	3,764
Advances from customers	435,008	40,253
Financial charges accrued on secured		
- redeemable capital and long term loans	378,139	54,895
- short term borrowings	7,821	33,288
Deposits from dealers refundable on termination of dealership	10,543	10,222
Contractors' deposits and retentions	15,420	5,618
Workers' profits participation fund (note 12.2)	3,747	-
Workers' welfare fund	86,924	70,216
Sales tax payable	91,502	-
Other	7,285	13,114
	3,752,945	1,081,745

12.1 This includes payable of Rs.1,192,935 (2006: Rs. Nil) to Engro Eximp (Private) Limited (a wholly owned subsidiary).

12.2 Workers' profits participation fund

	2007	2006
	(Rupees)	
(Receivable) / Payable at the beginning of the year	(3,222)	6,716
Interest on funds utilised in the Company's business (note 30)	-	470
Allocation for the year (note 29)	228,747	184,778
Less: Amount paid to the Trustees of the Fund	(221,778)	(195,186)
Payable / (Receivable) to the fund	3,747	(3,222)

13. CONTINGENCIES AND COMMITMENTS

Contingencies

13.1 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 27,911 (2006: Rs. 48,911).

13.2 Corporate guarantees of Rs. 341,750 (2006: Rs. 304,732) have been issued to banks in favour of subsidiary companies.

13.3 Bank guarantee of Rs. 105,290 (2006: Rs. 670,500) have been issued in favour of third parties.

13.4 The Company is contesting the penalty of Rs. 99,936 (2006: Rs. 99,936) paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 (2006: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

13.5 The Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Company Rs. 47,800 (2006: Rs. 47,800) and it is hoped that the award for the earlier years will be announced shortly. The award for the second arbitration has not been recognised due to inherent uncertainties arising from its challenge in the High Court.

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
Commitments		
13.6 Plant and machinery	37,186,937	74,795
13.7 Capital commitment for future rights for Gas utilisation	-	101,000
13.8 Commitments to subscribe Nil (2006: 2,700,000) shares of Engro Energy (Private) Limited	-	27,000

14. PROPERTY, PLANT AND EQUIPMENT

	2007	2006
Operating assets (note 14.1)	5,975,622	6,299,832
Capital work in progress (note 14.5)	7,836,061	257,771
	13,811,683	6,557,603

14.1 Operating assets

	Land		Building		Plant and	Plant and	Catalyst	Furniture	Vehicles		Total
	Freehold	Leasehold	Freehold	Leasehold	Machinery	Machinery Held for Disposal		Fixtures and Equipments	Own	Leased	
						(Rupees)					
As at January 1, 2006											
Cost	12,820	187,396	534,377	273,833	9,364,735	151,395	215,131	381,013	170,442	6,600	11,297,742
Accumulated depreciation	-	(41,575)	(221,590)	(31,697)	(4,065,320)	(126,087)	(124,984)	(257,082)	(99,094)	(1,650)	(4,969,079)
Net book value	12,820	145,821	312,787	242,136	5,299,415	25,308	90,147	123,931	71,348	4,950	6,328,663
Year ended December 31, 2006											
Opening net book value	12,820	145,821	312,787	242,136	5,299,415	25,308	90,147	123,931	71,348	4,950	6,328,663
Additions	-	-	44,634	58,893	363,720	-	77,890	24,298	69,794	-	639,229
Disposals / transfers*											
Cost	-	(20,520)	-	-	(6,706)	(151,395)*	-	(13,650)	(24,206)	-	(216,477)
Accumulated depreciation	-	4,984	-	-	1,780	126,087*	-	12,395	17,219	-	162,465
	-	(15,536)	-	-	(4,926)	(25,308)*	-	(1,255)	(6,987)	-	(54,012)
Depreciation charge	-	(3,947)	(21,657)	(9,169)	(463,994)	-	(40,785)	(47,656)	(25,520)	(1,320)	(614,048)
Net book value	12,820	126,338	335,764	291,860	5,194,215	-	127,252	99,318	108,635	3,630	6,299,832
As at January 1, 2007											
Cost	12,820	166,876	579,011	332,726	9,721,749	-	293,021	391,661	216,030	6,600	11,720,494
Accumulated depreciation	-	(40,538)	(243,247)	(40,866)	(4,527,534)	-	(165,769)	(292,343)	(107,395)	(2,970)	(5,420,662)
Net book value	12,820	126,338	335,764	291,860	5,194,215	-	127,252	99,318	108,635	3,630	6,299,832
Year ended December 31, 2007											
Opening net book value	12,820	126,338	335,764	291,860	5,194,215	-	127,252	99,318	108,635	3,630	6,299,832
Additions	9,281	-	13,090	-	104,129	-	33,387	43,912	93,079	-	296,878
Disposals / transfers*											
Cost	-	-	-	-	-	151,394 *	-	(63,541)	(16,728)	(6,600)	71,125
Accumulated depreciation	-	-	-	-	-	(126,087) *	-	51,865	6,600 8,670 (4.290)	4,290	(65,552)
	-	-	-	-	-	25,307	-	(11,676)	(5,748)	(2,310)	5,573
Depreciation charge	-	(3,567)	(22,608)	(8,348)	(462,114)	-	(53,059)	(40,153)	(35,492)	(1,320)	(626,661)
Net book value	22,101	122,771	326,246	283,512	4,836,230	25,307	107,580	91,401	160,474	-	5,975,622
As at December 31, 2007											
Cost	22,101	166,876	592,101	332,726	9,825,878	151,394	326,408	372,032	298,981	-	12,088,497
Accumulated depreciation	-	(44,105)	(265,855)	(49,214)	(4,989,648)	(126,087)	(218,828)	(280,631)	(138,507)	-	(6,112,875)
Net book value	22,101	122,771	326,246	283,512	4,836,230	25,307	107,580	91,401	160,474	-	5,975,622
Annual rate of depreciation %	-	2 to 5	2.5 to 10	2.5	5 to 10	Nil	20 to 33.33	10 to 25	12 to 25	20	

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
14.2 Depreciation and amortisation have been allocated as follows:		
Depreciation for the year (note 14.1)	626,661	614,048
Amortisation for the year (note 15)	7,920	8,895
	634,581	622,943
Cost of sales (note 26)	609,473	599,855
Selling and distribution expenses (note 27)	25,108	23,088
	634,581	622,943

14.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs.48,236 in prior years in respect of first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favour of the Company. The Department filed an appeal in the Supreme Court. During the year ended December 31, 2005, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgement in Comapny's favour. Payments totalling Rs.22,207 made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Company, for which an application has been filed with the Department and disclosed as receivable (note 22).

14.4 Particulars of disposal of fixed assets

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
			(Rupees)		
Vehicles					
By Company policy to existing/separating executives	Mr. Dr. Muzaffar Ahmad Khan	735	518	217	333
	Mr. M. Asif Sultan Tajik	769	654	115	115
	Mr. Asad Umar	1,169	877	292	292
	Mr. Abdul Samad Khan	945	772	173	473
	Mr. M. Asif Sultan Tajik	1,499	46	1,453	1,313
	Mr. R.B. Baloch	560	376	184	184
	Mr. Dr. Mohammad Ali Khadim	849	567	282	212
	Mr. Farooq Nazim Shah	886	125	761	775
	Mr. Ahmad Shakoor	900	127	773	802
	Mr. Syed Mohammad Ali	735	502	233	375
	Mr. Andalib Alavi	1,268	844	424	317
	Mr. Syed Hasan Riaz Bokhari	849	621	228	140
	Mr. Rameez Ahmad Faraz	795	528	267	380
	Mr. Mudassar Y. Rathore	849	550	299	212
	Mr. Fahd Khawaja	900	155	745	738
	Mr. Syed Abul Fazal Rizvi	795	408	387	521
	Mr. Syed Muzammil Raza	835	261	574	835
Insurance claim	New Hampshire Insurance Co	835	240	595	750
	New Hampshire Insurance Co	555	499	56	350
		16,728	8,670	8,058	9,117
Furniture, fixtures & equipment and Plant & machinery					
Assets written-off/ insurance claim (note 14.4.1)		58,958	47,596	11,362	873
Items having net book value upto Rs.50		4,583	4,269	314	626
		63,541	51,865	11,676	1,499
	2007	**80,269**	**60,535**	**19,734**	**10,616**
	2006	65,082	36,378	28,704	166,020

14.4.1 Assets written off primarily represent assets destroyed by fire incident (note 1.2).

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
14.5 Capital work - in progress		
Plant and machinery	5,924,183	193,565
Building and civil works	1,841,674	17,057
Furniture, fixture and equipment	50,116	35,719
Advances to suppliers	20,088	11,430
	7,836,061	257,771

14.5.1 Capital work in progress includes Rs. 5,731,734 and Rs. 1,799,678 with respect to urea expansion project for plant and machinery and building and civil works respectively. The planned expansion project will cost an approximate US $ 1,000,000 and will have a capacity of 1.3 million tons of urea per annum.

14.5.2 Capital work in progress also includes net borrowing costs capitalised amounting to Rs. 326,637.

15. INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilisation	2007	2006
		(Rupees)		
At January 01,	90,899	-	90,899	85,560
Addition	21,413	102,312	123,725	5,339
At December 31,	112,312	102,312	214,624	90,899
Amortisation				
At January 01,	72,837	-	72,837	63,942
Charge for the year	7,920	-	7,920	8,895
At December 31,	80,757	-	80,757	72,837
Net book value at December 31,	31,555	102,312	133,867	18,062

15.1 Rights for future gas utilisation represent premium paid to the Government of Pakistan for allocation of 100 MMCFD natural gas from Qadirpur gas field at a predetermined price for a period of ten years.

16. LONG TERM INVESTMENTS

	2007	2006
	(Rupees)	
Unquoted		
Subsidiary companies - at cost (note 16.1)	7,309,482	3,202,596
Joint venture company - at cost Engro Vopak Terminal Limited 45,000,000 Ordinary shares of Rs. 10 each equity held 50% (2006: 50%)	450,000	450,000
Others - at cost Arabian Sea Country Club Limited 500,000 Ordinary shares of Rs. 10 each	5,000	5,000
Agrimall (Private) Limited (16.2)	-	-
	7,764,482	3,657,596

(AMOUNTS IN THOUSAND)

16.1 Subsidiary companies

Name of the Company and description of interest	2007 Equity % held	2007 Investment at cost (Rupees)	2006 Equity % held	2006 Investment at cost (Rupees)
Engro Eximp (Private) Limited 10,000 Ordinary shares of Rs. 10 each	100	100	100	100
Engro Management Services (Private) Limited 250,000 Ordinary shares of Rs. 10 each	100	2,500	100	2,500
Engro Foods Limited - 220,000,000 (2006: 100,000,000) Ordinary shares of Rs. 10 each	100	2,200,000	100	1,000,000
- Advance against issue of share capital		200,000		602,500
Engro Energy (Private) Limited - 165,272,500 (2006: 1,500,000) Ordinary shares of Rs. 10 each	100	1,652,725	100	15,000
- Advance against issue of share capital		25,000		83,000
Engro Polymer & Chemicals Limited (formerly Engro Asahi Polymer & Chemicals Limited) 292,400,000 (2006: 142,400,000) Ordinary shares of Rs. 10 each (note 16.1.1)	65.92	2,847,200	80	1,417,539
Engro Innovative Automation (Private) Limited 25,066,667 (2006: 1,020,000) Ordinary shares of Rs. 10 each (note 16.1.2)	62.67	381,957	51	81,957
		7,309,482		3,202,596

16.1.1 Reconciliation of investment in Engro Polymer & Chemicals Limited (EPCL) [formerly Engro Asahi Polymer & Chemicals Limited].

	2007	2006
	(Rupees)	
Cost as at 01 January 142,400,000 (2006: 890,000) ordinary shares of Rs. 10 each	1,417,539	890,000
Acquired 150,000,000 (2006: 53,400,000) shares of Rs. 10 each	1,500,000	534,000
Stamp duty charges paid	-	8,010
Pre-acquisition dividend	(70,339)	(14,471)
	2,847,200	1,417,539

Subsequent to year end, percentage of equity held in EPCL has further been reduced to 56.19% from 65.92% due to issuance of fresh equity by EPCL.

(AMOUNTS IN THOUSAND)

16.1.2 Reconciliation of investment in Engro Innovative Automation (Private) Limited:

	2007	2006
	(Rupees)	
Cost as at 01 January 1,020,000 (2006: 1,020,000) ordinary shares of Rs. 10 each	81,957	81,957
Issue of Bonus Shares 4,080,000 (2006: NIL) ordinary shares of Rs. 10 each	-	-
Acquired 19,966,667 (2006: NIL) shares of Rs. 10 each	300,000	-
	381,957	81,957

16.2 This represents the Company's share in the paid-up share capital of the investee transferred free of cost to the Company under a joint venture agreement.

16.3 Value of the above investments, based on the net assets of the investee companies as at December 31 was as follows:

	2007	2006
	(Rupees)	
Engro Eximp (Private) Limited	517,784	19,247
Engro Management Services (Private) Limited	2,504	2,399
Engro Foods Limited [including advance against equity amounting to Rs. 200,000 (2006: Rs. 602,500)]	1,335,884	1,158,317
Engro Energy (Private) Limited [including advance against equity amounting to Rs. 25,000 (2006: Rs. 83,000)]	1,578,937	6,102
Engro Innovative Automation (Private) Limited	148,313	71,131
Engro Vopak Terminal Limited	488,202	469,536
Engro Polymer & Chemicals Limited (formerly Engro Asahi Polymer & Chemicals Limited)	4,108,122	1,638,824
Arabian Sea Country Club Limited (June 30)	4,679	4,924
Agrimall (Private) Limited (June 30)	(4,093)	(4,054)

17. LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLES - Considered good

	2007	2006
Long term loans		
Executives (notes 17.1 and 17.2)	79,385	77,163
Other employees (note 17.2)	10,038	16,728
	89,423	93,891
Less: Instalments recoverable within twelve months (note 21)	40,002	41,782
Fair value of interest rate Swaps	11,448	37,000
Less: Current portion (note 22)	11,448	26,000
	-	11,000
	49,421	63,109

(AMOUNTS IN THOUSAND)

17.1 Reconciliation of the carrying amount of loans and advances to Executives

	2007	2006
	(Rupees)	
Balance at the beginning of the year	77,163	57,182
Disbursements	46,429	63,985
Repayments	(44,207)	(44,004)
Balance at the end of the year	79,385	77,163

17.2 This includes interest free services incentive loans to executives of Rs. 46,733 (2006: Rs. 40,923) repayable in equal monthly instalments over a three years period or in one lump sum at the end of such period and interest free loans given to workers of Rs. 10,038 (2006: Rs. 16,728) pursuant to Collective Labour Agreement. It also includes advances of Rs. 7 (2006: Rs. 161), Rs. 25,722 (2006: Rs. 29,611) and Rs. 6,923 (2006: Rs. 6,468) to employees for purchase of Company's shares, car earn out assistance and house rent advance respectively.

17.3 The maximum amount outstanding at the end of any month from the executives aggregated Rs. 92,346 (2006: Rs. 88,191).

18. STORES, SPARES AND LOOSE TOOLS

	2007	2006
	(Rupees)	
Consumable stores	114,888	84,595
Spares	644,134	614,846
Loose tools	3,241	2,966
	762,263	702,407
Less: Provision for surplus and slow moving items	21,390	13,839
	740,873	688,568

19. STOCK-IN-TRADE

	2007	2006
Raw materials	607,785	323,306
Work-in-process	7,952	3,644
Finished goods - own manufactured product	397,129	163,202
- purchased product	1,677,287	433,296
	2,074,416	596,498
	2,690,153	923,448

20. TRADE DEBTS

	2007	2006
Considered good		
Secured	1,372,804	545,307
Unsecured	36,081	78,042
	1,408,885	623,349
Considered doubtful	8,159	7,923
	1,417,044	631,272
Less: Provision for doubtful debts	8,159	7,923
	1,408,885	623,349

(AMOUNTS IN THOUSAND)

21. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2007	2006
	(Rupees)	
Current portion of long term loans and advances to executives and other employees - considered good (note 17)	40,002	41,782
Sub-ordinated loan to Engro Eximp (Private) Limited (note 21.1)	190,000	190,000
Advances and deposits	158,669	109,513
Transaction costs paid for unavailed financing facilities (note 21.2)	295,300	-
Prepaid insurance	174,479	60,116
Prepayments	35,692	18,426
	894,142	419,837
Less: Provision for doubtful receivables	4,521	3,079
	889,621	416,758

21.1 The loan carries mark-up at rates not being lower than the mark up payable by the Company for ordinary commercial finance of like maturities, presently at 10.9% per annum (2006: 10.5% per annum).

The loan approved by the Company's shareholders in Annual General Meeting is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable on demand, taking into account the financing requirements of the subsidiary. Due to the nature of the transaction the sale and repurchase of underlying assets has not been recorded in the financial statements.

21.2 During the year the Company has entered into financing arrangements with various institutions for availing finances but the loan draw downs were not completed till the year end (note 7). Transaction costs relating to such finances has been classfied as prepayments.

(AMOUNTS IN THOUSAND)

22. OTHER RECEIVABLES

	2007	2006
	(Rupees)	
Receivable from Government for:		
- customs duty and sales tax (note 14.3)	22,207	22,207
- grant receivable from Government of Pakistan (note 22.1)	151,222	645,248
- others	13,560	13,560
	186,989	681,015
Accrued income on deposits / bonds	32,177	3,075
Receivable from Pension fund (note 9)	17,629	73,120
Workers' profits participation fund (note 12.2)	-	3,222
Sales tax refundable	-	14,817
Current portion of fair value of Interest Rate Swap (note 17)	11,448	26,000
Fair Value of Forward Exchange Contract (note 6)	2,002,572	-
Due from:		
- Subsidiary companies		
- Engro Eximp (Private) Limited	-	25,987
- Engro Foods Limited	1,395	46
- Engro Polymer & Chemicals Limited (formerly Engro Asahi Polymer & Chemicals Limited)	1,052	38,852
- Engro Energy (Private) Limited	1,133	14
- Engro Innovative Automation (Private) Limited	553	10,223
- Joint venture		
- Engro Vopak Terminal Limited (note 22.3)	88,931	90,080
Claims on foreign suppliers	15,285	7,286
Less: Provision for doubtful receivables	295	731
	14,990	6,555
Non-current assets (plant and machinery) held for disposal (note 22.4)	-	25,308
Others	1,675	300
Less: Provision for doubtful receivables	49	49
	1,626	251
	2,360,495	998,565

22.1 The total amount of grant for the year was Rs. 681,534 (2006: 1,017,767) of which Rs. 151,222 (2006: Rs. 645,248) was receivable on account of compensation for mandatory reduction in sales price. This compensation is provided by the Government of Pakistan on imported/purchased inventory.

