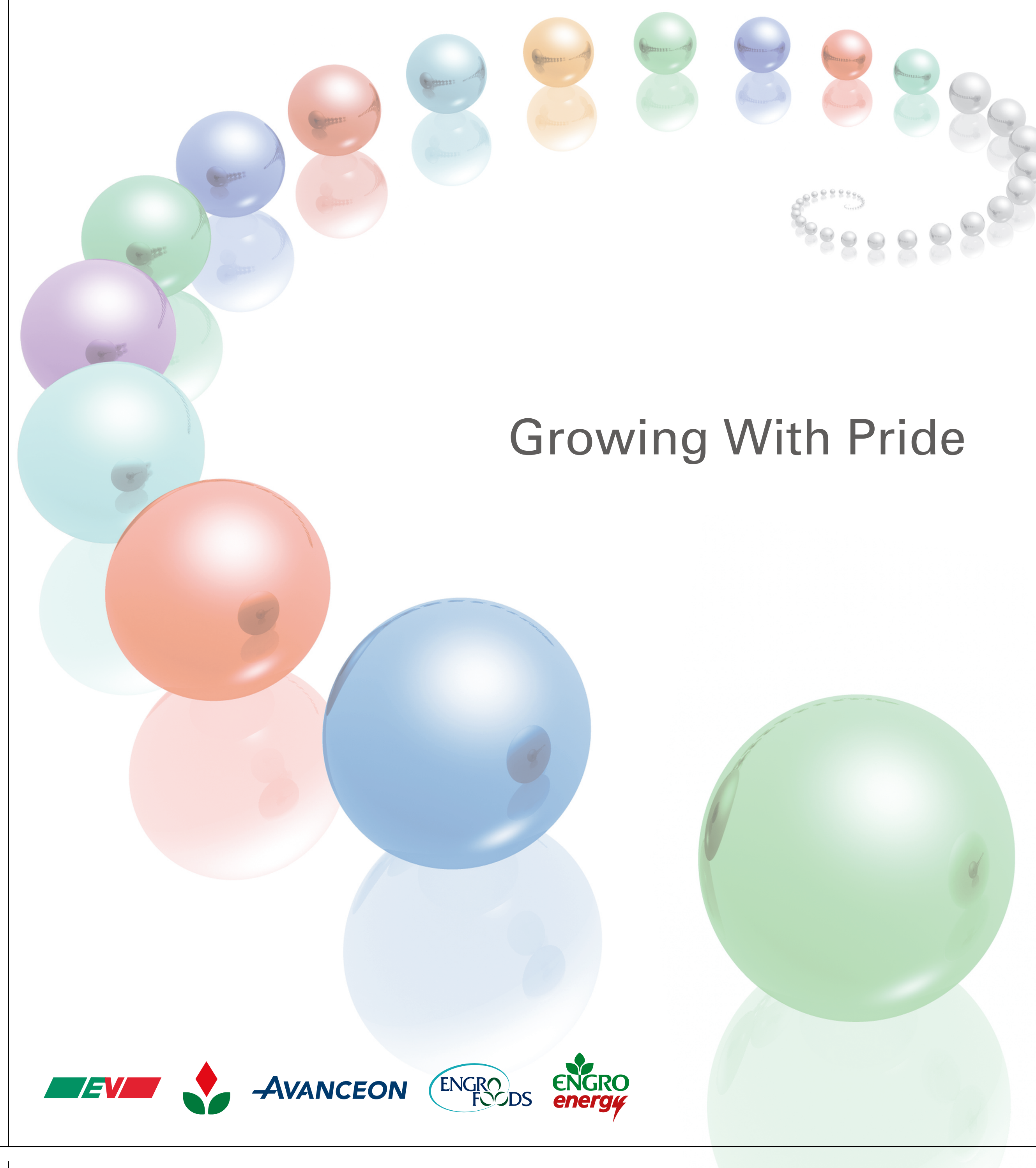
Third Quarter 2008 Accounts



Growing With Pride

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ENGRO CHEMICAL PAKISTAN LIMITED
UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

ENGRO

ENGRO CHEMICAL PAKISTAN LIMITED

ENGRO CHEMICAL PAKISTAN LIMITED
REPORT TO THE SHAREHOLDERS
NINE MONTHS ENDED SEPTEMBER 30, 2008

On behalf of the Board of Directors of Engro Chemical Pakistan Limited, we are pleased to present the un-audited accounts for the nine months ended September 30, 2008.

PAKISTAN FERTILIZER MARKET

The market demand for urea, during the nine months period ended September 30, 2008 was 4 million tons, an increase of 18% over the same period last year (3.4 Million tons). The increase is attributable to three major reasons, which are, better farm economics for rice, increase in sowing of BT Cotton (which requires greater application of fertilizer over conventional cotton varieties) and urea substitution by farmers over costlier DAP. Domestic production at 3.73 million tons was 6.5% higher for the nine months ended September 30, 2008 as compared to 3.5 million tons during the same period last year.

Whereas the demand for urea increased, the supply of urea was severely impacted due to less than required imports. The Government imported a volume of 80,000 tons of urea vs. an agreed volume of 300,000 tons for Kharif. This caused a severe shortage of Urea in the market and led to price flare up creating significant stress on the Industry, which worked in close coordination with Government at local levels to manage the situation.

International urea prices remained firm and on average the landed price of imported urea was approximately Rs. 2,400 per bag as against the prevailing average domestic price of Rs. 600 per bag. The fertilizer industry continues to make significant contribution to the agricultural economy and has, by keeping domestic prices substantially lower than international prices, provided a subsidy to farmers of approximately Rs. 100 Billion for the nine months ended September 30, 2008.

Industry wide sale of Phosphatic fertilizers decreased by over 60% to 0.3 million tons as compared to 0.8 million tons for the same period last year. Industry demand remained unusually low due to the higher Phosphate prices and absence of subsidy notification from the Government. Earlier in June this year, the Government had announced increase in its DAP subsidy from Rs. 470 per bag to Rs. 1000 per bag which failed to materialize in the form of any formal notification. At the same time the prior subsidy notification of Rs. 470 per bag also lapsed. The Government has now announced that it would increase the subsidy amount to Rs 2,200 per bag, formal notification in respect of which has also not been issued. However upon assurance from the Government that this notification would be issued forthwith, the industry has lowered prices to Rs. 3,050 per bag.

COMPANY OPERATING PERFORMANCE

Urea sales including imported urea were 806,000 tons, up by 23% for the same period last year, due to higher industry demand as well as higher inventory that we carried forward at the end of last year. This resulted in our market share increasing to 20% vs 19% last year. Our plant produced 740,000 tons against 692,000 tons last year during the same period.

The sale of company manufactured blended fertilizers (Zarkhez and Engro NP) was 71,000 tons vs 96,000 tons, a 26% drop which is much less than the 60% drop in the phosphate industry, during the period. This drop was experienced due to lower market demand caused by higher product prices.

The company's sale of imported phosphatic fertilizers, DAP and Zorawar, was 54,000 tons vs 248,000 tons for the same period last year, as a result of lower market demand.

The net profit for the nine months ended September 30, 2008 was Rs. 3,359 Million as compared to Rs. 1,593 Million for the same period last year. The increase in earnings is mainly attributable to dividend income from Engro Eximp (Private) Limited of Rs. 1,200 million along with higher urea sales, partially offset by higher financial charges and provision for taxation.

NEAR TERM OUTLOOK

Urea demand is expected to remain strong in the backdrop of short supply sentiment which is expected to persist in the near term. It is extremely important that the Government expedite import of sufficient quantity of urea to ensure adequate supplies for the Rabi season to avert a shortage that can potentially be greater than the one experienced in Kharif earlier this year. The Industry is however carrying sufficient inventories of Phosphatic fertilizers.

Our joint venture and subsidiaries are expected to continue to meet shareholders expectation.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Karachi
October 28, 2008

UNCONSOLIDATED CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT SEPTEMBER 30, 2008

(Amounts in thousand)

	Note	Unaudited September 30, 2008	Audited December 31, 2007 (Restated)
		Rupees	
SHARE CAPITAL AND RESERVES			
Authorized share capital			
300,000,000 (2007: 300,000,000) ordinary shares of Rs. 10 each		3,000,000	3,000,000
Issued, subscribed and paid up share capital			
212,816,117 (2007: 193,469,198) ordinary shares of Rs. 10 each		2,128,161	1,934,692
Share premium		7,152,723	3,963,977
Employee share compensation reserve	6	293,205	272,990
Employee housing subsidy reserve	7	36,660	-
Hedging reserve	8	1,744,492	1,037,386
General reserve		4,429,240	4,429,240
Unappropriated profit		6,455,676	4,102,366
		20,111,996	13,805,959
		22,240,157	15,740,651
NON CURRENT LIABILITIES			
Long term finances	9	22,952,595	15,422,520
Deferred taxation		2,631,993	1,948,980
Retirement and other service benefits		40,176	38,560
		25,624,764	17,410,060
CURRENT LIABILITIES			
Current portion of :			
- long term finances		1,600	1,300,000
- other service benefits		17,765	18,662
Short term borrowings - secured	10	4,575,812	-
Trade and other payables	11	3,353,759	3,752,945
Taxation		123,520	-
Unclaimed dividends		92,943	193,067
		8,165,399	5,264,674
CONTINGENCIES AND COMMITMENTS	12		
		56,030,320	**38,415,385**

