ENGRO

annual report
2006

vision

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

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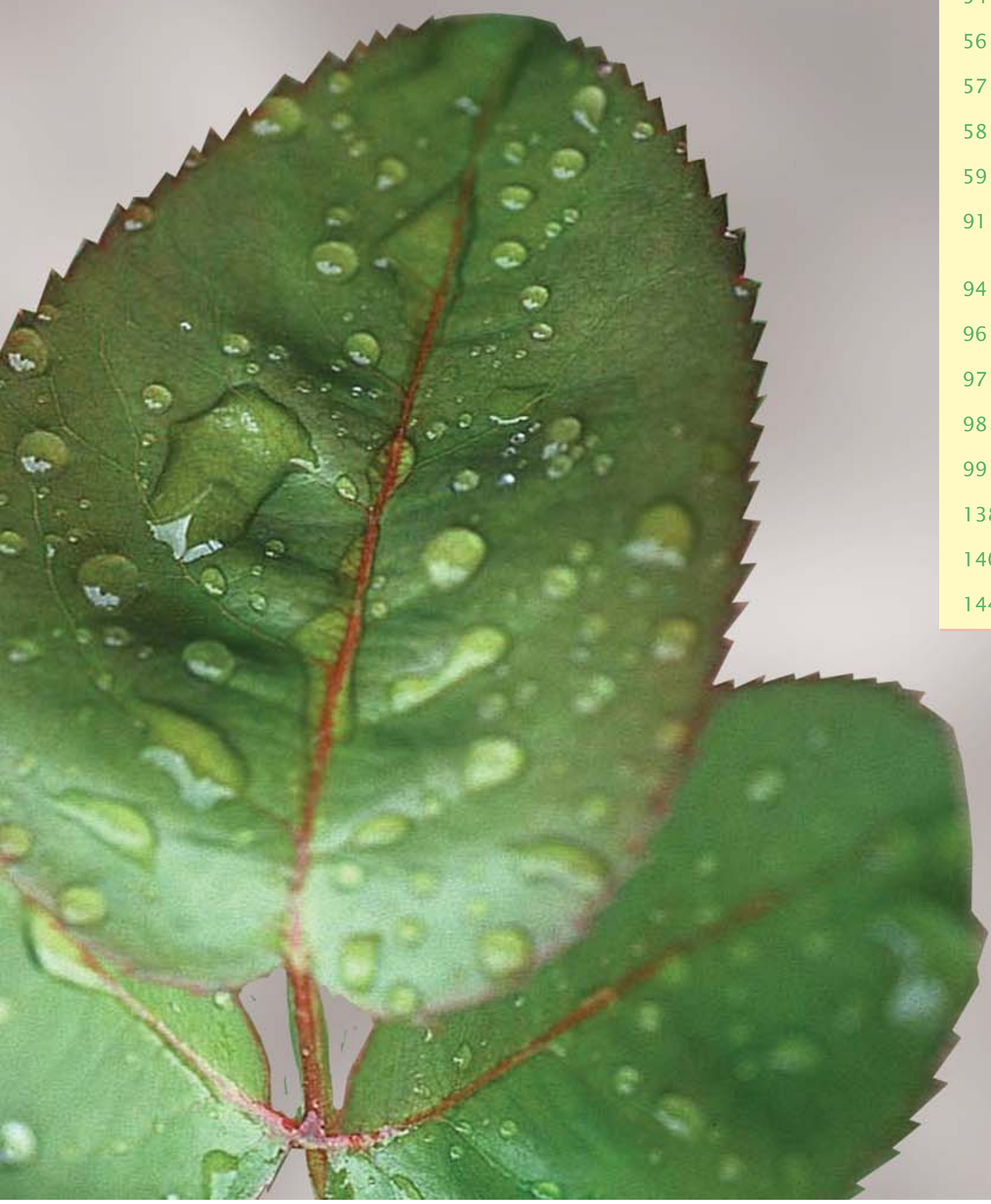


contents

year in brief

Highlights

- Gas allocation to Engro for setting up new Urea plant with annual capacity of 1.3 million tons. Estimated project cost is US$950 million
- Highest ever:
  - Engro Urea production and sales of 969,000 and 945,000 tons respectively
  - Profit after tax of Rs. 2.55 billion
- Highest ever production, sales and profit at Engro Asahi and Engro Vopak (Profit After Tax: Rs. 379 million and Rs. 474 million respectively). Launch of Engro Asahi's expansion & back integration project at an estimated cost of US$220 million
- Commencement of Engro Foods' operations and launch of OLPER'S and OLWELL. Expansion of existing plant and construction of second plant at Sahiwal
- Acquisition of US based automation engineering company by our subsidiary, Engro Innovative
- Alignment with Dupont's Process Safety and Risk Management (PSRM) System
- Launch of company wide six Sigma quality initiative

Key Figures

		2006	2005	
Sales revenue	Rs. Million	17,602	18,276	
Profit after Tax	Rs. Million	2,547	2,319	
Number of outstanding shares	(000's)	168,234	152,940	
Earnings per share - Basic and Diluted	Rs.	15.47	14.37	(Restated)
Dividend	Rs./share	9.00	11.0	
Capital Expenditure	Rs. Million	391	377	
Long Term Investments	Rs. Million	3,658	2,173	
Total Assets	Rs. Million	15,981	14,112	
Shareholders Equity	Rs. Million	9,370	7,376	
Return on Capital Employed	%	25%	24%	
Current Ratio		1.6	1.8	
Debt: Equity Ratio		16:84	28:72	
Market Capitalization (Year End)	Rs. Million	28,684	25,151	
Market Capitalization (Year End)	US$ Million	470	421	
Price to Earnings Ratio		11.02	10.85	
Net Assets per share	Rs.	55.7	48.23	
Interest Coverage Ratio		10.5	12.5	
Fixed Assets Turnover		2.6	2.6	
Debtor Turnover		30.2	34.3	
Inventory Turnover		9.4	11.9	

A view of urea plant at Dharki.

company information

Hussain Dawood
Chairman

Asad Umar
President & Chief Executive

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

Andalib Alavi
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

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Registered Office

PNSC Building, Moulvi Tamizuddin Khan
Road, Karachi.

our global reach

EXPORT MARKETS

OFFICES

MANUFACTURING SITES

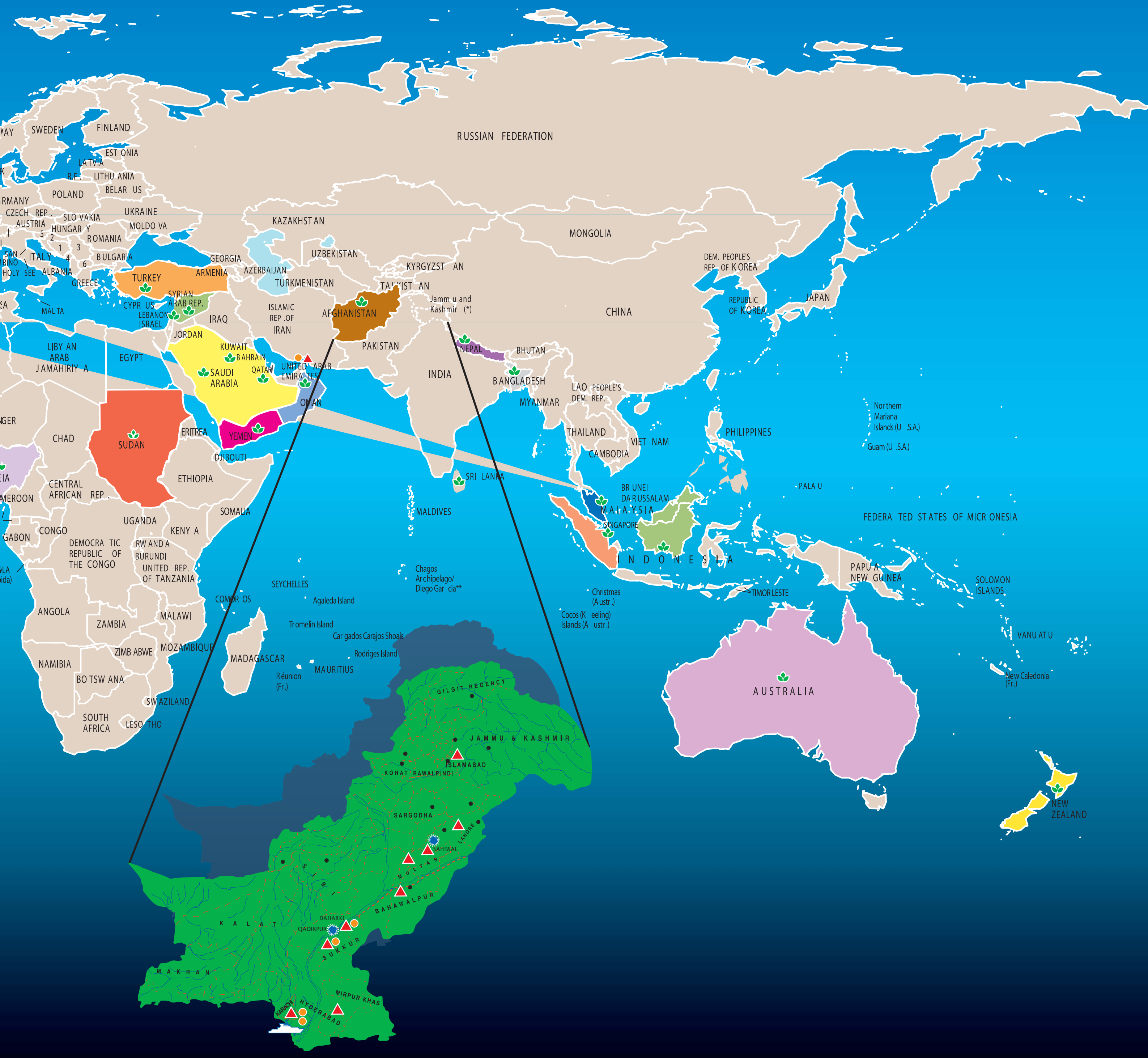
LIQUID CHEMICAL JETTY TERMINAL

MANUFACTURING SITES, UNDER CONSTRUCTION

ENGRO AT A GLANCE

(Rupees in Million)

	Employees	Sales Revenue	Asset Base
Engro Chemical Pakistan Ltd.	771	17,602	9,370
Engro Vopak Terminal Ltd.	71	1,025	470
Engro Asahi Polymer & Chemicals Ltd.	125	5,343	1,639
Engro Innovative Automation (Pvt) Ltd.	262	842	71
Engro Foods Ltd.	166	1,506	1,158
Engro Energy (Pvt) Ltd.	6	N/A	6



notice of meeting

NOTICE IS HEREBY GIVEN that the Forty First Annual General Meeting of Engro Chemical Pakistan Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Wednesday, February 28, 2007 at 10.00 a.m. to transact the following business:

A. ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 3l, 2006 and the Directors' and Auditors' Reports thereon.

(2) To declare a final dividend at the rate of Rs. 3.00 per share for the year ended December 3l, 2006.

(3) To appoint Auditors and fix their remuneration.

B. SPECIAL BUSINESS

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

"RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to invest an amount of Rs. 2,000,000,000 (rupees two billion) in Ordinary shares of a wholly owned Subsidiary company, Engro Foods Limited."

(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 an amount of upto Rs. 160 million (rupees one hundred and sixty million) in Ordinary shares of a Subsidiary company, Engro Innovative Automation (Private) Limited ("EIAL").

RESOLVED FURTHER that the consent of the Company in General Meeting be and is hereby accorded to guarantee the finance facilities of EIAL upto an amount of Rs. 300 million."

(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 to guarantee the unfunded letter of credit facilities of upto Rs. 2.40 billion and the funded finance facilities of Rs. 600 million of Engro Eximp (Private) Limited, a wholly owned Subsidiary company."

By Order of the Board

ANDALIB ALAVI
General Manager Legal
& Company Secretary

Karachi,
Dated: January 20, 2007

N.B.

(1) The share transfer books of the Company will be closed and no transfers of shares will be accepted for registration from Monday, February 19, 2007 to Thursday, March 1, 2007 (both days inclusive). Transfers received in order at the office of our Registrars, M/s. Ferguson Associates (Private) Limited, Ground Floor, State Life Building 1-A, I.I. Chundrigar Road, Karachi-74000 upto the close of business (5:00 p.m.) on Friday, February 16, 2007 will be in time to entitle the transferees to the final dividend and to attend the meeting.

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

Statement under Section 160 of the Companies Ordinance, 1984

This Statement is annexed to the Notice of the Forty First Annual General Meeting of Engro Chemical Pakistan Limited to be held on February 28, 2007 at which certain Special business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special business.

ITEM 4 OF THE AGENDA

Engro Chemical Pakistan Limited ("ECPL"), as part of its vision to diversify its business, has established Engro Foods Limited ("EFL") for undertaking the food business. Pakistan still being primarily an agriculture based country / economy, ECPL foresees great opportunities in the food business. The business has been entered through the dairy field with initial focus on the milk business but in the medium to longer term it is planned that EFL will undertake other food businesses as well. Approval of the shareholders of ECPL has already been obtained for investing Rs. two billion in Ordinary shares of EFL. The proposed Special Resolution, required by S. 208 of the Companies Ordinance 1984, would accord ECPL's consent in General Meeting to invest a further Rs. two billion in Ordinary shares of EFL, which is a 100% owned subsidiary of ECPL.

Most of the amount of Rs. two billion already approved has been spent by EFL to finance its initial investments for setting up the milk processing facility in Sukkur and allied equipment and facilities, including over four hundred properly equipped milk collection centres, on hiring and equipping its human resources and on sales, advertising and brand building activities, including for the introduction of new products. EFL is now setting up a second milk processing facility in Sahiwal, Punjab. Due to the nature of the FMCG business, where investments in plant and sales & marketing, including advertisement for brand building, have to be made upfront to reach the required economies of scale, losses are suffered in initial years and returns on these investments take some years to materialise, therefore more equity is required to be injected by ECPL, the parent Company and funds are also required for the factory in Sahiwal. EFL is projected to have losses of about Rs. 2 Billion during the first four years of operations with profitability thereafter. This is higher than the earlier loss estimate but only reflects the consequences of higher expansion, growth, investment and confidence in the business. By October 2006, EFL's "Olper's" milk had attained a market share of 12.3%. This fast growth and EFL's significant entry into the dairy sector, has encouraged EFL to go for a quicker and larger than planned expansion.

The new plan clearly envisages that EFL shall follow a fast track growth model driven by innovative launches to command a product range across the dairy spectrum. This needs to be supported by a high quality milk collection infrastructure and a national distribution network. It will also need to be supported by a trend-setting brand development programme. EFL expects that it will become a substantial and influential player in the dairy sector in a couple of years, with significant profitability and growth potential during the coming years.

The information required under SRO 865(I)/2000 is provided below:

(i) **Name of investee company or associated undertaking -**
Engro Foods Limited

(ii) **Nature, amount and extent of investment -**
Subscription of Rs. two billion in Ordinary shares of EFL.

(iii) **Average market price of the shares -**
N / A

(iv) **Break-up value of shares -**
N / A

(v) **Price at which shares will be purchased -**
Rs. 10/-

(vi) **Loss per share of investee company in last 3 years -**

2004	2005	2006
N/A	0.22	5.96

(vii) **Source of funds from where shares will be purchased -**
ECPL intends to fund this investment from internal cash generation as well as bank borrowings.

(viii) **Period for which investment will be made -**
Long term

(ix) **Purpose of investment -**
To provide funding to EFL, as detailed above

(x) **Benefits likely to accrue to the Company and the shareholders from the proposed investment -**
The benefits to ECPL (and its shareholders) will come from the profitability of EFL which will be reflected in the value of its shares (and consequently in the value of the shares of ECPL) and the receipt of dividend income from EFL.

(xi) **Interest of directors and their relatives in the investee company -**
The directors of ECPL have no personal interest in EFL except that some directors of ECPL are directors of EFL and hold one share each in EFL, as nominees of ECPL

ITEM 5 OF THE AGENDA

ECPL as part of its vision to diversify its business, in 2003 had acquired 51% shares in a company now known as Engro Innovative Automation (Private) Limited (EIAL). EIAL is engaged in the business of automation and controls and allied businesses. EIAL through its 100% subsidiary, Innovative Automation & Engineering FZE, based in the Jebel Ali Free Zone, Dubai, has signed an agreement to acquire 70% shares of Advanced Automation Associates Inc., a Philadelphia, USA based company engaged in businesses similar to that of EIAL, for a total amount of US$ 6.95 million. To fund the acquisition, EIAL needs further capital injection and ECPL will be required to subscribe to shares of EIAL equal to US$ 2.55M or approx. Rs. 160 million.

Approval of the shareholders is also sought for ECPL to guarantee 51% of the finance facilities of EIAL, the other 49% being guaranteed by the other shareholders. The total finance facilities of EIAL are likely to reach approx. Rs. 600 million and ECPL's 51% share is therefore Rs. 300 million.

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

(i) Name of investee company or associated undertaking:
Engro Innovative Automation (Private) Limited

(ii) Nature, amount and extent of investment:
Subscription of Rs. 160 million in ordinary shares of EIAL

(iii) Average market price of the shares
N/A

(iv) Break-up value of shares intended to be purchased on the basis of last published financial statements:
N/A

(v) Price at which shares will be purchased:
Rs. 10/-

(vi) Earning per share of investee company in last three years:

2004	2005	2006
11.86	(13.48)	21.76

(vii) Source of funds from where shares will be purchased:
ECPL intends to fund this investment from internal cash generation as well as bank borrowings.

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

(ix) Purpose of investment:
To provide funding to EIAL as detailed above.

(x) Benefits likely to accrue to the Company and the shareholders from the proposed investment:
The benefits to ECPL (and its shareholders) will come from the expected profitability of the USA company acquisition which will increase the profitability of EIAL which will be reflected in the value of its shares (and consequently in the value of the shares of ECPL) and the receipt of dividend income from EIAL.

(xi) Interest of directors and their relatives in the investee company -
The directors of ECPL have no personal interest in EIAL except that some directors of ECPL are directors of EIAL and hold one share each in EIAL, as nominees of ECPL.

ITEM 6 OF THE AGENDA

Engro Chemical Pakistan Limited (ECPL) has a wholly owned Subsidiary named Engro Eximp (Private) Limited ("Eximp") which is engaged in the business of import of fertilizers, which are then sold to ECPL. The banks opening Letters of Credits for these imports require ECPL, the parent company, to guarantee the unfunded facility being provided by opening L/C's for these imports, the maximum amount being Rs. 2.4 billion. Additionally, Eximp will be obtaining funded banking facilities of upto Rs.600 million to finance the increasing imports and the time gap in the receipt of the subsidy amounts being paid by the Government of Pakistan on imports of phosphatic fertilizers. These facilities are also required to be guaranteed by ECPL, the parent company. Approval is consequently sought for issuing these guarantees.

the board of directors

Shahzada Dawood

Khalid Mansoor

Arshad Nasar

Ruhail Mohammed

Hussain Dawood

Asad Umar

Isar Ahmad

Khalid Siraj Subhani

Shabbir Hashmi

Asif Qadir

directors' profile

HUSSAIN DAWOOD (CHAIRMAN)

is the Chairman of Engro Chemical Pakistan Ltd., The Dawood Group and the Pakistan Poverty Alleviation Fund, which is one of the largest World Bank supported funds of its kind. He is a Director of the Pakistan Business Council, Sui Northern Gas Pipeline Ltd. and Pakistan Refinery Ltd. He is the Honorary Consul of Italy in Lahore, and a Member of the World Economic Forum in Davos. With an MBA from JL Kellogg School of Management, Northwestern University, he is also a graduate in Metallurgy from Sheffield University. He joined the ECPL Board in 2003.

ASAD UMAR (CHIEF EXECUTIVE)

is President and Chief Executive of Engro Chemical Pakistan Ltd. and Chairman of Engro Asahi Polymer & Chemicals Ltd, Engro Vopak Terminal Ltd., Engro Foods Limited and Engro Energy (Pvt) Limited and is a director on the Board of the Oil and Gas Development Company Limited, The Pakistan Centre for Philanthropy, The Pakistan Business Council, The Karachi Stock Exchange Guarantee Ltd., and a Trustee on LUMS Board of Trustees. 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.

ARSHAD NASAR (DIRECTOR)

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

Prior to his current assignment, Arshad Nasar was the Country Chairman and Managing Director of Caltex Oil Pakitan Limited and has served as a Director on the Boards of Pakistan Refinery Limited and Pak Arab Pipeline Company Limited. He is also a former President of 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, Mari Gas Company Limited and Oil & Gas Development Company Limited.

ASIF QADIR (DIRECTOR)

is a Senior Vice President of Engro Chemical Pakistan Ltd and Chief Executive of Engro Asahi Polymer & Chemicals Ltd. and a director of Engro Energy (Pvt) Ltd. He has held key assignments at Engro and with Exxon Chemical Canada. A Masters in Chemical Engineering by qualification, he joined the ECPL Board in 1997.

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.

KHALID MANSOOR (DIRECTOR)

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

KHALID SIRAJ SUBHANI (DIRECTOR)

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

RUHAIL MOHAMMED (DIRECTOR)

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

SHAHZADA DAWOOD (DIRECTOR)

is the Chief Executive of Dawood Hercules Chemicals Ltd. He is a Director on the Board of Sui Northern Gas Pipeline Ltd. and also of a number of other companies engaged in diversified business fields. A Masters in Global Textile Marketing and a L.L.B., he joined the ECPL Board in 2003.

SHABBIR HASHMI (DIRECTOR)

joined Actis (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.

The Directors' Report

the directors' report

The Directors of Engro Chemical Pakistan Limited are pleased to submit the forty first annual report and the audited accounts for the year ended December 31, 2006.

PRINCIPAL ACTIVITIES

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

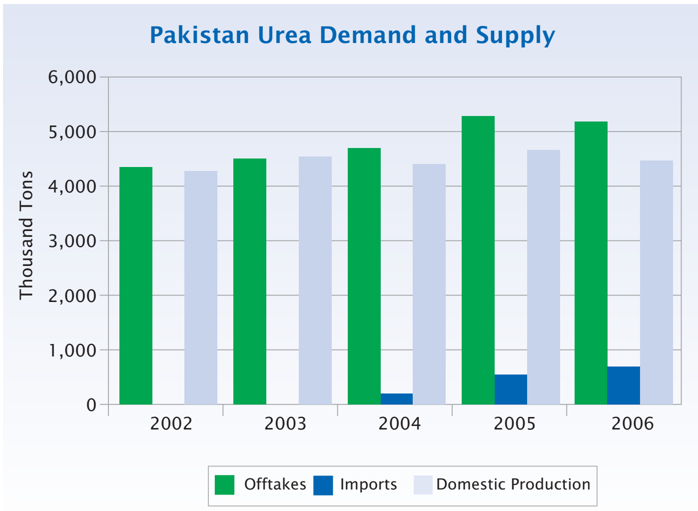
BUSINESS REVIEW

Urea

Urea industry witnessed correction in 2006 after growth of 3%, 5% and 10% during 2003, 2004 and 2005 respectively. Total Urea sales in the country remained at 5.2 million tons showing a 1% growth over 2005. Local manufacturers maximized production to 4.8 million tons as compared to 4.7 million tons in 2005.

Sale of imported Urea in 2006 was 496,000 tons compared to 530,000 tons in 2005. Better import planning by the Government resulted in buffer stocks and price stability was maintained in the market. Price differential between locally manufactured Urea and imported Urea remained high. Imported Urea cost to the National Exchequer was around Rs. 950/bag as compared to the local Urea price of Rs. 511/bag.
Fertilizer industry continued to sell Urea domestically at substantially lower prices than international prices resulting in net benefit of Rs 40 billion to the farmers of Pakistan. Out of total benefit of Rs 40 billion, Rs 20 billion were contributed by the Government of Pakistan (including Rs. 6 billion subsidy on imported urea) and the remaining Rs 20 billion by the fertilizer industry.

Best ever Engro Urea production in 2006 of 969,000 tons, represented an increase of 6% over 2005. Similar to 2006, next year is also planned as a non turnaround year. This is part of our strategy to enhance capacity by increasing duration between turnarounds from 12 months to 24 months.



Engro Urea sales of 945,000 tons were a 6% increase over 2005 volume of 890,000 tons. Imported Urea sales decreased to 65,000 tons as compared to 112,000 tons in 2005. The Company sold 1,010,000 tons of Urea in 2006 compared to 1,002,000 in 2005. Engro market share for the year in review remained at 19%.

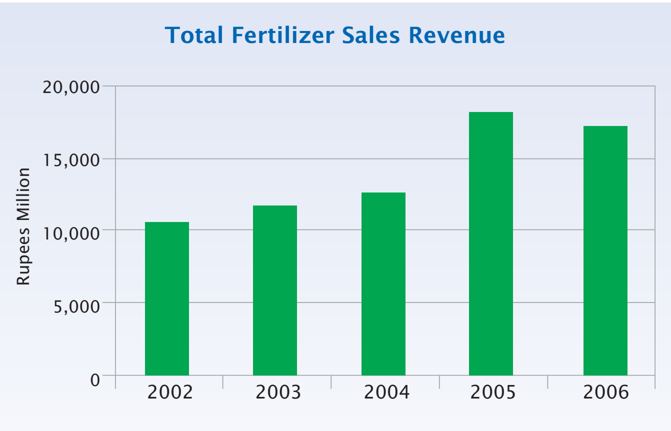
Urea Expansion Project

The Government of Pakistan (GoP) carried out bidding on December 11, 2006 for allocation of 100 MSCFD gas from Qadirpur gas field. Engro has acquired rights of this gas for Rs 101 million. Letter of acceptance of our bid was received from the Government on January 11, 2007. The new plant is expected to commence operations in first half 2010. Engro market share for Urea is expected to increase from 19% today to 35% in 2011 when new plant will be operational for full year. The planned expansion will be the World's largest single train Urea plant with a capacity of 1.3 million tons per annum and also the largest capital investment by a private sector Pakistani company in the corporate history of Pakistan.