22.2 This includes dividend receivable of Rs. 90,000 (2006: Rs. 90,000)

(AMOUNTS IN THOUSAND)

22.3 The maximum amount due from joint venture / subsidiary companies at the end of any month during the year aggregated as follows:

	2007	2006
	(Rupees)	
Subsidiary Companies		
- Engro Eximp (Private) Limited (advance against purchases)	165,000	975,106
- Engro Foods Limited	7,759	5,651
- Engro Energy (Private) Limited	5,894	11,299
- Engro Polymer & Chemicals Limited (formerly Engro Asahi Polymer & Chemicals Limited)	142,662	38,852
- Engro Innovative Automation (Private) Limited	1,945	10,223
- Engro Management Services (Private) Limited	1	-
Joint venture		
- Engro Vopak Terminal Limited	88,931	135,031

22.4 Plant and Machinery held for sale transferred to fixed assets (refer note 14.1) due to deferment of disposal.

23. SHORT TERM INVESTMENTS

Financial assets at fair value through profit or loss

	2007	2006
Fixed income / money market funds (Note 23.1)	6,153,948	228,518

23.1 These represents investments in various open end mutual funds and are valued at their respective redemption / repurchase price.

24. CASH AND BANK BALANCES

	2007	2006
With banks		
- on deposit accounts	1,286,570	1,514,698
- on current accounts	58,645	45,303
In hand		
- cheques / demand drafts	265,209	243,139
- cash	7,100	2,100
	1,617,524	1,805,240

25. NET SALES

	2007	2006
Own manufactured product	11,695,399	11,396,112
Less: Sales tax	946,878	1,005,416
	10,748,521	10,390,696
Purchased product	12,972,909	7,676,121
Less: Sales tax	538,208	465,034
	12,434,701	7,211,087
Net sales	23,183,222	17,601,783

Sales are net of marketing allowances of Rs. 57,630 (2006: Rs. 40,680).

(AMOUNTS IN THOUSAND)

26. COST OF SALES

	2007	2006
	(Rupees)	
Raw materials consumed	2,748,948	2,475,422
Salaries, wages and staff welfare	707,735	638,433
Fuel and power	2,025,243	2,074,777
Repairs and maintenance	274,229	212,202
Depreciation / amortization (note 14.2)	609,473	599,855
Consumable stores	106,397	93,221
Staff recruitment, training, safety and other expenses	48,759	43,434
Purchased services	115,042	99,854
Travel	31,762	30,629
Communication, stationery and other office expenses	26,389	21,970
Insurance	70,692	60,090
Rent, rates and taxes	8,886	8,232
Other expenses	19,329	22,017
Manufacturing cost	6,792,884	6,380,136
Add: Opening stock of work-in-progress	3,644	1,032
Less: Closing stock of work-in-progress	7,952	3,644
	(4,308)	(2,612)
Cost of goods manufactured	6,788,576	6,377,524
Add: Opening stock of finished goods manufactured	163,202	318,675
Less: Closing stock of finished goods manufactured	397,129	163,202
	(233,927)	155,473
Cost of goods sold - own manufactured product	6,554,649	6,532,997
- purchased product	11,708,144	6,831,527
	18,262,793	13,364,524

27. SELLING AND DISTRIBUTION EXPENSES

	2007	2006
Salaries, wages and staff welfare	264,838	240,014
Staff recruitment, training, safety and other expenses	29,168	28,933
Product transportation and handling	1,017,118	941,587
Repairs and maintenance	17,460	8,996
Advertising and sales promotion	83,161	68,764
Rent, rates and taxes	81,059	57,274
Communication, stationery and other office expenses	20,891	18,905
Travel	28,426	26,983
Depreciation / amortization (note 14.2)	25,108	23,088
Purchased services	7,618	6,726
Donations	41,118	35,419
Other expenses	25,759	25,041
	1,641,724	1,481,730

(AMOUNTS IN THOUSAND)

28. OTHER INCOME

	2007	2006
	(Rupees)	
Dividend income (note 28.1)	1,618,701	970,600
Income on deposits / other financial assets	163,338	46,487
Service charges	14,046	21,024
Fair value of interest rate swap	2,135	4,675
Reversal of resignation gratuity provision (note 9.2)	3,276	-
Reversal of Defined Benefit Pension Plan (curtailed) (note 9.2.1)	17,629	113,047
Profit on disposal of property, plant and equipment	-	137,316
Net foreign exchange gain on bank accounts	841	1,014
Reversal of provision for diminution in value of investment	-	5,000
Others	11,294	39,691
	1,831,260	1,338,854

28.1 Dividend income

	2007	2006
Subsidiary companies		
- Engro Eximp (Private) Limited	1,165,000	570,500
- Engro Innovative Automation (Private) Limited	-	10,200
- Engro Polymer & Chemicals Limited (formerly Engro Asahi Polymer & Chemicals Limited)	228,701	164,650
Joint venture		
- Engro Vopak Terminal Limited	225,000	225,000
Others		
- Arabian Sea Country Club Limited	-	250
	1,618,701	970,600

29. OTHER OPERATING CHARGES

	2007	2006
Workers' profits participation fund (note 12.2)	228,747	184,778
Workers' welfare fund	86,924	66,126
Research and development (including salaries and wages)	2,111	33,954
Loss on sale of fixed assets (29.1)	19,492	-
Auditors' remuneration		
- statutory audit	1,250	1,100
- fee for other services	1,012	868
- reimbursement of expenses	697	150
	2,959	2,118
Less: Capitalised	803	-
	2,156	2,118
Professional tax	-	200
	339,430	287,176

29.1 This includes an amount of Rs.10,373 in respect of assets written off from capital work in progress which were destroyed due to fire.

(AMOUNTS IN THOUSAND)

30. FINANCE COST

		2007	2006
		(Rupees)	
Interest on	- workers' profits participation fund (note 12.2)	-	470
Mark-up on	- redeemable capital and long term loans	471,796	267,127
	- short term borrowings	63,093	94,749
Others		134	205
		535,023	362,551

31. TAXATION

	2007	2006
Current		
- for the year	899,000	834,368
- for Prior year	51,579	(61,000)
	950,579	773,368
Deferred		
- for the year	130,350	63,049
- for Prior year	-	60,913
	130,350	123,962
	1,080,929	897,330

31.1 The Company, during the year, has claimed the benefit of Group Relief under section 59 B of Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company, amounting to Rs. 428,744.

Section 59 B (2) (g) of the Ordinance requires that companies availing Group Relief are required to be designated by the Securities and Exchange Commission of Pakistan (SECP) as companies entitled to avail Group Relief. However, the Company's application of July 2007 to SECP in this regard is still pending. The management of the Company is confident that the Company having met all the substantial conditions under the Ordinance in this regard will be designated by SECP as required for the purpose of availing Group Relief.

Further, the Company has also agreed to acquire current year's losses of EFL and accordingly has recognised a liability of Rs. 622,103 (Note 12) in the financial statements being the equivalent tax effect of the losses to be acquired. These losses will be accounted for in the income tax return of the Company due to be filed with income tax department by September 30, 2008.

31.2 The Company has filed tax returns up to income year 2006. All assessments up to income year 2002 have been finalized by the Department and appealed against.

For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

For income years ending June 1997, December 1997 and December 1998, appeals have been decided in favour of the Company by the appellate authorities. For June 1997 and December 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which the Company believes to be an error of fact and should be rectified. For December 1998, the Company has received favourable decision from Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the Company is in Appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The Company filed reference with Alternative Disposal Resolution Committee (ADRC) of Federal Board of Revenue (FBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. A favourable decision in this respect has been received subsequent to year-end. For these four years, the Department has also filed appeals with ITAT on certain issues which had already been decided in favour of the Company by the Commissioner (Appeals).

For income years December 2003, December 2004, December 2005 and December 2006, income tax returns have been filed under self assessment schemes

The Company is confident that all pending issues will be ultimately resolved without any additional liability.

31.3 Relationship between tax expense and accounting profit

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rate as follows:

	2007	2006
	(Rupees)	
Profit before tax	4,235,512	3,444,656
Tax calculated at the rate of 35%	1,482,429	1,205,630
Depreciation on exempt assets not deductible for tax purposes	32,923	33,265
Effect of applicability of lower tax rate / exemption on certain income and other tax credits / debits	(434,423)	(341,565)
Tax charge for the year	1,080,929	897,330

32. EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2007	2006
Profit after taxation	3,154,583	2,547,326
	------ (Number) ------	
Weighted average number of Ordinary shares (in thousand)	183,737	175,329

33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including all benefits, to chief executive, directors and executives of the Company are given below:

	2007			2006		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	(Rupees)					
Managerial remuneration	22,302	22,959	447,860	15,906	24,589	397,510
Retirement benefit funds	2,758	3,181	75,498	1,945	3,302	58,708
Other benefits	1,941	2,384	41,244	1,339	4,910	19,339
Fees	-	640	-	-	400	-
Total	**27,001**	**29,164**	**564,602**	**19,190**	**33,201**	**475,557**
Number of persons including those who worked part of the year	1	9	332	1	12	299

(AMOUNTS IN THOUSAND)

33.1 The Company also makes contributions based on actuarial calculations to pension and gratuity funds and provides certain household items for use of some employees. Cars are also provided for use of some employees and directors.

33.2 Technical advisory fees paid during the year to non-executive director amounted to Rs. Nil (2006: Rs. 300).

34. CASH GENERATED FROM OPERATIONS

	2007	2006
	(Rupees)	
Profit before taxation	4,235,512	3,444,656
Adjustment for non-cash charges and other items:		
- Depreciation and amortisation	634,581	622,943
- Loss/ (profit) on disposal of property, plant and equipment	19,492	(137,316)
- Provision for retirement and other service benefits	101,617	74,167
- Reversal of provision for diminution in value of investment	-	(5,000)
- Income on deposits / other financial assets	(164,179)	(46,487)
- Fair Value of option contracts	(273,596)	-
- Dividend income	(1,618,701)	(970,600)
- Financial charges	535,023	362,551
- Provision for surplus and slow moving stores and spares	7,551	-
- Provision for doubtful trade debts	236	-
- Provision for other receiveables	1,442	-
- Working capital changes (note 34.1)	(675,516)	(783,881)
	2,803,462	2,561,033

34.1 Working capital changes

	2007	2006
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(67,407)	(22,666)
- Stock-in-trade	(1,766,705)	999,534
- Trade debts	(786,008)	(80,033)
- Loans, advances, deposits and prepayments	(475,311)	(55,835)
- Other receivables (net)	668,595	(699,679)
	(2,426,836)	141,321
Increase / (decrease) in current liabilities		
- Trade and other payables including other service benefits (net)	1,751,320	(925,202)
	(675,516)	(783,881)

35. CASH AND CASH EQUIVALENTS

	2007	2006
Cash and bank balances (note 24)	1,617,524	1,805,240
Short term borrowings	-	(1,299,961)
Short term investments (note 23)	6,153,948	228,518
	7,771,472	733,797

(AMOUNTS IN THOUSAND)

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

36.1 Financial assets and liabilities

2007

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Long term investments		-	-	-	-	-	-	7,764,482	7,764,482
Loans, advances and deposits	10.9%	190,000	-	-	190,000	40,002	49,421	-	89,423
Trade debts		-	-	-	-	1,408,885	-	-	1,408,885
Other receivables		-	-	-	-	159,830	-	-	159,830
Derivative financial assets	4.03%	11,448	-	-	11,448	2,002,572	-	-	2,002,572
Short term investments		-	-	-	-	6,153,948	-	-	6,153,948
Cash and bank balances	1% to 9%	1,286,570	-	-	1,286,570	330,954	-	-	330,954
		1,488,018	-	-	1,488,018	10,096,191	49,421	7,764,482	17,910,094
Financial Liabilities									
Redeemable capital	10.05% to 11.74%	1,300,000	4,969,904	10,452,616	16,722,520	-	-	-	-
Trade and other payables		-	-	-	-	3,135,764	-	-	3,135,764
Dividends		-	-	-	-	193,067	-	-	193,067
		1,300,000	4,969,904	10,452,616	16,722,520	3,328,831	-	-	3,328,831

2006

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Long term investments		-	-	-	-	-	-	3,657,596	3,657,596
Loans, advances and deposits	10.5%	190,000	-	-	190,000	41,782	52,109	-	93,891
Trade debts		-	-	-	-	623,349	-	-	623,349
Other receivables		-	-	-	-	1,100,233	-	-	1,100,233
Derivative financial assets	5.47 %	26,000	11,000	-	37,000	-	-	-	-
Short term investments		-	-	-	-	228,518	-	-	228,518
Cash and bank balances	3.2% to 15%	1,514,698	-	-	1,514,698	290,542	-	-	290,542
		1,730,698	11,000	-	1,741,698	2,284,424	52,109	3,657,596	5,994,129
Financial Liabilities									
Redeemable capital	9.13% to 11.61%	1,087,500	1,800,000	-	2,887,500	-	-	-	-
Liability against asset subject to finance lease	6.00%	2,321	-	-	2,321	-	-	-	-
Short term borrowings	10.07 % to 11.53%	1,299,961	-	-	1,299,961	-	-	-	-
Trade and other payables		-	-	-	-	1,057,969	41,165	-	1,099,134
Dividends		-	-	-	-	82,360	-	-	82,360
		2,389,782	1,800,000	-	4,189,782	1,140,329	41,165	-	1,181,494

36.2 Financial risk management

Overall, risks arising from the Company's financial assets and liabilities are limited. The Company manages its exposure to financial risk in the following manner:

a) Foreign exchange risk

Foreign currency risk arises mainly where receivables, payables and / or firm commitments to pay exist due to transactions with foreign undertakings.

This exists due to the Company's exposure resulting from outstanding import payments. A foreign exchange risk management policy has been developed and approved by the Management Committee. The policy allows the Company to take currency exposure for limited periods within predefined limits and open exposure is rigorously monitored. The Company ensures that it has options available to exit or hedge any exposure, either through forward contracts or prepayments, etc.

The Company is exposed to currency risk on commitments to purchase plant and machinery and technical service fees in connection with urea expansion project (note 14.5.1) denominated primarily in Euros.

The Company has entered in to Euro-Dollar forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date (note 6). When necessary, forward exchange contracts are rolled over at maturity. Currency risk related to Dollar-Rupee fluctuations are hedged from time to time as considered appropriate.

b) Interest / mark-up rate risk

The interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest /mark up rate.Sensitivity to interest / mark-up rate risk arises from mismatches of financial assets and liabilities that mature or repice in a given period. The Company has long term Rupee based loans at variable rates. Variable rate loans have a prepayment option, which can be exercised upon any adverse movement. Rates on short term loans are effectively fixed.

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss without taking into account the fair value of any collateral. The Company is exposed to a concentration of credit risk on its trade debts amounting to Rs. 1,408,885 by virtue of all its customers being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees from reputable banks.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other condition. Concentration of credit risk on cash based financial assets is minimised by dealing with a variety of major banks.

d) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements.Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Company's treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

36.3 Capital management

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The management closely monitors the return on capital along with the level of distributions to ordinary share holders.

The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

(AMOUNTS IN THOUSAND)

36.4 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

37. TRANSACTIONS WITH RELATED PARTIES

37.1 Related parties comprise subsidiaries, joint venture companies, other companies with common directors, retirement benefit funds, directors and key management personnel.

37.2 Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2007	2006
	(Rupees)	
Subsidiary companies		
Purchases and services	13,126,507	7,871,594
Services rendered	29,678	1,311
Associated companies		
Purchases and services	2,569,433	71,289
Services rendered	967	5,865
Dividend paid	512,775	612,974
Others		
Dividend paid	8,656	12,719

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

Income Tax

In making the estimates for income taxes payable by the Company, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

Impairment of financial assets

In making an estimate of future cash flows from the Company's financial assets including investment in subsidiaries, joint ventures and associates, the management considers future dividend stream and an estimate of the terminal value of these investments.

Investment stated at fair value through profit and loss

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement.

Property, plant and equipment

The Company reviews appropriateness of the rate of depreciation, useful life, residual value used in the calculation of depreciation. Further where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

Stock in trade and stores and spares

The Company reviews the net realizable value of stock in trade and stores and spares to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

(AMOUNTS IN THOUSAND)

Derivative hedging instrument designated as a cash flow hedge

The Company reviews the changes in fair values of the forward exchange contracts at each reporting date based on the valuations received from the contracting bank. These valuations represent estimated fluctuations in the relevant currencies over the reporting period and other relevant variables signifying currency risk.

39. DONATIONS

Donations include the following in which a director or his spouse is interested:

	Interest in Donee	Name and address of Donee	2007	2006
			(Rupees)	
Mr. Asad Umar	Member	Engro Community Welfare Foundation, Karachi	-	245
Mr. Asad Umar and Mr. Shazada Dawood	Member	Lahore University of Management Sciences, Lahore	300	-
			300	245

40. PRODUCTION CAPACITY

	Designed Annual Capacity	Actual Production 2007	Actual Production 2006
	Metric Tons	Metric Tons	
Urea	975,000	954,216	968,585
NPK	160,000	124,821	107,994

40.1 Actual production was below from designed annual capacity due to unplanned shutdowns at Urea plant and as per market demand for NPK plant.

41. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on February 20, 2008 has proposed a final cash dividend of Rs. 3 per share (2006: Rs. 3 per share) for approval of the members at the Annual General Meeting to be held on March 28, 2008. The Board of Directors have also decided to issue right shares in the proportion of 1 share for every existing 10 shares held at a price of Rs. 175 per share i.e. a premium of Rs. 165 per share over par value of Rs. 10.

The Company had earlier announced a right issue of 15% at a price of Rs.125 per share on April 25, 2007, and under Rule 5(1) of the Companies (Issue of Capital) Rules, 1996 a Company "shall not make a right issue within one year of the…..further issue of capital through right issue". As the Company requires this further equity infusion by the end of June, 2008 to meet its commitments for its fertilizer expansion project, therefore the Company has announced this right issue and will be applying to the SECP for relaxation of the one year requirement. This announcement is consequently subject to the relaxation being granted.

