



engro foods

blended to perfection

first quarter 2017

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company information

Board of Directors

Abdul Samad Dawood
Ali Ahmed Khan
Wim Torfs
Ghias Uddin Khan
Heidi Van der Kooij
Jaska Marianne de Bakker
Johannes Petrus Fransiscus Laarakker
Piet Johannes Hilarides
Sabrina Dawood

Chairman
Chief Executive Officer
Independent
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

Chief Financial Officer

Imran Husain

Company Secretary

Sohail Kassamali

Members of Audit Committee

Jaska de Bakker
Wim Torfs
Ghias Khan

Chairman
Member
Member

The secretary of committee is
Saleem Lallany, GM Internal Audit Department

Auditors

A. F. Ferguson & Company
Chartered Accountants

State Life Building No. 1- C
I.I. Chundrigar Road
Karachi - 74000, Pakistan.
Tel: +92(21) 32426682 -6 / 32426711-5
Fax: +92(21) 32415007 / 32427938

Share Registrar

M/s. FAMCO Associates (Private) Limited
8-F, Next to Hotel Faran, Block-6, PECHS,
Shahrah-e-Faisal Karachi - Pakistan
Tel: +92(21) 34380104-5, 34384621-3
Fax +92(21) 34380106

Bankers

Conventional

Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Citibank N.A.
Deutsche Bank AG
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Industrial and Commercial Bank of China Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
Samba Bank Limited
Soneri Bank Limited
Standard Chartered Bank Pakistan Limited
Summit Bank Limited
Tameer Micro Finance Bank Limited
The Bank of Punjab
United Bank Limited

Shariah Compliant

Al-Baraka Bank Pakistan Limited
Bank Al-Habib Limited - Islamic Banking
Meezan Bank Limited
Standard Chartered Bank Pakistan Limited - Saadiq

Registered Office

5th Floor, The Harbor Front Building
HC-3, Marine Drive, Block - 4, Clifton
Karachi - 75600, Pakistan.
Tel: +92(21) 35296000 (10 lines)
Fax: +92(21) 35295961-2
e-mail: info@engrofoods.com
Website: www.engrofoods.com



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CONDENSED INTERIM
FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017



engro foods

First Quarter 2017 Accounts

directors' report

On behalf of the Board of Directors of Engro Foods Limited (a majority owned subsidiary of FrieslandCampina Pakistan Holdings B.V.), we are pleased to submit the report and the condensed interim financial information of the Company for the quarter ended March 31, 2017.

ISSUES BEING FACED BY THE INDUSTRY

The removal of zero-rating on milk and milk related products and imposition of regulatory duty under the Federal Budget, 2016 has substantially increased the cost of doing business for the UHT industry, which is one of the major causes of decline in the Company's profitability. This has also led to the reduction in conversion of loose milk to packaged milk with the Company being forced to close 78 milk collection centres in the past year alone; thereby affecting the Company's commitment to invest in farmer development.

The widening differences and inconsistencies between the federal and provincial food laws and regulations for the packaged industry coupled with factually incorrect publications and campaigns pose serious challenges to the packaged milk industry, which needs support of the regulatory bodies for development of hygienic, safe and healthy packaged milk industry.

BUSINESS REVIEW:

During the period, the Company attained a revenue of Rs. 8.8 billion versus Rs. 11.7 billion in the same period last year. Gross margin of the Company declined from 28% to 20%. As a result, the overall profitability of the Company declined to Rs. 331 million from Rs. 1,108 million in the same period last year.



DAIRY AND BEVERAGES SEGMENT

Pressure on the overall UHT category, especially on Tea Creamers (STC) segment resulted in a volume decline compared to Q1 2016. Appropriate strategies to reclaim share coupled with multiple campaigns across mediums have since been deployed, a strong comeback is underway. We intend to continue to strengthen brand equity and extend leadership.



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First Quarter 2017 Accounts

ICE CREAM AND FROZEN DESSERTS SEGMENT

During the first quarter ended March 31, 2017, the Ice Cream business performed well led by consumer relevant product launches and driving operational excellence in the distribution network. This segment reported loss of Rs 103 million versus loss of Rs 119 million in corresponding period last year.



DAIRY FARM SEGMENT

The Company's Dairy Farm continued to remain a rich and nutritious source of raw material for our dairy segment. The segment reported the profit of Rs. 37 million in the first quarter versus profit of Rs. 25 million in corresponding period last year.



FINANCIAL PERFORMANCE

The financial performance of the company for first quarter of 2017 is summarized below:

(Rs. in million)	Quarter ended March 31,		Variation
	2017	2016	
Net Sales	8,812	11,743	(25%)
Operating Profit	474	1,656	(71%)
% of sales	5.4%	14.1%	
Profit after tax	331	1,108	(70%)
% of sales	3.8%	9.4%	
Earnings per share (Rs.)	0.43	1.45	(70%)

FUTURE OUTLOOK

Post-acquisition by FrieslandCampina, the Company looks forward to benefiting from its expertise in the areas of Research & Development, innovation and operational efficiencies. FrieslandCampina's experience in international markets will also be of great help for the company in expediting the conversion process from raw, unprocessed milk to safe, hygienic options for the Pakistani consumer.

