annual report 2008

Energy for growth

ENGRO®

ENGRO CHEMICAL PAKISTAN LIMITED

Energy for growth

Yesterday, Engro - abbreviated from
“Energy for Growth” - was a fertilizer brand
of Exxon Chemical Pakistan Limited.

Today, Engro is a vibrant growing enterprise fueling
wheels of Pakistan’s growth in diverse sectors.

Tomorrow, Engro shall continue passionate
pursuit of new frontiers of growth.

our

Vision

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

Contents

Energy for Growth

2008 was another record breaking year; we delivered our strongest results to date with profits after tax of Rs 4,240 million. Despite a year of international economic upheaval our growth remained steady, with all our expansion projects on track. Safety remained of prime importance in our base operations as well as expansion initiatives.

- Urea expansion project continues to achieve its set milestones. The project is expected to start commercial projection by July 2010.
- Engro Polymer's back integration project remains on track for completion in first half of 2009. Meanwhile, capacity enhancement of 50% was achieved by end 2008.
- Engro Vopak is expected to complete Pakistan's first cryogenic storage facility in the first quarter of 2009.
- Engro Innovative has been re-branded as Avanceon. The Company is poised to enhance its presence in the United States and the Middle East.
- Engro Foods continues its aggressive growth plans. In 2009, the Company plans to expand its product slate further by entering the ice cream business.
- Engro Energy's Qadirpur Power Project is progressing as per plan and the Company is on track to start commercial operation by December 2009.

Key Figures

		2008	2007
Sales Revenue	Rs. Million	23,317	23,183
Profit after Tax	Rs. Million	4,240	3,155
Number of Outstanding Shares	(000's)	206,818	191,109
Earnings per Share	Rs.	20.50	16.51
Dividend	Rs./Share	6.00	7.00
Capital Expenditure	Rs. Million	20,214	8,298
Long Term Investments	Rs. Million	11,092	7,764
Total Assets	Rs. Million	60,289	38,415
Shareholders Equity	Rs. Million	23,084	15,741
Return on Capital Employed	%	30%	30%
Current Ratio		2.55	2.98
Debt: Equity Ratio		55:45	52:48
Market Capitalization (Year End)	Rs. Million	20,528	51,414
Market Capitalization (Year End)	US$ Million	260	650
Price to Earnings Ratio		4.71	16.10
Net Assets per Share	Rs.	108.5	81.4
Interest Coverage Ratio		4.4	8.9
Fixed Assets Turnover		1.0	2.3
Debtor Turnover		27.9	22.8
Inventory Turnover		4.6	10.1

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

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:

7th & 8th Floor, The Harbor Front Building,
HC # 3, Marine Drive, Block 4, Clifton,
Karachi-75600, Pakistan.


CONGRATULATIONS!!
On Completion of
5 MILLION MAN-HOURS
Without LWI
WORK TOGETHER
to achieve
6 MILLION MAN-HOURS
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DEALER TRAINING
ANNUAL MARKETING CONFERENCE
Esso
CHEMICALS
ENGRO
Esso
CHEMICALS


Energy for growth
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AVANCEON

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Forty Third Annual General Meeting of Engro Chemical Pakistan Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Friday, February 27, 2009 at 10 a.m. to transact the following business:

A. ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 31, 2008 and the Directors' and Auditors' reports thereon.

(2) To declare a final dividend at the rate of Rs. 2 per share for the year ended December 31, 2008.

(3) To appoint Auditors and fix their remuneration.

(4) To elect twelve directors in accordance with the Companies Ordinance, 1984. The retiring Directors are M/s. Hussain Dawood, Asad Umar, Isar Ahmad, Shahzada Dawood, Shabbir Hashmi, Khalid Mansoor, Ruhail Mohammed, Arshad Nasar, Asif Qadir and Khalid S. Subhani.

B. SPECIAL BUSINESS

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

"RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to invest upto the rupee equivalent of US$ 12.2 million in a Subsidiary Company, Engro Polymer & Chemicals Limited ("EPCL"), either by way of extending a subordinated loan and / or acquisition of Ordinary Shares of Rs. 10 each of EPCL.

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

"RESOLVED that the consent of the Company in General Meeting be and is hereby accorded for extending a subordinated loan of upto the rupee equivalent of US$ 5 million to Avanceon Limited, a Subsidiary Company".

By Order of the Board

Karachi,
January 21, 2009

ANDALIB ALAVI
General Manager Legal
& Company Secretary

N.B

(1) The Directors of the Company have fixed, under sub-section (1) of Section 178 of the Companies Ordinance, 1984, the number of elected directors of the Company at 12.

(2) The share transfer books of the Company will be closed from Friday, February 13, 2009 to Friday, February 27, 2009 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Pvt) Limited, 4th Floor, State Life Building No. 2-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00p.m) on Thursday, February 12, 2009 will be treated as being in time for the purposes of payment of final dividend to the transferees and to attend the meeting.

(3) 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 Third Annual General Meeting of Engro Chemical Pakistan Ltd. to be held on February 27, 2009 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 (5) OF THE AGENDA

Engro Polymer & Chemicals Limited (EPCL) is a Subsidiary of Engro, with other large shareholders being the International Finance Corporation (15%) and Mitsubishi Corporation (11%). EPCL is currently executing a major expansion and back integration project which involves expanding its PVC resin production capacity by 50,000 tons (to a total of 150,000 tons per annum) and back integrating by setting up an EDC / VCM plant with a capacity of 150,000 tons p.a. and a chlor-alkali unit to produce 106,000 tons p.a. of caustic soda and 94,000 tons p.a. of chlorine, alongwith a 65 MW power plant and allied equipment and facilities. The new PVC facility of 50,000 tons is complete and in commercial production. The EDC / VCM plant, the chlor-alkali unit and the power plant are scheduled to commence production in June 2009.

The lenders to EPCL for financing its project had required EPCL and Engro (its major shareholder) to sign a Project Funds Agreement whereby, under certain circumstances, inter alia in case EPCL faced a shortfall of funds to achieve physical completion of its project or to meet its financial obligations as and when they fell due upto the project physical completion date, Engro was required to provide further funds to EPCL upto a maximum of the rupee equivalent of US$ 10 million. Shareholders approval to extend subordinated loans to EPCL for upto the equivalent of US$ 10 M was obtained at an EGM of Engro held on August 23, 2007. The then estimated project cost was US$ 220 M, however, because of cost escalations and some changes in the scope of work the project cost has now increased to US$ 240 M. After taking into account the deferred payments of the retention money the financing plan is now facing a shortfall of US$ 12.2M, and while EPCL is confident of raising this amount by further borrowing, the Lenders have asked Engro to increase its shareholder support commitments to US$ 12.2M. Under the Project Funds Agreement, Engro has the option to provide the funds by way of further share capital subscriptions or provision of subordinated loans, i.e. loans whose rights are subservient to those being provided by the lenders. At this stage, it appears prudent for Engro to retain the flexibility to provide the shareholder support in either of the modes or a mix of the two (subject off course to a maximum of the equivalent of US$ 12.2M). Apart from increase in the amount, the other amendments sought by the lenders is a change in the definition of "Project Physical Completion Date" which now is proposed to extend to completion of the project and EPCL having to meet certain financial ratios. Engro's commitment therefore is now likely to continue till the end of 2010.

Incase all or part of the shareholder support is provided by way of a subordinated loan, the rate of interest / markup to be charged by Engro to EPCL shall be equal to the interest / markup then payable by Engro for loans in Pakistan of like or similar maturities. As Engro is also the largest single shareholder of EPCL and as the lenders anyway have prior rights and charges, no collateral / security will be obtained for these loans and this is also a condition imposed by the lenders. The period for the repayment of the subordinated loans shall be linked to the tenor of the loans of the lenders, repayment of which is to be in 15 equal semi annual installments ending in the year 2017 (however, if agreed by the lenders, repayment may be made earlier to Engro). Consequently, repayment of the subordinated loan shall be in approximately equal installments, on around the same dates as that of the lenders with payments of interest / markup also being made on such date. Payments of interest / mark up and payment of principal however can only be made after the project physical completion date and only if there is no event of default and certain financial conditions are met.

Some of the Directors of Engro are interested in the business to the extent that they are also nominee Directors of EPCL and hold one share each as nominees of Engro.

The information required under SRO 865(1)2000 for loans is provided below:

(i) Name of investee company together with the amount and purpose of loan or advance; in case any loan had already been provided or loan has been written off to the said investee company, the complete details of the said loan:

Engro Polymer & Chemicals Limited
Subordinated Loan upto the rupee equivalent of US$ 12.2 M, in case funds are required prior to project physical completion date, as detailed above. No loans already provided / written off.

(ii) A brief about the financial position of the investee company on the basis of last published financial statements:
Audited Accounts for the year ended December 31, 2008 showed:

	Rs. (in 000)
Net sales	7,847,606
Gross profit	1,111,388
Operating profit	492,057
Profit before tax	458,528
Profit after tax	353,285

(iii) Rate of markup to be charged:
Equal to the markup payable by Engro on its loans in Pakistan of like or similar maturities.

(iv) Particulars of collateral security to be obtained from borrower and; if not needed, justification thereof:
No security will be obtained. Justification provided above.

(v) Sources of funds from where loans or advance will be given:
Internal cash generation and further borrowing, if required.

(vi) Repayment Schedule:
Subject to the subordination provisions and restrictions explained above, in semi annual installments after the project's physical completion date and repayable in full by June 2017, unless earlier repayment is permitted by the lenders.

(vii) Purpose of loans and advances; and
To provide comfort to the lenders to EPCL and to provide financial support to EPCL.

(viii) Benefits likely to accrue to the company and the shareholders from loans and advances;
Will enable EPCL to meet shortfall in funds for completion of its project and as Engro is the major shareholder this will also safeguard its own equity investment.

In case the support is to be provided by equity subscription, the information required under SRO 865(1)/2000 for equity investment is provided below:

(i) Name of investee Company or associated undertaking.
Engro Polymer & Chemicals Limited

(ii) Nature, amount and extent of investment:
Acquisition of shares in EPCL of the face value of Rs. 10 per share for an amount of upto the equivalent of US$ 12.2M, presently estimated at approximately Rs. one billion. The shares will be acquired directly from EPCL through its Right Issue as further equity injection. EPCL may however have to consider not issuing Rights Shares but raise further equity from Engro, as other then Rights.

(iii) Average market price of the shares intended to be purchased during preceeding 6 months:
Rs. 22.80

(iv) Break-up value of shares:
Rs. 12.60 (as at end December, 2008)

(v) Price at which shares will be purchased:
Rs. 10 per share. However, incase volatility in the stock market does not make it possible or practical to have a Rights Issue at par, offer by EPCL and subscription by Engro at lower than par may have to be considered.

(vi) Earning per share of investee company in last 3 years:
Rs. 2.14, Rs. 1.64 and Rs. 0.68 in 2006, 2007 and 2008 respectively.

(vii) Sources of funds from where shares will be purchased:
Internal cash generation and possible further debt, if required.

(viii) Period for which investment will be made:
Long term.

(ix) Purpose of investment:
To provide comfort to the lenders to EPCL and to provide further equity to EPCL which will enable EPCL to meet shortfall in funds to complete its project.

(x) Benefits likely to accrue to the company and the shareholders from the proposed investment:
Due increased local demand for PVC, EPCL is expanding and back integrating its business, and Engro is confident of the success of this project. Consequently, the benefits to Engro and its shareholders will come from the medium to long term profitability of EPCL, resulting in dividend from EPCL and increasing value of the shares of EPCL, which should result in increased profitability of Engro and increase in value of the shares of Engro.

(xi) Interest of directors and their relatives in the investee company:

The directors of Engro have no personal interest in EPCL, except that some Directors of Engro are Directors of EPCL and hold one share each in EPCL, as nominees of Engro.

ITEM (6) OF THE AGENDA

Engro's Subsidiary, Avanceon Limited (formerly known as Engro Innovative Automation Limited) requires a sum of upto the rupee equivalent of US$ 5 M because the business plans of the company and its subsidiaries in USA and UAE envisages further investments in growth opportunities and consequently further requirement of cash to support the increased working capital needs.

During 2008, the company demonstrated success in Energy Management Solutions in Pakistan. In view of the immense potential of marketing these solutions around the globe, the company has formulated a business plan which envisages using the engineering expertise available in the US and Pakistan to market the energy savings solutions globally with specific focus on the UAE market. Funding of approximately $1M will be required to acquire engineering expertise with experience of developing energy solutions and executing projects. Such projects will also require investment in working capital. Further working capital is also required to support the base business. Approximately $4m will therefore be required to support the working capital needs of Avanceon Ltd. and its subsidiaries. Part of the money lent by Engro, will be onward lent by Avanceon to its subsidiaries. As Avanceon operates in a knowledge based industry, its subsidiaries do not own any substantial assets which can be offered as collateral for bank borrowing. In both the UAE and US subsidiaries, the current lines of credit are secured against the receivables of the companies and further borrowing for new initiatives under the current economic scenario is not feasible. Also, in Pakistan, the company is already fully utilizing its borrowing capacity by collateralizing its assets. It is therefore imperative that the new borrowing is in the form of subordinated loans as the existing lenders will not permit any other form of fresh borrowing.

Some of the Directors of Engro are interested in the business to the extent that they are nominee directors of Avanceon and hold one share each as nominees of Engro.

The information required under SRO 865(1)2000 for loans is provided below:

(i) Name of investee company together with the amount and purpose of loan or advance; in case any loan had already been provided or loan has been written off to the said investee company, the complete details of the said loan:

Avanceon Limited
Subordinated Loan upto the rupee equivalent of US$ 5M. No loans already provided / written off. Details about the maximum amount and purpose of the loans have been detailed above.

(ii) A brief about the financial position of the investee company on the basis of last published financial statements:
Avanceon Limited's revenue in Pakistan was Rs. 473M in 2008 and Rs. 335M in 2007. The company managed to increase its Energy Management Solution sales which was the main contributor to growth. The profit after tax improved to Rs. 20M in 2008 from Rs. 10M in 2007. A similar increase in revenue was observed in the UAE subsidiary where revenues increased to AED25M in 2008 from AED12M in 2007 and loss was reduced to AED 1M in 2008 from AED 3M in 2007. Its US subsidiary, Avanceon LP's revenues declined in 2008 to $11M from $14M in 2007 due to slow down of the US economy since start of the second half of 2008. The subsidiary was able to reduce its loss to $1.4M in 2008 from $2M in 2007 due to improvement in gross margins. Based on the outlook for 2009 and onwards however, the Avanceon Group will regain its profitability on a consolidated basis.

(iii) Rate of markup to be charged:
Equal to the markup payable by Engro on its loans in Pakistan of like or similar maturities plus a margin of 1.5%.

(iv) Particulars of collateral security to be obtained from borrower and; if not needed, justification thereof:
No security will be obtained as the company is a subsidiary of Engro. The company's assets are anyway charged in favour of banks that have provided it finance. Engro does not expect that Avanceon will have any problem with repayment of the loan.

(v) Sources of funds from where loans or advance will be given:
Internal cash generation and further borrowing, if required.

(vi) Repayment Schedule:
Subject to the usual subordination provisions, repayment is expected in two equal installments with the first installment falling due before the end of the thirtieth month and the second falling due before the end of the thirty sixth month. Avanceon and its subsidiaries should be able to repay the loan through internal cash generation in the above stated timeframe. Markup will however be payable on a quarterly basis.

(vii) Purpose of loans and advances; and
Avanceon Limited and its subsidiaries have formulated a business plan which envisages to build an energy solutions business, details of which have been given in the opening paragraph. The loans are being given to facilitate these businesses.

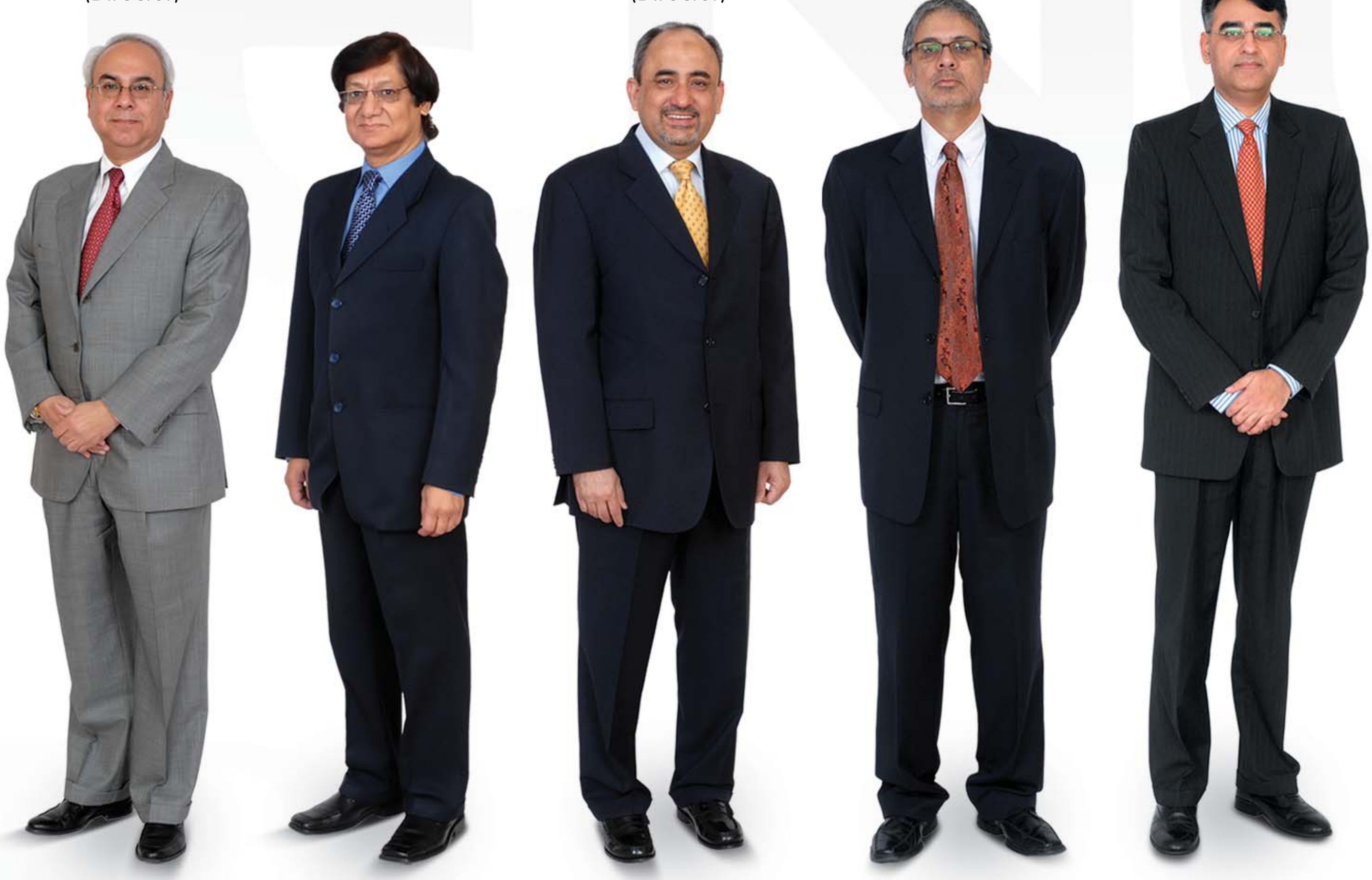
(viii) Benefits likely to accrue to the company and the shareholders from loans and advances:
To enable Avanceon Limited to achieve its growth targets and consequently increase its enterprise value and as Engro is the major shareholder this will also safeguard and increase the value of its own equity investment.

By Order of the Board

ANDALIB ALAVI
General Manager - Legal
& Company Secretary

Karachi,
January 21, 2009.

The Board of Directors



Asif Qadir
(Director)

Khalid S. Subhani
(Director)

Khalid Mansoor
(Director)

Ruhail Mohammed
(Director)

Asad Umar
(Chief Executive)

Hussain Dawood
(Chairman)

Shahzada Dawood
(Director)

Arshad Nasar
(Director)

Isar Ahmad
(Director)

Shabbir Hashmi
(Director)

Directors' Profile

Hussain Dawood (Chairman)

is Chairman of Engro Chemical Pakistan Limited, Dawood Hercules Chemicals Limited and the Karachi Education Initiative which is setting up a Business School in Karachi. He is a Director on the Board of the 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, Commonwealth 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. The Italian government recently conferred on him the award "Ufficiale Ordine al Merito della Repubblica Italiana".

He is an 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.

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 Limited, Avanceon Limited and Advanced Automation LP. He is also a member of the Board of Directors of The Pakistan Business Council, Karachi Education Initiative, Pakistan Institute of Corporate Governance & Management Board of Endowment Fund for Preserving Heritage of Sindh 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.

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 Chairman of Dawood Lawrencepur Limited and Chief Executive of Dawood Hercules Chemicals Limited. He is also on the Board of Sui Northern Gas Pipelines Limited and a Member of the Board of Governors of National Management Foundation, sponsoring body of Lahore University of Management Sciences (LUMS). 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.

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 Board of Engro Polymer & Chemicals Limited and Chief Executive of Engro Energy Limited and Chairman of Engro PowerGen (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 Limited, Avanceon Limited, Engro PowerGen (Private) Limited, Sigma Leasing Corporation Limited and Chief Executive of Engro Management Services (Pvt) Limited. A Masters in Business Administration in Finance, he joined the ECPL Board in 2006.

Arshad Nasar (Director)

Holds a Masters Degree in Economics as well as Political Science. He joined the ECPL Board in 2002.

He has worked as Country Chairman and Managing Director of Caltex Oil Pakistan Limited and subsequently was the Chairman and Chief Executive of OGDCL, has also 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.

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 Limited. He is also Chairman on the Board of Inbox Business Technologies (Pvt) Limited and Unicol (Pvt) Limited. He is President of Management Association of Pakistan and a Member of the Management Committee of Overseas Investors Chamber of Commerce & Industry. 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 S. Subhani (Director)

is a Senior Vice President of Engro Chemical Pakistan Limited. He has held key positions at Engro 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 (ECPL) are pleased to submit the forty third annual report and the audited accounts for the year ended December 31, 2008.

PRINCIPAL ACTIVITIES

The Company mainly manufactures and markets fertilizers. It also owns joint venture/subsidiaries which are engaged in chemical terminal & storage, PVC resin manufacturing & marketing, control & automation, food and energy businesses.

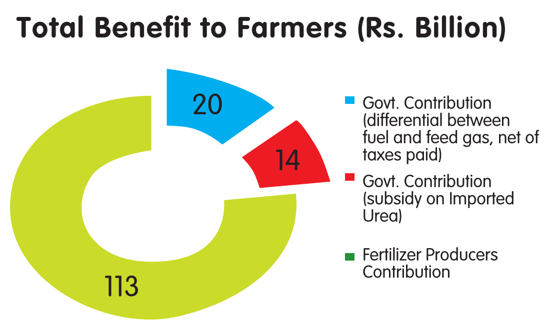
BUSINESS REVIEW

Urea

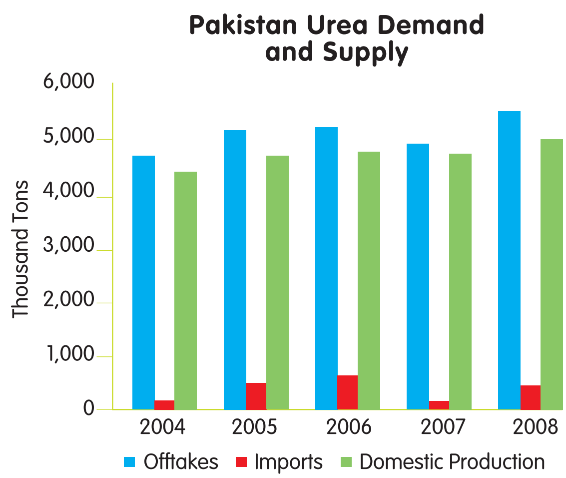
Industry urea sales were 5.5 million tons during 2008, growing 12% over 2007 despite acute shortages. This extraordinary growth is attributed to (a) negative growth of 6.2% in 2007 Vs 2006, (b) lesser application of phosphatic fertilizer and related market uncertainties (c) increase in area under BT Cotton, requiring more urea. With an industry of 5.5 million tons, this means a 5 Year CAGR of 4.2% and 10 Year CAGR of 3.5%.

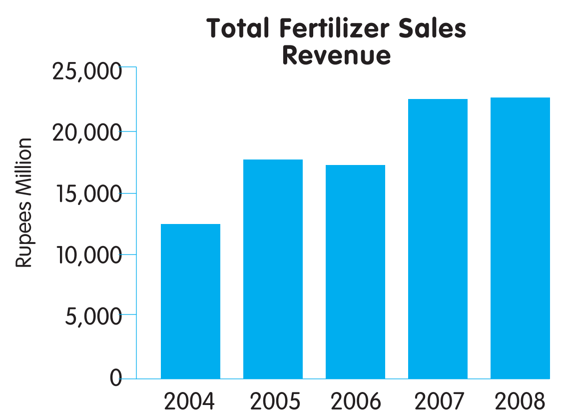
National domestic urea production during 2008 was 4.98 million tons, 5% higher than 2007. In addition, Trade Corporation of Pakistan (TCP) imported 0.44 million tons. Most of this imported urea was sold through National Fertilizer Marketing Limited (NFML).

Price differential between local and imported urea remained substantial. Average imported urea cost was around Rs. 2,000 as compared to local urea price of Rs. 580 per 50 kg bag. Fertilizer industry continued to sell urea domestically at substantially lower prices than international prices resulting in net benefit of Rs. 147 billion to the farming community. Of this total benefit, Government of Pakistan contributed Rs. 34 billion (including Rs. 14 billion subsidy on imported urea) and the remaining Rs. 113 billion by the fertilizer industry.



In 2008, Engro produced 995 KT, fractionally short of target of one million ton due to forced outage in September 2008. ECPL sold 1,061 KT urea, mainly its own production and inventory (1,039 KT) partially complemented by TCP urea (21.5KT), with a full year market share of 19.2%.





Total Fertilizer Sales Volume (Thousand Metric Tons)				
2004	2005	2006	2007	2008
1,255	1,522	1,514	1,523	1,259

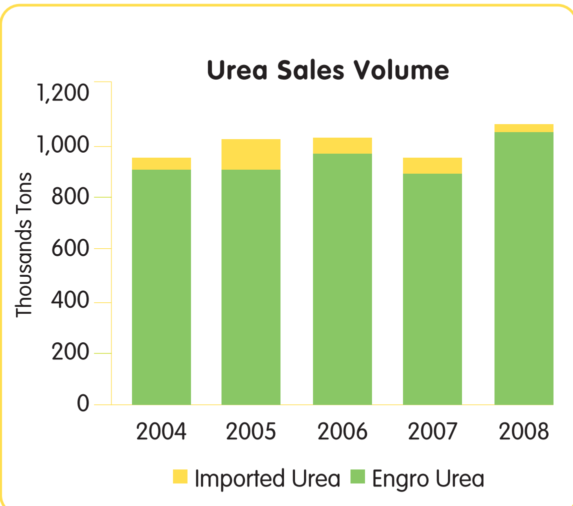
Shortage

During 2008, industry saw unprecedented urea shortages due to late arrival of imports. To minimize the impact of shortage, Engro extensively coordinated with government at federal, provincial and district levels. Provincial and district governments were provided dealer-wise details of shipments on daily basis, rakes were sent to areas worst hit by shortages, and effective contact was maintained with government field staff. Towards end of 2008, half of its urea production was being sold directly to farmers, as requested by government, through NFML.

UREA EXPANSION PROJECT

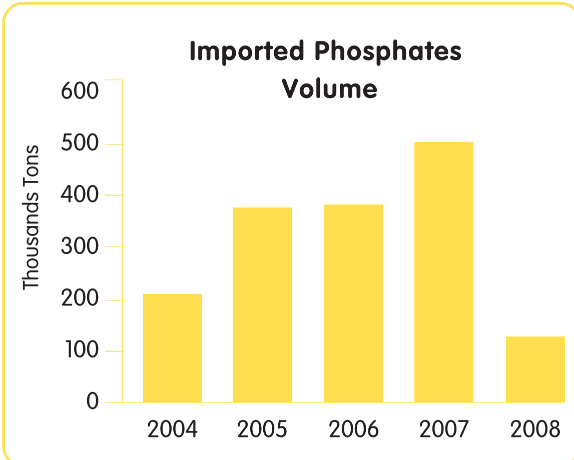
Expansion project at Daharki site, into 21st month of execution, is progressing well with an overall EPC progress of 47%. Engineering phase is essentially over and equipment procurement phase has also crossed the half way mark. Tallest Prill Tower of the world has been slipformed upto 102 meters and shall reach its maximum height of 125 meters by mid February.

Total project cost has increased to $1.05 billion because of increase in the interest rates, devaluation of rupee and a minor design change to increase capacity. This largest private sector investment ever by a national corporate in the form of world's largest single train Ammonia-Urea Plant is on target to achieve the commercial production by July 2010.



Phosphates

In 2008, global phosphatic fertilizer market suffered unprecedented volatility in price. From USD 750 per ton CFR Karachi at start of the year, prices rose to USD 1,300 per ton CFR Karachi in June. At the end of the years, price fell to around USD 400 per ton CFR Karachi. This volatility was driven mainly by changes in demand and prices of food grains and international economic downturn. The abrupt reduction in demand of food grain and then prices resulted in a sharp decline for all fertilizer prices globally. This sharp decline for phosphates demand has resulted in large production cuts all over the world.



Phosphatic fertilizer was subsidized by the Government of Pakistan during 2008. Subsidy remained at Rs. 470 per bag of DAP during first half of the year; it was increased to Rs. 2,200 per bag of DAP in second half of the year. Despite significant increase in subsidy, local DAP prices went up from Rs. 1,685 per bag at start of the year to Rs. 3,050 per bag at the end of the year.

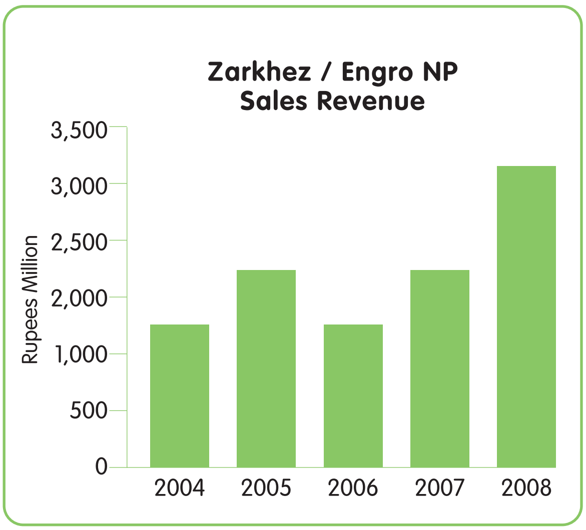
In 2008, industry sales dropped to 0.8 million tons from 1.461 million tons in 2007, a 45% decline. This huge decease is attributed to highest ever phosphate prices, liquidity crunch, uncertainty over subsidy and support prices for produce.