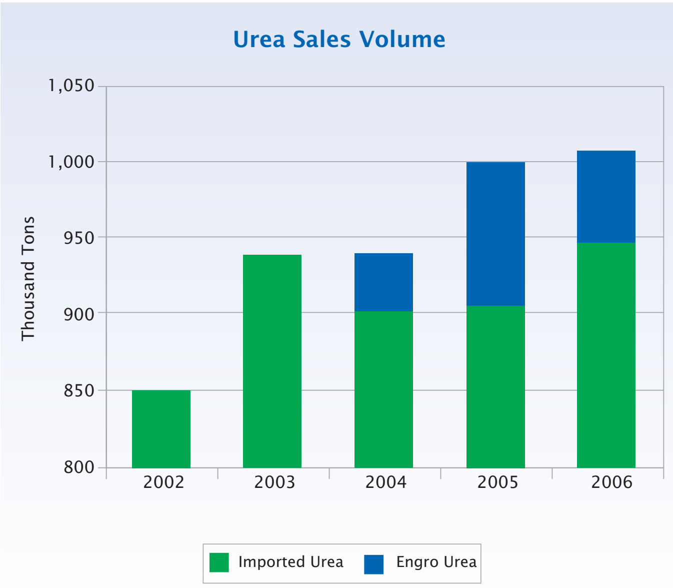
The expansion is expected to cost around US $ 950 million which will be financed with a mix of debt/equity that is best suited to maximize shareholders value.

The Company is in final stages of awarding contracts for engineering, procurement and construction of this plant and is confident that the expansion will be operational within the time frame stipulated by the GoP.

In addition to the above mentioned domestic fertilizer project, the Company is continuing to explore offshore fertilizer opportunities.



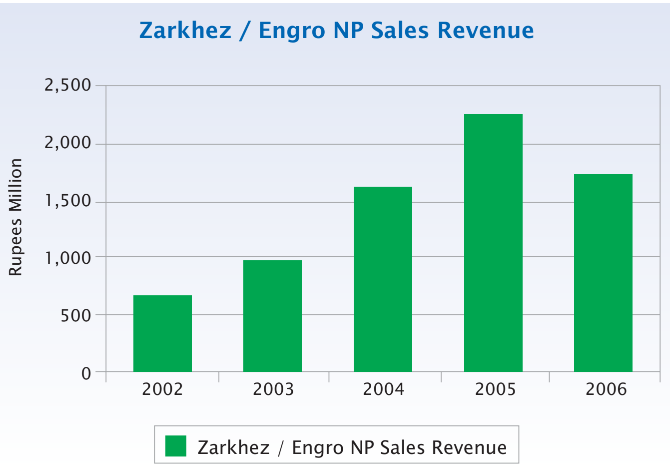
Total Fertilizer Sales Volume (Thousand Metric Tons)				
2002	2003	2004	2005	2006
1,220	1,306	1,255	1,522	1,514



Zarkhez

Year 2006 proved to be a challenging year for Zarkhez as sales declined by 33% to 77,000 tons vs. last year sales of 115,000 tons. This was mainly due to over supplied Phosphates market, subsidy expectations, and decline in acreage of important target crops. Due to its seasonal demand, Zarkhez could not recover lost sales volume in the 4th quarter like Phosphates after subsidy implementation. Zarkhez / Engro NP production for 2006 was 108,000 tons compared to 157,000 tons in 2005. During 2006 Zarkhez production for field crop grades was restricted which, in the short run reduced sales volume but in the long run will result in more sustained model of business. In its first full year of sales, Engro NP achieved sales volume of 39,000 tons compared to 28,000 tons during 8 months of 2005. Engro will continue to focus on providing balanced fertilizers to the farmers i.e. nitrogen, phosphorous, potash & Micronutrients to improve their crop yield. Engro's total Potash market share is 78%.

Engro team promoting the concept of balanced fertilization to improve the quality and yield in citrus



ZARKHEZ / ENGRO NP SALES VOLUME (Thousand Metric Tons)				
2002	2003	2004	2005	**2006**
64	86	114	143	**116**

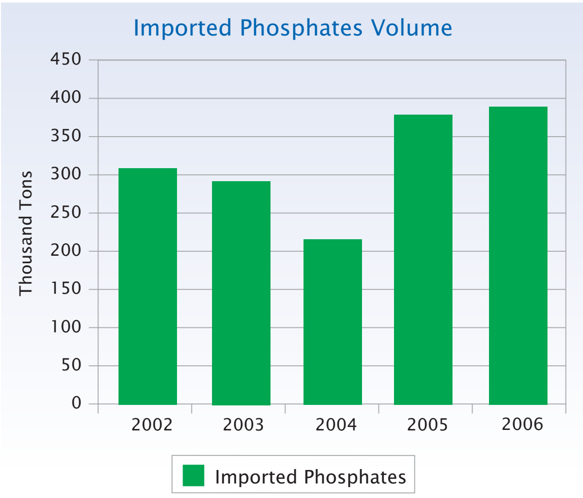
Phosphates

In 2006, overall phosphates industry grew by 7% to 1.6 million tons. The market remained bearish during first three quarters due to inventory build-up and subsidy expectations. However, following the subsidy announcement by the Government, Phosphates sales registered an impressive growth as dealers and farmers invested in Phosphatic products at the onset of Rabi season.

Engro's imported DAP sales volume grew by 5% to 295,000 tons from 281,000 tons

Promoting low pH phosphatic fertilizer called Zorawar through local game of *kabbadi*

in 2005. In an environment of increasing phosphate prices, Engro made timely purchase decisions and gained considerable cost advantage over competition for both DAP and Zorawar.



Engro also sold 92,000 tons of Zorawar. Engro has re-positioned Zorawar's communication strategy to focus on product benefits under the slogan "Zorawar say Jar Jandar - Fasl Shandar". Engro is investing aggressively in promoting the brand and building its image as the preferred Phosphatic fertilizer.

Engro's overall phosphate sales volume was 388,000 tons which is the highest ever for this segment of business in any year. Our share of Phosphate market for 2006 was 23%.

Micro Nutrients

Zingro (Zinc Sulphate) sales for 2006 at 1,685 tons was a 12% increase over last year. Our marketing of micro nutrients in the country aims at promoting soil fertility and boost agro-economics of the country.

JOINT VENTURES AND SUBSIDIARY COMPANIES

Engro Vopak Terminal Limited (EVTL)

Engro Vopak Terminal Limited is a joint venture with Royal Vopak of the Netherlands in which Engro has 50% equity. EVTL owns and operates a modern liquid chemical & LPG terminal at Port Qasim. In 2006 EVTL completed 9 years of safe operations without lost work injury and continues to maintain its safety and quality standards per international standards of OHSAS 18001, ISO 9001 and ISO 14001.

In 2006, the total volume of chemicals and LPG handled increased from 885,000 tons to 911,000 tons mainly due to higher volume of paraxylene imports. EVTL made a profit after tax of Rs.474 million in 2006 compared to Rs.438 million in 2005 and paid a dividend of 50% (2005: 60%). Engro's share of the dividend payout amounts to Rs.225 million.

Engro Asahi (EAPCL), EVTL's customer since 1999, plans to expand its business and back integrate by setting up an EDC / VCM plant and a Chlor alkali plant. EVTL anticipates ethylene storage business from EAPCL commencing 2009. Financing and construction of the first cryogenic storage facility in Pakistan will commence in early 2007. No additional equity is expected from the shareholders.

Efforts have been made to position EVTL for the LNG import terminal at Port Qasim with potential LNG importers aiming to provide an integrated solution to SSGC for provision of regasified LNG.

Engro Asahi Polymer & Chemicals Ltd. (EAPCL)

Engro Asahi Polymer & Chemicals is a joint venture with Mitsubishi Corporation of Japan. EAPCL is involved in manufacturing and marketing of PVC resin. The equity stake of Engro increased from 50% to 80%

A view of plant to be relocated from Baton Rouge, USA. This will be the first ever EDC/VCM Plant in Pakistan

this year when Engro acquired 30% shareholding from Asahi Glass Company (AGC) of Japan. AGC decided to divest from the business as the international focus of their business has shifted away from the vinyl chain area and AGC feels that it was no longer in a position to participate actively in EAPCL. Mitsubishi Corporation, an international trading company and one of the largest companies in the world, has indicated its commitment to the vinyl chain business and continued interest in EAPCL.

EAPCL continued its safe operations during 2006 without any Lost Work Injury. This was a record year for EAPCL where both production and sales were the highest ever. Production for the year was 97,000 tons as compared to 91,000 tons last year. Domestic sales showed a growth of 18 % over last year. 85,400 tons were sold locally in 2006 as compared to 72,000 tons in 2005. Export sales during 2006 remained very low at 5,300 tons as against 22,000 tons in 2005 as EAPCL maintained its primary focus towards the domestic market where there was a surge in demand. EAPCL imported 2,200 tons of PVC resin and supplied to its domestic customer in order to fill the supply/demand gap.

The profit after tax for 2006 was a record Rs. 379 million as compared to Rs. 305 million in 2005. The increase in profitability was mainly attributed to better PVC-VCM margin and increased volumes. Engro's net share of dividend from EAPCL amounted to Rs. 165 million.

The tariff structure was revised during 2006 where the tariff on PVC was reduced from 20% to 10% whereas the tariff on VCM was reduced from 5% to 0%.

The Board of EAPCL approved an expansion and back integration project involving expanding PVC resin production capacity by 50,000 tons (to a total of 150,000 tons) and back integrating by setting up an EDC / VCM plant and a Chlor alkali plant. The entire project cost is estimated at around US$ 220M and is expected to come on-stream in a phased manner commencing from 2nd half 2008 and ending in 1st half 2009.

Engro Innovative Automation (Pvt) Ltd. (EIAL)

EIAL is a 51% owned subsidiary of Engro acquired in 2003. EIAL is a market leader in industrial automation business providing process control solutions to leading industrial units in the country. It also offers Power & Energy Management Software Solutions as well as High End Software that integrate production and business applications.

In 2006, high rate of revenue growth continued. Revenues of Pakistan operations

Offshore oil drilling facility in Indonesia automated by Engro Innovative Automation Limited grew by more than 61% over 2005 reaching Rs.656 million. Similarly, the UAE operations grew more than three times over last year. The consolidated profit after tax of Rs.49 million was significantly higher than the Rs.10 million achieved last year mainly due to higher sales. EIAL distributed Rs.20 million dividend of which Engro's share is Rs.10.2 million.


Executives photographed outside Dubai office

Effective January 19, 2007 EIAL acquired 70% stake in an automation engineering company in the United States for US$ 7 million. The business plan includes developing an outsourcing model which capitalizes upon the wage rate differential between the US and Pakistan. The acquisition is likely to create high quality employment opportunities in Pakistan and provide immense development opportunity for engineers of the country.

With experience of executing major automation projects in Pakistan and Middle East, EIAL is well positioned to capture overseas business in 2007. The target markets include Middle East as well as outsourced business from the US.

Engro Eximp (Pvt) Ltd. (EEPL)

EEPL is a wholly owned subsidiary in the trading business of fertilizer imports. During the year, EEPL imported and sold 356,000 tons (2005: 408,000 tons) of phosphatic product at port to Engro at market prices.

Engro Foods Ltd. (EFL)

In 2005, the Company took a major diversification initiative into the Food sector by launching its wholly owned subsidiary EFL. By setting up a modern milk processing plant at Sukkur which was built in an exceptionally short time of 8 months, EFL commenced commercial operations effective March 2006.

During 2006, EFL launched UHT milk and cream under the brand name OLPER's and HCLF milk under the brand name OLWELL.


Executives of Advanced Automation Associates, Inc., USA after its acquisition by Engro Innovative Automation Limited

A creative billboard promoting OLPER'S milk at a busy street in Pakistan

Positioned as a premium-all purpose milk, OLPER'S is quickly building up a brand whose awareness is already the third highest in its category and challenging the leaders. Our quality milk collection net work, in Sindh and Southern Punjab, that supplies milk to our plant was developed in a short span of 8 months and currently spread over 400 milk collection centers (MCCs) covering over 3,000 villages and involving over 10,000 farmers. In its first 10 months of operations with a distribution network spread to 58 towns, EFL sold over 36 million liters of products with a total revenue of Rs. 1.5 billion. However, first ten months of operations and initial brand development costs resulted in net loss of Rs. 428 million, of which Rs. 35 million relates to pre-commercial operations period. This loss was lower than our plan for 2006.

In this short span of time, OLPER'S has attained a peak market share of 12.3% in October - reputed to be the most successful launch in Pakistan FMCG history. Since October the growth has been restricted due to capacity constraints, as these volumes were originally planned for in mid 2007. To meet this growing demand, very early in the game, EFL has announced construction of its 2nd plant in Sahiwal and also an expansion in capacity at Sukkur, which will increase overall capacity three folds. The Sahiwal plant is expected to commence commercial production during 2nd half of 2007. EFL expects to spend approximately Rs. 2 billion in 2007 on setting up this new plant, capacity expansion of its existing plant and on brand building. Work towards further expansion of distribution network and milk collection infrastructure is also underway alongwith the development of new products for launch in 2007.


CEO Engro Foods, Sarfaraz Rehman presenting trophy to the winner of the "Owner of Highest Milk Yielding Animal competition"

The EFL plan clearly envisages that we shall follow a fast track growth model, driven by innovative launches to command a product range across the dairy spectrum. At the same time it will be backed by compatible infrastructure down end in milk collection and top end in the national distribution of these products. It will also be supported by an eye catching brand development program, which will challenge industry norms and lead to establishing new benchmarks for Pakistan FMCG advertising. EFL expects that we shall become a substantial and influential player in the dairy sector in the next couple of years, with significant growth potential during the next decade.

Engro Energy (Pvt) Ltd. (EEL)

Another major diversification initiative of Engro is in the Energy sector. A wholly owned subsidiary, EEL, was formed in 2006 whose first project is to set up an Independent Power Plant (IPP). Private Power and Infrastructure Board (PPIB) has approved the feasibility of our first 220 MW capacity IPP which will be constructed at Qadirpur based on low heating value permeate gas from Qadirpur gas field which is currently being flared.

The EPC contract of the Project has been finalized and EEL plans to submit petition with the National Electricity and Power Regulatory Authority (NEPRA) for tariff determination within 1st quarter of 2007. The Project is expected to get into the execution stage after financial close in the 1st half of 2007 with a completion target of around 28 months from contract award. EEL declared pre commercial period loss of Rs. 92 million in 2006.

Engro had been pre-qualified for the privatization of Jamshoro Power Company (JPC). Engro has completed JPC's due diligence activities in 2005. In place of Engro, EEL now plans to participate in the bidding of JPC acquisition whenever it is announced by the Privatization Commission. There was very little progress on JPC privatization during 2006.

Engro Management Services (Pvt) Ltd. (EMSL)

EMSL is a wholly owned subsidiary. Since EMSL had not floated any Modarabas for the last over three years, the permission to act as a Modaraba company was withdrawn by SECP with our consent. We are currently evaluating the future of this Company.

HEALTH, SAFETY, ENVIRONMENT AND QUALITY

At Engro, one of the key performance indicators for site safe operation is taken as number of man-hours without a Lost Workday Injury (LWI) to our or Contractor employee. Daharki urea plant had a record of 11.5 million man-hours (MMH) without LWI to an employee and 14 MMH for contractor employees. Both the records ended in 2006 due to 01 LWI to an employee at start of the year and 02 LWIs to contractor employees. Taking these injuries very seriously and to be proactive rather than reactive, we took concrete steps under the umbrella of injury prevention program to arrest the causes of all these serious injuries. The steps include; identifying and addressing unsafe situations before it converts to an injury using safety audits by whole management team, developing site leading indicators to identify weak areas etc. Since then, the urea plant site has achieved 1.1 MMH without a LWI to our employee and 0.47 MMH without a LWI to any employee of contractors.

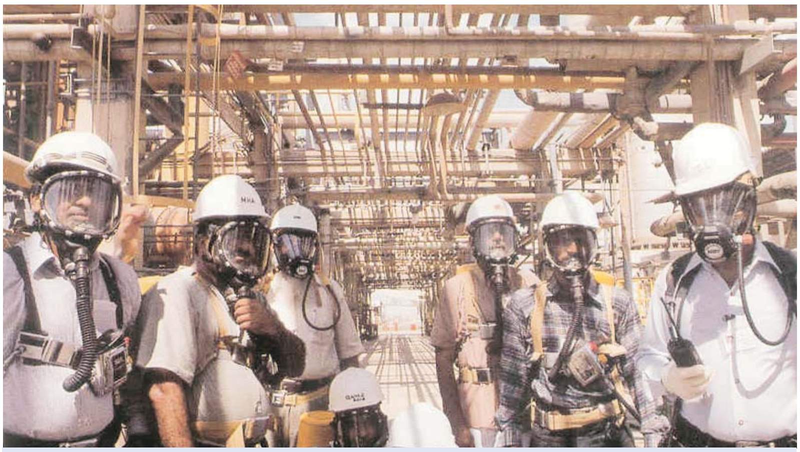
Truckers' safety program session in progress at Engro plant site Daharki

Zarkhez Plant achieved 0.54 MMH without LWI to an employee over a period of 4 years. In addition, site completed 1.6 MMH without LWI to any employee of contractors.

The non-manufacturing functions also maintained their excellent safety record and by year end achieved about 6.4 MMH over a period of nearly 20 years without LWI. Particularly creditable is the effort of the marketing sales force that achieved 18.8 million kilometers of safe driving over a period of 26 years without suffering LWI.

Engro's endeavor to upgrade safety systems to the world class standard is continuing. A major milestone was compliance to the Process Safety and Risk Management (PSRM) system which was successfully achieved in October 2006 when DuPont Safety Resources evaluated the upgraded system and declared it to be at the skill level defined as "Skills & Systems fully in place and practiced according to DuPont'sBest Practices rating". PSRM is now fully implemented and is providing a frame work to manage the plant operations with minimum risks. Similarly Personnel (Behavioral) Safety Management System's

fourteen best practices were also evaluated by DuPont Safety Resources Consultants. The improvement in this system is also visible; however, some more work is required to achieve the DuPont Best Practices skill level. Major efforts will be made to improve compliance during next year.



Fire-fighting and Emergency Handling Squad at Engro Plant site Daharki

Occupational health and industrial hygiene evaluation was also carried out by DuPont Safety Resources consultant. 14 occupational health best practices have been adopted. A comprehensive revamping of Occupation Health Program was initiated and significant work completed in 2006. Work in this area would continue in the next year also.

A flora and fauna survey was conducted by World Wildlife Foundation (WWF). Highlight of this survey was that Engro's effluent ponds attract 20,000 migratory water-birds. A total of 29 bird species were recorded - mostly winter visitors. The ponds form wetlands that are an important winter-bird staging ground on Central Asian Flyway Route 4 through Kazakhstan-Pakistan-India, the birds' primary migration route.

Our Zarkhez plant achieved Environmental Management system ISO-14001:2004 certification, whereas, urea plant in Daharki upgraded to ISO-14001:2004 version.

Health, Safety and Environment system implementation is also progressing aggressively as per plan in non manufacturing divisions and affiliates.

TECHNICAL SERVICES

Engro's Technical Services team continued to disseminate knowledge to farmers to maximize crop yields. The quarterly Behtar Zindagi magazine featured articles by our team and external writers from national research institutes and agriculture universities.

Engro's Research & Development team successfully tested a fertilizer-cum-potato seed planter to improve potato yields. This planter is best suited for mechanical application of Zarkhez and will attract large potato farmers to speed up crop sowing, saving labor cost and improving fertilizer use efficiency by better placement of Zarkhez fertilizer.

Engro continued to extend it's free of cost soil and water testing facility to farmers and recommending fertilizers on the basis of soil analysis. The number of soil and water samples analyzed during 2006 reached 12,600 vs. 10,000 in 2005.

A discussion forum was launched on "engrozarai.com" in 2006 with the aim to promote discussions on agricultural related issues. This forum provides a platform for farmers to share best practices and ideas.

EMPLOYEE RELATIONS AND ORGANIZATION DEVELOPMENT

Driving continuous improvements is not new to Engro. Yet, pioneering again, Engro is among the first Pakistani companies to be implementing Six Sigma across all areas and utilizing it as a management system to execute our strategic objectives. Six Sigma was launched in February 2006.

Among the five focus areas for us to work on, Employee Development is the most critical and Six Sigma will be leveraged to help bring out the best in our people.

Employees will drive improvements in other areas: Speed, Innovation, Perfection, and becoming World Class.

Six Sigma's robust problem-solving methodology and statistical toolkit allows the Company to benchmark processes against global standards in a language that is comparable across any industry or function. It helps ensure that we sustain our promise of delivering high quality products and services to our customers - on time, every time.

Annual six sigma conference held in plant site Daharki to transfer learning and recognise best projects

Communication is critical and Engro conducted Six Sigma launch events countrywide as well as two internal Six Sigma conference and electronic and print updates throughout the year.

Both management and non-management employees were trained extensively during 2006 on Six Sigma principles, with further plans for learning in 2007.

The Company maintained its focus on Training and Development by rolling out a new program on leadership and self-development.

However, due to overall increase in economic activity in Pakistan and the Middle East, the Company witnessed a continued high level of attrition. Focus was maintained on recruiting quality resources. Electronic recruiting and appraisal systems were launched this year as well.

The pilot program in 360 degree appraisal for the senior management was a success and is now a formal part of the overall appraisal process. It is being piloted for middle management this year.

The overall industrial climate and employee relations remained cordial. The existing Collective Labour Agreement with the Daharki Staff Union expired on December 31, 2005 and a new agreement was negotiated and signed on June 9, 2006 for 27 months effective January 1, 2006.

SOCIAL CITIZENSHIP

CSR Report

The Company launched first ever CSR report by any national company based on Global Reporting Initiative (GRI) guidelines. The report was launched by Regional Representative of United Nations Development Program (UNDP), Mr. Haoliang Xu. Communication on progess was posted on the United Nations Global Compact (UNGC) website.

UNDP, Regional Representative a.i, Mr. Haoliang Xu expressing his views during the Sustainbility Report launching ceremony

Earthquake Victims Revival Program

Earthquake victims revival program commenced at village Battal, district Mansehra, in partnership with The Citizens Foundation (TCF) Relief fund. Construction

Volunteer employees engaged in community mobilisation and capacity building amongst the residents at Battal

of 100 houses has begun as per designs approved by Earthquake Reconstruction & Rehabilitation Authority (ERRA). Engro employees volunteered in the reconstruction activity at Battal. More than 30 employees including senior executives took part in the reconstruction activity. We expect to complete the construction of all houses and the related infrastructure of retaining walls, school, mosque, access road, water supply and sanitation by mid 2007.

The Company donated 33 tons maize seed - a major crop of the earthquake affected area, to enable victims to restart their economic activity.

Mr. Sikandar Hayat Khan Bosan, Federal Minister for Food, Agriculture & Livestock receiving donation of maize seed

Dr. Rashid Jooma examining a patient's spinal scan at Telemedicine Hub at JPMC Karachi being transmitted in real time from Shikarpur spoke

Project Hope (Telemedicine)

Project Hope links six rural spokes via video-conferencing to a hub in JPMC Karachi, where specialist doctors can access x-rays, ECGs and other diagnostics in real time. The project covers some of the least developed areas in the country, having low literacy, very few medical facilities, and high poverty, with ratio of doctors to population of 1:2,915. It makes available no less than fifteen medical specialists ranging from neonatology to cardiology on a daily basis to rural communities located hundreds of kilometers away. The facility started full scale operation in the current year. Four new spokes at Jacobabad, Ghotki, Mirpurkhas & Sanghar were added this year to the existing ones at Shikarpur & Gambat. Shikarpur spoke has been connected to JPMC Karachi using the satellite link donated by Pakistan Space & Upper Atmosphere Research Commission (SUPARCO). The specialist doctors provided on-line consultation to more than 1,000 patients. In addition 50 Continuing Medical Education (CME) sessions were conducted to train doctors at remote terminals by delivering live & interactive lectures by top specialsits from JPMC hub at Karachi. The project received international recognition when it was selected as the best project among 178 entries from 14 countries by Asian Institute of Management (AIM), Manila, Philippines in September 2006.

Sahara Welfare Society

A not-for-profit employee-managed organization at Daharki runs a primary school, a vocational training school and a clinic. More than 300 students are enrolled in the school while 95 students are benefiting from the vocational training programs. Sahara's free clinics have treated more than 10,000 patients in 2006.

A separate block for clinic and vocational training school has been constructed in 2006 at the cost of Rs. 2.5 M which will increase the reach of programs offered by Sahara.

Hepatitis B Awareness & Vaccination Program

The program has been started in geographical proximity of Daharki plant in association with Hep Pak Foundation. More than 2,400 individuals have been vaccinated for Hepatitis B.

Hepatitis B screening and vaccination program in progress at Daharki

IBA Sukkur - Central Library

The Company contributed Rs.1 million to establish a central library in IBA Sukkur. This facility will provide proper infrastructure and appropriate environment to students for their research and other academic work.

Women Talent Awards

In order to promote opportunities and to recognize women who have excelled in their fields, the Company collaborated with Culture & Arts Forum to confer Women Talent Awards to 26 top performing ladies for 2006. This program is one of the efforts by Engro to promote gender participation in all walks of life.

Mr. Rauf Siddiqui, Sindh Minister for Home & Interior Affairs delivering his speech during the Women Talent Award

Snake Bite Treatment Facility

Free snakebite treatment has been provided to record 5,600 patients in 2006. Lives of more than 68,500 victims have been saved so far through this unique facility.

Schools in Katcha Areas

More than 700 students are enrolled in 11 Engro-run Schools in Katcha belt (riverine area) of district Ghotki where 70 students have graduated from Class V in 2006. The program is acting as an agent of social change and its positive effects in terms of improved literacy and lower crime rate in youth can be seen now.

A view of a Katcha school established and managed by Engro

Engro Thalassaemia Centre

More than 8,000 blood transfusions took place in 2006 in Engro Thalassaemia centre in Sukkur.

Patients receiving blood transfusion at Engro Thalassaemia Cenre, Sukkur

School Adoption Program

About 2,250 students enrolled in 6 government primary schools are benefiting from the program through various initiatives taken to improve academic standards and infrastructure in these schools.

TCF School Engro Campus

Extra ordinary results were displayed by the first batch of students in secondary school certificate examinations conducted by Sukkur Board. 90% students clinched A & A1 grades. The urban standard campus is imparting quality education to more than 550 students.