Along with FrieslandCampina, the Company intends to be in the forefront in the fight against malnutrition and milk adulteration by introducing high quality packaged dairy products.

Abdul Samad Dawood
Chairman

Ali Ahmed Khan
Chief Executive

Karachi: April 13, 2017



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First Quarter 2017 Accounts

condensed interim balance sheet (unaudited) as at march 31, 2017

(Amounts in thousand)

		Unaudited March 31, 2017	Audited December 31, 2016
	Note	Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	12,797,515	13,120,693
Biological assets		939,264	932,726
Intangibles		42,743	44,378
Long term advances and deposits		90,464	93,984
Deferred employee share option compensation expense	5	39,094	54,635
		13,909,080	14,246,416
Current Assets			
Stores, spares and loose tools		862,100	841,394
Stock-in-trade	6	6,709,771	3,763,898
Trade debts		95,853	69,654
Advances, deposits and prepayments		272,811	144,879
Other receivables		125,899	114,661
Sales tax recoverable		2,635,865	2,736,249
Taxes recoverable		2,009,251	2,039,370
Deferred employee share option compensation expense	5	46,498	54,307
Cash and bank balances	7	363,691	702,944
		13,121,739	10,467,356
TOTAL ASSETS		27,030,819	24,713,772
EQUITY AND LIABILITIES			
Equity			
Share capital		7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		411,936	433,982
Remeasurement of post employment benefits - Actuarial loss		(73,958)	(73,958)
Unappropriated profit		924,038	8,259,180
		9,793,331	17,150,519
Non-Current Liabilities			
Long term finances		500,000	500,000
Deferred taxation		1,574,194	1,605,824
		2,074,194	2,105,824
Current Liabilities			
Current portion of long term finances		1,293,335	1,695,988
Current portion of deferred income		168	522
Trade and other payables	8	11,201,651	3,664,234
Accrued interest / mark-up on			
- long term finances		45,872	29,063
- short term finances		19,176	2,502
Short term finances	9	2,603,092	65,120
		15,163,294	5,457,429
Contingencies and Commitments	10		
TOTAL EQUITY AND LIABILITIES		27,030,819	24,713,772

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.


Chairman


Chief Executive



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First Quarter 2017 Accounts

condensed interim profit and loss account (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand except for earnings per share)

	Quarter ended March 31,	
	2017	2016
	Rupees	
Net sales	8,812,240	11,742,958
Cost of sales	(7,085,354)	(8,439,108)
Gross profit	1,726,886	3,303,850
Distribution and marketing expenses	(1,037,104)	(1,392,688)
Administrative expenses	(230,934)	(191,199)
Other operating expenses	(32,411)	(119,512)
Other income	47,513	55,842
Operating profit	473,950	1,656,293
Finance costs	(56,315)	(102,197)
Profit before taxation	417,635	1,554,096
Taxation	(86,816)	(446,039)
Profit for the period	330,819	1,108,057
 Earnings per share - basic and diluted	 0.43	 1.45

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The annexed notes 1 to 19 form an integral part of this condensed interim financial information.


Chairman


Chief Executive

condensed interim statement of comprehensive income (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

	Quarter ended March 31,	
	2017	2016
	Rupees	
Profit for the period	330,819	1,108,057
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Gain on hedges during the period	-	-
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade	-	2,604
Income tax relating to hedging reserve	-	(834)
Other comprehensive income for the period, net of tax	-	1,770
Total comprehensive income for the period	330,819	1,109,827

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.


Chairman


Chief Executive



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First Quarter 2017 Accounts

condensed interim statement of changes in equity (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

	Share capital	CAPITAL		Hedging reserve	REVENUE		Total
		Share premium	Employee share option compensation reserve		Remeasurement of post employment benefits - Actuarial loss	Unappropriated profit	
	Rupees						
Balance as at January 1, 2016 (Audited)	7,665,961	865,354	595,144	(1,770)	(84,356)	5,872,468	14,912,801
Employee share option scheme	-	-	(72,776)	-	-	-	(72,776)
Profit for the period	-	-	-	-	-	1,108,057	1,108,057
Other comprehensive income for the period	-	-	-	1,770	-	-	1,770
Total comprehensive income for the period	-	-	-	1,770	-	1,108,057	1,109,827
Balance as at March 31, 2016 (Unaudited)	7,665,961	865,354	522,368	-	(84,356)	6,980,525	15,949,852
Employee share option scheme	-	-	(88,386)	-	-	-	(88,386)
Profit for the period	-	-	-	-	-	1,278,655	1,278,655
Other comprehensive income for the period	-	-	-	-	10,398	-	10,398
Total comprehensive income for the period	-	-	-	-	10,398	1,278,655	1,289,053
Balance as at December 31, 2016 (Audited)	7,665,961	865,354	433,982	-	(73,958)	8,259,180	17,150,519
Employee share option scheme	-	-	(22,046)	-	-	-	(22,046)
Final dividend for the year ended December 31, 2016						(7,665,961)	(7,665,961)
Profit for the period	-	-	-	-	-	330,819	330,819
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	330,819	330,819
Balance as at March 31, 2017 (Unaudited)	7,665,961	865,354	411,936	-	(73,958)	924,038	9,793,331

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.


