



engro foods

years of elevation

Financial Results – Third Quarter 2016



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company information

Board of Directors

Abdul Samad Dawood
Babur Sultan
Muhammed Amin
Sabrina Dawood
Marco L. Spits
Rehan Hassan
Zafaryab Ali Khan
Isfandiyar Shaheen
Syed Khalid Siraj Subhani
Wim Torfs

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

Chief Financial Officer

Imran Husain

Company Secretary

Faiz Chapra

Members of Audit Committee

Muhammed Amin	Chairman
Abdul Samad Dawood	Member
Zafaryab Ali Khan	Member
Isfandiyar Shaheen	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 NINE MONTHS ENDED SEPTEMBER 30, 2016



directors' report

On behalf of the Board of Directors of Engro Foods Limited (a majority owned subsidiary of Engro Corporation Limited), we are pleased to submit the report and the condensed interim financial information of the Company for the nine months ended September 30, 2016.

BUSINESS REVIEW

During the period, the Company reported revenue of Rs. 34.3 billion as compared to revenue of Rs. 37.3 billion in the corresponding period last year. The implementation in July of the Federal Budget for 2016-17 which included a change in the GST regime from zero rating to exempt has resulted in an increase in the cost of doing business. The impact of this has been partly passed on to the consumer in the form of price increases. The Company reported a net profit of Rs. 2.59 billion vs. Rs. 2.60 billion in the same period last year, despite lower revenue and imposition of Super Tax by GoP in the Federal Budget for 2016-17 primarily due to reduced financing and administrative costs.



DAIRY AND BEVERAGES SEGMENT

Volumes in Olpers and Omung have both grown year on year, but volumetric growth remained under pressure in the Tea Whitener segment due to changes in tax regime and increased competition. Appropriate steps involving targeted brand investments, educational campaigns and an optimised distribution strategy have been deployed to address the changing business environment and to maintain market leadership.



ICE CREAM AND FROZEN DESSERTS SEGMENT

During the nine months ended September 30, 2016, the Ice Cream business witnessed volumetric growth led by consumer relevant product launches and focused brand



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Third Quarter 2016 Accounts



investment. Volume growth coupled with improved margins resulted in the segment reporting a net profit of Rs. 203 million versus net profit of Rs. 101 million in corresponding period last year.

DAIRY FARM SEGMENT

The Company's Dairy Farm continued to be a rich and nutritious source of raw material for our dairy segment.



However, falling international market prices of animals led to non-cash valuation losses and consequently the segment reported a loss of Rs. 66 million versus a net profit of Rs. 15 million in the corresponding period last year.

FINANCIAL PERFORMANCE

The financial performance of the Company for nine months ended September 30, 2016 is summarized below:

(Rs. in million)	Nine months ended September 30,		Variation
	2016	2015	
Net Sales	34,311	37,263	-7.9%
Operating Profit	4,175	4,242	-1.6%
% of sales	12.2%	11.4%	
Profit after tax	2,595	2,601	-0.2%
% of sales	7.6%	7.0%	
Earnings per share (Rs.)	3.38	3.39	-0.2%

FUTURE OUTLOOK

The Company intends to accelerate volumetric growth and consolidate its market leadership positions on the back of additional brand investment in the future countering intensified competition and increased commodity prices as well as the negative effects of changes in GST regime.

All members of Pakistan Dairy Association (PDA) are closely monitoring the potential impact on the growth of conversion from loose milk to hygienic processed milk as a result of changes in GST regime. Outstanding sales tax refunds continue to exert pressure on working capital and the company will continue its efforts to engage with relevant stakeholders to expedite its recovery.

In relation to the acquisition of up to 51% shares in the Company by Royal FrieslandCampina Group which was announced on July 4 and which has now received all required regulatory clearances, FrieslandCampina Pakistan Holding B.V. (part of the Royal Friesland Campina Group) has launched a tender offer as required under the applicable Takeover Laws. The transaction is expected to complete by the end of this year.