Morning assembly in progress at TCF School Engro Campus at Daharki

Eye Care

The Eye Care Centre, established in rural health centre Daharki, has provided eye-care facilities to more than 5,000 patients in 2006. We also conducted a very successful free eye camp at Oderolal, Sindh.

Patients que during Engro free eye camp held at Odero Lal Station, Sindh

CORPORATE AWARDS

Top 25 Companies Award

In recognition of its financial performance, the Company was once again selected for the "Top 25 Companies Award" of the Karachi Stock Exchange for year 2005. The Company has won this award for the 24th time and holds the distinction of being the most frequent winner amongst all the companies quoted on the Karachi Stock Exchange.

Prime Minister, Mr. Shaukat Aziz, presenting KSE Top Companies Award to Mr. Asad Umar, CEO Engro Chemical

Asian CSR Award

Engro was awarded the prestigious Asian CSR Award in the 'Concern for Health' category for its telemedicine project known as "Project Hope" that provides state of the art tertiary healthcare to lesser privileged rural communities in the interior of Sindh. The Award was given at a ceremony held in Manila Philippines, attended by nearly 500 delegates from 24 countries and 321 organizations. The fourth Asian CSR Award received 178 entries for 5 categories, from 98 companies in 14 countries.

Former President of the Philippines, Ms Corazon C. Aquino, presenting Asian CSR Award to Mr. Wajid Junejo, Public Affairs Manager of Engro in Manila

Large Taxpayers Unit (LTU) Awards

Central Board of Revenue announced the first Large Taxpayers Unit (LTU) Awards 2006 to encourage the tax payers and recognize the top contributors of the region. The competition was among 17 sectors and 692 cases. The criterion for selecting the top tax payers was based on total taxes & duties paid, tax payers overall performance, timeliness of tax returns, transparency and the rate of growth over past years. Engro Chemical Pakistan Limited was honored with the “Top Taxpayers Award” in chemical sector.

Environment Excellence Award

Engro has also won consecutively for 3rd year National Forum Environment and Health Excellence Award on account of excellent environmental performance and successful implementation of environmental & quality management systems.

Minister of State for Environment, Malik Amin Aslam, giving away NFEH Environmental Excellence Award to Khalid Siraj Subhani, vice president manufacturing, Engro

200 Best Under a Billion $ Award by Forbes

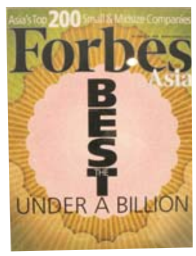
In 2006 Forbes Asia listed Engro as one of Asia's "200 Best Under a Billion" company. Every year Forbes Magazine selects 200 of Asia’s most dynamic publicly traded companies with sales of under one billion US dollars. The selection criteria include factors that determine companies’ growth, profitability and sustainability. The specific criteria are sales, net income, market value and profit to earnings ratio over the last 12 months. Three-year average for return on equity and EPS are also examined.

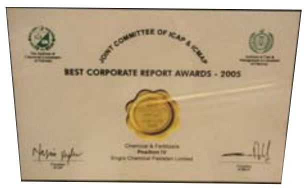
Chairman Board of Directors Engro,
Mr. Hussain Dawood, receiving Forbes Award flanked by Mr. Darrell Metzger, CEO of Sentosa Leisure Group (left) and Mr. Christopher Forbes, Vice Chairman, Forbes Inc. (right), in Singapore

Other Awards

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

- Kissan Time Award for the best fertilizer company in Pakistan
- Helpline Trust Award on Corporate Social Responsibility
- Investor Relations Award by CFA Association of Pakistan
- One of the five best presented annual reports award in Chemical & Fertilizer sector awarded by the Joint Committee of ICMAP and ICAP.
- Transparency Reporting trophy was awarded by ACCA WWF Pakistan in March 2006 to our subsidiary EAPCL.
- Certificate of appreciation and trophy from National Forum for Environment and Health was awarded at 3rd Annual Environment Excellence Awards on July 25, 2006 to our subsidiary EAPCL.
- 2nd Health and Environment National Excellence Award 2006 to our joint venture Engro Vopak. This award was given by Health International Welfare Trust in Collaboration with Karachi Green Club and CSR Association of Pakistan



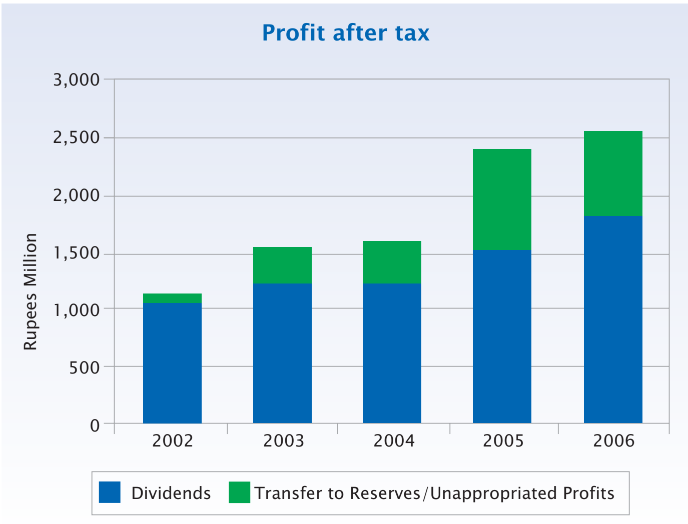
FINANCIAL REVIEW

Results for the Year

Sales for the year were Rs.17.6 billion, lower by 4% due to decline in Zarkhez sales.

Profit before tax at Rs.3.44 billion was 7% higher than 2005 principally because of higher urea volumes due to better production and capital gain on sale of land to Engro Asahi of Rs.131 million.

The profit after tax was Rs.2.55 billion which is a new record for the Company and is higher by 10% over the 2005 profit of Rs.2.32 billion.



Profit after tax (US$ Million)				
2002	2003	2004	2005	2006
19	27	27	39	42

DIVIDENDS

The Board is pleased to propose a final dividend of Rs 3.00 per share. Together with the two interim dividends amounting to Rs 6.00 per share, the total dividend attributable to the year is Rs 9.00 per share versus Rs.11.00 per share paid last year.

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

	Million Rupees
Un-appropriated profit from prior years	1,417
Final dividend for the year 2005 on 152,940,079 shares of Rs. 10 each at Rs. 5.00 per share declared on January 31, 2006	(764)
Profit for the year after taxation	2,547
Disposable profit for appropriation	3,200
First interim dividend on 168,234,087 shares of Rs 10 each at Rs. 3.00 per share declared on July 26, 2006	(505)
Second interim dividend on 168,234,087 shares of Rs 10 each at Rs. 3.00 per share declared on October 19, 2006	(505)
Un-appropriated profit carried forwarded	2,190
Subsequent Effect Proposed final dividend on 168,234,087 shares of Rs. 10 each at Rs.3.00 per share	505
Total Dividend for the year Rs. 9.00 per share	1,515

Key operating and financial data for 10 years is summarized on page 144

Earnings Per Share (EPS) / Dividends Per Share (DPS)

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

Rupees per share

	2002	2003	2004	2005	2006
EPS*	7.02	9.65	9.98	14.37	15.47
DPS	7.50	8.00	8.50	11.00	9.00

**EPS is restated for all comparative years due to issuance of rights shares during 2006.*

Value Addition

	2006 Rupees in Million	%	2005 Rupees in Million	%
Wealth Generated				
Total revenue inclusive of sales tax and other income	20,411		20,962	
Bought-in-material and services	(11,261)		(12,730)	
	9,150	100%	8,232	100%
Wealth Distributed				
To Employees Salaries, benefits and other costs	950	10.4%	804	9.8%
To Government Taxes, duties & development surcharge	4,633	50.6%	4,168	50.6%
To Society Donation towards education, health, environment and natural disaster	35	0.4%	52	0.6%
To Providers of Capital - Dividend to shareholders	1,774	19.4%	1,529	18.6%
- Mark-up/interest expense on borrowed money	363	4.0%	280	3.4%
Retained for reinvestment & future growth Depreciation, amortization & retained profit	1,395	15.2%	1,399	17.0%
	9,150	100%	8,232	100%

Cash flow and Capital Investment

Cash generated from operations during the year was Rs. 2,561 million (2005: Rs. 2,349 million).

This is after adjusting for increase in working capital of Rs.815 million (2005: Rs.778 million) mainly on account of reduction of trade payables at year end. Taxes paid for the year amounted to Rs.745 million (2005: Rs.660 million) based on the regulations of Income Tax.

Long term investments of Rs.854 million (2005: Rs.748 million) and Rs.98 million (2005: Nil) were made in food and energy businesses respectively during 2006. Also, 30% additional shares in Engro Asahi were acquired at a cost of Rs.528 million which is net of Rs.14 million pre-acquisition dividend.

Additions to property, plant and equipment which mainly represent items relating to plant reliability, catalysts, efficiency improvements and normal replacement of operating assets were Rs.391 million (2005: Rs.377 million).

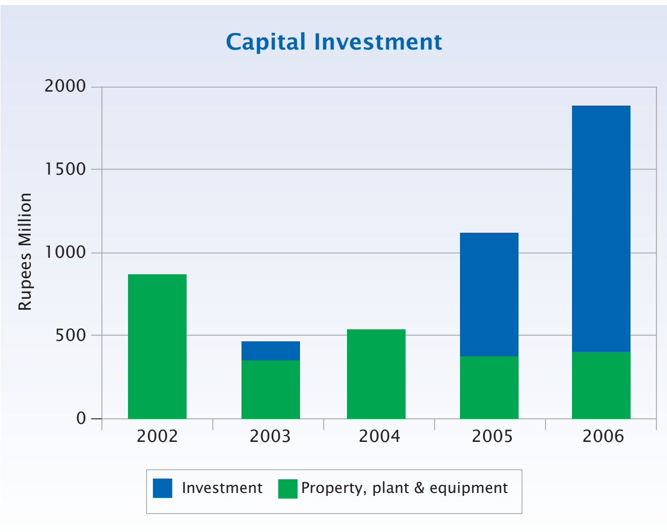
Capital Investment Capital Structure and Finance

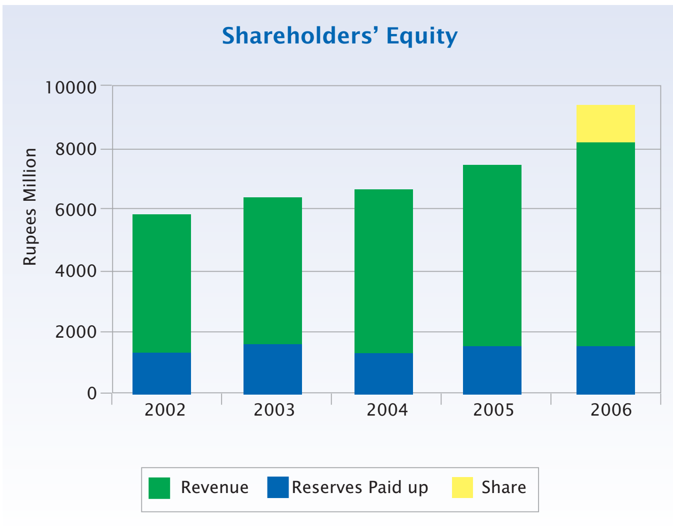
In order to partially fund the Food and Energy businesses, the Company offered 10% right shares at Rs.80 per share to the shareholders including premium of Rs.70 per share. The total issue including share premium amounted to Rs.1.223 billion.

Shareholders' funds at the year end totaled Rs.9.37 billion (2005: Rs.7.37 billion). The increase is largely due to rights issue mentioned earlier and retained profits and excludes the effect of recommended payment of final dividend.

Net long term borrowings at the year end reduced to Rs.2.89 billion (2005: Rs.3.57 billion). The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2006 is 16:84 (2005 - 28:72). The liquidity position of the Company is comfortable with a year ended current ratio of 1.6 (2005 - 1.8).

To finance growth, new long term loan agreements of Rs.6 billion were finalized during 2006





MAJOR JUDGEMENT AREAS

Taxation

The Company has filed tax returns up to income year 2005. All assessments upto income year 2002 have been finalized by the Department and appealed against.

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

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

Income years Dec 1999 to Dec 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 has also filed reference with Alternate Disposal Resolution Committee (ADRC) of Central Board of Revenue (CBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. CBR has constituted the Committee which is expected to hear the reference soon. For these four years, the Department has also filed appeals with ITAT on certain issues which were decided in favor of the Company by the Commissioner (Appeals).

Income years Dec 2003, Dec 2004 and Dec 2005- These years income tax returns have been filed under self assessment scheme.

We are confident that all pending issues will be ultimately resolved without any additional liability.

Marketing Incidentals

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

MANAGEMENT INFORMATION SYSTEMS

We are continuing to enhance efficiencies which resulted through implementing SAP, an Enterprise Resource Planning system for our financial, accounting and human resource requirements which replaced our legacy applications.

ACCOUNTING STANDARDS

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

CREDIT RATING

Pakistan Credit Rating Agency in its recent annual review of the Company's creditworthiness has upgraded 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

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

INTEREST RATE MANAGEMENT

At the end of 2006, our core borrowings were Rs 2.89 billion. We have a policy of managing our exposure to interest rate fluctuations, whenever deemed necessary.

LIQUIDITY RISK

In order to maintain adequate liquidity for our working capital requirements, the Board has approved short term funded facilities of Rs.3.0 billion. Our 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 our manufacturing and trading operations are only in Pakistan, the receipts and payments of the local currency are thereof not hedged. Where deemed appropriate, we eliminate currency exposure on transactions on purchases of goods in foreign currency in excess of US$ 10,000 through the use of forward exchange contracts.

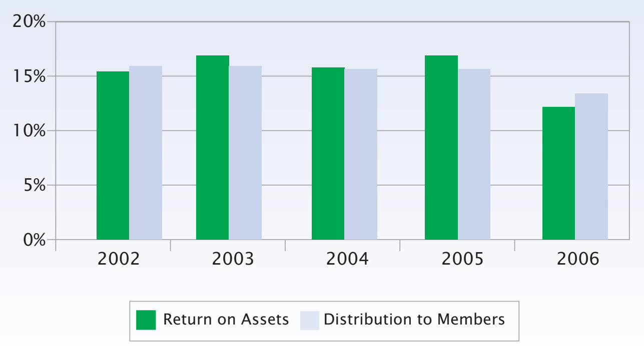
PENSION, GRATUITY AND PROVIDENT FUND

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

All 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, 2006 and the financial statements of these have been audited upto December 31, 2005. The latest audited accounts for the provident fund cover year ended June 30, 2006. 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, 2006**	**December 31, 2005**	**December 31, 2005**
Assets as per last audited financial statements	544	906	221
DSC/PIB/WAPDA Bonds	253	542	107
Equity based mutual funds	62	52	10
Income based mutual funds	86	71	23
TFC	52	69	-
Shares	-	69	34
Bank Deposits	38	100	45
Others	53	3	2
Total	544	906	221

What Provident Fund Earned and Distributed



AUDITORS

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

PATTERN OF SHAREHOLDING

Major shareholders of Engro Chemical are The Dawood Group including Dawood Hercules Chemicals Limited (DH), Engro employees, annuitants and their relatives and the ECPL Employees Trust. 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 2006 is shown on page 42 of this report.

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

11th Extraordinary General Meeting in progress

BOARD OF DIRECTORS

Statement of Director Responsibilities

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

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

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

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

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

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

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

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

BOARD MEETINGS AND ATTENDANCE

In 2006, the Board of Directors held 9 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	9 of 9
Mr. Asad Umar	9 of 9
Mr. S. Naseem Ahmad**	2 of 2
Mr. Isar Ahmad****	4 of 4
Mr. Javed Akbar**	2 of 2
Mr. Muhammad Ali***	3 of 5
Mr. Shahzada Dawood	9 of 9
Mr. Parvez Ghias**	2 of 2
Mr. Zaffar A. Khan**	2 of 2
Mr. Shabbir Hashmi*	7 of 7
Mr. Arshad Nasar	7 of 9
Mr. Khalid Mansoor*	7 of 7
Mr. Ruhail Mohammed*	7 of 7
Mr. Khalid S. Subhani*	7 of 7
Mr. Asif Qadir	8 of 9

* *Elected Directors effective April 22, 2006*
** *Term expired April 22, 2006*
*** *Ceased to be Director effective October 06, 2006*
**** *Appointed Director effective October 19, 2006*

OUTLOOK AND CHALLENGES

The year 2007 is expected to be another year of strong economic growth for the country. To recapitulate, Engro is striving for growth in all segments of its business, viz., fertilizer, food, energy, chlor-vinyls, chemical storage and industrial automation. However, this magnitude of growth poses certain challenges mainly to continue to attract, develop and retain good quality human resources in an environment where competition for such resources is increasing and also to attain required resources to finance expansion for which appropriate plans are being made.

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

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

January 20, 2007

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.	64,156,054
Central Insurance Co. Ltd.	6,087,087
2. NIT and ICP	
National Investment Trust	45,856
Investment Corporation of Pakistan	6,069
3. Directors, CEO & their spouses & minor children	
Isar Ahmad	1,000
Hussain Dawood	3,478
Shahzada Dawood	6,178
Shabbir Hashmi	100
Khalid Mansoor	19,726
Ruhail Mohammed	450
Arshad Nasar	110
Asif Qadir	337,749
Khalid Subhani	169,508
Asad Umar	189,783
4. Executives	1,938,557
The employees, annuitants their family members & the Employees Trust of the Company collectively hold approximately 12% shares of the Company.	
5. Public Sector Companies & Corporations	3,928,578
6. Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	44,265,546
7. Shareholder holding ten percent or more voting interest in the Company	
Dawood Hercules Chemicals Ltd.	64,156,054

8. Details of purchase/sale of shares by Directors/ Company Secretary/Chief Financial Officer and their spouses/minor children during 2006

Name	Dated	Purchase	Sale	Rate Rs./Share
Hussain Dawood	July 10	316	–	80.00 *
Shahzada Dawood	July 10	316	–	80.00 *
	September 18	2,700	–	178.88 ***
Khalid Mansoor	July 10	4,703	–	80.00 *
Ruhail Mohammed	February 28	–	100	227.92 **
	March 08	100	–	207.01 ***
	July 10	350	–	80.00 *
Asif Qadir	July 10	31,185	–	80.00 *
Khalid Subhani	July 10	15,840	–	80.00 *
Asad Umar	July 10	17,834	–	80.00 *
Andalib Alavi	July 10	1,714	–	80.00 *

*10% Rights shares of ECPL
** Shares sold on Karachi Stock Exchange
***Shares purchased from 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, 2006

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
2,167	1	100	101,589
2,348	101	500	679,838
1,363	501	1,000	1,059,859
2,910	1,001	5,000	6,862,444
742	5,001	10,000	5,250,866
291	10,001	15,000	3,599,229
154	15,001	20,000	2,716,548
110	20,001	25,000	2,494,063
71	25,001	30,000	1,957,043
54	30,001	35,000	1,751,613
32	35,001	40,000	1,201,555
27	40,001	45,000	1,147,125
27	45,001	50,000	1,299,830
22	50,001	55,000	1,159,891
16	55,001	60,000	922,071
16	60,001	65,000	994,533
18	65,001	70,000	1,218,796
16	70,001	75,000	1,156,991
8	75,001	80,000	619,514
7	80,001	85,000	568,900
4	85,001	90,000	351,502
4	90,001	95,000	369,446
7	95,001	100,000	681,522
5	100,001	105,000	507,532
4	105,001	110,000	434,936
4	110,001	115,000	448,745
2	115,001	120,000	236,480
6	120,001	125,000	737,193
1	125,001	130,000	129,748
1	130,001	135,000	134,055
2	135,001	140,000	278,000
3	140,001	145,000	428,800
3	145,001	150,000	444,473
2	160,001	165,000	325,200
2	165,001	170,000	337,108
1	170,001	175,000	174,327
2	175,001	180,000	354,454
1	185,001	190,000	190,000
2	190,001	195,000	387,445
3	195,001	200,000	598,361
2	200,001	205,000	401,746
2	205,001	210,000	414,100
1	210,001	215,000	214,780
1	220,001	225,000	224,472
2	235,001	240,000	471,859
1	245,001	250,000	246,500

Number of Shareholders	Shareholding From	To	Total Shares Held
2	260,001	265,000	524,438
1	265,001	270,000	266,000
2	275,001	280,000	554,431
1	295,001	300,000	298,363
2	300,001	305,000	603,616
1	305,001	310,000	308,000
2	310,001	315,000	627,645
1	315,001	320,000	318,500
1	320,001	325,000	325,000
1	330,001	335,000	331,265
1	335,001	340,000	337,749
1	340,001	345,000	345,000
1	345,001	350,000	349,117
1	350,001	355,000	350,024
1	375,001	380,000	378,000
1	380,001	385,000	381,600
2	400,001	405,000	804,179
1	420,001	425,000	423,333
1	435,001	440,000	437,974
1	450,001	455,000	453,047
1	460,001	465,000	462,924
1	495,001	500,000	500,000
1	515,001	520,000	519,300
1	595,001	600,000	599,700
2	620,001	625,000	1,242,575
1	635,001	640,000	638,200
1	655,001	660,000	655,060
1	680,001	685,000	685,000
1	740,001	745,000	741,300
1	950,001	955,000	952,160
1	965,001	970,000	966,900
1	980,001	985,000	984,665
1	1,095,001	1,100,000	1,098,102
1	1,145,001	1,150,000	1,146,710
1	1,260,001	1,265,000	1,260,645
2	1,335,001	1,340,000	2,672,924
1	1,375,001	1,380,000	1,379,380
1	1,405,001	1,410,000	1,406,000
1	1,525,001	1,530,000	1,527,200
1	1,620,001	1,625,000	1,623,450
1	2,905,001	2,910,000	2,908,675
1	3,625,001	3,630,000	3,628,493
1	4,565,001	4,570,000	4,566,009
1	4,675,001	4,680,000	4,679,822
1	6,085,001	6,090,000	6,087,060
1	6,440,001	6,445,000	6,443,415
1	64,155,001	6,4160,000	64,156,054
10,521			**168,234,086**

Category of shareholding as at December 31, 2006

S.No.	Shareholders category	No. of shareholders	No. of shares	%
1	INDIVIDUALS	10,140	41,693,482	24.78
2	INVESTMENT COMPANIES	62	17,323,536	10.30
3	INSURANCE COMPANIES	15	13,277,663	7.90
4	JOINT STOCK COMPANIES	117	65,964,708	39.22
5	FINANCIAL INSTITUTIONS	95	19,660,886	11.68
6	MODARABA COMPANIES	20	158,416	0.09
7	COOPERATIVE SOCIETIES	3	18,254	0.01
8	SECURITIES & EXCHANGE COMMISSION OF PAKISTAN	1	1	0.00
7	OTHERS	68	10,137,140	6.02
	TOTAL	**10,521**	**168,234,086**	**100.00**

On behalf of the Board of Directors

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

shareholder information

ANNUAL GENERAL MEETING

The annual shareholders meeting will be held at 10:00 a.m. on February 28, 2007 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of February 19, 2007 are encouraged to participate and vote.

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

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

OWNERSHIP

On December 31, 2006 there were 10,521 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 19, 2007. 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 Registrars, M/s Ferguson Associates (Private) Limited.

QUARTERLY RESULTS

Engro Chemical Pakistan Ltd. issues quarterly financial statements. The planned dates for release of the quarterly results in 2007 are:

* 1st quarter: April 25
* 2nd quarter: July 25
* 3rd quarter: October 17

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

* 1st quarter: May 02
* 2nd quarter: August 01
* 3rd quarter: October 24

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

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

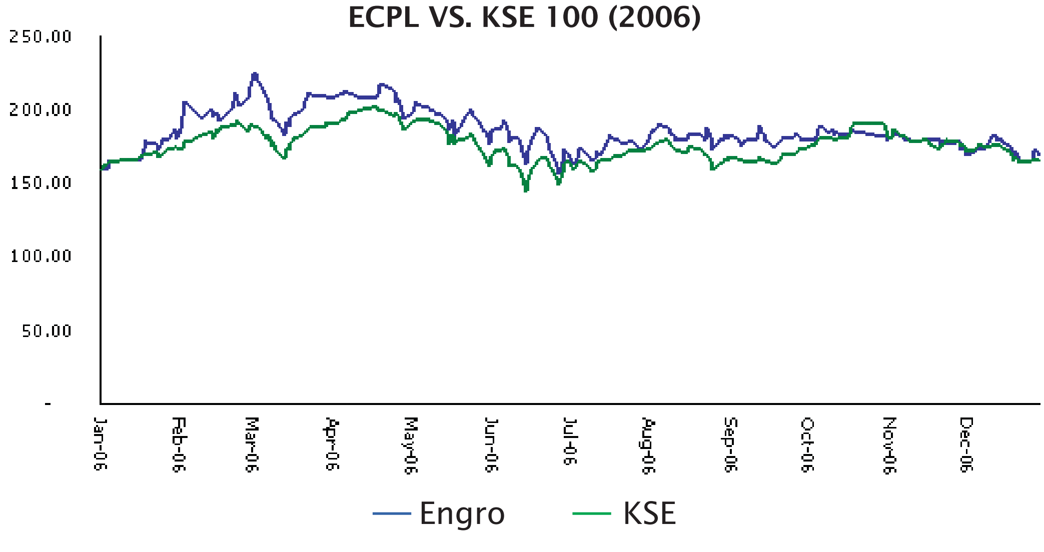
CHANGE OF ADDRESS

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

M/s Ferguson Associates (Private) Limited
Ground Floor, State Life Building 1-A,
I.I. Chundrigar Road, Karachi - 74000.

Karachi Stock	Price in High	Price in Low	Daily Average Volume
First Quarter	243.90	166.75	3,568,416
Second Quarter	217.00	156.15	1,631,871
Third Quarter	189.50	162.50	1,241,063
Fourth Quarter	188.50	164.00	990,030

ECPL VS. KSE 100 (2006)



Statement of compliance with the code of corporate governance

Review report to the members on statement of compliance with best practices of code of corporate governance

Auditors' report to the members

Financial statements

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 Asahi Polymer & Chemicals Limited and Engro Energy (Private) Limited and do not therefore devote their full time to the business of the Company. Due to the diversified nature of the shareholding structure of the Company, there is no single majority shareholder as such.

