engro foods

sealing leadership

Financial Results – First Quarter 2015

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company information

Company Information

Board of Directors

Aliuddin Ansari	Chairman
Sarfaraz A. Rehman	Chief Executive Officer
Abdul Samad Dawood	Non-Executive Director
Muhammed Amin	Non-Executive Director
Mujahid Hamid	Non-Executive Director
Roshaneh Zafar	Non-Executive Director
Ruhail Mohammed	Non-Executive Director
Sabrina Dawood	Non-Executive Director
Shahzada Dawood	Non-Executive Director
Zafar Ahmed Siddiqui*	Non-Executive Director

* resigned from Board on April 10, 2015

Chief Financial Officer
Imran Husain

Company Secretary
Faiz Chapra

Members of Audit Committee

Zafar Ahmed Siddiqui*	Chairman
Abdul Samad Dawood	Member
Ruhail Mohammed	Member
Shahzada Dawood	Member

* resigned from Board on April 10, 2015

The secretary of committee is
Muhammad Imran Khalil, 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

Bankers
Al-Baraka Bank Pakistan Limited
Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Barclays Bank PLC Pakistan
Citibank N.A.
Deutchse Bank AG
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Industrial and Commercial Bank of China Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Samba Bank Limited
Soneri Bank Limited
Standard Chartered Bank Pakistan Limited
Summit Bank Limited
The Bank of Khyber
The Bank of Punjab
United Bank Limited

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engro foods

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED MARCH 31, 2015

directors' report

On behalf of the Board of Directors of Engro Foods Limited, we are pleased to submit the report and the consolidated condensed interim financial information of the Company for the quarter ended March 31, 2015.

PRINCIPAL ACTIVITIES:

Engro Foods Limited, a majority owned subsidiary of Engro Corporation Limited, is engaged in manufacturing, processing and marketing of dairy products, ice cream & frozen desserts and beverages. As an example of Engro's pursuit of excellence, the business has established several brands that have already become household names in Pakistan such as Olpers', Tarang, Dairy Omung and Omore and others.

BUSINESS REVIEW:

During the period, the Company attained a growth in revenue of 25% mainly on the back of robust performance in the dairy and beverages segment. Revenue for the period was Rs.12.6 billion versus Rs. 10 billion in the same period last year. Sustained and impactful investment on brands and effective pricing strategy were the key elements in achieving a double digit growth. Gross margin of the Company also improved from 20.3% to 27.4%. As a result, the overall profitability of the Company increased to Rs. 1,069 million from Rs. 220 million in the same period last year.



DAIRY AND BEVERAGES SEGMENT

Continuing momentum from last quarter of 2014, the segment witnessed volumetric growth of around 22% in first quarter versus the same period last year. Dairy market share was 56% as of February 2015 as per A.C. Nielsen.



The segment reported a top line of Rs. 12 billion registering a growth of 26% versus the same period last year. Marketing investment doubled as compared to same period last year to further strengthen brand equities. Profit after tax for the three months was Rs. 1,172 million showing an increase of 165% versus the same period last year. The increase in PAT was due to higher volumes as well as lower milk prices, fuel and energy cost.



ICE CREAM AND FROZEN DESSERTS SEGMENT

During the first quarter ended March 31, 2015, the Ice Cream business witnessed volumetric growth of 16% versus the same period last year. This growth was led by consumer relevant product launches, geographical expansion and driving operational excellence in the distribution network.



DAIRY FARM SEGMENT

The Company's Dairy Farm continued to remain a rich and nutritious source of raw material for our dairy segment. Due to impact of animals' valuation and better yield, the segment reported the profit of Rs 33 million in the first quarter versus loss of Rs 20 million in the same period last year.



FINANCIAL PERFORMANCE

The financial performance of the Company for first quarter of 2015 is summarized below:

(Rs. in million)	Quarter ended March 31,		Variation
	2015	2014	
Net sales	12,576	10,037	25.3%
Operating profit	1,827	568	221.6%
% of sales	14.5%	5.7%	
Profit after tax	1,069	220	285.9%
% of sales	8.5%	2.2%	
Earnings per share (Rs.)	1.39	0.29	379.3%

FUTURE OUTLOOK

We maintain a positive outlook on the economy due to improving macroeconomic indicators and declining commodity prices. We will continue our thrust to grow in all categories by making significant brand investment. Growing sales tax refund balances continue to exert pressure on working capital; the Company will continue to engage with the government to expedite recovery. We remain confident of maintaining a strong performance for 2015, by sharpening focus on key growth parameters including innovation, brand health and operational excellence.