(Amounts in thousand)

	Note	Unaudited September 30, 2008	Audited December 31, 2007 (Restated)
		Rupees	
NON CURRENT ASSETS			
Property, plant and equipment	13	26,882,322	13,818,674
Intangible assets		128,960	133,867
Long term investments	14	10,740,857	7,764,482
Deferred employee compensation expense		109,809	171,529
Long term loans, advances and other receivables		201,351	841,498
		38,063,299	22,730,050
CURRENT ASSETS			
Stores, spares and loose tools		863,237	740,873
Stock-in-trade	15	11,327,467	2,690,153
Trade debts	16	711,721	1,408,885
Deferred employee compensation expense		89,464	72,537
Loans, advances, deposits and prepayments		1,096,609	889,621
Other receivables	17	3,622,256	1,568,418
Taxation		-	543,376
Short term investments		76,700	6,153,948
Cash and bank balances		179,567	1,617,524
		17,967,021	15,685,335
		56,030,320	**38,415,385**

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

UNCONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand except for earnings per share)

	Note	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
		(Rupees)			
Net sales		5,857,711	4,963,854	14,681,956	13,083,392
Less: Cost of sales	**18**	4,086,645	3,784,688	9,527,379	9,886,562
GROSS PROFIT		1,771,066	1,179,166	5,154,577	3,196,830
Less: Selling and distribution expenses	**19**	365,541	352,186	1,061,900	981,344
		1,405,525	826,980	4,092,677	2,215,486
Add: Other income		1,368,121	105,231	1,612,181	651,288
		2,773,646	932,211	5,704,858	2,866,774
Less: Financial and other charges		576,791	141,561	968,296	382,756
Workers' Welfare Fund		41,741	12,994	89,995	47,196
Workers' Profits Participation Fund		109,843	39,533	236,828	124,201
		728,375	194,088	1,295,119	554,153
PROFIT BEFORE TAXATION		2,045,271	738,123	4,409,739	2,312,621
Less: Provision for taxation					
- Current	**20**	198,920	205,340	838,780	669,481
- Deferred		43,396	43,142	211,609	50,480
		242,316	248,482	1,050,389	719,961
PROFIT AFTER TAXATION		1,802,955	489,641	3,359,350	1,592,660
			(Restated)		(Restated)
Earnings per share - basic and diluted	**21**	8.51	2.57	16.40	8.49

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

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand)

	Share capital	Share premium	Employee share compensation reserve	Employee housing subsidy reserve	Hedging reserve	General reserve	Unappropriated profit	Total
				(Rupees)				
Balance as at January 1, 2007 (Audited)	1,682,340	1,068,369	-	-	-	4,429,240	2,190,148	9,370,097
Final Dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-	-	-	(504,702)	(504,702)
1st Interim Dividend 2007 @ Rs. 2.00 per share	-	-	-	-	-	-	(336,468)	(336,468)
Right share issue in the ratio of 1.5 for every 10 shares @ Rs.125 per share (including share premium net of share issue cost)	252,352	2,895,608	-	-	-	-	-	3,147,960
Net profit and total recognised income and expense for the period ended September 30, 2007	-	-	-	-		-	1,592,660	1,592,660
Balance as at September 30, 2007 (Unaudited)	1,934,692	3,963,977	-	-	-	4,429,240	2,941,638	13,269,547
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	-	1,037,386	-	-	1,037,386
Net profit and total recognised income and expense for the three months ended December 31, 2007	-	-	-	-	-	-	1,561,923	1,561,923
2nd Interim Dividend 2007 @ Rs. 2.00 per share	-	-		-	-	-	(386,939)	(386,939)
Balance as at December 31, 2007 (As previously reported)	1,934,692	3,963,977	-	-	1,037,386	4,429,240	4,116,622	15,481,917
Effect of change in date of grant of share option scheme (Note 6) - net of tax	-	-	272,990	-	-	-	(14,256)	258,734
Balance as at December 31, 2007 / January 1, 2008 (as restated)	1,934,692	3,963,977	272,990	-	1,037,386	4,429,240	4,102,366	15,740,651
Final Dividend for the year ended December 31, 2007 @ Rs. 3.00 per share	-	-	-	-	-	-	(580,408)	(580,408)
1st Interim Dividend 2008 @ Rs. 2.00 per share	-	-	-	-	-	-	(425,632)	(425,632)
Effect of changes in number of shares issued under employee stock option scheme	-	-	20,215	-	-	-	-	20,215
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	-	707,106	-	-	707,106
Right share issue in the ratio of 1 for every 10 Shares @ Rs.175 per share (including share premium net of share issue cost)	193,469	3,188,746	-	-	-	-	-	3,382,215
Net profit and total recognised income and expense for the nine months ended September 30, 2008	-	-	-	-	-	-	3,359,350	3,359,350
Employee housing subsidy scheme reserve	-	-	-	36,660	-	-	-	36,660
Balance as at September 30, 2008 (unaudited)	2,128,161	7,152,723	293,205	36,660	1,744,492	4,429,240	6,455,676	22,240,157

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

UNCONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand)

	Note	9 months ended September 30, 2008	9 months ended September 30, 2007
		(Rupees)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	22	(4,521,882)	2,170,142
Retirement & other service benefits paid		(83,216)	(78,454)
Taxes paid		(171,884)	(390,883)
Long term loans and advances - net		(89,122)	(3,577)
Net cash (outflow) / inflow from operating activities		(4,866,104)	1,697,228
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(13,533,533)	(6,409,891)
Sale proceeds on disposal of property, plant and equipment		83,690	8,908
Investment in subsidiary companies		(2,976,375)	(2,403,411)
Income on deposits / other financial assets		37,836	72,644
Dividends received		1,515,396	599,040
Net cash (outflow) from investing activities		(14,872,986)	(8,132,710)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of finance lease obligation		-	(1,726)
Repayment of long term finances		(1,300,800)	(643,750)
Proceeds from issue of share capital - net		3,382,215	3,148,260
Payment of finance cost		(859,653)	(244,373)
Proceeds from long term finances		7,532,475	13,400,000
Dividends paid		(1,106,164)	(817,581)
Net cash inflow from financing activities		7,648,073	14,840,830
Net (decrease) / increase in cash and cash equivalents		(12,091,017)	8,405,348
Cash and cash equivalents at the beginning of the period		7,771,472	733,797
Cash and cash equivalents at the end of the period	23	(4,319,545)	9,139,145

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand)

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 has also invested in joint ventures / other entities engaged in chemical related activities, industrial automation, food and energy businesses.

2. BASIS FOR PRESENTATION

These unconsolidated condensed interim financial statements have been presented in condensed form in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. They do not include all the information required for annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2007.

These unconsolidated condensed interim financial statements are unaudited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company in the preparation of these unconsolidated condensed interim financial statements are the same as those used for the preceding annual financial statements for the year ended December 31, 2007 except those pertaining to employee share option scheme and employee housing subsidy scheme adopted during the period and described in Note 3.1 and 3.2 respectively.

3.1 Employees' share option scheme

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

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

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

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

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

3.2 Employees' housing subsidy scheme

Employees compensation expense under housing subsidy scheme is recognized as an expense on a straight line basis over the vesting period with a corresponding credit to equity as employee housing subsidy reserve.

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

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

(Amounts in thousand)

4. **ESTIMATES**

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

In preparing these unconsolidated condensed interim financial statements, the significant judgments made by the management in applying accounting policies, key estimates and uncertainty includes:

- Residual value and useful life estimation of fixed assets.
- Taxation.
- Fair valuation of financial assets, liabilities and derivatives.
- Effectiveness of cash flow hedges.
- Employee compensation expense under employee share option scheme.
- Employee compensation expense under employee housing subsidy scheme.

5. The Company's fertilizer business is subject to seasonal fluctuations as a result of two different farming seasons viz, Rabi (from October to March) and Kharif (from April to September). On an average urea and phosphatic fertilizers sales are more tilted towards Rabi season. The Company manages seasonality in the business through appropriate inventory management.

6. **EMPLOYEES' SHARE OPTION SCHEME**

The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on August 23, 2007. According to the scheme senior employees who are critical to the business operations were to be granted options to purchase five million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. The number of options granted is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Remuneration Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant for employees who were granted shares on or before June 30, 2008 and shall end on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012. For options granted after June 30, 2008, the vesting period would be two and a half years from the date of issue of options, which can be excercised upto December 31, 2012.

During the period, the Company proposed certain changes relating to " date of grant " in the originally approved scheme. The Securities and Exchange Commission of Pakistan, through their letter SMD/CIW/ESOS/04/2008 dated July 10, 2008, has cleared these changes subject to the approval of shareholders by end December 2008. The effect of grant of share options has been incorporated in these condensed interim financial statements using the proposed changes to the scheme which defines the grant date as the date of EGM held on August 23, 2007. Approval of the shareholders to the proposed changes to the scheme is pending to date.