Abdul Samad Dawood
Chairman

Babur Sultan
Chief Executive

Karachi: October 19, 2016



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condensed interim balance sheet (unaudited) as at september 30, 2016

(Amounts in thousand)

		Unaudited September 30, 2016	Audited December 31, 2015
	Note	Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	13,289,513	13,860,273
Biological assets		980,736	1,024,251
Intangible assets		44,775	63,923
Long term advances and deposits		135,113	134,451
Deferred employee share option compensation expense	5	64,443	147,456
		14,514,580	15,230,354
Current Assets			
Stores, spares and loose tools		847,028	792,929
Stock-in-trade	6	4,300,359	3,071,379
Trade debts		69,801	117,568
Advances, deposits and prepayments	7	196,480	133,999
Other receivables		140,029	598,555
Sales tax recoverable		4,169,834	3,724,441
Taxes recoverable		1,608,297	2,234,126
Deferred employee share option compensation expense	5	60,077	92,986
Cash and bank balances	8	300,976	289,049
		11,692,881	11,055,032
		26,207,461	26,285,386
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity			
Share capital		7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		454,905	595,144
Hedging reserve		-	(1,770)
Remeasurement of post employment benefits - Actuarial loss		(84,356)	(84,356)
Unappropriated profit		8,467,252	5,872,468
		17,369,116	14,912,801
Non-Current Liabilities			
Long term finances	9	1,082,626	2,195,988
Deferred taxation		1,777,352	1,816,289
Deferred income		-	568
		2,859,978	4,012,845
Current Liabilities			
Current portion of long term finances	9	1,825,180	3,171,417
Current portion of deferred income		1,124	3,122
Trade and other payables		3,772,410	3,666,927
Derivative financial instruments		-	2,604
Accrued interest / mark-up on			
- long term finances		75,083	98,993
- short term finances		3,387	6,920
Short term finances	10	301,183	409,757
		5,978,367	7,359,740
Contingencies and Commitments			
	11		
TOTAL EQUITY AND LIABILITIES			
		26,207,461	26,285,386

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Chairman


Chief Executive



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condensed interim profit and loss account (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand except for earnings per share)

	Note	Quarter ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
		Rupees	Rupees	Rupees	Rupees
Net sales		10,980,105	12,520,900	34,311,032	37,263,092
Cost of sales		(8,730,626)	(9,885,081)	(25,664,383)	(28,250,847)
Gross profit		2,249,479	2,635,819	8,646,649	9,012,245
Distribution and marketing expenses		(1,051,426)	(1,221,122)	(3,612,469)	(3,664,553)
Administrative expenses		(226,138)	(502,623)	(649,182)	(1,085,245)
Other operating expenses		(24,059)	(59,164)	(296,754)	(269,922)
Other income	12	31,036	115,665	87,213	249,205
Operating profit		978,892	968,575	4,175,457	4,241,730
Finance costs		(79,403)	(195,507)	(293,050)	(734,514)
Profit before taxation		899,489	773,068	3,882,407	3,507,216
Taxation	13	(266,035)	(149,524)	(1,287,623)	(906,087)
Profit for the period		633,454	623,544	2,594,784	2,601,129
Earnings per share - basic and diluted	14	0.83	0.81	3.38	3.39

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Chairman



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Third Quarter 2016 Accounts


Chief Executive

condensed interim statement of comprehensive income (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

	Quarter ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	Rupees		Rupees	
Profit for the period	633,454	623,544	2,594,784	2,601,129
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Gain on hedges during the period	-	(1,522)	-	2,254
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade	-	-	2,604	37,621
Income tax relating to hedging reserve	-	487	(834)	(13,174)
Other comprehensive income for the period, net of tax	-	(1,035)	1,770	26,701
Total comprehensive income for the period	633,454	622,509	2,596,554	2,627,830

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Chairman



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Chief Executive

condensed interim statement of changes in equity (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