The financial statements for the year ended December 31, 2007 do not include the effect of the proposed cash dividends and right issue, which will be accounted for in the year in which these are approved.

42. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 20, 2008 by the Board of Directors of the Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Engro Plant, Daharki

Auditors' report to the members

Consolidated financial statements

Engro Polymer, Port Qasim

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
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Internet www.kpmg.com.pk

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of **Engro Chemical Pakistan Limited** as at 31 December 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. The financial statements of subsidiary companies Engro Polymer and Chemicals Limited(formerly Engro Asahi Polymer and Chemicals Limited), Engro Foods Limited and Engro Innovative Automation (Private) Limited were audited by another firm of chartered accountants, whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the reports of other auditors.

These financial statements are responsibility of the Company's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly the financial position of Engro Chemical Pakistan Limited as at 31 December 2007 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

As more fully explained in note 1.2 to the consolidated financial statements, due to fire at the Company's premises on 19 August 2007 certain records, documents and books of account of the Company and subsidiary companies operating from the same premises relating to year ended 31 December 2007, 2006 and 2005 were destroyed. To date, the Company has been able to reconstruct books of account pertaining to the year ended 31 December 2007.

Without qualifying our opinion, we draw attention to note 33.1 to these consolidated financial statements and as more fully explained therein, the Company has recognised the effect of acquisition of taxable losses of a subsidiary company amounting to Rs.1,051 thousand, pending designation from Securities and Exchange Commission of Pakistanas entity entitled for group relief under the Income Tax Ordinance, 2001.

KPMG Taseer Hadi & Co.

Date: February 20, 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

consolidated balance sheet

as at December 31, 2007

(AMOUNTS IN THOUSAND)

	Note	2007	2006
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorised			
300,000,000 Ordinary shares of Rs. 10 each		3,000,000	2,000,000
Issued, subscribed and paid-up	4	1,934,692	1,682,340
Share premium	5	3,963,977	1,068,369
Hedging reserve	6	1,037,386	-
Revaluation reserve on business combination		135,304	197,316
General reserves		4,429,240	4,429,240
Unappropriated profit		3,510,345	1,861,933
		13,076,252	7,556,858
		15,010,944	9,239,198
MINORITY INTEREST		2,995,746	556,973
		18,006,690	9,796,171
NON CURRENT LIABILITIES			
Redeemable capital	7	18,284,262	2,347,500
Long term loan	8	-	34,811
Liabilities against assets subject to finance leases	9	30,028	24,027
Deferred taxation	10	2,977,586	1,395,024
Retirement and other service benefits	11	70,239	59,089
		21,362,115	3,860,451
CURRENT LIABILITIES			
Current portion of			
- redeemable capital	7	1,397,080	1,252,500
- long term loan	8	35,429	69,623
- liabilities against assets subject to finance leases	9	17,007	10,557
- other service benefits	11	20,339	24,133
Short term borrowings	12	901,953	2,020,372
Trade and other payables	13	7,039,958	2,894,897
Taxation		-	42,999
Unclaimed dividends		193,067	82,360
		9,604,833	6,397,441
CONTINGENCIES AND COMMITMENTS	14		
		48,973,638	20,054,063

(AMOUNTS IN THOUSAND)

	Note	2007	2006
		(Rupees)	
NON CURRENT ASSETS			
Property, plant and equipment	15	23,470,988	10,754,229
Biological assets		10,065	-
Intangible assets	16	565,691	40,158
Long term investments	17	493,517	474,851
Long term loans, advances and other receivables	18	153,936	73,965
		24,694,197	11,343,203
CURRENT ASSETS			
Stores, spares and loose tools	19	915,384	814,057
Stock-in-trade	20	3,782,295	2,303,641
Trade debts	21	1,852,844	1,169,881
Loans, advances, deposits and prepayments	22	1,087,294	355,531
Other receivables	23	3,593,533	1,391,247
Taxation		592,272	-
Short term investments	24	10,322,832	228,518
Cash and bank balances	25	2,132,987	2,447,985
		24,279,441	8,710,860
		48,973,638	20,054,063

The annexed notes 1 to 46 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

consolidated profit & loss account
for the year ended December 31, 2007

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2007	2006
		(Rupees)	
Net sales	26	34,120,611	20,240,035
Cost of sales	27	(26,138,366)	(15,097,181)
GROSS PROFIT		7,982,245	5,142,854
Selling and distribution expenses	28	(3,582,695)	(2,320,924)
		4,399,550	2,821,930
Other income	29	509,829	421,625
Other operating charges	30	(482,558)	(297,690)
Finance cost	31	(717,658)	(438,240)
		(1,200,216)	(735,930)
Share of income from Joint Ventures	32	243,666	409,568
PROFIT BEFORE TAXATION		3,952,829	2,917,193
Taxation	33	(1,119,041)	(778,351)
PROFIT AFTER TAXATION		2,833,788	2,138,842
Attributable to			
- Equity holders of Holding Company		2,876,520	2,106,891
- Minority interest		(42,732)	31,951
		2,833,788	2,138,842
Earnings per share - Basic and diluted	34	Rs. 15.66	Rs. 12.02

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 46 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

consolidated statement of changes in equity

for the year ended December 31, 2007

(AMOUNTS IN THOUSAND)

	Share Capital	Share Premium	Hedging reserve	Revaluation reserve on business combination	General reserve	Unappro-priated Profit	Sub total	Miniority interest	Total
				(Rupees)					
Balance as at January 1, 2006 as restated	1,529,400	-	-	-	4,429,240	1,529,146	7,487,786	53,004	7,540,790
Shares issued during the year - note 4 and 5	152,940	1,068,369	-	-	-	-	1,221,309	-	1,221,309
Final Dividend for the year ended December 31, 2005 @ Rs. 4.00 per share	-	-	-	-	-	(764,700)	(764,700)	-	(764,700)
Revaluation reserves on existing holding of acquired subsidiary	-	-	-	197,316	-	-	197,316	-	197,316
Net profit for the year	-	-	-	-	-	2,106,891	2,106,891	31,951	2,138,842
Total recognised income and expense for the year	-	-	-	197,316	-	2,106,891	2,304,207	31,951	2,336,158
Interim dividends:									
1st @ Rs. 3.00 per share	-	-	-	-	-	(504,702)	(504,702)	-	(504,702)
2nd @ Rs. 3.00 per share	-	-	-	-	-	(504,702)	(504,702)	-	(504,702)
Addition to minority interest due to change in status of a joint venture to a subsidiary company - note 1	-	-	-	-	-	-	-	491,466	491,466
Dividend pertaining to minority interest	-	-	-	-	-	-	-	(19,448)	(19,448)
	1,682,340	1,068,369	-	197,316	4,429,240	1,861,933	9,239,198	556,973	9,796,171
Shares issued during the year - note 4 and 5	252,352	2,895,608	-	-	-	-	3,147,960	-	3,147,960
Final Dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-	-	(504,702)	(504,702)	-	(504,702)
Effective portion of changes in fair value of cash flow hedge - net	-	-	1,037,386	-	-	-	1,037,386	-	1,037,386
Amortization of revaluation surplus arising on acquisition of a subsidiary	-	-	-	(62,012)	-	-	(62,012)	(24,805)	(86,817)
Net income / expenses directly recognised in equity	-	-	1,037,386	(62,012)	-	-	975,374	(24,805)	950,569
Net profit for the year	-	-	-	-	-	2,876,520	2,876,520	(42,732)	2,833,788
Total recognised income and expense for the year	-	-	1,037,386	(62,012)	-	2,876,520	3,851,894	(67,537)	3,784,357
Interim dividends									
1st @ Rs. 2.00 per share	-	-	-	-	-	(336,468)	(336,468)	-	(336,468)
2nd @ Rs. 2.00 per share	-	-	-	-	-	(386,938)	(386,938)	-	(386,938)
Addition to minority interest due to change in holding percentage of EPCL & EIAL - note 1	-	-	-	-	-	-	-	1,526,717	1,526,717
Advance against issue of share capital of Subsidiary Company - Minority interest	-	-	-	-	-	-	-	1,054,353	1,054,353
Dividend pertaining to minority interest	-	-	-	-	-	-	-	(74,760)	(74,760)
Balance as at December 31, 2007	**1,934,692**	**3,963,977**	**1,037,386**	**135,304**	**4,429,240**	**3,510,345**	**15,010,944**	**2,995,746**	**18,006,690**

The annexed notes 1 to 46 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

consolidated cash flow statement

for the year ended December 31, 2007

(AMOUNTS IN THOUSAND)

	Note	2007	2006
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	4,773,317	2,111,119
Retirement and other service benefits paid		(117,766)	(57,462)
Finance cost		(340,463)	(415,410)
Taxes paid		(1,814,255)	(877,440)
Long term loans and advances		(79,971)	(4,002)
Net cash inflow from operating activities		2,420,862	756,805
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(11,081,113)	(1,149,698)
Sale proceeds on disposal of fixed assets		52,548	39,558
Income on deposits/other financial assets		170,738	50,195
Acquisition of subsidiary net of cash acquired		-	(425,997)
Dividends received		225,000	410,531
Net cash outflow from investing activities		(10,632,827)	(1,075,411)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from redeemable capital		17,333,843	700,000
Repayment of redeemable capital		(1,252,500)	(692,500)
Liability against assets subject to finance lease-net		12,451	22,283
Repayment of long term loans		(69,005)	-
Proceeds from long term loan		-	104,434
Proceeds from share issue - net		3,147,960	1,221,309
Advance against issue of shares		1,054,353	-
Dividends paid		(1,117,401)	(1,789,063)
Net cash inflow/(outflow) from financing activities		19,109,700	(433,537)
Net increase/(decrease) in cash and cash equivalents		10,897,735	(752,143)
Cash and cash equivalents at the beginning of the year		656,131	1,408,274
Cash and cash equivalents at the end of the year	37	11,553,866	656,131

The annexed notes 1 to 46 are an integral part of these financial statements

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

notes to the consolidated financial statements

for the year ended December 31, 2007

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (the Holding Company) is a public listed company incorporated in Pakistan under Companies Ordinance, 1984 and its shares are quoted on Karachi, Lahore & Islamabad stock exchanges of Pakistan. The principal activity of the Holding Company is manufacturing, purchasing and marketing of fertilizers. The Company also has investments in joint ventures / other entities engaged in chemical terminal and storage, PVC resin manufacturing and marketing, control and automation, food and energy businesses. During the year, the Holding Company has acquired additional 11.67% interest in its subsidiary Engro Innovative and Automation (Private) Limited involved in control and automation business and its effective interest has reduced in another subsidiary Engro Polymer & Chemicals Limited (EPCL) [formerly Engro Asahi Polymer & Chemicals Limited] involved in manufacture, market and sale of PVC, PVC compound and other related chemicals to 65.92% by virtue of issuance of additional shares by EPCL.

The Holding Company's registered office is situated at 4th Floor, Executive Tower, Dolmen City, Block 4, Marine Drive, Clifton, Karachi-75600, Pakistan.

1.1 The "Group" consists of:

Holding Company

Engro Chemical Pakistan Limited (ECPL)

Subsidiary companies, i.e. each of those companies in which the Holding Company owns over 50% of voting rights, or companies controlled by the Holding Company:

	%age of holding
- Engro Foods Limited;	100
- Engro Energy (Private) Limited:	100
- Engro Eximp (Private) Limited;	100
- Engro Management Services (Private) Limited;	100
- Engro Innovative Automation (Private) Limited [formerly Innovative Automation & Engineering (Private) Limited] ; and	62.67
- Engro Polymer and Chemicals Limited [formerly Engro Asahi Polymer and Chemicals Limited]	65.92

Joint Venture Company:

- Engro Vopak Terminal Limited	50

Associated Company:

- Agrimall (Private) Limited

Subsidiary companies

Engro Foods Limited

Engro Foods Limited (EFL), a wholly owned subsidiary of Engro Chemical Pakistan Limited incorporated in Pakistan on April 26, 2005 as a private limited company, has been converted to an unlisted public limited company effective from April 27, 2006. The principal activity of the Company is to manufacture, process and sell dairy food products.

Engro Energy (Private) Limited

Engro Energy (Private) Limited (EEL), a wholly owned subsidiary of Engro Chemical Pakistan Limited, is a private limited company, incorporated in Pakistan on February 28, 2006 under the Companies Ordinance, 1984. The Company is established with primary objective to undertake Independent Power Projects (IPP).

Engro Eximp (Private) Limited

Engro Eximp (Private) Limited (EXIMP) , a wholly owned subsidiary of Engro Chemical Pakistan Limited, is a private limited company, incorporated in Pakistan on January 16, 2003 under the Companies Ordinance 1984. The principal activity of the Company is the import and sale of fertilizers.

Engro Management Services (Private) Limited

Engro Management Services (Private) Limited (EMS), a wholly owned subsidiary of Engro Chemical Pakistan Limited, is a private limited company, incorporated in Pakistan on January 23, 2003 under the Companies Ordinance 1984. EMS had been formed to act as a modaraba management company. The Company has not commenced its operations.

Engro Innovative Automation (Private) Limited
[formerly Innovative Automation & Engineering (Private) Limited]

Engro Innovative Automation (Private) Limited (EIAL), a 62.67% owned subsidiary of Engro Chemical Pakistan Limited (ECPL) was incorporated on March 26, 2003 in Pakistan as a private limited company under the Companies Ordinance, 1984. The principal activity of the company is to provide industrial solutions in automation controls and allied services. EIAL consists of following subsidiaries:

- Innovative Automation and Engineering Free Zone Establishment (FZE), UAE (IAEF), a wholly owned Free Zone Establishment with limited liability formed under the laws of Jebel Ali Free Zone Authority U.A.E. and was registered on February 28, 2004. The principal activity of the establishment is to trade in products of automation and control equipment and provide related technical support.

- Engro Innovative Inc. USA (EI Inc.) a wholly owned subsidiary of IAEF, was incorporated in the state of Pennsylvania USA, on October 25, 2006, as a Corporation Service Company under the provisions of Business Corporation Law of 1988. The principal activity of the company is to explore investment opportunities in automation industry in USA and provide related technical support from its holding companies.

- Advanced Automation L.P. (AALP), a 70% owned subsidiary of EI, is a Pennsylvania Limited Partnership. The Partnership provides innovative technology solutions to clients in various industries. The Partnership designs, develops, implements and provides support of automated manufacturing processes for their customers.

- AAA GP LLC. USA (GP) a 70% owned subsidiary of EI, is a Pennsylvania Limited Liability Corporation, which is a general partner with 0.01% general partner interest in AALP.

Engro Polymer and Chemicals Limited
[formerly Engro Asahi Polymer and Chemicals Limited]

Engro Polymer and Chemicals Limited (EPCL), a 65.92% owned subsidiary of Engro Chemical Pakistan Limited is an unlisted public limited company incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. During the year, the Company’s name has been changed from ‘Engro Asahi Polymer and Chemicals Limited’ to ‘Engro Polymer and Chemicals Limited’ which has been approved by the Securities and Exchange Commission of Pakistan (SECP). The principal activity of the Company is to manufacture, market and sell Poly Vinyl Chloride (PVC) compounds and other related chemicals.

Joint Venture Company

Engro Vopak Terminal Limited

Engro Vopak Terminal Limited (EVTL), a 50% share joint venture of Engro Chemical Pakistan Limited is an unlisted public limited company incorporated in Pakistan under the Companies Ordinance, 1984. The Company has been granted the exclusive concession, right and license to design, finance, insure, construct, test, commission, complete, operate, manage and maintain an Integrated Liquid Chemical Terminal and Storage Farm at the south western zone of Port Qasim on Build, Operate and Transfer (BOT) basis.

1.2 Significant event during the year

During the third quarter of the financial year, a fire broke out at PNSC Building, Karachi where the Head Offices of the Holding Company and some of its Subsidiaries were located. Immediately following this event the Holding Company and its Subsidiaries whose Head Offices were located at PNSC building, launched their Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal.

Along with the offices of Holding Company and of Engro Foods Limited, Engro Energy Limited, Engro Eximp (Private) Limited and Engro Management Service (Private) Limited, the fire also destroyed a substantial portion of their hard copy records related to the financial years 2005, 2006 and the period January 01, 2007 to August 19, 2007 although, electronic data remained largely intact due to their Disaster Recovery Plan. The management launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the current reported financial year. Records related to the already reported financial years 2005 and 2006 have not been recreated to date.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the remeasurement of financial assets at fair value through profit or loss, biological assets and derivative hedging instrument at fair value.

The fair value of interest rate swap and forward exchange contract is based on banks valuations. These valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates for similar instruments at the measurement date.

2.3 Basis of consolidation

i) All business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recorded as goodwill.

ii) The consolidated financial statements include the financial statements of ECPL - Holding Company and its subsidiary companies - "the Group".

iii) Subsidiary companies are consolidated from the date on which more than 50% voting rights are transferred to the Group or power to control the company is established and are excluded from consolidation from the date of disposal.

iv) The assets and liabilities of subsidiary companies have been consolidated on a line-by-line basis and the carrying value of investments held by the Holding Company is eliminated against the subsidiaries' share capital and pre-acquisition reserves equity in the consolidated financial statements.

v) Material intra-group balances and transactions are eliminated.

vi) Minority interests are that part of the net results of operations and of net assets of subsidiary companies attributable to interest which are not owned by the Holding Company.

vii) Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Holding Company.

2.4 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the Group's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

2.5 Use of estimates and judgements

The preparation of consolidated financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in these financial statements are described in note 41.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as deduction from equity.

3.2 Financial liabilities

Financial liabilities include redeemable capital, long term loans, liabilities against asset subject to finance lease, short-term borrowings, trade and other payables and unclaimed dividends. All financial liabilities are recognised initially at fair value less directly attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest rate method.

Financial liabilities as classified as current liabilities unless the Group has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

Exchange gains and losses arising in respect of liabilities in foreign currency are added to carrying amount of the respective liabilities.

3.3 Employee benefits

3.3.1 Defined contribution plans

A defined contribution plan is the post-employment benefit plan under which a Group pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. The Holding Company operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Holding Company and employees to the fund at the rate of 10% of basic salary.

- defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Holding Company to the fund at the rate ranging from 12.5% to 13.75% of basic salary.

Engro Foods Limited (Subsidiary Company) operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Subsidiary Company and employees to the fund at the rate of 10% of basic salary.

Engro Polymer and Chemicals Limited (Subsidiary Company) operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Subsidiary Company and employees to the fund at the rate of 10% of basic salary.