Aliuddin Ansari
Chairman

Sarfaraz A. Rehman
Chief Executive

Karachi: April 20, 2015

condensed interim balance sheet (unaudited) as at march 31, 2015

(Amounts in thousand)

	Note	Unaudited March 31, 2015	Audited December 31, 2014
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	14,906,344	15,021,519
Biological assets		898,753	858,680
Intangible assets		100,148	112,208
Long term advances and deposits		137,534	109,174
Deferred employee share option compensation expense	6	119,032	112,581
Investment in subsidiary		-	-
		16,161,811	16,214,162
Current Assets			
Stores, spares and loose tools		784,032	788,141
Stock-in-trade	5	6,306,957	3,697,787
Trade debts		105,381	95,962
Advances, deposits and prepayments		236,667	113,501
Other receivables		3,158,049	2,865,607
Deferred employee share option compensation expense	6	76,630	90,430
Taxes recoverable		1,765,312	1,637,018
Cash and bank balances		223,188	196,900
		12,656,216	9,485,346
TOTAL ASSETS		28,818,027	25,699,508
EQUITY AND LIABILITIES			
Equity			
Share capital		7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		398,894	399,740
Hedging reserve		-	(27,736)
Remeasurement of post employment benefits - Actuarial loss		(35,715)	(35,715)
Unappropriated profit		3,778,920	2,710,013
		12,673,414	11,577,617
Non-Current Liabilities			
Long term finances		4,790,658	5,476,993
Deferred taxation		1,690,951	1,185,717
Deferred Income		2,465	2,516
		6,484,074	6,665,226
Current Liabilities			
Current portion of long term finances		2,035,153	1,605,597
Trade and other payables		4,133,765	3,222,661
Derivative financial instruments		-	41,397
Accrued interest / mark-up on			
- long term finances		224,118	194,025
- short term finances		74,913	61,092
Short term finances	7	3,192,590	2,331,893
		9,660,539	7,456,665
Contingencies and Commitments	8		
TOTAL EQUITY AND LIABILITIES		28,818,027	25,699,508

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim
profit and loss account (unaudited)
for the quarter ended march 31, 2015

(Amounts in thousand except for earnings per share)

	Note	Quarter ended March 31, 2015	Quarter ended March 31, 2014
		Rupees	
Net sales		12,576,372	10,036,868
Cost of sales		(9,141,583)	(7,997,663)
Gross profit		3,434,789	2,039,205
Distribution and marketing expenses		(1,249,981)	(1,063,761)
Administrative expenses		(325,655)	(378,503)
Other operating expenses		(124,927)	(40,377)
Other income		92,481	11,176
Operating profit		1,826,707	567,740
Finance costs		(266,658)	(253,049)
Profit before taxation		1,560,049	314,691
Taxation		(491,142)	(95,274)
Profit for the period		1,068,907	219,417
Earnings per share - basic and diluted	9	1.39	0.29

The annexed notes 1 to 16 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, 2015

(Amounts in thousand)

	Quarter ended March 31, 2015	Quarter ended March 31, 2014
	Rupees	
Profit for the period	1,068,907	219,417
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Gain / (loss) arising on hedges during the period	3,776	(27,939)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - Capital work-in-progress / stock-in-trade	37,621	13,689
Income tax relating to hedging reserve	(13,661)	4,845
Other comprehensive income / (loss) for the period, net of tax	27,736	(9,405)
Total comprehensive income for the period	1,096,643	210,012

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of changes in equity (unaudited) for the quarter ended march 31, 2015

(Amounts in thousand)

	RESERVE						
	CAPITAL				REVENUE		
	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	Total
	Rupees						
Balance as at January 1, 2014 (Audited)	7,665,961	865,354	407,133	(9,581)	1,821,182	(34,839)	10,715,210
Employee share option scheme	-	-	114,254	-	-	-	114,254
Total comprehensive income for the period	-	-	-	(9,405)	219,417	-	210,012
Balance as at March 31, 2014 (Unaudited)	7,665,961	865,354	521,387	(18,986)	2,040,599	(34,839)	11,039,476
Employee share option scheme	-	-	(121,647)	-	-	-	(121,647)
Total comprehensive income for the period	-	-	-	(8,750)	669,414	(876)	659,788
Balance as at December 31, 2014 (Audited)	7,665,961	865,354	399,740	(27,736)	2,710,013	(35,715)	11,577,617
Share capital issued	-	-	-	-	-	-	-
Employee share option scheme	-	-	(846)	-	-	-	(846)
Total comprehensive income for the period	-	-	-	27,736	1,068,907	-	1,096,643
Balance as at March 31, 2015 (Unaudited)	7,665,961	865,354	398,894	-	3,778,920	(35,715)	12,673,414