	Share capital	RESERVES					Total
		CAPITAL		REVENUE			
		Share premium	Employee share option compensation reserve	Hedging reserve	Remeasurement of post employment benefits - Actuarial loss	Unappropriated profit	
		Rupees					
Balance as at January 1, 2015 (Audited)	7,665,961	865,354	399,740	(27,736)	(35,715)	2,710,013	11,577,617
Employee share option scheme	-	-	264,471	-	-	-	264,471
Total comprehensive income for the nine months ended September 30, 2015	-	-	-	26,701	-	2,601,129	2,627,830
Balance as at September 30, 2015 (Unaudited)	7,665,961	865,354	664,211	(1,035)	(35,715)	5,311,142	14,469,918
Employee share option scheme	-	-	(69,067)	-	-	-	(69,067)
Total comprehensive (loss) / income for the quarter ended December 31, 2015	-	-	-	(735)	(48,641)	561,326	511,950
Balance as at December 31, 2015 (Audited)	7,665,961	865,354	595,144	(1,770)	(84,356)	5,872,468	14,912,801
Employee share option scheme	-	-	(140,239)	-	-	-	(140,239)
Total comprehensive income for the nine months ended September 30, 2016	-	-	-	1,770	-	2,594,784	2,596,554
Balance as at September 30, 2016 (Unaudited)	7,665,961	865,354	454,905	-	(84,356)	8,467,252	17,369,116

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Chairman


Chief Executive

condensed interim statement of cash flows (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

		Nine months ended September 30,		
Note		2016	2015	
		Rupees		
CASH FLOWS FROM OPERATING ACTIVITIES				
	Cash generated from operations	15	4,472,412	4,020,169
	Finance costs paid		(320,493)	(800,391)
	Taxes paid		(701,563)	(546,692)
	Retirement benefits paid		(1,417)	(16,225)
	Long term advances and deposits - net		(662)	(27,773)
	Net cash generated from operating activities		3,448,277	2,629,088
CASH FLOWS FROM INVESTING ACTIVITIES				
	Purchases of:			
	- property, plant and equipment		(954,750)	(785,792)
	- intangible assets		(26,967)	(3,101)
	- biological assets		(3,495)	-
	Proceeds from disposal of:			
	- property, plant and equipment		59,050	39,799
	- biological assets		61,324	38,065
	Net cash utilized in investing activities		(864,838)	(711,029)
CASH FLOWS FROM FINANCING ACTIVITIES				
	Repayments of long term finances		(2,462,938)	(1,259,031)
	Net increase in cash and cash equivalents		120,501	659,028
	Cash and cash equivalents at beginning of the period		(120,708)	(2,134,993)
	Cash and cash equivalents at end of the period	16	(207)	(1,475,965)

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Chairman


Chief Executive



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notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(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 the Pakistan Stock Exchange. The Company is a subsidiary of Engro Corporation Limited (ECL) and its registered office is situated at 5th Floor, The Harbor 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.
- 1.3 As notified on the Pakistan Stock Exchange, FrieslandCampina Pakistan Holdings B.V., a wholly owned subsidiary of Royal FrieslandCampina N.V., has signed a Share Purchase Agreement (SPA) with ECL (current holding company) to acquire up to 51 per cent of the shares in the Company.

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, 2015.
- 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, 2015, 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, 2015.
- 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, 2016. 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 nine months ended september 30, 2016

(Amounts in thousand)

	Unaudited September 30, 2016	Audited December 31, 2015
	Rupees	
4. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value (notes 4.1, 4.2 and 4.3)	12,523,643	13,281,414
Capital work-in-progress (note 4.4)	611,126	419,755
Major spare parts and stand-by equipment	154,744	159,104
	<u>13,289,513</u>	<u>13,860,273</u>
4.1 Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
Free hold land	-	1,108
Buildings on freehold land	127,933	141,974
Plant, machinery and related equipment	446,371	855,459
Office equipment & furniture and fittings	22,506	14,272
Computer equipment	19,803	12,756
Vehicles	171,560	131,183
	<u>788,173</u>	<u>1,156,752</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	175,405	(165,164)	10,241	2,746	Insurance claims / Bidding / Auction
Vehicles - owned	141,224	(113,190)	28,034	55,683	Insurance claims / Employee buyback
Computer equipment	14,110	(13,795)	315	418	Insurance claims
Office equipment & furniture and fixture	927	(717)	210	203	Insurance claims / Sales Proceeds
September 30, 2016	<u>331,666</u>	<u>(292,866)</u>	<u>38,800</u>	<u>59,050</u>	
December 31, 2015	<u>245,272</u>	<u>(121,001)</u>	<u>124,271</u>	<u>133,046</u>	