Engro Innovative Automation (Private) Limited (Subsidiary Company) operates:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Subsidiary Company and employees to the fund at the rate of 10% of basic salary.

3.3.2 Defined benefit plans

A defined benefit plan is the post-employment benefit plan other than the defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods; that benefit is discounted to determine its present value. The Calculation is performed annually by a qualified actuary using the projected unit credit method, related details of which are given in note 11 to the financial statements. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

Contributions require assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

- The Holding Company operates:

  - defined benefit funded pension scheme for its management employees.

  - defined benefit funded gratuity schemes for its management and non-management employees.

- The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme.

- Actuarial gains on curtailment of defined benefit pension scheme (curtailed) is recognised immediately once the certainty of recovery is established.

- The Holding Company also operates unfunded scheme for resignation gratuity of certain management employees. Provision is made annually to cover the liability under the scheme.

- Annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Company's employment.

Engro Foods Limited (Subsidiary Company) operates:

- defined benefit funded gratuity scheme for its permanent employees. The gratuity scheme provides for a graduated scale of benefits dependent on the length of service of an employee on terminal date, subject to the completion of minimum qualifying period of service. Gratuity is based on employees' last drawn salary.

- defined benefit unfunded pension and gratuity schemes for two of its management employees. The gratuity scheme has been terminated during the year and the employees are now members of the gratuity fund.

Engro Polymer and Chemicals Limited (Subsidiary Company) operates:

- defined benefit funded pension schemes for its management employees. The scheme provides pension based on employees' last drawn salary. Pensions are payable after retirement / optional retirement, for life and thereafter to surviving spouses and/or dependent children.

- defined benefit funded gratuity schemes for its management employees. The scheme provides gratuity based on employees' last drawn salary. Gratuity is payable on retirement, separation or death to ex-employees, or their spouses thereafter.

- defined benefit unfunded scheme for death in service gratuity for its management employees.

Engro Innovative Automation (Private) Limited (Subsidiary Company) operates:

- defined benefit gratuity scheme for some of its employees in accordance with United Arab Emirates Federal Laws.

3.3.3 Employees' compensated absences

The Group accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

3.4 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxation

Deferred tax is recognised using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.5 Property, plant and equipment & capital work in progress

3.5.1 Owned assets

3.5.1.1 Recognition & measurement

- Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except freehold land and capital work in progress which are stated at cost.

- Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

- Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipments.

- Disposal of assets is recognised when significant risks and rewards incidental to the ownership have been transferred to buyers.

- Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in profit or loss.

3.5.1.2 Subsequent costs

The costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as they are incurred.

3.5.2 Leased assets

- Leases in terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance lease. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Outstanding obligations under the lease less finance cost allocated to future periods are shown as a liability.

- Finance cost under lease agreements are allocated to the periods during the lease term so as to produce a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

3.5.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over estimated useful lives of property, plant and equipment. Depreciable amount represents cost less estimated residual value, if any. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Group will obtain ownership by the end of lease term. Depreciation on additions is charged from the month following the one in which the asset is available for use and on disposal upto the month the asset is in use. Freehold land is not depreciated. The rates of depreciation are stated in note 15.1.

Depreciation method, useful lives and residual values are reviewed annually.

3.5.4 Biological assets

Livestock are measured at their fair value less estimated point-of-sale costs. Fair value of livestock is determined on the basis of best available estimate for livestock of similar attributes. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Gains or losses arising from changes in fair value less estimated point-of-sale costs of livestock and milk are recognized in the profit and loss account.

3.5.4 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. The assets (or disposal group) are measured at lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.6 Intangible assets

3.6.1 Goodwill / negative goodwill

Goodwill represents the difference between the consideration paid for acquiring interests in a company and the value of the Group's share of its net assets at the date of acquisition. Negative goodwill represents the excess of the fair value of net identifiable assets acquired over the cost of acquisition.

3.6.2 Other intangible assets

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs associated with maintaining computer software products are recognised as an expense as incurred.

3.7 Impairment

The carrying amount of the Group's assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of previous impairment losses. If any such indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversal of impairment losses are recognized in the profit and loss account. Reversal of impairment loss is restricted to the original \ cost of the asset.

3.8 Investments

Joint venture and associated companies

The Group's interest in jointly controlled entity and associated company have been accounted for using Equity Method in these consolidated financial statements.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. These are recorded at amortised cost using the effective interest method, less any amounts written off to reflect impairment.

Financial assets at fair value through profit or loss

An instrument is classified as 'fair value through profit or loss' if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition , attributable transaction costs are recognised in the profit or loss account when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the profit and loss account.

Regular way purchases and sales of investments are accounted for at trade date i.e. the date at which the Group commits itself to purchase or sell the investments.

Investments are treated as current assets where the intention is to hold these for less than twelve months from the balance sheet date. Otherwise investments are treated as long term assets.

Available for sale investments

These are initially recognised at fair value plus directly attributable acquisition cost and at subsequent reporting dates measured at fair values. Gains or losses from changes in fair values are taken to equity until disposal at which time these are included in profit and loss account.

3.9 Stores, spares and loose tools

Stores, spares and loose tools are valued at weighted average cost except for items in transit which are stated at cost incurred upto the balance sheet date. For items which are slow moving and / or identified as surplus to the Group's requirements, adequate provision is made for any excess book value over estimated realizable value. The Group reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence.

3.10 Stock-in-trade

Stock in trade is valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material in transit which are stated at cost. Cost includes applicable purchase cost and manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.11 Financial assets other than investments

Financial assets includes trade debts, other receivables and loans , advances and deposits. These are recognised initially at fair value plus directly attributable transaction costs, if any and subsequently measured at amortised cost using effective interest rate method less provision for impairment, if any. A provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Exchange gains and losses arising in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

3.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, balance with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts / short term borrowings that are repayable on demand and form an integral part of the Group's cash management.

3.13 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognised in the balance sheet at fair value with corresponding effect to profit and loss. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective and any remaining changes in the fair value are recognised in the profit and loss account.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounted is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

3.14 Foreign currency translation

Transactions in the foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at rates of exchange prevailing at the balance sheet date. Foreign exchange differences are recognised in the profit and loss account.

3.15 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Company has a legally enforceable right to offset the recognised amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.16 Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and is reduced for marketing allowances:

- Sales revenue is recognised when product is despatched to customers or services are delivered.

- Income on deposits and other financial assets is recognised on accrual basis.

- Commission is recognised when its due.

- Dividend revenue from investments is recognised when the shareholder’s right to receive payment has been established.

3.17 Borrowing costs

Borrowing costs attributable to the construction / acquisition of qualifying assets are capitalized. All other borrowing costs are recognised as an expense in the period in which these are incurred.

3.18 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.19 Research and development costs

Research and development costs are charged to income as and when incurred.

3.20 Government grant

Government grant that compensates the Company for expenses incurred is recognised in the profit and loss account on a systematic basis in the same period in which the expenses are recognised. Government grants are deducted in reporting the related expenses.

3.21 Dividends and reserve appropriation

Dividends and reserve appropriations are recognized as a liability in the period in which these are declared / approved.

3.22 Transactions with related parties

Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

3.23 Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

3.24 Initial application of a Standard of an Interpretation

Amendment to IAS 1-“Presentation of Financial Statements – Capital Disclosures” Introduces new disclosure about the level of an entity’s capital and how it manages Capital. Adoption of this amendment has only resulted in additional disclosure given in Note 38 to the financial statements.

3.25 Standards or interpretations not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Group's operations or are not expected to have significant impact on the Group's financial statements other than increase in disclosures in certain cases:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after January 1, 2009.
- Revised IAS 23 - Borrowing costs (effective from January 1, 2009).
- IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007).
- IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008).
- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008)
- IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after January 1, 2008).

(AMOUNTS IN THOUSAND)

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2007	2006		2007	2006
(Numbers)			(Rupees)	
80,881,119	55,646,007	Ordinary shares of Rs. 10 each fully paid in cash	808,812	556,460
112,588,079	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	1,125,880	1,125,880
193,469,198	168,234,086		1,934,692	1,682,340

4.1 Movement during the year

2007	2006		2007	2006
168,234,086	152,940,079	As at January 1,	1,682,340	1,529,400
25,235,112	15,294,007	Ordinary shares of Rs 10 each issued during the year ended December 31 as fully paid right shares	252,352	152,940
193,469,198	168,234,086		1,934,692	1,682,340

4.2 Associated companies held 80,779,612 (2006: 70,243,141) ordinary shares in the Holding Company at the year end.

4.3 During the year the Holding Company announced 'Employee Share Option Scheme' to grant options to purchase ordinary shares of the Company to its employees (Note 11.1.10).

5. SHARE PREMIUM

	2007	2006
	(Rupees)	
Balance as at January 01,	1,068,369	-
Shares issued during the year at the premium of Rs.115 (2006: Rs 70) per share (note 4.1)	2,902,038	1,070,581
Less: issue cost	(6,430)	(2,212)
Balance as at December 31,	3,963,977	1,068,369

6. HEDGING RESERVE

Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

During the first half of the year the Holding Company purchased currency option contracts having a cost of Rs. 360,485 for a tenure of six months to hedge its Euro-Dollar currency exposure of Euros 342,620 representing the anticipated outflows for the Urea Expansion Project. On maturity these contracts were restructured into forward exchange contracts for the remaining balance of commitments in Euros and any realised amounts were netted from the costs of these options included in the balance of hedging reserve.

At year end the Holding Company had forward exchange contracts to purchase Euros 297,399 at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts amounted to USD 32,642 at the year end.

(AMOUNTS IN THOUSAND)

7. REDEEMABLE CAPITAL
Secured (Non-participatory)

Long term finance utilised under mark-up arrangements:

	Note	Mark - up rate p.a.	Instalments Number	Instalments Commencing from	Unavailed credit as at December 31 2007	2007 (Rupees)	2006 (Rupees)
Engro Chemical Pakistan Ltd.	7.1 to 7.11						
National Bank of Pakistan		6 months T bills rate + 1.05%	2 half yearly	December 15, 2006	-	-	200,000
National Bank of Pakistan		6 months T bills rate +1.05 %	8 half yearly	June 17, 2004	-	-	87,500
United Bank Limited		6 months T bills rate +1 %	5 half yearly	September 30, 2006	-	368,000	736,000
MCB Bank Limited		6 months T bills rate +1 %	5 half yearly	September 30, 2006	-	272,000	544,000
Standard Chartered Bank		6 months T bills rate +1 %	5 half yearly	September 30, 2006	-	160,000	320,000
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	November 1, 2009	-	600,000	600,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 12, 2010	-	400,000	400,000
Habib Bank Limited		6 months KIBOR + 1.75%	8 half yearly	March 30, 2014	-	1,000,000	-
Allied Bank Limited		6 months KIBOR + 1.75%	8 half yearly	June 25, 2014	-	2,000,000	-
Askari Bank Limited		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	200,000	50,000	-
Citibank N.A. - Pakistan		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	400,000	100,000	-
The Hongkong and Shanghai Banking Corporation		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	-	250,000	-
Standard Chartered Bank		6 months KIBOR + 1.75%	8 half yearly	June 29, 2014	400,000	100,000	-
National Bank of Pakistan		6 months KIBOR + 1.75%			1,500,000	-	-
Syndicated finance	7.2	6 months KIBOR + 1.8%			18,300,000	-	-
Islamic offshore finance	7.3	6 months LIBOR + 2.57%			9,150,000	-	-
DFI Consortium finance	7.4	6 months LIBOR + 2.6%			5,185,000	-	-
Certificates							
Term Finance Certificates	7.5	6 months KIBOR + 1.55%				3,972,271	-
Sukuk Certificates	7.6	6 months KIBOR + 1.5%				2,980,345	-
Subordinated Term Finance Certificates	7.7	6 months KIBOR + 1.7%				4,469,904	-
						16,722,520	2,887,500
Engro Polymer & Chemicals Limited	7.12 to 7.14						
MCB Bank Limited		6 months KIBOR + 0.5%	5 half yearly	June 12, 2007		90,000	150,000
Mezan Bank Limited		6 months KIBOR		September 27, 2007		100,000	100,000
Bridge finance facility		6 months KIBOR + 1.45%	284 days	May 7, 2007		1,240,000	-
						1,430,000	250,000
Engro Foods Limited	7.15 to 7.16						
Bank Al Habib Limited		6 months KIBOR +1.3% - 1.5%	6 half yearly	April 20, 2009	250,000	400,000	200,000
Askari Bank Limited		6 months KIBOR +1.3% - 1.5%	6 half yearly	March 14, 2009		150,000	150,000
Bank Al Falah Limited		6 months KIBOR +1.3% - 1.5%	6 half yearly	June 30, 2009		493,000	-
ABN Amro Bank		6 months KIBOR +1.3% - 1.5%	6 half yearly	July 7, 2009		350,000	-
						1,393,000	350,000
Engro Innovative Automation (Private) Limited	7.17 to 7.18						
MCB Bank Limited		6 months KIBOR +1%	16 quarterly	September 30, 2005		7,500	12,500
Habib Bank Limited		3 months LIBOR +3%	20 quarterly			128,322	-
MCB Bank Limited		6 months T bills rate +1%	6 half yearly	March 26, 2005		-	100,000
						135,822	112,500
						19,681,342	3,600,000
Less: Current portion shown under current liabilities						1,397,080	1,252,500
						18,284,262	2,347,500

7.1 The Holding Company has entered into long term finance agreements with Habib Bank Limited, Allied Bank Limited, Citi Bank N.A. - Pakistan, Askari Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, National Bank of Pakistan and Standard Chartered Bank (Pakistan) Limited aggregating to Rs. 6,000,000.

7.2 The Holding Company has entered into a syndicated finance agreement with Allied Bank Ltd, Bank Al Falah Ltd, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan, Standard Chartered Bank (Pakistan) Limited and United Bank Limited amounting to Rs.18,300,000 at 6 months KIBOR + 1.8%.

7.3 The Holding Company has also entered into an offshore Islamic Finance Facility Agreement of US$ 150,000 with Citi Bank, Dubai Islamic Bank, Habib Bank Limited, National Bank of Pakistan, Samba Banking Corporation and Standard Chartered Bank with mark-up at the rate 2.57% over 6 months LIBOR.

7.4 The Holding Company has also entered into an agreement amounting to US$ 85,000 with a consortium of Development Finance Institutions comprising of DEG, FMO and OFID with mark -up at the rate 2.6% over 6 months LIBOR.

7.5 The Holding Company issued secured and listed Term Finance Certificates (TFCs) of Rs. 4,000,000. The TFCs are structured to redeem 0.28% of principal in the first 84 months and remaining 99.72% principal in two equal semi-annual instalments.

7.6 The Holding Company has issued privately placed Sukuk Certificates based on diminishing Musharika amounting to Rs. 3,000,000. The principal amount is payable after seven years in two semi-annual equal instalments.

7.7 The Holding Company, during the year, initiated the process of issuing sub-ordinated listed TFCs for Rs. 6,000,000 and received pre-IPO disbursement of Rs. 4,500,000 in this respect. The TFCs are perpetual in nature with a five year call and ten year put option. Subsequently the management has decided to issue unlisted TFCs and pre-IPO subscribers have been offered an option to receive back the amounts paid if they decide not to subscribe to the unlisted TFCs. Till date subscribers for Rs. 4,000,000 have confirmed their acceptance of the revision in the structure of the TFCs.

7.8 The above finances, excluding perpetual subordinated TFCs, are secured by an equitable mortgage upon the immovable property of the Holding Company located at Daharki and hypothecation charge over current and future fixed assets of the Holding Company. Perpetual subordinated TFCs are secured by subordinated floating charge over all present and future fixed assets excluding land and buildings.

7.9 The Holding Company had entered into an interest rate swap agreement with Citi Bank N.A. - Pakistan in 2005 to manage its interest rate exposure on floating rate borrowing for a notional amount of Rs. 400,000 (2006: Rs. 800,000), amortizing upto September 2008. Under the swap arrangement, the Holding Company would receive average of last three cut-off yields of six months Government Treasury Bills from Citibank N.A. - Pakistan on notional amount and pay fixed 5.47% (2006: 5.47%) which will be settled semi-annually. The Holding Company has the option of unwinding whole or part of the swap transaction at any semi-annual settlement date with prior notice to the bank. Fair value of the interest rate swap at the year end amounted to Rs 10,225.

(AMOUNTS IN THOUSAND)

7.10 The Holding Company had entered into a matching swap in 2005 with United Bank Limited, effective from March 2006 to perfectly offset the earlier swap of Citi Bank N.A. - Pakistan. Under this arrangement, the Holding Company will pay average of last three cut-off yields of six months Government Treasury Bills on notional amount of Rs. 400,000 (2006: Rs. 800,000) and receive fixed at 9.5% (2006: 9.5%) which will be settled semi-annually. Fair value of the matching swap at the year end amounted to Rs.1,223.

7.11 The above loans are being utilised for expansion projects, base business operations and other diversification initiatives.

7.12 These long term finances and Morabahas are secured by an equitable mortgage upon the immovable property, together with all other fixed assets thereon, of the Company, ranking pari passu with each other and with mortgages.

7.13 The Engro Polymer & Chemicals Limited has arranged a bridge finance facility, effective May 7, 2007, for a period / tenor of 180 days from a consortium of local banks, which has been extended further for a period of 74 days on December 12, 2007 upon expiry of the first 30 days extension on December 7, 2007, in order to meet the intermediate funding requirements on the expansion plan in respect of existing capacity and backward integration project.

7.14 The facility is secured by an equitable mortgage upon the immovable property ranking pari passu with mortgages.

7.15 The above finances are secured by an equitable mortgage upon the immovable property and floating charge over present and future fixed assets of Engro Foods Limited.

7.16 This facility is secured against 1st registered pari passu floating charge of Rs. 270 million over current and fixed assets (comprising of land and equipment only) of the Company. In addition to this, the facility is collaterally secured by the corporate guarantee of Engro Chemical Pakistan Limited covering 51% of the aggregate exposure and the personal guarantees of all the directors (except nominee directors).

7.17 This facility is secured against letter of comfort from Engro Innovative Automation (Private) Limited, corporate guarantee from EI Inc., personal guarantees of three directors and maintenance of minimum shareholding undertaking by Engro Chemical Pakistan Limited.

7.18 In view of the substance of the transactions, the sale and repurchase of assets under long term finances have not been recorded as such in these financial statements.