Engro sold 128 KT of phosphates in 2008, against 514 KT in 2007, achieving 16% market share. The decline is mainly owed to three reasons. First, industry dropped by 45%. Second, local production share by FFBL increased from 24% in 2007 to 58% in 2008. Third, two new urea producing private importers (Pak Arab Fertilizers and Azguard) actively participated in the market.

Zarkhez

Due to unprecedented increase in international and domestic prices of Phosphates and Potash, Zarkhez prices had to be increased by 104% in the first half of the year. This factor, coupled with uncertainty on subsidy, impacted Zarkhez sales which dropped to 69KT, a 28% decline from 96KT in 2007. This drop is however much lower than Phosphate industry sales which dropped by 45%. Poor crop economics for sugarcane and potato, which absorb about 36% of Zarkhez sales, also had a negative impact. Despite these significant challenges, sales of 69KT were achieved.

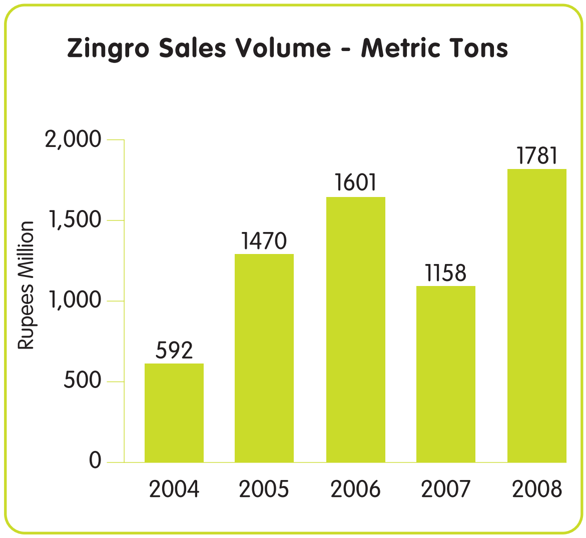
20KT Nitrophos (ENP) sale during 2008 Vs 39KT in 2007 with a decline of 49% followed the same trend of Phosphates sales. Zarkhez and ENP production for 2008 were 98KT Vs 125KT during 2007.



ZARKHEZ / ENGRO NP SALES VOLUME (Thousand Metric Tons)				
2004	2005	2006	2007	2008
114	143	116	135	89

Micro Nutrients

In 2008, company achieved highest ever Zingro sales i.e. 1,781 metric tons against the plan of 1,500 metric tons. This is 54% growth over the last year sales volume of 1,158 metric tons.



Joint Venture & Subsidiary Companies

ENGRO VOPAK TERMINAL LIMITED

The Company, a 50:50 joint venture with Royal Vopak of the Netherlands, is engaged in handling and storage of chemicals and LPG. The Company completed eleven years of safe operations without lost work injury in November 2008. The terminal continued to maintain health, safety and quality standards – as per OHSAS 18001, ISO 9001 and 14001 and Vopak standards.

Construction work to provide Ethylene handling and storage services to Engro Polymer and Chemicals Limited continued to progress smoothly during the year without the occurrence of any safety incident. Pakistan's first cryogenic storage facility is expected to be completed in first quarter 2009 well ahead of EPCL's EDC plant start-up.

Throughput for the year was 879,000 tons versus 800,000 tons in 2007. The increase in throughput is attributable to FFBL expansion project completed in first quarter 2008. Efforts continued to position EVTL for the LNG import terminal at Port Qasim and other liquid and solid handing opportunities.

Profit after tax for 2008 was Rs. 490 million (2007: Rs. 487 million) with a dividend payout of 55% (2007: 50%). Engro's share of the dividend amounts to Rs. 247.5 million.

ENGRO POLYMER & CHEMICALS LIMITED

Engro Polymer & Chemicals Limited (EPCL), a listed company involved in the manufacturing and marketing of PVC resin, is a subsidiary of Engro Chemical Pakistan Limited with 56% ownership in the company. At present, EPCL is setting up an integrated facility with capability to manufacture EDC, VCM, Chlorine and Caustic Soda. The project will be completed by the end of 2Q09. The expansion of PVC plant to increase current PVC production from 100,000 tons to 150,000 tons was completed in December 2008.

During the year 2008, EPCL produced 102,876 tons of PVC (2007: 94,347 tons) with sales of 97,547 tons (2007: 94,122 tons). Increase in sales was mainly witnessed in the first half of the year on the back of rising PVC prices and robust demand. During the later part of the year, the Company's sale and profitability were affected due to low international commodity prices and the current recessionary trends across the globe.

EPCL's focus on safety continued throughout the year. The Company achieved 8.9 million man-hours with no work loss injury and no NEQS excursion. Furthermore, EPCL won Annual Environment Excellence Award 2008 awarded by National Forum for Environment & Health.

AVANCEON

(Formerly known as Engro Innovative Automation (Pvt.) Limited)

Avanceon Limited is an automation and controls engineering company with subsidiaries operating in Dubai and in the United States.

In 2008, Avanceon's consolidated revenues totalled Rs. 1,635m. Avanceon's Pakistan revenues grew to Rs. 562m from Rs. 399m in the previous year. The profit after tax for Pakistan was Rs. 17m compared to a loss of Rs. 29m in 2007. Energy Management Solutions business was the main driver of growth and projects of record values were executed in 2008. The Company as part of its business plan managed to achieve the highest ever services revenue. During 2008, the Company adopted the percentage of completion method of recognizing revenues relating to projects. The prior year revenues have been restated according to the new policy.

In the wholly owned UAE subsidiary, the revenues grew to Rs. 282m from Rs. 68m in 2007 and the loss reduced to Rs. 41m from Rs. 88m in 2007. The international execution methodology based on structured outsourcing was implemented with success. The subsidiary starts in 2009 with a very promising backlog of orders.

Avanceon's 70% owned US subsidiary experienced a slowdown in business due to economic down turn since second half of 2008. Its revenues in 2008 were $11m compared with $14m in 2007 but the loss reduced to $1.4m compared to $2m in 2007 mainly due to improved gross margins.

The Company's investment in developing intellectual property (IP) to optimize energy foot print of manufacturing industry has started giving dividends. The five year strategic plan includes forming an Energy Business Unit with a vision to leverage Avanceon's unique IP solutions to attain market leadership internationally.

ENGRO FOODS LIMITED

Engro Foods, a wholly owned subsidiary, enjoyed robust growth in its second full year of operations in 2008. A key highlight was the consolidation of its successful brand portfolio delivering the second largest market share in the UHT liquid milk category. This performance is well in line with the Company's aggressive plans for the future. Its brands - Olper's milk, Olper's cream, Olwell, Tarang and Tarka - continue to outpace category growth.

Similarly, on the processing side, second state-of-the-art plant, commissioned in end 2007, has successfully tapped large milk volumes from the Punjab allowing further rationalization of cost structure.

The growth in milk collection network has kept pace with sales volumes, seeing a 65% volume increase over 2007. The network now comprises approximately 750 village milk collectors and 524 milk collection centers enabling EFL to touch the lives of over 70,000 farmers on a daily basis.

EFL approximately doubled its volume sales in 2008 supported by distribution coverage of over 140 towns serviced by the opening of an additional sales region and dedicated distributors. The company sold a total of 153 mio liters (2007: 77 mio liters) with a total revenue of Rs. 8.2 billion (2007: Rs. 3.6 bio). Brand investments continue to drive awareness ranking EFL as one of the leading advertisers on TV in Pakistan.

2008 was particularly exciting with regard to the establishment of the Engro Dairy Farm at Nara, Sindh. As part of long term strategy, the farm will provide international standard milk offering excellent export opportunities to the region in the medium term. The first herd of 1,400 Australian heifers has arrived and is housed successfully at the farm. The initiative is in line to see the start of milking in the second half of 2009.

Just as exciting is the EFL entry in ice cream planned for 2009. The project is at the implementation level with a dedicated state-of-the-art production facility nearing completion at our Sahiwal Plant. EFL also plans to invest approximately Rs. 800 mio in 2009 for capacity expansion in our milk collection infrastructure and production plants at Sahiwal and Sukkur.

Of significance has been the strategic depth, our teams have successfully delivered in their operations. To enhance milk productivity of livestock, EFL continues to introduce and market new varieties of fodder seed as well as create awareness of animal heath through farmer workshops at the village level.

EFL has won recognition in many other fields as well. Efforts in CSR as the implementing partner of the UNDP CELDAC project have resulted in the achievement of project targets through training of over 600 Lady Livestock Workers in rural Sindh. EFL has been adjudged as the best local company to work for by PSHRM (Pakistan Society for Human Resource Management) in a survey of 20 companies across Pakistan. Furthermore, the election of EFL as Vice-Chair of the Pakistan Dairy Association validates our efforts to provide leadership to the dairy industry.

ENGRO ENERGY LIMITED

Engro Energy's 220MW Qadirpur power project is progressing as per schedule. The project will utilize permeate gas currently being flared from Qadirpur gas field, resulting in economic benefits for the country and reduction in carbon emissions.

The project achieved financial close with Government of Pakistan in April 2008, and is the first power project under the 2002 policy based on foreign debt financing. IFC has taken a 5% equity stake in the company after ECPL approval. EPC activities are progressing as per schedule and the project is on track to start commercial production by the end of 2009.

The company declared a pretax loss of Rs. 1 M during the year, and an accumulated loss of Rs. 100 M primarily due to the project related expenses that cannot be capitalized as per accounting standards.

ENGRO POWERGEN (PVT.) LIMITED (EPPL)

EPPL, incorporated in 2008, is a wholly owned subsidiary of ECPL. It aims to develop power sector opportunities to cater to energy needs of the country. Among the initiatives being taken are possible participation in fast-track IPPs being developed under the 2002 Policy and coal based power generation.

The company declared a net loss of Rs. 11.3 Million in 2008.

ENGRO EXIMP (PVT.) LIMITED

Engro Eximp is a wholly owned subsidiary in the trading business of fertilizer imports. During the year, EEPL imported and sold 146,156 tons (2007: 578,000 tons) of phosphatic product at port to Engro at market prices.

Health, Safety, Environment & Quality

During 2008, Engro maintained high health, safety and environment standards. Urea manufacturing site set a safety milestone of best ever Total Recordable Injury Rate (TRIR) of 0.28 post DuPont alignment in 2003. The site has achieved 3.9 million man-hours (MMH) without Lost Work Injury (LWI) to employees and 0.6 MMH without a LWI to contractors. Fertilizer Expansion Project completed 9.03 million man-hours without a lost workday injury with a remarkable TRIR of 0.13.

This success has been accomplished through sustained focus on both behavioral and process safety aspects to arrest injury causes and unsafe situations that could have resulted in injuries. Substantial efforts to improve site safety leading indicators have also contributed to achievement of excellent safety results.

Engro's endeavor to upgrade safety systems to world class standards continues. A major milestone was compliance to the DuPont Behavioral Safety Management System, successfully completed in 2008 when DuPont Safety Resources evaluated the upgraded system and declared it to be at the skill level as per their best practices rating. In parallel, a lot of work has also been done during the year to improve further Process Safety Management Systems targeting to achieve excellence level as per DuPont best practices rating.

Zarkhez Plant at port Qasim continued its operations without any LWI for ECPL employees and contractors during 2008. ECPL employees completed 0.8 Million man hours and contractor employees completed 3.6 million man-hours without an LWI. The Zarkhez team achieved the best ever safety performance during 2008, with a combined TRIR of 0.17. Process safety and personnel safety programs launched in 2007, continued during 2008. DuPont also conducted a direction check for best practices in April.

Marketing embarked upon DuPont best practices alignment in 2008. Focus remained on training of the new organization on HSE role, especially behavioral safety, after restructuring of agri-business operations. Efforts are underway to resolve inherent safety issues in warehouses and transportation and addressed areas for improvement highlighted in First Internal Audit and regular DuPont direction check and quality MSAs at regular intervals.

Man hours since last LWI 131,420 (contractor) and 829,351 (employees) have been achieved. TRIR for the year remained 0.77 with 02 LWIs and 02 medical treatment cases during the year (contractor). These injuries were thoroughly investigated and recommendations worked upon to avoid recurrence. Marketing sales force continued to excel at Safe Driving by achieving more than 22 million Kilometers over a period of 28 years without an LWI, a remarkable achievement.

Based on DuPont best practices on occupational health and industrial hygiene, remarkable work has been done for Daharki Urea Plant during 2008 to achieve basic skill level as per DuPont best practices. External audit is targeted in 2009. ECPL quality recertifications -- OHSAS-18000, IS0-14001, SA-8000 and ISO-9001 – were also achieved successfully during the year.

Efforts to reduce environmental footprint were vigorously pursued. Environmental friendly disposal of chromate sludge continued and it is expected that chromate sludge will be completely removed in year 2009. CFC free air conditioners replacement was in progress in phases with majority already replaced. Mercury lights are being replaced with more energy efficient sodium lights. Conventional tube light chokes are being replaced with electronic ballasts. These ENERCON steps helped in reducing power requirements by 0.3 MW in total. Continuing the environmental improvement plans at site, the phase-2 of the EIP has been initiated with the installation of vent system at base plant.

Self reporting to Environmental Protection Agency also continued for both new fertilizer expansion project (under construction) and base plant (operational) at Daharki. There is a consistent reduction in company's environmental footprint.

Raising awareness is an important part of the HSE strategy. Community Awareness Emergency Response Program for engagement and education of nearby villages has been launched with a phased approach. In addition, First National HSE seminar was held on November 24, 2008. Representatives of leading industries of the country, including Engro, presented eleven papers. In a daylong seminar, presenters focused on occupational health and industrial hygiene, process and behavioral safety management, emergency response, role of safety professionals, renewable energy solutions and energy optimization. Climate change considerations were also shared in the forum.

Strong HSE performance by ECPL has been recognized in several forums. ECPL has been nominated among thirty seven selected candidates in twenty countries for an HSE award by International Fertilizer Association which will be finalized in March 2009. Engro has also consecutively won five National Forum of Environment and Health Annual Environment Excellence Awards.

To strengthen commitment to fight international environmental challenges, Engro will sign business leadership statement proposed by United Nations Global Compact to demonstrate commitment to caring for climate and carbon burden reduction.

TECHNICAL SERVICES

Keeping in view the agricultural character of Pakistan's economy, Engro's focus since its inception has been to educate farmers through market development activities to enable them to increase per acre crop yields, fulfill future demands and improve farmer's livelihood, the ultimate customer. To realize this objective, 32,676 farmers were contacted individually during the year for farm technology transfer. In addition to the individual farmer contact over 17,485 farmers were also contacted through group activities like field days, seminars and farmer meetings. New structure of marketing in 2008, increased the number of our market development professionals from twenty one to thirty seven assisted by fifty-nine grass root level field extension workers. This will surely have a positive impact on farmer's education.

Engro continued publishing crop production literature, including its popular quarterly magazine "Behtar Zindagi", for all major crops. Support to government was provided in its efforts to increase area under crop and farm productivity for rice and wheat and campaigns for "Grow more Rice" and "Grow more Wheat" campaigns. In addition printing of crop literature was sponsored by Agricultural Extension Punjab.

EMPLOYEE RELATIONS & ORGANIZATION DEVELOPMENT

It is imperative to invest in development of human capital to cater to increasingly competitive business dynamics. Acutely aware of this need, Engro invests heavily in its employees to ensure that they are fully equipped to face modern business challenges. Customized training programs for every level of the hierarchy were organized raising overall training per employee from 4.0 to 6.5 man hours. During 2009, it is aimed to increase over all training to eight man hours per employee.

Several initiatives were rolled out to ensure minimum attrition levels. These included launch of new medium term retention schemes comprising of the Housing Subsidy Option and the Employee Share Option Scheme. These schemes aim to assist the employees to build assets and to ensure retention.

ECPL management also launched the new Tier IV – V management cadres. This restructuring aims to increase the overall skill level of the existing employees, empower them to take on bigger challenges and exercise greater responsibility.

The company successfully negotiated a new CLA Agreement with the Daharki Staff Union with effect from April 2008, valid for a period of 27 months.

Social Investments

Engro endorses the philosophy of "triple bottom line" and employs UN Global Compact and Global Reporting Initiative (GRI 3) framework to measure and report corporate performance against economic, social and environmental parameters. As part of its enduring commitment to improve the quality of life for its stakeholders, especially neighboring communities, Engro contributed over Rs. 40 million to various projects in 2008. A brief description of major initiatives is provided on the following pages.

Sahara Welfare Society Projects:

Registered under Social Welfare Agencies Ordinance, Sahara Society, located in office adjacent to Daharki Plant, is an NGO organized and run by Engro employees.

Sahara Community School

Through Engro's support, Sahara Community School was established in 2002. The school currently educates 247 (108 girls and 139 boys children) from nursery to class V with the help of sixteen teachers. In addition to regular classes, the school also holds non-formal classes where five-year primary curriculum is covered in three years.

Dar-ul-Shifa Clinic

The Dar-ul-Shifa clinic, a dedicated facility at Sahara Welfare Society, provides free medical consultation services to patients (mostly women and children). In 2008, 5,039 patients availed this facility and received free or highly subsidized medicines worth over Rs. 348,000.

Sahara Arts & Crafts Center

In 2008, Sahara Arts & Crafts Center imparted training to 264 students in stitching and embroidery, while an additional sixteen students enrolled in the diploma course.

Teaching and Resource Center (TARC)

TARC was established in partnership with Ali Institute of Education, Lahore, in 2000 to provide a dedicated resource for teachers' training. In 2008, TARC conducted 190 hours of training sessions to train 45 teachers from Katcha Schools, Adopted Government Schools, and Sahara School.

Katcha Schools' Program

Under this program, Engro supports eleven primary schools in the eleven different villages of Katcha (riverine belt of Indus) since 2001. These schools serve as the first and only access to education for the children in these deprived communities which suffer from extremely poor social and economic development conditions. Local communities support formation and support of these schools by Engro to provide education to their children.

Government Schools' Adoption Program

Under this program, initiated in 2004, Engro identifies and adopts government schools in neighboring villages with support from the Education Department and the local communities. Currently 10 government schools have been adopted by ECPL with an enrollment of 2,234 students.

Snakebite Treatment Facility

Engro's snakebite treatment facility, housed in Engro Clinic, at Daharki is the only one of its kind facility available for snakebite victims in the Ghotki and surrounding districts. In 2008, more than Rs. 2 million were spent on treatment of snakebite patients. The facility treated 4,962 patients, of which 1,416 patients were administered anti-snakebite venom serum.

Technical Training Center

Engro spearheaded efforts to establish a Technical Training Center in Daharki, District Ghotki, to develop trained manpower for the cluster of energy and chemical industry located in Upper Sindh. Local availability of skilled manpower would reduce social frictions, improve community relations and drive local economy.

These efforts bore fruit in December 2008, when Pakistan Industrial Development Corporation approved a release of Rs. 100 million to the project. Engro has also committed Rs. 44 million in addition to technical assistance over the next few years to the project.

Vocational Training Institute

During 2008, Engro successfully concluded arrangements to launch a Vocational Training Institute at Daharki to promote employment opportunities for local youth by expanding the pool of well-trained and skilled labor pool. Initial training will be provided by highly skilled and experienced ECPL in-house faculty, and will include classroom instruction and hands-on practical training in the professional environments conducive for learning at Daharki Urea manufacturing facility. Classes for the first course are expected to commence in January 2009.

Indus River Dolphin Conservation Project

The Indus River Dolphin is an endangered species. It is the only species out of four known dolphin species in the world to be completely blind. Engro is the major sponsor for the Indus River Dolphin Conservation Project being implemented by WWF Pakistan.

Project Hope (Telemedicine)

"Project Hope" was established as a result of partnership between Jinnah Postgraduate Medical Center (JPMC) and Engro in April 2005. It aims to provide free and easy access to poor patients located in remote rural areas of Sindh to high quality medical consultation services of JPMC specialists. In 2008, 5,162 patients benefitted from this project. In addition, twenty five local doctors benefitted from the project through the Continuing Medical Education sessions which aim to significantly improve knowledge and level of competence of local doctors through interaction with senior specialists at JPMC.

Engro provided financial support to more than thirty non-profit organizations, as listed below:

Nonprofit Organizations Supported in 2008

- TCF School Engro Daharki Campus
- Liaquat National Hospital
- Kidney Center
- Sindh Institute of Urology & Transplant
- Fatimid Foundation
- Al Mehrab Tibbi Imdad
- Hussaini Blood Bank
- Pakistan Medical Association
- Karwan-e-Hayat
- Lady Dufferin Hospital
- AKUH Patients Welfare Program
- Medical Aid Foundation
- Behbood
- Marie Adelaide Leprosy Centre
- IDA RIEU Poor Welfare Association
- Citizen Archive Foundation
- The Health Foundation
- Darul Sukoon
- All Pakistan Women's Association
- Citizen Education Development Foundation
- District Red Crescent Branch Hyderabad
- Tharparkar Association for Disabled Persons Mirpurkhas
- IBP School of Special Education
- Al-Shifa Hospital Sukkur
- Hisaar Foundation
- Old Kinnaird Society
- Nigahban Welfare Association
- Bait ul Sakoon
- HelpCare Society
- Family Education Services
- Karachi Press Club
- Foundation for the Global Compact

View of Katcha School

Corporate Awards

ECPL won fifth consecutive National Forum for Environment and Health Excellence Award on account of excellent environmental performance and successful implementation of environmental & quality management systems.

ECPL was awarded Best Islamic Deal of the Year Award out of Pakistan by Islamic Finance News Awards based on the transaction of USD 150m ME based foreign currency Islamic financing for urea expansion.

ECPL and EFL won Helpline Trust Award for contribution towards Corporate Social Responsibility in Pakistan.

Avanceon received award at OSI-SOFT technology conference 2008 in Bangkok, in appreciation of presenting report on "EFFICIENCY IMPROVEMENT BY REAL-TIME PERFORMANCE MONITORING SYSTEM IN POWER GENERATION".

EPCL won Annual Environment Excellence Award 2008 for the second year in row, awarded by National Forum for Environment & Health.

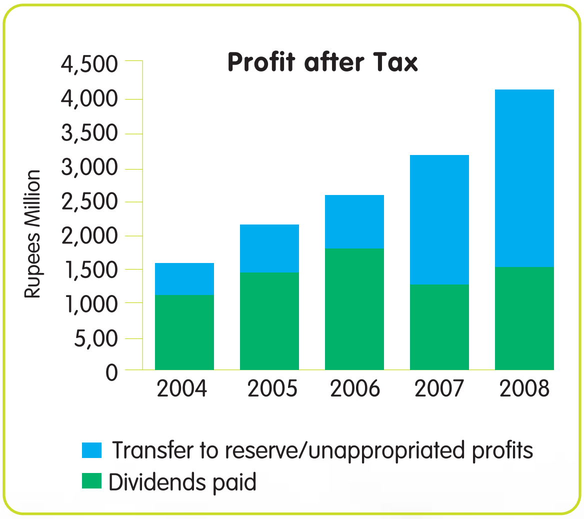
EFL was adjudged as the best local company to work for by PSHRM (Pakistan Society for Human Resource Management) in a survey of twenty companies across Pakistan.

Results for the year

Engro delivered strongest results to date in 2008 with profit after tax of Rs. 4.2 billion, 34% increase from 2007 primarily due to increased income from affiliates.

Sales for the year amounted to Rs. 23.3 billion compared with 23.2 billion in 2007. Sales did not grow much because of low phosphate sales - though offset by high phosphate prices.

Year - end dividend was declared at Rs. 2 per share bringing total dividends for the year to Rs. 6 per share.



PROFIT AFTER TAX (US$ Million)				
2004	2005	2006	2007	2008
20	29	32	40	54

Dividends

The Board is pleased to propose a final dividend of Rs. 2.00 per share. Together with the two interim dividends amounting to Rs. 4.00 per share, the total dividend attributable to the year is Rs. 6.00 per share versus Rs. 7.00 per share paid last year.

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

	Million Rupees
Un-appropriated profit from prior years	4,102
Final dividend for the year 2007 on 193,469,198 shares of Rs. 10 each at Rs. 3.00 per share declared on February 20, 2008	(580)
Profit for the year after taxation	4,240
Disposable profit for appropriation	7,762
First interim dividend on 212,816,117 shares of Rs. 10 each at Rs. 2.00 per share declared on July 24, 2008	(426)
Second interim dividend on 212,816,117 shares of Rs. 10 each at Rs. 2.00 per share declared on October 28, 2008	(426)
Un-appropriated profit carried forward	6,910
Subsequent Effect Proposed final dividend on 212,816,117 shares of Rs. 10 each at Rs. 2.00 per share	(426)
Total Dividend for the year Rs. 6.00 per share	1,278

Key operating and financial data for 10 years is summarized on page 186.

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

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

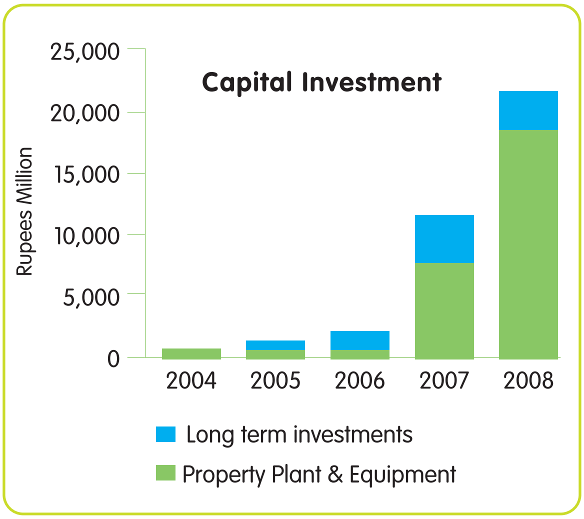
	2004	2005	2006	2007	2008
EPS	10.12	13.82	15.13	16.51	20.50
DPS	8.50	11.00	9.00	7.00	6.00

Value Addition

	2008 Rupees in Million	%	2007 Rupees in Million	%
Wealth Generated				
Total revenue inclusive of sales-tax and other income	26,706		26,500	
Bought-in-material and services	(13,817)		(15,665)	
	12,889		10,835	
Wealth Distributed				
To employees Salaries, benefits and other costs	1,411	10.95%	1,050	9.69%
To Government Taxes, duties and development surcharge	5,032	39.04%	5,420	50.02%
To society Donation towards education, health, environment and natural disaster	42	0.33%	41	0.38%
To Providers of Capital				
- Dividend to Shareholders	1,432	11.11%	1,228	11.33%
- Markup / interest expense on borrowed money	1,509	11.71%	535	4.94%
Retained for reinvestment & future growth, depreciation, amortization and retained profit	3,462	26.86%	2,561	23.64%
	12,889		10,835	

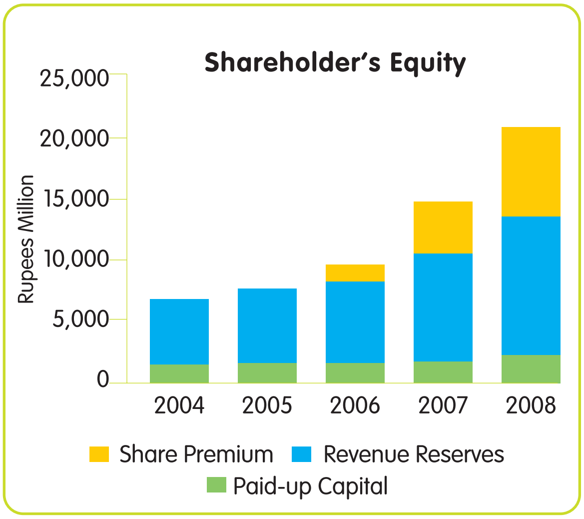
CASH FLOW AND CAPITAL INVESTMENT

Cash generated from operations during the year was Rs. 2,412 million (2007 : Rs. 3,077 million). This is after adjusting for increase in working capital of Rs. 2,480 million mainly on account of increase in stock in trade as well as due to increase in the amount of subordinated loan extended to Engro Eximp (Private) Limited a 100% owned subsidiary. Taxes paid for the year amounted to Rs. 575 million (2007: Rs. 507 million) based on the regulations governing Income Tax.



Total Long term investments of Rs. 3,327 million (2007: 4,107 million) were made during the year. Rs. 1,377 million (2007: Rs. 1,580 million) was invested in the energy business while Rs. 1,950 million (2007: 797 million) was invested in the food business.

Additions to property, plant and equipment mainly represent expenditure towards construction of the Urea Fertilizer expansion plant which amounted to Rs. 26,754 million (2007: Rs. 7,531 million) at the year end.



CAPITAL INVESTMENT, CAPITAL STRUCTURE AND FINANCE

As part of its strategy to generate funds for its Urea Fertilizer expansion project, the Company offered 10% right shares at Rs. 175 per share to the shareholders including premium of Rs. 165 per share. The total issue including share premium amounted to Rs. 3,189 million net of issuance costs.

Shareholders' funds (excluding Hedging Reserve) at the year-end totaled Rs. 20,926 million (2007: 14,703 million). The increase is largely due to the issuance of right shares (as mentioned earlier) as well as retained profits.

Net long term borrowings at the year-end increased to Rs. 27,833 million (2007: 16,723 million) primarily for financing the Company's Urea Fertilizer expansion project. The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2008 is 55:45 2007 – 52:48). The liquidity position of the Company remains comfortable with a year-end current ratio of 2.6 (2007 – 3.0).

MAJOR JUDGEMENT AREAS

Taxation

The Company has filed tax returns up to income year 2007. All assessments up to income year 2002 have been finalized by the Department and appealed against. For income years 1995, 1996 and 1997 the Company is in appeal at the ITAT level for rectification of demands against various minor issues.

For income years December 1999 to December 2002, the Company is in Appeal with ITAT on the issue of apportionment of gross profit and selling and distribution expenses. The Company also filed reference on the above matter with Alternative Dispute Resolution Committee (ADRC) of Federal Board of Revenue (FBR). A favorable decision in this respect was received from the ADRC. However, the FBR has decided that the issue be decided upon by the ITAT where this matter remain under appeal.

For income years 2003 - 2007 income tax returns have been filed under self-assessment scheme by the Company.

Audit in respect of income year 2005 has been finalized. The Company has received a demand amounting to Rs. 240.6 million of which the Company has paid Rs. 30.7 million and filed a rectification with the Tax Department for correction of certain errors in the assessment order.

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

As more fully explained in note 33 to these accounts, the Company has claimed the benefit of Group Relief under Section 59 B of Income Tax Ordinance, 2001 in respect of losses acquired for an equivalent consideration from Engro Foods Limited a wholly owned subsidiary.

Marketing Incidentals

In 1988, the Company had commenced two separate arbitration proceedings against the Government of Pakistan for nonpayment of marketing incidentals for the 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 applications. Going forward the Company intends to increase SAP's footprint in its processes, so as to further leverage its capabilities and increase internal efficiencies.