The annexed notes 1 to 16 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, 2015

(Amounts in thousand)

	Note	Quarter ended March 31, 2015	Quarter ended March 31, 2014
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilized in) operations	10	129,393	(803,618)
Finance costs paid		(222,744)	(203,769)
Taxes paid		(127,863)	(342,909)
Retirement benefits paid		(162)	(58,633)
Long term advances and deposits - net		(28,360)	(18,037)
Net cash utilized in operating activities		(249,736)	(1,426,966)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(369,923)	(919,745)
- intangible assets		-	(21,978)
Proceeds from disposal of:			
- property, plant and equipment		18,792	24,680
- biological assets		24,580	14,616
Investment in Engro Foods Netherlands B.V. - net		-	(21,615)
Net cash utilized in investing activities		(326,551)	(924,042)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		(258,122)	(506,455)
Net decrease in cash and cash equivalents		(834,409)	(2,857,463)
Cash and cash equivalents at beginning of the period		(2,134,993)	727,266
Cash and cash equivalents at end of the period	11	(2,969,402)	(2,130,197)

The annexed notes 1 to 16 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2015

(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 Karachi, Lahore and Islamabad Stock Exchanges. The Company is a subsidiary of Engro Corporation Limited (ECL) and its registered office is situated at 6th 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 deserts. The Company also owns and operates a dairy farm. In 2014, the Company exited from its halal foods business in North America (Al-Safa) owned by Engro Foods Netherlands B.V. Accordingly, the Company has limited presence in international market through investment in EF Netherlands, which has no operations of its own.

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 financial statements of the Company for the year ended December 31, 2014.

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, 2014, 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 6. 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

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, 2014.

	Unaudited March 31, 2015	Audited December 31, 2014
	Rupees	
4 PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value (notes 4.1 and 4.2)	14,167,443	14,290,892
Capital work-in-progress (note 4.3)	607,752	605,918
Major spare parts and stand by equipments	131,149	124,709
	14,906,344	15,021,519

		Unaudited March 31, 2015	Audited December 31, 2014
		Rupees	
4.1	Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
	Free hold land (note 4.1.1)	625	5,469
	Buildings on freehold land	69,217	1,120,699
	Plant, machinery and related equipment	218,330	3,818,887
	Office equipment and furniture and fixture	3,208	83,777
	Computers	6,676	34,742
	Vehicles	69,526	138,497
		367,582	5,202,071

4.1.1 The Company acquired land measuring 537 Kanals, 37 Marlas surrounding its Sahiwal plant through the Commissioner, Sahiwal Division, Government of Punjab (the Government) action, by invoking provisions of Land Acquisition Act, 1894.

Under the said law, the price of the nearby land was assessed by the Government authorities and the Company paid Rs. 212,514 to the Government for purchase of the land. The Government will in turn pay to the respective land owners.

In 2013, few land owners filed writ petitions against the Government's action at Lahore High Court (the Court). The writ petitions has been decided in favor of the Company by the Court. The Company filed a petition before Accountablility Court, Lahore for de-freezing of Land, which during the period has been decided in favour of the Company. Accordingly, the Company has completed all the legal formalities of the mutation and possession of the Land.

4.2 The details of operating assets disposed/written-off during the period / year are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , Machinery and Equipment	17,918	(14,265)	3,653	16,160	Insurance claims / Bidding / Auction
Vehicles	3,786	(2,373)	1,413	2,257	Insurance claims / Employee buybacks
Computer Equipment	6,084	(5,934)	150	10	Insurance claims / Bidding / Auction
Office Equipment & Furniture and Fixture	14,031	(10,159)	3,872	365	
March 31, 2015	41,819	(32,731)	9,088	18,792	
December 31, 2014	211,662	(144,649)	67,013	80,124	