Chairman


Chief Executive

condensed interim statement of cash flows (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

	Note	Quarter ended March 31,	
		2017	2016
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	12	(2,096,746)	376,655
Finance costs paid		(22,832)	(105,810)
Taxes paid		(88,328)	(88,747)
Retirement benefits paid		(116,834)	(479)
Long term advances and deposits - net		3,520	5,173
Net cash generated from operating activities		(2,321,220)	186,792
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(197,323)	(428,595)
- intangible assets		(376)	(6,176)
- biological assets		(3,041)	(4,342)
Proceeds from disposal of:			
- property, plant and equipment		23,425	19,096
- biological assets		23,853	33,138
Net cash utilized in investing activities		(153,462)	(386,879)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		(402,543)	(671,249)
Net decrease in cash and cash equivalents		(2,877,225)	(871,336)
Cash and cash equivalents at beginning of the period		637,824	(120,708)
Cash and cash equivalents at end of the period	13	(2,239,401)	(992,044)

The annexed notes 1 to 19 form an integral part of this condensed interim financial information.


Chairman


Chief Executive



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First Quarter 2017 Accounts

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

- 1.1 Engro Foods Limited (the Company), is a public listed company incorporated in Pakistan, under the Companies Ordinance, 1984, and its shares are quoted on Pakistan Stock Exchange. The Company is a subsidiary of FrieslandCampina Pakistan Holdings B.V. (the Holding Company) which is a subsidiary of Royal FrieslandCampina N.V. (the Ultimate Parent Company) and its registered office is situated at 5th Floor, The Harbour Front Building, Plot No. HC-3, Block-4, Scheme No. 5, Clifton, Karachi.
- 1.2 The principal activity of the Company is to manufacture, process and sell dairy products, beverages, ice cream and frozen desserts. The Company also owns and operates a dairy farm.

2. BASIS OF PREPARATION

- 2.1 This condensed interim financial information is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 – 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2016.
- 2.2 The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During preparation of this condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to the financial statements for the year ended December 31, 2016, except for change in certain estimates / judgments regarding the Employees Share Options Scheme (ESOS). The estimated fair value of these options and the underlying assumptions are disclosed in note 5. Any changes in these assumptions may materially impact the carrying amount of deferred employee share compensation expense and employee share compensation reserve within the current and next financial year.

3. ACCOUNTING POLICIES

- 3.1 The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2016.
- 3.2 There are certain new International Financial Reporting Standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2017. These are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are, therefore, not disclosed in this condensed interim financial information.
- 3.3 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.



notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

	Unaudited March 31, 2017	Audited December 31, 2016
	Rupees	
4. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value (notes 4.1, 4.2 and 4.3)	12,263,285	12,234,376
Capital work-in-progress (note 4.4)	376,909	732,411
Major spare parts and stand-by equipment	157,321	153,906
	<u>12,797,515</u>	<u>13,120,693</u>
4.1 Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
Buildings on freehold land	23,942	141,628
Plant, machinery and related equipment	465,621	631,309
Office equipment & furniture and fittings	3,014	28,906
Computer equipment	9,364	30,739
Vehicles	46,499	226,960
	<u>548,440</u>	<u>1,059,542</u>
4.2 The details of operating assets disposed-off / written off during the period / year are as follows:		

	Cost	Accumulated depreciation/ impairment	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , machinery and equipment	74,324	(70,374)	3,950	9,830	Insurance claims / Auction
Vehicles - owned	32,035	(25,327)	6,708	12,184	Employee buyback
Computer equipment	521	(521)	-	-	Written off
Office equipment & furniture and fixture	1,930	(517)	1,413	1,411	Insurance claims / Employee buyback
March 31, 2017	<u>108,810</u>	<u>(96,739)</u>	<u>12,071</u>	<u>23,425</u>	
December 31, 2016	<u>509,988</u>	<u>(439,613)</u>	<u>70,375</u>	<u>121,562</u>	

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

- 4.3 During the period, the Company has recorded an impairment charge amounting to Rs. 35,000 (March 31, 2016: Rs. 263) against idle assets, determined on the basis of fair value of the assets less cost of disposal.

	Unaudited March 31, 2017	Audited December 31, 2016
	Rupees	
4.4 Movement in capital work-in-progress during the period / year:		
Balance as at January 1	732,411	419,755
Additions:		
Building on freehold land	40,625	114,424
Plant, machinery and related equipment	139,448	944,321
IS and milk automation projects	376	31,342
Office equipment, furniture & fittings and computers equipment	6,969	61,668
Vehicles	10,281	228,347
	197,699	1,380,102
Less:		
Transfers to:		
- Operating assets	(548,440)	(1,059,542)
- Intangible assets	(4,761)	(7,904)
Balance as at March 31 / December 31	<u>376,909</u>	<u>732,411</u>

5. EMPLOYEES' SHARE OPTION SCHEME

In 2013, the shareholders of the Company approved Employees' Share Option Scheme (the Scheme) for granting of options to certain critical employees up to 16.9 million new ordinary shares, to be determined by the Board Compensation Committee.