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

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

4. Mr. Mohammed Ali resigned from the Board and Mr. Isar Ahmad was co-opted in his place.

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

6. 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.

7. 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.

8. 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 agenda, were circulated at least seven days before the meetings.

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

10. 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.

11. 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.

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

13. 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.

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

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

16. 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.

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

18. 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.

19. 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.

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

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Karachi
Dated: January 20, 2007

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

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

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

We have reviewed the Directors' 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 No. 37, 36 and Chapter VIII of the Karachi, Islamabad and Lahore Stock Exchanges respectively where the Company is listed.

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

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

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

Date: January 20, 2007
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

We have audited the annexed balance sheet of Engro Chemical Pakistan Limited as at 31 December 2006 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) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

b) 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, except for the changes specified in note 2.4 to the financial statements with which we concur;

   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;

c) 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 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

d) 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.

KPMG Taseer Hadi & Co

Date: January 20, 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

balance sheet

as at December 31, 2006

(AMOUNTS IN THOUSAND)

	Note	2006	2005
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Share capital			
Authorised			
200,000,000 Ordinary shares of Rs. 10 each		2,000,000	2,000,000
Issued, subscribed and paid-up	3	1,682,340	1,529,400
Reserves			
Share premium	4	1,068,369	–
Revenue		4,429,240	4,429,240
Unappropriated profit		2,190,148	1,416,926
		7,687,757	5,846,166
		9,370,097	7,375,566
NON CURRENT LIABILITIES			
Redeemable capital	5	1,800,000	2,887,500
Liability against asset subject to finance lease	6	–	2,289
Deferred taxation	7	1,127,139	1,003,177
Retirement and other service benefits	8	41,165	43,004
		2,968,304	3,935,970
CURRENT LIABILITIES			
Current portion of:			
– redeemable capital	5	1,087,500	687,500
– liability against asset subject to finance lease	6	2,321	2,226
– other service benefits	8	16,477	20,230
Short term borrowings – secured	9	1,299,961	–
Trade and other payables	10	1,081,745	1,969,001
Taxation		72,051	43,267
Unclaimed dividends		82,360	77,870
		3,642,415	2,800,094
CONTINGENCIES AND COMMITMENTS	11		
		15,980,816	14,111,630

(AMOUNTS IN THOUSAND)

	Note	2006	2005
		(Rupees)	
FIXED ASSETS			
Property, plant and equipment	12	6,557,603	6,840,058
Intangible assets	13	18,062	21,618
		6,575,665	6,861,676
LONG TERM INVESTMENTS	14	3,657,596	2,172,757
LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLES	15	63,109	65,642
CURRENT ASSETS			
Stores, spares and loose tools	16	688,568	665,902
Stock-in-trade	17	923,448	1,922,982
Trade debts	18	623,349	543,316
Loans, advances, deposits and prepayments	19	416,758	360,923
Other receivables and other assets	20	998,565	237,931
Short term investments	21	228,518	138,016
Cash and bank balances	22	1,805,240	1,142,485
		5,684,446	5,011,555
		15,980,816	14,111,630

The annexed notes 1 to 41 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

profit and loss account for the year ended December 31, 2006

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2006	2005
		(Rupees)	
Net sales	23	17,601,783	18,276,277
Cost of sales	24	(13,364,524)	(14,332,842)
GROSS PROFIT		4,237,259	3,943,435
Selling and distribution expenses	25	(1,481,730)	(1,302,149)
		2,755,529	2,641,286
Other income	26	1,338,854	1,144,987
Other operating charges	27	(287,176)	(286,652)
Finance cost	28	(362,551)	(280,070)
		(649,727)	(566,722)
PROFIT BEFORE TAXATION		3,444,656	3,219,551
Taxation	29	(897,330)	(900,469)
PROFIT AFTER TAXATION		2,547,326	2,319,082
			(Restated)
Earnings per share - Basic and diluted	30	Rs. 15.47	Rs. 14.37

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

The annexed notes 1 to 41 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

statement of changes in equity
for the year ended December 31, 2006

(AMOUNTS IN THOUSAND)

	Share Capital	Reserves: Share Premium Reserve	Reserves: General	Reserves: Unappropriated Profit	Total
	(Rupees)				
Balance as at January 1, 2005 as previously stated	1,529,400	–	4,429,240	627,244	6,585,884
Effect of change in accounting policy relating to appropriations to general reserves – note 2.4	–	–	(300,000)	300,000	–
Balance as at January 1, 2005 as restated	1,529,400	–	4,129,240	927,244	6,585,884
Appropriation to general reserves – 2004	–	–	300,000	(300,000)	–
Final dividend for the year ended December 31, 2004 @ Rs. 4.00 per share	–	–	–	(611,760)	(611,760)
Net profit and total recognised income and expense for the year	–	–	–	2,319,082	2,319,082
Interim dividends: 1st @ Rs. 3.00 per share	–	–	–	(458,820)	(458,820)
2nd @ Rs. 3.00 per share	–	–	–	(458,820)	(458,820)
Balance as at December 31, 2005	1,529,400	–	4,429,240	1,416,926	7,375,566
Shares issued during the year – notes 3 and 4	152,940	1,068,369	–	–	1,221,309
Final dividend for the year ended December 31, 2005 @ Rs. 5.00 per share	–	–	–	(764,700)	(764,700)
Net profit and total recognised income and expense for the year	–	–	–	2,547,326	2,547,326
Interim dividends: 1st @ Rs. 3.00 per share	–	–	–	(504,702)	(504,702)
2nd @ Rs. 3.00 per share	–	–	–	(504,702)	(504,702)
Balance as at December 31, 2006	**1,682,340**	**1,068,369**	**4,429,240**	**2,190,148**	**9,370,097**

The annexed notes 1 to 41 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

cash flow statement

for the year ended December 31, 2006

(AMOUNTS IN THOUSAND)

	Note	2006	2005
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	2,561,033	2,349,338
Retirement and other service benefits paid		(76,445)	(61,204)
Payment of finance cost		(362,558)	(234,338)
Taxes paid		(744,584)	(660,029)
Long term loans and advances		2,533	(13,714)
Net cash inflow from operating activities		1,379,979	1,380,053
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(390,944)	(377,072)
Sales proceeds from disposal of property, plant and equipment		166,020	11,023
Income on deposits/ other financial assets		49,269	53,044
Investment in subsidiary companies		(1,479,839)	(748,200)
Dividends received		966,810	833,700
Net cash outflow from investing activities		(688,684)	(227,505)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from redeemable capital		–	1,000,000
Proceeds from issue of shares (net)		1,221,309	–
Repayment of redeemable capital		(687,500)	(1,086,500)
Liability against asset subject to finance lease		(2,194)	(2,085)
Repayment of long term loans		–	(594,500)
Dividends paid		(1,769,614)	(1,494,333)
Net cash outflow from financing activities		(1,237,999)	(2,177,418)
Net decrease in cash and cash equivalents		(546,704)	(1,024,870)
Cash and cash equivalents at the beginning of the year		1,280,501	2,305,371
Cash and cash equivalents at the end of the year	33	733,797	1,280,501

The annexed notes 1 to 41 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (the Company) is a public listed company incorporated in Pakistan. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company also has investments in joint venture/ subsidiary companies engaged in chemical terminal and storage, PVC resin manufacturing and markeing, control and automation businesses, food and energy businesses . During the year, the Company incorporated a wholly owned subsidiary with the objective to undertake Independent Power Project (IPP) and other energy related business. This subsidiary has not yet commenced commercial operations. During the year, the Company has also acquired additional 30% interest in its joint venture Engro Asahi Polymer & Chemicals Limited, involved in manufacture, market and sale of PVC, PVC compound and other related chemicals, thus converting it into a subsidiary.

The registered office of the Company is situated at 8th floor, PNSC Building, Moulvi Tamizuddin Khan Road Karachi.

2. 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 specified in note 2.4.

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards (IASs) / International Financial Reporting Standards (IFRSs) as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

SECP has issued S.R.O.(I)/2006 dated December 6, 2006, to notify that IFRS 2- Share-based Payments; IFRS 3 - Business Combinations; IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations; and IFRS 6 - Exploration for and Evaluation of Mineral Resources are required to be followed in preparation of financial statements of the listed companies. The Company has adopted the above IFRSs and has applied the same in preparation of these financial statements.

2.2 Basis of preparation

2.2.1 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' including derivative financial instruments at fair value.

2.2.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, 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 recognised in the period in which the estimate is 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 recognised in the financial statements are described in note 36.

2.2.3 Functional currency and presentation currency

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

2.2.4 New Accounting Standards and IFRIC Interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 January 2007 and are not expected to have a significant effect on the Company's financial statements or not relevant to the Company:

- Amendments to IAS 1 Presentation of Financial Statements Capital Disclosures. Management is currently considering its effects on the Company's financial statements
- IFRIC 4 Determining whether an Arrangement contains a Lease. Management considers that IFRIC 4 does not have any impact on the relationships that exist at the balance sheet date.
- IFRIC 8, scope of IFRS 2, Share-based Payments. Management considers that IFRIC 8 has no current impact on the Company's financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives. Management considers that IFRIC 9 has no current impact on the Company's financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment. Management considers that it will be able to comply with this new requirement.
- IFRIC 11 Group and Treasury Share Transactions. Management considers that IFRIC 11 has no current impact on the Company's financial statements.
- IFRIC 12 Service Concession Arrangements. Management considers that IFRIC 12 has no current impact on the Company's financial statements.

2.3 Share issuance costs

Share issuance cost directly attributable to issue of ordinary shares, if any, are recognised as deduction from share premium, if available. Otherwise, these are charged to profit and loss account.

2.4 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recognised as liability in the Company's financial statements in the period / year in which these are approved. Upto last year appropriations to reserves were recognised in the financial statements of the period to which it related. The change in accounting policy was necessitated in view of a clarification from the Institute of Chartered Accountants of Pakistan regarding non statutory appropriations to reserves, approved post balance sheet date, by a Company.

2.5 Borrowing costs

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

2.6 Financial liabilities

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

2.7 Property, plant and equipment

Owned

- Operating assets are measured at cost less accumulated depreciation and impairment losses, if any, whereas freehold land and capital work-in-progress are stated at cost.
- Depreciation is charged to income using the straight-line method whereby the depreciable amount of an operating asset is written off over its estimated useful life. Depreciable amount represents cost less estimated residual value, if any. 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. The rates of depreciation are stated in note 12.
- Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.
- Maintenance and repairs are charged to income as and when incurred. Major renewals and betterments are capitalized and the assets so replaced, if any, other than those kept as standby items are retired.
- 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 assets are included in income currently.
- Depreciation method, useful lives and residual values are reassessed annually. The management estimates that the financial impact of changes in the residual values and the useful lives during the year ended December 31, 2006 has resulted in lower depreciation by approximately Rs. 23.155 million.

Non-current assets held for sale

Non-current assets (or disposal group) classified as held for sale are measured at lower of carrying amount and fair value less cost to sell.

Leased

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership, are classified as finance lease. Assets subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Value of leased assets is depreciated over the useful life of the asset using the straight line method. Depreciation on leased assets is charged to income. 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.

2.8 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight line basis over their estimated useful lives.

Costs that are directly associated with identifiable software products and have probable economic benefit beyond one year are recognised as intangible assets.

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

2.9 Investments

Subsidiaries and joint venture companies

Investments in subsidiaries and joint venture companies are stated at cost less provision for impairment, if any.

Held-to-maturity investments

Investments with a fixed maturity where the Company has the intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any impairment losses.

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 at which 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.

2.10 Inventories

2.10.1 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. A provision is made for any excess of book value over estimated realizable value of items identified as surplus to the Company's requirements. Adequate provision is also made for slow moving items.

2.10.2 **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 realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

2.11 **Financial assets**

Financial assets include trade debts, other receivables and loans, advances and deposits. These are recognized 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 when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

2.12 **Cash and cash equivalents**

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

2.13 **Revenue recognition**

- Sales are recognised when product is despatched to customers.

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

- Dividend income is recognized when the Company's right to receive the payment has been established.

2.14 **Government grant**

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

2.15 **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.

2.16 Retirement and Other Service Benefits

Defined contribution plans

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 the rate ranging from 12.5% to 13.75% of basic salary.

  Contributions to the defined contribution plans are recognised as an expense in the profit and loss account when they are due.

Defined benefit plans

The Company operates:

- defined benefit funded pension scheme for its management employees (note 8.1).
- defined benefit funded gratuity schemes for its management and non-management employees.

  The pension scheme provides lifetime 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 8.2.1).

  Actuarial gain on curtailment of defined benefit pension scheme (curtailed) is recognised immediately once the certainty of recovery is established.
- the Company also operates unfunded scheme for resignation gratuity of certain management employees. Provision is made annually to cover the liability under the scheme.
- annual provision is also made under a service incentive plan for certain category of experienced employees to continue in the Company's employment.
- actuarial valuations of the schemes are undertaken at appropriate regular intervals and the latest valuation was carried out at December 31, 2006 using Projected Unit Credit Method.

- the Company recognizes actuarial gains / losses over the expected average remaining working lives of employees if the net cummulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeds the greater of:

  - 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

  - 10% of the fair value of any plan assets at that date.

  These limits are calculated and applied separately for each defined benefit plan.

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.

2.17 Research and development costs

Research and development costs are charged to income as and when incurred, except for certain development costs which are recognised as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

2.18 Provisions

Provisions are recognized in the balance sheet 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. Provisions are determined by discounting future cash flows at appropriate discount rate. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.19 Foreign currency translation

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

2.20 Offsetting of financial assets and financial liabilities

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.

2.21 Derivative financial instruments

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

2.22 Transactions with related parties

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

(AMOUNTS IN THOUSAND)

2.23 Impairment losses

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006	2005		2006	2005
(Numbers)			(Rupees)	
55,646,007	40,352,000	Ordinary shares of Rs.10 each fully paid in cash	556,460	403,520
112,588,079	112,588,079	Ordinary shares of Rs.10 each issued as fully paid bonus shares	1,125,880	1,125,880
168,234,086	152,940,079		1,682,340	1,529,400

3.1 Movement during the year

2006	2005		2006	2005
(Numbers)			(Rupees)	
152,940,079	152,940,079	As at January 1,	1,529,400	1,529,400
15,294,007	–	Ordinary shares of Rs.10 each issued during the year as right shares in the ratio of 1 share for every 10 shares held, fully paid in cash	152,940	–
168,234,086	152,940,079		1,682,340	1,529,400

3.2 Associated companies held 70,243,141 (2005: 63,857,402) ordinary shares in the Company at the year end.

4. SHARE PREMIUM

This represents share premium received on issue of 15,294,007 shares of the Company, net of share issue expenses amounting to Rs. 2,212.

(AMOUNTS IN THOUSAND)

5. REDEEMABLE CAPITAL
Secured (Non-participatory)

Long term finance utilised under mark-up arrangement

	Installments		2006	2005
	Number	Commencing from	(Rupees)	
- National Bank of Pakistan (1)	2 half yearly	December 15, 2006	200,000	400,000
- National Bank of Pakistan (2)	8 half yearly	June 17, 2004	87,500	175,000
- United Bank Limited	5 half yearly	September 30, 2006	736,000	920,000
- MCB Bank Limited (1)	5 half yearly	September 30, 2006	544,000	680,000
- Standard Chartered Bank	5 half yearly	September 30, 2006	320,000	400,000
- National Bank of Pakistan (3)	8 quarterly	November 01, 2009	600,000	600,000
- MCB Bank Limited (2)	8 quarterly	March 12, 2010	400,000	400,000
			2,887500	3,575,000
Less: Current portion shown under current liabilities			1,087,500	687,500
			1,800,000	2,887,500

5.1 The long term finance carry mark-up ranging between 1% - 1.05% (2005: 1.0% - 1.05%) over six months Government Treasury Bills, except for National Bank of Pakistan (3) and MCB Bank Limited (2) on which markup is 1.3% (2005: 1.3%) over three month Karachi Interbank Offered Rate (KIBOR).

5.2 The above finances are secured by an equitable mortgage upon the immovable property of the Company located at Daharki and floating charge over current and future fixed assets of the Company.

5.3 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.

5.4 The Company had entered into an interest rate swap agreement with Citibank, N. A. - Pakistan Branches in 2005 to manage its interest rate exposure on floating rate borrowing for a notional amount of Rs. 800,000 (2005: Rs 1,000,000), amortizing upto September 2008. Under the swap arrangement, the Company would receive average of last three cut-off yields of six months Government Treasury Bills from Citibank on notional amount and pay fixed 5.47% (2005: 5.47%) which will be settled semi-annually. The Company has the option of unwinding whole or part of the swap transaction at any semi-annual settlement date with prior notice to the bank.

5.5 Considering the changes in expected interest rates, during 2005 the Company entered into a matching swap agreement with United Bank Limited, effective from March 2006 to perfectly offset the earlier swap of Citibank. Under this arrangement, the Company will pay average of last three cut-off yields of six months Government Treasury Bills on notional amount of Rs. 800,000 (2005: 1,000,000) and receive fixed at 9.5% (2005: 9.5%) which will be settled semi-annually.

The fair value of the above swaps is Rs. 37,000 (2005: 65,117), refer note 15.

(AMOUNTS IN THOUSAND)

6. LIABILITY AGAINST ASSET SUBJECT TO FINANCE LEASE

6.1 The Company entered into a lease agreement with a financial institution for lease of a vehicle. The liability under this agreement is payable by the year 2007 and is subject to finance cost at the rate of 6% (2005: 6%) per annum used as the discount factor. The Company intends to exercise its option to purchase the leased vehicle for Rs. 50 upon completion of the lease period.

6.2 The amount of future payments for the finance lease and the period in which these payments will become due are as follows

Year	2006	2005
	(Rupees)	
2006	–	2,400
2007	2,400	2,400
	2,400	4,800
Less: Finance cost not due	79	285
	2,321	4,515
Less: Current portion shown under current liabilities	2,321	2,226
	–	2,289

7. DEFERRED TAXATION

	2006	2005
Credit / (debit) balances arising on account of:		
Accelerated depreciation allowance	1,155,821	1,036,297
Provision for – retirement benefits	(20,175)	(22,132)
– slow moving stores and spares/ doubtful receivables	(4,383)	(6,058)
Others	(4,124)	(4,930)
	1,127,139	1,003,177

8. RETIREMENT AND OTHER SERVICE BENEFITS

	2006	2005
Retirement benefits:		
Opening balance	3,945	19,960
Reversal of expense (note 8.4)	(107,905)	(4,297)
Amounts received / (contributions made)	34,768	(11,718)
Closing balance	(69,192)	3,945
Less: Payable to gratuity funds (note 10)	–	450
Less: Receivable from pension fund (note 20)	(73,120)	–
	(73,120)	450
	3,928	3,495
Other service benefit plan	53,714	59,739
Less: Current portion shown under current liabilities	16,477	20,230
	37,237	39,509
	41,165	43,004

(AMOUNTS IN THOUSAND)

8.1 The amounts recognised in the balance sheet are as follows:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Present value of funded obligation	337,715	198,494	–
Fair value of plan assets	(485,243)	(237,624)	–
Surplus	(147,528)	(39,130)	–
Present value of unfunded obligations			3,928
Unrecognised actuarial gain	74,408	39,130	–
Net (asset) / liability at the end of the year	(73,120)	–	3,928

8.2 Movement in net (asset) / liability recognised:

Net liability at the beginning of the year	–	450	3,495
Expense recognised	(3,949)	8,658	433
Curtailment gain recognised – note 8.2.1	(113,047)	–	–
	(116,996)	8,658	433
Amount received (paid) to the Fund	43,876	(9,108)	–
Net (asset) / liability at the end of the year	(73,120)	–	3,928

8.2.1 During the year the Company recognised a gain of Rs. 113,047 (2005: Rs Nil) on curtailment of defined benefit plan. In 2005, the Company had setup a Defined Contribution Pension Scheme known as Engro Chemical Pakistan Limited MPT Employees Defined Contribution Pension Fund (the Fund) for the benefit of management employees. Employees joining the Company from July 1, 2005 onwards were to become members of the new Fund. Members of the then existing pension fund (a defined benefit plan) were given a one–time option exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005. This option was exercised by all eligible employees. The actuarially accrued liability in respect of past services of those members who have exercised this option were transferred to the new fund on the effective date. The Fund was approved under the provision of the Income Tax Ordinance 2001, effective July 1, 2005.

8.3 Movement in plan assets

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Opening balance	401,942	203,855	–
Return on plan assets	35,029	16,925	–
(Repayment) / Company contribution during the year	(43,876)	9,108	–
Benefits paid during the year	(25,132)	(16,406)	–
Assets gain	117,280	24,142	–
Closing balance	485,243	237,624	–

(AMOUNTS IN THOUSAND)

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

Defined benifit plans	2006	2005
	(Rupees)	
Current service cost	11,799	27,641
Interest cost	46,554	44,691
Reversal made	-	(24,749)
Expected return on plan assets	(51,954)	(52,297)
Recognition of curtailment gain	(113,047)	-
Net actuarial (gain) / loss recognized in current year	(1,257)	417
	(107,905)	(4,297)
Defined contribution plan	69,025	43,720

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

- for MPT Pension Fund Rs. (17,629)
- for MPT Gratuity Fund Rs. 730.
- for non-MPT Gratuity Fund Rs. 6,889.

Principal actuarial assumptions

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

- discount rate at 10% (2005: 9%) per annum;
- expected long term rate of increase in salaries for employees at 10% (2005: 9%) per annum, in case of Non-management employees long range rate is 8% (2005: 8%) whereas for the first 3 years the increase has been assumed at 13% (2005: 13%);
- expected post retirement pension increase rate at 6% (2005: 5%) per annum; and
- expected long term rate of return on investment at 10% (2005: 9%) per annum.

9. SHORT TERM BORROWINGS - Secured

This includes bridge finance amounting to Rs. 1,000,000 to be converted into long term finance facility for the purposes of financing Company's growth. The loan carries mark-up at the rate of 0.5 percent over three month KIBOR.

The facility for short term running finance available from various banks amounts to Rs. 3,000,000 (2005: Rs. 2,400,000).

The rates of mark-up range from 10.07% to 11.53% (2005: 5% to 10.59%) and the facilities are secured by floating charge upon all current and future moveable properties of the Company.

(AMOUNTS IN THOUSAND)

	2006	2005
	(Rupees)	
10. TRADE AND OTHER PAYABLES		
Creditors (note 10.1)	508,859	839,395
Accrued liabilities	341,516	327,537
Payable to gratuity fund (note 8)	–	450
Payable to defined contribution pension fund	3,764	–
Advances from customers	40,253	655,883
Finance charges accrued on secured:		
– redeemable capital and long term loan	54,895	61,377
– short term borrowings	33,288	26,813
Deposits from dealers refundable on termination of dealership	10,222	7,486
Contractors' deposits and retentions	5,618	11,282
Workers' profits participation fund (note 20.2)	–	6,716
Workers' welfare fund	70,216	27,297
Others	13,114	4,765
	1,081,745	1,969,001

10.1 This includes payable of Rs. Nil (2005: Rs. 155,908) to Engro Eximp (Private) Limited.

11. CONTINGENCIES AND COMMITMENTS

Contingencies

11.1 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 48,911 (2005: Rs. 48,911).

11.2 Corporate guarantees of Rs. 304,732 (2005: Rs. 153,850) have been issued to banks in favour of subsidiary companies.

11.3 Bank guarantees of Rs. 670,500 (2005: Rs. 30,000) have been issued in favour of third parties, including Rs. 605,000 in favour of Ministry of Industries, Government of Pakistan (GoP) for participating in bidding for gas allocation.

11.4 The Company is contesting the penalty of Rs. 99,936 (2005: 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 (2005: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

11.5 The Company had commenced two separate arbitration proceedings against the GoP 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 (2005: 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.

	2006	2005
	(Rupees)	
Commitments		
11.6 Plant and machinery	74,795	25,104
11.7 Capital commitment for future rights for Gas utilisation	101,000	–
11.8 Commitments to subscribe 2,700,000 shares of Engro Energy (Private) Limited	27,000	–

(AMOUNTS IN THOUSAND)

12. PROPERTY, PLANT AND EQUIPMENT

	2006										
	Land		Building		Plant and Machinery	Plant and Machinery Held for Disposal	Catalyst	Furniture Fixtures and Equipments	Vehicles		Total
	Freehold	Leasehold	Freehold	Leasehold					Own	Leased	
	(Rupees)										
Cost											
At January 1,	12,820	187,396	534,377	273,833	9,364,735	151,395	215,131	381,013	170,442	6,600	11,297,742
Additions	–	–	44,634	58,893	363,720	–	77,890	24,298	69,794	–	639,229
Disposals / transfers*	–	(20,520)	–	–	(6,706)	(151,395)*	–	(13,650)	(24,206)	–	(216,477)
At December 31,	12,820	166,876	579,011	332,726	9,721,749	–	293,021	391,661	216,030	6,600	11,720,494
Depreciation											
At January 1,	–	41,575	221,590	31,697	4,065,320	126,087	124,984	257,082	99,094	1,650	4,969,079
Charge for the year	–	3,947	21,657	9,169	463,994	–	40,785	47,656	25,520	1,320	614,048
Disposals / transfers*	–	(4,984)	–	–	(1,780)	(126,087)*	–	(12,395)	(17,219)	–	(162,465)
At December 31,	–	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
Annual rate of depreciation %	–	2 to 3.33	2.5 to 10	2.5	5 to 10	Nil	20 to 33.33	10 to 25	12 to 25	20	
Capital work in progress (note 12.7)											257,771
Total											6,557,603

12.1 PROPERTY, PLANT AND EQUIPMENT

	2005									
	Land		Building		Plant and Machinery	Catalyst	Fixtures and Equipments	Vehicle		Total
	Freehold	Leasehold	Freehold	Leasehold				Own	Leased	
	(Rupees)									
Cost										
At January 1,	12,820	187,396	503,973	271,972	9,226,399	160,409	363,981	143,114	6,600	10,876,664
Additions	–	–	30,404	1,861	303,724	54,722	23,635	44,772	–	459,118
Disposals / transfers	–	–	–	–	(13,993)	–	(6,603)	(17,444)	–	(38,040)
At December 31,	12,820	187,396	534,377	273,833	9,516,130	215,131	381,013	170,442	6,600	11,297,742
Depreciation										
At January 1,	–	37,593	199,720	24,844	3,744,153	88,134	215,387	84,743	330	4,394,904
Charge for the year	–	3,982	21,870	6,853	455,470	36,850	47,846	25,539	1,320	599,730
Disposals	–	–	–	–	(8,216)	–	(6,151)	(11,188)	–	(25,555)
At December 31,	–	41,575	221,590	31,697	4,191,407	124,984	257,082	99,094	1,650	4,969,079
Net book value	12,820	145,821	312,787	242,136	5,324,723	90,147	123,931	71,348	4,950	6,328,663
Annual rate of depreciation %	–	2 to 3.33	2.5 to 10	2.5	5 to 10	20 to 33.33	10 to 25	12 to 20	20	
Capital work in progress (note 12.7)										511,395
Total										6,840,058

12.2 Depreciation and amortisation have been allocated as follows:

	2006	2005
	(Rupees)	
Depreciation for the year (note 12)	614,048	599,730
Amortisation for the year (note 13)	8,895	9,449
	622,943	609,179
Cost of sales (note 24)	599,855	584,153
Selling and distribution expenses (note 25)	23,088	25,026
	622,943	609,179

(AMOUNTS IN THOUSAND)

12.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2005: 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 totalling Rs. 22,207 (2005: 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 20).