4.3 During the period, the Company has recorded an impairment charge amounting to Rs. 56,330 (September 30, 2015: Rs. 507) against idle assets, determined on the basis of fair value of the assets less cost of disposal.

notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

	Unaudited September 30, 2016	Audited December 31, 2015
	Rupees	
4.4 Movement in capital work-in-progress during the period / year:		
Balance as at January 1	419,755	605,918
Additions:		
Land	-	1,108
Building on freehold land	114,769	106,101
Plant, machinery and related equipment	583,842	677,539
IS and milk automation projects	26,967	5,792
Office equipment, furniture & fittings and computers equipment	48,760	30,621
Vehicles	207,379	151,862
	981,717	973,023
Less:		
Transfers to:		
- Operating assets	(788,173)	(1,156,752)
- Intangible assets	(2,173)	(2,434)
Balance as at September 30 / December 31	611,126	419,755

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. During the period, 8,437,500 share options have been granted to certain employees. The details of share options granted to date under the Scheme, which remained outstanding as at September 30, 2016 are as follows:

- number of options	13,637,500
- 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. 28.42 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 21.39 per option. The following weighted average assumptions have been used in calculating the fair values of the options:

	Options granted in 2013	Options granted in 2015	Options granted in 2016	Options to be granted
- number of options	4,400,000	800,000	8,437,500	3,262,500
- share price	Rs. 133.58	Rs. 107.67	Rs. 156.85	Rs. 146.31
- exercise price	Rs. 191.89	Rs. 182.85	Rs. 230.76	Rs. 230.76
- expected volatility	32.54%	30.32%	34.86%	28.38%
- expected life	3 years	3.5 years	3.5 years	4 years
- annual risk free interest rate	9.42%	7.93%	6.15%	5.92%



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notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

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 last year 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.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 454,905 has been recognized, out of which Rs. 330,385 has been amortized to date, including Rs. 30,470 reversal of charge in current period owing to change in fair value of options to be granted, net of charge in respect of employees services received to the balance sheet date.

	Unaudited September 30, 2016	Audited December 31, 2015
	Rupees	
6. STOCK-IN-TRADE		
Raw and packaging material (note 6.1)	2,489,030	2,103,805
Work in process (note 6.2)	1,208,179	169,194
Finished goods (notes 6.3 and 6.4)	603,150	798,380
	<u>4,300,359</u>	<u>3,071,379</u>

6.1 Includes Rs. 631,509 (December 31, 2015: Rs. 15,187) in respect of raw material held by third parties.

6.2 Includes Rs. 284,056 (December 31, 2015: Nil) in respect of semi-finished stock held by third parties.

6.3 Includes Rs. 94,054 (December 31, 2015: Rs. 163,084) in respect of finished goods held by third parties and Nil (December 31, 2015: Rs. 65,752) in respect of finished goods carried at net realizable value.

6.4 These are net of provision against expired / obsolete stock amounting to Rs. 28,743 (December 31, 2015: Rs. 47,092). Stock amounting to Rs. 29,281 (December 31, 2015: Rs. 80,380) has been written off against provision during the period.

7. ADVANCES, DEPOSITS AND PREPAYMENTS

7.1 The Company does not have any advances or deposits carrying any interest, mark-up or placed under any arrangement permissible under Shariah as at September 30, 2016.