Under the Scheme, options were to be granted in the years 2013 to April 2015. 50% of the options granted were to vest in two years whereas the remaining 50% were to vest in three years from the date of the grant of options. These options are exercisable within 3 years from the end of vesting period. No new options granted during the period. The details of share options granted to date under the Scheme, which remained outstanding as at March 31, 2017 are as follows:

- number of options	12,900,000
- range of exercise price	Rs. 182.85 - Rs. 305.18
- weighted average remaining contractual life	3.37 years

The weighted average fair value of options granted to date, as estimated at the date of grant using the Black-Scholes model was Rs. 28.31 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 23.95 per option. The following weighted average assumptions have been used in calculating the fair values of the options:



notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

	Options granted in 2013	Options granted in 2015	Options granted in 2016	Options to be granted in 2017	Options to be granted in 2018
- number of options	4,400,000	800,000	7,700,000	425,000	1,525,000
- share price	Rs. 133.58	Rs. 107.67	Rs. 156.85	Rs. 162.44	Rs. 162.44
- exercise price	Rs. 191.89	Rs. 182.85	Rs. 230.76	Rs. 268.36	Rs. 247.05
- expected volatility	32.54%	30.32%	34.86%	25.74%	25.74%
- expected life	3 years	3.5 years	3.5 years	3.5 years	4.5 years
- annual risk free interest rate	9.42%	7.93%	6.15%	6.12%	6.12%

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective / expected grant date.

The time period under the Scheme for granting of share options expired in April 2015. However, the Company obtained approval of shareholders for extension in share options grant period for further 3 years in the Annual General Meeting held on April 27, 2015. The approval from SECP for aforementioned modification in the Scheme and the related vesting period has also been received through letter dated August 31, 2015.

As of March 31, 2017, 4,000,000 options remained ungranted. Out of the remaining options, management estimates that 425,000 will be granted in 2017 and 1,525,000 will be granted in 2018. The remaining 2,050,000 options will lapse in option year 2018 with the expiry of scheme.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 411,937 has been recognized, out of which Rs. 326,345 has been amortized to date, including charge of Rs 1,305 in current period owing to change in fair value of options to be granted and expected lapse of options, net of charge in respect of employees services received to the balance sheet date.

Unaudited March 31, 2017	Audited December 31, 2016
Rupees	

6. STOCK-IN-TRADE

Raw and packaging material (note 6.1)	3,255,083	2,668,770
Work in process (note 6.2)	2,886,891	429,762
Finished goods (notes 6.3 and 6.4)	567,797	665,366
	<u>6,709,771</u>	<u>3,763,898</u>

6.1 Includes Rs. 1,038,222 (December 31, 2016: Rs. 378,869) in respect of raw and packaging material held by third parties.

6.2 Includes Rs. 832,871 (December 31, 2016: Nil) in respect of semi-finished stock held by third parties.

6.3 Includes Rs. 35,304 (December 31, 2016: Rs. 162,111) in respect of finished goods held by third parties and Nil (December 31, 2016: Rs. 169,082) in respect of finished goods carried at net realizable value.

6.4 These are net of provision against expired / obsolete stock amounting to Rs. 58,652 (December 31, 2016: Rs. 48,088). Stock amounting to Rs. 30,053 (December 31, 2016: Rs. 57,734) has been written off against provision during the period.



notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

	Unaudited March 31, 2017	Audited December 31, 2016
	Rupees	
7. CASH AND BANK BALANCES		
7.1 Cash at bank in:		
- current accounts - note 7.2	127,754	308,015
- savings accounts - note 7.3	235,937	394,929
	<u>363,691</u>	<u>702,944</u>
7.2 Includes balance in foreign currency account of Rs. 98,363 (December 31, 2016: Rs. 98,449).		
7.3 Includes balance in foreign currency account of Rs. 231,793 (December 31, 2016: Rs. 221,668).		
8. TRADE AND OTHER PAYABLES		
This includes Rs. 7,665,961 (2016: Nil) on account of the final dividend payable for the year ended December 31, 2016.		
9. SHORT TERM FINANCES - secured		
9.1 The facilities for short term running finance available from various banks, which represent the aggregate sale price of all mark-up arrangements, amounts to Rs.7,478,197 (December 31, 2016: Rs. 7,467,073). The unutilized balance against these facilities as at March 31, 2017 was Rs. 4,875,105 (December 31, 2016: Rs. 7,401,953). The rates of mark-up on these finances are KIBOR based and range from 6.12% to 6.26% (December 31, 2016: 6.04% to 6.24%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.		
9.2 The facilities for opening letters of credit and bank guarantees as at March 31, 2017 amounts to Rs. 6,515,000 (December 31, 2016: Rs. 6,547,927), of which the amount remaining unutilized as at March 31, 2017 was Rs. 5,372,188 (December 31, 2016: Rs. 5,138,457).		
10. CONTINGENCIES AND COMMITMENTS		
10.1 As at March 31, 2016, the Company has provided bank guarantees to:		
- Sui Southern Gas Company Limited amounting to Rs. 74,828 (December 31, 2016: Rs. 74,828) under the contract for supply of gas;		
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2016: Rs. 34,350) under the contract for supply of gas;		
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (December 31, 2016: Rs. 258,712) under Sales Tax Rules 2006, against refund claim of input sales tax. Against these guarantees, sales tax refunds amounting to Rs.172,000 (December 31, 2016: Rs. 172,000) have been received to-date;		
- Controller Military Accounts, Rawalpindi amounting to Rs. 4,675 (December 31, 2016: Rs. 4,675), as collateral against supplies;		
- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 1,000 (December 31, 2016: Rs. 1,000) as collateral against supplies; and		



notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

- Collector of Customs MCC (Model Customs Collectorate) Port Qasim amounting to Rs. 11,125 (December 31, 2016: 11,125) as collateral against clearance of imported goods.
- 10.2 During the period the Company has received an order from Competition Commission of Pakistan, imposing a penalty of Rs. 62,293 in respect of Company's marketing activities relating to one of its products. The Company has filed an appeal against the aforementioned order. The Company, based on the opinion of its legal advisor, is confident of a favorable outcome of the appeal, and accordingly no provision has been recognized in these financial statements in this respect.
- 10.3 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2017 amounts to Rs. 434,398 (December 31, 2016: Rs. 578,767).
- 10.4 Commitments in respect of purchase of certain commodities as at March 31, 2017 amounts to Rs. 490,718 (December 31, 2016: Rs. 631,248).
- 10.5 Commitments for rentals payable under the Ijarah agreement as at March 31, 2017 amounts to Rs. 92,256 (December 31, 2016: Rs. 119,825).
- 10.6 Following is the position of the Company's open tax assessments / matters as at March 31, 2017:
 - a) The Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance (ITO), 2001 has surrendered to ECL, the associated company (previously the holding company), its tax losses amounting to Rs. 4,288,134 out of the total tax losses of Rs. 4,485,498 for the years ended December 31, 2006, 2007 and 2008 (Tax years 2007, 2008 and 2009) for cash consideration aggregating Rs. 1,500,847, being equivalent to tax benefit/effect thereof.

The Company has been designated as part of the Group of Engro Corporation Limited by the Securities and Exchange Commission of Pakistan (SECP) through its letter dated February 26, 2010. Such designation was mandatory for availing Group tax relief under section 59 B(2)(g) of the Ordinance and a requirement under the Group Companies Registration Regulations, 2008 (the Regulations) notified by the SECP on December 31, 2008.

Further, the Appellate Tribunal, in respect of surrender of aforementioned tax losses by the Company to ECL for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of ECL, whereby, allowing the surrender of tax losses by the Company to ECL. The tax department has filed reference application there against before the Sindh High Court, which are under the process of hearings. However, in any event, should the reference application be upheld and the losses are returned to the Company, it will only culminate into recognition of deferred income tax asset thereon with a corresponding liability to ECL for refund of the consideration received. As such there will be no effect on the results of the Company.

In 2013, the Appellate Tribunal also decided similar appeal filed by ECL for the year ended December 31, 2008 in favour of ECL.

- b) The Company's appeal against the order of Commissioner Inland Revenue (CIR) for reduction of tax loss from Rs. 1,224,964 to Rs. 1,106,493 for the tax year 2007, is currently in the process of being heard. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the balance of taxes recoverable has not been reduced by the effect of the aforementioned disallowance.
- c) In 2013, the Commissioner Inland Revenue raised a demand of Rs. 223,369 for tax year 2009 by disallowing the provision for advances, stock written-off, repair and maintenance, sales promotion and advertisement expenses etc. During 2015, in response to the appeal filed against the audit proceedings, the Commissioner Appeals issued an appellate order in favour of the Company holding the selection of case for audit to be illegal and without jurisdiction. The tax department has filed an appeal against the order with the Appellate Tribunal Inland Revenue, however, no hearing has been conducted to date. The



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Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