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

		(Rupees)
6.1	**Employee share option compensation reserve**	
	Amount recognised on grant date	272,990
	Add: Options issued during the period ended September 30, 2008 - net	20,215
	Closing Balance	**293,205**
6.2	**Deferred employee compensation expense**	
	Amount recognised on grant date	272,990
	Less: Amortisation for the period August 23, 2007 to December 31, 2007	28,924
	Closing balance as on December 31, 2007	**244,066**
	Add: Options issued during the period ended September 30, 2008 - net	20,215
	Less: Amortisation for the period ended September 30, 2008	65,008
	Closing balance	199,273
	Less: Current portion classified under current liabilities	89,464
	Long term portion of deferred employee compensation reserve	109,809

(Amounts in thousand)

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

Total number of share options issued	4,451,818
Fair value of the share options at grant date	Rs. 65.86
Share price at grant date	Rs. 220
Exercise price	Rs. 277
Annual Volatility	34.54%
Risk free rate used	10.77%

7. EMPLOYEES' HOUSING SUBSIDY SCHEME

The Company announced a mid term employee retention scheme (Employee Housing Subsidy Scheme) for its employees who are not entitled for Employee Share Option Scheme. Under this scheme the Company plans to disburse Rs. 540,000 as housing subsidy, which would be amortised over 2.5 years of employee service.

8. HEDGING RESERVE

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Fair values of :		
- Forward foreign exchange contracts	2,906,280	2,002,572
- Interest rate Swaps	274,803	-
	3,181,083	2,002,572
Less:		
- Arrangement fee	164,159	164,159
- Deferred tax	1,272,432	801,027
	1,744,492	1,037,386

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

At the period end the Company had forward exchange contracts to purchase Euros 227,260 at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts amounted to Rs. 1,531,380 at the period end.

The Company entered in various USD:PKR Forward contracts amounting to USD 279,511 to hedge its currency exposure against US dollars relating to the expansion project. The fair value of these contracts amounted to Rs. 1,374,900 at the period end.

During the period the Company entered into two interest rate swap agreements with the following banks:

Citibank N.A. Pakistan

The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from Islamic Offshore Finance for a notional amount of USD 50,000 amortising upto September 2014. Under the swap agreement, the Company would receive USD-LIBOR from Citibank N.A. Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap at the period ended September 30, 2008 amounted to Rs. 175,811.

Standard Chartered Bank

The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from DFI consortium for a notional amount of USD 85,000 amortising upto April 2016. Under the swap agreement, the Company would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap at the period ended September 30, 2008 amounted to Rs. 98,992.

(Amounts in thousand)

9. LONG TERM FINANCES

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Opening balance	16,722,520	2,887,500
Add: loans availed during the period-net of transaction cost	7,532,475	14,922,520
	24,254,995	17,810,020
Less: Repayments during the period	1,300,800	1,087,500
	22,954,195	16,722,520
Less: Current portion shown under current liability	1,600	1,300,000
Closing balance	22,952,595	15,422,520

During the nine months ended September 30, 2008, the Company issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs 6,000,000. The PPTFCs are perpetual in nature with a five year call and ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Company has begun drawdown of the Islamic Offshore Finance and Syndicated Finance.

The maturity of these facilities range from 7 to 9 years and mark-up is 1.10% to 1.80% over six month KIBOR for Rupee facility and 2.57% to 2.60% over six month LIBOR for USD facilities. These facilities excluding the PPTFCs are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

10. SHORT TERM BORROWINGS

The facility for short term finance available from various banks amounts to Rs. 6,300,000 (2007: Rs. 3,000,000). The rates of mark-up ranges from 10.50% to 14.70% (2007: 10.50 % to 11.00%) and the facilities are secured by floating charge upon all current and future moveable property of the Company.

11. TRADE AND OTHER PAYABLES

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Creditors (note 11.1)	1,017,614	1,650,988
Payable to Engro Foods Limited (a subsidiary company) for taxable losses acquired (note 20)	622,103	622,103
Accrued liabilities	380,072	434,762
Payable to employee benefit funds	13,008	8,703
Advances from customers	491,773	435,008
Financial charges accrued on secured		
- long term finances	406,439	378,139
- short term borrowings	50,521	7,821
Deposits from dealers refundable on termination of dealership	10,658	10,543
Contractors' deposits and retentions	28,146	15,420
Workers' profit participation fund	236,575	3,747
Workers' welfare fund	89,995	86,924
Sales tax payable	-	91,502
Others	6,855	7,285
	3,353,759	3,752,945

11.1 This includes payable of Rs. 631,517 (2007: Rs. 1,192,935) to Engro Eximp (Private) Limited (a wholly owned subsidiary) on account of purchased products.

(Amounts in thousand)

12. CONTINGENCIES AND COMMITMENTS

Contingencies

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

12.2 Corporate guarantees of Rs. 475,500 (2007 : Rs. 341,750) have been issued in favor of subsidiary companies.

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

12.4 The Company is contesting the penalty of Rs. 99,936 (2007 : Rs. 99,936) , paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 (2007 : Rs. 62,618) was however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on Court's decision.

12.5 The Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86. The sole arbitrator in the second case has awarded the Company Rs. 47,800 (2007 : Rs. 47,800) and it is hoped that the award for the earlier years will be announced shortly. The award for the second arbitration has not been recognized due to inherent uncertainties arising from its challenge in the High Court.

12.6 Commitments

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Plant and machinery (includes Letter of Credit for Rs. 18,800 (2007 : Nil) opened in favour of Avanceon Limited (formerly Engro Innovative (Private) Limited) a subsidiary company)	29,037,325	37,186,937
Forward exchange contracts	21,843,816	-
Employee housing subsidy scheme - Note 7	286,603	-

13. PROPERTY PLANT AND EQUIPMENT

13.1 Additions to fixed assets and capital work in progress during the period amounted to Rs. 13,556,065 (2007 : Rs. 7,875,168) and deletions at cost therefrom were Rs. 25,031 (2007 : Rs. 80,269).

13.2 Capital work in progress includes Rs.14,787,261 (2007 : Rs. 5,731,734) and Rs. 3,777,009 (2007 : Rs. 1,779,678) with respect to urea expansion project for plant and machinery and building and civil works respectively. The planned expansion project will cost an approximate USD 1,000,000 and will have a capacity of 1.3 million tons of urea per annum.

13.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 in prior years in respect of the 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 2nd quarter 2005, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgment in Company's favour.

Payments totaling Rs. 22,207 made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Company, for which an application has been filed with the Department.

(Amounts in thousand)

14. LONG TERM INVESTMENTS

	Equity % Held	Unaudited September 30, 2008	Audited December 31, 2007
		(Rupees)	
Subsidiaries- at cost			
Engro Eximp (Private) Limited	100%	100	100
Engro Management Services (Private) Limited	100%	2,500	2,500
Avanceon Limited (formerly Engro Innovative Automation (Private) Limited)	62.67%	381,957	381,957
Engro Foods Limited	100%		
- Paid-up Share Capital		2,400,000	2,200,000
- Advance against issue of share capital		1,600,000	200,000
Engro Energy (Private) Limited	100%		
- Paid-up Share Capital		3,040,000	1,652,725
- Advance against issue of share capital		-	25,000
Engro Polymer & Chemicals Limited	56.19%	2,847,200	2,847,200
Engro Powergen (Private) Limited	100%		
- Advance against issue of share capital		14,100	-
		10,285,857	7,309,482
Joint Ventures - at cost			
Engro Vopak Terminal Limited	50%	450,000	450,000
Others - at cost			
Arabian Sea Country Club Limited		5,000	5,000
Agrimall (Private) Limited (note 14.1)		-	-
		10,740,857	7,764,482

14.1 This represents the Company's share in the paid-up share capital of Agrimall (Private) Limited transferred free of cost to the Company under a joint venture agreement.

15. STOCK-IN-TRADE

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Raw Materials	1,934,863	586,251
Packing Material	70,642	21,534
	2,005,505	607,785
Work-in-process	6,430	7,952
Finished goods - own manufactured product	364,943	397,129
- purchased product	8,950,589	1,677,287
	9,315,532	2,074,416
	11,327,467	2,690,153

16. TRADE DEBTS

Considered good		
-Secured	691,900	1,372,804
-Unsecured	19,821	36,081
	711,721	1,408,885
Considered doubtful	8,059	8,159
	719,780	1,417,044
Less: Provision for doubtful debts	8,059	8,159
	711,721	1,408,885

17. OTHER RECEIVABLES

17.1 Other receivables include Rs. 3,118,274 (2007 : Rs. 1,210,495) as fair value of forward exchange contracts and interest rate swaps.

17.2 Other receivables also include Rs. 242,794 (2007 : Rs. 151,222) on account of compensation for mandatory reduction in sales price by the Government of Pakistan on phosphatic and potassic fertilizer inventory.