8. LONG TERM LOAN, secured

	Instalments		2007	2006
	Number	Commencing from	(Rupees)	
Obtained from a bank - (notes 8.1 and 8.2)	8 half yearly	July 15, 2004	35,429	104,434
Less: Current portion shown under current liabilities			35,429	69,623
			-	34,811

8.1 The long term finance obtained by a Subsidiary Company carries mark-up @ 1.6% over six months London Inter Bank Offered Rate - LIBOR and 0.4% per annum monitoring fee.

8.2 The above loan is secured by an equitable mortgage upon the immovable property (ranking pari passu) and first floating charge (ranking pari passu) over all current and future undertaking and fixed assets of that subsidiary company.

(AMOUNTS IN THOUSAND)

8.3 The Subsidiary Company, effective June 21, 2007, has entered into a loan agreement with the International Finance Corporation (IFC) consisting of:

i) Loan A, amounting to US $ 30,000; and

ii) Loan B, amounting to US $ 30,000.

The loans, obtained to finance the Project for the expension of plan, carry an interest at the rate 2.6% to 3% above 6 months LIBOR with a commitment fee at the rate of 0.50% per annum on that part of the loan that has not been disbursed. The loans are to be repaid in fifteen half yearly instalments commencing from June 15, 2010. Pending finalization / registration of securities/ charges ranking pari passu with Syndicated Term Finance Facility, LC facility and completion of certain other conditions under the loan agreement, no draw down has been made against these loans.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

9.1 The Group has lease agreements with financial institutions for lease of vehicles and office equipment. The liabilities under these agreements are payable by the year 2011 and are subject to finance cost at the rates ranging from 6% to 15.75% per annum (2006: 6% to 15.75% per annum) used as the discount factor. The Group intends to exercise its option to purchase the leased assets upon completion of the lease period.

9.2 The amount of future payments for finance leases and the period in which these payments will become due are as follows:

Year	2007	2006
	(Rupees)	
2007	-	13,301
2008	20,900	10,904
2009	17,830	9,254
2010	11,367	5,215
2011	4,259	2,167
	54,356	40,841
Less: Finance cost not due	7,321	6,257
	47,035	34,584
Less: Current portion shown under current liabilities	17,007	10,557
	30,028	24,027

(AMOUNTS IN THOUSAND)

10. DEFERRED TAXATION

	2007	2006
	(Rupees)	
Credit / (debit) balances arising on account of:		
Accelerated depreciation allowance	2,202,465	1,930,439
Net borrowing costs capitalized	128,079	-
Fair value of forward exchange contract	691,590	-
Business losses	(105,727)	(728,835)
Tax on subsidiary reserves	62,906	25,005
Tax on fair value adjustment	180,406	263,088
Recoupable minimum turnover tax	(108,077)	(59,453)
Provision for - retirement benefits	(62,010)	(20,175)
- slow moving stores and spares / doubtful receivables	(7,487)	(4,383)
Others	(4,559)	(10,662)
	2,977,586	1,395,024

11. RETIREMENT AND OTHER SERVICE BENEFITS

	2007	2006
Retirement benefits:		
Opening balance	(69,192)	3,945
Expense recognised - net (note 11.1.5)	(10,010)	(107,905)
Amounts received/(contributions made)	62,225	34,768
Closing balance	(16,977)	(69,192)
Less: Receivable from Pension Fund (note 23)	(17,629)	(73,120)
	652	3,928
Other service benefit plan	89,926	79,294
Less: Current portion shown under current liabilities	20,339	24,133
	69,587	55,161
	70,239	59,089

11.1 Engro Chemical Pakistan Limited, Holding Company

11.1.1 The amounts recognized in the balance sheet are as follows:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Present value of funded obligations	358,974	228,681	-
Fair value of plan assets	(438,769)	(245,039)	-
Surplus	(79,795)	(16,358)	-
Present value of unfunded obligation	-	-	-
Unrecognized actuarial gain	62,166	16,358	652
Net (asset) / liability at the end of the year	(17,629)	-	652

11.1.2 Movement in net (assets) / liability recognized:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
Net liability at the beginning of the year	(73,120)	-	3,928
(Reversal) / Expense recognised	(17,629)	7,619	-
Amounts received / (paid) to the Fund	73,120	(7,619)	(3,276)
Net (asset) / liability at the end of the year	(17,629)	-	652

(AMOUNTS IN THOUSAND)

11.1.3 During the year the Holding Company recognised a gain of Rs.17,629 (2006: 113,047) on curtailed defined benefit plan. In 2005, the Company had setup a Defined Contribution Pension Scheme known as Engro Chemical Pakistan Limited MPT Employees Defined Contribution Pension Fund (the Fund) for the benefit of management employees. Employees joining the Company from July 1, 2005 onwards were to become members of the new Fund. Members of the then existing pension fund (a defined benefit plan) were given a one-time option exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005.

11.1.4 Movement in plan assets

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Opening balance	485,243	237,624	-
Return on plan assets	47,295	22,737	-
(Repayment) / Company contribution during the year	(73,120)	7,619	-
Benefit paid during the period	(26,256)	(17,264)	-
Benefit paid during the period	5,607	(5,677)	-
Closing balanace	438,769	245,039	-

11.1.5 The following amounts have been charged / (credited) in the profit and loss account in respect of retirement benefit schemes:

	2007	2006
	(Rupees)	
Defined benefit plans:		
Current service cost	13,047	11,799
Interest cost	51,741	46,554
Expected return on plan assets	(52,403)	(51,954)
Curtailment gain recognised	(17,629)	(113,047)
Net actuarial gain recognized in current year	(4,766)	(1,257)
	(10,010)	(107,905)
Defined contribution plans	81,230	69,025

11.1.6 Expected future cost for the year ending December 31, 2007:

- for MPT Pension Fund Rs. (10,012).

- for MPT Gratuity Fund Rs. 6,128.

- for non-MPT Gratuity Fund Rs. 7,472.

11.1.7 Principal actuarial assumptions

Projected unit credit method, based on the following significant assumptions, was used for valuation of the schemes mentioned above:

- discount rate at 10% (2006: 10%) per annum;
- expected long term rate of increase in salaries for employees at 10% (2006: 10%) per annum, in case of Non-management employees long range rate is 8% (2006: 8%) whereas for the first 3 years the increase has been assumed at 9% (2006: 9%);
- expected post retirement pension increase rate at 6% (2006: 6%) per annum; and
- expected long term rate of return on investment at 10% (2006: 10%) per annum.

(AMOUNTS IN THOUSAND)

11.1.8 Plan assets:

	Defined Benefit Pension Plan		Defined Benefit Gratuity Plan		Total	
	2007	2006	2007	2006	2007	2006
	(Rupees)					
Debts	144,159	481,893	97,744	94,292	241,903	576,185
Cash	203	3,350	15,326	69,503	15,529	72,853
Others	294,407	-	131,969	73,829	426,376	73,829
	438,769	485,243	245,039	237,624	683,808	722,867

11.1.9 Historical information of staff retirement benefits:

	2007	2006	2005	2004	2003
	(Rupees)				
Present value of obligations	(587,655)	(536,209)	(538,407)	(962,105)	(819,966)
Fair value of plan assets	683,808	722,867	605,797	916,654	658,795
Surplus / (deficit)	96,153	186,658	67,390	(45,451)	(161,171)

11.1.10 Share based payment transactions

The Company has announced ownership-based compensation scheme namely “Employee Share Option Scheme (ESOS)” for senior employees of the Company as per the guidelines contained in the Public Companies (Employee Stock Option Scheme) Rules, 2001. In accordance with the provisions of the plan, as approved by shareholders at an Extraordinary General Meeting held on August 23, 2007, senior employees who are critical to the business operations will be granted options to purchase ordinary shares at an exercise price of Rs. 277 per ordinary share. The total number of options that may be granted are for five million newly issued shares.

The number of options granted is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Remuneration Committee.

No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Vesting period shall begin from the date when the scheme is cleared by SECP and shall end on December 31, 2010, where after the options can be exercised.

No amount has been recognised in the current financial statements as clearance from SECP has not been received.

11.2 Engro Polymer & Chemicals Limited, Subsidiary Company

	Pension Fund	Gratuity Fund	Additional Death Gratuity Scheme
		(Rupees)	
11.2.1 Reconciliation of obligation			
Present value of defined benefit obligations	53,267	19,600	-
Fair value of plan assets	(62,237)	(21,742)	-
Funded status	(8,970)	(2,142)	-
Present value of unfunded obligations	-	-	2,429
Unrecognised actuarial gain / (loss)	8,970	2,142	(112)
Recognised liability	-	-	2,317
11.2.2 Movement liability			
Net liability at beginning of the year	44,310	16,145	1,956
Current service cost	4,002	1,714	264
Interest cost	4,631	1,700	209
Actuarial losses / (gain)	324	41	-
Net liability at end of the year	53,267	19,600	2,429

(AMOUNTS IN THOUSAND)

11.2.3 Movement in fair value of plan assets

	Pension Fund	Gratuity Fund (Rupees)	Addiotional Death Gratuity Scheme
Fair value of plan assets at beginning of the year	53,604	18,328	-
Expected return on plan assets	4,921	1,653	-
Acturial gain / (loss) on assets	324	41	-
Employer contribution	3,388	1,720	-
Fair value of plan assets at end of the year	62,237	21,742	-

11.2.4 Cost reconciliation

	Pension Fund	Gratuity Fund	Addiotional Death Gratuity Scheme
Current service cost	4,002	1,714	264
Interest cost	4,631	1,700	209
Expected return on plan assets	(4,921)	(1,653)	-
Net actuarial (gain) / loss recognised during the year	(324)	(41)	-
Expense	3,388	1,720	473

11.2.5 Principal actuarial assumptions

	Pension Fund	Gratuity Fund	Addiotional Death Gratuity Scheme
Rate of discount	10% p.a.	10% p.a.	10% p.a.
Expected rate of increase in salaries	10% p.a.	10% p.a.	10% p.a.
Expected rate of return on plan assets	10% p.a.	10% p.a.	10% p.a.
Expected rate of post retirement pension	5% p.a.	-	-
Expected retirement age	58 years	58 years	58 years

11.2.6 Plan assets

	2007	2006
	(Rupees)	
Equity	21,783	18,761
Debts	7,468	6,433
Term deposit Certificates	-	24,734
Others	32,986	3,676
	62,237	53,604

The expected return on plan asset was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross yields are at the balance sheet date.

11.2.7 Historical Information of staff retirement benefits

	2007	2006	2005 (Rupees)	2004	2003
Present value of obligations	(75,296)	(62,411)	(49,210)	(40,923)	(30,431)
Fair value of plan assets	83,979	70,932	47,731	40,495	37,273
Surplus / (deficit)	8,683	8,521	(1,479)	(428)	6,842

11.3 Engro Foods Limited, subsidiary company

11.3.1 Reconciliation of obligations

	Gratuity Fund	Un-funded Gratuity Scheme (Rupees)	Un-funded Pension Scheme
Present value of defined benefit obligations	(11,926)	-	-
Fair value of plan assets	8,443	-	-
Deficit / (Surplus)	(3,483)	-	-
Present value of unfunded obligations	-	-	(1,291)
Unrecognised actuarial (loss) / gain	3,483	-	195
Net liability	-	-	(1,096)

(AMOUNTS IN THOUSAND)

11.3.2 Movement in liability

11.3.1 Reconciliation of obligations

	Gratuity Fund	Un-funded Gratuity Scheme	Un-funded Pension Scheme
		(Rupees)	
Net liability at beginning of the year	(7,656)	(121)	(475)
Charge for the year	(7,528)	-	(621)
Termination of the scheme	-	121	-
Computation	15,184	-	-
Net liability at end of the year	-	-	(1,096)

11.3.3. Movement in fair value of plan assets

	Gratuity Fund	Un-funded Gratuity Scheme	Un-funded Pension Scheme
Fair value of plan assets at beginning of the year	-	-	-
Expected return on plan assets	1,050	-	-
Contributions for the year	8,163	-	-
Benefits paid during the year	(249)	-	-
Actuarial gain / (loss) on assets	(521)	-	-
Fair value of plan assets at end of the year	8,443	-	-

11.3.4 Cost reconciliation

	Gratuity Fund	Un-funded Gratuity Scheme	Un-funded Pension Scheme
Current service cost	7,464	-	525
Interest cost	1,114	-	96
Expected return on plan assets	(1,050)	-	-
Recognition of actuarial (gain) / loss	-	-	-
Cost	7,528	-	621

11.3.5 Principal actuarial assumptions

	Gratuity Fund	Un-funded Gratuity Scheme	Un-funded Pension Scheme
Rate of discount	10% p.a.	-	10% p.a.
Expected rate of return on plan assets	10% p.a.	-	-
Expected rate of increase in salaries	10% p.a.	-	10% p.a.

11.3.6 Plan assets

	Gratuity Fund 2007	Gratuity Fund 2006
	(Rupees)	
Mutual Funds	6,248	-
Cash Funds	2,195	-
	8,443	-

The expected return on plan assets has been determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investment are based on gross redemption yields as at the balance sheet date . Expected return on equity investment reflect long term real rate of return experienced in the market. Actual return on plan assets are Rs. 259 (2006 : Nil).

11.3.7 Historical information of staff retirement benefits

	2007	2006	2005
		(Rupees)	
Present value of obligations	(13,295)	(8,088)	(1,316)
Fair value of plan assets	8,443	-	
Deficit	(4,852)	(8,088)	(1,316)

12. SHORT TERM BORROWINGS

	2007	2006
	(Rupees)	
Financing utilised from banks	901,953	2,020,372

12.1 The facility for short term running finance available to the Group from various banks amounts to Rs. 5,453,000 (2006: Rs. 4,530,000).

(AMOUNTS IN THOUSAND)

The rates of mark-up range from 5.6% to 14% (2006: 6.5% to 13.6%) and the facilities are secured by floating charge upon all current and future moveable properties of the Group.

12.2 The facilities of a subsidiary company are secured by a corporate guarantee of the Holding Company and personal guarantees of the directors representing minority interest in the subsidiary company in addition to the security referred to in note 12.1.

13. TRADE AND OTHER PAYABLES

	2007	2006
	(Rupees)	
Creditors	4,131,909	1,781,694
Accrued liabilities	1,185,214	701,428
Payable to defined contribution Pension Fund	8,703	3,764
Payable to Provident Fund	8,569	13,828
Advances from customers	616,858	110,515
Finance cost accrued on :		
- redeemable capital and long term loans -secured	465,148	71,545
- short term borrowings	25,838	42,245
Deposits from dealers / distributors refundable on termination of dealership	13,988	10,647
Contractors'/ suppliers deposits and retentions	138,888	15,764
Workers' profits participation fund (note 13.1)	3,747	-
Workers' welfare fund	99,879	70,216
Sales tax payable	91,502	9,961
Dividend payable to minority shareholders	-	19,448
Provision for infrastructure fee	178,599	-
Others	71,116	43,842
	7,039,958	2,894,897

13.1 Workers' profits participation fund

	2007	2006
(Receivable) / Payable at the beginning of the year	(3,222)	6,716
Interest on funds utilised in the Company's business (note 31)	-	470
Allocation for the year (note 30)	228,747	184,778
Amount paid to the Trustees of the Fund	(221,778)	(195,186)
Payable / (Receivable) to the fund	3,747	(3,222)

14. CONTINGENCIES AND COMMITMENTS

Contingencies

14.1 Claims, including pending lawsuits, against the Group not acknowledged as debts amounted to Rs. 27,911 (2006: Rs. 48,911).

14.2 Performance guarantees of Rs. 665,568 (2006: Rs. 1,118,443) have been issued by various banks on behalf of the Group, including Rs. Nil (2006: Rs. 605,000) in favour of Ministry of Industries, Government of Pakistan on behalf of the Holding Company for participating in bidding for gas allocation.

14.3 The Group is contesting the penalty of Rs. 99,936 (2006: Rs. 99,936) paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 (2006: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

14.4 The Group had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Group Rs. 47,800 (2006: Rs. 47,800) and it is hoped that the award for the earlier years will be announced shortly. The award for the second arbitration has not been recognised due to inherent uncertainties arising from its challenge in the High Court.