		Unaudited March 31, 2015	Audited December 31, 2014
		Rupees	
4.3	Movement in capital work-in-progress during the period / year:		
	Balance as at January 1	605,918	3,328,363
	Additions:		
	Land	625	5,469
	Building on freehold land	4,751	906,780
	Plant, machinery and related equipment	288,606	1,359,586
	IS and milk automation	-	39,461
	Office equipment, furniture, fittings and computers	6,303	72,637
	Vehicles	69,638	144,883
		369,923	2,528,816
	Less:		
	Transfer to:		
	- Operating assets	(367,582)	(5,202,071)
	- Intangibles	(507)	(49,190)
	Balance as at March 31 / December 31	607,752	605,918
5	STOCK-IN-TRADE		
	Raw and packaging material (note 5.1)	5,053,573	2,300,790
	Work in process	65,044	529,977
	Finished goods (note 5.2 and 5.3)	1,188,340	867,020
		6,306,957	3,697,787

5.1 Includes Rs. 627,976 (December 31, 2014: Nil) in respect of stock held by third parties.

5.2 Includes Rs. 14,329 (December 31, 2014: Rs. 17,353) in respect of stock held by third parties.

5.3 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 63,612 (December 31, 2014: Rs. 81,403).

6 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 can be granted in the years 2013 to April 2015. 50% of the options granted will vest in two years whereas the remaining 50% will 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. The details of share options granted to date, which remained outstanding as at March 31, 2015 are as follows:

- number of options	4,400,000
- range of exercise price	Rs. 191.89 - Rs. 253.77
- weighted average remaining contractual life	3.65 years

The weighted average fair value of options granted till date, as estimated at the date of grant using the Black-Scholes model was Rs. 28.89 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 21.74 per option. The following weighted average assumptions were used in calculating the fair values of the options:

	Options granted in 2013	Options to be granted
- number of options	4,400,000	12,500,000
- share price	Rs. 133.58	Rs. 110.60
- exercise price	Rs. 220.67	Rs. 210.28
- expected volatility	32.54%	30.48%
- expected life	4.1 years	5.26 years
- annual risk free interest rate	9.42%	7.93%

No new options have been granted during the period.

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective / expected grant date. In addition, the Company as at March 31, 2015 estimates that during the current year options for remaining 12.5 million shares will be granted, after taking approval of modification in the Scheme, regarding extension in option grant period, from the SECP.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 398,894 has been recognized, out of which Rs.203,232 has been amortized to date, including Rs. 6,502 being charge for the current period, in respect of related employees services received to the balance sheet date.

7 SHORT TERM FINANCES - secured

7.1 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. 6,300,000 (2014: Rs. 6,000,000). The unutilized balance against these facilities as at March 31, 2015 was Rs. 3,107,410 (December 31, 2014: Rs. 3,668,107). The rates of mark-up on these finances are KIBOR based and range from 8.98% to 11.63% (December 31, 2014: 10.54% to 12.21%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

7.2 The facilities for opening letters of credit and guarantees as at March 31, 2015 amounts to Rs. 6,615,000 (December 31, 2014: Rs. 5,515,000), of which the amount remaining unutilized as at March 31, 2015 was Rs. 3,632,051 (December 31, 2014: Rs. 2,896,087).

8 CONTINGENCIES AND COMMITMENTS

8.1 As at March 31, 2015, the Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 62,842 (December 31, 2014: Rs. 56,199) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2014: 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, 2014: 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 (2014: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 5,953 (December 31, 2014: Rs. 5,953), as collateral against supplies;
- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 1,000 (December 31, 2014: Rs. 600) as collateral against supplies; and
- Officer Commanding PAF Faisal Base amounting to Rs. 3,818 (December 31, 2014: Rs. 3,818) as collateral against supplies.

8.2 As at March 31, 2014 post-dated cheques amounting to Rs. 11,476 (December 31, 2014: Nil) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notification dated July 8, 2011 and August 1, 2011.

8.3 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2015 amounts to Rs. 411,705 (December 31, 2014: Rs. 271,727).

8.4 Commitments in respect of purchase of certain commodities as at March 31, 2015 amounts to Rs. 2,265,879 (December 31, 2014: Rs. 1,955,039).

8.5 Commitments for rentals payable under the Ijarah agreement as at March 31, 2015 amounts to Rs. 296,847 (December31, 2014: Rs. 319,055)

8.6 Following is the position of the Company's open tax assessments/matters as at March 31, 2015:

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 thereagainst 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 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. The Company has obtained stay order from the Sindh High Court against the audit proceedings and has also filed an appeal thereagainst 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.

d) 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 thereagainst 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.