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 Standards as have been notified under this Ordinance as well as through directives issued by the Securities and Exchange Commission of Pakistan.

CREDIT RATING

Pakistan Credit Rating Agency in its annual review of the Company's credit worthiness 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. Engro uses financial instruments such as interest rate swaps, forward currency contracts and options 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 2008, ECPL's core borrowings were Rs. 27.8 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 its working capital requirements, the Board has approved short-termed funded facilities of Rs. 7.0 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.

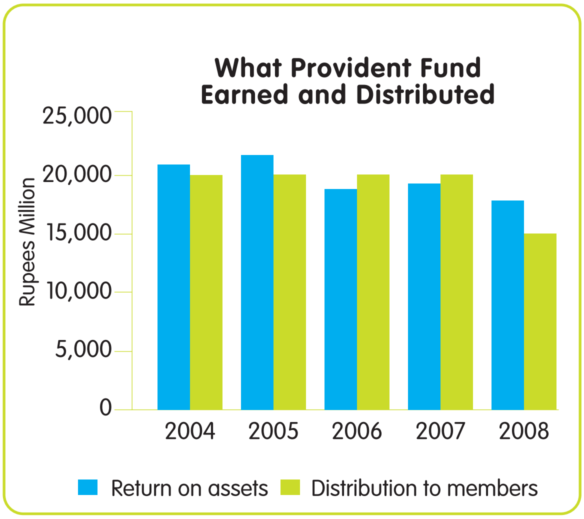
Foreign Currency Risk

Since the Company's manufacturing and trading operations are only in Pakistan, the receipts and payments of the local currency are therefore not hedged. Where deemed appropriate, it eliminates currency exposure on purchases of goods in foreign currency through the use of forward exchange contracts and options. However, the ability of the Company to manage these risks has been curtailed by State Bank of Pakistan's decision to disallow forward exchange contracts on letters of credit.

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 (DC) pension plan, a non contributory gratuity scheme for all employees and a defined benefit (DB) pension scheme for the annuitants retired before July 01, 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, 2008 and the financial statements of these have been audited upto December 31, 2007. The latest audited accounts for the provident fund cover year ended June 30, 2008. 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, 2008	December 31, 2007	December 31, 2007
Net Assets as per last audited financial statements	650	957	250
DSC / PIB / WAPDA Bonds	426	172	101
Income based mutual funds	-	180	111
TFCs	78	74	8
Shares	67	35	16
Bank Deposits	53	493	11
Others	26	3	3
Total	650	957	250

AUDITORS

Messrs. KPMG Taseer Hadi & Co. have been the statutory auditors of the Company since 2003. The Board Audit Committee, responsible for financial oversight of the Company has been deliberating the prospect of rotation of auditors as part of its program to continuously improve the standards of corporate governance. The Committee has proposed that for the year 2009 Messrs. A.F. Ferguson & Co., be appointed the statutory auditors of the Company. The Board of Directors have endorsed the recommendation.

The Board of Directors wish to place on record and acknowledge the highest standard of professional independence, objectivity and effectiveness shown by Messrs. KPMG Taseer Hadi & Co. during their tenure as statutory auditors.

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 2008 is shown on page 48 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 departures 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 & ATTENDANCE

In 2008, the Board of Directors held 7 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	7
Mr. Asad Umar	7
Mr. Isar Ahmad	5
Mr. Shahzada Dawood	6
Mr. Shabbir Hashmi	6
Mr. Khalid Mansoor	7
Mr. Ruhail Mohammed	6
Mr. Arshad Nasar	4
Mr. Asif Qadir	6
Mr. Khalid S. Subhani	7

OUTLOOK AND CHALLENGES

In the year 2009, the Company will maintain its focus on timely implementation of its growth initiatives taking place in its fertilizer, food, energy, chlor-vinyl, chemical storage and industrial automation businesses. The Company will continue to take proactive measures to mitigate potential risks and cope with challenges to company's profitability arising from the current economic climate.

Urea demand is expected to remain robust while Phosphates demand is expected to strengthen subsequent to relative normalization of 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

January 21, 2009

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.	81,157,408
	Central Insurance Co. Ltd.	7,700,164
2.	NIT and ICP	
	National Investment Trust	3,450,153
	Investment Corporation of Pakistan	7,970
3.	Directors, CEO & their spouses & minor children	
	Isar Ahmad	1,265
	Hussain Dawood	7,263,253
	Shahzada Dawood	739,674
	Shabbir Hashmi	5,126
	Khalid Mansoor	251,148
	Ruhail Mohammed	62,396
	Arshad Nasar	138
	Asif Qadir	428,844
	Khalid S. Subhani	295,091
	Asad Umar	959,657
	Mrs. Kulsoom Dawood (w/o. Mr. Hussain Dawood)	4,330,002
	Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	22,600
4.	Executives	4,700,000
	The Company's employees, annuitants and their family members collectively hold approximately 10% shares of the Company.	
5.	Public Sector Companies & Corporations	12,418,336
6.	Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	46,000,000
7.	Shareholder holding ten percent or more voting interest in the Company	
	Dawood Hercules Chemicals Ltd.	81,157,408

8. Details of purchase / sale of shares by Directors / Company Secretary / Chief Financial Officer and their spouses / minor children during 2008

NAME	DATED	PURCHASE	SALE	RATE RS. / SHARE
Isar Ahmad	Jul 05	115*	-	175.00
Hussain Dawood	May 23	25000**	-	289.20
	May 26	5000**	-	276.40
	May 27	13000**	-	274.40
	May 28	5000**	-	269.25
	Jun 23	20000**	-	249.05
	Jul 05	13999*	-	175.00
	Jul 28	1385000**	-	207.12
	Aug 26	131000**	-	185.37
	Aug 27	60000**	-	175.19
	Aug 28	25000**	-	182.42
	Aug 29	47300**	-	181.83
	Sep 01	25000**	-	181.83
	Sep 02	55500**	-	182.70
	Sep 08	322000**	-	183.13
	Sep 09	450000**	-	180.96
	Sep 11	56600**	-	183.14
	Sep 12	10000**	-	182.99
	Sep 15	196200**	-	183.70
	Sep 16	580000**	-	183.49
	Sep 17	226100**	-	184.42
	Sep 18	1279600**	-	185.23
	Sep 22	916000**	-	180.62
	Sep 25	137500**	-	180.62
	Sep 30	95000**	-	172.18
	Oct 07	464630**	-	153.66
	Nov 20	478825**	-	122.21
	Dec 04	100000**	-	108.17
Shahzada Dawood	May 26	3000**	-	302.68
	May 23	17000**	-	289.58
	May 26	5000**	-	276.32
	May 27	13000**	-	274.40
	May 28	5000**	-	269.25
	Jun 23	20000**	-	249.05
	Jul 05	12070*	-	175.00
	Aug 26	100000**	-	185.14
	Aug 27	20000**	-	175.21
	Aug 28	16000**	-	181.93
	Sep 24	97900**	-	180.62
	Sep 29	200000**	-	180.62
	Sep 30	110000**	-	172.19
	Jul 05	11*	-	175.00
Shabbir Hashmi	Aug 11	5000**	-	192.60

NAME	DATED	PURCHASE	SALE	RATE RS. / SHARE
Khalid Mansoor	Jul 05 Aug 07 Nov 21 Nov 24 Dec 23	6649* 85000** 10000** 8000** 75000**	- - - - -	175.00 183.33 122.33 121.33 102.28
Ruhail Mohammed	May 08 May 08 Jul 05 Aug 06 Dec 18	- 29450 ** 2945* 15000** 15000**	29450*** - - - -	330.00 330.00 175.00 188.20 104.28
Arshad Nasar	Jul 05	12*	-	175.00
Asif Qadir	Jul 05	24076*	-	175.00
Khalid S. Subhani	Jul 05 Nov 21	23917* 32000**	- -	175.00 122.33
Asad Umar	Jul 05 Oct 30 Oct 31 Nov 18 Nov 20 Nov 24 Nov 25 Nov 27 Nov 28 Dec 01 Dec 05 Dec 15	28014* 25000** 25000** 20000** 18000** 12000** 100000** 23000** 50000** 27000** 100000** 141700**	- - - - - - - - - - - -	175.00 135.37 130.86 140.38 137.88 137.88 123.34 122.33 122.33 121.33 110.30 109.30
Andalib Alavi	Jul 05 Oct 14	4858* 25000**	- -	175.00 155.12

NAME	DATED	PURCHASE	SALE	RATE RS./SHARE
Mrs. Kulsoom Dawood (w/o. Mr. Hussain Dawood)	May 12	19000**	-	332.44
	May 22	1000**	-	302.01
	May 23	14000**	-	290.09
	May 26	8000**	-	275.16
	May 27	13000**	-	274.40
	May 28	5000**	-	269.25
	Jun 23	20000**	-	249.05
	Jul 05	12202*	-	175.00
	Jul 15	1000**	-	236.60
	Aug 26	100000**	-	185.14
	Aug 27	20000**	-	175.22
	Aug 28	20000**	-	181.71
	Sep 01	29200**	-	182.03
	Sep 04	17800**	-	181.27
	Sep 08	247500**	-	181.44
	Sep 09	532600**	-	180.82
	Sep 12	17500**	-	183.18
	Sep 15	428800**	-	183.83
	Sep 16	501000**	-	183.71
	Sep 17	48300**	-	185.12
	Sep 18	750500**	-	185.30
	Sep 19	50000**	-	180.62
	Sep 22	100000**	-	180.75
	Sep 24	97900**	-	180.62
	Sep 25	137500**	-	180.62
	Sep 30	95000**	-	172.18
	Oct 06	400000**	-	164.03
	Nov 20	521175**	-	122.21
Mrs. Farrukh Sultan Qadir (w/o. Mr. Asif Qadir)	July 05	6600*	-	175.00

*10% Rights Shares of ECPL

**Shares purchased from Karachi Stock Exchange

***Shares sold on Karachi Stock Exchange

Pattern of holding of Shares

Pattern of holding of the shares held by the Shareholders of Engro Chemical Pakistan Ltd. As at December 31, 2008

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
2,839	1	100	135,887
3,098	101	500	930,390
1,778	501	1000	1,404,770
3,294	1001	5000	8,036,439
925	5001	10000	6,590,519
377	10001	15000	4,611,966
186	15001	20000	3,270,753
118	20001	25000	2,682,620
86	25001	30000	2,397,819
64	30001	35000	2,062,067
43	35001	40000	1,622,002
33	40001	45000	1,413,313
27	45001	50000	1,303,846
20	50001	55000	1,045,663
25	55001	60000	1,429,953
17	60001	65000	1,061,694
21	65001	70000	1,407,783
14	70001	75000	1,008,546
18	75001	80000	1,421,664
6	80001	85000	495,828
9	85001	90000	780,289
8	90001	95000	744,161
8	95001	100000	784,475
7	100001	105000	722,360
7	105001	110000	749,749
7	110001	115000	787,972
5	115001	120000	584,899
5	120001	125000	623,350
3	125001	130000	376,707
6	135001	140000	826,231
3	140001	145000	425,437
3	145001	150000	440,452
1	150001	155000	154,376
2	155001	160000	315,896
1	160001	165000	161,128
4	165001	170000	671,509
1	170001	175000	172,991
3	180001	185000	547,745
1	185001	190000	185,136
1	190001	195000	193,326
2	195001	200000	396,350
3	200001	205000	605,582
3	205001	210000	617,614
1	210001	215000	212,500
2	215001	220000	439,100
1	225001	230000	226,500
5	230001	235000	1,168,189
2	240001	245000	484,682
1	245001	250000	246,919
2	250001	255000	504,959
1	255001	260000	256,418
1	270001	275000	270,462
1	275001	280000	279,285

Pattern of holding of the shares held by the Shareholders of Engro Chemical Pakistan Ltd. As at December 31, 2008

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
1	280001	285000	285,000
1	285001	290000	288,964
1	290001	295000	294,281
3	295001	300000	895,091
2	300001	305000	602,989
2	305001	310000	613,586
1	310001	315000	314,363
2	315001	320000	635,638
1	355001	360000	355,925
1	360001	365000	361,354
1	365001	370000	365,101
2	385001	390000	775,837
1	390001	395000	395,000
1	400001	405000	402,679
1	420001	425000	420,566
2	425001	430000	854,749
1	440001	445000	444,890
1	445001	450000	447,315
1	505001	510000	506,400
2	510001	515000	1,022,408
1	570001	575000	570,400
1	585001	590000	589,969
1	590001	595000	595,000
1	655001	660000	658,842
1	660001	665000	662,958
1	670001	675000	674,101
1	685001	690000	685,500
1	710001	715000	712,800
1	735001	740000	739,674
1	765001	770000	769,098
1	785001	790000	788,127
1	790001	795000	794,038
1	795001	800000	800,000
1	825001	830000	826,896
1	855001	860000	857,964
1	865001	870000	866,940
2	895001	900000	1,795,654
2	955001	960000	1,916,062
1	970001	975000	975,000
1	1000001	1005000	1,002,400
1	1080001	1085000	1,080,204
1	1105001	1110000	1,105,850
1	1190001	1195000	1,194,000
1	1275001	1280000	1,276,900
1	1585001	1590000	1,587,500
1	1835001	1840000	1,839,975
1	1840001	1845000	1,840,838
1	2240001	2245000	2,243,395
1	4330001	4335000	4,330,002
1	5640001	5645000	5,643,490
1	6695001	6700000	6,699,342
1	7260001	7265000	7,263,253
1	7700001	7705000	7,700,130
1	81155001	81160000	81,157,408
13,163			212,816,117

Categories of Shareholding as at December 31st, 2008

S.No.	Categories of Shareholders	Number of shareholders	Shares Held	Percentage
1.	INDIVIDUALS	12596	70,944,643	33.34
2.	INVESTMENT COMPANIES	24	1,217,038	0.57
3.	INSURANCE COMPANIES	21	17,612,984	8.28
4.	JOINT STOCK COMPANIES	221	86,099,977	40.45
5.	FINANCIAL INSTITUTIONS	100	15,278,187	7.17
6.	MODARABA COMPANIES	75	10,899,747	5.12
7.	COOPERATIVE SOCIETIES	2	24,639	0.02
8.	SECURITIES & EXCHANGE COMMISSION OF PAKISTAN	1	1	-
9.	OTHERS	123	10,738,901	5.05
	TOTAL	13,163	212,816,117	100

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 10:00 a.m. on February 27, 2009 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of February 13, 2009 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.

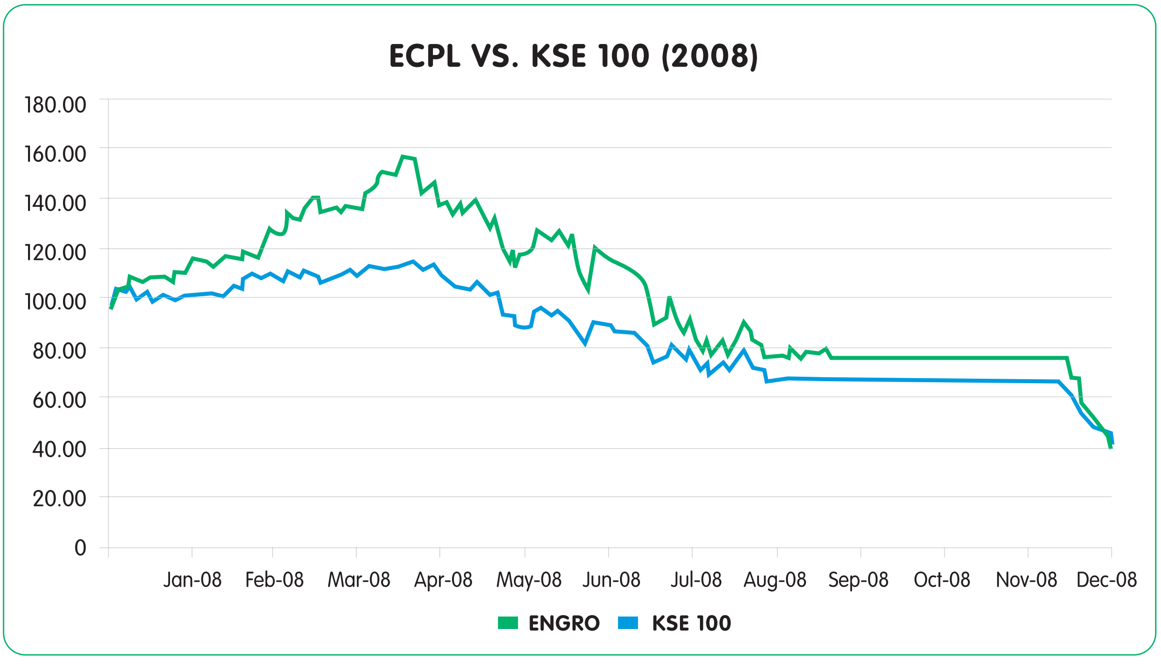
CDC Shareholders or their Proxies are requested to bring with them copies of their Computerized National Identity Card or passport along with the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

Ownership

On December 31, 2008 there were 13,163 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 February 13, 2009. 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. FAMCO Associates (Private) Limited.



Quarterly Results

Engro Chemical Pakistan Ltd. issues quarterly financial statements. The planned dates for release of the quarterly results in 2009 are:

- 1st quarter : April 28
- 2nd quarter: July 28
- 3rd quarter: October 28

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 30
- 2nd quarter: July 30
- 3rd quarter: October 30

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

ECPL plant site at Daharki

Energy for growth

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 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. The minutes of the meetings were appropriately recorded and circulated.

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 & Chief Executive

Karachi
Dated: January 21, 2009.

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 Chemical Pakistan Limited to comply with the Listing Regulation of the Karachi, Lahore and Islamabad Stock Exchanges 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's 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 systems 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 as applicable to the Company for the year ended 31 December 2008.

Date: January 27, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

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

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Auditors' Report to the Members on Compliance with Employee Share Option Scheme

We have audited the Engro Chemical Pakistan Limited's (the Company) compliance with Employee Share Option Scheme (the Scheme) as approved by the shareholders of the Company and with the Public Companies (Employees Stock Option Scheme) Rules, 2001(the Rules) issued by the Securities and Exchange Commission of Pakistan vide SRO-300(I)2001 dated 11 May 2001.

Management of the Company is responsible for the implementation of the Scheme as approved by the shareholders of the Company and in accordance with the Rules. The management is also responsible for design, implementation and maintenance of appropriate internal control procedures with respect to the books of account and records of the Company.

Our responsibility is to provide an opinion based on our evidence gathering procedures in accordance with International Standards on Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Company has complied with the Scheme and the Rules. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Company was, in all material respects, in compliance with the Scheme and the Rules as of 31 December 2008.

KPMG Taseer Hadi & Co

Date: January 27, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

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Auditors' Report to the Members

We have audited the annexed balance sheet of Engro Chemical Pakistan Limited as at 31 December 2008 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 43 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 prior years were destroyed. Records in electronic form remained intact and certain hard copy records relating to financial year 2005 and 2006 have not been recreated;

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 2008 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 33.1 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.1,501 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: January 27, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Balance Sheet
As At December 31, 2008

(AMOUNTS IN THOUSAND)

	Note	2008	2007 (Restated)
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorized			
300,000,000 (2007: 300,000,000) Ordinary shares of Rs. 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up	4	2,128,161	1,934,692
Share premium	5	7,152,722	3,963,977
Employee share option compensation reserve	6	305,052	272,990
Hedging reserve	7	2,157,769	1,037,386
General reserve		4,429,240	4,429,240
Unappropriated profit		6,911,124	4,102,366
		20,955,907	13,805,959
		23,084,068	15,740,651
NON CURRENT LIABILITIES			
Long term finances	8	27,756,714	15,422,520
Derivatives	9	918,050	-
Deferred taxation	10	2,412,757	1,948,980
Employee housing subsidy	11	73,319	-
Retirement and other service benefits	12	44,265	38,560
		31,205,105	17,410,060
CURRENT LIABILITIES			
Current portion of:			
- long term finances	8	76,600	1,300,000
- other service benefits	12	18,334	18,662
Short term borrowings	13	1,711,275	-
Trade and other payables including derivatives	14	3,874,824	3,752,945
Unclaimed dividends		318,320	193,067
		5,999,353	5,264,674
CONTINGENCIES AND COMMITMENTS	15		
		60,288,526	38,415,385

(AMOUNTS IN THOUSAND)

	Note	2008	2007 (Restated)
		(Rupees)	
NON CURRENT ASSETS			
Property, plant and equipment	16	33,395,762	13,818,674
Intangible assets	17	122,858	133,867
Long term investments	18	11,091,857	7,764,482
Deferred employee compensation expense		96,078	171,529
Long term loans, advances and other receivables including derivatives	19	258,813	841,498
		44,965,368	22,730,050
CURRENT ASSETS			
Stores, spares and loose tools	20	957,241	740,873
Stock-in-trade	21	4,680,896	2,690,153
Trade debts	22	261,508	1,408,885
Deferred employee compensation expense		93,213	72,537
Loans, advances, deposits and prepayments	23	1,899,124	889,621
Other receivables including derivatives	24	5,057,581	1,568,418
Taxation		618,746	543,376
Short term investments	25	67,811	6,153,948
Cash and bank balances	26	1,687,038	1,617,524
		15,323,158	15,685,335
		60,288,526	38,415,385

The annexed notes 1 to 45 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Profit and Loss Account
For The Year Ended December 31, 2008

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2008	2007
		(Rupees)	
Net sales	27	23,317,198	23,183,222
Cost of sales	28	(17,120,635)	(18,262,793)
GROSS PROFIT		6,196,563	4,920,429
Selling and distribution expenses	29	(1,657,815)	(1,641,724)
		4,538,748	3,278,705
Other income	30	2,754,330	1,831,260
Other operating charges	31	(579,556)	(339,430)
Finance cost	32	(1,508,948)	(535,023)
		(2,088,504)	(874,453)
PROFIT BEFORE TAXATION		5,204,574	4,235,512
Taxation	33	(964,144)	(1,080,929)
PROFIT AFTER TAXATION		4,240,430	3,154,583
			(Restated)
Earnings per share - basic and diluted	34	Rs. 20.50	Rs. 16.51

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

The annexed notes 1 to 45 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Statement of Changes in Equity
For The Year Ended December 31, 2008

(AMOUNTS IN THOUSAND)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	General reserve	Unappropriated profit	Total
				(Rupees)			
Balance as at January 01, 2007	1,682,340	1,068,369	-	-	4,429,240	2,190,148	9,370,097
Shares issued during the year in the 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 ended 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 (as previously reported)	1,934,692	3,963,977	-	1,037,386	4,429,240	4,116,622	15,481,917
Effect of change in date of grant of share option scheme - net of tax (note 6)	-	-	272,990	-	-	(14,256)	258,734
Balance as at December 31, 2007 / January 01, 2008 (as restated)	1,934,692	3,963,977	272,990	1,037,386	4,429,240	4,102,366	15,740,651
Shares issued during the year in the ratio of 1 for every 10 shares @ Rs.175 per share (including share premium net of share issue cost)	193,469	3,188,745	-	-	-	-	3,382,214
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	1,120,383	-	-	1,120,383
Profit for the year ended December 31, 2008	-	-	-	-	-	4,240,430	4,240,430
Total recognised income and expenses for the year ended December 31, 2008	-	-	-	1,120,383	-	4,240,430	5,360,813
Effect of changes in number of share options issued	-	-	32,062	-	-	-	32,062
Final Dividend for the year ended December 31, 2007 @ Rs. 3.00 per share	-	-	-	-	-	(580,408)	(580,408)
Interim dividends							
1st @ Rs. 2.00 per share	-	-	-	-	-	(425,632)	(425,632)
2nd @ Rs. 2.00 per share	-	-	-	-	-	(425,632)	(425,632)
Balance as at December 31, 2008	2,128,161	7,152,722	305,052	2,157,769	4,429,240	6,911,124	23,084,068

The annexed notes 1 to 45 form an integral part of these financial statements.

7,152,722

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Cash Flow Statement
For The Year Ended December 31, 2008
(AMOUNTS IN THOUSAND)

	Note	2008	2007
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	2,412,455	3,077,058
Retirement and other service benefits paid		(72,940)	(102,035)
Financial charges paid		(1,090,518)	(237,246)
Taxes paid		(574,977)	(507,482)
Payment to Engro Foods Limited for acquisition of tax losses (note 33.1)		(622,000)	(428,744)
Long term loans and advances		(169,399)	13,688
Net cash (outflow) / inflow from operating activities		(117,379)	1,815,239
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(20,214,342)	(8,297,796)
Sale proceeds on disposal of property, plant and equipment		87,727	10,616
Income on deposits / other financial assets		52,807	133,395
Long term investment		(3,327,375)	(4,106,886)
Dividends received		2,604,075	1,619,850
Net cash outflow from investing activities		(20,797,108)	(10,640,821)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term finances		12,412,394	14,922,520
Proceeds from issue of shares-net		3,382,214	3,147,960
Repayment of long term finances		(1,301,600)	(1,087,500)
Liabilities against asset subject to finance lease		-	(2,321)
Dividends paid		(1,306,419)	(1,117,402)
Net cash inflow from financing activities		13,186,589	15,863,257
Net (decrease) / increase in cash and cash equivalents		(7,727,898)	7,037,675
Cash and cash equivalents at the beginning of the year		7,771,472	733,797
Cash and cash equivalents at the end of the year	37	43,574	7,771,472

The annexed notes 1 to 45 form an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Notes to the Financial Statements For The Year Ended December 31, 2008
(AMOUNTS IN THOUSAND)

1. STATUS AND NATURE OF BUSINESS

1.1 Engro Chemical Pakistan Limited (the Company) is a public listed company incorporated in Pakistan under the 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 incorporated a subsidiary by the name of Engro Powergen (Private) Limited (EPGL), involved in energy business and its effective interest in its subsidiaries, Engro Polymer & Chemicals Limited (EPCL) and Engro Energy Limited (EEL) has reduced to 56.19% and 95% respectively by virtue of issuance of additional shares by EPCL and EEL.

The Company's registered office is situated at 7th & 8th floor, The Harbor front building, HC # 3, block 4, marine drive, clifton, Karachi-75600, Pakistan.

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 instruments at fair value.

The fair value of derivative hedging instruments are based on banks' valuations. These valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each instrument 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 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 amounts recognized in the financial statements are described in note 40.

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 long term finances, 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 a 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 a 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 12 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 also 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 01, 2005, no new members are inducted in this scheme (note 12.2.1).

Actuarial gains on curtailment of defined benefit pension scheme (curtailed) is recognised immediately once the ertainty 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 Employees' housing subsidy scheme

Employees compensation expense under Housing Subsidy Scheme is recognized as an expense on a straight line basis over the vesting period with a corresponding credit to employee housing subsidy shown as long term liability in the balance sheet.

When an employee leaves the company before the vesting period and after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortized portion with a corresponding effect to employee housing subsidy in the balance sheet.

On expiry of the vesting period, amounts disbursed under the scheme will be set-off against the employee housing subsidy.

3.6 Property, plant and equipment and capital work in progress

3.6.1 Owned assets

3.6.1.1 *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 3.19). 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.

3.6.1.2 *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.

3.6.2 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.

3.6.3 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 16.

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

3.6.4 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.

3.7 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 estimates 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.

3.8 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.

3.9 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 rate 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.

3.10 Employees' share option scheme

The grant date fair value of equity settled share based payment to employees is initially recognized in the balance sheet as deferred employee compensation expense with a consequent credit to equity as employee share option compensation reserve.

The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss is reversed equal to the amortized portion with a corresponding effect to employee share option compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to employee share option compensation reserve in the balance sheet.

When the options are exercised, employee share option compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium account.

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 Derivative financial instruments and hedging activities

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure.

Derivatives are recognised initially at fair value; attributable transaction cost are recognised in profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair values, and changes therein are accounted for as described below:

Cash flow hedges

Changes in fair value of derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognised in profit or loss.

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. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedge item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

3.16 Foreign currency translation

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

3.17 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.

3.18 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 dispatched 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.

3.19 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case such costs are capitalized as part of the cost of that asset. Borrowing costs includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

3.20 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.

3.21 Research and development costs

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

3.22 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 from related expense.

3.23 Earnings per share

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.24 Dividends and reserve appropriation

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

3.25 Transactions with related parties

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

3.26 Standard or an Interpretation not yet effective

The following standards, amendments and interpretations of approved accounting standards will either be effective for accounting periods beginning on or after January 1, 2009 or are not expected to have an effect on the Company's financial statements:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after January 1, 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after January 1, 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Company's financial statements.

- IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after April 28, 2008). The Company does not have any operations in Hyperinflationary Economies and therefore the application of the standard is not likely to have an effect on the Company's financial statements.

- Amendments to IAS 32 - Financial instruments: Presentation and IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009) – puttable financial instruments and obligations arising on liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Company's financial statements.

- Amendment to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after January 1, 2009) clarifies the definition of vesting conditions, introduces the concept of non vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Company's financial statements.

- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after July 1, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

- IFRS 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after April 28, 2008) supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation. The application of the standard is not expected to have significant impact on the Company's financial statements other than increase in disclosures.

- IFRS 8 - Operating Segments (effective for annual periods beginning on or after January 1, 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments. This standard will have no effect on the Company's reported total profit or loss or equity.

- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The application of IFRIC 13 is not likely to have an effect on the Company's financial statements.

- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', i.e, before construction is complete. The amendment is not relevant to the Company's operations.

- IFRIC 16 - Hedge of Net Investment in a Foreign Operation. (effective for annual periods beginning on or after October 1, 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation, an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Company's operations.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2009 financial statements. These amendments are unlikely to have an impact on the Company's financial statements except for the following:

- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - Eligible hedged items (effective for annual periods beginning on or after July 1, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Company's financial statements.

- IAS 27 - Consolidated and separate financial statements (effective for annual periods beginning on or after January 1, 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Company's financial statements.

- IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009) states that when a company disributes non-cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after July 1, 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met. Disclosures for discontinued operations would be required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not likely to have an effect on Company's financial statements.

The above conclusion should be amended if any changes are foreseen. A summary of these changes is available in IFRS Briefing Sheet Issue 94 dated June 2008. These amendments relate to:

- IFRS 5 (Amendment) - Non-current assets held-for-sale and discontinued operations (effective from July 1, 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

- IAS 23 (Amendment) - Borrowing costs. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 - Financial instruments: Recognition and measurement. This eliminates the inconsistency of terms between IAS 39 and IAS 23.

- IAS 28 (Amendment) - Investments in associates (and consequential amendments to IAS 32 - Financial Instruments: Presentation, and IFRS 7 - Financial instruments: Disclosures). An investment in associate is treated as a single asset for the purposes of impairment testing.

- IAS 36 (Amendment) - Impairment of assets. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

- IAS 38 (Amendment) - Intangible assets. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

- IAS 19 (Amendment) - Employee benefits. The amendment among other things clarifies treatments in case of plan amendments and modifies definition of return on plan assets.