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
Commitments		
14.5 Plant and machinery	53,152,926	864,433
14.6 Capital commitment for future rights for Gas utilisation	-	101,000

15. PROPERTY, PLANT AND EQUIPMENT

	2007	2006
Operating assets (note 15.1)	11,193,382	10,136,016
Capital work in progress (note 15.5)	12,277,606	618,213
	23,470,988	10,754,229

15.1. Operating assets

	Land		Building		Pipelines	Plant and Machinery	Plant and Machinery held for disposal	Catalyst	Furniture, Fixture and Equipments		Vehicles		Total
	Freehold	Leasehold	Freehold	Leasehold					Own	Leased	Own	Leased	
							(Rupees)						
Cost													
At January 1, 2006													
Cost	21,479	203,977	534,377	273,833	-	9,364,725	151,395	215,131	395,408	300	215,246	15,610	11,391,481
Accumulated depreciation	-	(41,575)	(221,590)	(31,697)	-	(4,065,319)	(126,087)	(124,984)	(263,450)	(195)	(104,904)	(2,740)	(4,982,541)
Net book value	21,479	162,402	312,787	242,136	-	5,299,406	25,308	90,147	131,958	105	110,342	12,870	6,408,940
Year ended December 31, 2006													
Opening net book value	21,479	162,402	312,787	242,136	-	5,299,406	25,308	90,147	131,958	105	110,342	12,870	6,408,940
Acquisition of a subsidiary	-	125,604	-	269,311	103,831	3,124,434	-	-	64,944	-	51,439	-	3,739,563
	-	(5,604)	-	(40,374)	(51,681)	(954,195)	-	-	(39,753)	-	(23,612)	-	(1,115,219)
	-	120,000	-	228,937	52,150	2,170,239	-	-	25,191	-	27,827	-	2,624,344
Additions	57,404	-	221,151	61,138	-	1,298,997	-	77,890	45,526	-	91,335	30,365	1,883,806
Disposals / transfers* Cost	-	-	-	-	-	-	(151,395)*	-	(13,669)	-	(53,255)	-	(218,319)
Accumulated depreciation	-	-	-	-	-	-	126,087 *	-	(12,404)	-	21,584	-	160,075
	-	-	-	-	-	-	(25,308)*	-	(1,265)	-	(31,671)	-	(58,244)
Depreciation chrage	-	(4,002)	(28,339)	(9,653)	(614)	(542,280)	-	(40,785)	(55,505)	(60)	(33,407)	(8,185)	(722,830)
Net book value	78,883	278,400	505,599	522,558	51,536	8,226,362	-	127,252	145,905	45	164,426	35,050	10,136,016
Year ended December 31, 2007													
Cost	78,883	329,581	755,528	604,282	103,831	13,788,156	-	293,021	492,209	300	304,765	45,975	16,796,531
Accumulated depreciation	-	(51,181)	(249,929)	(81,724)	(52,295)	(5,561,794)	-	(165,769)	(346,304)	(255)	(140,339)	(10,925)	(6,660,515)
Net book value	78,883	278,400	505,599	522,558	51,536	8,226,362	-	127,252	145,905	45	164,426	35,050	10,136,016
Year ended December 31, 2007													
Opening net book value	78,883	278,400	505,599	522,558	51,536	8,226,362	-	127,252	145,905	45	164,426	35,050	10,136,016
Amortization of revaluation surplus	-	(2,671)	-	(1,183)	3,484	(34,940)	-	-	-	-	-	-	(35,310)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	79,381	8,117	-	-	87,498
	-	-	-	-	-	-	-	-	(72,897)	(1,715)	-	-	(74,612)
	-	-	-	-	-	-	-	-	6,484	6,402	-	-	12,886
Additions	43,871	8,550	564,976	-	-	1,170,393	-	33,387	108,919	13,032	144,722	7,180	2,095,030
Disposals/transfers* Cost	-	-	(16,959)	-	-	(26,690)	151,395*	-	(130,421)	-	(25,416) 6,600*	(6,600)*	(48,091)
Accumulated depreciations	-	-	1,484	-	-	2,361	(126,087)*	-	118,219	-	14,933 (1,320)*	1,320*	10,910
	-	-	(15,475)	-	-	(24,329)	25,308	-	(12,202)	-	(5,203)	(5,280)	(37,181)
Depreciation chrage	-	(4,900)	(38,500)	(14,175)	(7,355)	(727,881)	-	(53,059)	(60,513)	(1,804)	(57,813)	(12,059)	(978,059)
Net book value	**122,754**	**279,379**	**1,016,600**	**507,200**	**47,665**	**8,609,605**	**25,308**	**107,580**	**188,593**	**17,675**	**246,132**	**24,891**	**11,193,382**
As at December 31, 2007													
Cost	122,754	338,131	1,303,545	604,282	103,831	14,931,859	151,395	326,408	550,088	21,449	430,671	46,555	18,930,968
Accumulated depreciation	-	(58,752)	(286,945)	(97,082)	(56,166)	(6,322,254)	(126,087)	(218,828)	(361,495)	(3,774)	(184,539)	(21,664)	(7,737,586)
Net book value	**122,754**	**279,379**	**1,016,600**	**507,200**	**47,665**	**8,609,605**	**25,308**	**107,580**	**188,593**	**17,675**	**246,132**	**24,891**	**11,193,382**
Annual rate of depreciation %	-	2 to 5	2.5 to 10	2.5	5	5 to 10	-	20 to 33.33	10 to 25	20	12 to 25	20	

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	

15.2 Depreciation and amortization have been allocated as follows:

	2007	2006
Depreciation for the year (note 15.1)	978,059	722,830
Amortization for the year (note 16)	11,195	11,265
	989,254	734,095
Cost of sales (note 27)	918,207	694,210
Selling and distribution expenses (note 28)	65,778	39,885
Capital work in progress	5,269	-
	989,254	734,095

15.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2006: Rs. 48,236) in prior years in respect of first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Holding Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favour of the Holding Company. The Department filed an appeal in the Supreme Court. During the year ended December 31, 2005, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgement in the Holding Company's favour. Payments totalling Rs. 22,207 (2006: Rs. 22,207) made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Holding Company, for which an application has been filed with the Department and disclosed as receivable.

15.4 Particulars of disposal of fixed assets

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
		(Rupees)			
Vehicles					
By Company policy to existing/separating executives	Mr. Dr. Muzaffar Ahmad Khan	735	518	217	333
	Mr. M. Asif Sultan Tajik	769	654	115	115
	Mr. Asad Umar	1,169	877	292	292
	Mr. Abdul Samad Khan	945	772	173	473
	Mr. M. Asif Sultan Tajik	1,499	46	1,453	1,313
	Mr. R.B. Baloch	560	376	184	184
	Mr. Dr. Mohammad Ali Khadim	849	567	282	212
	Mr. Farooq Nazim Shah	886	125	761	775
	Mr. Ahmad Shakoor	900	127	773	802
	Mr. Syed Mohammad Ali	735	502	233	375
	Mr. Andalib Alavi	1,268	844	424	317
	Mr. Syed Hasan Riaz Bokhari	849	621	228	140
	Mr. Rameez Ahmad Faraz	795	528	267	380
	Mr. Mudassar Y. Rathore	849	550	299	212
	Mr. Fahd Khawaja	900	155	745	738
	Mr. Syed Abul Fazal Rizvi	795	408	387	521
	Mr. Syed Muzammil Raza	835	261	574	835
	Mr. Farrukh Iqbal Qureshi	739	360	379	485
	Mr. Muhammad Imran Farookhi	739	497	242	312
	Mr. Nayyar Iqbal Raza	974	868	106	235
	Mr. Mohammad Ali	776	636	140	185
	Mr. Nasir K. Qureshi	739	659	80	323
Open bidding	Arogosy Enterprises	16	13	3	203
Mr. Safyan Ali		347	231	116	215
Mr. Faisal Butt		337	198	139	261
Mr. Ali Asif Zaidi		834	598	236	461
Arogosy Enterprises		884	629	255	511
Mr. Adeel Khalid		1,549	1,188	361	600
Al Furqan Cars		755	387	368	283
Insurance claim	New Hampshire Insurance Co	835	240	595	750
New Hampshire Insurance Co		555	499	56	350
		25,417	14,934	10,483	13,191
Plant and Machinery					
Tender	Mehran Bottlers (Pvt) Ltd.	26,690	2,361	24,329	25,000
Building on free hold land					
Insurance claim	EFU General Insurance Ltd.	16,959	1,484	15,475	12,722
By negotiation	Mr. Sarmad Mehmood Qureshi	72	72	-	12
Mr. Ashwin Parekh		56	11	45	56
Mr. Tamen Al Shehlein		320	64	256	68
Assets written-off / insurance claim		125,390	113,803	11,587	873
Items having net book value upto Rs.50		4,583	4,268	315	626
		130,421	118,218	12,203	1,635
	2007	**199,487**	**136,997**	**62,490**	**52,548**
	2006	66,924	33,988	32,936	39,558

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
15.5 Capital work - in - progress		
Plant and machinery	10,074,093	416,618
Building and civil works	2,070,072	109,823
Information technology - hardware and software	-	2,040
Furniture, fixture and equipments	66,523	47,532
Infrastructure cost	-	9,182
Interest on investment in subsidiary	32,285	-
Advances to suppliers	34,633	33,018
	12,277,606	618,213

15.5.1 Capital work in progress includes Rs. 5,731,734 and Rs. 1,799,678 with respect to urea expansion project for plant and machinery and building and civil works respectively of the Holding Company. The planned expansion project will cost an approximate US $ 1,000,000 and will have a capacity of 1.3 million tons of urea per annum.

15.5.2 Capital work in progress also includes net borrowing costs capitalised amounting to Rs. 326,637 relating to Holding Company.

15.5.3 Engro Foods Limited has commenced commercial production from its Sahiwal plant on December 1, 2007 and as such all costs related thereto have been transferred to operating assets.

15.5.4 In Engro Energy Limited, the capital work in progress includes Rs. 1,442,026 and Rs. 56,979 with respect to cost incurred in connection with independent power projects (IPP) into plant and machinery and building and civil works respectively.

16. INTANGIBLE ASSETS

	Software and license	Rights for future gas utilization	Development cost	Covenants	Goodwill	2007	2006
	(Rupees)						
Cost							
At January 1,	103,387	-	6,000	-	15,822	125,209	130,578
Acquired	-	-	-	-	402,868	402,868	153
Addition (note 16.1)	26,565	102,312*	-	1,222	-	130,099	10,338
Adjustment of accumulated amortisation of goodwill as per IFRS 3	-	-	-	-	-	-	(19,338)
At December 31,	129,952	102,312	6,000	1,222	418,690	658,176	121,731
Amortization							
At January 1,	80,874	-	4,500	-	-	85,374	89,646
Charge for the year	9,384	-	1,200	611	-	11,195	11,265
Adjustment of accumulated amortisation of goodwill as per IFRS 3	-	-	-	-	-	-	(19,338)
At December 31,	90,258	-	5,700	611	-	96,569	81,573
Add: Capital work-in-progress	4,084	-	-	-	-	4,084	-
Net book value	43,778	102,312	300	611	418,690	565,691	40,158

16.1 *Rights for future gas utilization represent premium paid to the Government of Pakistan for allocation of 100 MMCFD natural gas for Qadirpur gas field at a predetermined price for a period of ten years.

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
17. LONG TERM INVESTMENTS		
Unquoted		
Joint venture company - (note 17.1)	488,517	469,851
Associated Company Agrimall (Pvt.) Limited (note 17.3)	-	-
Other		
Arabian Sea Country Club Limited 500,000 ordinary shares of Rs. 10 each	5,000	5,000
	493,517	474,851

17.1 Details of Investment in Joint Venture companies

	2007	2006
Engro Vopak Terminal Limited		
At the beginning of the year	469,851	457,949
Add: Share of income after tax for the year	243,666	236,902
Less:		
- Dividend received during the year	135,000	135,000
- Dividend receivable	90,000	90,000
	488,517	469,851
Engro Polymer & Chemicals Limited		
At the beginning of the year	-	999,214
Add: Share of income after tax for the period / year	-	172,667
Less: Dividend received during the year	-	140,531
Less: Reclassification due to acquisition of further 30% equity resulting in conversion of a Joint Venture investment to a Subsidiary Company	-	1,031,350
	-	-
	488,517	469,851

17.2 Interest in Joint Venture company

	No. of Ordinary shares of Rs. 10 each	Equity % held
Engro Vopak Terminal Limited	45,000,000	50

17.3 The summary of financial information as of December 31 of the associate is as follows:

	2007	2006
	(Rupees)	
- Total assets	2,866,305	2,764,000
- Total liabilities	1,889,901	1,824,928
- Total equity	976,404	939,072
- Total revenue	1,016,136	1,025,154
- Profit for the year	487,332	473,801

17.4 This represents the Company' share in the paid-up share capital of the investee transferred free of cost to the Company's under a joint venture agreement.

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
18. LONG TERM LOANS, ADVANCES, DEPOSITS AND OTHER RECEIVABLES		
Considered good		
Long term loans		
Executives (note 18.1 & 18.2)	196,510	101,813
Other employees	28,567	16,728
	225,077	118,541
Less: Instalments recoverable within twelve months	76,513	55,576
	148,564	62,965
Fair value of interest rate SWAPs (note 7.9 to 7.10)	11,448	37,000
Less: Current portion (note 23)	11,448	26,000
	-	11,000
Others	5,372	-
	153,936	73,965

18.1 Reconciliation of the carrying amount of loans and advances to Executives

	2007	2006
Balance at the beginning of the year	96,524	57,699
Disbursements	191,821	88,187
Repayments/ amortization	(91,835)	(44,073)
Balance at the end of the year	196,510	101,813

18.2 This includes interest free services incentive loans and advances to executives of the Holding company amounting to Rs.46,733 (2006: Rs.70,534) repayable in equal monthly instalments over a three years period or in one lump sum at the end of such period and interest free loans given to workers of the Holding Company amounting to Rs.10,038 (2006: Rs. 16,728) pursuant to Collective Labour Agreement. It also includes advances of Rs.7 (2006: Rs. 161), Rs.25,722 (2006: Rs. 29,611) and Rs. 6,923 (2006: Rs. 13,912) to employees for purchase of Company's shares, car earn out assistance and house rent advance respectively.

18.3 The maximum amount outstanding at the end of any month from the executives aggregated Rs. 235,834 (2006: Rs. 107,621).

	2007	2006
	(Rupees)	
19. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	124,882	89,027
Spares	808,651	735,903
Loose tools	3,241	2,966
	936,774	827,896
Less: Provision for surplus and slow moving items	21,390	13,839
	915,384	814,057
20. STOCK-IN-TRADE		
Raw materials	1,110,088	836,224
Work-in-process	45,297	23,382
Finished goods - own manufactured product	1,194,921	956,457
- purchased product	1,431,989	487,578
	2,626,910	1,444,035
	3,782,295	2,303,641

(AMOUNTS IN THOUSAND)

21. TRADE DEBTS

	2007	2006
	(Rupees)	
Considered good		
Secured	1,551,276	682,090
Unsecured	301,568	487,791
	1,852,844	1,169,881
Considered doubtful	17,202	8,651
	1,870,046	1,178,532
Less: Provision for doubtful debts	17,202	8,651
	1,852,844	1,169,881

22. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2007	2006
Current portion of long term loans and advances to executivesand other employees - considered good	76,513	55,576
Advance and deposits	297,928	192,490
Transaction costs paid for unavailed financing facilities (note 22.1)	295,300	-
Prepaid insurance	174,479	60,116
Prepayments	247,595	50,428
	1,091,815	358,610
Less: Provision for doubtful receivables	4,521	3,079
	1,087,294	355,531

22.1 During the year the Holding Company has entered into financing arrangements with various institutions for availing finances but the loan draw downs were not completed till the year end (note 7). Transaction costs relating to such finances has been classified as prepayments.

23. OTHER RECEIVABLES

	2007	2006
	(Rupees)	
Receivable from Government for:		
- customs duty and sales tax (note 15.3)	22,207	40,402
- grant receivable from Government of Pakistan (note 23.1)	1,046,779	960,492
- others	13,560	15,409
	1,082,546	1,016,303
Accrued income on deposits / bonds	33,095	5,737
Receivable from Pension Fund (note 11)	17,629	73,120
Workers' profits participation fund (note 13.1)	-	3,222
Sales tax refundable	200,052	93,946
Less: Provision for doubtful receivables	140	140
	199,912	93,806
Current portion of fair value of Interest Rate Swap	11,448	26,000
Fair value of forward exchange contract	2,002,572	-
Due from:		
- Joint ventures		
- Engro Vopak Terminal Limited (note 23.2)	88,931	90,080
Claims on foreign suppliers and insurance companies	103,525	40,528
Less: Provision for doubtful receivables	295	731
	103,230	39,797
Non-current assets (plant and machinery) held for disposal	-	25,308
Others	54,219	17,923
Less: Provision for doubtful receivables	49	49
	54,170	17,874
	3,593,533	1,391,247

(AMOUNTS IN THOUSAND)

23.1 The total amount of grant for the year was Rs. 681,534 (2006: 1,017,767) of which Rs. 151,222 (2006: Rs. 645,248) was receivable on account of compensation for mandatory reduction in sales price. This compensation is provided by the Government of Pakistan on import/purchased inventory.

Plant and machinery held for sale transferred to fixed assets (note 15) due to deferment of disposal.

23.2 This includes dividend receivable of Rs. 90,000 (2006: Rs. 90,000).

23.3 The maximum amounts due from joint venture at the end of any month during the year aggregated as follows:

	2007	2006
	(Rupees)	
Joint venture		
- Engro Vopak Terminal Limited		
(includes dividend of 90,000)	88,931	135,031

24. SHORT TERM INVESTMENTS

Held-to-Maturity

Financial assets at fair value through profit or loss

Fixed income / money market funds (note 24.1)	10,322,832	228,518

24.1 These represents investments in open end mutual funds and are valued at their respective redemption/ repurchase price.

25. CASH AND BANK BALANCES

With banks		
- on deposit accounts	1,538,937	1,845,726
- on current accounts	199,956	226,600
In hand		
- cheques / demand drafts	381,025	370,744
- cash	13,069	4,915
	2,132,987	2,447,985

26. NET SALES

Own manufactured product	22,343,696	13,177,573
Less: Sales tax	1,938,405	1,046,727
	20,405,291	12,130,846
Purchased product/ services rendered	14,282,058	8,606,068
Less: Sales tax	566,738	496,879
	13,715,320	8,109,189
Net sales	34,120,611	20,240,035

Sales are net of marketing allowances of Rs. 57,630 (2006: Rs. 40,680), special excise duty Rs. 30,027 (2006: Rs. Nil), commission Rs. Nil (2006: Rs. 69) and discounts of Rs. 64,012 (2006: Rs. 21,804).

(AMOUNTS IN THOUSAND)

27. COST OF SALES

		2007	2006
		(Rupees)	
Raw and packing materials consumed		9,993,898	3,827,890
Salaries, wages and staff welfare		961,972	729,817
Fuel and power		2,209,906	2,129,482
Repairs and maintenance		419,736	276,451
Depreciation / amortization (note 15.2)		918,207	694,210
Consumable stores		144,233	96,718
Staff recruitment, training, safety and other expenses		48,759	43,434
Purchased services		135,205	100,772
Storage and handling		120,277	-
Travel		60,748	49,113
Communication, stationery and other office expenses		76,824	30,514
Insurance		93,721	62,301
Rent, rates and taxes		20,538	13,454
Stock - finished goods written off		1,914	-
Other expenses		21,009	24,592
Manufacturing cost		15,226,947	8,078,748
Add: Opening stock of work-in-progress (including acquired on business combination)		23,382	14,370
Less: Closing stock of work-in-progress		45,297	23,382
		(21,915)	(9,012)
Cost of goods manufactured		15,205,032	8,069,736
Add: Opening stock of finished goods manufactured (including acquired on business combination)		956,457	1,038,745
Less: Closing stock of finished goods manufactured		1,194,921	956,457
		(238,464)	82,288
Cost of goods sold	- own manufactured product	14,966,568	8,152,024
	- purchased product	10,223,898	6,312,103
	- others	947,900	633,054
		26,138,366	15,097,181

28. SELLING AND DISTRIBUTION EXPENSES

	2007	2006
Salaries, wages and staff welfare	857,363	481,960
Staff recruitment, training, safety and other expenses	54,448	28,933
Product transportation and handling	1,322,994	1,014,884
Repairs and maintenance	30,144	16,606
Advertising and sales promotion	756,094	421,487
Rent, rates and taxes	138,519	74,383
Communication, stationery and other office expenses	84,333	42,346
Travel	120,109	85,535
Depreciation / amortization (note 15.2)	65,778	39,885
Purchased services	29,489	36,817
Donations	42,810	35,419
Other expenses	80,614	42,669
	3,582,695	2,320,924

(AMOUNTS IN THOUSAND)

29. OTHER INCOME

	2007	2006
	(Rupees)	
Income on deposits / other financial assets	198,096	50,075
Dividend income	-	250
Service charges	8,346	2,332
Unrealized fair value gain on short term investments	49,135	-
Fair value of interest rate swap (note 5.11)	2,135	4,675
Reversal of Resignation Gratuity Provision	3,276	-
Gain on curtailment of defined benefit pension Plan (note 11)	17,629	113,047
Negative goodwill recognised	227,889	195,190
Profit on disposal of property, plant and equipment	1,260	6,575
Foreign exchange gain	841	1,902
Reversal of investment diminution provision	-	5,000
Others	1,222	42,579
	509,829	421,625

30. OTHER OPERATING CHARGES

	2007	2006
Workers' profits participation fund		
Holding Company (note 13.1)	228,747	184,778
Subsidiary companies	30,988	2,402
Workers' welfare fund	99,879	67,151
Legal and professional charges	48,016	5,944
Research and development (including salaries and wages)	16,297	33,954
Loss on sale of fixed assets	21,687	-
Loss on death / sales of biological assets	2,062	-
Foreign exchange loss	21,508	-
Auditors' remuneration		
- statutory audit (note 30.1)	3,346	1,849
- fee for other services	3,347	1,134
- reimbursement of expenses	983	228
	7,676	3,211
Professional tax	20	250
Others	5,678	-
	482,558	297,690

30.1 Includes Rs. 855 (2006: Rs. 483) relating to A. F. Ferguson & Co., Chartered Accountants, Rs. 851 (2006: Rs. 240) relating to Fakharuddin Yousafali & Co., Chartered Accountants, and Rs. 250 (2006: Rs. 245) relating to Sajjad Haider & Co. Chartered Accountants, statutory auditors of subsidiary companies.