(Amounts in thousand)

18. COST OF SALES

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)			
Raw materials consumed	936,894	708,340	2,855,115	1,977,682
Salaries, wages and staff welfare	267,792	166,600	590,515	477,364
Fuel and power	753,059	494,661	1,824,900	1,513,747
Repairs and maintenance	50,216	51,374	255,640	174,133
Depreciation / amortization	151,078	151,246	452,532	454,885
Consumable stores	49,338	21,106	124,775	72,564
Staff recruitment, training, safety and other expenses	18,199	8,981	46,109	34,377
Purchased services	48,663	21,422	121,518	77,142
Travel	11,629	6,081	39,080	20,349
Communication, stationery and other office expenses	11,781	4,524	24,668	15,878
Insurance	14,328	18,526	43,615	56,305
Rent, rates and taxes	29,907	3,496	43,346	8,667
Other expenses	7,819	10,806	21,377	34,879
Manufacturing cost	2,350,703	1,667,163	6,443,190	4,917,972
Add: Opening stock of work-in-process	14,024	2,271	7,952	3,644
Less: Closing stock of work-in-process	6,430	2,971	6,430	2,971
	7,594	(700)	1,522	673
Cost of goods manufactured	2,358,297	1,666,463	6,444,712	4,918,645
Add: Opening stock of finished goods manufactured	443,775	554,962	397,129	163,202
Less: Closing stock of finished goods manufactured	364,943	530,082	364,943	530,082
	78,832	24,880	32,186	(366,880)
Cost of goods sold - own manufactured product	2,437,129	1,691,343	6,476,898	4,551,765
- purchased product	1,649,516	2,093,345	3,050,481	5,334,797
	4,086,645	3,784,688	9,527,379	9,886,562

19. SELLING AND DISTRIBUTION EXPENSES

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
Salaries, wages and staff welfare	59,435	62,604	223,962	173,605
Staff recruitment, training, safety and other expenses	9,349	3,643	34,978	20,398
Product transportation and handling	177,142	226,896	533,985	602,549
Repairs and maintenance	9,766	1,208	21,394	4,822
Advertising and sales promotion	23,956	6,553	40,129	35,173
Rent, rates and taxes	40,229	22,203	83,231	57,692
Communication, stationery and other office expenses	6,338	3,335	16,354	12,566
Travel	9,057	6,508	30,271	19,567
Depreciation / amortization	9,023	6,293	24,389	18,512
Purchased services	3,999	1,416	7,806	4,267
Other expenses	17,247	11,527	45,401	32,193
	365,541	352,186	1,061,900	981,344

(Amounts in thousand)

20. TAXATION

20.1 The company in its tax return for tax year 2007 claimed the benefit of Group Relief under Section 59 B of Income Tax Ordinance 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company, amounting to Rs. 428,744.

During the period ended September 30, 2008, an audit was conducted by the tax department for tax year 2007 and an assessment order was issued challenging the claiming of benefit of Group Relief by the Company and certain other issues. Consequently, Company filed an appeal against issues raised by the tax department. Gross demand amounting to Rs. 476,479 was raised out of which Company paid an amount of Rs. 70,000. Stay for payment of balance amount has been granted till November 30, 2008 or the decision of the learned ITAT whichever is earlier. Company is reasonably confident that the issue of Group Relief will be decided in its favour.

Further, the Company has also agreed to acquire income year 2007's losses of EFL and accordingly has recognised a liability of Rs. 622,103 (Note 11) in the financial statements being the equivalent tax effect of the losses to be acquired. These losses have been accounted for in the income tax return for income year 2007 of the Company filed with income tax department.

20.2 The Company has filed tax returns upto income year 2007. All assessments upto 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 June 1997 and December 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which it believes to be an error of fact and should be rectified. For December 1998, the Company has received favorable decision from the Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the Company is in Appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The Company has also filed reference with Alternative Dispute Resolution Committee (ADRC) of Federal Board of Revenue (FBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. A favourable decision in this respect has been received. 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 2003 - 2007 income tax returns have been filed under self assessment scheme.

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

21. EARNINGS PER SHARE

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)			
Profit after taxation	1,802,955	489,641	3,359,350	1,592,660
		(Restated)		(Restated)
Weighted average number of Ordinary Shares (In thousand)	211,935	190,382	204,826	187,698

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

(Amounts in thousand)

22. CASH GENERATED FROM OPERATIONS

	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)	
Profit before taxation	4,409,739	2,312,621
Adjustment for non-cash charges and other items:		
Depreciation / amortization	476,921	473,397
Profit on disposal of property, plant and equipments	(68,808)	(323)
Provision for retirement and other service benefits	88,240	85,188
Income on deposits / other financial assets	(5,659)	(102,065)
Employee share compensation expense	49,987	-
Employee housing subsidy expense	34,670	-
Dividend Income	(1,515,396)	(528,701)
Financial charges	930,653	381,767
Working capital changes (note 22.1)	(8,922,229)	(451,742)
	(4,521,882)	2,170,142

22.1 Working capital changes

(Increase) / decrease in current assets		
Stores, spares and loose tools	(122,364)	(56,026)
Stock-in-trade	(8,637,314)	(4,549,679)
Trade debts	697,164	(1,635,582)
Loans, advances, deposits and prepayments	(206,988)	(84,283)
Other receivables - net	(178,236)	711,963
	(8,447,738)	(5,613,607)
Increase / (Decrease) in current liabilities		
Trade and other payables including other service benefits - net	(474,491)	5,161,865
	(8,922,229)	(451,742)

23. CASH AND CASH EQUIVALENTS

Cash and bank balances	179,567	2,465,441
Short term investments	76,700	6,742,156
Short term borrowings	(4,575,812)	(68,452)
	(4,319,545)	9,139,145

(Amounts in thousand)

24. TRANSACTIONS WITH RELATED PARTIES

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

	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)	
Associates		
Purchases and services	4,069,104	1,603,666
Services rendered	-	967
Retirement benefits	82,307	70,437
Dividends paid	420,054	351,216
Right shares issued (including share premium)	1,413,643	1,317,059
Joint Ventures		
Services rendered	584	1,048
Purchases and services	29,398	-
Dividends received	157,500	135,000
Subsidiaries		
Services rendered	18,245	23,125
Purchases and services	9,070,524	9,436,077
Dividends received	1,357,896	464,040
Long term investments made	2,976,375	2,473,750
Mark-up from a subsidiary	16,516	15,794
Others		
Remuneration paid to key management personnel / directors	98,910	68,915
Dividends paid	13,411	5,297
Right shares issued (including share premium) to key management personnel / directors	26,889	17,535

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Balances due from		
- Joint Ventures - includes dividend receivable of Rs. 90,000 (2007 : Rs. 90,000) from Engro Vopak Terminal Limited	93,134	88,931
- Subsidiaries - including subordinated loan of Rs. 190,000 (2007 : Rs. 190,000) to Engro Eximp (Private) Limited, wholly owned subsidiary	205,048	194,133

25. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Company have declared a second interim dividend for the year ending December 31, 2008 of Rs. 2.00 per share (December 31, 2007 : Rs. 3.00 per share final cash dividend), at their meeting held on October 28, 2008. These condensed financial statements for the period ended September 30, 2008 do not include the effect of the declared cash dividend which will be accounted for in the subsequent accounting period.

26. DATE OF AUTHORIZATION FOR ISSUE

These condensed financial statements were authorized for issue on October 28, 2008 by the Board of Directors of the Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

ENGRO

ENGRO CHEMICAL PAKISTAN LIMITED AND ITS SUBSIDIARY COMPANIES

ENGRO CHEMICAL PAKISTAN LIMITED AND ITS SUBSIDIARY COMPANIES
REPORT TO THE SHAREHOLDERS
NINE MONTHS ENDED SEPTEMBER 30, 2008

On behalf of the Board of Directors of Engro Chemical Pakistan Limited, we are pleased to present the un-audited group consolidated accounts for the nine months ended September 30, 2008 comprising of:

Holding Company

Engro Chemical Pakistan Limited

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

Engro Eximp (Private) Limited (100% equity held);
Engro Management Services (Private) Limited (100% equity held);
Engro Foods Limited (100% equity held);
Engro Energy (Private) Limited (100% equity held);
Engro Polymer and Chemicals Limited (56.19% equity held);
Avanceon Limited [formerly Engro Innovative Automation (Private) Limited] (62.67% equity held); and
Engro Powergen (Private) Limited

The un-audited group consolidated results also accounts for our share of profit in Engro Vopak Terminal Limited, a 50% owned joint venture.

The consolidated net profit for the nine months ended September 30, 2008 was Rs. 3,161 million as compared to Rs. 1,376 million for the same period last year. The primary reason for variation is higher urea sales and increased profitability of Polymer business partly offset by losses at Engro Foods.

Engro Chemical Pakistan Limited recorded net profit of Rs. 3,359 million for the nine months ended September 30, 2008 compared to Rs. 1,593 million in the corresponding period last year. The increase in earnings is mainly attributable to dividend income from Engro Eximp (Private) Limited of Rs. 1,200 million along with higher urea sales, partially offset by higher financial charges and provision for taxation. Our share of earnings at Engro Vopak for the nine months ended September 30, 2008 was Rs. 153 million. Comparative share for the same period last year was Rs. 178 million.