- d) In 2013, the Sindh High Court, in respect of another company, has overturned the interpretation of the Appellate Tribunal on Section 113 (2) (c) of the Income Tax Ordinance, 2001 and has decided that the minimum tax paid cannot be carried forward in respect of the year where no tax has been paid on account of loss for the year. Further, during last year Deputy Commissioner Inland Revenue disallowed minimum turnover tax credit for tax years 2008, 2010 and 2011 claimed by the Company in tax year 2013 on the basis of aforementioned judgment of Sindh High Court, which has been confirmed during the period by CIR (Appeals) against the Company on the same basis. The Company's management, based on the opinion of its legal advisor, is of the view that the above order is not correct and would not be maintained by the Supreme Court, which they intend to approach, if required. Therefore, the Company has maintained the adjustment of carried forward minimum turnover tax amounting to Rs. 1,026,701 made in prior years.
- e) In 2014, the Additional Commissioner Inland Revenue raised a demand of Rs. 713,341 for tax year 2012 by disallowing the initial allowance and depreciation on certain additions to property, plant and equipment, provision for retirement and other service benefits, purchase expenses, sales promotion and advertisement and other expenses etc. The Company has obtained a stay order from the Sindh High Court against the recovery proceedings and has also filed an appeal there against before the Commissioner Appeals. The Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.
- f) In 2015, the Additional Commissioner Inland Revenue raised a demand of Rs. 73,962 for tax year 2014 by disallowing the loss on sales of raw milk considered as trading activity, depreciation on certain additions to property, plant and equipment and tax credit under 65B etc. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.
- g) In 2016, the Deputy Commissioner Inland Revenue (DCIR) raised a demand of Rs. 541,221 for tax year 2013 by disallowing the loss on sales of raw milk considered as trading activity, stock written-off, finance cost allocation against advance for purchase of Engro Foods Netherlands and certain other items, research and business expenses, adjustment of tax losses for tax year 2011 and minimum turnover tax credit for tax years 2008, 2010 and 2011 etc against which the Company filed an appeal with CIR (Appeals). During the period, CIR (Appeals) upheld the decision of DCIR in respect of minimum turnover tax credit and finance cost allocation. The Company intends to file an appeal with Appellate Tribunal Inland Revenue (ATIR) against the order of CIR (Appeals) and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.
- h) In 2016, the Additional Commissioner Inland Revenue raised a demand of Rs. 59,772 for tax year 2010, primarily on account of disallowance of sales promotion and freight expenses. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.
- i) In 2016, the Additional Commissioner Inland Revenue raised a demand of Rs. 34,134 for tax year 2011 by disallowing depreciation on certain additions to property, plant and equipment, provision for retirement and other service benefits, sales promotion and advertisement and other expenses etc. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

10.7 Sales Tax:

In 2016, the Deputy Commissioner Inland Revenue after conducting sales tax audit for the year ended December 2013 raised



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sales tax demand amounting to Rs. 143,125 including penalty. The demand primarily arose on account of (i) mismatch of input tax claimed with suppliers output tax on FBR portal; (ii) alleged unlawful adjustment of input tax; and (iii) alleged non-withholding of sales tax on certain supplies. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly sales tax recoverable has not been reduced by the effect of aforementioned order.

	Unaudited March 31, 2017	Unaudited March 31, 2016
	Rupees	
11. EARNINGS PER SHARE - Basic and diluted		
There is no dilutive effect on the basic earnings per share of the Company, which is based on:		
Profit for the period	330,819	1,108,057
Weighted average number of ordinary shares for determination of basic & diluted EPS (in thousand)	766,596	766,596
12. CASH GENERATED FROM OPERATIONS		
Profit before taxation	417,635	1,554,096
Adjustment for non-cash charges and other items:		
- Depreciation	472,460	497,299
- Impairment of operating assets - net	35,000	263
- Amortization of intangible assets	6,396	7,553
- Amortization of deferred income	(354)	(1,044)
- Amortization of arrangement fees on long term loan	(110)	1,109
- Amortization (Reversal of amortization) / of deferred employee share option compensation reserve	1,305	(20,776)
- Loss / (Gain) on disposal of biological assets	653	(2,230)
- Gain on disposal of operating assets	(11,354)	(8,332)
- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(28,003)	(21,731)
- Provision for retirement and other service benefits	27,224	25,430
- Provision for stock-in-trade	40,617	-
- Provision / (Reversal of provision) for impairment of trade debts	385	(63)
- Finance costs	56,315	102,197
Working capital changes (note 12.1)	(3,114,915)	(1,757,116)
	<u>(2,096,746)</u>	<u>376,655</u>

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	Unaudited March 31, 2017	Unaudited March 31, 2016
	Rupees	
12.1 Working capital changes		
(Increase) / Decrease in current assets		
- Stores, spares and loose tools	(24,121)	(29,620)
- Stock-in-trade	(2,986,490)	(1,963,259)
- Trade debts	(26,584)	35,317
- Advances, deposits and prepayments	(127,932)	(85,806)
- Other receivables	(11,238)	408,842
- Sales tax recoverable	100,384	(271,851)
	(3,075,981)	(1,906,377)
(Decrease) / Increase in current liabilities		
- Trade and other payables	(38,934)	149,261
	(3,114,915)	(1,757,116)
13. CASH AND CASH EQUIVALENTS		
Cash and bank balances (note 7)	363,691	326,604
Short term finances (note 9)	(2,603,092)	(1,318,648)
	(2,239,401)	(992,044)

14. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

14.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

There have been no changes in the risk management policies during the period, consequently this condensed interim financial information does not include all the financial risk management information and disclosures required in the annual financial statements.

14.2 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in this condensed interim financial information approximate their fair values.