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2015

		Unaudited March 31, 2015	Unaudited March 31, 2014
		Rupees	
9	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	1,068,907	219,417
	Weighted average number of ordinary shares for determination of basic & dilluted EPS (in thousand)	766,596	766,596
10	CASH GENERATED FROM OPERATIONS		
	Profit before taxation	1,560,049	314,691
	Adjustment for non-cash charges and other items:		
	- Depreciation	481,896	407,096
	- Impairment of operating assets - net	47	-
	- Amortization of intangible assets	12,567	13,177
	- Amortization of deferred income	(51)	(1,835)
	- Amortization of arragement fees on long term loan	1,343	1,343
	- Amortization of deferred emplolyee share option compensation reserve	6,503	45,055
	- (Gain) / Loss on disposal of biological assets	(3,159)	1,544
	- Gain on disposal of operating assets	(9,703)	(6,193)
	- Loss / (Gain) arising from changes in fair value less estimated point-of-sale costs of biological assets	(61,494)	7,460
	- Provision for retirement and other service benefits	23,992	21,299
	- Provision for stock-in-trade	23,480	105,000
	- Provision / (Reversal of provision) for slow moving spares	(299)	1,853
	- Provision for impairment of trade debts	2,135	90
	- Finance costs	266,658	253,049
	Working capital changes (note 10.1)	(2,174,571)	(1,967,247)
		129,393	(803,618)
10.1	Working capital changes		
	(Increase) / decrease in current assets		
	- Stores, spares and loose tools	(2,032)	(44,252)
	- Stock-in-trade	(2,632,650)	(3,029,144)
	- Trade debts	(11,554)	63,173
	- Advances, deposits and prepayments	(123,166)	(54,029)
	- Other receivables	(292,442)	254,279
		(3,061,844)	(2,809,973)
	Increase / (decrease) in current liabilities		
	- Trade and other payables - net	887,273	842,726
		(2,174,571)	(1,967,247)
11	CASH AND CASH EQUIVALENTS		
	Cash and bank balances [Including foreign currency account of Rs.220,402 (March 31, 2014:Rs. 162,559)]	223,188	259,135
	Short term finances	(3,192,590)	(2,389,332)
		(2,969,402)	(2,130,197)

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2015

12 TRANSACTIONS WITH RELATED PARTIES

12.1 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 March 31, 2015	Unaudited March 31, 2014
		Rupees	
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	46,851	63,832
	Reimbursement of expense paid on behalf of	4,280	-
	Pension fund contribution	358	224
	Provident fund contribution	61,989	6,215
	Gratuity fund contribution	163	286
Subsidiary and associated companies	Investment in subsidiary	-	21,615
	Arrangement for sharing of premises, utilities, personnel and assets	3,104	14,072
	Reimbursement of expense paid on behalf of	1,314	-
	Purchases of goods	25,206	24,675
	Purchases of services	55	346
	Donation	6,000	-
Contribution to staff retirement funds	Provident Fund	-	49,941
	Gratuity Fund	-	58,310
Key management personnel	Managerial remuneration	32,845	34,483
	Contribution for staff retirement benefits	2,797	2,935
	Bonus payment	11,370	7,071
	Other benefits	627	759

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

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2015

13 SEGMENT INFORMATION

13.1 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, 2014.

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

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 & forzen desserts and inter-segment sales of raw milk are made by Dairy farm to Dairy, at market value.

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

	Unaudited Quarter ended March 31, 2015					Unaudited Quarter ended March 31, 2014				
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	Total
	Rupees									
Results for the period										
Net sales	12,048,746	575,212	262,284	-	12,886,242	9,538,389	511,812	243,454	14,006	10,307,661
Inter-segment sales	(62,256)	-	(262,284)	-	(324,540)	(38,388)	-	(243,454)	(6,220)	(268,062)
	11,986,490	575,212	-	-	12,561,702	9,500,001	511,812	-	7,786	10,019,599
Raw milk sales	14,670	-	-	-	14,670	17,269	-	-	-	17,269
	12,001,160	575,212	-	-	12,576,372	9,517,270	511,812	-	7,786	10,036,868
Net profit / (loss) after tax	1,172,242	(136,671)	33,336	-	1,068,907	447,011	(168,531)	(20,470)	(38,593)	219,417

	Unaudited March 31, 2015					Audited December 31, 2014				
Assets										
- Segment assets	21,728,531	2,555,197	1,925,590	-	26,209,318	18,829,236	2,453,786	1,932,461	130,508	23,345,991
- Un-allocated assets	-	-	-	-	2,608,709	-	-	-	-	2,353,517
	21,728,531	2,555,197	1,925,590	-	28,818,027	18,829,236	2,453,786	1,932,461	130,508	25,699,508

14 SEASONALITY

The Company's 'Ice Cream' and 'Beverages' business is 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, 2015 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, 2015

15 CORRESPONDING FIGURES

15.1 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 audited 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.