- IAS 39 (Amendment) - Financial instruments: Recognition and measurement. This amendment among other things clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- IAS 1 (Amendment) - Presentation of financial statements. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 - Financial instruments: Recognition and measurement are examples of current assets and liabilities respectively.

- There are a number of minor amendments to IFRS 7 - Financial instruments: Disclosures, IAS 8 - Accounting policies, changes in accounting estimates and errors, IAS 10 - Events after the reporting period, IAS 18 - Revenue and IAS 34 - Interim financial reporting.

- IAS 16 (Amendment) - Property, plant and equipment (and consequential amendment to IAS 7 - Statement of cash flows). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

- IAS 27 (Amendment) - Consolidated and separate financial statements. Where an investment in a subsidiary that is accounted for under IAS 39 - Financial instruments: recognition and measurement, is classified as held for sale under IFRS 5 - Non-current assets held-for-sale and discontinued operations, IAS 39 would continue to be applied.

- IAS 28 (Amendment) - Investments in associates (and consequential amendments to IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial instruments: Disclosures). Where an investment in associate is accounted for in accordance with IAS 39 - Financial instruments: recognition and measurement, only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosures.

(AMOUNTS IN THOUSAND)

- IAS 29 (Amendment) - Financial reporting in hyperinflationary economies. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

- IAS 31 (Amendment) - Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 - Financial instruments: Presentation, and IFRS 7 - Financial instruments: Disclosures.

- IAS 38 (Amendment) - Intangible assets. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method.

- IAS 40 (Amendment) - Investment property (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value.

- IAS 41 (Amendment) - Agriculture (effective from January 1, 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value.

- IAS 20 (Amendment) - Accounting for government grants and disclosure of government assistance. The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 - Financial instruments: Recognition and measurement, and the proceeds received with the benefit accounted for in accordance with IAS 20.

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2008	2007		**2008**	2007
(Numbers)			**(Rupees)**	
100,228,038	80,881,119	Ordinary shares of Rs. 10 each fully paid in cash	1,002,280	808,811
112,588,079	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	1,125,881	1,125,881
212,816,117	193,469,198		2,128,161	1,934,692

4.1 Movement during the year

193,469,198	168,234,086	At January 1,	1,934,692	1,682,340
19,346,919	25,235,112	Ordinary shares of Rs. 10 each issued during the year ended December 31 as fully paid right shares	193,469	252,352
212,816,117	193,469,198		2,128,161	1,934,692

4.2 Associated companies held 88,857,572 (2007: 80,779,612) ordinary shares in the Company at year end.

(AMOUNTS IN THOUSAND)

5. SHARE PREMIUM

	2008	2007
	(Rupees)	
Balance as at January 1,	3,963,977	1,068,369
Shares issued during the year at the premium of Rs. 165 (2007: Rs. 115) per share (note 4.1)	3,192,242	2,902,038
Less: issue cost	(3,497)	(6,430)
Balance as at December 31,	7,152,722	3,963,977

6. EMPLOYEES' SHARE OPTION SCHEME

Under the Employee Share Option Scheme (the scheme) senior employees who are critical to the business operations are granted options to purchase 5 million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. During the year, due to issue of right shares, the exercise price was adjusted to Rs. 267.73 per share and total entitlements were increased to 5.5 million shares. The number of options granted to an employee is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Compensation Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant for employees who were granted shares on or before June 30, 2008 and shall end on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012.

For options granted after June 30, 2008, the vesting period will end such number of days after December 31, 2010 as is equal to the number of days between the date the initial option letters were issued and the date of grant of the latter options. However, the latter options can also only be exercised upto December 31, 2012.

During the year, the Company proposed certain changes relating to the 'grant date' in the originally approved scheme. The Securities and Exchange Commission of Pakistan, through their letter SMD/CIW/ESOS/04/2008 dated July 10, 2008, cleared these changes subject to the approval of shareholders, which was obtained in the Extraordinary General Meeting (EGM) held on December 22, 2008. The effect of grant of share options has been incorporated in these financial statements using August 23, 2007 as the grant date, the date when the scheme was originally approved by the shareholders.

Accordingly, prior year reported equity and assets have been restated. The amounts recognised in financial statements are as follows:

6.1 Employee share option compensation reserve

	2008	2007
	(Rupees)	
Balance as at January 1,	272,990	-
Amount recognised on grant date	-	272,990
Options issued during the year	37,989	-
Options lapsed due to employee resignation	(5,927)	-
Balance as at December 31,	305,052	272,990

(AMOUNTS IN THOUSAND)

6.2 Deferred employee compensation expense

	2008	2007
	(Rupees)	
Balance as at January 1,	244,066	-
Amount recognised on grant date	-	272,990
Options issued during the year	37,989	-
Options lapsed due to employee resignation	(5,927)	-
Amortisation for the year	(86,837)	(28,924)
Balance as at December 31,	189,291	244,066
Current portion shown under current assets	(93,213)	(72,537)
Long term portion of deferred employee compensation expense	96,078	171,529

6.3 The Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

Total number of share options issued	4,631,818
Fair value of the share options at grant date	Rs. 65.86
Share price at grant date	Rs. 220
Exercise price	Rs. 277
Annual Volatility	34.54%
Risk free rate used	10.77%

6.4 Employee-wise detail of options granted to senior management personnel / to other personnel in excess of five percent of total options granted is as follows:

Name of employee	No. of share options
Asad Umar	500,000
Syed Khalid S. Subhani	400,000
Ruhail Muhammed	300,000
M. Asif Sultan Tajik	200,000
Andalib Alavi	200,000
Tahir Jawaid	200,000
Inamullah Naveed Khan	200,000
Muhammad Khalid Mir	200,000
Abdul Samad Khan	200,000

(AMOUNTS IN THOUSAND)

7. HEDGING RESERVE

	2008	2007
	(Rupees)	
Fair values of :		
- Foreign exchange forward contracts (note 19)	4,297,960	2,002,572
- Foreign exchange option contracts	347,446	-
- Interest rate SWAPs	(1,073,210)	-
	3,572,196	2,002,572
Arrangement fee	(164,159)	(164,159)
Deferred tax	(1,250,268)	(801,027)
	2,157,769	1,037,386

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

The Company entered in various foreign exchange forward contracts to hedge its foreign currency exposure. At the year end the Company had foreign exchange forward contracts to purchase Euros 130,505 (2007: 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 Rs. 3,838,549 (2007: Rs. 2,002,572) at the year end.

The Company entered in various US$: PKR Forward contracts to hedge its foreign currency exposure. At the year end the Company had forward contracts to purchase US$ 159,027 (2007: Nil) 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 Rs. 459,411 (2007: Nil) at the year end.

The Company entered in various foreign exchange option contracts to hedge its currency exposure against US dollars relating to the expansion project. At the year end the Company had foreign exchange options amounting to Euro 55,669 (2007: Nil) The fair value of these contracts amounted to Rs. 347,446 (2007: Nil) at the year end.

During the year, the Company has also entered into the following two interest rate swap agreements:

The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of US$ 50,000 which will increase to US$ 150,000 during 2009, amortising up to September 2014. Under the swap agreement, the Company would receive USD-LIBOR from Citibank N.A. Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap at the year end is negative and amounted to Rs. 648,277 (2007: Nil).

The Company entered into another interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from a consortium of Development Finance Institutions for a notional amount of US$ 85,000 amortising upto April 2016. Under the swap agreement, the Company would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap at the year end is negative and amounted to Rs. 424,933 (2007: Nil).

(AMOUNTS IN THOUSAND)

8. LONG TERM FINANCES
Secured (Non-participatory)

	Note	Mark - up rate p.a.	Installments Number	Commencing from	Unavailed credit As at year end	2008 (Rupees)	2007
Long term finance utilised under mark-up arrangements:							
United Bank Limited		6 months T bills rate + 1%	5 half yearly		-	-	368,000
MCB Bank Limited		6 months T bills rate + 1%	5 half yearly		-	-	272,000
Standard Chartered Bank (Pakistan) Limited		6 months T bills rate + 1%	5 half yearly		-	-	160,000
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	-	600,000	600,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	400,000	400,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	-	1,000,000	1,000,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	2,000,000	2,000,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	250,000	50,000
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	400,000	100,000	100,000
The Hongkong and Shanghai Banking Corporation		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	250,000	250,000
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	500,000	100,000
National Bank of Pakistan		6 months KIBOR + 1.1%	8 half yearly	September 4, 2011	-	1,500,000	-
Syndicated finance	8.1	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	18,125,000	175,000	-
Islamic offshore finance	8.2	6 months LIBOR + 2.57%	8 half yearly	March 27, 2011	5,223,900	6,434,924	-
DFI Consortium finance	8.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	4,970,625	1,743,488	-
Certificates							
Term Finance Certificates	8.4	6 months KIBOR + 1.55%			-	3,967,426	3,972,271
Sukuk Certificates	8.5	6 months KIBOR + 1.5%			-	2,982,472	2,980,345
Sub-Ordinated Term Finance Certificates	8.6				-	5,930,004	4,469,904
						27,833,314	16,722,520
Less: Current portion shown under current liabilities						(76,600)	(1,300,000)
						27,756,714	15,422,520

8.1 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.

8.2 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. At the year end, the Company has completed draw down of US$ 84,000.

8.3 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. At the year end, the Company has completed draw down of US$ 22,200.

8.4 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 installments. The Company has appointed First Dawood Islamic Bank as trustees in respect of these TFCs.

8.5 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 installments.

(AMOUNTS IN THOUSAND)

8.6 During the year, the Company issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs. 6,000,000. The PPTFCs are perpetual in nature with a five year call and ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Company has appointed IGI Investment Bank Limited as trustees in respect of these TFCs.

8.7 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.

8.8 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.

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

9. DERIVATIVES

	2008	2007
	(Rupees)	
Fair value of interest rate swaps	1,073,210	-
Less: current portion shown under current liabilities (note 14)	(155,160)	-
	918,050	-

10. DEFERRED TAXATION

	2008	2007
Credit / (debit) balances arising on account of:		
- Accelerated depreciation allowance	1,129,211	1,161,384
- Net borrowing costs capitalised	518,571	128,079
- Fair value of hedging instruments	1,140,829	691,590
- Provision for		
- retirement benefits	(21,910)	(20,028)
- inventories, slow moving stores and spares and doubtful receivables	(314,188)	(7,487)
- others	(39,756)	(4,558)
	2,412,757	1,948,980

11. EMPLOYEE HOUSING SUBSIDY

The Company has announced a medium term Employee Housing Subsidy Scheme for its employees who are not entitled for Employee Share Options. Under this scheme the Company plans to disburse Rs. 540,000 as housing subsidy, which would be amortised over a period of 2.5 years of employee service. To date the Company has disbursed an amount of Rs.152,223 (2007: Nil) and recorded an amortisation in the profit and loss account amounting to Rs. 73,319 (2007: Nil).

In the condensed interim financial statements for the period ended September 30, 2008, housing subsidy has been disclosed as an equity transaction whereas it is a liability transaction. Accordingly, appropriate amendments have been made in these financial statements.

(AMOUNTS IN THOUSAND)

12. RETIREMENT AND OTHER SERVICE BENEFITS

	2008	2007
	(Rupees)	
Retirement benefits:		
Opening receivable	(16,977)	(69,192)
Reversal of expense - net (note 12.4)	(17,397)	(10,010)
Amounts received	3,839	62,225
Closing receivable	(30,535)	(16,977)
Receivable from Pension Fund (note 24)	31,187	17,629
	652	652
Other service benefit plan	61,947	56,570
Less: Current portion shown under current liabilities	18,334	18,662
	43,613	37,908
	44,265	38,560

12.1 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	29,311	267,158	-	296,469
Fair value of plan assets	(67,276)	(285,332)	-	(352,608)
Surplus	(37,965)	(18,174)	-	(56,139)
Present value of unfunded obligation	-	-	652	652
Unrecognised actuarial gain	6,778	18,174	-	24,952
Net (asset) / liability at the end of the year	(31,187)	-	652	(30,535)

12.2 Movement in net (asset) / liability recognised:

Net (asset) / liability at the beginning of the year	(17,629)	-	652	(16,977)
(Reversal) / expense recognised	(30,997)	13,600	-	(17,397)
Amounts received / (paid) to the Fund	17,439	(13,600)	-	3,839
Net (asset) / liability at the end of the year	(31,187)	-	652	(30,535)

12.2.1 During the year the Company recognised a gain of Rs. 30,997 (2007: Rs. 17,629) on curtailed defined benefit plan. In 2005, the Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited MPT Employees 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.

(AMOUNTS IN THOUSAND)

12.3 Movement in Plan assets

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded
	Rupees	
Opening balance	438,769	245,039
Expected return on plan assets	36,553	24,097
(Repayment) / Company contribution during the year	(17,439)	6,986
Benefits paid during the year	(23,072)	(12,698)
Settlement in respect of pensioners	(298,819)	-
Actuarial gain / (loss) on plan assets	(68,716)	21,908
Closing balance	67,276	285,332

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

	2008	2007
Defined benefit plans	(Rupees)	
Current service cost	14,936	13,047
Interest cost	52,009	51,741
Expected return on plan assets	(60,650)	(52,403)
Recognition of curtailment gain	-	(17,629)
Net actuarial gain recognised in current year	(23,692)	(4,766)
	(17,397)	(10,010)
Defined contribution plans	95,714	81,230

12.5 Expected future cost for the year ending December 31, 2009

- for MPT Pension Fund Rs. (5,700)
- for MPT Gratuity Fund Rs. 6,699
- for non-MPT Gratuity Fund Rs. 7,602

12.6 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 15% (2007: 10%) per annum;
- expected long term rate of increase in salaries for employees at 15% (2007: 10%) per annum, in case of non-management employees long range rate is 14% (2007: 9%);
- expected post retirement pension increase rate at 7.5% (2007: 6%) per annum; and
- expected long term rate of return on investment at 10% (2007: 10%) per annum.

(AMOUNTS IN THOUSAND)

12.7 Plan assets:

	Defined Benefit Pension Plan Funded		Defined Benefit Gratuity Plan Funded		Total	
	2008	2007	**2008**	2007	**2008**	2007
	(Rupees)					
Fixed income instruments	2,517	144,159	4,900	97,744	7,417	241,903
Cash	6,429	203	6,592	15,326	13,021	15,529
Others	58,330	294,407	273,840	131,969	332,170	426,376
	67,276	438,769	285,332	245,039	352,608	683,808

12.8 Historical information of staff retirement benefits:

	2008	2007	2006	2005	2004
	(Rupees)				
Present value of obligations	(296,469)	(587,655)	(536,209)	(538,407)	(962,105)
Fair value of plan assets	352,608	683,808	722,867	605,797	916,654
Surplus / (deficit)	56,139	96,153	186,658	67,390	(45,451)

13. SHORT TERM BORROWINGS - Secured

The facility for short term running finance available from various banks amounts to Rs. 6,750,000 (2007: Rs. 3,000,000).

The rates of mark-up range from 10.40% to 17.30% (2007: 10.50% to 11.00%) and the facilities are secured by floating charge upon all current and future moveable property of the Company.

14. TRADE AND OTHER PAYABLES INCLUDING DERIVATIVES

	2008	2007
	(Rupees)	
Creditors (note 14.1)	390,717	1,650,988
Payable to Engro Foods Limited (a subsidiary company) for taxable losses acquired (note 33.1)	450,000	622,103
Accrued liabilities (note 14.2)	727,165	434,762
Payable to defined contribution pension fund	-	8,703
Advances from customers	1,063,530	435,008
Current portion of fair value of interest rate swaps (note 9)	155,160	-
Financial charges accrued on secured		
- redeemable capital and long term loans	660,387	378,139
- short term borrowings	144,003	7,821
Deposits from dealers refundable on termination of dealership	10,553	10,543
Contractors' deposits and retentions	29,513	15,420
Workers' profits participation fund (note 24.3)	-	3,747
Workers' welfare fund	106,216	86,924
Sales tax payable	-	91,502
Others	137,580	7,285
	3,874,824	3,752,945

(AMOUNTS IN THOUSAND)

14.1 This includes payable of Rs.7,507 (2007: Rs.1,192,935) to Engro Eximp (Private) Limited (a wholly owned subsidiary).

14.2 Accrued liabilities

	2008	2007
	(Rupees)	
Salaries, wages and other employee benefits	184,528	114,919
Vacation accruals	64,159	54,746
Freight accruals	47,196	71,923
Consultancy services	178,088	-
Others	253,194	193,174
	727,165	434,762

15. CONTINGENCIES AND COMMITMENTS

Contingencies

15.1 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 27,911 (2007: Rs. 27,911).

15.2 Corporate guarantees of Rs. 500,600 (2007: Rs. 341,750) have been issued to banks in favour of subsidiary companies.

15.3 Bank guarantees of Rs. 141,126 (2007: Rs. 105,290) have been issued in favour of third parties.

15.4 The Company is contesting the penalty of Rs. 99,936 (2007: 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 (2007: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

15.5 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 (2007: 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.

15.6 The Company has extended project completion support to lenders of Engro Energy Limited for US$ 15,400 (2007: US$ 15,400) and a further support to lenders of Engro Polymer and Chemicals Limited for US$ 10,000 (2007: US$ 10,000) proposed to be enhanced to US$ 12,200 subsequent to shareholders' approval. These project supports are contingent upon occurrence or non-occurrence of specified future events.

		2008	2007
	Commitments	(Rupees)	
15.7	Plant and machinery	26,846,940	37,186,937
15.8	Foreign exchange forward and option contracts	4,645,405	2,022,172
15.9	Employee housing subsidy scheme	214,362	-

16. PROPERTY, PLANT AND EQUIPMENT

	2008	2007
Operating assets (note 16.1)	5,689,276	5,975,622
Capital work in progress (note 16.5)	27,706,486	7,843,052
	33,395,762	13,818,674

(AMOUNTS IN THOUSAND)

16.1 Operating assets

	Land Freehold	Land Leasehold	Building Freehold	Building Leasehold	Plant and Machinery	Plant and machinery held for disposal	Catalyst	Furniture, fixture and equipments	Vehicles Owned	Vehicles Leased	Total
	(Rupees)										
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	(6,600)	64,525 6,600
Accumulated depreciation	-	-	-	-	-	(126,087)	-	51,865	8,670 (4,290)	4,290	(61,262) (4,290)
	-	-	-	-	-	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 January 1, 2008											
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
Year ended December 31, 2008											
Opening 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
Additions	60,046	-	11,374	278	67,516	-	-	100,021	134,384	-	373,619
Disposals / transfers											
Cost	-	(14,596)	-	-	(984) 151,394	(151,394)	-	(449)	(14,786)	-	(182,209) 151,394
Accumulated depreciation	-	4,985	-	-	214 (126,087)	126,087	-	390	6,802	-	138,478 (126,087)
	-	(9,611)	-	-	24,537	(25,307)	-	(59)	(7,984)	-	(18,424)
Depreciation charge	-	(3,283)	(23,668)	(7,659)	(465,924)	-	(46,601)	(41,290)	(53,116)	-	(641,541)
Net book value	82,147	109,877	313,952	276,131	4,462,359	-	60,979	150,073	233,758	-	5,689,276
As at December 31, 2008											
Cost	82,147	152,280	603,475	333,004	10,043,804	-	326,408	471,604	418,579	-	12,431,301
Accumulated depreciation	-	(42,403)	(289,523)	(56,873)	(5,581,445)	-	(265,429)	(321,531)	(184,821)	-	(6,742,025)
Net book value	82,147	109,877	313,952	276,131	4,462,359	-	60,979	150,073	233,758	-	5,689,276
Annual rate of depreciation %	-	2 to 5	2.5 to 10	2.5	5 to 10		20 to 33.33	10 to 25	12 to 25	20	

(AMOUNTS IN THOUSAND)

16.2 Depreciation and amortisation have been allocated as follows:

	2008	2007
	(Rupees)	
Depreciation for the year (note 16.1)	641,541	626,661
Amortisation for the year (note 17)	12,193	7,920
	653,734	634,581
Cost of sales (note 28)	614,413	609,473
Selling and distribution expenses (note 29)	35,019	25,108
Capital work in progress	4,302	-
	653,734	634,581

16.3 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 Company's favour. Payments totaling 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 24).

16.4 Particulars of disposal of fixed assets

Description and method of disposal	**Sold to**	**Cost**	**Accumulated depreciation**	**Net book value**	**Sale Proceeds**
		(Rupees)			
Land	M/s Dalda Foods (Private) Limited	14,596	4,985	9,611	77,400
Vehicles					
By Company policy to existing/separating executives	Mr. M. Khalid Mir	1,287	888	399	322
	Mr. Asad Aleem Khan	900	126	774	788
	Mr. Mohammad Ijaz Hussain	795	533	262	346
	Mr. Nasimul Hasan Shah	560	236	324	277
	Mr. Farhan Akram	835	393	442	457
	Mr. Rameez A. Faraz	900	155	745	731
	Mr. Syed Murtaza Azhar Rizvi	895	280	615	602
	Mr. Jhangir Waheed	849	637	212	212
	Ms. Amina Waheed	795	596	199	354
	Mr. Mir Kaiser Yakob	895	350	545	618
	Mr. M.Majeed Latif	795	556	239	310
	Mr. Minhaj Ul Haq	900	225	675	900
	Mr. Abdul Samad	1,500	515	985	973
Insurance claim	New Hampshire Insurance Co	550	495	55	425
	New Hampshire Insurance Co	1,237	624	613	815
Sale through bid	Mr. Mohsin Pasha	193	193	-	528
Reimbursement of vehicle damaged during transit	M/s Muslim United Car Carrier Services	900	-	900	900
		14,786	6,802	7,984	9,558
Furniture, fixture & equipment and Plant & machinery					
Insurance claim	EFU General Insurance Company	103	54	49	63
Sale through bid	Mr. Farooq Ahmed	984	214	770	696
Items having net book value upto Rs. 50		346	336	10	11
		1,433	604	829	770
	2008	30,815	12,391	18,424	87,728
	2007	80,269	60,535	19,734	10,616

(AMOUNTS IN THOUSAND)

16.5 Capital work in progress

	2008	2007 (Restated)
	(Rupees)	
Plant and machinery	23,815,113	5,931,174
Building and civil works	3,715,574	1,841,674
Furniture, fixture and equipment	122,979	50,116
Advances to suppliers	52,820	20,088
	27,706,486	7,843,052

16.5.1 Capital work in progress includes Rs. 23,064,182 (2007: Rs. 5,731,734) and Rs. 3,689,805 (2007: 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 $ 1,050,000 (2007: US $ 1,000,000) and will have a capacity of 1.3 million tons of urea per annum. The project is progressing as per plan.

16.5.2 Capital work in progress also includes net borrowing costs capitalised amounting to Rs. 1,481,633 (2007: Rs. 363,941) at borrowing rates ranging from 11.52% to 17.22% (2007: 11.52% to 11.76%).

17. INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilisation	2008	2007
	(Rupees)			
Cost				
At January 1,	112,312	102,312	214,624	90,899
Addition	1,184	-	1,184	123,725
At December 31,	113,496	102,312	215,808	214,624
Amortisation				
At January 1,	80,757	-	80,757	72,837
Charge for the year	12,193	-	12,193	7,920
At December 31,	(92,950)	-	(92,950)	(80,757)
Net book value at December 31,	20,546	102,312	122,858	133,867

17.1 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 commencing from 2010.

17.2 The Company does not have any internally generated intangible assets.

17.3 Amortisation on softwares and licenses is charged on a straight-line basis over their estimated useful lives ranging from three to five years.

18. LONG TERM INVESTMENTS

	2008	2007
	(Rupees)	
Subsidiary companies - at cost (note 18.1)	10,636,857	7,309,482
Joint venture company - at cost		
Engro Vopak Terminal Limited		
45,000,000 Ordinary shares of Rs. 10 each equity held 50% (2007: 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 (18.2)	-	-
	11,091,857	7,764,482

(AMOUNTS IN THOUSAND)

18.1 Subsidiary companies

Name of the Company and description of interest	2008		2007	
	Equity % held	**Investment at cost (Rupees)**	Equity % held	Investment at cost (Rupees)
Quoted				
Engro Polymer & Chemicals Limited 292,400,000 (2007: 292,400,000) Ordinary shares of Rs. 10 each	56.19	2,847,200	65.92	2,847,200
Unquoted				
Engro Eximp (Private) Limited 10,000 (2007: 10,000) Ordinary shares of Rs. 10 each	100	100	100	100
Engro Management Services (Private) Limited 250,000 (2007: 250,000) Ordinary shares of Rs. 10 each	100	2,500	100	2,500
Engro Foods Limited - 430,000,000 (2007: 220,000,000) Ordinary shares of Rs. 10 each	100	4,300,000	100	2,200,000
- Advance against issue of share capital		50,000		200,000
Engro Energy Limited - 304,000,000 (2007: 165,272,500) Ordinary shares of Rs. 10 each	95	3,040,000	100	1,652,725
- Advance against issue of share capital		-		25,000
Avanceon Limited [formerly Engro Innovative Automation (Private) Limited] 25,066,667 (2007: 25,066,667) Ordinary shares of Rs. 10 each	62.67	381,957	62.67	381,957
Engro Powergen (Private) Limited - Advance against issue of share capital	100	15,100	-	-
		10,636,857		7,309,482

18.2 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.

(AMOUNTS IN THOUSAND)

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

	2008	2007
	(Rupees)	
Engro Eximp (Private) Limited	3,283	517,784
Engro Management Services (Private) Limited	2,579	2,504
Engro Foods Limited [including advance against issue of share capital amounting to Rs. 50,000 (2007: Rs. 200,000)]	2,731,747	1,335,884
Engro Energy Limited [including advance against issue of share capital amounting to Rs. Nil (2007: Rs. 25,000)]	3,007,310	1,578,937
Avanceon Limited [formerly Engro Innovative Automation (Private) Limited]	49,584	148,313
Engro Vopak Terminal Limited	485,895	488,202
Engro Powergen (Private) Limited - Advance against issue of share capital Rs. 15,100 (2007: Rs. Nil)	3,824	-
Arabian Sea Country Club Limited (June 30, 2008)	3,981	4,679
Agrimall (Private) Limited (June 30, 2007)	(4,093)	(4,093)
Engro Polymer & Chemicals Limited	3,702,736	4,108,122

19. LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLES INCLUDING DERIVATIVES - Considered good

Long term loans		
Executives (notes 19.1, 19.2 and 19.3)	137,836	79,385
Other employees (note 19.2 and 19.3)	121,785	10,038
	259,621	89,423
Instalments recoverable within twelve months (note 23)	(40,801)	(40,002)
Fair value of Foreign excange forward contacts (note 7)	4,297,960	2,002,572
Less: Current portion (note 24)	4,257,967	1,210,495
	39,993	792,077
	258,813	841,498

(AMOUNTS IN THOUSAND)

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

	2008	2007
	(Rupees)	
Balance at January 1,	79,385	77,163
Disbursements	133,615	46,429
Repayments	(75,164)	(44,207)
Balance at December 31,	137,836	79,385

19.2 These include interest free service incentive loans to executives of Rs. 47,367 (2007: Rs. 46,733) 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. 22,665 (2007: Rs. 10,038) pursuant to Collective Labour Agreement. It also includes advances of Rs. 28,349 (2007: Rs. 25,722) and Rs. 9,150 (2007: Rs. 6,923) to employees for car earn out assistance and house rent advance respectively.

19.3 These also include amount of Rs. 53,103 (2007: Nil) to executives and Rs. 99,120 (2007: Nil) to other employees disbursed under Employee Housing Subsidy Scheme.

19.4 The maximum amount outstanding at the end of any month from the executives aggregated to Rs. 141,143 (2007: Rs. 92,346).

20. STORES, SPARES AND LOOSE TOOLS

	2008	2007
	(Rupees)	
Consumable stores	143,797	114,888
Spares	838,329	644,134
Loose tools	4,028	3,241
	986,154	762,263
Less: Provision for surplus and slow moving items	(28,913)	(21,390)
	957,241	740,873

21. STOCK-IN-TRADE

		2008	2007
Raw materials (note 21.1)		1,142,834	607,785
Work-in-process		9,027	7,952
Finished goods	- own manufactured product	396,198	397,129
	- purchased product (note 21.1)	3,132,837	1,677,287
		3,529,035	2,074,416
		4,680,896	2,690,153

21.1 During the year, the Company has recognised a write down of its inventories of raw materials and finished goods to net realisable value amounting to Rs. 276,022 (2007: Nil) and Rs. 578,350 (2007: Nil) respectively due to decline in international phosphatic fertilizer prices.

(AMOUNTS IN THOUSAND)

22. TRADE DEBTS

	2008	2007
	(Rupees)	
Considered good		
Secured	243,546	1,372,804
Unsecured	17,962	36,081
	261,508	1,408,885
Considered doubtful	8,059	8,159
	269,567	1,417,044
Provision for doubtful debts	(8,059)	(8,159)
	261,508	1,408,885

23. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS

	2008	2007
Current portion of long term loans and advances to executives and other employees - considered good (note 19)	40,801	40,002
Sub-ordinated loan to Engro Eximp (Private) Limited (note 23.1)	1,100,000	190,000
Advances and deposits	439,225	158,669
Transaction costs paid for unavailed financing facilities (note 23.2)	188,696	295,300
Prepaid insurance	81,820	174,479
Prepayments	53,103	35,692
	1,903,645	894,142
Provision for doubtful receivables	(4,521)	(4,521)
	1,899,124	889,621

23.1 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 15.13% per annum (2007: 10.9% per annum).

The loan 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.

23.2 This represents transaction costs relating to syndicated finance in which significant loan draw down was not completed till the year end (note 8).

(AMOUNTS IN THOUSAND)

24. OTHER RECEIVABLES INCLUDING DERIVATIVES

	2008	2007
	(Rupees)	
Receivable from Government of Pakistan for:		
- customs duty and sales tax (note 16.3)	22,207	22,207
- subsidy (note 24.1)	198,150	151,222
- sales tax (note 24.2)	57,135	-
- others	13,560	13,560
	291,052	186,989
Accrued income on deposits / bonds	-	32,177
Receivable from Pension fund (note 12)	31,187	17,629
Workers' profits participation fund (note 24.3)	5,738	-
Sales tax refundable	6,567	-
Fair value of Interest Rate Swap	-	11,448
Current portion of fair value of foreign exchange forward contracts (note 19)	4,257,967	1,210,495
Fair value of foreign currency options	347,446	-
Due from:		
- Subsidiary companies		
- Engro Eximp (Private) Limited	794	-
- Engro Foods Limited	4,015	1,395
- Engro Polymer & Chemicals Limited	874	1,052
- Engro Energy Limited	202	1,133
- Avanceon Limited [formerly Engro Innovative Automation (Private) Limited]	1,964	553
- Joint venture		
-Engro Vopak Terminal Limited (note 24.4)	90,252	88,931
Claims on foreign suppliers	15,922	15,285
Less: Provision for doubtful receivables	295	295
	15,627	14,990
Others	5,414	1,675
Less: Provision for doubtful receivables	1,518	49
	3,896	1,626
	5,057,581	1,568,418

24.1 The total amount of subsidy for the year was Rs. 572,946 (2007: 681,534) of which Rs. 198,150 (2007: Rs. 151,222) 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.