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15. TRANSACTIONS WITH RELATED PARTIES

15.1 Transactions with related parties, other than those which have been disclosed elsewhere in this condensed interim financial information, are as follows:

		Unaudited March 31, 2017	Unaudited March 31, 2016
		Rupees	
Nature of relationship	Nature of transactions		
Ultimate Parent Company	Fee for technical assistance	229,879	-
Holding company	Dividend declared	3,909,640	-
Subsidiary and associated companies	Arrangement for sharing of premises, utilities, personnel and assets	59,706	55,527
	Reimbursement of expense paid on behalf of	7,141	28,805
	Purchases of goods & services	3,914	15,502
	Donation	250	4,500
	Dividend declared	3,060,759	-
Contribution to staff retirement funds	Managed and operated by Engro Corporation:		
	- Gratuity fund contribution	116,834	479
	- Provident fund contribution	76,391	69,510
Key management personnel	Managerial remuneration	33,370	43,384
	Contribution for staff retirement benefits	3,266	3,409
	Bonus payment	14,889	67,487

15.2 Related party transactions from Engro Corporation Limited and FrieslandCampina Pakistan Holding B.V. are shown in accordance with the status of the relation at the time of the transaction.

15.3 There are no transactions with key management personnel other than under the terms of the employment.

16. SEGMENT INFORMATION

16.1 The basis of segmentation and reportable segments presented in this condensed interim financial information are the same which were disclosed in annual financial statements for the year ended December 31, 2016.

Unallocated assets include long term investments, long and short term advances, deposits and prepayments, other receivables, taxes recoverable and cash and bank balances.



notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

Liabilities are not segment-wise reported to the Board of Directors. All the unallocated results and assets are reported to the Board of Directors at entity level. Inter-segment sales of processed milk and powder are made by Dairy & Beverages to Ice cream & frozen desserts and inter-segment sales of raw milk are made by Dairy farm to Dairy, at market value.

16.2 Information regarding the Company's operating segments is as follows:

	Unaudited Quarter ended March 31, 2017				Unaudited Quarter ended March 31, 2016			
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total
	Rupees							
Results for the period								
Net sales	8,197,922	627,410	349,327	9,174,659	11,077,326	658,701	305,070	12,041,097
Inter-segment sales	(24,149)	-	(349,327)	(373,476)	(2,778)	-	(305,070)	(307,848)
	8,173,773	627,410	-	8,801,183	11,074,548	658,701	-	11,733,249
Raw milk sales	11,057	-	-	11,057	9,709	-	-	9,709
	8,184,830	627,410	-	8,812,240	11,084,257	658,701	-	11,742,958
Net profit / (loss) after tax	397,135	(103,340)	37,024	330,819	1,202,307	(119,116)	24,866	1,108,057
	Unaudited March 31, 2017				Audited December 31, 2016			
	Rupees							
Assets								
- Segment assets	17,432,639	2,092,535	1,969,931	21,495,105	14,683,089	2,079,166	2,030,254	18,792,509
- Un-allocated assets	-	-	-	5,535,714	-	-	-	5,921,263
	17,432,639	2,092,535	1,969,931	27,030,819	14,683,089	2,079,166	2,030,254	24,713,772

17. SEASONALITY

The Company's 'Ice Cream' and 'Beverages' business are subject to seasonal fluctuation, with demand of ice cream and beverages products increasing in summer. The Company's dairy business is also subject to seasonal fluctuation due to lean and flush cycles of milk collection. Therefore, revenues and profits as at March 31, 2017 are not necessarily indicative of result to be expected for the full year.

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2017

(Amounts in thousand)

18. CORRESPONDING FIGURES

- 18.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the condensed interim balance sheet has been compared with the balances of annual financial statements of preceding financial year, whereas the condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.
- 18.2 Corresponding figures have been rearranged and reclassified for better presentation, wherever considered necessary, the effects of which are not material.

19. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on April 13, 2017 by the Board of Directors of the Company.


Chairman



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Chief Executive

ڈائریکٹر رپورٹ

اینگرو فوڈز لمیٹڈ (فریڈ لینڈ کمپینا پاکستان ہولڈنگز) کی اکثریت ملکیت ماتحت کمپنی کے بورڈ آف ڈائریکٹرز کی جانب سے کمپنی کے مالیاتی گوشواروں کی سہ ماہی رپورٹ اور عبوری معلومات بمسرت پیش کی جا رہی ہیں، جس کا اختتام ۳۱ مارچ ۲۰۱۷ کو ہوا۔