The financial impact of the following seven subsidiary companies on the consolidated earning for the nine months ended September 30, 2008 is as follows:

Engro Polymer & Chemicals Limited revenue during the nine months period ended September 30, 2008 was Rs. 6,536 million as against Rs. 4,691 million for the same period last year. It posted a net profit of Rs. 589 million versus Rs. 307 million in the same period last year, an increase of 92%. Our share in Engro Polymer was 56.19% as at September 30, 2008 as compared to 80% at the same time last year.

Engro Eximp (Private) Limited is a wholly owned subsidiary of Engro Chemical Pakistan Limited. During the nine months period ended September 30, 2008, it posted net profit of Rs. 3,209 million as compared to Rs. 1,005 million for the same period last year.

Engro Management Services (Private) Limited is a wholly owned subsidiary of Engro Chemical Pakistan Limited. There were no business transactions for the period.

Engro Foods Limited turnover during the nine months ended September 30, 2008 was Rs. 5,661 million versus Rs. 2,456 million in the same period of last year, an increase of 130%. Engro Foods Limited incurred a loss of Rs. 544 million in the nine months period ended September 30, 2008 due to its planned expansion and market development activities.

Engro Energy (Private) Limited is a wholly owned subsidiary of Engro Chemical Pakistan Limited. During the nine months period ended September 30, 2008, it posted net profit of Rs. 4.5 million. This represents income earned on bank deposits net of expenses.

Avanceon Limited (formerly Engro Innovative Automation (Private) Limited) increased its revenue by 33% to Rs. 1,248 million during the nine months period ended September 30, 2008. It incurred net losses of Rs. 128 million as against 166 million, showing reduction in losses by 23%. The revenue and loss number includes the acquired US Company Advanced Automation.

Engro Powergen (Private) Limited was incorporated during the period ended June 30, 2008. Pre-incorporation expenses amounted to Rs. 7.8 million.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Karachi
October 28, 2008

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT SEPTEMBER 30, 2008

(Amounts in thousand)

	Note	Unaudited September 30, 2008	Audited December 31, 2007 (Restated)
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Authorised share capital			
300,000,000 (2007: 300,000,000) Ordinary Shares of Rs. 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up share capital			
212,816,117 (2007: 193,469,198) Ordinary Shares of Rs. 10 each		2,128,161	1,934,692
Share premium		7,152,723	3,963,977
Employee share compensation reserve	**6**	302,830	272,990
Employee housing subsidy reserve	**7**	36,660	-
Hedging reserve	**8**	1,776,093	1,037,386
Revaluation reserve on business combination		127,646	135,304
General reserve		4,429,240	4,429,240
Unappropriated profit		5,650,572	3,496,089
		19,475,764	13,334,986
		21,603,925	15,269,678
MINORITY INTEREST		3,148,208	2,995,746
		24,752,133	18,265,424
NON CURRENT LIABILITIES			
Long term finances	**9**	31,146,582	18,284,262
Liabilities against assets subject to finance lease		32,127	30,028
Retention money against project payments		428,268	-
Deferred taxation		3,580,352	2,977,586
Retirement and other service benefits		79,245	70,239
		35,266,574	21,362,115
CURRENT LIABILITIES			
Current portion of:			
- long term finances		166,445	1,432,509
- liabilities against assets subject to finance leases		32,198	17,007
- other service benefits		19,405	20,339
Short term borrowings	**10**	7,269,034	901,953
Trade and other payables	**11**	5,985,166	7,039,958
Taxation		105,969	-
Unclaimed dividends		92,943	193,067
		13,671,160	9,604,833
CONTINGENCIES AND COMMITMENTS	**12**		
		73,689,867	**49,232,372**

(Amounts in thousand)

	Note	Unaudited September 30, 2008	Audited December 31, 2007 (Restated)
		(Rupees)	
NON CURRENT ASSETS			
Property, plant and equipment	**13**	46,346,485	23,477,979
Biological assets		25,685	10,065
Intangible assets		649,018	565,691
Long term investments		490,815	493,517
Deferred employee compensation expense		119,434	171,529
Long term loans, advances and other receivables		317,885	946,013
		47,949,322	25,664,794
CURRENT ASSETS			
Stores, spares and loose tools		1,124,960	915,384
Stock-in-trade	**14**	11,391,771	3,782,295
Trade debts	**15**	1,291,918	1,852,844
Deferred employee compensation expense		85,186	72,537
Loans, advances, deposits and prepayments		1,412,377	1,087,294
Other receivables and other assets	**16**	8,072,651	2,801,456
Taxation		-	599,949
Short term investments		1,294,220	10,322,832
Cash and bank balances		1,067,462	2,132,987
		25,740,545	23,567,578
		73,689,867	**49,232,372**

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand except for earnings per share)

	Note	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
		(Rupees)			
Net sales		10,660,850	7,945,289	28,122,838	21,165,740
Less: Cost of sales	**17**	7,534,835	6,034,576	19,559,936	16,006,492
GROSS PROFIT		3,126,015	1,910,713	8,562,902	5,159,248
Less: Selling and Distribution expenses	**18**	965,771	897,549	2,932,292	2,474,154
		2,160,244	1,013,164	5,630,610	2,685,094
Other income		118,343	93,201	842,534	175,293
		2,278,587	1,106,365	6,473,144	2,860,387
Less: Finance cost & other operating charges		930,522	209,580	1,503,637	582,689
Workers' Welfare Fund		73,082	17,459	134,959	57,034
Workers' Profit Participation Fund		93,770	49,989	254,814	148,796
		1,097,374	277,028	1,893,410	788,519
Add: Share in income from Joint Venture		54,796	61,309	154,798	177,509
PROFIT BEFORE TAXATION		1,236,009	890,646	4,734,532	2,249,377
Less: Provision for taxation	**19**				
- Current		438,824	289,199	1,216,709	839,724
- Deferred		(45,977)	107,421	152,944	62,698
		392,847	396,620	1,369,653	902,422
PROFIT AFTER TAXATION		843,162	494,026	3,364,879	1,346,955
Attributable to:					
- Equity holders of Holding Company		809,831	516,334	3,160,523	1,375,661
- Minority Interest		33,331	(22,308)	204,356	(28,706)
		843,162	494,026	3,364,879	1,346,955
			(Restated)		(Restated)
Earnings per share - basic and diluted	**20**	3.82	2.71	15.43	7.33

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

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand)

	Share Capital	Share Premium	Employee share compensation reserve	Employee housing subsidy reserve	Hedging Reserve	Revaluation Reserve on business combination	General Reserve	Unappro-priated Profit	Sub Total	Minority Interest	Total
	(Rupees)										
Balance as at January 1, 2007 as previously stated	1,682,340	1,068,369	-	-	-	197,316	4,429,240	1,861,933	9,239,198	556,973	9,796,171
Final Dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-		-	-	(504,702)	(504,702)	-	(504,702)
First Interim Dividend 2007 @ Rs. 2.00 per share	-	-	-	-	-	-	-	(336,468)	(336,468)	-	(336,468)
Net profit and total recognised income and expense for the nine months ended September 30, 2007	-	-	-	-	-	-	-	1,375,661	1,375,661	(28,706)	1,346,955
Dividend pertaining to minority interest	-	-	-	-	-	-	-	-	-	(74,760)	(74,760)
Addition to minority interest due to change in holding percentage of EPCL & Avanceon Limited	-	-	-	-	-	-	-	-	-	55,985	55,985
Acquisition of share of minority interest	-	-	-	-	-	-	-	-	-	9,485	9,485
Right Shares issued by a subsidiary company	-	-	-	-	-	-	-	-	-	494,333	494,333
Right Shares issued during the year in the ratio of 1.5 for every 10 shares @ Rs. 125 per share (including share premium net of share issue cost)	252,352	2,895,608	-	-	-	-	-	-	3,147,960	-	3,147,960
Amortization of revaluation surplus arising on acquisition of a subsidiary company	-	-	-	-	-	(59,509)	-	-	(59,509)	(23,804)	(83,313)
Balance as at September 30, 2007	1,934,692	3,963,977	-	-	-	137,807	4,429,240	2,396,424	12,862,140	989,506	13,851,646
Effective portion of changes in the fair value of cash flow hedge - net	-	-	-	-	1,037,386	-	-	-	1,037,386	-	1,037,386
Amortization of revaluation surplus arising on acquisition of a subsidiary company	-	-	-	-	-	(2,503)	-	-	(2,503)	(1,001)	(3,504)
Net income / expenses directly recognised in equity	-	-	-	-	1,037,386	(2,503)	-	-	1,034,883	(1,001)	1,033,882
Net profit and total recognised income and expense for three months period ended December 31, 2007	-	-	-	-	-	-	-	1,500,859	1,500,859	(14,026)	1,486,833
Second interim dividend 2007 @ Rs. 2.00 per share	-	-	-	-	-	-	-	(386,938)	(386,938)	-	(386,938)
Addition to minority interest due to change in holding percentage of EPCL & Avanceon Limited	-	-	-	-	-	-	-	-	-	1,461,247	1,461,247
Advance against issue of share capital of subsidiary company - minority interest	-	-	-	-	-	-	-	-	-	560,020	560,020
Balance as at December 31, 2007 (Audited)	1,934,692	3,963,977	-	-	1,037,386	135,304	4,429,240	3,510,345	15,010,944	2,995,746	18,006,690
Effect of change in date of grant of share option scheme (Note 6) - net of tax	-	-	272,990	-	-	-	-	(14,256)	258,734	-	258,734
Balance as at December 31, 2007 / January 1, 2008 (as restated)	1,934,692	3,963,977	272,990	-	1,037,386	135,304	4,429,240	3,496,089	15,269,678	2,995,746	18,265,424
Final Dividend for the year ended December 31, 2007 @ Rs. 3.00 per share	-	-	-	-	-	-	-	(580,408)	(580,408)	-	(580,408)
First interim dividend 2008 @ Rs. 2.00 per share	-	-	-	-	-	-	-	(425,632)	(425,632)	-	(425,632)
Effective portion of changes in the fair value of cash flow hedge - net	-	-	-	-	738,707	-	-	-	738,707	43,208	781,915
Amortization of revaluation surplus arising on acquisition of a subsidiary company	-	-	-	-	-	(7,658)	-	-	(7,658)	(3,062)	(10,720)
Net income / expenses directly recognised in equity	-	-	-	-	738,707	(7,658)	-	-	731,049	40,146	771,195
Right share issue in the ratio of 1 for every 10 shares @ Rs. 175 per share (including share premium net of share issue cost)	193,469	3,188,746	-	-	-	-	-	-	3,382,215	-	3,382,215
Issuance of shares under employee stock option scheme (Note 6)	-	-	29,840	-	-	-	-	-	29,840	-	29,840
Employee housing subsidy reserve (Note 7)	-	-	-	36,660	-	-	-	-	36,660	-	36,660
Net profit and total recognised income and expense for the nine months ended September 30, 2008	-	-	-	-	-	-	-	3,160,523	3,160,523	204,356	3,364,879
Dividend pertaining to minority interest	-	-	-	-	-	-	-	-	-	(95,000)	(95,000)
Addition to minority interest due to change in holding percentage of EPCL	-	-	-	-	-	-	-	-	-	2,960	2,960
Balance as at September 30, 2008 (Unaudited)	2,128,161	7,152,723	302,830	36,660	1,776,093	127,646	4,429,240	5,650,572	21,603,925	3,148,208	24,752,133