(AMOUNTS IN THOUSAND)

24.2 During the year, Model Customs Collectorate assessed Sales Tax on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 by the Company on actual import value instead of deemed value as prescribed by SRO 609 (I) / 2004 and raised demand of Rs. 57,135 which was paid by the Company.

The Company has filed an appeal before the Collector, Sales Tax and Federal Excise. The Ministry of Food, Agriculture and Livestock has also recommended through its letter dated June 27, 2008 that this grade of MAP should be assessed at deemed value of import with retrospective effect. The management is confident that the issue would be decided in the Company's favour.

24.3 Workers' profits participation fund

	2008	2007
	(Rupees)	
Payable / (Receivable) at the beginning of the year	3,747	(3,222)
Allocation for the year (note 31)	279,515	228,747
Amount paid to the Trustees of the Fund	(289,000)	(221,778)
(Receivable) / Payable from / to the fund	(5,738)	3,747

24.4 This includes dividend receivable of Rs. 90,000 (2007: Rs. 90,000)

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

	2008	2007
	(Rupees)	
Subsidiary companies		
- Engro Eximp (Private) Limited	2,066	165,000
- Engro Foods Limited	75,414	7,759
- Engro Energy Limited	31,819	5,894
- Engro Polymer & Chemicals Limited	159,249	142,662
- Avanceon Limited [formerly Engro Innovative Automation (Private) Limited]	2,225	1,945
- Engro PowerGen (Private) Limited	5,717	-
- Engro Management Services (Private) Limited	19	1
Joint venture		
- Engro Vopak Terminal Limited	93,134	88,931

25. SHORT TERM INVESTMENTS

Financial assets at fair value through profit or loss

Fixed income / money market funds	67,811	6,153,948

26. CASH AND BANK BALANCES

With banks		
- deposit accounts	29,195	1,286,570
- current accounts (note 26.1)	1,328,691	58,645
In hand		
- cheques / demand drafts	324,302	265,209
- cash	4,850	7,100
	1,687,038	1,617,524

(AMOUNTS IN THOUSAND)

26.1 This includes Rs. 1,325,438 (2007: Nil) held in foreign currency bank accounts for letter of credit payments relating to expansion project.

27. NET SALES

	2008	2007
	(Rupees)	
Own manufactured product	16,029,188	11,695,399
Sales tax	(520,365)	(946,878)
	15,508,823	10,748,521
Purchased product	7,921,944	12,972,909
Sales tax	(113,569)	(538,208)
	7,808,375	12,434,701
Net sales	23,317,198	23,183,222

27.1 Sales are net of marketing allowances of Rs. 103,609 (2007: Rs. 57,630).

28. COST OF SALES

	2008	2007
Raw materials consumed (note 28.1)	4,391,860	2,748,948
Salaries, wages and staff welfare	949,834	707,735
Fuel and power	2,584,851	2,025,243
Repairs and maintenance	368,955	274,229
Depreciation / amortization (note 16.2)	614,413	609,473
Consumable stores	174,655	106,397
Staff recruitment, training, safety and other expenses	68,292	48,759
Purchased services	288,252	115,042
Travel	46,703	31,762
Communication, stationery and other office expenses	37,356	26,389
Insurance	72,910	70,692
Rent, rates and taxes	50,873	8,886
Other expenses	24,187	19,329
Manufacturing cost	9,673,141	6,792,884
Add: Opening stock of work-in-progress	7,952	3,644
Less: Closing stock of work-in-progress	9,027	7,952
	(1,075)	(4,308)
Cost of goods manufactured	9,672,066	6,788,576
Add: Opening stock of finished goods manufactured	397,129	163,202
Less: Closing stock of finished goods manufactured	396,198	397,129
	931	(233,927)
Cost of goods sold - own manufactured product	9,672,997	6,554,649
- purchased product (note 28.2)	7,447,638	11,708,144
	17,120,635	18,262,793

(AMOUNTS IN THOUSAND)

28.1 This includes write down of raw materials to net realisable value amounting to Rs. 276,022 (2007: Nil)

28.2 This includes write down of purchased products to net realisable value amounting to Rs. 578,350 (2007: Nil)

29. SELLING AND DISTRIBUTION EXPENSES

	2008	2007
	(Rupees)	
Salaries, wages and staff welfare	346,032	264,838
Staff recruitment, training, safety and other expenses	47,214	29,168
Product transportation and handling	802,704	1,017,118
Repairs and maintenance	24,367	17,460
Advertising and sales promotion	68,222	83,161
Rent, rates and taxes	100,797	81,059
Communication, stationery and other office expenses	25,889	20,891
Travel	40,776	28,426
Depreciation / amortization (note 16.2)	35,019	25,108
Purchased services	85,545	7,618
Donations	42,316	41,118
Other expenses	38,934	25,759
	1,657,815	1,641,724

30. OTHER INCOME

Dividend income (note 30.1)	2,605,396	1,618,701
Income on deposits / other financial assets	2,594	163,338
Service charges	22,567	14,046
Fair value of derivative interest rate swap	407	2,135
Reversal of resignation gratuity provision	-	3,276
Reversal of Defined Benefit Pension Plan (curtailed) (note 12.2.1)	30,997	17,629
Profit on disposal of property, plant and equipment	69,303	-
Net foreign exchange gain on bank accounts	18,036	841
Others	5,030	11,294
	2,754,330	1,831,260

30.1 Dividend income

Subsidiary companies		
- Engro Eximp (Private) Limited	2,200,000	1,165,000
- Engro Polymer & Chemicals Limited	157,896	228,701
Joint venture		
- Engro Vopak Terminal Limited	247,500	225,000
	2,605,396	1,618,701

(AMOUNTS IN THOUSAND)

31. OTHER OPERATING CHARGES

	2008	2007
	(Rupees)	
Workers' profits participation fund (note 24.3)	279,515	228,747
Workers' welfare fund	106,216	86,924
Research and development (including salaries and wages)	78,126	2,011
Loss on sale of fixed assets	-	19,492
Auditors' remuneration		
- statutory annual audit	1,350	1,250
- Half yearly review	150	150
- fee for other services	123	1,012
- reimbursement of expenses	282	547
	1,905	2,959
Capitalised	-	(803)
	1,905	2,156
Professional tax	200	100
Others	113,594	-
	579,556	339,430

32. FINANCE COST

	2008	2007
Mark-up on		
- Long term finances	824,662	471,796
- short term borrowings	684,286	63,227
	1,508,948	535,023

33. TAXATION

	2008	2007
Current		
- for the year	949,607	899,000
- for prior years	-	51,579
	949,607	950,579
Deferred - for the year	14,537	130,350
	964,144	1,080,929

(AMOUNTS IN THOUSAND)

33.1 The Company in its tax return for tax year 2007 claimed the benefit of Group Relief under section 59B 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.

During the year, an audit was conducted by the tax department for tax year 2007 and an assessment order was issued challenging the claiming of benefit of Group Relief by the Company and certain other issues. Consequently, the Company filed an appeal against issues raised by the tax department. Gross demand amounting to Rs. 476,479 was raised out of which the Company paid an amount of Rs. 170,000. Stay for payment of balance amount has been granted till the decision of the learned Income Tax Appellate Tribunal (ITAT). The Company is reasonably confident that the issue of Group Relief will be decided in its favour.

During the year, the Company has again claimed the benefit of Group Relief under section 59B of Income Tax Ordinance, 2001 in its tax return for tax year 2008 and accordingly has paid an amount of Rs. 622,103 (note 14). The Company has also agreed to acquire equivalent tax effect of tax year 2009's partial losses of EFL amounting to Rs. 450,000 which will be accounted for in the income tax return of the Company due to be filed with Income Tax Department by September 30, 2009.

33.2 The Company has filed tax returns up to income year 2007. 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). The Company has filed an appeal thereon with ITAT.

The appeals for income years ended June 1997, December 1997 and December 1998 have been decided in favor 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 it believes to be an error of fact and should be rectified. For December 1998, the Company has received favorable decision from the 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 also filed reference with Alternative Dispute 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 was received from the ADRC. However, the FBR has decided that the issue be decided upon by ITAT where this matter remains under appeal.

For income years 2003 - 2007 income tax returns have been filed under self assessment scheme by the Company.

Audit in respect of income year 2005 has been finalised. The Company has received a demand amounting to Rs. 240,660 of which the Company has paid Rs. 30,694 and filed a rectification with the Tax Department for correction of certain errors in the assessment order.

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

(AMOUNTS IN THOUSAND)

33.3 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:

	2008	2007
	(Rupees)	
Profit before tax	5,204,574	4,235,512
Tax calculated at the rate of 35%	1,821,601	1,482,429
Depreciation on exempt assets not deductible for tax purposes	34,495	32,923
Effect of applicability of lower tax rate / exemption on certain income and other tax credits / debits	(891,952)	(434,423)
Tax charge for the year	964,144	1,080,929

34. EARNINGS PER SHARE

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

	2008	2007
	(Rupees)	
Profit after taxation	4,240,430	3,154,583
	------ (Number) ------	
Weighted average number of Ordinary shares (in thousand)	206,818	191,109

The shares issued under employee share option scheme may have a potential dilutive impact on basic earnings per share in future periods.

35. 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:

	2008			2007		
	Directors			Directors		
	Chief Executive	**Others**	**Executives**	Chief Executive	Others	Executives
	(Rupees)					
Managerial remuneration	27,491	28,565	528,612	22,302	22,959	447,860
Retirement benefits funds	3,337	3,606	86,931	2,758	3,181	75,498
Other benefits	1,845	3,252	46,586	1,941	2,384	41,244
Fees	-	840	-	-	640	-
Total	32,673	36,263	662,129	27,001	29,164	564,602
Number of persons including those who worked part of the year	1	9	372	1	9	332

(AMOUNTS IN THOUSAND)

35.1 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.

36. CASH GENERATED FROM OPERATIONS

	2008	2007
	(Rupees)	
Profit before taxation	5,204,574	4,235,512
Adjustment for non-cash charges and other items:		
- Depreciation and amortisation	653,734	634,581
- (Profit) / loss on disposal of property, plant and equipment	(69,303)	19,492
- Provision for retirement and other service benefits	78,317	101,617
- Income on deposits / other financial assets	(20,630)	(164,179)
- Dividend income	(2,605,396)	(1,618,701)
- Financial charges	1,508,948	535,023
- Employee share compensation expense	66,673	-
- Employee housing subsidy expense	69,587	-
- Provision for surplus and slow moving stores and spares	7,523	7,551
- Provision for doubtful trade debts	(100)	236
- Provision for other receivables	(1,469)	1,442
- Working capital changes (note 36.1)	(2,480,003)	(675,516)
	2,412,455	3,077,058

36.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(223,891)	(67,407)
- Stock-in-trade	(1,990,743)	(1,766,705)
- Trade debts	1,147,477	(786,008)
- Loans, advances, deposits and prepayments	(1,009,503)	(475,311)
- Other receivables-net	(123,735)	668,595
	(2,200,395)	(2,426,836)
Increase in current liabilities		
- Trade and other payables including other service benefits-net	(279,608)	1,751,320
	(2,480,003)	(675,516)

37. CASH AND CASH EQUIVALENTS

Cash and bank balances (note 26)	1,687,038	1,617,524
Short term borrowings	(1,711,275)	-
Short term investments (note 25)	67,811	6,153,948
	43,574	7,771,472

(AMOUNTS IN THOUSAND)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

38.1 Financial assets and liabilities

2008

	Effective interest / mark-up rate (%)	Interest / mark-up bearing: Maturity upto one year	Interest / mark-up bearing: Maturity from one to five years	Interest / mark-up bearing: Maturity more than five years	Interest / mark-up bearing: Total	Non-Interest / mark-up bearing: Maturity upto one year	Non-Interest / mark-up bearing: Maturity from one to five years	Non-Interest / mark-up bearing: Maturity more than five years	Non-Interest / mark-up bearing: Total
		(Rupees)							
Financial assets									
Long term investments		-	-	-	-	-	-	11,091,857	11,091,857
Loans, advances and deposits	15.13%	1,100,000	-	-	1,100,000	40,801	258,813	-	299,614
Trade debts		-	-	-	-	261,508	-	-	261,508
Other receivables including derivatives		-	-	-	-	5,103,483	-	-	5,103,483
Short term investments	4.84% to 10%	67,811	-	-	67,811	-	-	-	-
Cash and bank balances	1% to 9.5%	29,195	-	-	29,195	1,657,843	-	-	1,657,843
		1,197,006	-	-	1,197,006	7,063,635	258,813	11,091,857	18,414,305
Financial liabilities									
Long term finances	10.05% to 17.22%	76,600	13,425,761	14,676,764	28,179,125	-	-	-	-
Derivatives		-	-	-	-	155,160	811,227	106,823	1,073,210
Employee housing subsidy		-	-	-	-	-	73,319	-	73,319
Short term borrowings	10.4% to 17.30%	1,711,275	-	-	1,711,275	-	-	-	-
Trade and other payables		-	-	-	-	2,549,918	-	-	2,549,918
Dividends		-	-	-	-	318,320	-	-	318,320
		1,787,875	13,425,761	14,676,764	29,890,400	3,023,398	884,546	106,823	4,014,767

2007

	Effective interest / mark-up rate (%)	Interest / mark-up bearing: Maturity upto one year	Interest / mark-up bearing: Maturity from one to five years	Interest / mark-up bearing: Maturity more than five years	Interest / mark-up bearing: Total	Non-Interest / mark-up bearing: Maturity upto one year	Non-Interest / mark-up bearing: Maturity from one to five years	Non-Interest / mark-up bearing: Maturity more than five years	Non-Interest / mark-up bearing: Total
		(Rupees)							
Financial assets									
Long term investments		-	-	-	-	-	-	7,764,482	7,764,482
Loans, advances and deposits	10.90%	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	4.84% to 10.23%	6,153,948	-	-	6,153,948	-	-	-	-
Cash and bank balances	1% to 9%	1,286,570	-	-	1,286,570	330,954	-	-	330,954
		7,641,966	-	-	7,641,966	3,942,243	49,421	7,764,482	11,756,146
Financial liabilities									
Long term finances	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

38.2 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 or foreign currency loan liabilities and related interest 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 while open exposures are rigorously monitored. The Company ensures that it has options available to exit or hedge any exposure, either through forward contracts, options or prepayments, etc.

The Company is exposed to currency risk on commitments to purchase plant and machinery in connection with urea expansion project (note 16.5.1) denominated primarily in Euros.

The Company has entered into Euro-Dollar and Dollar-Rupee forward exchange contracts / options to hedge its currency risk, most with a maturity of less than one year from the reporting date (note 7). When necessary, forward exchange contracts are rolled over at maturity.

The Company's ability to mitigate foreign exchange risk has however been curtailed by the State Bank of Pakistan which has disallowed issuance of new forward covers against letters of credit.

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 / foreign currency loans at variable rates. Rupee based loans have a prepayment option, which can be exercised upon any adverse movement. Interest rate risk arising on foreign currency loans are hedged through interest rate swaps (note 7). 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. 269,567 (2007: Rs. 1,417,044) 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.

(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. TRANSACTIONS WITH RELATED PARTIES

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

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

	2008	2007
	(Rupees)	
Subsidiary companies		
Purchases and services	7,768,018	13,126,507
Services rendered	37,373	29,678
Associated companies		
Purchases and services	5,028,589	2,569,433
Services rendered	1,540	967
Dividend paid	597,769	512,775
Right shares issued (including share premium)	1,413,643	1,317,059
Others		
Dividend paid	41,949	8,656
Right shares issued (including share premium)	26,889	17,535

40. ACCOUNTING ESTIMATES AND JUDGEMENTS

Income Tax

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

Impairment of investments in subsidiaries, associates and joint venture

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.

(AMOUNTS IN THOUSAND)

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 judgment.

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.

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.

Fair value of employee share options

The management has determined the fair value of options issued under Employee Share Option Scheme at the grant date using Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 6.3.

41. DONATIONS

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

	Interest in Donee	Name and address of Donee	2008	2007
			(Rupees)	
Mr. Asad Umar and Mr. Shahzada Dawood	Member	Lahore University of Management Sciences, Lahore	-	300
			-	300

42. PRODUCTION CAPACITY

	Designed Annual Capacity	Actual Production 2008	Actual Production 2007
	Metric Tons	Metric Tons	
Urea plant	975,000	995,020	954,216
NPK plant	160,000	97,669	124,821

(AMOUNTS IN THOUSAND)

42.1 Actual production was below from designed annual capacity due to planned shutdowns as per market demand for NPK products.

43 LOSS OF CERTAIN ACCOUNTING RECORDS

During 2007, 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.

The fire destroyed a substantial portion of its hard copy records related to the financial years 2005, 2006 and the period January 1, 2007 to August 19, 2007 although, electronic data remained 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 financial year 2007. Hard copy records related to the already reported financial years 2005 and 2006 have not been recreated.

44. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on January 21, 2009 has proposed a final cash dividend of Rs. 2 per share (2007: Rs. 3 per share final cash dividend) and issue of right shares in the proportion of four shares for every ten existing shares held at a price of Rs. 50 per share i.e. a premium of Rs. 40 per share over a par value of Rs. 10 per share for approval of the members at the Annual General Meeting to be held on February 27, 2009.

The financial statements for the year ended December 31, 2008 do not include the effect of the proposed cash dividend and right issue, which will be accounted for in the financial statements for the year ending December 31, 2009.

45. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 21, 2009 by the Board of Directors of the Company.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Construction work at Enven site Daharki

- Auditors' Report to the Members
- Consolidated Financial Statements

Energy for growth

Construction work at Enven site Daharki

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
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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 2008 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, Engro Foods Limited and Avanceon Limited [formerly Engro Innovative Automation 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 2008 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 48 to these consolidated financial statements, due to a fire at the Holding Company's premises on 19 August 2007 certain records, documents and books of account of the Holding Company relating to year ended 31 December 2007, 2006 and 2005 were destroyed. To date, the Holding 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 37.1 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.1,501 thousand, pending designation from the Securities and Exchange Commission of Pakistan as entity entitled for group relief under the Income Tax Ordinance, 2001.

KPMG Taseer Hadi & Co.

Date: January 27, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co., a partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

Consolidated Balance Sheet
As at December 31, 2008
(AMOUNTS IN THOUSAND)

	Note	2008	2007 (Restated)
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorised			
300,000,000 (2007: 300,000,000) Ordinary shares of Rs. 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up	4	2,128,161	1,934,692
Share premium	5	7,152,722	3,963,977
Employee share option compensation reserve	6	327,020	272,990
Hedging reserve	7	2,135,799	1,037,386
Revaluation reserve on business combination		125,102	135,304
General reserves		4,429,240	4,429,240
Unappropriated profit		6,166,472	3,503,922
		20,336,355	13,342,819
		22,464,516	15,277,511
MINORITY INTEREST		3,113,677	3,000,412
		25,578,193	18,277,923
NON CURRENT LIABILITIES			
Long term finances	8	40,738,824	18,284,262
Derivatives	9	978,204	-
Obligations under finance lease	10	29,385	30,028
Deferred taxation	11	3,601,035	2,977,586
Employee housing subsidy	12	73,319	-
Deferred liabilities	13	93,446	70,239
Retention money against project payments	14	553,445	100,960
		46,067,658	21,463,075
CURRENT LIABILITIES			
Current portion of			
- long term finances	8	321,915	1,432,509
- obligations under finance lease	10	20,038	17,007
- deferred liabilities	13	20,023	20,339
Short term borrowings	15	4,591,218	901,953
Trade and other payables including derivatives	16	7,008,415	6,930,024
Unclaimed dividends		318,320	193,067
		12,279,929	9,494,899
CONTINGENCIES AND COMMITMENTS	17		
		83,925,780	49,235,897

(AMOUNTS IN THOUSAND)

	Note	2008	2007 (Restated)
		(Rupees)	
NON CURRENT ASSETS			
Property, plant and equipment	18	58,135,753	23,477,979
Biological assets	19	306,826	10,065
Intangible assets	20	570,833	565,691
Long term investments	21	491,210	493,517
Deferred employee compensation expense		101,826	171,529
Long term loans, advances and other receivables including derivatives	22	377,392	946,013
		59,983,840	25,664,794
CURRENT ASSETS			
Stores, spares and loose tools	23	1,272,119	915,384
Stock-in-trade	24	7,129,907	3,734,138
Trade debts	25	758,491	1,913,500
Deferred employee compensation expense		103,343	72,537
Loans, advances, deposits and prepayments	26	1,155,707	1,078,320
Other receivables including derivatives	27	8,388,635	2,801,456
Taxation		869,056	599,949
Short term investments	28	2,067,074	10,322,832
Cash and bank balances	29	2,197,608	2,132,987
		23,941,940	23,571,103
		83,925,780	49,235,897

The annexed notes 1 to 51 are an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Consolidated Profit and Loss Account
For the year ended December 31, 2008

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2008	2007
		(Rupees)	
Net sales	30	40,973,047	34,120,611
Cost of sales	31	(30,111,348)	(26,138,366)
GROSS PROFIT		10,861,699	7,982,245
Selling and distribution expenses	32	(4,253,652)	(3,582,695)
		6,608,047	4,399,550
Other income	33	1,038,314	509,829
Other operating charges	34	(969,583)	(482,558)
Finance cost	35	(1,737,953)	(717,658)
		(2,707,536)	(1,200,216)
Share of income from joint venture	36	245,193	243,666
PROFIT BEFORE TAXATION		5,184,018	3,952,829
Taxation	37	(977,328)	(1,119,041)
PROFIT AFTER TAXATION		4,206,690	2,833,788
Attributable to			
- Equity holders of Holding Company		4,125,754	2,876,520
- Minority interest		80,936	(42,732)
		4,206,690	2,833,788
			(Restated)
Earnings per share - basic and diluted	38	Rs. 19.95	Rs. 15.05

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

The annexed notes 1 to 51 are an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Consolidated Statement of Changes in Equity
For the year ended December 31, 2008

(AMOUNTS IN THOUSAND)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	Revaluation reserve on business combination	General reserve	Unappropriated profit	Sub total	Minority interest	Total
					(Rupees)					
Balance as at January 1, 2007	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 in the 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	-	3,147,960
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 subsidiary	-	-	-	-	(62,012)	-	-	(62,012)	(24,805)	(86,817)
Net income/ expense directly recognized in equity	-	-	-	1,037,386	(62,012)	-	-	975,374	(24,805)	950,569
Profit for the year ended December 31, 2007	-	-	-	-	-	-	2,876,520	2,876,520	(42,732)	2,833,788
Total recognised income and expense for the year December 31, 2007	-	-	-	1,037,386	(62,012)	-	2,876,520	3,851,894	(67,537)	3,784,357
Final dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-	-	-	(504,702)	(504,702)	-	(504,702)
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 & Avanceon	-	-	-	-	-	-	-	-	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 (as previously reported)	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
Effect of change in date of grant of share option scheme-net of tax (Note 6)	-	-	272,990	-	-	-	(14,256)	258,734	-	258,734
Effect of change in accounting policy of a Subsidiary Company (Avanceon) - net of tax (Note 3.27)	-	-	-	-	-	-	7,833	7,833	4,666	12,499
Balance as at December 31, 2007 / January 1, 2008 (as restated)	1,934,692	3,963,977	272,990	1,037,386	135,304	4,429,240	3,503,922	15,277,511	3,000,412	18,277,923
Shares issued during the year in the ratio of 1 for every 10 shares @ Rs.175 per share (including share premium net of share issue cost)	193,469	3,188,745	-	-	-	-	-	3,382,214	-	3,382,214
Effective portion of changes in fair value of cash flow hedge - net (Note 7)	-	-	-	1,098,413	-	-	-	1,098,413	(17,130)	1,081,283
Amortization of revaluation surplus arising on acquisition of subsidiary	-	-	-	-	(10,202)	-	-	(10,202)	(4,081)	(14,283)
Net income/ expense directly recognized in equity	-	-	-	1,098,413	(10,202)	-	-	1,088,211	(21,211)	1,067,000
Profit for the year ended December 31, 2008	-	-	-	-	-	-	4,125,754	4,125,754	80,936	4,206,690
Total recognised income and expense for the year December 31, 2008	-	-	-	1,098,413	(10,202)	-	4,125,754	5,213,965	59,725	5,273,690
Final Dividend for the year ended December 31, 2007 @ Rs. 3.00 per share	-	-	-	-	-	-	(580,408)	(580,408)	-	(580,408)
Interim dividends:										
1st @ Rs. 2.00 per share	-	-	-	-	-	-	(425,632)	(425,632)	-	(425,632)
2nd @ Rs. 2.00 per share	-	-	-	-	-	-	(425,632)	(425,632)	-	(425,632)
Effect of changes in number of share options issued (Note 6)	-	-	54,030	-	-	-	-	54,030	-	54,030
Addition to minority interest due to change in holding percentage of EPCL & EEL - (Note 1)	-	-	-	-	-	-	-	-	167,322	167,322
Share of exchange revaluation reserve of a Subsidiary Company (Avanceon)	-	-	-	-	-	-	(31,532)	(31,532)	(18,782)	(50,314)
Dividend pertaining to minority interest	-	-	-	-	-	-	-	-	(95,000)	(95,000)
Balance as at December 31, 2008	2,128,161	7,152,722	327,020	2,135,799	125,102	4,429,240	6,166,472	22,464,516	3,113,677	25,578,193

The annexed notes 1 to 51 are an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Consolidated Cash Flow Statement
For the year ended December 31, 2008

(AMOUNTS IN THOUSAND)

	Note	2008	2007 (Restated)
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	40	1,768,856	3,730,662
Retirement and other service benefits paid		(109,231)	(117,766)
Financial charges paid		(1,000,050)	(340,463)
Taxes paid		(1,025,967)	(1,192,152)
Long term loans and advances		(183,462)	(79,971)
Net cash (outflow) / inflow from operating activities		(549,854)	2,000,310
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure including biological assets		(36,213,439)	(10,660,562)
Sale proceeds on disposal of property, plant and equipment		117,755	52,548
Income on deposits / other financial assets		292,420	170,738
Dividends received		247,500	225,000
Net cash outflow from investing activities		(35,555,764)	(10,212,276)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term finances		23,688,568	17,333,843
Repayment of long term finances		(2,344,600)	(1,321,505)
Obligations under finance lease - net		2,388	12,451
Proceeds from issuance of rights shares - net		3,382,214	3,147,960
Retention money against project payments		452,485	-
Proceeds from issuance of shares by subsidiary companies		445,580	-
Advance against issue of shares		-	1,054,353
Dividends paid		(1,401,419)	(1,117,401)
Net cash inflow from financing activities		24,225,216	19,109,701
Net (decrease) / increase in cash and cash equivalents		(11,880,402)	10,897,735
Cash and cash equivalents at the beginning of the year		11,553,866	656,131
Cash and cash equivalents at the end of the year	41	(326,536)	11,553,866

The annexed notes 1 to 51 are an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008
(AMOUNTS IN THOUSAND)

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (ECPL and the Holding Company) is a public listed company incorporated in Pakistan under the 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 Holding 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 incorporated a subsidary by the name of Engro PowerGen (Private) Limited (EPGL), involved in energy business and its effective interest in its subsidiaries, Engro Polymer & Chemicals Limited (EPCL) and Engro Energy Limited (EEL) has reduced to 56.19% and 95% respectively by virtue of issuance of additional shares by the respective subsidiary companies.

The Holding Company's registered office is situated at 7th & 8th Floor, The Harbor Front Building, HC # 3, Block 4, Marine Drive, Clifton, Karachi-75600, Pakistan.

1.1 The "Group" consists of:

Holding Company - Engro Chemical Pakistan Limited

Subsidiary companies, companies in which the Holding Company owns over 50% of voting rights, or companies controlled by the Holding Company:

	%age of holding	
	2008	2007
- Engro Foods Limited;	100	100
- Engro Energy Limited;	95	100
- Engro Eximp (Private) Limited;	100	100
- Engro Management Services (Private) Limited;	100	100
- Avanceon Limited [formerly Engro Innovative Automation Limited] ;	62.67	62.67
- Engro Polymer and Chemicals Limited; and	56.19	65.92
- Engro PowerGen (Private) Limited	100	-
Joint Venture Company:		
- Engro Vopak Terminal Limited	50	50

Associated Companies:

- Agrimall (Private) Limited
- Arabian Sea Country Club Limited

Subsidiary companies

Engro Foods Limited

Engro Foods Limited (EFL), a wholly owned subsidiary of ECPL incorporated in Pakistan on April 26, 2005 as a private limited company, was converted to an unlisted public limited company effective from April 27, 2006. The principal activity of the Subsidiary Company is to manufacture, process and sell dairy food products. During the year, the Subsidiary Company has commenced construction of an ice cream manufacturing plant in Sahiwal and is also significantly expanding the scale of its dairy farm operations.

(AMOUNTS IN THOUSAND)

Engro Energy Limited

Engro Energy Limited (EEL), is a 95% owned subsidiary of ECPL. During the year status of EEL was changed to a public limited company and the Holding Company's investment reduced from 100% to 95% by virtue of issuance of 16,000 additional shares to a consortium of International Financial Corporation. EEL was incorporated in Pakistan on February 28, 2006 under the Companies Ordinance, 1984. The Subsidiary 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 ECPL, is a private limited company, and was incorporated in Pakistan on January 16, 2003 under the Companies Ordinance 1984. The principal activity of the Subsidiary Company is the import and sale of fertilizers.

Engro Management Services (Private) Limited

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

Avanceon Limited

Avanceon Limited, formerly known as Engro Innovative Automation Limited is a 62.67% owned subsidiary of ECPL. It was incorporated in Pakistan on March 26, 2003 as a private limited company which was converted to a public company on March 31, 2008 under the Companies Ordinance, 1984. The principal activity of the Subsidiary Company is to trade in products of automation and control equipments and provide related technical services. The registered office of the Subsidiary Company is situated at 19 km, Multan Road, Lahore. Avanceon Limited consists of following subsidiaries:

	% age of holding of Avanceon Limited
Avanceon Free Zone Establishment, UAE (AFZE);	100%
Engro Innovative Inc., USA. (EI);	100%
Innovative Automation (Private) Limited (IAPL);	100%
Avanceon LP, USA. (ALP); and	70%
Advanced Automation Associates GP LLC, USA. (AAA)	70%

- Avanceon, FZE (AFZE), (formerly Innovative Automation & Engineering, FZE- IAEF) is a 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. (EI) is a wholly owned subsidiary of AFZE. It was incorporated in the State of Pennsylvania 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 company.

- Innovative Automation (Pvt.) Limited was incorporated in Pakistan as a private company limited by shares under the Companies Ordinance, 1984 on December 04, 2008. The Company is a wholly owned subsidiary of Avanceon Limited (AVL).

- Avanceon LP (formerly Advanced Automation LP - ALP) 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 process for their customers.