12.4 Particulars of disposal of fixed assets:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
		(Rupees)			
Vehicles					
By Company policy to existing/separating executives	Mr. Khwaja Moazzam Rahman	735	527	208	467
	Mr. Tanwir Ahmad	735	612	123	412
	Mr. Khalid Iqbal	795	159	636	795
	Mr. Ahsan Afzal Ahmad	835	139	696	731
	Mr. Iftikhar Ahmad	795	278	517	623
	Mr. Javed Akbar	1,288	258	1,030	1,017
	Mr. Rais Azhar	735	576	159	367
	Mr. Abdul Hamid H T Alvi	795	259	536	795
	Mr. Ummat Rasool	945	756	189	473
	Mr. Arshad Masood Zahidi	555	490	65	83
	Mr. Ahmad Shakoor	555	490	65	83
	Mr. Shahid Rashid	555	481	74	83
	Mr. Shamsuddin Shaikh	930	334	596	788
	Mrs. Muneeza Azfar	886	42	844	886
	Mr. Farooq Nazim Shah	555	490	65	83
	Mr. Syed Sajjad Kazmi	560	152	408	403
	Mr. Mehdi Mujtaba	555	472	83	83
	Mr. Mir Kaiser Yakoob	735	588	147	368
Insurance claim	New Hampshire Insurance Co	555	324	231	425
	New Hampshire Insurance Co	555	435	120	400
	New Hampshire Insurance Co	560	411	149	400
		15,214	8,273	6,941	9,765
Items having net book value upto Rs. 50		8,992	8,946	46	4,238
		24,206	17,219	6,987	14,003
Furniture, fixtures & equipment and Plant & machinery					
By Auction	Kashtkhar Traders, Gujranwala	218	95	123	136
	Karachi Auction Mart	2,630	1,923	707	401
	Karachi Auction Mart	1,834	1,608	226	129
Donated	Ubauro High School	84	45	39	-
By Agreement	Engro Foods Limited	6,706	1,780	4,926	4,926
		11,472	5,451	6,021	5,592
Items having net book value upto Rs. 50		8,884	8,724	160	125
		20,356	14,175	6,181	5,717
Land					
By Agreement	Engro Asahi Polymer & Chemicals Limited (note 12.5 and 12.6)	20,520	4,984	15,536	146,300
		65,082	36,378	28,704	166,020

(AMOUNTS IN THOUSAND)

12.5 The sale proceed is netted off with expected bifurcation charges of Rs 5,700.

12.6 The Company has entered into an agreement with its subsidiary company, Engro Asahi Polymers & Chemicals Limited (EAPCL) for the sale of 38 acres leasehold land at Port Qasim. The Company has received full consideration of Rs. 152,000. The subsidiary company has taken over the possession of the land to facilitate the construction activities pertaining to the expansion and back integration project and is in the process of transferring leasehold rights.

	2006	2005
	(Rupees)	
12.7 Capital work-in-progress		
Plant and machinery	193,565	361,150
Building and civil works	17,057	96,184
Furniture, fixtures and equipment	35,719	47,595
Advances to suppliers	11,430	6,466
	257,771	511,395

13. INTANGIBLE ASSETS

	2006	2005
Cost		
At 1st January	85,560	64,431
Additions	5,339	21,129
At 31st December	90,899	85,560
Amortisation		
At 1st January	63,942	54,493
Charge for the year	8,895	9,449
At 31st December	72,837	63,942
Net book value at 31st December	18,062	21,618

(AMOUNTS IN THOUSAND)

14. LONG TERM INVESTMENTS

	2006	2005
	(Rupees)	
Unquoted		
Subsidiary companies – at cost (note 14.1)	3,202,596	832,757
Joint venture company – at cost (note 14.2)	450,000	1,340,000
Others – at cost		
Arabian Sea Country Club Limited		
500,000 Ordinary shares of Rs. 10 each	5,000	5,000
Less: Provision for diminution in value of investment (note 26)	–	5,000
	5,000	–
Associated company		
Agrimall (Private) Limited (note 14.3)	–	–
	5,000	–
	3,657,596	2,172,757

14.1 Subsidiary companies

Name of the Company and description of interest	Equity % held	Investment at cost - 2006 (Rupees)	Equity % held	Investment at cost - 2005 (Rupees)
Engro Eximp (Private) Limited				
10,000 Ordinary shares of Rs. 10 each	100	100	100	100
Engro Management Services (Private) Limited				
250,000 Ordinary shares of Rs. 10 each	100	2,500	100	2,500
Engro Foods Limited				
– 100,000,000 Ordinary shares of Rs. 10 each	100	1,000,000	100	150,000
– Advance against issue of share capital		602,500		598,200
Engro Energy (Private) Limited (note 14.1.1)				
– 1,500,000 Ordinary shares of Rs. 10 each	100	15,000		–
– Advance against issue of share capital		83,000		–
Engro Asahi Polymer & Chemicals Limited (notes 14.1.2 and 14.1.3)	80	1,417,539		–
Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited]				
1,020,000 Ordinary shares of Rs. 10 each	51	81,957	51	81,957
		3,202,596		832,757

14.1.1 During the year, the Company has incorporated a wholly owned subsidiary with the objective to undertake energy related businesses including setting up Independent Power Projects.

14.1.2 During the year, the Company has acquired 30% additional share capital of Engro Asahi Polymer & Chemicals Limited (EAPCL). EAPCL's status has now changed to a subsidiary company from a Joint Venture concern due to this additional investment. The additional investment includes stamp duty charges, and has been netted off with dividend related to pre acquisition reserves (note 20.3).

(AMOUNTS IN THOUSAND)

14.1.3 Reconciliation of investment in Engro Asahi Polymer & Chemicals Limited

	2006	2005
	(Rupees)	
Cost as at january 1, 2006	890,000	890,000
Acquired 53,400,000 shares @Rs.10 each	534,000	-
Stamp dury charges paid	8,010	-
Pre-acquisition dividend	(14,471)	-
Cost as at December 31, 2006	1,417,539	890,000

14.2 Joint venture company

	Equity % held	Investment at cost - 2006	Equity % held	Investment at cost - 2005
		(Rupees)		(Rupees)
Engro Vopak Terminal Limited 45,000,000 Ordinary shares of Rs. 10 each	50	450,000	50	450,000
Engro Asahi Polymer & Chemicals Limited (notes 14.1.2 and 14.1.3)		-	50	890,000
		450,000		1,340,000

14.3 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.

14.4 Value of the above investments, based on the net assets of the investee companies as at December 31, 2006 was as follows:

	2006	2005
	(Rupees)	
Engro Eximp (Private) Limited	19,247	85,649
Engro Management Services (Private) Limited	2,399	2,371
Engro Foods Limited [including advance against equity amounting to Rs. 602,500 (2005: Rs 598,200)]	1,158,317	731,975
Engro Energy (Private) Limited [including advance against equity amounting to Rs. 83,000]	6,102	-
Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited]	71,131	55,423
Engro Asahi Polymer & Chemicals Limited	1,638,824	999,214
Engro Vopak Terminal Limited	469,536	457,951
Arabian Sea Country Club Limited (June 30, 2006)	4,924	4,193
Agrimall (Private) Limited (June 30, 2006)	(4,054)	-

(AMOUNTS IN THOUSAND)

	2006	2005
	(Rupees)	
15. LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLES		
Considered good		
Executives (notes 15.1 and 15.2)	77,163	57,182
Other employees	16,728	6,372
	93,891	63,554
Less: Installments recoverable within twelve months (note 19)	41,782	31,029
Fair value of interest rate SWAP (notes 5.4 and 5.5)	37,000	65,117
Less: Current portion (note 20)	26,000	32,000
	11,000	33,117
	63,109	65,642

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

	2006	2005
Balance at the beginning of the year	57,182	69,805
Disbursements	63,985	39,112
Repayment	(44,004)	(51,735)
Balance at the end of the year	77,163	57,182

15.2 Long term mark-up / interest free loans to executives have been discounted using a rate of 10% (2005: 10%).

15.3 This includes interest free services incentive loans and advances to executives of Rs. 70,534 (2005: Rs. 43,464) repayable in equal monthly installments 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.16,728 (2005: Rs. 2,910) pursuant to Collective Labour Agreement. It also includes advances of Rs. 161 (2005: Rs. 10,734) to employees for purchase of Company's shares.

15.4 The maximum amount outstanding at the end of any month from the executives aggregated Rs. 88,191 (2005: Rs. 78,955).

	2006	2005
	(Rupees)	
16. STORES, SPARES AND LOOSE TOOLS		
Consumbales stores	84,595	95,130
Spares	614,846	584,822
Loose tools	2,966	3,260
	702,407	683,212
Less: Provision for surplus and slow moving items	13,839	17,310
	688,568	665,902

(AMOUNTS IN THOUSAND)

	2006	2005
	(Rupees)	
17. STOCK-IN-TRADE		
Raw materials	323,306	810,712
Work-in-process	3,644	1,032
Finished goods – own manufactured product	163,202	318,675
– purchased product	433,296	792,563
	596,498	1,111,238
	923,448	1,922,982
18. TRADE DEBTS		
Considered good	623,349	543,316
Considered doubtful	7,923	7,923
	631,272	551,239
Less: Provision for doubtful debts	7,923	7,923
	623,349	543,316
19. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS		
Current portion of long term loans and advances to executives and other employees – considered good (note 15)	41,782	31,029
Sub-ordinated loan to Engro Eximp (Private) Limited (note 19.1)	190,000	190,000
Advances and deposits	109,513	89,393
Margins against letters of credit	–	185
Prepayments	78,542	51,134
Less: Provision for doubtful receivables	3,079	818
	416,758	360,923

19.1 The loan carries mark-up at rates not being lower than the mark up payable by the Company for ordinary commercial finance of like maturities, presently at 10.5% per annum (2005: 9% per annum).

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

(AMOUNTS IN THOUSAND)

	2006	2005
	(Rupees)	
20. OTHER RECEIVABLES AND OTHER ASSETS		
Receivable from Government for:		
– customs duty and sales tax (note 12.3)	22,207	22,207
– grant receivable from Government of Pakistan (note 20.1)	645,248	–
– others	13,560	13,560
	681,015	35,767
Accrued income on deposits / financial assets	3,075	5,857
Receivable from pension fund (note 8)	73,120	–
Workers' profits participation fund (note 20.2)	3,222	–
Sales tax refundable	14,817	6,609
Current portion of fair value of interest rate swap (note 15)	26,000	32,000
Due from:		
– Subsidiary companies		
– Engro Eximp (Private) Limited	25,987	10,450
– Engro Foods Limited	46	1,835
– Engro Asahi Polymer & Chemicals Limited (note 20.3)	38,852	2,739
– Engro Energy (Private) Limited	14	–
– Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited] (note 20.4)	10,223	432
– Engro Management Services (Private) Limited	–	15
– Joint venture		
– Engro Vopak Terminal Limited (note 20.5)	90,080	135,006
Claims on foreign suppliers	7,286	7,307
Less: Provision for doubtful receivables	731	295
	6,555	7,012
Non-current assets (plant and machinery) held for disposal	25,308	–
Others	300	258
Less: Provision for doubtful receivables	49	49
	251	209
	998,565	237,931

20.1 The total amount of grant was Rs. 1,017,767 of which Rs. 645,248 was receivable on account of compensation for mandatory reduction in sales price. This compensation is provided by the Government of Pakistan on import / purchased inventory as at September 30, 2006 of phosphatic and potassic fertilizer in accordance with their circular No. F.7-1//2006-Fert dated September 29, 2006.

(AMOUNTS IN THOUSAND)

	2006 (Rupees)	2005
20.2 Workers' profit participation fund		
Balance at the beginning of the year	(6,716)	(1,594)
Interest on funds utilised in the Company's business (note 28)	(470)	(82)
Allocation for the year (note 27)	(184,778)	(171,716)
Less: Amount paid to the Trustees of the Fund	195,186	166,676
Receivable / (payable) to the fund	3,222	(6,716)

20.3 This includes dividend receivable of Rs. 38,590 including Rs. 14,471 pertaining to pre-acquisition reserves (2005: Rs. Nil).

20.4 This includes dividend receivable of Rs. 10,200 (2005: Rs. Nil).

20.5 This includes dividend receivable of Rs. 90,000 (2005: Rs. 135,000).

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

	2006	2005
- Subsidiary companies		
- Engro Eximp (Private) Limited (advance against purchase)	975,106	779,330
- Engro Foods Limited	5,651	29,397
- Engro Energy (Private) Limited	11,299	-
- Engro Asahi Polymer & Chemicals Limited	38,852	4,472
- Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited]	10,223	432
- Engro Management Services (Private) Limited	-	15
- Joint venture		
- Engro Vopak Terminal Limited	135,031	135,006

21. SHORT TERM INVESTMENTS

	2006	2005
Financial assets at fair value through profit or loss		
Certificates of deposits (note 21.1)	-	25,000
Fixed income / money market funds (note 21.2)	228,518	113,016
	228,518	138,016

21.1 The investments carried a return @ 11% per annum.

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

(AMOUNTS IN THOUSAND)

22. CASH AND BANK BALANCES

	2006	2005
	(Rupees)	
With banks		
– on deposit accounts	1,514,698	829,544
– on current accounts	45,303	171,547
In hand		
– cheques / demand drafts	243,139	138,644
– cash	2,100	2,750
	1,805,240	1,142,485

23. NET SALES

	2006	2005
Own manufactured product	11,396,112	10,693,873
Less: Sales tax	1,005,416	966,635
	10,390,696	9,727,238
Purchased product	7,676,121	9,123,314
Less: Sales tax	465,034	574,275
	7,211,087	8,549,039
Net Sales	17,601,783	18,276,277

Sales are net of marketing allowances of Rs. 40,680 (2005: Rs. 72,967).

24. COST OF SALES

	2006	2005
Raw materials consumed	2,475,422	3,025,095
Salaries, wages and staff welfare	638,433	543,705
Fuel and power	2,074,777	1,655,614
Repairs and maintenance	212,202	283,577
Depreciation / amortization (note 12.2)	599,855	584,153
Consumable stores	93,221	74,824
Staff recruitment, training, safety and other expenses	43,434	31,938
Purchased services	99,854	101,542
Travel	30,629	22,862
Communication, stationery and other office expenses	21,970	28,971
Insurance	60,090	51,343
Rent, rates and taxes	8,232	4,817
Other expenses	22,017	11,751
Manufacturing cost	6,380,136	6,420,192
Add: Opening stock of work-in-process	1,032	2,720
Less: Closing stock of work-in-process	3,644	1,032
	(2,612)	1,688
Cost of goods manufactured	6,377,524	6,421,880
Add: Opening stock of finished goods manufactured	318,675	140,262
Less: Closing stock of finished goods manufactured	163,202	318,675
	155,473	(178,413)
Cost of goods sold – own manufactured product	6,532,997	6,243,467
– purchased product	6,831,527	8,089,375
	13,364,524	14,332,842

(AMOUNTS IN THOUSAND)

25. SELLING AND DISTRIBUTION EXPENSES

	2006	2005
	(Rupees)	
Salaries, wages and staff welfare	240,014	202,972
Staff recruitment, training, safety and other expenses	28,933	24,680
Product transportation and handling	941,587	802,649
Repairs and maintenance	8,996	10,697
Advertising and sales promotion	68,764	62,893
Rent, rates and taxes	57,274	38,563
Communication, stationery and other office expenses	18,905	20,447
Travel	26,983	22,462
Depreciation / amortization (note 12.2)	23,088	25,026
Purchased services	6,726	13,434
Donations	35,419	52,410
Other expenses	25,041	25,916
	1,481,730	1,302,149

26. OTHER INCOME

	2006	2005
Dividend income (note 26.1)	970,600	963,600
Income on deposits / other financial assets	46,487	59,172
Service charges	21,024	19,507
Gain on change in fair value of interest rate swap	4,675	65,117
Reversal of resignation gratuity provision	–	24,749
Gain on curtailment of defined benefit pension plan (note 8.2)	113,047	–
Profit on disposal of property, plant and equipment (note 12.4)	137,316	–
Foreign exchange gain (note 26.2)	1,014	1,322
Reversal of provision for diminution in value of investment (note 14)	5,000	–
Others	39,691	11,520
	1,338,854	1,144,987

26.1 Dividend income

	2006	2005
Subsidiry companies		
– Engro Eximp (Private) Limited	570,500	555,000
– Engro Innovative Automation and Engineering (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited]	10,200	5,100
– Engro Asahi Polymer & Chemicals Limited	164,650	133,500
Joint ventures		
– Engro Vopak Terminal Limited	225,000	270,000
Others		
– Arabian Sea Country Club Limited	250	–
	970,600	963,600

26.2 Foreign exchange gain

	2006	2005
Foreign exchange gain on bank accounts	1,014	1,223
Foreign exchange gain on foreign currency loan	–	99
	1,014	1,322

(AMOUNTS IN THOUSAND)

27. OTHER OPERATING CHARGES

	2006 (Rupees)	2005 (Rupees)
Workers' profits participation fund	184,778	171,716
Workers' welfare fund	66,126	43,067
Research and development (including salaries and wages)	33,954	68,790
Loss on disposal of property, plant and equipment	–	1,462
Auditors' remuneration		
– statutory audit	1,100	1,000
– fee for other other services	868	603
– reimbursement of expenses	150	129
	2,118	1,732
Less: Shown under intangible assets / capital work-in-progress	–	(315)
	2,118	1,417
Professional tax	200	200
	287,176	286,652

28. FINANCE COST

		2006	2005
Interest on	– workers' profits participation fund	470	82
Mark-up on	– redeemable capital and long term loans	312,639	238,033
	– short term borrowings	49,237	40,676
Others		205	1,279
		362,551	280,070

29. TAXATION

	2006	2005
Current		
– for the year	834,368	863,587
– for prior year	(61,000)	–
	773,368	863,587
Deferred		
– for the year	63,049	36,882
– for prior year	60,913	–
	123,962	36,882
	897,330	900,469

29.1 The Company has filed tax returns up to income year 2005. All assessments up to income year 2002 have been finalized by the Department and appealed against. For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

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 December 1998, the Company has received favorable decision from the Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment. For June 1997 and December 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which the Company believes to be an error of fact and should be rectified.

For 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 has also filed reference with Alternative Dispute Resolution Committee (ADRC) of Central Board of Revenue (CBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. CBR has constituted the Committee which is expected to hear the reference soon. For these four years, the Department has also filed appeals with ITAT on certain issues which were decided in favor of the Company by the Commissioner (Appeals).

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

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

29.2 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:

	2006	2005
	(Rupees)	
Profit before tax	3,444,656	3,219,551
Tax calculated at the rate of 35%	1,205,630	1,126,843
Depreciation on exempt assets not deductible for tax purposes	33,265	33,599
Effect of applicability of lower tax rate/exemption on certain income and other tax credits/debits	(341,565)	(259,973)
Tax charge for the year	897,330	900,469

30. EARNINGS PER SHARE

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

	2006	2005
Profit after taxation (Rupees)	2,547,326	2,319,082
		(Restated)
Weighted average number of Ordinary shares (in thousand)	164,650	161,350

31. 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:

	2006			2005		
	Chief Executive	Others Directors	Executives	Chief Executive	Others Directors	Executives
	(Rupees)					
Managerial remuneration	15,906	24,589	397,510	9,688	3,909	363,106
Retirement benefit funds	1,945	3,302	58,708	1,065	231	36,739
Other benefits	1,339	4,910	19,339	2,559	257	17,273
Fees	–	400	–	–	202	–
Total	19,190	33,201	475,557	13,312	4,599	417,118
Number of persons including those who worked part of the year	1	12	299	1	9	281

(AMOUNTS IN THOUSAND)

31.1 The Company also makes contributions to staff retirement funds and provides certain household items for use of some employees. Cars are also provided for use of some employees and directors.

31.2 Technical advisory fees paid to one non-executive director (2005: one) during the year amounted to Rs. 300 (2005: Rs. 900).

	2006	2005
	(Rupees)	
32. CASH GENERATED FROM OPERATIONS		
Profit before taxation	3,444,656	3,219,551
Adjustment for non-cash charges and other items:		
- Depreciation and amortisation	622,943	609,179
- Profit / loss on disposal of fixed assets	(137,316)	1,462
- Provision for retirement and other service benefits	74,167	39,423
- Reversal of provision for diminution in value of investment	(5,000)	
- Income on deposits/other financial assets	(46,487)	(59,172)
- Dividend income	(970,600)	(963,600)
- Financial charges	362,551	280,070
- Working capital changes (note 32.1)	(783,881)	(777,575)
	2,561,033	2,349,338

32.1 Working capital changes

	2006	2005
Deccrease / (increase) in current assets		
- Stores, spares and loose tools	(22,666)	(78,614)
- Stock-in-trade	999,534	(1,438,234)
- Trade debts	(80,033)	(20,708)
- Loans, advances, deposits and prepayments (net)	(55,835)	116,713
- Other receivables and other assets	(699,679)	(42,761)
	141,321	(1,463,604)
(Decrease)/increase in current liabilities		
- Trade and other payables including other service benefits (net)	(925,202)	686,029
	(783,881)	(777,575)

33. CASH AND CASH EQUIVALENTS

	2006	2005
Cash and bank balances (note 22)	1,805,240	1,142,485
Short term borrowings	(1,299,961)	-
Short term investments (note 21)	228,518	138,016
	733,797	1,280,501

(AMOUNTS IN THOUSAND)

34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

34.1 Financial assets and liabilities

2006	Effective interest/ mark-up rate (%)	Interest/mark-up bearing Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Non-Interest/mark-up bearing Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Loans, advances and deposits	10	190,000	–	–	190,000	41,782	52,109	–	93,891
Long term investments		–	–	–	–	–	3,657,596	–	3,657,596
Trade debts		–	–	–	–	623,349	–	–	623,349
Other receivables and other assets	5.47 to 9.5	26,000	11,000	–	37,000	1,100,233	–	–	1,100,233
Short term investments	–	–	–	–	–	228,518	–	–	228,518
Cash and bank balances	3.2 to 15	1,514,698	–	–	1,514,698	290,542	–	–	290,542
		1,730,698	11,000	–	1,741,698	2,284,424	3,709,705	–	5,994,129
Financial Liabilities									
Redeemable capital	9.13 to 11.61	1,087,500	1,800,000	–	2,887,500	–	–	–	–
Liability against asset subject to finance lease	6	2,321	–	–	2,321	–	–	–	–
Short term borrowings	10.07 to 11.53	1,299,961	–	–	1,299,961	–	–	–	–
Trade and other payables		–	–	–	–	1,057,969	41,165	–	1,099,134
Unclaimed Dividends		–	–	–	–	82,360	–	–	82,360
		2,389,782	1,800,000	–	4,189,782	1,140,329	41,165	–	1,181,494

2005	Effective interest/ mark-up rate (%)	Interest/mark-up bearing Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Non-Interest/mark-up bearing Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Loans, advances and deposits	9	190,000	–	–	190,000	31,029	65,642	–	96,671
Long term investments		–	–	–	190,000	2,172,757	–	–	2,172,757
Trade debts		–	–	–	–	543,316	–	–	543,316
Other receivables and other assets		–	–	–	–	163,540	–	–	163,540
Short term investments	11	25,000	–	–	25,000	113,016	–	–	113,016
Cash and bank balances	3 to 13	829,544	–	–	829,544	312,941	–	–	312,941
		1,044,544	–	–	1,234,544	3,336,599	65,642	–	3,402,241
Financial Liabilities									
Redeemable capital	3.75 to 10.30	687,500	2,462,500	425,000	3,575,000	–	–	–	
Liability against asset subject to finance lease	6	2,226	2,289	–	4,515	–	–	–	–
Trade and other payables		–	–	–	–	1,308,353	–	–	1,308,353
Unclaimed Dividends		–	–	–	–	77,870	–	–	77,870
		689,726	2,464,789	425,000	3,579,515	1,386,223	–	–	1,386,223

(AMOUNTS IN THOUSAND)

34.2 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

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

b) Interest / mark-up rate risk

The Company has long term Rupee based loans at variable rates. Variable rate loans have a prepayment option, which can be exercised upon any adverse movement. Rates on short term loans are effectively fixed. Further, the Company has also entered into interest rate swap agreements with commercial banks to mitigate against the adverse movement of interest rates.

c) Credit risk

The Company is exposed to a concentration of credit risk on its trade debts amounting to Rs. 623,349 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 on cash based financial assets is minimised by dealing with a variety of major banks.

d) Liquidity risk

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.

34.3 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities, except investment in subsidiaries and joint ventures as reflected in the financial statements approximate their fair values.

35. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

(AMOUNTS IN THOUSAND)

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

	2006	2005
	(Rupees)	
Subsidiary companies		
* Purchases and services	6,301,084	7,871,594
Service rendered	19,748	1,311
Associated companies		
Purchases and services	10,106	71,289
Service rendered	1,052	5,865
Dividend paid	740,746	612,974
Others		
Dividend paid	10,768	12,719

35.2.1 Remunerations to key management personnel are disclosed in note 31.

35.2.2 Balances with related parties are disclosed in respective notes.

* Mainly includes purchase of phosphatic fertilizer.