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand)

	Note	9 months ended September 30, 2008	9 months ended September 30, 2007
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	**21**	(5,597,211)	(2,250,239)
Retirement and other service benefits paid		(118,974)	(133,110)
Finance cost		(971,759)	(308,745)
Taxes paid		(510,791)	(951,065)
Long term loans and advances - net		(101,141)	(157,595)
Net cash (outflow) from operating activities		(7,299,876)	(3,800,754)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(23,845,019)	(9,821,820)
Sale proceeds on disposal of fixed assets		110,150	37,308
Income on deposits / other financial assets		98,162	590,267
Retention money against project payments		428,268	-
Acquisition of subsidiary net of cash acquired		-	(226,896)
Dividends received		157,500	157,500
Net cash outflow from investing activities		(23,050,939)	(9,263,641)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term finance - net		11,596,256	14,831,256
Liability against assets subject to finance lease - net		17,290	12,032
Proceeds from issuance of right shares		3,382,215	3,148,260
Received from minority interest against share issuance		-	494,333
Dividends paid		(1,106,164)	(892,341)
Net cash inflow from financing activities		13,889,597	17,593,540
Net (decrease) / increase in cash and cash equivalents		(16,461,218)	4,529,145
Cash and cash equivalents at the beginning of the period		11,553,866	656,131
Cash and cash equivalents at the end of the period	**22**	(4,907,352)	5,185,276

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

(Amounts in thousand)

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (the Holding Company) is a public listed company incorporated in Pakistan. The principal activity of the Holding Company is manufacturing, purchasing and marketing of fertilizers. The Holding Company has also invested in joint ventures / other entities engaged in chemical related activities, industrial automation, food and energy businesses. During the period ended September 30, 2008, the Holding Company has incorporated a subsidiary by the name of Engro Powergen (Private) Limited.

These consolidated condensed interim financial statements include the financial statements of the Holding Company and each of those companies in which it owns over 50% of voting rights; [Engro Eximp (Private) Limited, Engro Management Services (Private) Limited, Engro Foods Limited, Engro Energy (Private) Limited, Engro Polymer & Chemicals Limited, Avanceon Limited (formerly Engro Innovative Automation (Private) Limited) and Engro Powergen (Private) Limited - "the Group"].

Engro Eximp (Private) Limited, Engro Management Services (Private) Limited, Engro Foods Limited, Engro Energy (Private) Limited and Engro Powergen (Private) Limited are wholly owned subsidiaries of ECPL while the controlling interest in Engro Polymer & Chemicals Limited is 56.19% and Avanceon Limited (formerly Engro Innovative Automation (Private) Limited) is 62.67%.

The financial statements of the subsidiary companies have been consolidated on a line by line basis. The carrying value of investments held by ECPL is eliminated against the subsidiaries shareholders' equity in the consolidated financial statements.

Minority Interest are presented as a separate item in these consolidated condensed interim financial statements. All material intercompany balances and transactions have been eliminated.

The Group's interest in jointly controlled entity, Engro Vopak Terminal Limited has been accounted for using Equity Method.

2. BASIS FOR PRESENTATION

These consolidated condensed interim financial statements have been presented in condensed form in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. They do not include all the information required for annual financial statements and should be read in conjunction with the financial statements of the Holding Company for the year ended December 31, 2007.

These consolidated condensed interim financial statements are unaudited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Holding Company in the preparation of these consolidated condensed interim financial statements are the same as those used for the preceding annual financial statements for the year ended December 31, 2007 except those pertaining to employees' share option scheme and employees' housing subsidy scheme adopted during the period described in Note 3.1 & 3.2 respectively.

3.1 Employees' share option scheme

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

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

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

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

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

3.2 Employees' housing subsidy scheme

Employees compensation expense under housing subsidy scheme is recognized as an expense on a straight line basis over the vesting period with a corresponding credit to equity as employee housing subsidy reserve.

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

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

(Amounts in thousand)

4. ESTIMATES

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

In preparing these consolidated condensed interim financial statements, the significant judgments made by the management in applying accounting policies, key estimates and uncertainty includes:

- Residual value and useful life estimation of fixed assets.
- Taxation.
- Fair valuation of financial assets, liabilities and derivatives.
- Effectiveness of cash flow hedges.
- Employee compensation expense under employee share option scheme.
- Employee compensation expense under employee housing subsidy scheme.

5. The Holding Company's fertilizer business is subject to seasonal fluctuations as a result of two different farming seasons viz, Rabi (from October to March) and Kharif (from April to September). On an average urea and phosphatic fertilizers sales are more tilted towards Rabi season. The Holding Company manages seasonality in the business through appropriate inventory management.

6. EMPLOYEES' SHARE OPTION SCHEME

6.1 The employees' share option scheme (the Scheme) of Holding Company was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on August 23, 2007. According to the scheme senior employees who are critical to the business operations were to be granted options to purchase five million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. The number of options granted is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Remuneration Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant for employees who were granted shares on or before June 30, 2008 and shall end on December 31, 2010, where after these options can be exercised within a period of two years ending December 31, 2012. For options granted after June 30, 2008, the vesting period would be two and a half years from the date of issue of options, which can be excercised upto December 31, 2012.

During the period, the Holding Company proposed certain changes relating to " date of grant " in the originally approved scheme. The Securities and Exchange Commission of Pakistan, through their letter SMD/CIW/ESOS/04/2008 dated July 10, 2008, has cleared these changes subject to the approval of shareholders by end December 2008. The effect of grant of share options has been incorporated in these condensed interim financial statements using the proposed changes to the scheme which defines the grant date as the date of EGM held on August 23, 2007. Approval of the shareholders to the proposed changes to the scheme is pending to date.

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

During the period, Engro Polymer & Chemicals Limited has proposed certain changes relating to " date of grant " in the originally approved scheme. The Securities and Exchange Commission of Pakistan, in September 2008 has approved these changes. The effect of grant of share options has been incorporated in these condensed interim financial statements using the proposed changes to the scheme which defines the grant date as the date of EGM held on October 8, 2007.

The effect of grant of share options has been incorporated in these condensed interim financial statements. Amounts recognized in the financial statements are as follows:

(Amounts in thousand)

6.3 Employee share option compensation reserve

	(Rupees)
Amount recognized on grant date	272,990
Add: Options issued during the period ended September 30, 2008 by Holding Company- net	20,215
	293,205
Add: Options issued by EPCL (subsidiary company) - net	9,625
Closing balance	302,830

6.4 Deferred employee compensation expense

Amount recognized on grant date	272,990
Less: Amortization for the period August 23, 2007 to December 31, 2007	28,924
Closing balance as on December 31, 2007	244,066
Add: Options issued during the period ended September 30, 2008 - net	29,840
Less: Amortization for the period ended September 30, 2008	69,286
Closing balance	204,620
Less: Current portion classified under current liabilities	85,186
Long term portion of deferred employee compensation reserve	119,434

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

	HOLDING COMPANY	SUBSIDIARY COMPANY (EPCL)
Total number of share options issued	4,451,818	5,175,000
Fair value of the share options at grant date	Rs. 65.86	Rs. 1.86
Share price at grant date	Rs. 220	Rs. 18
Exercise price	Rs. 277	Rs. 22
Annual Volatility	34.54%	15.13%
Risk free rate used	10.77%	10.12%

7. EMPLOYEES' HOUSING SUBSIDY SCHEME

The Holding Company has announced a mid term employee retention scheme (Employee Housing Subsidy Scheme) for its employees who are not entitled for Employee Share Option Scheme. Under this scheme the Holding Company plans to disburse Rs. 540,000 as housing subsidy, which would be amortized over 2.5 years of employee service.