- Advanced Automation Associates (GP) LLC. is a Pennsylvania Limited Liability Corporation, which is a general partner with 0.01% general partner interest in ALP.

Engro Polymer and Chemicals Limited

Engro Polymer and Chemicals Limited (EPCL) is a 56.19% owned subsidiary of ECPL. During the year the Subsidiary Company issued 76,767,677 ordinary shares of Rs. 10 each at a subscription price of Rs.18 per share to various investors. Of this JS Global Capital Limited (JS Global), one of the investors, made available 50 million ordinary shares out of its total shareholding in the Company to the general public through listing at the Karachi Stock Exchange under an Offer for Sale dated May 31, 2008. During the year, the Subsidiary Company was listed on Karachi Stock Exchange. Previously, it was an unlisted public limited company which was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The principal activity of the Subsidiary Company is to manufacture, market and sell Poly Vinyl Chloride (PVC) compounds and other related chemicals.

Engro PowerGen (Private) Limited

Engro PowerGen (Private) Limited (EPGL) is a wholly owned subsidiary incorporated as a private limited company in Pakistan on May 31, 2008 under the Companies Ordinance, 1984. The Subsidiary Company is established with primary objective to analyse potential opportunities in power sector and undertake independent power projects based upon feasibility of new ventures.

Joint Venture Company

Engro Vopak Terminal Limited

Engro Vopak Terminal Limited (EVTL), a 50% share joint venture of ECPL is an unlisted public limited company incorporated in Pakistan under the Companies Ordinance, 1984. EVTL 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.

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 instruments at fair value.

The fair value of derivative hedging instruments is based on bank's valuations. These valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each instrument and using market rates for similar instruments at the measurement date.

2.3 Basis of consolidation

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.

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

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 or reduction of control.

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 in the consolidated financial statements.

Material intra-group balances and transactions are eliminated.

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.

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 assumption 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 45.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as disclosed in note 3.27.

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 long term finances, 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.

Financial liabilities are classified as current liabilities unless the Group has an unconditional / contractual right to defer settlement of liability for atleast 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 their respective liabilities.

3.3 Employee benefits

3.3.1 *Defined contribution plans*

A defined contribution plan is a post - employment benefit plan under which the 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 rates ranging from 12.5% to 13.75% of basic salary.

Engro Foods Limited, Engro Polymer and Chemicals Limited and Avanceon Limited [formerly Engro Innovative Automation (Private) Limited] (subsidiary companies) operate:

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

3.3.2 *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a 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 13 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 (note 13.3.3).

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 Holding 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. Provisions are made to cover the obligations under the Fund on the basis of actuarial valuation and are charged to income. The most recent valuation was carried out as of December 31, 2008 using the 'Projected Unit Credit Method'.

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

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

Avanceon Limited [formerly 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 Employees' housing subsidy scheme

Employees compensation expense under Housing Subsidy Scheme is recognized by the Holding Company as an expense on a straight line basis over the vesting period with a corresponding credit to employee housing subsidy shown as long term liability in the balance sheet.

When an employee leaves the Holding Company before the vesting period and after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortized portion with a corresponding effect to employee housing subsidy in the balance sheet.

On expiry of the vesting period, amounts disbursed under the scheme will be set-off against the employee housing subsidy.

3.6 Property, plant and equipment & capital work in progress

3.6.1 Owned assets

3.6.1.1 *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.

3.6.1.2 *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.

3.6.2 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.

3.6.3 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 18.1.

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

3.6.4 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.

Crops in the ground and at the point of harvest at balance sheet date are measured at cost being an approximation of fair value, as these are mostly used as internal consumption for cattle feed and have a very short biological transformation and consumption cycle.

3.6.5 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.

3.7 Intangible assets

3.7.1 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.

3.7.2 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.

3.8 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.

3.9 Investments

Joint venture and associated companies

The Group's interest in jointly controlled entity and associated companies 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 rate 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 or 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.

3.10 Employees' share option scheme

The grant date fair value of equity settled share based payment to employees is initially recognized in the balance sheet as deferred employee compensation expense with a consequent credit to equity as employee share option compensation reserve.

The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss is reversed equal to the amortized portion with a corresponding effect to employee share option compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to employee share option compensation reserve in the balance sheet.

When the options are exercised, employee share option compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium account.

3.11 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.

3.12 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.

3.13 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.

3.14 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 Group's cash management.

3.15 Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Derivatives are recognised initially at fair value; attributable transaction cost are recognised in profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair values, and changes therein are accounted for as described below:

Cash flow hedges

Changes in fair value of derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognised in profit or loss.

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. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedge item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit ort loss.

3.16 Foreign currency translation

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

3.17 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Group 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.

3.18 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.

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

3.19 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which such costs are capitalized as part of the cost of that asset. Borrowing costs includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

3.20 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.

3.21 Research and development costs

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

3.22 Government grant

Government grant that compensates the Group 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 from the related expenses.

3.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Holding Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.24 Dividends and reserve appropriation

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

3.25 Transactions with related parties

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

3.26 Segment reporting

A segment is a distinguishable component of the Group 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 risk and returns that are different from those of other segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group'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, intangible assets and biological assets other than goodwill.

3.27 Change in accounting policy

During the year, a subsidiary company (Avanceon Limited) has changed its accounting policy pertaining to revenue recognition. As per the new policy, contract revenue relating to long-term construction contracts are recognised by reference to stage of completion of contract. Previously, such revenue were recognized when invoiced and delivered. The accounting policy has been revised to bring it in accordance with the requirements of International Accounting Standard 18 (IAS-18): "Revenue". The change in accounting policy would provide reliable and more relevant information because it results in a more transparent treatment of revenue. Accordingly, comparative figures in the balance sheet have been restated.

Had there been no change in accounting policy, the amount of retained earnings and current assets would have been lower by Rs 88.582 million as at December 31, 2008 and revenue would have been lower by Rs 27.927 million for the year ended December 31, 2008.

3.28 Standard or an Interpretation not yet effective

The following standards, amendments and interpretations of approved accounting standards will either be effective for accounting periods beginning on or after January 1, 2009 or are not expected to have an effect on the Group's financial statement:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after January 1, 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.

- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after January 1, 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Group's financial statements.

- IAS 29 – Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after April 28, 2008). The Group does not have any operations in Hyperinflationary Economies and therefore the application of the standard is not likely to have an effect on the Group's financial statements.

- Amendments to IAS 32 - Financial instruments: Presentation and IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Group's financial statements.

- Amendment to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after January 1, 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Group's financial statements.

- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after July 1, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Group's financial statements.

- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Group's financial statements.

- IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after April 28, 2008) supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation. The application of the standard is not expected to have significant impact on the Group's financial statements other than increase in disclosures.

- IFRS 8 – Operating Segments (effective for annual periods beginning on or after January 1, 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments. This standard will have no effect on the Group's reported total profit or loss or equity.

- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after July 1, 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The application of IFRIC 13 is not likely to have an effect on the Group's financial statements.

- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Group's operations.

- IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after October 1, 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Group's operations.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 financial statements. These amendments are unlikely to have an impact on the Group's financial statements except for the following:

- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after July 1, 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Group's financial statements.

- IAS 27 - Consolidated and separate financial statements (effective for annual periods beginning on or after January 1, 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Group's financial statements.

- IFRIC 17 - Distribution of Non-cash Assets to owners (effective for annual periods beginning on or after July 1, 2009) states that when a company distributes non-cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Group does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Group's financial statements.

- IFRS 5 - Amendment - Improvements to IFRSs - IFRS 5 Non-current Assets Held for Sales and Discontinued Operations (effective for annual periods beginning on or after July 1, 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met. Disclosure for discontinued operations would be required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not likely to have an effect on the Group's financial statements.

The above conclusion should be amended if any changes are foreseen. A summary of these changes is available in IFRS Briefing Sheet Issue 94 dated June 2008. These amendments relate to:

- IFRS 5 (Amendment) - Non-current Assets Held-for-Sale and Discontinued Operations (effective from July 1, 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

- IAS 23 (Amendment) - Borrowing costs. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 - Financial instruments: Recognition and measurement. This eliminates the inconsistency of terms between IAS 39 and IAS 23.

- IAS 28 (Amendment) - Investments in associates (and consequential amendments to IAS 32 - Financial Instruments: Presentation, and IFRS 7 - Financial instruments: Disclosures). An investment in associate is treated as a single asset for the purposes of impairment testing.

- IAS 36 (Amendment) - Impairment of assets. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

- IAS 38 (Amendment) - Intangible assets. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

- IAS 19 (Amendment) - Employee benefits. The amendment among other things clarifies treatments in case of plan amendments and modifies definition of return on plan assets.

- IAS 39 (Amendment) - Financial instruments: Recognition and measurement. This amendment among other things clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

- IAS 1 (Amendment) - Presentation of financial statements. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 - Financial instruments: Recognition and measurement are examples of current assets and liabilities respectively.

- There are a number of minor amendments to IFRS 7 - Financial instruments: Disclosures, IAS 8 - Accounting policies, changes in accounting estimates and errors, IAS 10 - Events after the reporting period, IAS 18 - Revenue and IAS 34 - Interim financial reporting.

- IAS 16 (Amendment) - Property, plant and equipment (and consequential amendment to IAS 7 - Statement of cash flows). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

- IAS 27 (Amendment) - Consolidated and separate financial statements. Where an investment in a subsidiary that is accounted for under IAS 39 - Financial instruments: recognition and measurement, is classified as held for sale under IFRS 5 - Non-current assets held-for-sale and discontinued operations, IAS 39 would continue to be applied.

- IAS 28 (Amendment) - Investments in associates (and consequential amendments to IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial instruments: Disclosures). Where an investment in associate is accounted for in accordance with IAS 39 - Financial instruments: recognition and measurement, only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosures.

- IAS 29 (Amendment) - Financial reporting in hyperinflationary economies. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

- IAS 31 (Amendment) - Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 - Financial instruments: Presentation, and IFRS 7 - Financial instruments: Disclosures.

- IAS 38 (Amendment) - Intangible assets. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method.

- IAS 40 (Amendment) - Investment property (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value.

- IAS 41 (Amendment) - Agriculture (effective from January 1, 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value.

- IAS 20 (Amendment) - Accounting for government grants and disclosure of government assistance. The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 - Financial instruments: Recognition and measurement, and the proceeds received with the benefit accounted for in accordance with IAS 20.

(AMOUNTS IN THOUSAND)

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

4.1

2008	2007		2008	2007
(Numbers)			(Rupees)	
100,228,038	80,881,119	Ordinary shares of Rs. 10 each fully paid in cash	1,002,280	808,811
112,588,079	112,588,079	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	1,125,881	1,125,881
212,816,117	193,469,198		2,128,161	1,934,692

4.2 Movement during the year

2008	2007		2008	2007
193,469,198	168,234,086	As at January 1,	1,934,692	1,682,340
19,346,919	25,235,112	Ordinary shares of Rs. 10 each issued during the year ended December 31, as fully paid right shares	193,469	252,352
212,816,117	193,469,198		2,128,161	1,934,692

4.3 Associated companies held 88,857,572 (2007: 80,779,612) ordinary shares in the Holding Company at the year end.

5. SHARE PREMIUM

	2008	2007
	(Rupees)	
Balance as at January 1,	3,963,977	1,068,369
Shares issued during the year at a premium of Rs.165 (2007: Rs. 115) per share	3,192,242	2,902,038
Issue cost	(3,497)	(6,430)
Balance as at December 31,	7,152,722	3,963,977

6. EMPLOYEE SHARE OPTION COMPENSATION RESERVE

6.1 Engro Chemical Pakistan Limited

Under the Employee Share Option Scheme (the Scheme) senior employees who are critical to the business operations are granted options to purchase 5 million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. As per the Scheme, the entitlements and exercise price are subject to adjustments because of issue of right shares and bonus shares. During the year, due to issue of right shares, the exercise price was adjusted to Rs. 267.73 per share and total entitlements were increased to 5.5 million shares. The number of options granted to an employee is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Compensation Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant for employees who were granted shares on or before June 30, 2008 and shall end on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012.

For options granted after June 30, 2008, the vesting period will end such number of days after December 31, 2010 as is equal to the number of days between the date the initial option letters were issued and the date of grant of the latter options. However, the latter options can also only be exercised upto December 31, 2012.

During the year, the Holding Company proposed certain changes relating to the 'grant date' in the originally approved Scheme. The Securities and Exchange Commission of Pakistan (SECP), through their letter SMD/CIW/ESOS/04/2008 dated July 10, 2008, cleared these changes subject to the approval of shareholders, which was obtained in the Extraordinary General Meeting (EGM) held on December 22, 2008. The effect of grant of share options has been incorporated in these financial statements using August 23, 2007 as the grant date, the date when the Scheme was originally approved by the shareholders. Accordingly prior year reported equity and assets have been restated.

6.2 Engro Polymer & Chemicals Limited

The Employee Share Option Scheme (the Scheme) of Engro Polymer & Chemicals Limited was approved by its shareholders in their Extraordinary General Meeting (EGM) held on October 8, 2007. According to the Scheme senior employees who are critical to the business operations were to be granted options to purchase five million three hundred thousand newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. 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 Compensation Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant and shall end on December 31, 2009, where after these options can be exercised within a period of two years. Future employees who join by October 31, 2008 and those who are promoted by the same date, may also be granted options, however, the length of vesting period shall be the same as enjoyed by first recipients of options.

During the year, EPCL proposed certain changes relating to 'grant date' in the originally approved Scheme. These changes were approved by the shareholders in their EGM held on June 27, 2008, and subsequently by SECP on September 25, 2008. As per the approved change to the Scheme the 'grant date' is the date of EGM held on October 8, 2007, when the Scheme was originally approved. The effect of the change in the grant date has been recognized in these consolidated financial statements.

(AMOUNTS IN THOUSAND)

6.3 Engro Energy Limited

The Employee Share Option Scheme (the Scheme) of Engro Energy Limited was approved by its shareholders in their Extraordinary General Meeting (EGM) held on April 18, 2008. According to the Scheme senior employees who are critical to the business operations were to be granted options to purchase nine million three hundred thousand newly issued ordinary shares. The options are exercisable in two years at the following exercise prices:

Year	Rs. / share
2011	15
2012	17

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 Compensation Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant and shall end on December 31, 2010, where after these options can be exercised within a period of two years. Future employees who join by June 30, 2009 and those who are promoted by the same date, may also be granted options, however, the length of vesting period shall be the same as enjoyed by first recipients of options.

6.4 Engro Foods Limited

The shareholders of EFL, in their meeting held on October 8, 2007, have approved an Employee Share Option Scheme (the Scheme), for granting of options to its certain eligible critical employees upto twenty one million new ordinary shares. The Scheme has been approved by the SECP on July 10, 2008 (the date of grant).

Under the Scheme, vesting period commenced from the date of grant and will end on December 31, 2010. Those eligible employees who joined the Subsidary Company after the date of grant but before December 31, 2008 are also entitled to these options, however, their vesting period will commence when they attained the right to these options and will comprise of the same number of days as the vesting period of all other eligible employees. The maximum number of options to be issued to an eligible employee is for two million five hundread thousand ordinary shares. The options are exercisable within four years at the following exercise prices:

Year	Rs. / share
2011	17
2012	19
2013	21
2014	23

6.5 Avanceon Group [Formerly Engro Innovative Automation (Private) Limited]

The Employee Share Option scheme (the Scheme) was originally approved by the shareholders of the Subsidiary Company in their Annual General Meeting (AGM) held on March 31, 2008. According to the Scheme, senior employees who are critical to the business operations, shall be granted options to purchase two million one hundread and five thousand newly issued ordinary shares at an exercise price of Rs 31.5 per ordinary share. The number of options granted is calculated in accordance with the ability and criticality of employee to the business, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period shall start from the date of grant and shall end on December 31, 2009, where after the options can be exercised within a period of two years.

The effect of grant of share options has been incorporated in these consolidated financial statements except for the options of EFL as its share price is significantly less than the exercise price and the option has a nil value. Amounts recognised in the financial statements are as follows:

(AMOUNTS IN THOUSAND)

6.6 Employee share option compensation reserve

	2008	2007
	(Rupees)	
Balance as at January 1,	272,990	-
Amount recognised on grant date/ during the year	59,957	272,990
Options lapsed due to employee resignation	(5,927)	-
Balance as at December 31,	327,020	272,990

6.7 Deferred employee compensation expense

Balance as at January 1,	244,066	-
Amount recognised on grant date / during the year	59,957	272,990
Options lapsed due to employee resignation	(5,927)	-
Amortisation for the year	(92,927)	(28,924)
Balance as at December 31,	205,169	244,066
Current portion shown under current assets	(103,343)	(72,537)
Long term portion of deferred employee compensation expense	101,826	171,529

6.8 The Holding Company and Subsidiary Companies used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

	Holding Company	**Subsidiary Companies**			
	ECPL	**EPCL**	**EFL**	**EEL**	**AVANCEON**
Total number of share options issued	4,631,818	5,300,000	21,000,000	6,900,000	277,000
Fair value of the share options at grant date	Rs. 65.86	Rs. 1.86	Rs. Nil	Rs. 1.29	Rs. 11.55
Share price at grant date	Rs. 220.00	Rs. 18.00	Rs. 5.61	Rs. 9.90	Rs. 30.60
Exercise price	Rs. 277.00	Rs. 22.00	Rs. 17.00	Rs. 15.00	Rs. 31.50
Annual Volatility	34.54%	15.13%	10.00%	30.19%	50.00%
Risk free rate used	10.77%	10.12%	14.00%	14.20%	14.00%

7. HEDGING RESERVE

	2008	2007
	(Rupees)	
Fair values of :		
- Foreign exchange forward contracts	4,297,960	2,002,572
- Foreign exchange option contracts	347,446	-
- Interest rate swaps	(1,133,364)	-
	3,512,042	2,002,572
Arrangement fee	(164,159)	(164,159)
Deferred tax	(1,229,214)	(801,027)
Minority interest	17,130	-
	2,135,799	1,037,386

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

The Holding Company entered in various foriegn exchange forward contracts to hedge its foreign currency exposure. At the year end the Holding Company had forward contracts to purchase Euros 130,505 (2007: Euros 297,399) at various maturity dates matching the anticipated payment dates for commitments with respect to expansion projects. The fair value of these contracts amounted to Rs. 3,838,549 (2007: Rs. 2,002,572) at the year end.

The Holding Company entered in various US$: PKR forward contracts to hedge its foreign currency exposure. At the year end the Holding Company had foreign exchange forward contracts to purchase US$ 159,027 (2007: Nil) . The fair value of these contracts amounted to Rs. 459,411 (2007: Nil) at the year end.

The Holding Company entered in various foreign currency option contracts to hedge its currency exposure against US dollars relating to the expansion project. At the year end the Holding Company had foreign exchange options amounting to Euro 55,669 (2007 : Nil). The fair value of these options amounted to Rs. 347,446 (2007 : Nil) at the year end.

During the year, the Group has also entered into the following interest rate swap agreements:

The Holding Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing under an Offshore Islamic Finance Facility agreement, for a notional amount of US$ 50,000 which will increase to US$ 150,000 during 2009, amortising upto September 2014. Under the swap agreement, the Holding Company would receive USD-LIBOR from Citibank N.A Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap at the year end is negetive and amounted to Rs. 648,277 (2007: Nil).

The Holding Company entered into another interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from a consortium of Development Finance Institutions for a notional amount of USD 85,000 amortising upto April 2016. Under the swap agreement, the Holding Company would receive USD-LIBOR from Standard Chartered Bank Limited on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap at the year end is negetive and amounted to Rs. 424,933 (2007: Nil).

The Subsidiary Company (EPCL) entered into a interest rate swap agreement with a bank to hedge its interest rate exposure on floating rate borrowing from International Finance Corporation (IFC) for a notional amount of US$ 15,000. Under the swap agreement, EPCL would receive USD-LIBOR from the bank on notional amount and pay fixed 3.385% which will be settled semi-annually. The fair value of the interest rate swap as at December 31, 2008 is negative and amounted to Rs. 60,154 (2007: Nil).

(AMOUNTS IN THOUSAND)

8. LONG TERM FINANCE

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 year end	2008 (Rupees)	2007
Engro Chemical Pakistan Limited							
United Bank Limited		6 months T bills rate +1 %	5 half yearly		-	-	368,000
MCB Bank Limited		6 months T bills rate +1 %	5 half yearly		-	-	272,000
Standard Chartered Bank (Pakistan) Limited		6 months T bills rate +1 %	5 half yearly		-	-	160,000
National Bank of Pakistan		3 months KIBOR + 1.3%	8 quarterly	October 31, 2009	-	600,000	600,000
MCB Bank Limited		3 months KIBOR + 1.3%	8 quarterly	March 11, 2010	-	400,000	400,000
Habib Bank Limited		6 months KIBOR + 1.1%	8 half yearly	September 30, 2010	-	1,000,000	1,000,000
Allied Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	2,000,000	2,000,000
Askari Bank Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	250,000	50,000
Citibank N.A.		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	400,000	100,000	100,000
The Hongkong and Shanghai Banking Corporation		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	250,000	250,000
Standard Chartered Bank (Pakistan) Limited		6 months KIBOR + 1.1%	8 half yearly	December 25, 2010	-	500,000	100,000
National Bank of Pakistan		6 months KIBOR + 1.1%	8 half yearly	Septemeber 4, 2011	-	1,500,000	-
Syndicated finance	8.1	6 months KIBOR + 1.8%	11 half yearly	February 27, 2012	18,125,000	175,000	-
Islamic Offshore Finance	8.2	6 months LIBOR + 2.57%	8 half yearly	March 27, 2011	5,223,900	6,434,924	-
DFI Consortium finance	8.3	6 months LIBOR + 2.6%	11 half yearly	April 15, 2011	4,970,625	1,743,488	-
Certificates							
Term Finance Certificates	8.4	6 months KIBOR + 1.55%			-	3,967,426	3,972, 271
Sukuk Certificates	8.5	6 months KIBOR + 1.5%			-	2,982,472	2,980,345
Sub-ordinated term finance certificates	8.6				-	5,930,004	4,469,904
						27,833,314	16,722,520
Engro Polymer and Chemicals Limited							
Syndicated term finance	8.10				51,475	5,648,525	-
International Finance Corporation	8.11				2,374,500	2,324,547	-
Morabaha finance	8.12 & 8.14	6 months KIBOR + 0.5%	Variable	September 27,2007	-	100,000	100,000
Long term finance	8.13 & 8.14	6 months KIBOR + 0.5%	5 half yearly	June 12, 2007	250,000	30,000	90,000
Bridge finance facility	8.15	6 months KIBOR + 1.45%	284 days	May 7, 2007	-	-	1,240,000
Local commercial bank		6 months KIBOR + 1.6%		July 15,2004	-	-	35,429
						8,103,072	1,465,429
Engro Foods Limited							
Bank Al Habib Limited		6 months KIBOR + 1.3%	6 half yearly	April 20, 2009	-	-	400,000
Askari Bank Limited		6 months KIBOR + 1.45%	6 half yearly	March 14, 2009	-	-	150,000
Bank Alfalah Limited		6 months KIBOR + 1.5%	6 half yearly	June 30, 2009	-	-	493,000
Royal Bank of Scotland		6 months KIBOR + 1.4%	6 half yearly	July 7, 2009	-	350,000	350,000
Syndicated finance	8.16	6 months KIBOR + 0.69%	6 half yearly	July 1, 2015	-	1,500,000	-
Certificates							
Sukuk certificates	8.17	6 months KIBOR + 0.69%	6 half yearly	November 20, 2015	-	950,000	-
						2,800,000	1,393,000
Avanceon Limited [formerly Engro Innovative Automation (Private) Limited]							
MCB Bank Limited	8.20	6 months KIBOR + 1%	16 quarterly	September 30, 2005	-	2,500	7,500
Faysal Bank Limited	8.21	6 months KIBOR + 2%	20 quarterly	September 30, 2008	-	47,500	-
Habib Bank Limited	8.22	3 months LIBOR + 3%	20 quarterly	March 31, 2009	-	140,545	128,322
Financial institution	8.23	5.96 % to 12 %			-	3,508	-
						194,053	135,822
Engro Enery Limited							
DFI Consortium finance	8.24	6 months LIBOR + 3%	20 half yearly		10,027,890	2,130,300	-
						41,060,739	19,716,771
Current portion shown under current liabilities						(321,915)	(1,432,509)
						40,738,824	18,284,262

Engro Chemical Pakistan Limited

8.1 The Holding 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 Bank Limited and United Bank Limited amounting to Rs.18,300,000.

8.2 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 Financial Group and Standard Chartered Bank Limited. At the year end, the Holding Company has completed draw down of US$ 84,000.

8.3 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. At the year end, the Holding Company has completed draw down of US$ 22,200.

8.4 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. The Holding Company has appointed First Dawood Islamic Bank as trustees in respect of these TFCs.

8.5 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.

8.6 During the year, the Holding Company issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs. 6,000,000. The PPTFCs are perpetual in nature with a five year call and ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Holding Company has appointed IGI Investment Bank Limited as trustees in respect of these TFCs.

8.7 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 a subordinated floating charge over all present and future fixed assets excluding land and buildings.

8.8 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.

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

Engro Polymer & Chemicals Limited

8.10 The Subsidiary Company entered into a Syndicated Term Finance Agreement on October 12, 2007 for Rs. 5,700,000. The facility has been utilized to finance capital expenditure related to the expansion project which includes construction of Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Chlor Alkali and Power plant. The facility is repayable in seventeen semi-annual installments, inclusive of mark-up at 2.25% over six months KIBOR, from the effective date.

The facility is secured by:

i) a first mortgage by deposit of title deeds over project properties ranking pari passu with facilities against LCs and long term loan from International Finance Corporation (IFC);

ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities against LC's and long term loan from IFC;

iii) hypothecation by way of:

- a first charge over all project assets, ranking pari passu with facilities against LC's and long term loan from IFC; and
- a first charge over all present and future moveable fixed assets other than project assets.

8.11 The Subsidiary Company, effective June 21, 2007, 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 referred to in note 8.10, carry interest at 2.6% to 3% above 6 months LIBOR with a commitment fee at the rate of 0.5% per annum on that part of the loan that has not been disbursed. The loans are repayable in fifteen half yearly installments commencing June 15, 2010. During the year, the Subsidiary Company has drawn down US$ 30,000 from above mentioned loan arrangement against the total facility available of US$ 60,000.

The facility is secured by:

i) a first mortgage by deposit of title deeds over project properties ranking pari passu with facilities against LCs and Syndicated loan;

ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities against LCs and Syndicated loan;

iii) hypothecation by way of:

- a first charge over all project assets, ranking pari passu with facilities against LCs and Syndicated loan; and
- a first charge over all present and future moveable fixed assets other than project assets.

8.12 The aggregate facility available upto September 27, 2009 amounts to Rs. 100,000. All amounts due under the Morabaha transactions are payable before the expiry date of the facility.

8.13 The aggregate facility amounts to Rs. 400,000 against which Rs. 150,000 was utilized during the year. No commitment fee is payable on the unutilized amount. The facility carries mark-up at the rate of 0.5% above the average ask rate of six monthly KIBOR and is payable in five half yearly installments commencing from June 12, 2007.

8.14 The Morabaha and long term finances are secured by:

i) an equitable mortgage upon immovable property, together with all other fixed assets thereon, of the Subsidiary Company, ranking pari passu with each other and with mortgages against Bridge finance facility and facility from a local commercial bank;

ii) a first floating charge over all present and future undertaking and assets of the Subsidiary Company, ranking pari passu with each other and with facilities from a local commercial bank; and

iii) hypothecation by way of first charge over all movable assets of the Subsidiary Company.

8.15 The aggregate facility amounted to Rs. 2,440,000. During the year, the outstanding balance has been repaid from the proceeds of the Syndicated Term Finance Facility. The facility carried mark-up at 1.45% over six months KIBOR payable at the expiry of the facility.

(AMOUNTS IN THOUSAND)

Engro Foods Limited

8.16 During the year, the Subsidiary Company has arranged a Syndicated Term Finance Facility (STFF) amounting to Rs.1,500,000 with a syndicate of banks led by Bank Al-Habib Limited. The related STFF agreement has been signed by all the participating banks on June 25, 2008.

8.17 During the year, the Subsidiary Company has issued privately placed Sukuk Certificates based on diminishing Musharika.

8.18 The above finances are secured by a registered sub-ordinated floating charge/ mortgage over the present and future fixed assets of the Subsidiary Company upto maximum of Rs. 3,000,000.

8.19 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.

Avanceon Limited [formerly Engro Innovative Automation (Private) Limited]

8.20 This facility is secured against 1st registered pari passu floating charge of Rs. 270,000 over current and fixed assets (comprising of land and equipment only) of the Subsidairy 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).

8.21 This facility is secured against 1st registered pari passu hypothecation charge on all present and future current assets of the Subsidairy Company for Rs. 167,000. In addition to this, the facility is collaterally secured by the corporate guarantee of Engro Chemical Pakistan Limited covering 51% of the total funded exposure and the personal guarantees of the sponsoring directors.

8.22 This facility is secured against letter of comfort from Avanceon Limited, corporate guarantee from EI Inc., personal guarantees of 3 directors and maintenance of minimum shareholding undertaking by ECPL.

8.23 This facility is secured against letter of comfort from Avanceon Limited, corporate guarantee from EI Inc., personal guarantees of 3 directors and maintenance of minimum shareholding undertaking by ECPL.

Engro Energy Limited

8.24 The Subsidiary Company has enetered into financing arrangement with a consortium of International Finance Corporation comprising of DEG, FMO, Proparko, Sweed Fund and OFID amounting to US Dollars 153,800. These finances are secured by an equitable mortgage upon the immovable property of the Subsidiary Company and the hypothecation charge against current and future fixed assets of the Subsidiary.

9. DERIVATIVES

	2008	2007
	(Rupees)	
Fair value of interest rate swaps	1,133,364	-
Current portion shown under current liabilities (note 16)	(155,160)	-
	978,204	-

10. OBLIGATIONS UNDER FINANCE LEASE

	2008	2007
Present value of minimum lease payments	49,423	47,035
Current portion shown under current liabilities	(20,038)	(17,007)
	29,385	30,028

(AMOUNTS IN THOUSAND)

10.1 During the year, the Subsidiary Company (EFL) entered into a tripartite arrangement with the Bank of Punjab and Pakistan Dairy Development Corporation (PDDC) for mark-up free lease of milk cooling chillers amounting to Rs.12,946. Under this arrangement, mark-up will be borne by PDDC and Subsidiary Company's obligation is restricted to the extent of principal amount, payable in 20 equal installments by April 15, 2013.

10.2 The Group has lease arrangements with financial institutions for lease of vehicles and office equiment. Out of the gross present value of minimum lease payments, Rs. 11,080 (2007: Rs. 16,706) pertains to obligations arising from sale and lease back of assets. The liabilities under the lease agreements are payable by the year 2013 and are subject to finance charge at the rate of 8.6% to 17.77% (2007: 9.2% to 10.65 %) per annum which has been used as the discount factor. The Group intends to exercise its option to purchase the assets for Rs. 1 each upon the completion of the respective lease periods under the agreements. The gain arising on sale and lease back arrangements, calculated as the difference between the sale proceeds (fair value) paid by the financial institutions and carrying amount of the vehicles is deferred and amortized over the lease term.