36. ACCOUNTING ESTIMATES AND JUDGEMENTS

Income taxes

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

Impairment of financial assets

In making an estimate of future cash flows from the Company's financial assets including investment in subsidiaries, joint ventures and associates, the management considers future dividend stream and an estimate of the terminal value of these investments. The Company also makes estimates to determine appropriate discount rate based on market conditions.

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 (e.g. valuation, interest rate, etc.) and therefore, cannot be determined with precision.

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. In making these estimates management use the technical resources available with the Company.

(AMOUNTS IN THOUSAND)

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.

37. DONATIONS

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

	Interest in Donee	Name and address of Donee	2006 (Rupees)	2005 (Rupees)
Mr. Zaffar Ahmad Khan	Member	Patients Welfare Program Aga Khan University Hospital, Karachi	–	40
Spouse of Mr. Parvez Ghias	Member	Citizen's Education Development Foundation, Karachi	–	25
Mr. Zaffar Ahmad Khan	Member	Oncology Unit Project, Aga Khan University Hospital, Karachi	–	2,000
Mr. Asad Umar	Member	Engro Community Welfare Foundation, Karachi	245	1,795
Mr. Asad Umar	Member	Lahore University of Management Sciences, Lahore	–	100
Spouse of Mr. Asad Umar	Member	Book Group, Karachi	–	195
			245	4,155

38. PRODUCTION CAPACITY

	Designed Annual Capacity	Actual Production 2006	Actual Production 2005
	Metric Tons	Metric Tons	Metric Tons
Urea	975,000	968,585	911,672
NPK	160,000	107,994	157,013

(AMOUNTS IN THOUSAND)

39. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on January 20, 2007 has proposed a final cash dividend of Rs.3 per share (2005: Rs. 5 per share) for approval of the members at the Annual General Meeting to be held on February 28, 2007. The financial statements for the year ended December 31, 2006 do not include the effect of the proposed cash dividends which will be accounted for in the financial statements for the year ending December 31, 2007.

40. CORRESPONDING AMOUNTS

Donations' amounting to Rs 31,446 and Rs 20,964 previously included in 'other expenses' under 'cost of sales' and 'selling and distribution expenses' respectively, have now been reclassified and included as a separate line item under 'selling and distribution expenses'.

41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 20, 2007 by the Board of Directors of the Company.

Hussain Dawood	**Asad Umar**
Chairman	President and Chief Executive

Auditors' report to the members

Consolidated Financial Statements


ENGRO

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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 2006 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 Asahi Polymer & Chemicals Limited, Engro Foods Limited and Engro Innovative Automation (Private) Limited – formerly Innovative Automation and Engineering (Private) Limited were audited by another firm of chartered accountants, whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the reports of other auditors.

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

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

In our opinion the consolidated financial statements present fairly the financial position of Engro Chemical Pakistan Limited as at 31 December 2006 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.

KPMG Taseer Hadi & Co

Date: January 20, 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

consolidated balance sheet

as at December 31, 2006

(AMOUNTS IN THOUSAND)

SHARE CAPITAL AND RESERVES	Note	2006 (Rupees)	2005
Share capital			
Authorised			
200,000,000 Ordinary shares of Rs.10 each		2,000,000	2,000,000
Issued, subscribed and paid-up	3	1,682,340	1,529,400
Reserves			
Share premium	4	1,068,369	–
Revaluation reserve on business combination		197,316	–
Revenue		4,429,240	4,429,240
Unappropriated profit		1,861,933	1,529,146
		7,556,858	5,958,386
		9,239,198	7,487,786
MINORITY INTEREST		556,973	53,004
		9,796,171	7,540,790
NON CURRENT LIABILITIES			
Redeemable capital	5	2,347,500	2,900,000
Long term loan – secured	6	34,811	–
Liabilities against assets subject to finance leases	7	24,027	8,086
Deferred taxation	8	1,395,024	994,441
Retirement and other service benefits	9	59,089	46,297
		3,860,451	3,948,824
CURRENT LIABILITIES			
Current portion of			
– redeemable capital	5	1,252,500	692,500
– long term loan – secured	6	69,623	–
– liabilities against assets subject to finance leases	7	10,557	4,215
– other service benefits	9	24,133	20,230
Short term borrowings	10	2,020,372	94,161
Trade and other payables	11	2,894,897	1,961,864
Taxation		42,999	56,551
Unclaimed dividends		82,360	77,870
		6,397,441	2,907,391
CONTINGENCIES AND COMMITMENTS	12		
		20,054,063	14,397,005

(AMOUNTS IN THOUSAND)

	Note	2006	2005
		(Rupees)	
FIXED ASSETS			
Property, plant and equipment	13	10,754,229	7,567,515
Intangible assets	14	40,158	40,932
		10,794,387	7,608,447
LONG TERM INVESTMENTS	15	474,851	1,457,163
LONG TERM LOANS, ADVANCES, DEPOSITS AND OTHER RECEIVABLES	16	73,965	69,963
CURRENT ASSETS			
Stores, spares and loose tools	17	814,057	665,902
Stock-in-trade	18	2,303,641	1,914,711
Trade debts	19	1,169,881	687,650
Loans, advances, deposits and prepayments	20	355,531	235,791
Other receivables and other assets	21	1,391,247	254,943
Short term investments	22	228,518	138,016
Cash and bank balances	23	2,447,985	1,364,419
		8,710,860	5,261,432
		20,054,063	14,397,005

The annexed notes 1 to 43 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

consolidated profit and loss account

for the year ended December 31, 2006

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2006	2004
		(Rupees)	
Net sales		20,240,035	18,756,820
Cost of sales	24	(15,097,181)	(14,041,386)
GROSS PROFIT		5,142,854	4,715,434
Selling and distribution expenses	25	(2,320,924)	(1,407,224)
		2,821,930	3,308,210
Other income	26	421,625	166,737
Other operating charges	27	(297,690)	(294,137)
Finance cost	28	(438,240)	(291,249)
		(735,930)	(585,386)
Share of income from Joint Ventures	29	409,568	371,159
PROFIT BEFORE TAXATION		2,917,193	3,260,720
Taxation	30	(778,351)	(976,937)
PROFIT AFTER TAXATION		2,138,842	2,283,783
Attributable to			
– Equity holders of Holding Company		2,106,891	2,278,980
– Minority interest		31,951	4,803
		2,138,842	2,283,783
			(Restated)
Earnings per share – Basic and diluted	31	Rs.12.80	Rs.14.12

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

The annexed notes 1 to 43 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

consolidated statement of changes in equity

for the year ended December 31, 2006

(AMOUNTS IN THOUSAND)

	Share Capital	Share Premium Reserve	Revaluation reserve on business combination	Revenue Reserve			Minority interest	Total
				General	Unappro-priated Profit	Sub total		
	(Rupees)							
Balance as at January 1, 2005 as previously stated	1,529,400	–	–	4,429,240	779,566	6,738,206	53,101	6,791,307
Effect of change in accounting policy relting to appropriations to general reserves – note 2.4	–	–	–	(300,000)	300,000	–	–	–
Balance as at January 1, 2005 as restated	1,529,400	–	–	4,129,240	1,079,566	6,738,206	53,101	6,791,307
Appropriation to general reserves – 2004	–	–	–	300,000	(300,000)	–	–	–
Final dividend for the year ended December 31, 2004 @ Rs.4.00 per share	–	–	–	–	(611,760)	(611,760)	–	(611,760)
Net profit and total recognised income and expense for the year	–	–	–	–	2,278,980	2,278,980	4,803	2,283,783
Interim dividends :								
1st @ Rs. 3.00 per share	–	–	–	–	(458,820)	(458,820)	–	(458,820)
2nd @ Rs.3.00 per share	–	–	–	–	(458,820)	(458,820)	–	(458,820)
Dividend pertaining to minority interest	–	–	–	–	–	–	(4,900)	(4,900)
	1,529,400	–	–	4,429,240	1,529,146	7,487,786	53,004	7,540,790
Shares issued during the year – note 3 and 4	152,940	1,068,369	–	–	–	1,221,309	–	1,221,309
Final Dividend for the year ended December 31, 2005 @ Rs.5.00 per share	–	–	–	–	(764,700)	(764,700)	–	(764,700)
Net profit for the year	–	–	–	–	2,106,891	2,106,891	31,951	2,138,842
Revaluation reserves on existing holding of acquired subsidiary – (note 15.2)	–	–	197,316	–	–	197,316	–	197,316
Total recognised income and expense for the year	–	–	197,316	–	2,106,891	2,304,207	31,951	2,336,158
Interim dividends :								
1st @ Rs. 3.00 per share	–	–	–	–	(504,702)	(504,702)	–	(504,702)
2nd @ Rs.3.00 per share	–	–	–	–	(504,702)	(504,702)	–	(504,702)
Addition to minority interest due to change in status of a joint venture to a subsidiary – note 1	–	–		–	–	–	491,466	491,466
Dividend pertaining to minority interest	–	–	–	–	–	–	(19,448)	(19,448)
Balance as at December 31, 2006	1,682,340	1,068,369	197,316	4,429,240	1,861,933	9,239,198	556,973	9,796,171

The annexed notes 1 to 43 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

consolidated cash flow statement

for the year ended December 31, 2006

(AMOUNTS IN THOUSAND)

	Note	2006	2005
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	2,111,119	2,837,093
Retirement and other service benefits paid		(57,462)	(67,055)
Finance cost		(415,410)	(242,754)
Taxes paid		(877,440)	(729,841)
Long term loans and advances		(4,002)	(17,673)
Net cash inflow from operating activities		756,805	1,779,770
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(1,149,698)	(1,088,032)
Sale proceeds on disposal of property, plant and equipment		39,558	11,067
Income on deposits/other financial assets		50,195	53,044
Acqusition of subsidiary net of cash acquired	15.2	(425,997)	–
Dividends received		410,531	268,500
Net cash outflow from investing activities		(1,075,411)	(755,421)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from redeemable capital		700,000	1,000,000
Repayment of redeemable capital		(692,500)	(1,089,000)
Liabilities against assets subject to finance leases – net		22,283	5,475
Repayment of long term loans		–	(594,500)
Proceeds from long term loans		104,434	–
Proceeds from share issue – net		1,221,309	–
Dividends paid		(1,789,063)	(1,499,233)
Net cash outflow from financing activities		(433,537)	(2,177,258)
Net (decrease)/increase in cash and cash equivalents		(752,143)	(1,152,909)
Cash and cash equivalents at the beginning of the year		1,408,274	2,561,183
Cash and cash equivalents at the end of the year	34	656,131	1,408,274

The annexed notes 1 to 43 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

notes to the consolidated financial statements

for the Year Ended December 31, 2006

1. STATUS AND NATURE OF BUSINESS

The "Group" consists of:

Holding Company

- Engro Chemical Pakistan Limited (ECPL)

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

- Engro Foods Limited;
- Engro Energy (Private) Limited;
- Engro Eximp (Private) Limited;
- Engro Management Services (Private) Limited;
- Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited] ; and
- Engro Asahi Polymer and Chemicals Limited

Joint Venture Company:

- Engro Vopak Terminal Limited

Associated Company:

- Agrimall (Private) Limited

ECPL is a public listed company incorporated in Pakistan. The principal activity of the Holding Company is manufacturing, purchasing and marketing of fertilizers. The Company also has investment in joint venture/ subsidiary companies engaged in chemical terminal and storage, Poly Vinyl Chloride (PVC) resin manufacturing and marketing, control and automation, food and energy businesses. During the year, the Holding Company incorporated a wholly owned subsidiary with the objective to undertake Independent Power Projects (IPP) and other energy related business. This subsidiary has not yet commenced commercial operations. During the year, the Holding Company has also acquired additional 30% interest in its Joint Venture Engro Asahi Polymer & Chemicals Limited, involved in manufacture, market and sale of PVC, PVC compounds and other related chemicals, thus converting it into a subsidiary. Engro Foods Limited is involved in food business. Engro Eximp (Private) Limited is involved in importing and sale of fertilizers. Engro Management Services (Private) Limited was formed to act as a modaraba management company to assist in diversification plans of ECPL. However, during the year registration of the Company as modaraba management company has been cancelled by SECP with the consent of the Company. Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited] offers industrial solutions in automation and control. All subsidiary companies are incorporated in Pakistan.

The registered office of the Holding Company is situated at 8th floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

Engro Energy (Private) Limited, Engro Foods Limited, Engro Eximp (Private) Limited and Engro Management Services (Private) Limited are wholly owned subsidiaries of ECPL while the controlling interest in Engro Asahi Polymer & Chemicals Limited is 80% and Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited] is 51%.

1.1 Basis of consolidation

i) The consolidated financial statements include the financial statements of ECPL - Holding Company and its Subsidiary Companies - "the Group".

ii) 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.

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

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

v) 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.

vi) Where necessary, accounting policies for Subsidiary Companies have been changed to ensure consistency with the policies adopted by the Holding Company.

2. 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 specified in notes 2.4 and 2.8.1.

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards (IASs) / International Financial Reporting Standards (IFRSs) as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

SECP has issued S.R.O.(I)/2006 dated December 6, 2006, to notify that IFRS 2- Share-based Payments; IFRS 3 - Business Combinations; IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations; and IFRS 6 - Exploration for and Evaluation of Mineral Resources are required to be followed in preparation of financial statements of the listed companies. The Group has adopted the above IFRSs and has applied the same in preparation of these financial statements.

2.2 Basis of preparation

2.2.1 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' including derivative financial instruments at fair value.

2.2.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, 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 recognised in the period in which the estimate is 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 recognised in the financial statements are described in note 37.

2.2.3 Functional currency and presentation currency

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

2.2.4 New Accounting Standards and IFRIC Interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after January 1, 2007 and are not expected to have a significant effect on the Group's financial statements or not relevant to the Group:

- Amendments to IAS 1 Presentation of Financial Statements Capital Disclosures. Management is currently considering its effects on the Group's financial statements.

- IFRIC 4 Determining whether an Arrangement contains a Lease. Management considers that IFRIC 4 does not have any impact on the relationships that exist at the balance sheet date.

- IFRIC 8, scope of IFRS 2, Share-based Payments. Management considers that IFRIC 8 has no current impact on the Group's financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives. Management considers that IFRIC 9 has no current impact on the Group's financial statements.

- IFRIC 10 Interim Financial Reporting and Impairment. Management considers that it will be able to comply with this new requirement.

- IFRIC 11 Group and Treasury Share Transactions. Management considers that IFRIC 11 has no current impact on the Group's financial statements.

- IFRIC 12 Service Concession Arrangements. Management considers that IFRIC 12 has no current impact on the Group's financial statements.

2.3 Share issuance costs

Share issuance cost directly attributable to issue of ordinary shares, if any, are recognised as deduction from share premium, if available. Otherwise, these are charged to profit and loss account.

2.4 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recognised as liability in the Group's financial statements in the period / year in which these are approved. Upto last year appropriation to reserves were recognised in the financial statements of the period to which it related. The change in accounting policy was necessitated in view of a clarification from the Institute of Chartered Accountants of Pakistan regarding non statutory appropriations to reserves, approved post balance sheet date, by a Company.

2.5 Borrowing costs

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

2.6 Financial Liabilities

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

2.7 Property, plant and equipment

Owned

- Operating assets are measured at cost less accumulated depreciation and impairment losses, if any, whereas freehold land and capital work-in-progress are stated at cost.

- Depreciation is charged to income using the straight-line method whereby the depreciable amount of an operating asset is written off over its estimated useful life. Depreciable amount represents cost less estimated residual value, if any. 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. The rates of depreciation are stated in note 13.

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

- Maintenance and repairs are charged to income as and when incurred. Major renewals and betterments are capitalized and the assets so replaced, if any, other than those kept as standby items are retired.

- 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 assets are included in income currently.

- Depreciation method, useful lives and residual values are reassessed annually. The management estimates that the financial impact of changes in the residual values and the useful lives during the year ended December 31, 2006 has resulted in lower depreciation by approximately Rs. 23.155 million.

Non-current assets held for sale

Non–current assets (or disposal group) classified as held for sale are measured at lower of carrying amount and fair value less cost to sell.

Leased

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership, are classified as finance lease. Assets subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Value of leased assets is depreciated over the useful life of the asset using the straight line method. Depreciation on leased assets is charged to income. 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.

2.8 Intangible assets

2.8.1 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.

As indicated in note 2.1, during the year the Group has adopted IFRS 3 – Business Combinations and has applied the same in preparation of these financial statements. Accordingly, the Group has discontinued amortising the goodwill that arose on the acquisition of Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited] and as per the requirements of IFRS 3 – Business Combination, the Group carries out impairment testing of the goodwill in accordance with IAS 36, Impairment of Assets.

Further, negative goodwill arising on acquisition of Engro Asahi Polymer & Chemicals Limited during the year, representing the excess of the fair value of net identifiable assets acquired over the cost of acquisition has been recognised in the statement of changes in equity or profit and loss account as applicable (note 15.2).

2.8.2 Research and development costs

Research and development costs are charged to income as and when incurred, except for certain development costs which are recognised as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

2.8.3 Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight line basis over their estimated useful lives.

Costs that are directly associated with identifiable software products and have probable economic benefit beyond one year are recognised as intangible assets.

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

2.9 Investments

Joint venture and associated companies

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

Held-to-maturity investments

Investments with a fixed maturity where the Group has the intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any impairment losses.

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 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 Group 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.

2.10 Inventories

2.10.1 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. A provision is made for any excess book value over estimated realizable value of items identified as surplus to the Group's requirements. Adequate provision is also made for slow moving items.

2.10.2 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 realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

2.11 Financial assets

Financial assets include trade debts, other receivables and loans, advances and deposits. These are recognized 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 when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

2.12 Cash and cash equivalents

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

2.13 Revenue recognition

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

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

- Dividend income is recognized when the Group's right to receive the payment has been established.

2.14 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 in reporting the related expense.

2.15 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 not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. 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.

2.16 Retirement and Other Service Benefits

Engro Chemical Pakistan Limited, Holding Company

Defined contribution plans

The Holding Company operates:

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

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

  Contributions to the defined contribution plans are recognised as an expense in the profit and loss account when they are due.

Defined benefit plans

- 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 lifetime pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme (note 9.1.3).

- Actuarial gain 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.

- Actuarial valuations of the schemes are undertaken at appropriate regular intervals and the latest valuation was carried out at December 31, 2006 using "Projected Unit Credit Method."

- The Holding Company recognizes actuarial gains / losses over the expected average remaining working lives of employees if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeds the greater of:

  10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

  10% of the fair value of any plan assets at that date.

  These limits are calculated and applied separately for each defined benefit plan.

Engro Foods Limited, Subsidiary company (EFL)

EFL operates:

Defined benefit plans

- defined benefit funded gratuity plan for all its permanent employees. Gratuity is payable on the basis of last drawn salary. Provisions are made to cover the obligations under the Fund on the basis of actuarial valuation. The most recent valuation was carried out by an external actuary as of December 31, 2006 using the "Projected Unit Credit Method." Actuarial gains and losses are recognised over the expected future services of current members.

- unfunded pension and gratuity schemes for two of its management employees.

Defined contribution plan

The subsidiary company operates a defined contribution provident fund for its permanent employees. Equal monthly contributions are made both by the subsidiary company and the employee at the rate of 10% of the basic salary.

Engro Asahi Polymer & Chemicals Limited, Subsidiary Company (EAPCL)

EAPCL operates:

Defined benefit plans

- an approved funded defined benefit pension scheme for its management employees. The scheme provides pension based on the employee' last drawn salary. Pensions are payable for life and thereafter to surviving spouses and / or dependent children.

- an approved funded defined benefit gratuity scheme for its management employees. The scheme provides gratuity based on the employees' last drawn salary. Gratuity is payable on retirement or death to retired employees or their spouses.

Contributions are made annually to above funds on the basis of the actuarial valuation. The most recent valuations were carried out as of December 31, 2006 using the "Projected Unit Credit Method". The subsidiary company recognises actuarial gains / losses over the expected future services of current members.

Defined contribution plan

The subsidiary company operates a defined contribution provident fund for its employees. Equal monthly contributions are made both by the subsidiary company and the employee at the rate of 10% of the basic salary.

Engro Innovative Automation (Private) Limited, Subsidiary Company (EIAL)

EIAL operates:

Defined benefit plan

- gratuity scheme for its employees in accordance with United Arab Emirates Federal Laws.

Defined contribution plan

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

Employees' compensated absences

The Holding Company and its Subsidiary Companies accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

2.17 Provisions

Provisions are recognized in the balance sheet 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. Provisions are determined by discounting future cash flows at appropriate discount rate. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.18 Foreign currency translation

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

2.19 Offsetting of financial assets and financial liabilities

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.

2.20 Derivative financial instruments

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

2.21 Transactions with related parties

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

2.22 Impairment losses

The carrying amount of the Group’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indications exist, the assets’ recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account.

(AMOUNTS IN THOUSAND)

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006 (Numbers)	2005 (Numbers)		2006 (Rupees)	2005 (Rupees)
55,646,007	40,352,000	Ordinary shares of Rs.10 each fully paid in cash	556,460	403,520
112,588,079	112,588,079	Ordinary shares of Rs.10 each issued as fully paid bonus shares	1,125,880	1,125,880
168,234,086	152,940,079		1,682,340	1,529,400

3.1 Movement during the year

2006 (Numbers)	2005 (Numbers)		2006 (Rupees)	2005 (Rupees)
152,940,079	152,940,079	As at January 1,	1,529,400	1,529,400
15,294,007	–	Ordinary shares of Rs.10 each issued during the year as right shares in the ratio of 1 share for every 10 shares held, fully paid in cash	152,940	–
168,234,086	152,940,079		1,682,340	1,529,400

3.2 Associated companies held 70,243,141 (2005: 63,857,402) ordinary shares in the Holding Company at the year end.

4. SHARE PREMIUM

This represents share premium received on issue of 15,294,007 shares of the Company, net of share issue expenses amounting to Rs. 2,212.

(AMOUNTS IN THOUSAND)

5. REDEEMABLE CAPITAL
Secured (Non-participatory)

Long term finance utilised under mark-up arrangement

	Installments Number	Installments Commencing from	2006 (Rupees)	2005 (Rupees)
National Bank of Pakistan (1)	2 half yearly	December 15, 2006	200,000	400,000
National Bank of Pakistan (2)	8 half yearly	June 17, 2004	87,500	175,000
United Bank Limited	5 half yearly	September 30, 2006	736,000	920,000
MCB Bank Limited (1)	5 half yearly	September 30, 2006	544,000	680,000
Standard Chartered Bank	5 half yearly	September 30, 2006	320,000	400,000
National Bank of Pakistan (3)	8 quarterly	November 01, 2009	600,000	600,000
MCB Bank Limited (2)	8 quarterly	March 12, 2010	400,000	400,000
MCB Bank Limited (3)	16 quarterly	September 30, 2005	12,500	17,500
MCB Bank Limited (4)	6 half yearly	March 26, 2005	100,000	–
MCB Bank Limited (5)	5 half yearly	June 12, 2007	150,000	–
Meezan Bank Limited	variable	September 27, 2007	100,000	–
Bank Al Habib Limited	6 half yearly	April 20, 2009	200,000	–
Askari Commercial Bank Limited	6 half yearly	March 14, 2009	150,000	–
			3,600,000	3,592,500
Less: Current portion shown under current liabilities			1,252,500	692,500
			2,347,500	2,900,000

5.1 The long term finance carry mark-up ranging between 1.0% – 1.05% (2005: 1.0% – 1.05%) over six months Government Treasury Bills, except for National Bank of Pakistan (3) and MCB Bank Limited (2) on which markup is 1.3% (2005: 1.3%) over three month Karachi Interbank Offered Rate (KIBOR).

5.2 Loan obtained from MCB Bank Limited (3) by a subsidiary company carry mark-up @ 4% for 1st year and 6 months KIBOR plus 1.25% thereafter. The loan is secured by corporate guarantee of the Holding Company and personal guarantees of the directors representing minority interest of the subsidiary company in addition to the security referred to in note 5.7.

5.3 Loan obtained from MCB Bank Limited (4) by a subsidiary company carries mark-up @ 1% over six months Government Treasury Bills.

5.4 Loan from MCB Bank Limited (5) obtained by a subsidiary company carries mark-up @ 0.5% over six month KIBOR.

5.5 A subsidiary company has entered into a Master Morabaha Finance Agreement in 2002 with Meezan Bank Limited for a facility of Rs. 100,000 for a period of three years, which has been extended upto September 27, 2009. The total amount of facility may be drawn down by the subsidiary company in one lump sum or in tranches by way of series of Morabaha transactions. Each Morabaha transaction, will be treated as a separate agreement. However, all amounts due under the Morabaha transactions are payable prior to the expiry of the facility. Since the Company's intention is to roll over each Morabaha transaction on repayment date to the expiry date of the facility, the above mentioned financing is shown as long term morabaha finance.

(AMOUNTS IN THOUSAND)

5.6 Loans obtained from Bank Al Habib Limited and Askari Commercial Bank by a subsidiary company carries mark-up ranging between 1.0% - 1.05% over six month KIBOR.

5.7 The above finances are secured by an equitable mortgage upon the immovable property and floating charge over current and future fixed assets of the Group.

5.8 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.

5.9 The Holding Company has entered into an interest rate swap agreement with Citibank, N. A. - Pakistan in 2005 to manage its interest rate exposure on floating rate borrowing for a notional amount of Rs. 800,000 (2005: Rs 1,000,000), amortizing upto September 2008. Under the swap arrangement, the Holding Company would receive average of last three cut-off yields of six months Government Treasury Bills from Citibank, N. A. - Pakistan Branches on notional amount and pay fixed 5.47% (2005: 5.47%) which will be settled semi-annually. The Holding Company has the option of unwinding whole or part of the swap transaction at any semi-annual settlement date with prior notice to the bank.

5.10 Considering the changes in expected interest rates, during 2005 the Holding Company entered into a matching swap agreement with United Bank Limited, effective from March 2006 to perfectly offset the earlier swap of Citibank, N. A. - Pakistan Branches. Under this arrangement, the Holding Company will pay average of last three cut-off yields of six months Government Treasury Bills on notional amount of Rs. 800,000 (2005: 1,000,000) and receive fixed at 9.5% (2005: 9.5%) which will be settled semi-annually.