8. HEDGING RESERVE

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Fair values of:		
- Forward foreign exchange contracts	3,013,833	2,002,572
- Interest rate swaps	274,803	-
	3,288,636	2,002,572
Less:		
- Arrangement fee	164,159	164,159
- Deferred tax	1,293,170	801,027
- Minority interest	55,214	-
	1,776,093	1,037,386

Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges. The Group entered in various forward contracts to hedge its foreign currency exposure. At the period end the Group had forward exchange contracts to purchase Euros 227,260 and USD 30,000 at various maturity dates matching the anticipated payment dates for commitments with respect to expansion projects. The fair value of these contracts amounted to Rs. 1,612,380 at the period end.

The Holding Company entered in various USD : PKR Forward contracts amounting to USD 279,511 to hedge its currency exposure against US dollars relating to the expansion project. The fair value of these contracts amounted to Rs. 1,374,900 at the period end.

(Amounts in thousand)

During the period the Holding Company entered into two interest rate swap agreements with the following banks:

Citibank N.A. Pakistan

The Holding Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from Islamic Offshore Finance for a notional amount of USD 50,000 amortizing upto September 2014. Under the swap agreement, the Holding Company would receive USD-LIBOR from Citibank N.A. Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap at the period ended September 30, 2008 amounted to Rs. 175,811.

Standard Chartered Bank

The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from DFI consortium for a notional amount of USD 85,000 amortizing upto April 2016. Under the swap agreement, the Holding Company would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap at the period ended September 30, 2008 amounted to Rs. 98,992.

9. LONG TERM FINANCES

9.1 During the six months period, the Holding Company issued Privately Placed TFCs issue of Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs 6,000,000. The PPTFCs are perpetual in nature with a five year call and ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Holding Company has begun drawdown of the Islamic Offshore Finance and Syndicated Finance.

The maturity of these facilities range from 7 to 9 years and mark-up is 1.10% to 1.80% over six month KIBOR for rupee facility and 2.57% to 2.60% over six month LIBOR for USD facilities. These facilities excluding the PPTFCs are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

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

Syndicate Term Finance Agreements as referred to above, carries interest rate of 6 months KIBOR plus 0.69%.

The above finance is secured by a registered pari passu charge over present and future fixed assets of EFL.

9.3 Engro Polymer & Chemicals Limited (EPCL) has entered into a Syndicated Term Finance Agreement on October 12, 2007 for Rs. 5,700,000. The facility is repayable in seventeen semi-annual installments commencing 30 months after May 9, 2008, the effective date. The facility carries mark-up at the rate of 2.25% over six months KIBOR and monitoring fee of Rs. 700 per annum. Commitment fee at the rate of 0.15% per annum is also payable on that part of the finance that has not been drawn. During the period, EPCL has drawn down Rs. 3,200,000 against the facility.

Transaction costs amounting to Rs. 108,311 have been netted-off against the drawn amount of finance, as per policy.

During the period, on February 15, 2008, EPCL repaid the bridge finance facility amounting to Rs. 1,240,000 . This facility was arranged to meet the intermediate funding requirements of the Project.

EPCL effective June 21, 2007, entered into a loan agreement with the International Finance Corporation (IFC) consisting of:

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

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

The loans, obtained to finance the Expansion Project, carry an interest at the rate of 2.60% to 3.00% above 6 months LIBOR with a commitment fee at the rate of 0.50% per annum on that part of the loan that has not been disbursed. The loans are to be repaid in fifteen half yearly installments commencing from June 15, 2010.

10. SHORT TERM BORROWINGS

10.1 The facility to Holding Company for short term finance available from various banks amounts to Rs. 6,300,000 (2007: Rs. 3,000,000). The rates of mark-up ranges from 10.50% to 14.70% (2007: 10.50 % to 11.00%) and the facilities are secured by floating charge upon all current and future moveable property of the Company.

10.2 The facility to EFL for short term running finance available from various banks amounts to Rs. 1,600,000 (2007 : Rs. 900,000). The rates of mark-up range from 0.5% to 2% over one month KIBOR and 0.75% to 3% over three month KIBOR per annum (2007 : 10.65% to 10.89% per annum) and the facilities are secured by floating charge upon all the present and future current assets of EFL.

(Amounts in thousand)

11. TRADE AND OTHER PAYABLES

	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Creditors	2,340,475	4,131,909
Accrued liabilities	1,179,006	1,185,214
Payable to employee benefit fund	30,264	17,272
Advances from customers	930,563	616,858
Finance cost accrued on secured:		
- redeemable capital and long term loans	635,230	465,148
- short term borrowings	92,065	25,838
Deposits from dealers refundable on termination of dealership	13,668	13,988
Contractors' deposits and retentions	59,485	138,888
Workers' profits participation fund	281,539	3,747
Workers' welfare fund	107,981	99,879
Sales tax payable	2,808	91,502
Provision for infrastructure fee	231,591	178,599
Others	80,491	71,116
	5,985,166	7,039,958

12. CONTINGENCIES AND COMMITMENTS

Contingencies

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

12.2 Corporate guarantees of Rs. 942,325 (2007 : Rs. 665,568) have been issued on behalf of the Group.

12.3 The Group is contesting the penalty of Rs. 99,936 (2007 : Rs. 99,936) paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 (2007 : Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

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 (2007 : Rs. 47,800) and it is hoped that the award for the earlier years will be announced shortly. The award for the second arbitration has not been recognized due to inherent uncertainties arising from its challenge in the High Court.

Commitments

		Unaudited September 30, 2008	Audited December 31, 2007
		(Rupees)	
12.5	Plant and machinery	43,459,460	53,152,926
12.6	Forward exchange contracts	21,843,816	-
12.7	Employee housing subsidy scheme	286,603	-

13. PROPERTY PLANT AND EQUIPMENT

13.1 Additions to fixed assets, biological assets and capital work in progress during the period amounted to Rs. 23,845,019 (2007 : Rs. 13,972,020) and deletions at cost there from were Rs. 60,526 (2007 : Rs. 199,486).

13.2 Capital work in progress includes Rs. 14,787,261 (2007 : Rs. 5,731,734) and Rs. 3,777,009 (2007 : Rs. 1,799,678) with respect to urea expansion project for plant and machinery and building and civil works respectively. The planned expansion project will cost an approximate USD 1,000,000 and will have a capacity of 1.3 million tons of urea per annum.

13.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2007 : Rs. 48,236) in prior years in respect of first catalyst and other items being part and parcel of the expansion plant 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 in December 1994 and 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 totaling Rs. 22,207 (2007 : Rs. 22,207) made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Holding Company, for which an application has been filed with the Department.

(Amounts in thousand)

	Unaudited September 30, 2008	Audited December 31, 2007
14. STOCK-IN-TRADE	(Rupees)	
Raw materials (including packing material)	3,403,163	1,110,088
Work-in-process	50,858	45,297
Finished goods - own manufactured product	1,246,720	1,194,921
- purchased product	6,691,030	1,431,989
	7,937,750	2,626,910
	11,391,771	3,782,295
15. TRADE DEBTS		
Considered good		
- Secured	1,029,430	1,551,276
- Unsecured	262,488	301,568
	1,291,918	1,852,844
Considered doubtful	14,312	17,202
	1,306,230	1,870,046
Less: Provision for doubtful debts	14,312	17,202
	1,291,918	1,852,844

16. OTHER RECEIVABLES AND OTHER ASSETS

16.1 Other receivables include Rs. 3,142,744 (2007 : Rs. 1,210,495) as fair value of forward exchange contracts and interest rate Swaps.

16.2 Other receivables also include Rs. 4,424,356 (2007 : Rs. 1,046,779) on account of compensation for mandatory reduction in sales price by the Government of Pakistan on phosphatic and potassic fertilizer inventory.