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

	2008			2007
	Minimum lease lease payments	**Finance costs**	**Present value of minimum lease payments**	**Present value of minimum lease payments**
	Rupees			
Year ending December 31,				
Not later than one year	23,518	3,480	20,038	17,007
Later than one year and not later than 5 years	32,290	2,905	29,385	30,028
	55,808	6,385	49,423	47,035

11. DEFERRED TAXATION

	2008	2007
	(Rupees)	
Credit / (debit) balances arising on account of:		
Accelerated depreciation allowance	2,380,058	2,202,465
Net borrowing costs capitalized	678,625	128,079
Fair value of derivative financial instruments	1,119,775	691,590
Recoupable carried forward tax losses	(231,956)	(105,727)
Tax on subsidiary reserves	40,367	62,906
Tax on fair value adjustment	166,803	180,406
Recoupable minimum turnover tax	(93,520)	(108,077)
Provision for		
- retirement benefits	(47,153)	(62,010)
- inventories, slow moving stores and spares and doubtful receivables	(320,642)	(7,487)
- others	(91,322)	(4,559)
	3,601,035	2,977,586

(AMOUNTS IN THOUSAND)

12 EMPLOYEE HOUSING SUBSIDY

The Holding Company has announced a medium term Employee Housing Subsidy Scheme for its employees who are not entitled for Employee Share Options. Under this scheme the Holding Company plans to disburse Rs. 540,000 as housing subsidy, which would be amortised over a period of 2.5 years of employee service. To date the Holding Company has disbursed an amount of Rs.152,223 (2007: Nil) and recorded an amortization of Rs. 73,319 (2007: Nil).

In the consolidated condensed interim financial statements for period ended September 30, 2008, housing subsidy has been disclosed as an equity transaction whereas it is a liability transaction. Accordingly appropriate amendments have been made in these financial statements.

	2008	2007
	(Rupees)	
13. DEFERRED LIABILITIES		
Deferred income on sale and leaseback arrangement for vehicles (note 13.1)	700	1,103
Retirement and other service benefits (note 13.2)	92,746	69,136
	93,446	70,239
13.1 Deferred income on sale and leaseback arrangements		
Balance as at January 1,	1,103	1,506
Amortization during the year	(403)	(403)
Balance as at December 31,	700	1,103
13.2 Retirement and other service benefits		
Retirement benefits		
Balance as at January 1,	(16,977)	(69,192)
Expense recognised - net	(2,177)	(10,010)
Amounts received/ (contributions made)	(10,114)	62,225
Balance as at December 31,	(29,268)	(16,977)
Receivable from Pension Fund (note 27)	31,187	17,629
	1,919	652
Other service benefit plan	110,850	88,823
Less: Current portion shown under current liabilities	20,023	20,339
	90,827	68,484
	92,746	69,136

(AMOUNTS IN THOUSAND)

13.3 Engro Chemical Pakistan Limited, Holding Company

13.3.1 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	Total
	(Rupees)			
Present value of funded obligation	29,311	267,158	-	296,469
Fair value of plan assets	(67,276)	(285,332)	-	(352,608)
Surplus	(37,965)	(18,174)	-	(56,139)
Present value of unfunded obligation	-	-	652	652
Unrecognized actuarial gain	6,778	18,174	-	24,952
Net (asset) / liability at the end of the year	(31,187)	-	652	(30,535)

13.3.2 Movement in net (assets) / liability recognized:

Net (asset)/ liability at the beginning of the year	(17,629)	-	652	(16,977)
(Reversal) / Expense recognised	(30,997)	13,600	-	(17,397)
Amounts received / (paid) to the Fund	17,439	(13,600)	-	3,839
Net (asset) / liability at the end of the year	(31,187)	-	652	(30,535)

13.3.3 During the year the Holding Company recognised a gain of Rs. 30,997 (2007: Rs.17,629) on curtailed defined benefit plan. In 2005, the Holding Company had setup a Defined Contribution Pension Fund known as Engro Chemical Pakistan Limited MPT Employees Pension Fund (the Fund) for the benefit of management employees. Employees joining the Holding Company from July 1, 2005 onwards were to become members of the new Fund. Members of the 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.

13.3.4 Movement in plan assets

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded
	(Rupees)	
Opening balance	438,769	245,039
Return on plan assets	36,553	24,097
(Repayment) / Company contribution during the year	(17,439)	6,986
Benefits paid during the year	(23,072)	(12,698)
Settlements / transfers	(298,819)	-
Actuarial gain / (loss) on plan assets	(68,716)	21,908
Closing balance	67,276	285,332

(AMOUNTS IN THOUSAND)

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

	2008	2007
	(Rupees)	
Defined benefit plans		
Current service cost	14,936	13,047
Interest cost	52,009	51,741
Expected return on plan assets	(60,650)	(52,403)
Recognition of curtailment gain	-	(17,629)
Net actuarial gain recognized in current year	(23,692)	(4,766)
	(17,397)	(10,010)
Defined contribution plans	95,714	81,230

13.3.6 Expected future cost for Holding Company for the year ending December 31, 2009:

- for MPT Pension Fund Rs. (5,700)
- for MPT Gratuity Fund Rs. 6,699
- for non-MPT Gratuity Fund Rs. 7,602

13.3.7 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 15% (2007: 10%) per annum;

- expected long term rate of increase in salaries for employees at 15% (2007: 10%) per annum, in case of Non-management employees long range rate is 14% (2007: 9%) per annum;

- expected post retirement pension increase rate at 7.5% (2007: 6%) per annum; and

- expected long term rate of return on investment at 10% (2007: 10%) per annum.

13.3.8 Plan assets

	Defined Benefit Pension Plan Funded		Defined Benefit Gratuity Plan Funded		Total	
	2008	2007	**2008**	2007	**2008**	2007
	(Rupees)					
Fixed income instruments	2,517	144,159	4,900	97,744	7,417	241,903
Cash	6,429	203	6,592	15,326	13,021	15,529
Others	58,330	294,407	273,840	131,969	332,170	426,376
	67,276	438,769	285,332	245,039	352,608	683,808

13.3.9 Historical information of staff retirement benefits

	2008	2007	2006	2005	2004
	(Rupees)				
Present value of obligations	(296,469)	(587,655)	(536,209)	(538,407)	(962,105)
Fair value of plan assets	352,608	683,808	722,867	605,797	916,654
Surplus / (deficit)	56,139	96,153	186,658	67,390	(45,451)

(AMOUNTS IN THOUSAND)

13.4 Engro Polymer and Chemicals Limited

13.4.1 Reconciliation of obligations

	Pension Fund	Gratuity Fund (Rupees)	Additional Death Gratuity Scheme
Present value of defined benefit obligations	68,644	22,888	-
Fair value of plan assets	(73,582)	(21,821)	-
Funded status	(4,938)	1,067	-
Present value of unfunded obligations	-		3,359
Unrecognised actuarial gain / (loss)	4,938	(1,067)	(383)
Recognized liability	-	-	2,976

13.4.2 Movement in liability

	Pension Fund	Gratuity Fund	Additional Death Gratuity Scheme
Net liability at beginning of the year	53,267	19,600	2,429
Current service cost	5,525	2,223	413
Interest cost	5,603	2,049	246
Actuarial losses	4,754	4,280	271
Benefits paid	(505)	(5,264)	-
Net liability at end of the year	68,644	22,888	3,359

13.4.3 Movement in fair value of plan assets

	Pension Fund	Gratuity Fund	Additional Death Gratuity Scheme
Fair value of plan assets at beginning of the year	62,237	21,742	-
Expected return on plan assets	6,449	2,253	-
Actuarial gain on assets	905	1,071	-
Employer contribution	4,496	2,019	-
Benefits paid	(505)	(5,264)	-
Fair value of plan assets at end of the year	73,582	21,821	-

13.4.4 Cost reconciliation

	Pension Fund	Gratuity Fund	Additional Death Gratuity Scheme
Current service cost	5,525	2,223	413
Interest cost	5,603	2,049	246
Expected return on plan assets	(6,449)	(2,253)	-
Net actuarial gain recognised during the year	(183)	-	-
Expense	4,496	2,019	659

13.4.5 Principal actuarial assumptions

	Pension Fund	Gratuity Fund	Additional Death Gratuity Scheme
Rate of discount	14% (2007: 10%)	14% (2007: 10%)	-
Expected rate of increase in salaries	13% (2007: 10%)	13% (2007: 10%)	-
Expected rate of return on plan assets	14% (2007: 10%)	14% (2007: 10%)	-

(AMOUNTS IN THOUSAND)

13.4.6 Plan assets

	Pension Fund		Gratuity Fund		Total	
	2008	2007	**2008**	2007	**2008**	2007
	(Rupees)					
Equity	25,754	21,783	14,402	7,610	40,156	29,393
Fixed income instruments	25,754	7,468	6,110	2,609	31,864	10,077
Others	22,075	32,986	1,309	11,523	23,384	44,509
	73,583	62,237	21,821	21,742	95,404	83,979

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 redemption yields as at the balance sheet date.

13.4.7 Historical information of staff retirement benefits

	2008	2007	2006	2005	2004
	(Rupees)				
Present value of defined benefit obligations	91,532	72,867	60,455	47,544	39,506
Fair value of plan assets	(95,403)	(83,979)	(63,181)	(47,731)	(40,495)
Surplus / (deficit)	(3,871)	(11,112)	(2,726)	(187)	(989)

13.5 Engro Foods Limited

13.5.1 Reconciliation of obligations

	Funded Gratuity Fund	Un-funded Pension Scheme	Total
	(Rupees)		
Present value of defined benefit obligations	(39,033)	-	(39,033)
Fair value of plan assets	29,417	-	29,417
Deficit	(9,616)	-	(9,616)
Present value of unfunded obligations	-	(1,570)	(1,570)
Unrecognised actuarial (loss) / gain	9,616	(322)	9,294
Net liability	-	(1,892)	(1,892)

13.5.2 Movement in liability

Net liability at beginning of the year	-	(1,096)	(1,096)
Charge for the year	(13,690)	(796)	(14,486)
Contributions during the year	13,690	-	13,690
Net liability at end of the year	-	(1,892)	(1,892)

13.5.3 Movement in fair value of plan assets

Fair value of plan assets at beginning of the year	15,464	-	15,464
Expected return on plan assets	2,205	-	2,205
Contributions for the year	13,690	-	13,690
Benefits paid during the year	(1,632)	-	(1,632)
Actuarial loss on assets	(310)	-	(310)
Fair value of plan assets at end of the year	29,417	-	29,417

(AMOUNTS IN THOUSAND)

	Funded Gratuity Fund	Un-funded Pension Scheme	Total
		(Rupees)	
13.5.4 Cost reconciliation			
Current service cost	13,250	628	13,878
Interest cost	2,531	164	2,695
Expected return on plan assets	(2,205)	-	(2,205)
Recognition of actuarial loss	114	4	118
cost	13,690	796	14,486

13.5.5 Principal actuarial assumptions

	Funded Gratuity Fund	Un-funded Pension Scheme
Rate of discount per annum	14% (2007: 10%)	14% (2007: 10%)
Expected per annum rate of return on plan assets	14% (2007: 10%)	-
Expected per annum rate of increase in salaries	14% (2007: 10%)	14% (2007: 10%)
Expected per annum rate of increase in pension	-	6% (2007: 6%)

13.5.6 Plan assets

	Gratuity Fund 2008	2007
	(Rupees)	
Mutual Funds	-	8,443
Fixed income instruments	15,766	-
	15,766	8,443

13.5.7 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.

13.5.8 Expected contributions to post employment benefit plans for the year ending December 31, 2009 are Rs.21,942.

13.5.9 Historical information of staff retirement benefits

	2008	2007	2006	2005
		(Rupees)		
Present value of obligations	(39,033)	(18,947)	(8,088)	(1,316)
Fair value of plan assets	29,417	15,464	-	-
Deficit	(9,616)	(3,483)	(8,088)	(1,316)

14. RETENTION MONEY AGAINST PROJECT PAYMENTS

This represents the amounts retained from progress payment made against work completed on the expansion project initiated by Subsidiary Company (EPCL) which includes construction of Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Chlor Alkali and Power plant.

(AMOUNTS IN THOUSAND)

15. SHORT TERM BORROWINGS

	2008	2007
	(Rupees)	
Financing utilised from banks	4,591,218	901,953

15.1 The facility for short term running finance available to the Group from various banks amounts to Rs. 12,117,500 (2007: Rs. 5,453,000).

The rates of mark up range from 10.37% to 18.5% (2007: 5.6% to 14%) and the facilities are secured by floating charge upon all current and future moveable properties of the Group.

15.2 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 15.1.

15.3 The facilities for opening letters of credit and guarantees of a Subsidiary Companies as at December 31, 2008 amounts to Rs. 11,162,700 (2007: Rs. 11,968,853) of which, the amount remaining unutilized at year end was Rs. 2,561,086 (2007: Rs. 8,155,334).

16. TRADE AND OTHER PAYABLES INCLUDING DERIVATIVES

	2008	2007 (Restated)
	(Rupees)	
Creditors (note 16.1)	1,530,954	4,122,935
Accrued liabilities	1,817,248	1,185,214
Payable to retirement benefit funds	-	17,272
Advances from customers (note 16.2)	1,331,801	616,858
Current portion of fair value of interest rate swaps (note 9)	155, 160	-
Finance cost accrued on :		
- long term finances -secured	1,006,237	465,148
- short term borrowings	222,652	25,838
Deposits from dealers/ distributors refundable on termination of dealership	13,063	13,988
Contractors'/ suppliers deposits and retentions	297,530	37,928
Workers' profits participation fund (note 16.3)	18,887	34,735
Workers' welfare fund	115,575	99,879
Sales tax payable	-	91,502
Provision for infrastructure fee	260,088	178,599
Provision for special excise duty (note 16.4)	54,929	-
Others	184,291	40,128
	7,008,415	6,930,024

16.1 Includes due to related parties amounting to Rs. 1,768 (2007: Rs. 2,030) to Inbox Business Technologies (Private) Limited, Rs. 740,811 (2007: Rs. 867,831) to Mitsubishi Corporation and Rs. 15,046 (2007: Rs. 11,514) to Engro Vopak Terminal Limited.

16.2 Includes advances from related parties amounting to Rs. 35,867 (2007: Rs. 323) received from Cadbury Pakistan Limited and Rs. Nil (2007: Rs. 12,001) from Mitsubishi Corporation.

(AMOUNTS IN THOUSAND)

16.3 Workers' profits participation fund

	2008	2007
	(Rupees)	
Payable at the beginning of the year	34,735	27,409
Allocation for the year (note 34)	304,140	259,735
Amount paid to the Trustees of the Fund	(319,988)	(252,409)
Payable to the Fund	18,887	34,735

16.4 The Subsidiary Company (EPCL) has paid Rs. 91,616 on account of Special Excise Duty (SED) on import of plant and machinery for its expansion project. Out of Rs. 91,616, the Subsidiary Company has adjusted Rs. 54,929 in the monthly sales tax returns against SED on goods produced and sold by the Subsidiary Company. The Subsidiary Company has approached Federal Board of Revenue (FBR) to obtain clarification in respect of the adjustment of SED made by the Subsidiary Company in monthly sales tax return. Pending such clarification, provision has been made on the basis of prudence of the aforementioned SED in these financial statements.

17. CONTINGENCIES AND COMMITMENTS

Contingencies

17.1 Claims, including pending lawsuits, against the Group not acknowledged as debts amounted to Rs. 27,911 (2007: Rs. 27,911).

17.2 Corporate guarantees of Rs. 1,093,247 (2007: Rs. 665,568) have been issued by various banks on behalf of the Group.

17.3 Post dated cheques issued by a subsidiary company to M/s. IGI Insurance Company Limited and Unilever Pakistan Limited for performance of contracts amounting to Rs. 14,500.

17.4 The Holding Company is contesting the penalty of Rs. 99,936 (2007: 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 (2007: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

17.5 The Holding 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 Holding Company Rs. 47,800 (2007: 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.

17.6 The Holding Company has extended project completion support to lenders of Engro Energy Limited for US$ 15,400 (2007: US$ 15,400) and a further support to lenders of Engro Polymer and Chemicals Limited for US$ 10,000 (2007: US$ 10,000), proposed to be enhanced to US$ 12,200 subsequent to shareholders' approval. These project supports are contingent upon occurrence or non-occurrence of specified future events.

(AMOUNTS IN THOUSAND)

Commitments		2008	2007
		(Rupees)	
17.7	Property, plant & equipment	37,797,963	53,152,926
17.8	Foreign exchange farword and option contracts	4,645,405	2,022,572
17.9	Employee housing subsidy scheme	214,362	-
17.10	Housing colony	83,832	-
17.11	Letter of credits other than for capital expenditure	28,900	24,633

17.12 Avanceon LP (USA) is obligated under non-cancellable operating leases for computer & office equipment which expire at various dates through 2011.

The future lease commitments related to non-cancellable operating leases as of December 31, are as follows:

	2008	2007
	(Rupees)	
Year ending December 31, 2008	-	2,637,495
Year ending December 31, 2009	2,004,357	1,008,272
Year ending December 31, 2010	1,137,399	332,199
Year ending December 31, 2011	325,680	-
	3,467,436	3,977,966

18. PROPERTY, PLANT AND EQUIPMENT

Operating assets (note 18.1)	11,495,113	11,193,382
Capital work in progress (note 18.5)	46,640,640	12,284, 597
	58,135,753	23,477,979

(AMOUNTS IN THOUSAND)

18.1 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		Owned	Leased			Owned	Leased	Owned	Leased	
	(Rupees)													
As at January 1, 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)	(48,091)
												6,600		
Accumulated depreciation	-	-	1,484	-	-	2,361	-	(126,087)	-	118,219	-	14,933	1,320	10,910
												(1,320)		
	-	-	(15,475)	-	-	(24,329)	-	25,308	-	(12,202)	-	(5,203)	(5,280)	(37,181)
Depreciation charge	-	(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 January 1, 2008														
Cost	122,754	335,460	1,303,545	603,099	107,315	14,896,919	-	151,395	326,408	550,088	21,449	430,671	46,555	18,895,658
Accumulated depreciation	-	(56,081)	(286,945)	(95,899)	(59,650)	(6,287,314)	-	(126,087)	(218,828)	(361,495)	(3,774)	(184,539)	(21,664)	(7,702,276)
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
Year ended December 31, 2008														
Opening 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
Amortization of Revaluation Surplus	-	(2,572)	-	(1,140)	3,355	(33,649)	-	-	-	-	-	-	-	(34,006)
Additions	124,281	3,348	348,470	278	-	619,226	12,946	-	-	168,675	3,396	229,947	5,467	1,516,034
Disposals														
Cost	-	(14,596)	-	-	-	(28,161)	-	-	-	(5,239)	-	(25,213)	(2,637)	(75,846)
Accumulated depreciation	-	4,985	-	-	-	6,379	-	-	-	3,853	-	11,795	1,918	28,930
	-	(9,611)	-	-		(21,782)	-	-	-	(1,386)	-	(13,418)	(719)	(46,916)
Reclassifications														
Cost	-	-	-	-	-	145,506	-	(151,395)	-	300	(300)	5,889	-	-
Accumulated depreciation	-	-	-	-	-	(123,103)	-	126,087	-	(285)	285	(2,984)	-	-
	-	-	-	-	-	22,403	-	(25,308)	-	15	(15)	2,905	-	-
Adjustments														
Cost	-	-	(1,766)	-	-	-	-	-	-	6,966	2,361	(832)	3,016	9,745
Accumulated depreciation	-	-	2,750	-	-	-	-	-	-	(4,727)	(750)	599	(903)	(3,031)
	-	-	984	-	-	-	-	-	-	2,239	1,611	(233)	2,113	6,714
Depreciation charge	-	(4,665)	(72,481)	(13,486)	(7,355)	(806,986)	(1,575)	-	(46,601)	(79,784)	(5,180)	(89,538)	(12,444)	(1,140,095)
Net book value	247,035	265,879	1,293,573	492,852	43,665	8,388,817	11,371	-	60,979	278,352	17,487	375,795	19,308	11,495,113
As at December 31, 2008														
Cost	247,035	321,640	1,650,249	602,237	110,670	15,599,841	12,946	-	326,408	720,790	26,906	640,462	52,401	20,311,585
Accumulated depreciation	-	(55,761)	(356,676)	(109,385)	(67,005)	(7,211,024)	(1,575)	-	(265,429)	(442,438)	(9,419)	(264,667)	(33,093)	(8,816,472)
Net book value	247,035	265,879	1,293,573	492,852	43,665	8,388,817	11,371	-	60,979	278,352	17,487	375,795	19,308	11,495,113
Annual rate of depreciation %	-	2 to 5	2.5 to 10	2.5	5	5 to 10	5 to 10	-	20 to 33.33	10 to 25	20	12 to 25	20	

(AMOUNTS IN THOUSAND)

18.2 Depreciation and amortization have been allocated as follows:

	2008	2007
	(Rupees)	
Depreciation for the year (note 18.1)	1,140,095	978,059
Amortization for the year (note 20)	22,944	11,195
	1,163,039	989,254
Cost of sales (note 31)	1,045,361	918,207
Selling and distribution expenses (note 32)	104,882	65,778
Capital work in progress	12,796	5,269
	1,163,039	989,254

18.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2007: Rs. 48,236) in prior years in respect of first catalyst and other items being part and parcel of the expansion plant of the Holding Company 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 (2007: 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.

(AMOUNTS IN THOUSAND)

18.4 Particulars of disposal of fixed assets

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale Proceeds
		(Rupees)			
Land	M/s. Dalda Foods (Private) Limited	14,596	4,985	9,611	77,400
Vehicles					
By Company policy to existing/separating executives	Mr. M. Khalid Mir	1,287	888	399	322
	Mr. Asad Aleem Khan	900	126	774	788
	Mr. Mohammad Ijaz Hussain	795	533	262	346
	Mr. Nasimul Hasan Shah	560	236	324	277
	Mr. Farhan Akram	835	393	442	457
	Mr. Rameez A. Faraz	900	155	745	731
	Mr. Syed Murtaza Azhar Rizvi	895	280	615	602
	Mr. Jhangir Waheed	849	637	212	212
	Ms. Amina Waheed	795	596	199	354
	Mr. Mir Kaiser Yakob	895	350	545	618
	Mr. M. Majeed Latif	795	556	239	310
	Mr. Minhaj Ul Haq	900	225	675	900
	Mr. Abdul Samad	1,500	515	985	973
	Mr. Fawad A Shaikh	900	450	450	562
	Mr. Irfanul Haq Siddiqui	770	305	465	536
	Mr. Moazaam Ali Anwar	900	375	525	633
	Mr. Qadeer A. Khan	939	939	-	235
	Mr. Qadeer A. Khan	1,500	70	1,430	1,336
	Mr. Inaam-Ur-Raheem	835	687	148	417
	Mr. Zaki A. Sharif	739	739	-	185
Insurance claim	M/s. New Hampshire Insurance Company	550	495	55	425
	M/s. New Hampshire Insurance Company	1,237	624	613	815
	M/s. EFU General Insurance Limited	6,481	3,346	3,135	3,773
Sale through bid	Mr. Mohsin Pasha	193	193	-	528
Reimbursement of vehicle damaged during transit	M/s. Muslim United Car Carrier Services	900	-	900	900
		27,850	13,713	14,137	17,235
Furniture, fixtures & equipment and plant & machinery					
Insurance claim	M/s. EFU General Insurance Limited	512	175	337	343
Sale through bid	Mr. Farooq Ahmed	984	214	770	696
Sale through bid	M/s. Tetra Pak Pakistan Limited	27,177	6,165	21,012	21,950
Written off		1,609	961	648	0
Items having NBV upto Rs.50		3,118	2,717	401	131
		33,400	10,232	23,168	23,120
	2008	75,846	28,930	46,916	117,755
	2007	199,487	136,997	62,490	52,548

(AMOUNTS IN THOUSAND)

18.5 Capital work in progress

	Balance as at January 1, 2008	Additions during the year	Balance as at December 31, 2008
		(Rupees)	
Plant and machinery	10,081,084	31,346,284	41,427,368
Building and civil works	2,070,072	2,170,032	4,240,104
Furniture, fixture and equipment	66,523	469,771	536,294
Interest on investment in a subsidiary	32,285	327,567	359,852
Advances to suppliers	34,633	42,389	77,022
	12,284,597	34,356,043	46,640,640

18.5.1 Capital work in progress includes Rs. 23,064,182 and Rs. 3,689,805 (2007: 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 $ 1,050,000 and will have a capacity of 1.3 million tons of urea per annum. The project is progressing as per plan.

18.5.2 Capital work in progress also includes net borrowing costs capitalised amounting to Rs.1,481,633 (2007: Rs. 363,941) relating to urea expansion project of the Holding Company at borrowing rates ranging from 11.52% to 17.22% (2007: 11.52% to 11.76%).

18.5.3 Capital work in progress also includes cost amounting Rs. 2,503,225 and Rs. 140,616 (2007: Rs. 1,442,026 and Rs. 56,979) incurred in Engro Energy Limited in respect of plant and machinery and building and civil works respectively. This cost is incurred in connection with 220.11 MW power generation project located at Qadirpur, District Ghotki . This project is being constructed at an estimated cost of US$ 205,000. Borrowing cost capitalised with respect to this project amounts to Rs. 174,603 (2007: Nil).

18.5.4 Capital work in progress also includes cost amounting to Rs. 13,663,289 and Rs. 163,301 (2007: Rs. 2,265,485 and Rs. 100,650) incurred in Engro Polymer and Chemicals Limited in respect of plant and machinery and other ancilliary cost and buildings respectively. This cost is incurred in connection with the Subsidiary Company's expansion project, the total cost of which is estimated at US $ 240,000, which includes construction of Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Chlor Alkali and Power plant. Borrowing cost capitalised with respect to this project amounts to Rs. 591,713 (2007: Rs. 134,431) at borrowing rate of 13.45%.

(AMOUNTS IN THOUSAND)

19 BIOLOGICAL ASSETS

	2008	2007
	(Rupees)	
Dairy livestock (note 19.1)		
- mature	24,238	9,085
- immature	273,461	980
	297,699	10,065
Crops - feed stock	9,127	-
	306,826	10,065

19.1 Reconciliation of carrying amounts of livestock

	2008	2007
Carrying amount at the beginning of the year	10,065	-
Purchases during the year	232,545	13,104
Gain / (loss) arising from changes in fair value less estimated point-of-sale costs attributable to physical / price changes	55,979	(678)
Decreases due to deaths / sales	(890)	(2,361)
Carrying amount at the end of the year, (approximates the fair value)	297,699	10,065

19.2 As at December 31, 2008, the Subsidiary Company held 95 (2007: 99) mature assets able to produce milk and 1,444 (2007: 20) immature assets that are being raised to produce milk in the future. During the year, the Subsidiary Company produced approximately 151,824 liters (2007: 172,367 liters) of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 4,216 (2007: Rs.4,797), determined at the time of milking.

19.3 As at December 31, 2008, the Subsidiary Company held 16 (2007: Nil) mature Bulls and 47 (2007: 4) immature male Calves. Mature Bulls are used for insemination and subsequent disposal at the end of their inseminating life.

20. INTANGIBLE ASSETS

	Software and licenses	Rights for future gas utilization	Development cost	Covenants	Goodwill	2008	2007
	(Rupees)						
Cost							
At January 1,	129,952	102,312	6,000	1,222	418,690	658,176	125,209
Exchange adjustment / transfer	4,043	-	-	354	-	4,397	402,868
Addition	28,127	-	-	-	-	28,127	130,099
At December 31,	162,122	102,312	6,000	1,576	418,690	690,700	658,176
Amortization							
At January 1,	90,258	-	5,700	611	-	96,569	85,374
Exchange adjustment	-	-	-	354	-	354	-
Charge for the year	22,033	-	300	611	-	22,944	11,195
At December 31,	112,291	-	6,000	1,576	-	119,867	96,569
Add: Capital work in progress	-	-	-	-	-	-	4,084
Net book value	49,831	102,312	-	-	418,690	570,833	565,691

(AMOUNTS IN THOUSAND)

20.1 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 commencing from 2010.

20.2 Softwares and licences are amortized on a straight-line basis over their estimated useful lives ranging from three to ten years.

21. LONG TERM INVESTMENTS

	2008	2007
	(Rupees)	
Unquoted		
Joint venture companies - (note 21.1)	486,210	488,517
Associated companies:		
- Arabian Sea Country Club Limited (500,000 Ordinary shares of Rs. 10 each)	5,000	5,000
- Agrimall (Private) Limited (note 21.4)	-	-
	491,210	493,517

21.1 Details of Investment in Joint Venture companies

Engro Vopak Terminal Limited

At the beginning of the year	488,517	469,851
Add: Share of income after tax for the year	245,193	243,666
Less:		
- Dividend received during the year	157,500	135,000
- Dividend receivable	90,000	90,000
	486,210	488,517

21.2 Interest in Joint Venture company

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

21.3 The summary of financial information as of December 31, of the joint vanture is as follows:

	2008	2007
	(Rupees)	
Total assets	5,022,550	2,866,305
Total liabilities	4,050,761	1,889,901
Total equity	971,789	976,404
Total revenue	1,177,485	1,016,136
Profit for the year	490,385	487,332

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

(AMOUNTS IN THOUSAND)

22. LONG TERM LOANS, ADVANCES, DEPOSITS AND OTHER RECEIVABLES INCLUDING DERIVATIVES

	2008	2007 (Restated)
	(Rupees)	
Long term loans - considered good		
Executives (note 22.1 to 22.4)	264,752	196,510
Other employees (note 22.2 & 22.3)	163,976	28,567
	428,728	225,077
Less: Instalments recoverable within twelve months	97,670	76,513
	331,058	148,564
Fair value of forward foreign exchange contract (note 7)	4,297,960	2,002,572
Less: Current portion (note 27)	4,257,966	1,210,495
	39,994	792,077
Others	6,340	5,372
	377,392	946,013

22.1 Reconciliation of the carrying amount of loans and advances to Executives:

	2008	2007
Balance as at January 1,	196,510	96,524
Disbursements	431,380	191,821
Repayments/ amortization	(363,138)	(91,835)
Balance as at December 31,	264,752	196,510

22.2 This includes interest free services incentive loans to executives amounting to Rs. 47,367 (2007: Rs. 46,733) 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. 22,665 (2007: Rs. 10,038) pursuant to Collective Labour Agreement. It also includes advances of Rs. 34,762 (2007: Rs. 25,722) and Rs. 12,330 (2007: Rs. 6,923) to employees for car earn out assistance and house rent advance respectively. Also included are advances amounting to Rs. 4,247 (2007: Rs.4,371) for incurring expenses for business.