	Unaudited September 30, 2016	Audited December 31, 2015
	Rupees	
8. CASH AND BANK BALANCES		
8.1 Cash at bank in:		
Conventional:		
- current accounts - note 8.2	104,756	109,419
- savings accounts - note 8.3	195,509	178,713
	<u>300,265</u>	<u>288,132</u>
Shariah compliant - current accounts	711	917
	<u>300,976</u>	<u>289,049</u>



notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

8.2 Includes balance in foreign currency account of Rs. 100,714 (December 31, 2015: Rs. 107,172).

8.3 Includes balance in foreign currency account of Rs. 195,458 (December 31, 2015: Rs. 178,713).

8.4 During the period, the Company has not earned any profit from Shariah compliant bank accounts.

	Unaudited September 30, 2016	Audited December 31, 2015
	Rupees	
9. LONG TERM FINANCES - secured		
9.1 Long term finances:		
- Conventional	2,504,056	4,488,655
- Shariah compliant	403,750	878,750
	<u>2,907,806</u>	<u>5,367,405</u>
Less: Current portion of long term finances		
- Conventional	(1,421,430)	(2,696,417)
- Shariah compliant	(403,750)	(475,000)
	<u>(1,825,180)</u>	<u>(3,171,417)</u>
	<u>1,082,626</u>	<u>2,195,988</u>

10. SHORT TERM FINANCES - secured

10.1 Short term finances:		
- Conventional	292,707	409,757
- Shariah compliant	8,476	-
	<u>301,183</u>	<u>409,757</u>

10.2 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.7,500,000 (December 31, 2015: Rs. 8,000,000), including for short term running finance under arrangement permissible under Shariah which amounts to Rs. 600,000 (December 31, 2015: Rs. 300,000). The unutilized balance against these facilities as at September 30, 2016 was Rs. 7,198,817 (December 31, 2015: Rs. 7,590,243). The rates of mark-up on these finances are KIBOR based and range from 6.21% to 7.5% (December 31, 2015: 7.26% to 8.10%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

10.3 The facilities for opening letters of credit and bank guarantees as at September 30, 2016 amounts to Rs. 6,515,000 (December 31, 2015: Rs. 6,015,000), of which the amount remaining unutilized as at September 30, 2016 was Rs. 5,371,000 (December 31, 2015: Rs. 3,871,198).

notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

11. CONTINGENCIES AND COMMITMENTS

11.1 As at September 30, 2016, the Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 74,828 (December 31, 2015: Rs. 62,842) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2015: 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, 2015: 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, 2015: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 4,675 (December 31, 2015: Rs. 9,001), as collateral against supplies;
- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 1,000 (December 31, 2015: Rs. 1,000) as collateral against supplies; and
- Officer Commanding PAF Faisal Base amounting to Rs. NIL (December 31, 2015: Rs. 4,745) as collateral against supplies.

11.2 Commitments in respect of capital expenditure contracted for but not incurred as at September 30, 2016 amounts to Rs. 766,958 (December 31, 2015: Rs. 791,590).

11.3 Commitments in respect of purchase of certain commodities as at September 30, 2016 amounts to Rs. 444,625 (December 31, 2015: Rs. 1,090,580).

11.4 Commitments for rentals payable under the Ijarah agreement as at September 30, 2016 amounts to Rs. 143,631 (December 31, 2015: Rs. 214,005).

11.5 As at September 30, 2016 post-dated cheques amounting to Rs. 10,773 (December 31, 2015: 467) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notifications dated July 8, 2011 and August 1, 2011.

11.6 Following is the position of the Company's open tax assessments / matters as at September 30, 2016:

- a) The Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance (ITO), 2001 has surrendered to ECL, 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 the Holding Company for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of the Holding Company, whereby, allowing the surrender of tax losses by the Company to the Holding Company. 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 the Holding Company for refund of the consideration



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(Amounts in thousand)

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 the Holding Company for the year ended December 31, 2008 in favour of the Holding Company.

- 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 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 the period Deputy Commissioner Inland Revenue has disallowed minimum turnover tax credit for tax years 2008, 2010 and 2011 claimed in tax year 2013 on the basis of aforementioned judgement of Sindh High Court. 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. 1,107,039 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) During the period, the Deputy Commissioner Inland Revenue 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 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. 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) During the period, 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.

12. OTHER INCOME

- 12.1 During the period, the Company has not earned any exchange gain from derivative financial instruments.
- 12.2 During the period, the Company has not earned any profit from Shariah compliant bank accounts.