31. FINANCE COST

	2007	2006
	(Rupees)	
Interest on workers' profit participation fund (note 13.1)	-	470
Mark-up / interest on		
- redeemable capital and long term loans	530,446	340,026
- short term borrowings	158,047	78,161
Others	29,165	19,583
	717,658	438,240

32. SHARE OF INCOME FROM JOINT VENTURES

	2007	2006
Share of income before taxation		
Engro Vopak Terminal Limited	360,375	364,354
Engro Polymer & Chemicals Limited	-	267,985
	360,375	632,339
Less: Share of provision for taxation		
Engro Vopak Terminal Limited	116,709	127,453
Engro Polymer & Chemicals Limited	-	95,318
	116,709	222,771
	243,666	409,568

(AMOUNTS IN THOUSAND)

	2007	2006
	(Rupees)	
33. TAXATION		
Current - for the year	1,125,461	863,888
- prior year	53,525	-
Deferred	(59,945)	(85,537)
	1,119,041	778,351

33.1 Engro Chemical Pakistan Limited, holding company (ECPL)

The Company, during the year, has claimed the benefit of Group Relief under section 59 B of Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company, amounting to Rs. 428,744.

Section 59 B (2) (g) of the Ordinance requires that companies availing Group Relief are required to be designated by the Securities and Exchange Commission of Pakistan (SECP) as companies entitled to avail Group Relief. However, the Company's application of July 2007 to SECP in this regard is still pending. The management of the Company is confident that the Company having met all the substantial conditions under the Ordinance in this regard will be designated by SECP as required for the purpose of availing Group Relief.

Further, the Company has also agreed to acquire current year's losses of EFL and accordingly has recognised a liability of Rs. 622,103 (Note 12) in the financial statements being the equivalent tax effect of the losses to be acquired. These losses will be accounted for in the income tax return of the Company due to be filed with income tax department by September 30, 2008.

33.2 The Company has filed tax returns up to income tax year 2006. All assessments up to income year 2002 have been finalized by the department and appealed against.

For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

For income years ending June 1997, December 1997 and December 1998, appeals have been decided in favour of the Holding Company by the appellate authorities. For June 1997 and December 1997 the Holding Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which the Holding Company believes to be an error of fact and should be rectified. For December 1998, the Holding Company has received favourable decision from Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years ending June 1997, December 1997 and December 1998, appeals have been decided in favour of the Company by the appellate authorities. For June 1997 and December 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which the Company believes to be an error of fact and should be rectified. For December 1998, the Company has received favourable decision from Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the ECPL is in Appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The ECPL has also filed reference with Alternative Dispute Resolution Committee (ADRC) of the Federal Board of Revenue (FBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. A favourable decision in this respect has been received subsequent to year end. For these four years, the Department has also filed appeals with ITAT on certain issues which were decided in favour of the Holding Company by the Commissioner (Appeals).

For income years December 2003, December 2004, December 2005 and December 2006, income tax returns have been filed under self assessment schemes.

The Holding Company is confident that all pending issues will be ultimately resolved without any additional liability.

33.3 Engro Polymer and Chemicals Limited, subsidiary company (EPCL) [formerly Engro Asahi Polymer and Chemicals Limited]

During the year 2003, the Assessing Officer (AO) while finalising the assessment order for the year ended December 31, 2000 (Assessment year 2001 – 2002) had made additions to income of Rs. 144 million on the contention that the sales made by EPCL to its wholly owned subsidiary (ETPL) were allegedly made on non-arm's length basis. The EPCL's appeal to the Commission (Appeals) against the above addition was decided in department's favour in 2004, against which EPCL filed an appeal with the Income Tax Appellant Tribunal (ITAT). ITAT in its order dated October 30, 2005 has set-aside the issue for re-examination by the AO. The management of EPCL is confident that the ultimate outcome of the above would be in their favour and as such no effect for the same has been considered on the carried forward tax losses and resulting deferred tax asset in these financial statements.

33.4 Relationship between tax expense and accounting profit

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Group's applicable tax rate as follows:

	2007	2006
	(Rupees)	
Profit before tax	3,952,829	2,917,193
Tax calculated at the rate of 35%	1,383,490	1,021,018
Depreciation on exempt assets not deductible for tax purposes	33,396	33,266
Effect of applicability of lower tax rate / exemption on certain income and other tax credits / debits	(539,992)	(529,636)
Minimum tax on turnover	18,463	1,452
Net effect of consolidation adjustments	37,901	88,932
Tax under final regime	185,783	94,259
Tax charge for the year	1,119,041	709,291

34. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the Holding Company, which is based on:

	2007	2006
	(Rupees)	
Profit after taxation (attributable to the shareholders of Holding Company)	2,876,520	2,106,891
	(Numbers)	
Weighted average number of Ordinary shares (in thousand)	183,737	175,329

35. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the consolidated financial statements for remuneration, including all benefits, to chief executives, directors and executives of the Group are given below:

	2007			2006		
	Chief Executives	Other Directors	Executives	Chief Executives	Other Directors	Executives
	(Rupees)					
Managerial remuneration	89,722	22,959	749,188	29,853	24,781	503,801
Retirement benefit funds	7,796	3,181	95,033	3,795	3,302	69,563
Other benefits	12,153	2,403	79,860	1,970	4,913	22,330
Fees	-	725	-	-	465	-
Total	109,671	29,268	924,081	35,618	33,461	595,694
Number of persons including those who worked part of the year	6	18	502	7	21	413

(AMOUNTS IN THOUSAND)

35.1 The Holding Company also makes contributions based on actuarial calculations to pension and gratuity funds and provides certain household items for use of some employees. Cars are also provided for use of certain Chief Executives and some employees and directors.

35.2 Technical advisory fees paid during the period to non-executive director amounted to Rs. Nil (2006: 300).

	2007	2006
	(Rupees)	
36. CASH GENERATED FROM OPERATIONS		
Profit before taxation	3,952,829	2,917,193
Adjustment for non-cash charges and other items:		
- Depreciation and amortization (note 15.2)	989,254	734,095
- Loss / (profit) on disposal of fixed assets	20,427	(6,575)
- Loss on sale/ death of biological assets	2,062	-
- Provision for retirement and other service benefits	125,120	74,157
- Negative goodwill arising on further acquisition of a subsidiary's shares	(227,889)	(195,190)
- Reversal of provision for diminution in investment	-	(5,000)
- Income on deposits / other financial assets (note 29)	(198,096)	(50,075)
- Share of income from joint venture companies (note 32)	(243,666)	(409,568)
- Finance cost (note 31)	717,658	438,250
- Provision for surplus and slow moving stores and spares	7,551	-
- Provision for doubtful trade debts	8,551	-
- Provision for other loans advances deposits and prepayments	1,442	-
- Provision for other receivables	(436)	-
- Fair value of designated hedging derivative	1,037,386	-
- Working capital changes (note 36.1)	(1,418,876)	(1,386,158)
	4,773,317	2,111,129
36.1 Working capital changes		
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(108,878)	(148,155)
- Stock-in-trade	(1,478,654)	(388,930)
- Trade debts	(691,514)	(482,231)
- Loans, advances, deposits and prepayments	(733,205)	(119,740)
- Other receivables and other assets	(2,174,492)	(1,157,305)
	(5,186,743)	(2,296,361)
Increase / (decrease) in current liabilities		
- Trade and other payables including other service benefits (net)	3,767,867	910,203
	(1,418,876)	(1,386,158)
37. CASH AND CASH EQUIVALENTS		
Cash and bank balances (note 25)	2,132,987	2,447,985
Short term investments (note 24)	10,322,832	228,518
Less: Short-term borrowings (note 12)	901,953	2,020,372
	11,553,866	656,131

(AMOUNTS IN THOUSAND)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

38.1 Financial assets and liabilities

2007

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Long term investments		-	-	-	-	-	-	493,517	493,517
Loans and advances		-	-	-	-	76,513	153,936	-	230,449
Trade debts		-	-	-	-	1,852,844	-	-	1,852,844
Derivative Financial Asses	4.03	11,448	-	-	11,448	2,002,572	-	-	2,002,572
Other receivables		-	-	-	-	497,451	-	-	497,451
Short term investments		-	-	-	-	10,322,832	-	-	10,322,832
Cash and bank balances		-	-	-	-	2,132,987	-	-	2,132,987
		11,448	-	-	11,448	16,885,199	153,936	493,517	17,532,652
Financial Liabilities									
Redeemable capital	8.13 to 12.06	1,397,080	5,333,312	11,553,870	18,284,262	-	-	-	-
Long term loan	7.38	35,429	-	-	35,429	-	-	-	-
Liabilities against assets subject to finance leases	6 to 15.75	17,007	30,028	-	47,035	-	-	-	-
Short term borrowings	5.6 to 14	901,953	-	-	901,953	-	-	-	-
Trade and other payable		-	-	-	-	6,227,973	-	-	6,227,973
Unclaimed dividends		-	-	-	-	193,067	-	-	193,067
		2,351,469	5,363,340	11,553,870	19,268,679	6,421,040	-	-	6,421,040

2006

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Long term investments		-	-	-	-	-	-	474,851	474,851
Loans and advances	9	-	-	-	-	55,576	62,965	-	118,541
Trade debts		-	-	-	-	1,169,881	-	-	1,169,881
Derivative Financial Assets	5.47	26,000	11,000	-	37,000	-	-	-	-
Other receivables	5.47 to 9.5	-	-	-	-	148,273	-	-	148,273
Short term investments	11	-	-	-	-	228,518	-	-	228,518
Cash and bank balances	3 to 15	1,845,726	-	-	1,845,726	602,259	-	-	602,259
		1,871,726	11,000	-	1,882,726	2,204,507	62,965	474,851	2,742,323
Financial Liabilities									
Redeemable capital	9.13 to 12	1,252,500	2,347,500	-	3,600,000	-	-	-	-
Long term loan	11.5 to 12	69,623	34,811	-	104,434	-	-	-	-
Liabilities against assets subject to finance leases	6 to 15.75	10,557	24,027	-	34,584	-	-	-	-
Short term borrowings	10.07 to 11.5	2,020,372	-	-	2,020,372	-	-	-	-
Trade and other payables	1 to 15	-	-	-	-	2,784,382	-	-	2,784,382
Unclaimed dividends		-	-	-	-	82,360	-	-	82,360
		3,353,052	2,406,338	-	5,759,390	2,866,742	-	-	2,866,742

38.2 Financial risk management

Overall, risks arising from the Group's financial assets and liabilities are limited. The Group manages its exposure to financial risk in the following manner:

a) Foreign exchange risk

Foreign currency risk arises mainly where receivables, payables and / or firm commitments to pay exist due to transactions with foreign undertakings.

This exists due to the Group's exposure resulting from outstanding import payments. A foreign exchange risk management policy has been developed and approved by the Management Committee. The policy allows the Group to take currency exposure for limited periods within predefined limits and open exposure is rigorously monitored. The Group ensures that it has options available to exit or hedge any exposure, either through forward contracts or prepayments, etc.

The Group is exposed to currency risk on commitments to purchase plant and machinery and technical service fees in connection with urea expansion project (note 15.5.1) denominated primarily in Euros.

The Group has entered in to Euro-Dollar forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity. Currency risk related to Dollar-Rupee fluctuations are hedged from time to time as considered appropriate.

b) Interest / mark-up rate risk

The interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest /mark up rate. Sensitivity to interest / mark-up rate risk arises from mismatches of financial assets and liabilities that mature or reprice in a given period. The Company has long term Rupee based loans at variable rates. Variable rate loans have a prepayment option, which can be exercised upon any adverse movement. Rates on short term loans are effectively fixed.

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss without taking into account the fair value of any collateral. The Holding Company is exposed to a concentration of credit risk on its trade debts amounting to Rs. 1,408,885 by virtue of all its customers being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees from reputable banks.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other condition. Concentration of credit risk on cash based financial assets is minimised by dealing with a variety of major banks.

d) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Group treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(AMOUNTS IN THOUSAND)

38.3 Capital management

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The management closely monitors the return on capital along with the level of distributions to ordinary share holders.

The management seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

38.4 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

39. SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products that are subject to risk and returns that are different from those of other business segments.

Type of segments	**Nature of business**
Fertilizer	Manufacture, purchase and market fertilizers.
Polymer	Manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds and related chemicals.
Food	Manufacture, process and sell dairy food products.
Other operations	Includes Independent Power Projects (IPP) & engineering and automation businesses.

	Fertilizer		**Polymer**		**Food**		**Other operations**		**Elimination - net**		**Consolidated**	
	2007	2006	2007	2006 *	2007	2006	2007	2006	2007	2006	2007	2006
Revenue from external cutomers	23,183,222	17,601,783	6,039,535	290,453	3,631,134	1,506,220	1,266,720	841,579	-	-	34,120,611	20,240,035
Segment gross profit / (loss)	6,412,168	4,905,153	957,838	82,601	260,711	(32,067)	318,820	207,325	32,708	(20,158)	7,982,245	5,142,854
Segment expenses - net of other income	1,481,063	1,039,388	379,869	41,711	1,110,361	605,125	500,537	208,589	38,024	(57,317)	3,509,854	1,837,496
Interest income	150,479	46,496	39,923	1,531	1,358	1,693	6,336	355	-	-	198,096	50,075
Financial charges	536,866	381,935	41,419	3,329	105,450	22,897	66,208	30,079	(32,285)	-	717,658	438,240
Income tax charge / (credit)	1,251,126	980,125	154,791	5,024	(333,809)	(230,438)	9,032	9,583	37,901	14,057	1,119,041	778,351
Segment profit after tax / (loss)	3,293,592	2,550,201	421,682	34,068	(619,933)	(427,958)	(250,621)	(40,571)	(10,932)	23,102	2,833,788	2,138,842
Segment assets	39,689,928	15,857,715	9,464,191	4,266,437	4,329,423	1,740,461	2,810,017	703,454	(7,813,438)	(2,988,855)	48,480,121	19,579,212
Investment in joint venture / associate	-	-	-	-	-	-	-	-	-	-	493,517	474,851
Total segment assets	39,689,928	15,857,715	9,464,191	4,266,437	4,329,423	1,740,461	2,810,017	703,454	(7,813,438)	(2,988,855)	48,973,638	20,054,063
Total segment liabilities	24,183,654	6,922,891	3,232,210	2,217,907	2,993,539	582,144	951,454	555,484	(393,908)	(20,534)	30,966,949	10,257,892
Capital expenditure	8,024,200	390,944	2,453,044	344,662	1,641,248	707,817	1,752,664	65,079	(2,790,043)	(358,804)	11,081,113	1,149,698
Depreciation	626,661	614,048	181,825	6,910	152,828	85,425	19,906	9,182	(3,161)	7,265	978,059	722,830
Amortization of intangibles	7,920	8,895	102	5	1,165	785	2,008	1,580	-	-	11,195	11,265

* Polymer business segment was acquired from 15th December, 2006. Therefore results for 17 days are presented with respect to this segment for the year 2006

(AMOUNTS IN THOUSAND)

40. TRANSACTIONS WITH RELATED PARTIES

40.1 Related parties comprise joint venture companies, associates, other companies with common directors, retirement benefit funds, directors and key management personnel.

40.2 Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2007	2006
	(Rupees)	
Associated companies		
Purchases and services	7,617,821	10,106
Services rendered	29,678	1,052
Dividend paid	512,775	740,746
Others		
Dividend paid	8,600	10,768

40.3 Remunerations to key management personnel are disclosed in note 35.

40.4 Balances with related parties are disclosed in respective notes.

41. ACCOUNTING ESTIMATES AND JUDGEMENTS

Income taxes

In making the estimates for income taxes payable by the Group, the management looks at the applicable law and the decisions of appellate authorities on certain issues in the past.

Impairment of financial assets

In making an estimate of future cash flows from the Group's financial assets including investment in joint ventures and associates, the management considers future dividend stream and an estimate of the terminal value of these investments.

Investment stated at fair value through profit and loss

Management has determined fair value of certain investments by using quotations from active market and conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement.

Property, plant and equipment

The Group reviews appropriateness of the rate of depreciation, useful life, residual value used in the calculation of depreciation. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

Stock in trade and stores and spares

The Group reviews the net realizable value of stock in trade and stores and spares to assess any diminution in the respective carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditures to make the sales.

Derivative hedging instrument designated as a cash flow hedge

The Group reviews the changes in fair values of the forward exchange contracts at each reporting date based on the valuations received from the contracting bank. These valuations represent estimated fluctuations in the relevant currencies over the reporting period and other relevant variables signifying currency risk.