22.3 This also includes amount of Rs. 53,103 (2007: Nil) to excutives and Rs. 99,120 (2007: Nil) to other employees disbursed under Employee Housing Subsidy Scheme of the Holding Company.

22.4 The maximum amount outstanding at the end of any month from the executives of the Group aggregated Rs. 277,742 (2007: Rs. 235,834).

23. STORES, SPARES AND LOOSE TOOLS

	2008	2007
	(Rupees)	
Consumable stores	165,838	124,882
Spares & loose tools including in transit	1,135,194	811,892
	1,301,032	936,774
Provision for surplus and slow moving items	(28,913)	(21,390)
	1,272,119	915,384

(AMOUNTS IN THOUSAND)

		2008	2007 (Restated)
24.	**STOCK-IN-TRADE**	(Rupees)	
	Raw materials (note 24.1 & 24.2)	2,438,019	1,110,088
	Work-in-process	63,381	45,297
	Finished goods - own manufactured product (note 24.3)	1,445,233	1,194,921
	- purchased product (note 24.1)	3,185,107	1,383,832
	Provision for slow moving inventory	(1,833)	-
		4,628,507	2,578,753
		7,129,907	3,734,138

24.1 During the year, the Holding Company has recognised write down of its inventories of raw materials and finished goods to net realisable value amounting to Rs. 276,022 (2007 : Nil) and Rs. 578,350 (2007: Nil) respectively due to decline in international phosphatic fertilizer prices.

24.2 This includes stocks-in-transit amounting to Rs. 155,925 (2007: Nil) and stocks held at the storage facilities of Engro Vopak Terminal Limited, a related party, amounting to Rs. 22,148 (2007: Rs. 140,581).

24.3 It includes Rs. 10,405 (2007: Rs. 68,680) in respect of finished goods of a Subsidiary Company (EFL) carried at net realizable value and Rs. 7,152 (2007: Nil) in respect of stock held by third parties.

		2008	2007 (Restated)
25.	**TRADE DEBTS**	(Rupees)	
	Considered good		
	-secured	313,060	1,551,276
	-unsecured	445,431	362,224
		758,491	1,913,500
	Considered doubtful	33,541	17,202
		792,032	1,930,702
	Less: Provision for doubtful debts	33,541	17,202
		758,491	1,913,500

26.	**LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS**		
	Loans and advances to executives and other employees - considered good	113,158	76,513
	Advance and deposits	628,551	297,928
	Transaction costs paid for unavailed financing facilities (note 26.1)	188,696	295,300
	Prepaid insurance	81,820	174,479
	Prepayments	148,003	238,621
		1,160,228	1,082,841
	Less: Provision for doubtful receivables	4,521	4,521
		1,155,707	1,078,320

26.1 This represents transaction costs relating to syndicated finance of Holding Company in which significant loan draw down was not completed till the year end (note 8).

(AMOUNTS IN THOUSAND)

27. OTHER RECEIVABLES INCLUDING DERIVATIVES	2008	2007 (Restated)
	(Rupees)	
Receivable from Government of Pakistan:		
- customs duty and sales tax (note 18.3)	22,207	22,207
- subsidy (note 27.1)	3,085,352	1,046,779
- sales tax (note 27.2)	57,135	-
- others	14,174	13,560
	3,178,868	1,082,546
Accrued income on deposits / bonds	30	33,095
Receivable from Pension Fund (note 13.2)	31,187	17,629
Sales tax / special excise duty refundable	434,914	200,052
Customs duty claims refundable	18,043	-
Less: Provision for doubtful receivables	91,231	140
	361,726	199,912
Fair value of interest rate swaps	-	11,448
Current portion of fair value of foreign exchange forward contracts (note 22)	4,257,966	1,210,495
Fair value of foreign exchange option contracts	347,446	-
Due from joint venture:		
- Engro Vopak Terminal Limited (note 27.3)	90,252	88,931
Claims on foreign suppliers and insurance companies	39,333	103,525
Less: Provision for doubtful receivables	295	295
	39,038	103,230
Others (note 27.4)	86,676	54,219
Less: Provision for doubtful receivables	4,554	49
	82,122	54,170
	8,388,635	2,801,456

27.1 The total amount of subsidy for the year was Rs. 5,238,330 (2007: Rs. 5,415,254) of which Rs. 3,085,352 (2007: Rs. 1,046,779) 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.

27.2 During the year, Model Customs Collectorate assessed Sales Tax on certain imports of Mono Ammonium Phosphate (MAP) 10:50:0 by the Holding Company on actual import value instead of deemed value as prescribed by SRO 609 (1) / 2004 and raised demand of Rs. 57,135 which was paid by the Holding Company.

The Holding Company has filed an appeal before the Collector, Sales Tax and Federal Excise. The Ministry of Food, Agriculture and Livestock has also recommended through its letter dated June 27, 2008 that this grade of MAP should be assessed at deemed value of import with retrospective effect. The management is confident that the issue would be decided in Holding Company's favour.

(AMOUNTS IN THOUSAND)

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

	2008	2007
	(Rupees)	
Engro Vopak Terminal Limited [includes dividend of 90,000 (2007: Rs. 90,000)]	93,134	88,931

27.4 This includes marketing support subsidy receivable amounting Rs. 46,221 (2007: Rs. 39,355) from Tetra Pak Pakistan Limited under an agreement dated December 20, 2008, net of amount due on account of packaging material purchased. It also includes LC margin paid in respect of biological assets that were imported on behalf of third parties by the subsidiary company (EFL) amounting to Rs. 5,813 (2007: Nil) and costs that have been incurred on these assets as at December 31, 2008 amounting to Rs. 5,938 (2007: Nil).

28. SHORT TERM INVESTMENTS

	2008	2007
	(Rupees)	
Financial assets at fair value through profit or loss		
Fixed income / money market funds (note 28.1)	2,067,074	10,322,832

28.1 These include investments in US $ Term Deposit Receipts (TDR's) amounting to Rs. 1,955,615 (2007: Nil) maturing on January 13, 2009. The rate of return on these TDRs is 6.25% per annum. These also include fixed income / money market funds amounting Rs. 111,459 (2007: Rs. 10,322,832).

29. CASH AND BANK BALANCES

	2008	2007
	(Rupees)	
With banks		
- saving/ deposit accounts	413,416	1,538,937
- current accounts (note 29.1)	1,374,454	199,956
In hand		
- cheques / demand drafts / cash in transit	403,953	381,025
- cash	5,785	13,069
	2,197,608	2,132,987

29.1 This includes Rs. 1,325,438 (2007: Nil) held in foreign currency bank accounts for letter of credit payments relating to expansion project of the Holding Company.

30. NET SALES

	2008	2007
	(Rupees)	
Own manufactured product (note 30.1)	35,304,462	22,343,696
Less: Sales tax	2,156,007	1,938,405
	33,148,455	20,405,291
Purchased product/ services rendered	7,938,161	14,282,058
Less: Sales tax	113,569	566,738
	7,824,592	13,715,320
Net sales	40,973,047	34,120,611

(AMOUNTS IN THOUSAND)

30.1 Includes export sales by EFL, EPCL and Avanceon amounting to Rs. 9,923 (2007: Nil), Rs.79,223 (2007: Rs.198) and Rs.212,251 (2007: Rs. 940,248) respectively.

30.2 Sales are net of marketing allowances of Rs. 103,609 (2007: Rs. 57,630), special excise duty Rs. 78,363 (2007: Rs. 30,027) and discounts of Rs. 94,543 (2007: Rs. 64,012).

31. COST OF SALES

		2008	2007
		(Rupees)	
Raw and packing materials consumed (note 31.1)		16,704,322	9,993,898
Salaries, wages and staff welfare		1,243,248	961,972
Fuel and power		2,954,371	2,209,906
Repairs and maintenance		665,318	419,736
Depreciation / amortization (note 18.2)		1,045,361	918,207
Consumable stores		195,965	144,233
Staff recruitment, training, safety and other expenses		68,292	48,759
Purchased services		329,558	135,205
Storage and handling		139,405	120,277
Travel		88,668	60,748
Communication, stationery and other office expenses		102,284	76,824
Insurance		101,434	93,721
Rent, rates and taxes		69,152	20,538
Stock - finished goods written off		528	1,914
Provision against sales tax refundable		36,361	-
Other expenses		30,188	21,009
Manufacturing cost		23,774,455	15,226,947
Add: Opening stock of work-in-progress		45,297	23,382
Less: Closing stock of work-in-progress		63,381	45,297
		(18,084)	(21,915)
Cost of goods manufactured		23,756,371	15,205,032
Add: Opening stock of finished goods manufactured		1,194,921	956,457
Less: Closing stock of finished goods manufactured		1,445,550	1,194,921
		(250,629)	(238,464)
Cost of goods sold	- own manufactured product	23,505,742	14,966,568
	- purchased product (note 31.2)	5,375,140	10,223,898
	- others	1,230,466	947,900
		30,111,348	26,138,366

31.1. This includes write down of raw material of the Holding Company to net realisable value amounting to Rs. 276,022 (2007: Nil).

31.2. This includes write down of purchased products of the Holding Company to net realisable value amounting to Rs. 578,350 (2007: Nil).

(AMOUNTS IN THOUSAND)

32. SELLING AND DISTRIBUTION EXPENSES

	2008	2007
	(Rupees)	
Salaries, wages and staff welfare	1,098,859	857,363
Staff recruitment, training, safety and other expenses	47,214	54,448
Product transportation and handling	1,320,076	1,322,994
Repairs and maintenance	71,901	30,144
Advertising and sales promotion	831,715	756,094
Rent, rates and taxes	200,045	138,519
Communication, stationery and other office expenses	132,815	84,333
Travel	176,857	120,109
Depreciation / amortization (note 18.2)	104,882	65,778
Purchased services	120,423	29,489
Donations	42,316	42,810
Others	106,549	80,614
	4,253,652	3,582,695

33. OTHER INCOME

	2008	2007
Income on deposits / other financial assets	259,355	198,096
Commission income	192,094	-
Service charges	18,452	8,346
Unrealized fair value gain on short term investments	-	49,135
Fair value of interest rate swap	407	2,135
Reversal of resignation gratuity provision	-	3,276
Gain on curtailed defined benefit pension plan (note 13.3.3)	30,997	17,629
Negative goodwill recognised	309,157	227,889
Profit on disposal of fixed assets	71,248	1,260
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	55,979	-
Foreign exchange gain	83,624	841
Others	17,001	1,222
	1,038,314	509,829

(AMOUNTS IN THOUSAND)

34. OTHER OPERATING CHARGES

	2008	2007
	(Rupees)	
Workers' profits participation fund:		
-Holding Company (note 16.3)	279,515	228,747
-Subsidiary Companies (note 16.3)	24,625	30,988
Workers' welfare fund	154,569	99,879
Legal and professional charges	131,782	48,016
Research and development (including salaries and wages)	3,075	16,297
Loss on sale of fixed assets / fixed assets written off	409	21,687
Loss on death / sales of biological assets	786	2,062
Foreign exchange loss	230,257	21,508
Auditors' remuneration		
- statutory audit	4,296	3,196
- half yearly review	300	150
- fee for other services	1,678	3,347
- reimbursement of expenses	853	983
	7,127	7,676
Professional tax	210	20
Unrealized fair value loss on investment	2,352	-
Others	134,876	5,678
	969,583	482,558

35. FINANCE COST

	2008	2007
Mark-up / interest on:		
- long term finances	858,420	530,446
- short term borrowings	832,472	158,047
Others	47,061	29,165
	1,737,953	717,658

36. SHARE OF INCOME FROM JOINT VENTURE

Engro Vopak Terminal Limited

	2008	2007
Share of income before taxation	373,211	360,375
Share of provision for taxation	(128,018)	(116,709)
	245,193	243,666

37. TAXATION

	2008	2007
Current - for the year	1,181,926	1,125,461
- prior year	-	53,525
Deferred - for the year	(204,598)	(59,945)
	977,328	1,119,041

Engro Chemical Pakistan Limited, the Holding Company (ECPL)

37.1 The Holding Company in its tax return for tax year 2007 claimed the benefit of Group Relief under section 59 B of the 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.

During the year, an audit was conducted by the Tax Department for tax year 2007 and an assesment order was issued challenging the claiming of benefit of Group Relief by the Holding Company and certain other issues. Consequently, the Holding Company filed an appeal against issues raised by the Tax Department. Gross demand amounting to Rs. 476,479 was raised out of which the Holding Company paid an amount of Rs. 170,000. Stay for payment of balance amount has been granted till the decision of the learned ITAT. Management is reasonably confident that the issue of Group Relief will be decided in its favour.

During the year, the Holding Company has again claimed the benefit of Group Relief under section 59B of Income Tax Ordinance, 2001 in its tax return for tax year 2008 and accordingly has paid an amount of Rs. 622,103. The Holding Company has also agreed to acquire tax year 2009's partial losses of EFL having tax effect amounting to Rs. 450,000 which will be accounted for in the income tax return of the Holding Company due to be filed with Income Tax Department by September 30, 2009.

37.2 The Holding Company has filed tax returns up to income year 2007. 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). The Holding Company has filed an appeal thereon with Income Tax Appellate Tribunal (ITAT).

The appeals for income years ended June 1997, December 1997 and December 1998 have been decided in favor 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 it believes to be an error of fact and should be rectified. For December 1998, the Holding Company has received favorable decision from the Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the Holding 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 Holding Company also filed reference with Alternative Dispute 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 from the ADRC. However, the FBR has decided that the issue be decided upon by ITAT where this matter remains under appeal.

For income years 2003 - 2007 income tax returns have been filed under self assessment scheme by the Holding Company.

Audit in respect of income year 2005 has been finalised. The Holding Company has received a demand amounting to Rs. 240,660 of which the Holding Company has paid Rs. 30,694 and filed a rectification with the Tax Department for correction of certain errors in the assessment order.

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

37.3 Engro Polymer and Chemicals Limited, subsidiary company (EPCL)

During the year 2003, the Assessing Officer (AO) while finalizing the assessment order for the year ended December 31, 2000 (Assessment year 2001 – 2002) made addition to income of Rs. 144,000 on the contention that the sales made by EPCL to its wholly owned subsidiary, Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited], were allegedly made on non-arm's length basis. The Subsidiary Company's appeal to the CIT(A) against the above addition was decided in the Tax Department's favour in 2004, against which the Subsidiary Company filed an appeal with the Income Tax Appellant Tribunal (ITAT). The ITAT in its order dated October 30, 2005 has set-aside the issue for re-examination by the AO. The management of the Subsidiary Company 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.

37.4 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:

	2008	2007
	(Rupees)	
Profit before tax	5,184,018	3,952,829
Tax calculated at the rate of 35%	1,814,406	1,383,490
Depreciation on exempt assets not deductible for tax purposes	34,495	33,396
Effect of applicability of lower tax rate / exemption on certain income and other tax credits / debits	(863,592)	(354,209)
Minimum tax on turnover	14,557	18,463
Net effect of consolidation adjustments	(22,538)	37,901
Tax charge for the year	977,328	1,119,041

38. EARNINGS PER SHARE - BASIC AND DILUTED

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

	2008	2007
	(Rupees)	
Profit after taxation (attributable to the shareholders of the Holding Company)	4,125,754	2,876,520
		(Restated)
Weighted average number of ordinary shares (in thousand)	206,818	191,109

The shares issued under Employee Share Option Scheme by the Holding Company may have a potential dilutive impact on basic earnings per share in future periods.

(AMOUNTS IN THOUSAND)

39. REMUNERATION OF CHIEF EXECUTIVES, 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:

	2008			2007		
	Directors		Executives	Directors		Executives
	Chief Executives	Others		Chief Executives	Others	
	(Rupees)					
Managerial remuneration	86,545	28,565	943,144	89,722	22,959	749,188
Retirement benefits funds	8,016	3,606	113,826	7,796	3,181	95,033
Other benefits	15,753	3,252	139,279	12,153	2,403	79,860
Fees	-	1,015	-	-	725	-
Total	110,314	36,438	1,196,249	109,671	29,268	924,081
Number of persons including those who worked part of the year	8	26	574	8	18	502

39.1 The Group 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 chief executives, directors and some employees.

40. CASH GENERATED FROM OPERATIONS

	2008	2007 (Restated)
	(Rupees)	
Profit before taxation	5,184,018	3,952,829
Adjustment for non-cash charges and other items:		
- Depreciation and amortization	1,150,243	983,985
- (Profit) / loss on disposal of fixed assets	(70,839)	20,427
- Loss on sale/ death of biological assets	786	2,062
- Provision for retirement and other service benefits	132,525	125,120
- Negative goodwill arising on further issuance of shares by subsidiaries (note 1)	(309,157)	(227,889)
- Income on deposits / other financial assets	(259,355)	(198,096)
- Share of income from joint venture companies (note 36)	(245,193)	(243,666)
- Finance cost (note 35)	1,737,953	717,658
- Employee share compensation expense	72,763	-
- Employee housing subsidy expense	69,587	-
- Provision for surplus and slow moving stores and spares	7,523	7,551
- Provision for doubtful trade debts	16,339	8,551
- Provision for other loans advances deposits and prepayments	-	1,442
- Provision for other receivables	95,596	(436)
- Working capital changes (note 40.1)	(5,813,933)	(1,418,876)
	1,768,856	3,730,662

(AMOUNTS IN THOUSAND)

40.1 Working capital changes

	2008	2007
	(Rupees)	
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(364,258)	(108,878)
- Stock-in-trade	(3,395,769)	(1,478,654)
- Trade debts	1,138,670	(691,514)
- Loans, advances, deposits and prepayments	(77,387)	(733,205)
- Other receivables and other assets	(2,317,789)	(2,174,492)
	(5,016,533)	(5,186,743)
Increase / (decrease) in current liabilities		
- Trade and other payables	(797,400)	3,767,867
	(5,813,933)	(1,418,876)

41. CASH AND CASH EQUIVALENTS

	2008	2007
Cash and bank balances (note 29)	2,197,608	2,132,987
Short term investments (note 28)	2,067,074	10,322,832
Short term borrowings (note 15)	(4,591,218)	(901,953)
	(326,536)	11,553,866

(AMOUNTS IN THOUSAND)

42. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

42.1 Financial assets and liabilities

	2008								
	Effective	Interest / mark-up bearing				Non-Interest / mark-up bearing			
	interest / mark-up rate (%)	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		-	-	-	-	-	-	491,210	491,210
Loans and advances including derivative		-	-	-	-	113,158	377,392	-	490,550
Trade debts		-	-	-	-	758,491	-	-	758,491
Other receivables including derivatives		-	-	-	-	4,848,041	-	-	4,848,041
Short term investments	5.25 to 10	2,067,074	-	-	2,067,074	-	-	-	-
Cash and bank balances	1 to 14	413,416	-	-	413,416	1,784,192	-	-	1,784,192
		2,480,490	-	-	2,480,490	7,503,882	377,392	491,210	8,372,484
Financial Liabilities									
Long term finances	5.96 to 17.88	264,933	24,140,500	16,806,764	41,212,197	40,738,824	-	-	40,738,824
Derivatives		-	-	-	-	155,160	871,381	106,823	1,133,364
Liabilities against assets subject to finance leases	8.6 to 17.7	17,449	20,323	-	37,772	2,589	9,062	-	11,651
Short term borrowings	10.37 to 18.5	4,591,218	-	-	4,591,218	-	-	-	-
Trade and other payable		-	-	-	-	5,071,975	-	-	5,071,975
Unclaimed dividends		-	-	-	-	318,320	-	-	318,320
		4,873,600	24,160,823	16,806,764	45,841,187	46,286,868	880,443	106,823	47,274,134

	2007								
	Effective	Interest / mark-up bearing				Non-Interest / mark-up bearing			
	interest / mark-up rate (%)	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 assets	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									
Long term finances	8.13 - 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 - 15.75	17,007	30,028	-	47,035	-	-	-	-
Short term borrowings	5.6 - 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

42.2 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 or foreign currency loan liabilities and related interest 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 while open exposures are rigorously monitored. The Group ensures that it has options available to exit or hedge any exposure, either through forward contracts, options or prepayments, etc.

The Group is exposed to currency risk on commitments to purchase plant and machinery in connection with expansion projects (note 18.5.1, 18.5.3 and 18.5.4) denominated primarily in Euros.

The Group has entered into Euro-Dollar and Dollar-Rupee forward exchange contracts / options to hedge its currency risk, most with a maturity of less than one year from the reporting date (note 7). When necessary, forward exchange contracts are rolled over at maturity.

The Group's ability to mitigate foreign exchange risk has however been curtailed by the State Bank of Pakistan which has disallowed issuance of new forward covers against letters of credit.

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 Group has long term rupee / foreign currency loans at variable rates. Rupee based loans have a prepayment option, which can be exercised upon any adverse movement. Interest rate risk arising on foreign currency loans are hedged through interest rate swaps (note 7).

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 Group is exposed to a concentration of credit risk on its trade debts amounting to Rs. 792,032 (2007: Rs. 1,930,702). 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)

42.3 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.

42.4 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.

43. 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**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Revenue from external cutomers (note 30)	23,317,198	23,183,222	7,847,606	6,039,535	8,173,497	3,631,134	1,634,746	1,266,720		-	40,973,047	34,120,611
Segment gross profit	8,293,050	6,412,168	1,111,948	957,838	1,049,581	260,711	404,280	318,820	2,840	32,708	10,861,699	7,982,245
Segment expenses - net of other income	(1,543,547)	(1,481,063)	(739,343)	(379,869)	(1,559,640)	(1,110,361)	(505,507)	(500,537)	(96,239)	(281,690)	(4,444,276)	(3,753,520)
Income on deposits / other financial assets (note 33)	94,364	150,479	116,522	39,923	6,943	1,358	41,526	6,336	-	-	259,355	198,096
Financial charges (note 35)	(1,595,173)	(536,866)	(33,531)	(41,419)	(353,986)	(105,450)	(82,830)	(66,208)	327,567	32,285	(1,737,953)	(717,658)
Share of income from joint venture (note 36)	-	-	-	-	-	-	-	-	245,193	243,666	245,193	243,666
Income tax (charge)/ credit (note 37)	(1,189,428)	(1,251,126)	(105,243)	(154,791)	302,965	333,809	(8,161)	(9,032)	22,539	(37,901)	(977,328)	(1,119,041)
Segment profit after tax / (loss)	4,059,266	3,293,592	350,353	421,682	(554,137)	(619,933)	(150,692)	(250,621)	501,900	(10,932)	4,206,690	2,833,788
Segment assets	62,044,872	39,948,662	18,277,226	9,464,191	7,325,530	4,329,423	6,632,872	2,813,542	(10,845,930)	(7,813,438)	83,434,570	48,742,380
Investment in joint venture / associate (note 21)	-	-	-	-	-	-	-	-	491,210	493,517	491,210	493,517
Total segment assets	62,044,872	39,948,662	18,277,226	9,464,191	7,325,530	4,329,423	6,632,872	2,813,542	(10,354,720)	(7,319,921)	83,925,780	49,235,897
Total segment liabilities	38,977,831	24,183,654	11,713,484	3,232,210	4,593,783	2,993,539	3,351,180	942,479	(288,691)	(393,908)	58,347,587	30,957,974
Capital expenditure including biological assets	20,214,342	8,024,200	11,158,033	2,453,044	2,380,589	1,641,248	1,571,017	1,752,664	889,458	(2,790,043)	36,213,439	11,081,113
Depreciation (note 18.2)	641,541	626,661	185,460	181,825	284,688	152,828	31,246	19,906	(2,840)	(3,161)	1,140,095	978,059
Amortization of intangibles (note 18.2)	12,193	7,920	749	102	4,649	1,165	5,353	2,008	-	-	22,944	11,195

(AMOUNTS IN THOUSAND)

44. TRANSACTIONS WITH RELATED PARTIES

Related party comprise subsidiaries, joint venture companies, associates, other companies with common directors, retirement benefit funds, directors and key management personnel. Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2008	2007
	(Rupees)	
Associated Companies		
Purchases and services	11,686,635	7,617,821
Services rendered	40,132	29,678
Dividends paid	597,769	512,775
Right shares issued (including share premium)	1,413,643	1,317,059
Others		
Dividends paid	41,949	8,600
Right shares issued (including share premium)	27,889	17,535

44.1 Remunerations to key management personnel are disclosed in note 39.

44.2 Other balances with related parties are disclosed in respective notes.

45. 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 and 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.

(AMOUNTS IN THOUSAND)

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 derivative financial instruments 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.

Fair value of employee share options

The management has determined the fair value of options issued under Employee Share Option Scheme at the grant date using Black Scholes pricing model. The fair value of these options and the underlying assumptions are disclosed in note 6.8.

46. DONATIONS

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

	Interest in Donee	Name and address of donee	2008	2007
			(Rupees)	
Mr. Asad Umar and Mr. Shahzada Dawood	Member	Lahore University of Management Sciences, Lahore	-	300

47. PRODUCTION CAPACITY

			Designed Annual Capacity		Actual Production	
			2008	2007	**2008**	2007
	Urea	Metric Tons	975,000	975,000	995,020	954,216
*	NPK	Metric Tons	160,000	160,000	97,669	124,821
*	PVC resin	Metric Tons	100,000	100,000	98,660	94,346
*	Processed milk	Thousand Litres	320,580	126,860	177,347	107,338

* Actual Production was below from designed annual capacity as per market demand.

48. LOSS OF CERTAIN ACCOUNTING RECORDS

During 2007, a fire broke out at PNSC Building, Karachi where the Head Office and registered office of the Holding Company was located. Immediately following this event the Holding Company launched its Disaster Recovery Plan due to which operational disruption and financial impact resulting from this incident remained minimal. The fire destroyed a substantial portion of its hard copy records related to the financial years 2005, 2006 and the period January 1, 2007 to August 19, 2007 although, electronic data remained intact due to the Company's Disaster Recovery Plan. The Holding Company launched an initiative to recreate significant lost records and was successful in gathering the same in respect of the financial year 2007. Hard copy records related to the already reported financial years 2005 and 2006 have not been recreated.

(AMOUNTS IN THOUSAND)

49. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Holding Company in its meeting held on January 21, 2009 has proposed a final cash dividend of Rs. 2 per share (2007: Rs. 3 per share final cash dividend) and issue of right shares in the proportion of four shares for every ten existing shares held at a price of Rs. 50 per share i.e. a premium of Rs. 40 per share over a par value of Rs. 10 per share for approval of the members at the Annual General Meeting to be held on February 27, 2009.

These consolidated financial statements do not include the effect of the proposed cash dividend and right issue, which will be accounted for in the financial statements for the year ending December 31, 2009.

50. LISTING OF SUBSIDIARY COMPANIES, ASSOCIATED COMPANIES AND JOINT VENTURE

Name of Subsidiaries	**Financial year end**
Engro Foods Limited	December 31st
Engro Energy Limited	December 31st
Engro Eximp (Private) Limited	December 31st
Engro Management Services (Private) Limited	December 31st
Engro Polymer and Chemicals Limited	December 31st
Avanceon Limited - formerly Engro Innovative Automation (Private) Limited	December 31st
Engro Powergen (Private) Limited	December 31st
Name of Joint Venture	
Engro Vopak Terminal Limited	December 31st
Name of Associated Companies	
Agrimall (Private) Limited	June 30th
Arabian Sea Country Club Limited	June 30th

51. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 21, 2009 by the Board of Directors of the Holding Company.

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

ECPL plant site at Daharki

Core Values

Corporate Governance

Principal Operation Committees

Proxy Form

Energy for growth

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

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.

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.

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.

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 2008 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

The Management Committee periodically reviews major financial and operating risks faced by the business. During the year, a Business Practices Review was conducted across the company where employees were invited to highlight questionable business practices they may have knowledge of. The results were thoroughly reviewed by the Management and reported to the Board.

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 pages 18 and 19.

A Board of Directors' meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board meets atleast 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 independent non-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 9 times during 2008.

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 5 times during 2008.

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

Andalib Alavi

Khalid Mir

Ruhail Mohammed

S. Imran ul Haque

Asif Tajik

Inamullah Naveed Khan

Tahir Jawaid

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)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Net Sales Revenue	23,317	23,183	17,602	18,276	12,798	11,884	10,620	8,006	8,080	8,170
Operating Profit	4,539	3,279	2,756	2,641	2,233	2,534	2,327	1,736	1,914	1,980
Profit before Tax	5,205	4,235	3,445	3,220	2,315	2,323	1,836	1,191	1,350	1,342
Profit after Tax	4,240	3,155	2,547	2,319	1,611	1,557	1,133	1,064	1,126	1,048
Employee Costs	1,411	1,050	950	804	795	749	673	594	544	467
Taxes, Duties & Development Surcharge	5,032	5,420	4,633	4,168	3,911	3,457	3,062	2,266	1,762	1,489
Workers' Funds	386	316	251	215	156	168	113	69	71	71
Property, Plant and Equipment	5,812	6,109	6,318	6,351	6,492	6,648	6,865	6,643	6,462	6,714
Capital Expenditure	20,214	8,298	391	377	520	370	823	435	578	337
Long Term Investments	3,327	4,108	1,480	748	–	85	–	–	–	171
Long Term Liabilities	27,757	15,423	1,800	2,890	2,580	3,236	3,323	2,992	3,070	2,908
Net Current Assets	9,324	10,421	2,042	2,211	1,618	1,796	1,252,	1,194	993	484
Dividends And Shares										
Shareholders' Fund	23,084	15,741	9,370	7,376	6,586	6,199	5,817	5,727	5,582	5,181
Shares Outstanding at Year End (in Million)	213	193	168	153	153	153	139	139	121	121
Dividend per Share Rs.	6.0	7.0	9.0	11.0	8.5	8.0	7.5	7.5	7.0	6.0
Dividend Payout Rate	30%	43%	59%	73%	81%	79%	92%	98%	75%	69%
Bonus Shares	-	–	–	–	–	–	10%	–	15%	–
(Thousand Metric Tons)										
Engro Urea Production	995	954	969	912	870	955	852	790	808	807
Engro Urea Sales	1,039	874	945	890	891	930	846	779	800	806
Zarkhez/Engro NP Production	98	125	108	157	121	72	73	31	–	–
Zarkhez/Engro NP Sales	89	135	116	143	114	86	64	24	–	–
Purchased Fertiliser Sales (including imported urea)	150	570	453	491	250	290	309	181	223	264

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 27th day of February, 2009 and at any adjournment thereof.

Signed this ______________________ day of ______________ 2009.

WITNESSES:

1. Signature: ______________________
   Name: ______________________
   Address: ______________________
   ____
   CNIC or ______________________
   Passport No. ______________________

2. Signature: ______________________
   Name: ______________________
   Address: ______________________
   ____
   CNIC 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 Computerized National Identity Card or Passport with this proxy form before submission to the Company.

Engro Chemical Pakistan Limited
7th & 8th Floor, The Harbour Front Building, HC # 3,
Marine Drive, Block 4, Clifton, Karachi-75600, Pakistan.
www.engro.com