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(Amounts in thousand)

13. TAXATION

- 13.1 Includes 'Super Tax for rehabilitation of temporary displaced persons' at the rate of 3% on specified income for the tax year 2016 (i.e. for the year ended December 31, 2015) levied through Finance Act 2016.

	Unaudited September 30, 2016	Unaudited September 30, 2015
	Rupees	
14. 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	2,594,784	2,601,129
Weighted average number of ordinary shares for determination of basic & diluted EPS (in thousand)	766,596	766,596
15. CASH GENERATED FROM OPERATIONS		
Profit before taxation	3,882,407	3,507,216
Adjustment for non-cash charges and other items:		
- Depreciation	1,450,814	1,470,308
- Impairment of operating assets - net	56,330	507
- Impairment of intangible assets	-	56
- Amortization of intangible assets	21,321	37,943
- Amortization of deferred income	(2,566)	(2,256)
- Amortization of arrangement fees on long term loan	3,339	5,664
- (Reversal of amortization) / Amortization of deferred employee share option compensation reserve	(24,317)	163,168
- Loss on disposal of biological assets	996	944
- Gain on disposal of operating assets	(20,250)	(19,511)
- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(15,312)	(176,724)
- Provision for retirement and other service benefits	78,166	74,317
- Provision for stock-in-trade	10,932	16,969
- Provision / (Reversal of provision) for slow moving spares	3,928	(299)
- Provision for impairment of trade debts	1,108	1,073
- Finance costs	293,050	734,514
Working capital changes (note 15.1)	(1,267,534)	(1,793,720)
	4,472,412	4,020,169

notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

	Unaudited September 30, 2016	Unaudited September 30, 2015
	Rupees	
15.1 Working capital changes		
(Increase) / Decrease in current assets		
- Stores, spares and loose tools	(53,667)	(53,633)
- Stock-in-trade	(1,239,912)	(1,220,358)
- Trade debts	46,659	1,693
- Advances, deposits and prepayments	(62,481)	(42,377)
- Other receivables	458,526	(539,866)
- Sales tax recoverable	(445,393)	(596,258)
	(1,296,268)	(2,450,799)
Increase / (Decrease) in current liabilities		
- Trade and other payables - net	28,734	657,079
	(1,267,534)	(1,793,720)
16. CASH AND CASH EQUIVALENTS		
Cash and bank balances (note 8)	300,976	276,199
Short term finances (note 10)	(301,183)	(1,752,164)
	(207)	(1,475,965)

17. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

17.1 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.

17.2 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.

notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

18. TRANSACTIONS WITH RELATED PARTIES

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

Nature of relationship	Nature of transactions	Unaudited September 30, 2016	Unaudited September 30, 2015
		Rupees	
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	157,903	138,953
	Reimbursement of expense paid on behalf of	31,395	20,614
Subsidiary and associated companies	Arrangement for sharing of premises, utilities, personnel and assets	10,840	9,977
	Reimbursement of expense paid on behalf of	45,431	10,456
	Purchase of goods	34,418	47,567
	Sale of goods	-	2,979
	Purchase of services	245	75
	Donation	9,000	6,000
Contribution to staff retirement funds	Managed and operated by the Company :		
	- Gratuity fund contribution	8,199	15,000
	Managed and operated by the Holding Company :		
	- Pension fund contribution	-	358
	- Provident fund contribution	216,609	187,771
	- Gratuity fund contribution	2,450	867
Key management personnel	Managerial remuneration	126,096	108,288
	Contribution for staff retirement benefits	10,384	8,123
	Bonus payment	67,487	11,370
	Other benefits	1,180	1,127

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

19. SEGMENT INFORMATION

19.1 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, 2015.

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 nine months ended september 30, 2016

(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.