5.11 The fair value of the above swaps is Rs. 37,000 (2005: Rs. 65,117) - refer note 16.

6. LONG TERM LOANS, secured

	Installments		2006	2005
	Number	**Commencing from**	(Rupees)	
Obtained from a bank - (notes 6.1 and 6.2)	8 half yearly	July 15, 2004	104,434	-
Less: Current portion shown under current liabilities			69,623	-
			34,811	-

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

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

(AMOUNTS IN THOUSAND)

7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

7.1 The Group has lease agreements with financial institutions for lease of vehicles and office equipment. The liabilities under these agreements are payable by the year 2011 and are subject to finance cost at the rates ranging from 6% to 15.75% per annum (2005: 6% to 15.75% per annum) used as the discount factor. The Group intends to exercise its option to purchase the leased assets upon completion of the lease period.

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

	2006	2005
	(Rupees)	
Year		
2006	–	4,957
2007	13,301	4,957
2008	10,904	2,557
2009	9,254	812
2010	5,215	–
2011	2,167	–
	40,841	13,283
Less: Finance charges not due	6,257	982
	34,584	12,301
Less: Current portion shown under current liabilities	10,557	4,215
	24,027	8,086

8. DEFERRED TAXATION

Credit / (debit) balances arising on account of:

	2006	2005
Accelerated depreciation allowance	1,930,439	1,036,710
Business losses	(728,835)	(9,149)
Tax on subsidiary reserves	25,005	–
Tax on fair value adjustments (note 15.2)	263,088	–
Recoupable minimum turnover tax	(59,453)	–
Provision for – retirement benefits	(20,175)	(22,132)
– slow moving stores and spares / doubtful receivables	(4,383)	(6,058)
Others	(10,662)	(4,930)
	1,395,024	994,441

(AMOUNTS IN THOUSAND)

9. RETIREMENT AND OTHER SERVICE BENEFITS

	2006	2005
	(Rupees)	
Retirement benefits:		
Opening balance	3,945	19,960
Expense recognised – net (note 9.1.5)	(107,905)	(4,297)
Amounts received /(contributions made)	34,768	(11,718)
Closing balance	(69,192)	3,945
Less: Receivable from pension fund (note 21)	(73,120)	–
Less: Payable to gratuity funds (note 11)	–	450
	(73,120)	450
	3,928	3,495
Other service benefit plan	79,294	63,032
Less: Current portion shown under current liabilities	24,133	20,230
	55,161	42,802
	59,089	46,297

9.1 Engro Chemical Pakistan Limited, Holding Company

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

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Present value of funded obligations	337,715	198,494	–
Fair value of plan assets	(485,243)	(237,624)	–
Surplus	(147,528)	(39,130)	–
Present value of unfunded obligation	–	–	3,928
Unrecognised actuarial gain	74,408	39,130	–
Net (asset) / liability at the end of the year	(73,120)	–	3,928

9.1.2 Movement in net liability recognized:

Net liability at the beginning of the year	–	450	3,495
Expense recognised	(3,949)	8,658	433
Curtailment gain recognised (note 9.1.3)	(113,047)	–	
	(116,996)	8,658	433
Amounts received / (paid) to the Fund	43,876	(9,108)	–
Net (asset) / liability at the end of the year	(73,120)	–	3,928

(AMOUNTS IN THOUSAND)

9.1.3 During the year the Holding Company recognised a gain of Rs. 113,047 (2005: Rs Nil) on curtailment of defined benefit plan. In 2005, the Holding Company had setup a Defined Contribution Pension Scheme known as Engro Chemical Pakistan Limited MPT Employees Defined Contribution Pension Fund (the Fund) for the benefit of management employees. Employees joining the Holding 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. This option was exercised by all eligible employees. The actuarially accrued liability in respect of past services of those members who have exercised this option were transferred to the new fund on the effective date. The Fund was approved under the provision of the Income Tax Ordinance 2001, effective July 1, 2005.

9.1.4 Movement in plan assets

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Opening balance	401,942	203,855	-
Return on plan assets	35,029	16,925	-
(Repayment) / Company contribution during the year	(43,876)	9,108	-
Benefits paid during the year	(25,132)	(16,406)	-
Assets gain	117,280	24,142	-
Closing balance	485,243	237,624	-

	2006	2005
Defined benifit plans	(Rupees)	
Current service cost	11,799	27,641
Interest cost	46,554	44,691
Reversal made	-	(24,749)
Expected return on plan assets	(51,954)	(52,297)
Curtailment gain recognised	(113,047)	-
Net actuarial gain recognized in current year	(1,257)	417
	(107,905)	(4,297)
Defined contribution plans	69,025	49,367

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

- for MPT Pension Fund Rs. (17,629)

- for MPT Gratuity Fund Rs. 730

- for non-MPT Gratuity Fund Rs. 6,889

(AMOUNTS IN THOUSAND)

9.1.7 Principal actuarial assumptions

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

- discount rate at 10% (2005: 9%) per annum;
- expected long term rate of increase in salaries for employees at 10% (2005: 9%) per annum, in case of Non-management employees long range rate is 8% (2005: 8%) whereas for the first 3 years the increase has been assumed at 13% (2005: 13%);
- expected post retirement pension increase rate at 6% (2005: 5%) per annum; and
- expected long term rate of return on investment at 10% (2005: 9%) per annum.

9.2 Engro Asahi Polymer & Chemicals Limited, Subsidiary Company

	Pension Fund	Gratuity Fund	Additional Death Gratuity Scheme
		(Rupees)	
9.2.1 Reconciliation of obligations			
Present value of defined benefit obligation	44,310	16,145	–
Fair value of plan assets	(53,604)	(18,328)	–
Funded status	(9,294)	(2,183)	–
Present value of unfunded obligations	–	–	1,956
Unrecognised actuarial gain / (loss)	9,294	2,183	(114)
Funded obligation	–	–	1,842
9.2.2 Movement in liability			
Liability at the beginning of the year	3,174	1,321	1,477
Charge for the year	2,914	1,342	365
	6,088	2,663	1,842
Contributions paid to the fund - net of share of associates	(6,088)	(2,663)	–
Liability at the end of the year	–	–	1,842
9.2.3 Charge for the year			
Current service cost	3,311	1,410	204
Interest cost	3,352	1,229	154
Expected return on plan assets	(3,749)	(1,288)	–
Net actuarial (gain) / loss recognised during the year	–	(9)	7
	2,914	1,342	365
9.2.4 Actual return on plan assets	7,195	1,562	–
9.2.5 Principal actuarial assumptions			
Rate of discount	10% p.a.	10% p.a.	10% p.a.
Expected rate of increase in salaries	10% p.a.	10% p.a.	10% p.a.
Expected rate of return on plan assets	10% p.a.	10% p.a.	10% p.a.
Expected rate of post retirement pension increase	5% p.a.	–	–
Expected retirement age	58 years	58 years	58 years

(AMOUNTS IN THOUSAND)

9.3 Engro Foods Limited, Subsidiary Company

	Gratuity Fund	Un-funded Gratuity Scheme	Un-funded Pension Scheme
		(Rupees)	
9.3.1 Reconciliation of obligations			
Present value of defined benefit obligation	7,492	1,316	–
Fair value of plan assets	–	–	–
Deficit / (Surplus)	7,492	1,316	–
Present value of unfunded obligations	–	–	121
Unrecognised actuarial (loss) / gain	164	–	–
Net liability	7,656	1,316	121
9.3.2. Movement in liability			
Net liability at the beginning of the year	1,316	–	–
Charge for the year	6,340	1,316	121
	7,656	1,316	121
9.3.3 Principal actuarial assumptions			
Rate of discount	10% p.a.	9% p.a.	10% p.a.
Expected rate of return on plan assets	10% p.a.	–	–
Expected rate of increase in salaries	10% p.a.	–	10% p.a.
9.3.4 Charge for the year			
Current service cost	6,001	1,316	121
Interest cost	356	–	–
Recognition of actuarial gain	(17)	–	–
	6,340	1,316	121

10. SHORT TERM BORROWINGS

	2006	2005
	(Rupees)	
Financing utilised from banks	2,020,372	94,161

10.1 This includes bridge finance amounting to Rs. 1,000,000 obtained by the Holding Company to be converted into long term finance facility for the purposes of financing its growth. The loan carries mark-up at the rate of 0.5 percent over three month Karachi Inter Bank Offered Rate (KIBOR).

10.2 The facility for short term running finance available to the Group from various banks amounts to Rs. 4,530,000 (2005: Rs. 2,647,000).

The rates of mark-up range from 6.5% to 13.6% (2005: 5% to 10.59%) and the facilities are secured by floating charge upon all current and future moveable properties of the Group.

10.3 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 10.2

(AMOUNTS IN THOUSAND)

11. TRADE AND OTHER PAYABLES

	2006	2005
	(Rupees)	
Creditors	1,781,694	728,680
Accrued liabilities	701,428	401,199
Payable to gratuity fund (note 9)	–	450
Payable to defined contribution pension fund	3,764	–
Payable to Provident Fund	13,828	–
Advances from customers	110,515	672,980
Finance cost accrued on secured:		
– redeemable capital and long term loans	71,545	64,154
– short term borrowings	42,245	26,813
Deposits from dealers refundable on termination of dealership	10,647	7,486
Contractors' deposits and retentions	15,764	11,282
Workers' profits participation fund (note 21.2)	–	6,716
Workers' welfare fund	70,216	27,297
Sales tax payable	9,961	5,544
Dividend payable to minority shareholders	19,448	–
Others	43,842	9,263
	2,894,897	1,961,864

12. CONTINGENCIES AND COMMITMENTS

Contingencies

12.1 Claims, including pending lawsuits, against the Group not acknowledged as debts amounted to Rs. 48,911 (2005: Rs. 48,911).

12.2 Performance guarantees of Rs. 1,118,443 (2005: Rs. 137,493) have been issued by various banks on behalf of the Group, including Rs. 605,000 in favour of Ministry of Industries, Government of Pakistan (GoP) on behalf of the Holding Company for participating in bidding for gas allocation.

12.3 The Group is contesting the penalty of Rs. 99,936 (2005: 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 (2005: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

12.4 The Group had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Group Rs. 47,800 (2005: 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.

Commitments

	2006	2005
	(Rupees)	
12.5 Plant and machinery	864,433	106,167
12.6 Capital commitment for future rights for Gas utilisation	101,000	–

(AMOUNTS IN THOUSAND)

13. PROPERTY, PLANT AND EQUIPMENT

2006

	Land		Building		Pipelines	Plant and Machinrey		Catalyst	Furniture, Fixtures and Equipment		Vehicle		Total
	Freehold	Leasehold	Freehold	Leasehold		In Use	Held for Disposal		Own	Leased	Own	Leased	
						(Rupees)							
Cost													
At January 1,	21,479	203,977	534,377	273,833	–	9,364,725	151,395	215,131	395,408	300	215,246	15,610	11,391,481
Acquisition of a subsidiary	–	125,604	–	269,311	103,831	3,124,434	–	–	64,944	–	51,439	–	3,739,563
Additions	57,404	–	221,151	61,138	–	1,298,997	–	77,890	45,526	–	91,335	30,365	1,883,806
Disposals	–	–	–	–	–	–	–	–	(13,669)	–	(53,255)	–	(66,924)
Transfers	–	–	–	–	–	–	(151,395)	–	–	–	–	–	(151,395)
As at December 31,	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
Depreciation													
At January 1,	–	41,575	221,590	31,697	–	4,065,319	126,087	124,984	263,450	195	104,904	2,740	4,982,541
On acquisition of a subsidiary	–	5,604	–	40,374	51,681	954,195	–	–	39,753	–	23,612	–	1,115,219
Charge for the year	–	4,002	28,339	9,653	614	542,280	–	40,785	55,505	60	33,407	8,185	722,830
Disposals	–	–	–	–	–	–	–	–	(12,404)	–	(21,584)	–	(33,988)
Transfers	–	–	–	–	–	–	(126,087)	–	–	–	–	–	(126,087)
At December 31,	–	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
Annual rate of depreciation %	–	2 to 3.33	2.5 to 10	2.5	5	5 to 10	Nil	20 to 33.33	10 to 25	20	12 to 25	20	
Capital work in progress (note 13.5)													618,213
Total													10,754,229

13.1 PROPERTY, PLANT AND EQUIPMENT

2005

	Land		Building		Plant and Machinery	Catalyst	Furniture, Fixtures and Equipment		Vehicle		Total
	Freehold	Leasehold	Freehold	Leasehold			Own	Leased	Own	Leased	
					(Rupees)						
Cost											
At January 1,	20,194	187,396	503,973	271,972	9,226,399	160,409	374,758	300	153,872	6,924	10,906,197
Additions	1,285	16,581	30,404	1,861	303,714	54,722	27,269	–	78,818	8,686	523,340
Disposals / transfers	–	–	–	–	(13,993)	–	(6,619)		(17,444)	–	(38,056)
As at December 31,	21,479	203,977	534,377	273,833	9,516,120	215,131	395,408	300	215,246	15,610	11,391,481
Depreciation											
At January 1,	–	37,593	199,720	24,844	3,744,152	88,134	218,119	105	86,568	444	4,399,679
Charge for the year	–	3,982	21,870	6,853	455,470	36,850	51,485	90	29,524	2,296	608,420
Disposals	–	–	–	–	(8,216)	–	(6,154)		(11,188)	–	(25,558)
At December 31,	–	41,575	221,590	31,697	4,191,406	124,984	263,450	195	104,904	2,740	4,982,541
Net book value	21,479	162,402	312,787	242,136	5,324,714	90,147	131,958	105	110,342	12,870	6,408,940
Annual rate of depreciation %	–	2 to 3.33	2.5 to 10	2.5	5 to 10	20 to 33.33	10 to 25	20	12 to 20	20	
Capital work in progress (note 13.5)											1,158,575
Total											7,567,515

(AMOUNTS IN THOUSAND)

13.2 Depreciation and amortisation have been allocated as follows:

	2006	2005
	(Rupees)	
Depreciation for the year (note 13)	722,830	608,420
Amortisation for the year (note 14)	11,265	18,611
	734,095	627,031
Cost of sales (note 24)	694,210	592,006
Selling and distribution expenses (note 25)	39,885	26,958
Other operating charges (note 27)	-	7,032
Capital work in progress	-	1,035
	734,095	627,031

13.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2005: Rs. 38,236) in prior years in respect of first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Holding Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favour of the Holding Company. The Department filed an appeal in the Supreme Court. During the year ended December 31, 2005, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgement in the Holding Company's favour. Payments totalling Rs. 22,207 (2005: 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)

13.4 Particulars of disposal of fixed assets:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
		(Rupees)			
Vehicles					
By policy applicable to existing/separating executives	Mr. Khwaja Moazzam Rahman	735	527	208	467
	Mr. Tanwir Ahmad	735	612	123	412
	Mr. Khalid Iqbal	795	159	636	795
	Mr. Ahsan Afzal Ahmad	835	139	696	731
	Mr. Iftikhar Ahmad	795	278	517	623
	Mr. Javed Akbar	1,288	258	1,030	1,017
	Mr. Rais Azhar	735	576	159	367
	Mr. Abdul Hamid H T Alvi	795	259	536	795
	Mr. Ummat Rasool	945	756	189	473
	Mr. Arshad Masood Zahidi	555	490	65	83
	Mr. Ahmad Shakoor	555	490	65	83
	Mr. Shahid Rashid	555	481	74	83
	Mr. Shamsuddin Shaikh	930	334	596	788
	Mrs. Muneeza Azfar	886	42	844	886
	Mr. Farooq Nazim Shah	555	490	65	83
	Mr. Syed Sajjad Kazmi	560	152	408	403
	Mr. Mehdi Mujtaba	555	472	83	83
	Mr. Mir Kaiser Yakoob	735	588	147	368
	Mr. Ehsan us Sattar	825	151	674	835
	Mr. Junaid Mushtaq	939	400	539	539
	Mr. Tahir Yazdani	800	250	550	550
Insurance claim	New Hampshire Insurance Co	555	324	231	425
	New Hampshire Insurance Co	555	435	120	400
	New Hampshire Insurance Co	560	411	149	400
	New Hampshire Insurance Co	403	25	378	397
Negotiation	Western Auto Garage UAE	479	192	287	187
Sale and Lease back	First Habib Modarba & Standard Chartered Modarba	25,603	3,347	22,256	22,256
		44,263	12,638	31,625	34,529
Items having net book value upto Rs. 50		8,992	8,946	46	4,238
		53,255	21,584	31,671	38,767
Furniture, fixtures & equipment and plants & machinery					
By Auction	Kashtkar Traders, Gujranwala	218	95	123	136
	Karachi Auction Mart	2,630	1,923	707	401
	Karachi Auction Mart	1,834	1,608	226	129
Donated	Ubauro High School	84	45	39	–
		4,766	3,671	1,095	666
Items having net book value upto Rs. 50		8,903	8,733	170	125
		13,669	12,404	1,265	791
		66,924	33,988	32,936	39,558

13.5 Capital work-in-progress

	2006	2005
	(Rupees)	
Plant and machinery	416,618	834,216
Building and civil works	109,823	167,270
Information technology–hardware and software	2,040	6,413
Furniture, fixture and equipment	47,532	47,595
Infrastructure cost*	9,182	72,888
Advances to surplus	33,018	30,193
	618,213	1,158,575

*Includes depreciation pertaining to a Subsidiary Company amounting to Rs. Nil (2005: Rs. 1,035).

(AMOUNTS IN THOUSAND)

14. INTANGIBLE ASSETS

	Software	Development Cost	Goodwill	2006	2005
			(Rupees)		
Cost					
At January 1,	89,418	6,000	35,160	130,578	109,255
Acquired	153	–	–	153	–
Addition	10,338	–	–	10,338	21,323
Adjustment of accumulated amortisation of goodwill as per IFRS 3 (note 2.8.1)	–	–	(19,338)	(19,338)	–
At December 31,	99,909	6,000	15,822	121,731	130,578
Amortisation					
At January 1,	67,008	3,300	19,338	89,646	71,035
Charge for the year	10,065	1,200	–	11,265	18,611
Adjustment of accumulated amortisation of goodwill as per IFRS3 (note 2.8.1)	–	–	(19,338)	(19,338)	–
At December 31,	77,073	4,500	–	81,573	89,646
Net book value	22,836	1,500	15,822	40,158	40,932

15. LONG TERM INVESTMENTS

	2006	2005
	(Rupees)	
Unquoted		
Joint venture company – (note 15.1)	469,851	1,457,163
Associated company – Agrimall (Private) Limited (note 15.4)	–	–
Other		
Arabian Sea Country Club Limited 500,000 Ordinary shares of Rs. 10 each	5,000	5,000
Less: Provision for diminution in value of investment	–	5,000
	5,000	–
	474,851	1,457,163

15.1 Details of Investment in Joint Venture companies

	2006	2005
Engro Vopak Terminal Limited		
At the beginning of the year	457,949	509,185
Add: Share of income after tax for the year	236,902	218,764
Less:		
– Dividend received during the year	135,000	135,000
– Dividend receivable	90,000	135,000
	469,851	457,949
Engro Asahi Polymer & Chemicals Limited		
At the beginning of the year	999,214	980,319
Add: Share of income after tax for the period	172,667	152,395
Less: Dividend received during the year	140,531	133,500
Less: Reclassification due to acquisition of further 30% equity resulting in a conversion of a Joint Venture investment to a Subsidiary Company (Note 15.2)	1,031,350	–
	–	999,214
	469,851	1,457,163

(AMOUNTS IN THOUSAND)

15.2 Acquisition of Engro Asahi Polymer & Chemicals Limited

During the year the Holding Company acquired additional 30% share in its 50% joint venture Engro Asahi Polymers & Chemicals Limited The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre acqusition carrying amount	Fair Value adjustment	Recognised value on acquisition
		(Rupees)	
Property, plant and equipment (including intangible assets)	2,303,686	486,324	2,790,010
Stock in trade and stores and spares	851,754	174,558	1,026,312
Trade debts	135,838	-	135,838
Loans, advances, deposits and prepayments	123,495	(3,162)	120,333
Cash and bank balances	493,071	-	493,071
Long term loans and morabahas	(453,852)	-	(453,852)
Deferred liabilities	(233,566)	-	(233,566)
Short term finances and trade and other payables	(1,157,726)	-	(1,157,726)
Deferred tax effect on fair value adjustments	-	(263,088)	(263,088)
Net identifiable assets and liabilities	2,062,700	394,632	2,457,332
Minority interest			(491,466)
			1,965,866
Carrying value of 50% holding on acquisition date			1,031,350
Cost of acquisition of additional 30% holding			542,010
			1,573,360
Negative goodwill on acquisition - net of deferred tax on fair value adjustment			392,506
Negative goodwill pertaining to 50% equity already held taken to equity			197,316
Negative goodwill pertaining to 30% equity acquired during the year (note 26)			195,190
			392,506
Cash acquired on acquisition			116,013
Cash paid on acquisition			(542,010)
Net cash outflow on acquisition			(425,997)

15.3 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

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

	2006	2005
	(Rupees)	
- Total assets	2,764,000	2,752,114
- Total liabilities	1,824,928	1,836,843
- Total equity	939,072	915,271
- Total revenue	1,025,154	985,332
- Profit for the year	473,801	436,901

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

(AMOUNTS IN THOUSAND)

16. LONG TERM LOANS, ADVANCES, DEPOSITS AND OTHER RECEIVABLES
Considered good

	2006	2005
	(Rupees)	
Long term loans		
Executives (notes 16.1 and 16.2)	101,813	57,699
Other employees	16,728	14,910
	118,541	72,609
Less: Installments recoverable within twelve months (note 20)	55,576	35,763
	62,965	36,846
Fair value of interest rate SWAP (notes 5.9 and 5.11)	37,000	65,117
Less: Current portion (note 21)	26,000	32,000
	11,000	33,117
	73,965	69,963

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

	2006	2005
Balance at the beginning of the year	57,699	71,783
Disbursements	88,187	41,414
Repayments	(44,073)	(55,498)
Balance at the end of the year	101,813	57,699

16.2 This includes interest free services incentive loans and advances to executives of the Holding company amounting to Rs. 70,534 (2005: Rs. 43,464) repayable in equal monthly installments over a three years period or in one lump sum at the end of such period and interest free loans given to workers of the Holding Company amounting to Rs. 16,728 (2005: Rs. 2,910) pursuant to Collective Labour Agreement. It also includes advances of Rs. 161 (2005: Rs. 10,734) to employees of the Holding Company for the purchase of the Holding Company's shares.

16.3 The maximum amount outstanding at the end of any month from the executives aggregated Rs. 107,621 (2005: Rs. 78,955).

17. STORES, SPARES AND LOOSE TOOLS

	2006	2005
	(Rupees)	
Consumable stores	89,027	95,130
Spares	735,903	584,822
Loose tools	2,966	3,260
	827,896	683,212
Less: Provision for surplus and slow moving items	13,839	17,310
	814,057	665,902

18. STOCK-IN-TRADE

	2006	2005
Raw materials	836,224	810,712
Work-in-process	23,382	1,032
Finished goods - own manufactured product	956,457	318,675
- purchased product	487,578	784,292
	1,444,035	1,102,967
	2,303,641	1,914,711

(AMOUNTS IN THOUSAND)

	2006	2005
	(Rupees)	
19. TRADE DEBTS		
Considered good	1,169,881	687,650
Considered doubtful	8,651	8,447
	1,178,532	696,097
Less: Provision for doubtful debts	8,651	8,447
	1,169,881	687,650
20. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS		
Current portion of long term loans and advances to executives and other employees – considered good (note 16)	55,576	35,763
Advance and deposits	183,593	140,487
Margins against letters of credit	8,897	3,074
Prepayments	110,544	57,285
Less: Provision for doubtful receivables	3,079	818
	355,531	235,791
21. OTHER RECEIVABLES AND OTHER ASSETS		
Receivable from Government for:		
– customs duty and sales tax (note 13.3)	40,402	22,207
– grant receivable from Government of Pakistan (note 21.1)	960,492	–
– others	15,409	13,560
	1,016,303	35,767
Accrued income on deposits / bonds	5,737	5,857
Receivable from Pension Fund (note 9)	73,120	–
Workers' profits participation fund (note 21.2)	3,222	–
Sales tax refundable	93,946	–
Less: Provision for doubtful receivables	140	–
	93,806	–
Current portion of fair value of interest rate swap (note 16)	26,000	32,000
Due from:		
Joint ventures		
– Engro Asahi Polymer & Chemicals Limited	–	2,739
– Engro Vopak Terminal Limited	90,080	135,006
Claims on foreign suppliers and insurance companies	40,528	36,689
Less: Provision for doubtful receivables	731	295
	39,797	36,394
Non-current assets (plant and machinery) held for disposal	25,308	–
Others	17,923	7,229
Less: Provision for doubtful receivables	49	49
	17,874	7,180
	1,391,247	254,943

(AMOUNTS IN THOUSAND)

21.1 The total amount of grant was Rs. 1,694,411 of which Rs. 960,492 was receivable on account of compensation for mandatory reduction in sales price. This compensation is provided by the Government of Pakistan on import / purchased inventory as at September 30, 2006 of phosphatic and potassic fertilizer in accordance with their circular No. F.7–1//2006–Fert dated September 29, 2006.