(AMOUNTS IN THOUSAND)

42. DONATIONS

Donations include the following in which a director or his spouse is interested:

	Interest in Donee	Name and address of Donee	2007	2006
			(Rupees)	
Mr. Asad Umar	Member	Engro Community Welfare Foundation, Karachi	-	245
Mr. Asad Umar and Mr. Shazada Dawood	Member	Lahore University of Management Sciences, Lahore	300	-
			300	245

43. PRODUCTION CAPACITY

			Designed Annual Capacity		Actual Production	
			2007	2006	2007	2006
			Metric Tons		Metric Tons	
*	Urea	Metric Tons	975,000	975,000	954,216	968,585
**	NPK	Metric Tons	160,000	160,000	124,821	107,994
**	PVC Resin	Metric Tons	100,000	100,000	94,346	97,172
***	Processed Milk	Thousand Litres	126,860	85,410	107,338	44,455

* Actual production was below from designed annual capacity due to unplanned shutdowns.

** Actual production was per market demand for NPK plant/ PVC Resin plant.

*** Current year's capacity includes Sahiwal plant which commenced production from December 1, 2007 (2006: Commercial production from Sukkur plant commenced from March 1, 2006).

44. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Holding Company in its meeting held on February 20, 2008 has proposed a final cash dividend of Rs. 3 per share (2006: Rs. 3 per share) for approval of the members at the Annual General Meeting to be held on March 28, 2008. The Board of Directors have also decided to issue right shares in the proportion of 1 share for every existing 10 shares held at a price of Rs. 175 per share i.e. a premium of Rs. 165 per share over par value of Rs. 10.

The Company had earlier announced a right issue of 15% at a price of Rs.125 per share on April 25, 2007, and under Rule 5(1) of the Companies (Issue of Capital) Rules, 1996 a Company “shall not make a right issue within one year of the…..further issue of capital through right issue”. As the Company requires this further equity infusion by the end of June, 2008 to meet its commitments for its fertilizer expansion project, therefore the Company has announced this right issue and will be applying to the SECP for relaxation of the one year requirement. This announcement is consequently subject to the relaxation being granted.

The financial statements for the year ended December 31, 2007 do not include the effect of the proposed cash dividends and right issue, which will be accounted for in the year in which these are approved.

(AMOUNTS IN THOUSAND)

45. LISTING OF SUBSIDIARY COMPANIES, ASSOCIATED COMPANY AND JOINT VENTURE

Name of subsidiaries	Financial year end
Engro Foods Limited	December 31
Engro Energy (Private) Limited	December 31
Engro Eximp (Private) Limited	December 31
Engro Management Services (Private) Limited	December 31
Engro Polymer & Chemicals Limited - formerly Engro Asahi Polymer & Chemicals Limited	December 31
Engro Innovative Automation (Private) Limited - formerly Innovative Automation & Engineering (Private) Limited	December 31
Name of Joint Venture	
Engro Vopak Terminal Limited	December 31
Name of Associated Company	
Agrimall (Private) Limited	June 30

46. DATE OF AUTHORISATION FOR ISSUE

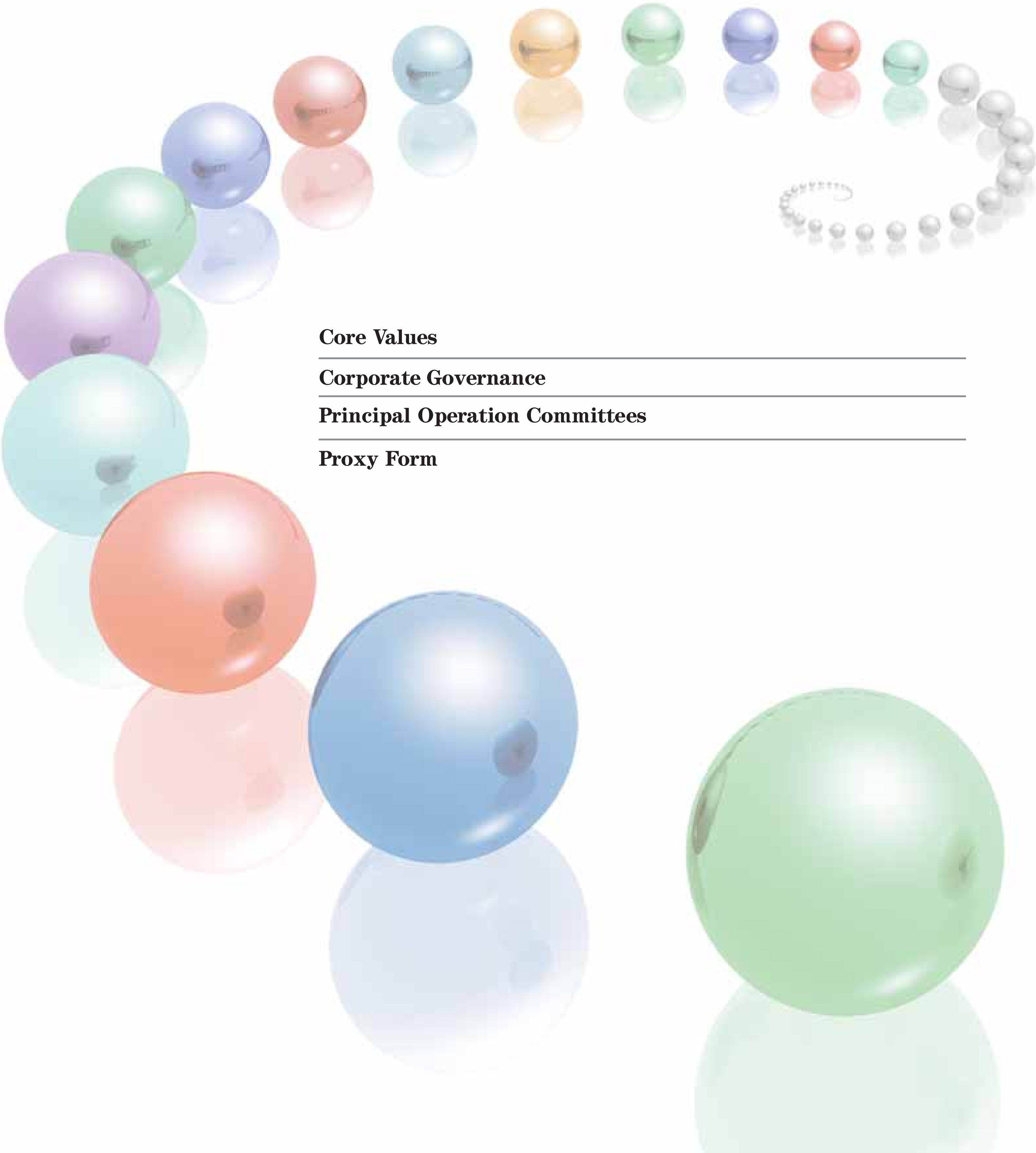
These financial statements were authorised for issue on February 20, 2008 by the Board of Directors of the Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Engro Vopak, Port Qasim

Happy faces at Sahara Welfare School at Daharki



Core Values

Corporate Governance

Principal Operation Committees

Proxy Form

Leadership

We have leaders of high integrity, energy and enthusiasm who have the necessary managerial, professional and people skills to inspire a group or an organization to set high goals and achieve them willingly. We believe that leadership skills need to be strengthened at all levels within our organization and that managerial and professional competence is a necessary foundation.

Core

Candid & Open Communications

We value communications that are courteous, candid and open and that enable each of us to do our jobs more effectively by providing information that contributes to the quality of our judgement and decision making. Effective commuication should also provide the means for gaining understanding of the company's overall objectives and plans and of the thinking behind them.

Safety, Health & Environment

We will manage and utilize resources and operations in such a way that the safety and health of our people, our neighbours, our customers and our visitors is ensured. We believe our safety, health and environmental responsibilities extend beyond protection and enhancement of our own facilities, and we are concerned about the distribution, use and after-use disposal of our products.

Innovation

Success requires us to continually strive to produce break through ideas that result in improved solutions and services to customers. We encourage challenges to the status quo and seek organizational environments in which ideas are generated, nurtured and developed.

Teamwork & Partnership

We believe that high-performing teams containing appropriate diversity can achieve what individuals alone cannot. Consciously using the diversity of style, approach and skills afforded by teams is a strength we must continue building into our organization.

Diversity & International Focus

We value differences in gender, race, nationality, culture, personality and style because diverse solutions, approaches and structures are more likely to meet the needs of customers and achieve our business goals.

Values

Quality & Continuous Improvement

We believe that quality and a relentless commitment to continuous improvement are essential to our ongoing success. To this end, we define quality as understanding the customer's expectations, agreeing on performance and value, and providing products and services that meet expectations 100 percent of the time. Our motto is, "Quality in all we do."

Ethics & Integrity

We do care how results are achieved and will demonstrate honest and ethical behavior in all our activities. Choosing the course of highest integrity is our intent and we will establish and maintain the highest professional and personal standards. A well-founded reputation for scrupulous dealing is itself a priceless asset.

External & Community Involvement

We believe that society must have industrial organizations that it can trust. Trust and Confidence are earned by our performance, by open and direct communication, and by active involvement in the communities in which we live and conduct our business."

Individual Growth & Development

We strongly believe in the dignity and value of people. We must consistently treat each other with respect and strive to create an organizational environment in which individuals are encouraged and empowered to contribute, grow and develop themselves and help to develop each other.

Enthusiastic Pursuit of Profit

Successfully discharging our responsibilities to our shareholders to enhance the long-term profitability and growth of our company provides the best basis for our career security and meaningful personal growth. We can best accomplish this by consistently meeting the expectations of our customers and providing them with value.

Enjoyment & Fun

We believe that excitement, satisfaction and recognition are essential elements of a healthy, creative and high-performing work environment. Having fun in our work should be a normal experience for everyone.

corporate governance

Compliance Statement
The Board of Directors has throughout the year 2007 complied with the 'Code of Corporate Governance' contained in the listing requirements of the stock exchanges and the 'Corporate and Financial Reporting Framework' of the Securities & Exchange Commission of Pakistan.

Risk Management Process
In 2007, the Management Committee undertook a review of major financial and operating risks faced by the business.

Internal Control Framework
Responsibility: The Board is ultimately responsible for Engro's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board, whilst maintaining its overall responsibility for managing risk within the Company, has delegated the detailed design and operation of the system of internal controls to the Chief Executive.

Framework: The Company maintains an established control framework comprising clear structures, authority limits, and accountabilities, well-understood policies and procedures and budgeting and review processes.

The Board establishes corporate strategy and the Company's business objectives. Divisional management integrates these objectives into divisional business strategies with supporting financial objectives. All policies and control procedures are documented in manuals.

Review: The Board meets quarterly to consider Engro's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators.

The Board Audit Committee receives reports on the system of internal financial controls from the external and internal auditors and reviews the process for monitoring the effectiveness of internal controls.

There is a company wide policy governing appraisal and approval of investment expenditure and asset disposals. Post completion reviews are performed on all material investment expenditure.

Audit: Engro has an Internal Audit function. The Board Audit Committee annually reviews the appropriateness of resources and authority of this function. The Head of Internal Audit reports directly to the Audit Committee on the results of its work. The Internal Audit function carries out reviews on the financial, operational and compliance controls, and reports on findings to the Chief Executive and the divisional management. All material issues are reported to the Board Audit Committee which approves the audit program, based on an annual risk assessment of the operating areas.

To underpin the effectiveness of controls, it is Engro's policy to attract, retain and develop staff of high calibre and integrity in appropriate disciplines. There is an annual appraisal process, which assesses employee performance against agreed objectives and identifies necessary training to maintain and enhance standards of performance.

Directors

Since April 2006, the Board has comprised of five executives and five non-executive Directors who had the collective responsibility for ensuring that the affairs of Engro are managed competently and with integrity. The non-executive Directors are independent of management and free from any business or other relationships that could materially interfere in the exercise of their judgment.

An independent non-executive Director, Mr. Hussain Dawood, chairs the Board and the Chief Executive Officer is Mr. Asad Umar. Biographical details of the Directors are given on page 14.

A Board of Directors meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board meets at least four times a year and, in addition, devotes two days for a meeting on longer term planning, giving consideration both to the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a detailed analysis on businesses and full papers on matters where the Board will be required to make a decision or give its approval.

principal board committees

The Board has established two committees both of which are chaired by independentnon-executive directors. The specific terms of references are as follows:

Board Compensation Committee is responsible for reviewing and recommending all the elements of the Compensation, Organization & Employee Development policies relating to the senior executives' remuneration and for approving all matters relating to the remuneration of Executive Directors and members of the Management Committee.

The Board Compensation Committee primarily consists of non-executive Directors except the Chief Executive. The Committee met 4 times during 2007.

Directors' Names
Hussain Dawood (Chairman)
Shabbir Hashmi
Arshad Nasar
Asad Umar

The Secretary of the Committee is Tahir Jawaid, General Manager Human Resources.

Board Audit Committee assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, systems of internal control and risk management and the audit process. It has the power to call for information from management and to consult directly with the external auditors or their advisors as considered appropriate.

The Board Audit Committee comprises of independent non-executive Directors. The Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. The Committee also privately meets with the external auditors at least once a year. After each meeting the Chairman of the Committee reports to the Board. The Committee met 7 times during 2007.

Directors' Names

Shabbir Hashmi (Chairman)
Shahzada Dawood
Arshad Nasar
Isar Ahmad

The Secretary of the Committee is Naveed A. Hashmi, Corporate Audit Manager.

principal operation committees


Asad Umar


Asif Qadir


Khalid S. Subhani

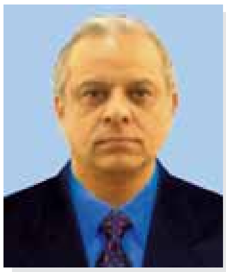

Khalid Mansoor


Khalid Mir


Andalib Alavi


Ruhail Mohammed


S. Imran ul Haque


Asif Tajik


Inamullah Naveed Khan


Tahir Jawaid

Secretaries

Ahsan Afzal Ahmed	Management Committee
Jahangir Piracha	Corporate HSE Committee
Tahir Jawaid	COED Committee

Committee Members

Asad Umar (Chairman)
Asif Qadir
Khalid S. Subhani
Khalid Mansoor
Khalid Mir
Andalib Alavi (MC only)
S. Imran ul Haque
Syed Ahsan Uddin (HSE only)
Sarfaraz A. Rehman (HSE only)
Ruhail Mohammed
Asif Tajik
Inamullah Naveed Khan
Tahir Jawaid (Except COED)

The following Committees act at the operation level in an advisory capacity to the Chief Executive Officer, providing recommendations relating to businesses and employee matters:

Management Committee is responsible for review and endorsement of long term strategic plans, capital and expense budgets, development and stewardship of business plans and reviewing the effectiveness of risk management processes and internal control.

Corporate HSE Committee is responsible for providing leadership and strategic guidance on all Health, Safety and Environment (HSE) improvement initiatives and has stewardship responsibility for monitoring compliance against regulatory standards and selected international benchmarks.

COED Committee is responsible for the review of Compensation, Organization and Employee Development (COED) matters of all people excluding employee Directors and Senior executives.

ten years at a glance

(Million Rupees)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Net Sales Revenue	23,183	17,602	18,276	12,798	11,884	10,620	8,006	8,080	8,170	8,063
Operating Profit	3,279	2,756	2,641	2,233	2,534	2,327	1,736	1,914	1,980	2,230
Profit before Tax	4,235	3,445	3,220	2,315	2,323	1,836	1,191	1,350	1,342	1,807
Profit after Tax	3,155	2,547	2,319	1,611	1,557	1,133	1,064	1,126	1,048	1,488
Employee Costs	1,050	950	804	795	749	673	594	544	467	437
Taxes, Duties & Development Surcharge	5,890	4,633	4,168	3,911	3,457	3,062	2,266	1,762	1,489	1,607
Workers' Funds	316	251	215	156	168	113	69	71	71	95
Property, Plant and Equipment	6,109	6,318	6,351	6,492	6,648	6,865	6,643	6,462	6,714	6,700
Capital Expenditure	8,024	391	377	520	370	823	435	578	337	1,465
Long Term Investments	4,108	1,480	748	–	85	–	–	–	171	531
Long Term Liabilities	15,423	1,800	2,890	2,580	3,236	3,323	2,992	3,070	2,908	3,469
Net Current Assets	11,132	2,042	2,211	1,618	1,796	1,252,	1,194	993	484	750
Dividends And Shares										
Shareholders' Fund	15,482	9,370	7,376	6,586	6,199	5,817	5,727	5,582	5,181	4,918
Shares Outstanding at Year End (in Million)	193	168	153	153	153	139	139	121	121	101
Dividend per Share Rs.	7.0	9.0	11.0	8.5	8.0	7.5	7.5	7.0	6.0	8.0
Dividend payout rate	41%	58%	77%	81%	79 %	104%	98%	75%	69%	54%
Bonus Shares	–	–	–	–	–	10%	–	15%	–	20%
(Thousand Metric Tons)										
Engro Urea Production	954	969	912	870	955	852	790	808	807	707
Engro Urea Sales	874	945	890	891	930	846	779	800	806	712
Zarkhez/Engro NP Production	125	108	157	121	72	73	31	–	–	–
	135	116	143	114	86	64	24	–	–	–
	570	453	491	250	290	309	181	223	264	318

ENGRO CHEMICAL PAKISTAN LTD.

ENGRO

Proxy Form

I/we ____

of ______________________________ being a member of ENGRO CHEMICAL PAKISTAN LIMITED and holder of __________________ Ordinary shares as per Share

(Number of Shares)

Register Folio No. ________ and/or CDC Participant I.D. No. ________ and Sub Account No. ______

hereby appoint ________________________ of ______________________

or failing him ____

of ____

as my proxy to vote for me and on my behalf at the annual general meeting of the Company to be held on the 28th day of March, 2008 and at any adjournment thereof.

Signed this ________________________ day of ________________ 2008.

WITNESSES:

1. Signature: __________________
   Name: __________________
   Address: __________________
   ____
   NIC or __________________
   Passport No. __________________

2. Signature: __________________
   Name: __________________
   Address: __________________
   ____
   NIC or __________________
   Passport No. __________________

Signature

Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Note: Proxies in order to be effective, must be received by the Company not less than 48 hours before the meeting. A Proxy need not be a member of the Company.

CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.

Engro Chemical Pakistan Limited,
4th Floor, Executive Tower Dolmen City,
Block 4, Marine Drive, Clifton, Karachi.

www.engro.com