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

	Unaudited Nine months ended September 30, 2016				Unaudited Nine months ended September 30, 2015			
	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	30,950,475	3,353,504	669,447	34,973,426	34,251,131	3,163,093	539,109	37,953,333
Inter-segment sales	(19,042)	-	(669,447)	(688,489)	(179,166)	-	(539,109)	(718,275)
	30,931,433	3,353,504	-	34,284,937	34,071,965	3,163,093	-	37,235,058
Raw milk sales	26,095	-	-	26,095	28,034	-	-	28,034
	30,957,528	3,353,504	-	34,311,032	34,099,999	3,163,093	-	37,263,092
Net profit / (loss) after tax	2,458,098	202,849	(66,163)	2,594,784	2,484,658	101,462	15,009	2,601,129
	Unaudited September 30, 2016				Audited December 31, 2015			
	Rupees							
Assets								
- Segment assets	15,339,831	2,195,036	2,045,649	19,580,516	14,453,470	2,278,947	2,090,922	18,823,339
- Un-allocated assets	-	-	-	6,626,945	-	-	-	7,462,048
	15,339,831	2,195,036	2,045,649	26,207,461	14,453,470	2,278,947	2,090,922	26,285,386

20. 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 September 30, 2016 are not necessarily indicative of result to be expected for the full year.

notes to the condensed interim financial information (unaudited) for the nine months ended september 30, 2016

(Amounts in thousand)

21. CORRESPONDING FIGURES

21.1 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.

21.2 For better presentation, following reclassifications have been made in this condensed interim financial information:

Description	Rupees	Head of account in condensed interim financial information for the period ended September 30, 2015	Head of account in condensed interim financial information for the period ended September 30, 2016
Profit and loss account			
Trade discounts and rebates	400,993	Distribution and marketing expenses	Net sales

22. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on September 19, 2016 by the Board of Directors of the Company.


Chairman


Chief Executive



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ڈائریکٹر ز رپورٹ

اینگرو فوڈز لمیٹڈ (جو اینگریو کارپوریشن لمیٹڈ کا اکثریت ملکیتی ماتحت ادارہ) کے بورڈ آف ڈائریکٹرز کی جانب سے ہم ۳۰ ستمبر ۲۰۱۶ کو اختتام پذیر نو ماہ کی عبوری مالی معلومات اور ڈائریکٹر ز رپورٹ پیش کرنے پر مسرت محسوس کرتے ہیں۔

کاروبار کا جائزہ

۲۰۱۶ کے ۹ ماہ کے دوران کمپنی نے گزشتہ سال اسی مدت میں حاصل ہونے والی آمدنی ۳۷۳ ارب روپے کے مقابلے میں ۳۴۳ ارب روپے رپورٹ کی۔ جولائی میں سال ۱۷-۲۰۱۶ کے وفاقی بجٹ کے نفاذ سے جی ایس ٹی کا نظام زیرو ریٹنگ سے ایگزیمٹ میں تبدیل ہوا جس کے نتیجے میں کاروبار کرنے کی لاگت میں اضافہ ہوا۔ اس کے اثرات جزوی طور پر قیمت میں اضافے کی صورت میں صارف کو منتقل کئے گئے۔ کمپنی نے کم آمدنی اور گورنمنٹ کے وفاقی بجٹ ۲۰۱۶-۱۷ میں سپر ٹیکس کے نفاذ کے باوجود خالص منافع گزشتہ سال اسی مدت کے دوران ۲۶۹۰ ارب روپے کے مقابلے میں ۲۵۹۹ ارب روپے رپورٹ کیا جس کی بنیادی وجہ کم مالیاتی اور انتظامی اخراجات تھے۔

ڈیری اور مشروبات سیگمنٹ

اولپرز اور اینگ دونوں کے حجم سال بہ سال بڑھے ہیں لیکن ٹی وائٹنر کے سیگمنٹ میں حجمی ترقی دباؤ میں رہی جس کی وجوہات ٹیکس کی شرح میں تبدیلی اور بڑھتی ہوئی مسابقت ہیں۔ کاروباری ماحول اور مارکیٹ میں اپنی برتری برقرار رکھنے کے لیے مناسب اقدامات کئے گئے ہیں جن میں برانڈز میں سرمایہ کاری، عوامی آگاہی کی مہم اور ڈسٹری بیویشن کی کارکردگی بڑھانے کا لائحہ عمل شامل ہیں۔