17. COST OF SALES	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)			
Raw materials consumed	3,597,173	2,733,047	10,924,215	6,935,884
Salaries, wages and staff welfare	343,077	321,093	810,387	902,271
Fuel and power	780,079	543,353	2,076,177	1,667,555
Repairs and maintenance	76,755	63,216	328,919	229,352
Depreciation / amortization	191,591	215,416	703,919	663,254
Consumable stores	54,689	52,219	138,966	146,277
Staff recruitment, training, safety and other expenses	20,497	9,399	48,407	45,268
Purchased services	94,401	62,580	367,385	194,803
Travel	10,377	33,526	58,091	72,945
Communication, stationery and other office expenses	24,691	8,383	65,601	30,536
Insurance	20,548	25,136	61,727	74,235
Rent, rates and taxes	35,371	4,194	56,927	10,393
Other expenses	29,242	20,815	45,171	50,547
Manufacturing cost	5,278,491	4,092,377	15,685,892	11,023,320
Add: Opening stock of work-in-process	48,535	18,393	45,297	23,382
Less: Closing stock of work-in-process	50,858	26,039	50,858	26,039
	(2,323)	(7,646)	(5,561)	(2,657)
Cost of goods manufactured	5,276,168	4,084,731	15,680,331	11,020,663
Add: Opening stock of finished goods manufactured	898,371	891,287	1,194,921	956,457
Less: Closing stock of finished goods manufactured	1,246,875	821,510	1,246,875	821,510
	(348,504)	69,777	(51,954)	134,947
Cost of goods sold - own manufactured product	4,927,664	4,154,508	15,628,377	11,155,610
- purchased product	2,333,756	1,799,436	3,225,604	4,563,838
- others	273,415	80,632	705,955	287,044
	7,534,835	6,034,576	19,559,936	16,006,492

(Amounts in thousand)

18. SELLING AND DISTRIBUTION EXPENSES

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)			
Salaries, wages and staff welfare	198,384	214,243	714,078	590,019
Staff recruitment, training, safety and other expenses	30,940	11,345	56,569	53,640
Product transportation and handling	198,276	302,822	686,650	814,470
Repairs and maintenance	12,350	2,765	27,518	9,238
Advertising and sales promotion	240,084	201,417	680,123	589,054
Rent, rates and taxes	65,271	36,228	142,235	94,890
Communication, stationery and other office expenses	47,367	7,875	133,122	50,266
Travel	33,784	31,330	115,506	84,694
Depreciation / amortization	18,447	19,732	62,423	49,331
Purchased services	64,512	28,535	215,869	43,429
Other expenses	56,356	41,257	98,199	95,123
	965,771	897,549	2,932,292	2,474,154

19. TAXATION

19.1 The Holding Company in its tax return for tax year 2007 claimed the benefit of Group Relief under section 59 B of Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company, amounting to Rs. 428,744.

During the period ended September 30, 2008, an audit was conducted by the tax department for tax year 2007 and an assessment order was issued challenging the claiming of benefit of Group Relief by the Company and certain other issues. Consequently, Company filed an appeal against issues raised by the tax department. Gross demand amounting to Rs. 476,479 was raised out of which Company paid an amount of Rs. 70,000. Stay for payment of balance amount has been granted till November 30, 2008 or the decision of the learned ITAT whichever is earlier. Company is reasonably confident that the issue of Group Relief will be decided in its favor.

Further, the Company has also agreed to acquire income year 2007's losses of EFL and accordingly has recognized a liability of Rs. 622,103 (Note 11) in the financial statements being the equivalent tax effect of the losses to be acquired. These losses have been accounted for in the income tax return for income year 2007 of the Holding Company filed with income tax department.

19.2 The Holding Company has filed tax returns up to income year 2007. All assessments up to income year 2002 have been finalized by the Department and appealed against. For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) 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 Holding Company by the appellate authorities. For June 1997 and December 1997 the Holding Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which it believes to be an error of fact and should be rectified. For December 1998, the Holding Company has received favorable decision from the Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

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

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

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

(Amounts in thousand)

20. EARNINGS PER SHARE - BASIC AND DILUTED

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)			
Profit after taxation (attributable to the shareholders of Holding Company)	809,831	516,334	3,160,523	1,375,661
		(Restated)		(Restated)
Weighted average number of Ordinary Shares (In thousand)	211,935	190,382	204,826	187,698

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

21. CASH GENERATED FROM OPERATIONS

	9 months ended September 30, 2008	9 months ended September 30, 2007
	(Rupees)	
Profit before taxation	4,734,532	2,249,377
Adjustment for non-cash charges and other items:		
- Depreciation and amortization	766,642	712,585
- Profit on disposal of fixed assets	(70,438)	(1,598)
- Provision for retirement and other service benefits	140,038	127,270
- Depreciation on revaluation surplus arising on business combination	4,595	35,706
- Employee share compensation expense	63,890	-
- Employee housing compensation expense	34,670	-
- Income on deposits / other financial assets	(65,985)	(617,602)
- Share of income from joint venture company	(154,798)	(177,509)
- Financial charges	1,208,068	538,705
- Working capital changes (note 21.1)	(12,258,425)	(5,117,173)
	(5,597,211)	(2,250,239)

21.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(209,576)	(113,925)
- Stock-in-trade	(7,609,476)	(3,579,666)
- Trade debts	560,926	(1,665,534)
- Loans, advances, deposits and prepayments	(325,083)	(617,776)
- Other receivables and other assets	(3,371,123)	76,864
	(10,954,332)	(5,900,037)
Increase / (decrease) in current liabilities		
- Trade and other payables including other service benefits - net	(1,304,093)	782,864
	(12,258,425)	(5,117,173)

22. CASH AND CASH EQUIVALENTS

Cash and bank balances	1,067,462	4,411,007
Short term investments	1,294,220	6,745,784
Less: Short-term borrowings	7,269,034	5,971,515
	(4,907,352)	5,185,276

(Amounts in thousand)

23. SEGMENT REPORTING

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

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

SEGMENTS	Revenue				Profit/(loss) after tax				Assets	
	9 months ended		3 months ended		9 months ended		3 months ended		Unaudited	Audited
	September 30,		September 30,		September 30,		September 30,		September 30,	December 31,
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Fertilizer	14,681,956	13,083,392	5,857,711	4,963,854	3,330,819	2,068,084	961,550	548,937	57,614,260	40,442,179
Polymer	6,536,068	4,691,457	2,167,314	1,668,869	589,376	306,816	160,918	126,216	15,940,696	9,464,191
Food	5,660,568	2,455,565	2,152,803	1,007,177	(543,899)	(430,025)	(149,766)	(142,263)	6,268,794	4,329,423
Other operations	1,247,933	935,326	486,709	305,389	(131,215)	(251,156)	(91,617)	(109,986)	4,238,166	2,810,017
Elimination - net	(3,687)	-	(3,687)	-	119,798	(346,764)	(37,923)	71,122	(10,334,341)	(7,813,438)
Consolidated	**28,122,838**	**21,165,740**	**10,660,850**	**7,945,289**	**3,364,879**	**1,346,955**	**843,162**	**494,026**	**73,727,575**	**49,232,372**

24. TRANSACTIONS WITH RELATED PARTIES

	9 months ended September 30, 2008	9 months ended September 30, 2007
Associates	(Rupees)	
Purchases and services	8,946,044	4,847,023
Sale of goods / services rendered	1,840	967
Retirement benefits	87,837	70,437
Dividends received	157,500	157,500
Dividends paid	420,054	425,976
Right shares issued (including share premium)	1,413,643	1,317,059
Others		
Dividend paid	13,411	5,297
Remuneration paid to key management personnel / directors	236,069	81,326
Right shares issued (including share premium) to key management personnel / directors	26,889	17,535

Balance due from Joint Venture	Unaudited September 30, 2008	Audited December 31, 2007
	(Rupees)	
Joint Ventures (includes dividend receivable of Rs. 90,000 (2007: Rs.90,000) from Engro Vopak Terminal Limited)	93,134	88,931

25. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Holding Company have declared a second interim dividend for the year ending December 31, 2008 of Rs. 2.00 per share (December 31, 2007 : Rs. 3.00 per share final cash dividend), at their meeting held on October 28, 2008. These consolidated condensed interim financial statements for the nine months ended September 30, 2008 do not include the effect of the declared cash dividends which will be accounted for in the subsequent accounting period.

26. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 28, 2008 by the Board of Directors of the Holding Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Company Information

Board of Directors
Hussain Dawood, Chairman
Asad Umar, President and Chief Executive
Arshad Nasar
Isar Ahmad
Shahzada Dawood
Shabbir Hashmi
Asif Qadir
Khalid Mansoor
Khalid Siraj Subhani
Ruhail Mohammed

Company Secretary
Andalib Alavi

Chief Financial Officer
Ruhail Mohammed

Members of Audit Committee
Shabbir Hashmi, Chairman
Isar Ahmad
Shahzada Dawood
Arshad Nasar

The secretary of committee is Naveed A. Hashmi, Corporate Audit Manager.

Auditors
KPMG Taseer Hadi & Co.
Chartered Accountants

Share Registrar
M/s. FAMCO Associates (Private) Limited
(Formerly Ferguson Associates (Private) Limited)
Fourth Floor, State Life Buliding 2-A, I.I. Chundrigar Road, Karachi - 74000.

Bankers
Allied Bank of Pakistan Limited
Askari Commercial Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Bank of Punjab Limited
Citibank N.A.
Crescent Commercial Bank Ltd.
Deutsche Bank
Dubai Islamic Bank
Faysal Bank Limited
Habib Bank Limited
JS Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Royal Bank of Scotland
Standard Chartered Bank (Pakistan) Limited
The Hongkong and Shanghai Banking Corporation Limited
United Bank Limited

Registered Office
7^{th} & 8^{th} Floors, The Harbor Front Building, HC # 3, Marine Drive, Block-4, Clifton, Karachi, Pakistan.