انڈسٹری کو لاحق مسائل

وفاقی بجٹ ۲۰۱۶ کے اطلاق کے بعد جی ایس ٹی کی مد میں دودھ اور اس سے تیار کردہ مصنوعات کی زیرورٹنگ کی منہا کے اور خشک دودھ کی درآمد پر ریگولیٹری ڈیوٹی لاگو ہونے سے یو ایچ ٹی انڈسٹری کے کاروباری اخراجات میں خاطر خواہ اضافہ ہوا، جو کہ کمپنی کے منافع میں کمی کا ایک اہم سبب ہے۔ اس سے کھلا دودھ استعمال کرنے والوں کے سیکرڈ دودھ کی خریداری کی جانب منتقلی میں بھی کمی واقع ہوئی جس سے کمپنی کو محض گزشتہ برس میں ہی اپنے ۸ کلکیشن سینٹر بند کرنے پڑے لہذا اس کے اثرات کمپنی کے کسانوں کی بہبود کے لیے کئے جانے والے اقدامات پر بھی پڑے۔ وفاقی و صوبائی حکومتوں کے غذائی قوانین میں عدم مطابقت کے ساتھ ساتھ غلط اور بے بنیاد پبلیکیشنز نے دودھ کی سیکرڈ انڈسٹری کو شدید چیلنجز سے دوچار کر دیا جنہیں اب حفظان صحت کے اصولوں کے مطابق محفوظ اور صحت بخش پیک دودھ کی تیاری کے لئے ریگولیٹری باڈیز کی معاونت کی ضرورت ہے۔

کاروباری تجزیہ:

مذکورہ مدت میں کمپنی کے محصولات ۸۷۸ ملین روپے رہے جبکہ گزشتہ برس اسی مدت میں محصولات ۱۱۷۷ ملین روپے تھے۔ کمپنی کے گروس مارجن میں گزشتہ سال اسی مدت ۲۸٪ کے مقابلے میں ۲۰٪ رہا جس کی وجہ کمپنی کا منافع ۳۳۱ ملین روپے رہا جو گزشتہ برس اسی دورانیہ میں ۱۰۸ ملین روپے تھا۔

ڈیری اور مشروبات کا شعبہ:

۲۰۱۶ کی پہلی سہ ماہی کے مقابلے میں یو ایچ ٹی شعبہ بالخصوص "ٹی کریمر سیگنٹ" پر دباؤ کے باعث کمپنی کا ڈیری سیگنٹ تنزلی کا شکار رہا۔ مارکیٹ میں اپنا قائدانہ مقام برقرار رکھنے، برانڈ کے استحکام اور مختلف ذرائع سے متنوع کمپینز کے ذریعے مضبوط واپسی کے پیش نظر مصنوعاتی تحریک اور موثر منصوبہ بندی وضع کی گئی ہے۔

آئس کریم اور محفوظ منجمد میٹھوں (FROZEN DESSERTS) کا شعبہ:

ان تین ماہ کے دوران جن کا اختتام ۳۱ مارچ ۲۰۱۷ کو ہوا آئس کریم کی کھپت میں اضافہ ہوا، جس کی وجہ صارف کی من چاہی مصنوعات کی فراہمی اور متعلقہ برانڈز کی تقسیم و ترسیل رہی۔ اس شعبے میں خسارہ ۱۰۳ ملین روپے رہا جو گزشتہ برس اسی مدت میں ۱۱۹ ملین روپے تھا۔



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ڈیری فارم کا شعبہ:

کمپنی کا ڈیری فارم حسب سابق ہماری ڈیری مصنوعات کے لیے بھرپور اور باغذائیت خام مال کی فراہمی کا ماخذ رہا۔ تاہم اس شعبے میں ۳۷ ملین روپے کا فائدہ ہوا جو گزشتہ برس اسی مدت میں ۲۵ ملین روپے تھا۔

مالیاتی کارکردگی کے گوشوارے

ان تین ماہ کے دوران جن کا اختتام ۳۱ مارچ ۲۰۱۷ کو ہوا کمپنی کی مالیاتی کارکردگی کے گوشواروں کا خلاصہ درج ذیل ہے:

رقم ملین میں	۳۱ مارچ ۲۰۱۷ کو اختتام پذیر سہ ماہ کی مدت		تبدیلی
	۲۰۱۷	۲۰۱۶	
خالص فروخت	8,812	11,743	(25%)
آپریٹنگ منافع	474	1,656	(71%)
فروخت کی شرح	5.4%	14.1%	
منافع بعد از ٹیکس	331	1,108	(70%)
فروخت کی شرح	3.8%	9.4%	
آمدنی فی شیئر	0.43	1.45	(70%)

مستقبل کا عکس:

فریسلینڈ کیمپینا گروپ کے حصول کے بعد کمپنی ان کی مہارتوں سے مستفید ہونے کے لیے کوشاں ہے جن میں ریسرچ اینڈ ڈیولپمنٹ، انوویشن اور انتظامی کارکردگی کے شعبے نمایاں ہیں۔ فریسلینڈ کیمپینا بین الاقوامی تجربے کی حامل ہے، جو کمپنی کے محفوظ معیاری دودھ پر پاکستانی کھلے دودھ کے صارفین کی تیز منتقلی کے عمل میں مددگار ثابت ہوگا۔ فریسلینڈ کیمپینا کے ساتھ کمپنی اعلیٰ معیاری پیک دودھ کی فراہمی کے ذریعے غذائی کمی اور ملاوٹ زدہ دودھ کے خلاف جدوجہد کا عزم رکھتی ہے۔



علی احمد خان
چیف ایگزیکٹو



عبدالصمد داؤد
چیرمین

کراچی: ۱۳ اپریل ۲۰۱۷



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+92 (21) 352 960 00
engrofoods.com