آئسکریم اور فروزن ڈیزرٹس سیگمنٹ

۳۰ ستمبر ۲۰۱۶ کو اختتام پذیر نو ماہ کی مدت کے دوران آئسکریم کے کاروبار میں حجمی ترقی دیکھی گئی جس کی وجہ صارفین سے متعلق پروڈکٹس کے اجراء اور برانڈز میں سرمایہ کاری ہیں۔ حجم میں ترقی کے ساتھ بڑھے ہوئے منافع کی وجہ سے سیگمنٹ نے گزشتہ سال کے خالص منافع ۱۰۱ ملین روپے کے مقابلے میں اس سال خالص منافع ۲۰۳ ملین روپے رپورٹ کیا۔

ڈیری فارم سیگمنٹ

کمپنی کے ڈیری فارم نے ہمارے ڈیری سیگمنٹ کے لئے خام مال کا غذائیت سے بھرپور منبع رہنے کا سلسلہ جاری رکھا تاہم جانوروں کی بین الاقوامی مارکیٹ میں قیمتوں کے گرنے اور نان کیش ویلوی ایشن کے نقصانات کی وجہ سے سیگمنٹ نے گزشتہ سال اسی مدت کے خالص منافع ۱۵ ملین روپے کے مقابلے میں اس سال اس مدت میں ۶۶ ملین روپے کا نقصان رپورٹ کیا۔



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مالیاتی کارکردگی

۳۰ ستمبر ۲۰۱۶ کو اختتام پذیر نو ماہ کی مدت میں کمپنی کی مالیاتی کارکردگی کا خلاصہ درج ذیل ہے؛

رقم بلین میں	30 ستمبر 2016 کو اختتام پذیر نو ماہ کی مدت		تبدیلی
	2016	2015	
خالص فروخت	34,311	37,263	- 7.9%
آپریٹنگ منافع	4,175	4,242	- 1.6%
فروخت کی شرح	12.2%	11.4%	
منافع بعد از ٹیکس	2,595	2,601	- 0.2%
فروخت کی شرح	7.6%	7.0%	
آمدنی فی شیئر Rs.	3.38	3.39	- 0.2%

مستقبل کا نقطہ نظر

کمپنی برانڈز میں سرمایہ کاری کے ذریعے اپنی مجموعی ترقی کی رفتار کو بڑھانے اور مارکیٹ میں اپنی برتری کو مستحکم کرنے کا ارادہ رکھتی ہے تاکہ شدید تر مسابقت اور اشیاء کی کی بڑھی ہوئی قیمتوں کے ساتھ ساتھ جی ایس ٹی کے نظام کے منفی اثرات کا تدارک کیا جاسکے۔

پاکستان ڈیری ایسوسی ایشن (پی ڈی اے) کے تمام ارکان کھلے دودھ سے صحت بخش پراسسڈ دودھ پر منتقلی کو جی ایس ٹی کے تبدیل شدہ نظام کے تناظر میں بہت قریب سے جائزہ لے رہے ہیں۔ بقایا سبزی ٹیکس ریفرنڈم کی وجہ سے ورکنگ کیپیٹل پر دباؤ برقرار ہے اور کمپنی اس کی جلد وصولی کے لیے متعلقہ اسٹیک ہولڈرز سے رابطہ جاری رکھے گی۔

۴ جولائی کے اعلان کے مطابق، کمپنی کے ۵۱ فیصد حصص کو رائل فریز لینڈ کمیونٹی گروپ کی خریداری کے حوالے سے متعلق تمام قانونی منظوری مل چکی ہے۔ فریز لینڈ کمیونٹی پاکستان ہولڈنگ بی وی (جو رائل فریز لینڈ کمیونٹی گروپ کا حصہ ہے) نے ٹیک اور قوانین کے مطابق ٹینڈر آفر جاری کر دیا ہے۔ توقع ہے کہ یہ سودا اس سال کے آخر تک مکمل ہو جائے گا۔



بابر سلطان
چیف ایگزیکٹو



عبدالصمد داؤد
چیرمین

کراچی: ۱۹ اکتوبر ۲۰۱۶



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