	2006	2005
	(Rupees)	
21.2 Workers' profit participation fund		
Balance at the beginning of the year	(6,716)	(1,594)
Interest on funds utilised in the Company's business (note 28)	(470)	(82)
Allocation for the year (note 27)	(184,778)	(171,716)
Less: Amount paid to the Trustees of the Fund	195,186	166,676
Receivable / (payable) to the fund	3,222	(6,716)

21.3 This includes dividend receivable of Rs. 90,000 (2005: Rs. 135,000).

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

	2006	2005
Joint venture		
– Engro Vopak Terminal Limited (includes dividend of 135,000)	135,031	135,006

22. SHORT TERM INVESTMENTS

Held-to-Maturity

Financial assets at fair value through profit or loss

	2006	2005
Certificates of deposits	–	25,000
Fixed income / money market funds (note 22.1)	228,518	113,016
	228,518	138,016

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

23. CASH AND BANK BALANCES

	2006	2005
With banks		
– on deposit accounts	1,845,726	832,445
– on current accounts	226,600	243,520
In hand		
– cheques / demand drafts	370,744	284,944
– cash	4,915	3,510
	2,447,985	1,364,419

(AMOUNTS IN THOUSAND)

24. COST OF SALES

	2006	2005
	(Rupees)	
Raw materials consumed	3,827,890	3,025,095
Salaries, wages and staff welfare	729,817	543,705
Fuel and power	2,129,482	1,655,614
Repairs and maintenance	276,451	283,577
Depreciation / amortization (note 13.2)	694,210	592,006
Consumable stores	96,718	74,824
Staff recruitment, training, safety and other expenses	43,434	31,938
Purchased services	100,772	101,542
Travel	49,113	22,862
Communication, stationery and other office expenses	30,514	28,971
Insurance	62,301	51,343
Rent, rates and taxes	13,454	4,817
Other expenses	24,592	11,751
Manufacturing cost	8,078,748	6,428,045
Add: Opening stock of work-in-process (including acquired stock on business combination)	14,370	2,720
Less: Closing stock of work-in-process	23,382	1,032
	(9,012)	1,688
Cost of goods manufactured	8,069,736	6,429,733
Add: Opening stock of finished goods manufactured (including acquired stock on business combination)	1,038,745	140,262
Less: Closing stock of finished goods manufactured	956,457	318,675
	82,288	(178,413)
Cost of goods sold - own manufactured product	8,152,024	6,251,320
- purchased product	6,312,103	7,441,100
- others	633,054	348,966
	15,097,181	14,041,386

25. SELLING AND DISTRIBUTION EXPENSES

	2006	2005
Salaries, wages and staff welfare	481,960	259,342
Staff recruitment, training, safety and other expenses	28,933	24,680
Product transportation and handling	1,014,884	802,649
Repairs and maintenance	16,606	19,068
Advertising and sales promotion	421,487	62,893
Rent, rates and taxes	74,383	42,411
Communication, stationery and other office expenses	42,346	27,978
Travel	85,535	34,140
Depreciation / amortization (note 13.2)	39,885	26,958
Purchased services	36,817	24,353
Donations	35,419	52,410
Other expenses	42,669	30,342
	2,320,924	1,407,224

(AMOUNTS IN THOUSAND)

26. OTHER INCOME

	2006	2005
	(Rupees)	
Income on deposits / other financial assets	50,075	48,722
Dividend income	250	–
Service charges	2,332	15,307
Fair value of interest rate swap (note 5.11)	4,675	65,117
Reversal of resignation gratuity provision	–	24,749
Gain on curtailment of defined benefit pension plan (note 9.1.3)	113,047	–
Negative goodwill recognised (note 15.2)	195,190	–
Profit on disposal of property, plant and equipment	6,575	–
Foreign exchange gain (note 26.1)	1,902	1,425
Reversal of provision for dimunition in value of investment (note 15)	5,000	–
Others	42,579	11,417
	421,625	166,737

26.1 Foreign exchange gain

	2006	2005
Foreign exchange gain on Government of Pakistan Special US Dollar Bonds – Nil (2005: Rs. 1,908) and foreign currency bank accounts	1,902	1,223
Foreign exchange gain on foreign currency loan	–	202
	1,902	1,425

27. OTHER OPERATING CHARGES

	2006	2005
Workers' profits participation fund – holding company (note 21.2)	184,778	171,716
Workers' profits participation fund – subsidiary company	2,402	–
Workers' welfare fund	67,151	43,067
Legal and professional charges	5,944	–
Research and development (including salaries and wages)	33,954	68,790
Loss on sale of fixed assets	–	1,431
Amortisation of Goodwill (note 13.2)	–	7,032
Auditors' remuneration		
– statutory audit (note 27.1)	1,849	1,424
– fee for other services	1,134	603
– reimbursement of expenses	228	189
	3,211	2,216
Less: Shown under intangible assets/ capital work-in-progress	–	(315)
	3,211	1,901
Professional tax	250	200
	297,690	294,137

27.1 Includes Rs. 483 relating to A.F. Ferguson & Co., Chartered Accountants, Rs. 240 (2005: Rs.240) relating to Fakhruddin Yousafali & Co., Chartered Accountants and Rs.245 (2005: Rs.129) relating to Sajjad Haider & Co. Chartered Accountants, statutory auditors of subsidiary companies.

(AMOUNTS IN THOUSAND)

	2006	2005
	(Rupees)	
28. FINANCE COST		
Interest on workers' profits participation fund (note 21.2)	470	82
Mark-up / interest on - redeemable capital and long term loans	340,026	246,955
- short term borrowings	78,161	42,947
Others	19,583	1,265
	438,240	291,249
29. SHARE OF INCOME FROM JOINT VENTURES		
Share of income before taxation		
Engro Vopak Terminal Limited	364,354	346,752
Engro Ashai Polymer & Chemicals Limited	267,985	174,424
	632,339	521,176
Less: Share of provision for taxation		
Engro Vopak Terminal Limited	127,453	127,988
Engro Ashai Polymer & Chemicals Limited	95,318	22,029
	222,771	150,017
	409,568	371,159
30. TAXATION		
Current - for the year	863,888	948,791
Deferred	(85,537)	28,146
	778,351	976,937

30.1 Engro Chemical Pakistan Limited, Holding Company (ECPL)

The ECPL has filed tax returns up to income year 2005. All assessments up to income year 2002 have been finalized by the Department and appealed against. For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

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

For income years December 1999 to December 2002, the ECPL is in Appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The ECPL has also filed reference with Alternative Dispute Resolution Committee (ADRC) of the Central Board of Revenue (CBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. CBR has constituted the Committee which is expected to hear the reference soon. For these four years, the Department has also filed appeals with ITAT on certain issues which were decided in favor of ECPL by the Commissioner (Appeals).

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

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

(AMOUNTS IN THOUSAND)

30.2 Engro Asahi Polymer and Chemicals Limited, Subsidiary Company (EAPCL)

During the year 2003, the Assessing Officer (AO) while finalising the assessment order for the year ended December 31, 2000 (Assessment year 2001 - 2002) had made additions to income of Rs. 144 million on the contention that the sales made by EAPCL to its wholly owned subsidiary (EATPL) were allegedly made on non-arm's length basis. The EAPCL's appeal to the Commission (Appeals) against the above addition was decided in department's favour in 2004, against which EAPCL filed an appeal with the Income Tax Appellant Tribunal (ITAT). ITAT in its order dated October 30, 2005 has set-aside the issue for re-examination by the AO. The management of EAPCL 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.

30.3 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 :

	2006	2005
	(Rupees)	
Profit before tax	2,917,193	3,260,720
Tax calculated at the rate of 35%	1,021,018	1,141,252
Depreciation on exempt assets not deductible for tax purposes	33,266	33,599
Effect of applicability of lower tax rate / exemption on certain income and other tax credits / debits	(529,636)	(218,344)
Minimum tax on turnover	1,452	-
Net effect of consolidation adjustments	88,932	-
Tax under final regime	94,259	20,430
Tax charge for the year	709,291	976,937

31. EARNINGS PER SHARE - BASIC AND DILUTED

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

	2006	2005
	(Rupees)	
Profit after taxation (attributable to the shareholders of Holding Company)	2,106,891	2,278,980
		(Restated)
Weighted average number of Ordinary shares (in thousand)	164,650	161,350

32. RUMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	2006			2005		
	Chief Executives	Others Directors	Executives	Chief Executives	Others Directors	Executives
	(Rupees)					
Managerial remuneration	29,853	24,781	503,801	12,923	3,909	393,420
Retirement benefit funds	3,795	3,302	69,563	1,328	231	39,618
Other benefits	1,970	4,913	22,330	3,078	257	18,654
Fees	-	465	-	-	217	-
Total	35,618	33,461	595,694	17,329	4,614	451,692
Number of persons including those who worked part of the year	7	21	413	5	17	301

(AMOUNTS IN THOUSAND)

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

32.2 Technical advisory fees paid to one non-executive director (2005: one) during the year amounted to Rs. 300 (2005: Rs. 900).

33. CASH GENERATED FROM OPERATIONS

	2006 (Rupees)	2005 (Rupees)
Profit before taxation	2,917,193	3,260,720
Adjustment for non-cash charges and other items:		
- Depreciation and amortization (note 13.2)	734,095	627,031
- Profit / loss on disposal of fixed assets	(6,575)	1,431
- Provision for retirement and other service benefits	74,157	45,070
- Negative goodwill arising on acquistion of a subsidiary (note 16.2)	(195,190)	-
- Reversal of provision for dimunition in investment	(5,000)	-
- Income on deposits / other financial assets (note 26)	(50,075)	(48,722)
- Share of income from joint venture companies (note 29)	(409,568)	(371,159)
- Finance cost	438,240	291,249
- Working capital changes (note 33.1)	(1,386,158)	(968,527)
	2,111,119	2,837,093

33.1 Working capital changes

	2006	2005
(Increase) / decrease in current assets		
- Stores, spares and loose tools	(148,155)	(78,614)
- Stock-in-trade	(388,930)	(1,396,551)
- Trade debts	(482,231)	(73,833)
- Loans, advances, deposits and prepayments	(119,740)	58,533
- Other receivables and other assets	(1,157,305)	(56,930)
	(2,296,361)	(1,547,395)
Increase / (decrease) in current liabilities		
- Trade and other payables including other service benefits (net)	910,203	578,868
	(1,386,158)	(968,527)

34. CASH AND CASH EQUIVALENTS

	2006	2005
Cash and bank balances (note 23)	2,447,985	1,364,419
Short term investments (note 22)	228,518	138,016
Less: Short-term borrowings (note 10)	2,020,372	94,161
	656,131	1,408,274

(AMOUNTS IN THOUSAND)

35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

35.1 Financial assets and liabilities

2006

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Long term investments		–	–	–	–	–	474,851	–	474,851
Loans, advances and deposits	9	–	–	–	–	55,576	62,965	–	118,541
Trade debts	–	–	–	–	–	1,169,881	–	–	1,169,881
Other receivables and other assets	5.47 to 9.5	–	–	–	–	185,273	–	–	185,273
Short term investments	11	–	–	–	–	228,518	–	–	228,518
Cash and bank balances	3 to 15	1,845,726	–	–	1,845,726	602,259	–	–	602,259
		1,845,726	–	–	1,845,726	2,241,507	537,816	–	2,779,323
Financial Liabilities									
Redeemable capital	9.13 to 12	1,252,500	2,347,500	–	3,600,000	–	–	–	–
Long term loan	11.5 to 12	69,623	34,811	–	104,434	–	–	–	–
Liabilities against assets subject to finance leases	6 to 15.75	10,557	24,027	–	34,584	–	–	–	–
Retirement and other service benefits	–	–	–	–	–	24,133	59,089	–	83,222
Short term borrowings	6.5 to 13.6	2,020,372	–	–	2,020,372	–	–	–	–
Trade and other payables	1 to 15	–	–	–	–	2,784,382	–	–	2,784,382
Unclaimed Dividends	–	–	–	–	–	82,360	–	–	82,360
		3,353,052	2,406,338	–	5,759,390	2,890,875	59,089	–	2,949,964

2005

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Loans and advances	9	–	–	–	–	35,763	69,963	–	105,726
Trade debts		–	–	–	–	687,650	–	–	687,650
Other receivables		–	–	–	–	187,176	–	–	187,176
Short term investments	11	25,000	–	–	25,000	113,016	–	–	113,016
Cash and bank balances	3 to 13	832,455	–	–	832,455	531,974	–	–	531,974
		857,455	–	–	857,455	1,555,579	69,963	–	1,625,542
Financial Liabilities									
Redeemable capital	3.75 to 10.30	692,500	2,475,000	425,000	3,592,500	–	–	–	–
Liabilities against assets subject to finance leases	6	4,215	8,086	–	12,301	–	–	–	–
Trade and other payables	–	–	–	–	–	1,279,621	–	–	1,279,621
Unclaimed Dividends		–	–	–	–	77,870	–	–	77,870
		696,715	2,483,086	425,000	3,604,801	1,357,491	–	–	1,357,491

(AMOUNTS IN THOUSAND)

35.2 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

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

b) Interest / mark-up rate risk

The Group has long term Rupee based loans at variable rates. Variable rate loans have a prepayment option, which can be exercised upon any adverse movement. Rates on short term loans are effectively fixed. The Group has also entered into interest rate swap agreement with commercial banks to mitigate against the adverse movement of interest rates.

c) Credit risk

The Group is exposed to a concentration of credit risk on its trade debts amounting to Rs. 1,169,881 by virtue of all the customers of the Holding Company 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. Subsidiary companies are not exposed to concentration of credit risk.

Concentration of credit risk on cash based financial assets is minimised by dealing with a variety of major banks.

d) Liquidity risk

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.

35.3 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.

36. TRANSACTIONS WITH RELATED PARTIES

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

(AMOUNTS IN THOUSAND)

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

	2006	2005
	(Rupees)	
Asociated companies		
Purchases and services	10,106	71,289
Services rendered	1,052	5,865
Dividend paid	740,746	612,974
Others		
Dividend paid	10,768	12,719

36.3 Remunerations to key management personnel are disclosed in note 32.

36.4 Balances with related parties are disclosed in respective notes.

37. 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. The Group also makes estimates to determine appropriate discount rate based on market conditions.

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 (e.g. valuation, interest rate, etc.) and therefore, cannot be determined with precision.

Property, plant and equipment

The Group reviews appropriateness of the rate of depreciation, useful life, residual value used in the calculation of depreciation. Further, where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis. In making these estimates management use the technical resources available with the Group.

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.

(AMOUNTS IN THOUSAND)

38. DONATIONS

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

	Interest in Donee	Name and address of Donee	2006	2005
			(Rupees)	
Mr. Zaffar Ahmad Khan	Member	Patients Welfare Program Aga Khan University Hospital, Karachi	-	40
Spouse of Mr. Parvez Ghias	Member	Citizen's Education Development Foundation, Karachi	-	25
Mr. Zaffar Ahmad Khan	Member	Oncology Unit Project, Aga Khan University Hospital, Karachi	-	2,000
Mr. Asad Umar	Member	Engro Community Welfare Foundation, Karachi	245	1,795
Mr. Asad Umar	Member	Lahore University of Management Sciences, Lahore	-	100
Spouse of Mr. Asad Umar	Member	Book Group, Karachi	-	195
			245	4,155

39. PRODUCTION CAPACITY

		Designed Annual Capacity	Actual Production 2006	Actual Production 2005
			Metric Tons	
Urea	Metric Tons	975,000	968,585	911,672
NPK	Metric Tons	160,000	107,994	157,013
PVC Resin	Metric Tons	100,000	97,172	91,332
Processed Milk	Thousand Litres	85,410	44,455	-

40. LISTING OF SUBSIDIARY COMPANIES, ASSOCIATED COMPANY AND JOINT VENTURE

Name of Subsidiaries	Financial year end
Engro Foods Limited	31 December
Engro Energy (Private) Limited	31 December
Engro Eximp (Private) Limited	31 December
Engro Management Services (Private) Limited	31 December
Engro Asahi Polymer & Chemicals Limited	31 December
Engro Innovative Automation (Private) Limited [formerly Innovative Automation and Engineering (Private) Limited]	31 December

(AMOUNTS IN THOUSAND)

Name of Joint Venture	
Engro Vopak Terminal Limited	31 December
Name of Associated Company	
Agrimall (Private) Limited	30 June

41. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Holding Company in its meeting held on January 20, 2007 has proposed a final cash dividend of Rs.3 per share (2005: Rs. 5 per share) for approval of the members at the Annual General Meeting to be held on February 28, 2007. The financial statements for the year ended December 31, 2006 do not include the effect of the proposed cash dividends which will be accounted for in the financial statements for the year ending December 31, 2007.

42. CORRESPONDING AMOUNTS

Donations amounting to Rs. 31,446 and Rs. 20,964 previously included in 'other expenses' under 'cost of sales' and 'selling and distribution expenses' respectively, have now been reclassified and included as a separate line item under 'selling and distribution expenses'.

43. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 20, 2007 by the Board of Directors of the Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Clean environment at Engro Daharki Plant attracts as many as 20,000 migratory birds of 49 different species at our evaporation ponds every year

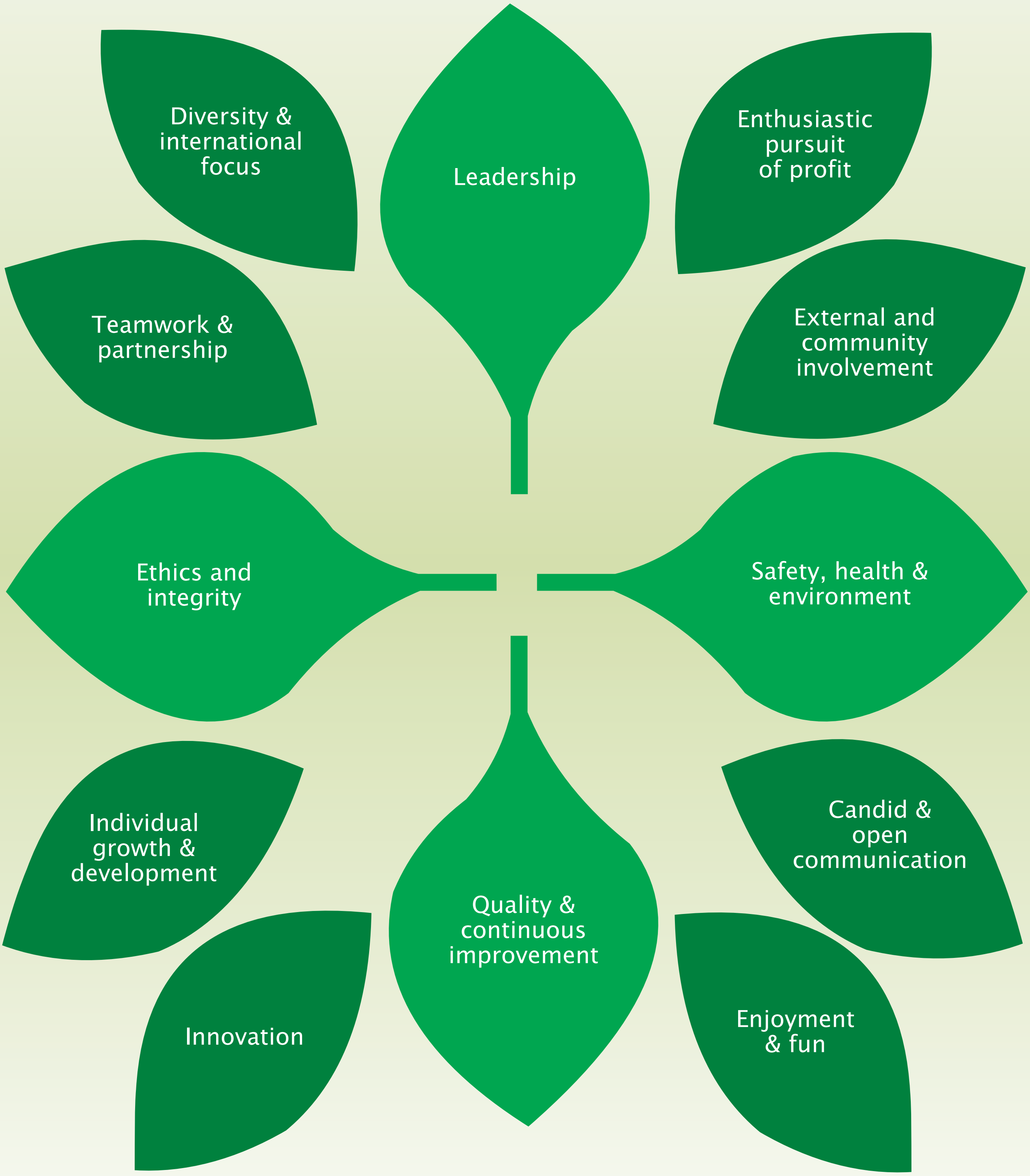
Core Values

Corporate Governance

Principal Operation Committees

Proxy Form

core values


Diversity & international focus
Leadership
Enthusiastic pursuit of profit
Teamwork & partnership
External and community involvement
Ethics and integrity
Safety, health & environment
Individual growth & development
Quality & continuous improvement
Candid & open communication
Innovation
Enjoyment & fun

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.

ETHICS AND 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.

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 mpetence is a necessary foundation.

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."

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.

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."

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.

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.

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.

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.

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.

Compliance Statement

The Board of Directors has throughout the year 2006 complied with the 'Code of Corporate Governance' contained in the listing requirements of the stock exchanges and the 'Corporate and Financial Reporting Framework' of the Securities & Exchange Commission of Pakistan.

Risk Management Process

In 2006, the Management launched an Enterprise Risk Management (ERM) exercise based on the detailed review done in 2005. The ERM will continue in a phased manner over the next few years.

Internal Control Framework

Responsibility: The Board is ultimately responsible for the 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 who approves the audit program, which is 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.

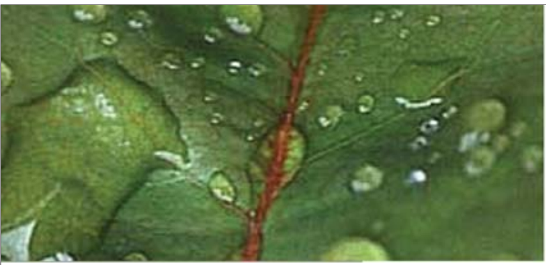
Directors

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 Asad Umar. Biographical details of the Directors are given on page 16.

A Board of Directors meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board meets at least four times a year and, in addition, devotes two days for a meeting on longer term planning, giving consideration both to the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a detailed analysis on businesses and full papers on matters where the Board will be required to make a decision or give its approval



Principal Board Committees

The Board has established two committees both of which are chaired by 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 8 times during 2006.

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 General Manager Finance 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 4 times during 2006.

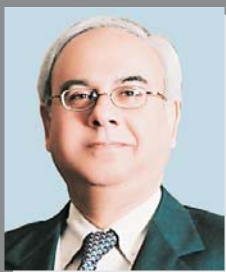
Directors' Names

Shabbir Hashmi (Chairman)
Shahzada Dawood
Arshad Nasar
Isar Ahmad

The Secretary of the Committee is Naveed A. Hashmi, Corporate Audit Manager.

principal operation committees

Asad Umar



Asif Qadir

Khalid S. Subhani

Khalid Mansoor

Khalid Mir

Andalib Alavi

Ruhail Mohammed

S. Imran ul Haque

Inamullah Naveed Khan

Tahir Jawaid

Committee Members

Asad Umar (Chairman)
Asif Qadir
Khalid S. Subhani
Khalid Mansoor
Khalid Mir
Andalib Alavi (Except COED)
S. Imran ul Haque
Ruhail Mohammed
Inamullah Naveed Khan
Tahir Jawaid (Except COED)

Secretaries

Imran Anwer
Management Committee

Jahangir Piracha
Corporate HSE Committee

Tahir Jawaid
COED Committee

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)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Net Sales Revenue	17,602	18,276	12,798	11,884	10,620	8,006	8,080	8,170	8,063	6,398
Operating Profit	2,756	2,641	2,233	2,534	2,327	1,736	1,914	1,980	2,230	1,721
Profit before Tax	3,445	3,220	2,315	2,323	1,836	1,191	1,350	1,342	1,807	1,337
Profit after Tax	2,547	2,319	1,611	1,557	1,133	1,064	1,126	1,048	1,488	1,202
Employee Costs	950	804	795	749	673	594	544	467	437	361
Taxes, Duties & Development Surcharge	4,633	4,168	3,911	3,457	3,062	2,266	1,762	1,489	1,607	1,417
Workers' Funds	251	215	156	168	113	69	71	71	95	81
Property, Plant and Equipment	6,318	6,351	6,492	6,648	6,865	6,643	6,462	6,714	6,700	3,870
Capital Expenditure	391	377	520	370	823	435	578	337	1,465	1,921
Long Term Investments	1,480	748	–	85	–	–	–	171	531	188
Long Term Liabilities	1,800	2,890	2,580	3,236	3,323	2,992	3,070	2,908	3,469	3,069
Net Current Assets	2,042	2,211	1,618	1,796	1,252,	1,194	993	484	750	998
Dividends And Shares										
Shareholders' Fund	9,370	7,376	6,586	6,199	5,817	5,727	5,582	5,181	4,918	4,215
Shares Outstanding at Year End (in Million)	168	153	153	153	139	139	121	121	101	88
Dividend per Share Rs.	9.0	11.0	8.5	8.0	7.5	7.5	7.0	6.0	8.0	7.5
Dividend payout rate	58%	77%	81%	79 %	104%	98%	75%	69%	54%	55%
Bonus Shares	–	–	–	–	10%	–	15%	–	20%	15%
(Thousand Metric Tons)										
Engro Urea Production	969	912	870	955	852	790	808	807	707	666
Engro Urea Sales	945	890	891	930	846	779	800	806	712	652
Zarkhez/Engro NP Production	108	157	121	72	73	31	–	–	–	–
Zarkhez/Engro NP Sales	116	143	114	86	64	24	–	–	–	–
Purchased Fertiliser Sales (including imported urea)	453	491	250	290	309	181	223	264	318	202

ENGRO CHEMICAL PAKISTAN LTD.

ENGRO

Proxy Form

I/we ____

of ______________________________ being a member of ENGRO CHEMICAL PAKISTAN LIMITED and holder of ____________________ Ordinary shares as per Share
(Number of Shares)

Register Folio No. ________ and/or CDC Participant I.D. No. ________ and Sub Account No ______
hereby appoint ______________________ of ______________________
or failing him ____
of ____

as my proxy to vote for me and on my behalf at the annual general meeting of the Company to be held on the 28th day of February, 2007 and at any adjournment thereof.

Signed this ______________________ day of ______________ 2007.

WITNESSES:

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

2. Signature: ______________________
   Name: ______________________
   Address: ______________________
   ____
   NIC or ______________________
   Passport No. ______________________

Signature

Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Note: Proxies in order to be effective, must be received by the Company not less than 48 hours before the meeting. A Proxy need not be a member of the Company.

CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.

ENGRO CHEMICAL PAKISTAN LIMITED

PNSC Building, Moulvi Tamizuddin Khan Road,
P.O. Box 5736, Karachi-74000, Pakistan.

www.engro.com