15.2 During the period, for better presentation, the following reclassifications were made in these condensed interim financial statements:

Description	Rupees	Head of account in condensed interim financial statements for the period ended March 31, 2014	Head of account in condensed interim financial statements for the period ended March 31, 2015
Profit and loss account			
Research & business development	198	Other operating expenses	Administrative expenses
"	1,609	"	Distribution and marketing expenses
"	1,719	"	Cost of sales
Legal and professional	3,227	"	Administrative expenses
"	4,355	"	Distribution and marketing expenses
"	1,578	"	Cost of sales
Auditor's remuneration	300	"	Administrative expenses
Software maintenance & license cost	5,655	"	"

16 DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on April 20, 2015 by the Board of Directors of the Company.

Chairman

Chief Executive



engro foods

CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED MARCH 31, 2015

consolidated condensed interim balance sheet (unaudited) as at march 31, 2015

(Amounts in thousand)

	Note	Unaudited March 31, 2015	Audited December 31, 2014
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	14,906,344	15,021,519
Biological assets		898,753	858,680
Intangible assets		100,148	112,208
Long term advances and deposits		137,534	109,174
Deferred employee share option compensation expense	6	119,032	112,581
		16,161,811	16,214,162
Current Assets			
Stores, spares and loose tools		784,032	788,141
Stock-in-trade	5	6,306,957	3,697,787
Trade debts		105,381	95,962
Advances, deposits and prepayments		236,667	113,501
Other receivables		3,158,049	2,865,607
Deferred employee share option compensation expense	6	76,630	90,430
Taxes recoverable		1,765,312	1,637,018
Cash and bank balances		223,249	197,106
		12,656,277	9,485,552
TOTAL ASSETS		28,818,088	25,699,714
EQUITY AND LIABILITIES			
Equity			
Share capital		7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve		398,894	399,740
Hedging reserve		-	(27,736)
Remeasurement of post employment benefits - Actuarial loss		(35,715)	(35,715)
Other reserve		(628,790)	(628,780)
Exchange revaluation reserve		(9,507)	(9,507)
Unappropriated profit		4,417,218	3,348,470
		12,673,415	11,577,787
Non-Current Liabilities			
Long term finances		4,790,658	5,476,993
Deferred taxation		1,690,951	1,185,717
Deferred Income		2,465	2,516
		6,484,074	6,665,226
Current Liabilities			
Current portion of long term finances		2,035,153	1,605,597
Trade and other payables		4,133,825	3,222,697
Derivative financial instruments		-	41,397
Accrued interest / mark-up on			
- long term finances		224,118	194,025
- short term finances		74,913	61,092
Short term finances	7	3,192,590	2,331,893
		9,660,599	7,456,701
Contingencies and Commitments	8		
TOTAL EQUITY AND LIABILITIES		28,818,088	25,699,714

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim profit and loss account (unaudited) for the quarter ended march 31, 2015

(Amounts in thousand)

	Note	Quarter ended March 31, 2015	Quarter ended March 31, 2014
		Rupees	
Net sales		12,576,372	10,168,241
Cost of sales		(9,141,583)	(8,106,581)
Gross profit		3,434,789	2,061,660
Distribution and marketing expenses		(1,249,981)	(1,074,299)
Administrative expenses		(325,655)	(413,894)
Other operating expenses		(124,940)	(42,793)
Other income		92,497	11,176
Operating profit		1,826,710	541,850
Finance costs		(266,820)	(256,497)
Profit before taxation		1,559,890	285,353
Taxation		(491,142)	(95,274)
Profit for the period		1,068,748	190,079
Earnings per share - basic and diluted	9	1.39	0.25

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of comprehensive income (unaudited) for the quarter ended march 31, 2015

(Amounts in thousand)

	Quarter ended March 31, 2015	Quarter ended March 31, 2014
	Rupees	
Profit for the period	1,068,748	190,079
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Gain / (loss) arising on hedges during the period	3,776	(27,939)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - Capital work-in-progress / stock-in-trade	37,621	13,689
Income tax relating to hedging reserve	(13,661)	4,845
	27,736	(9,405)
Exchange difference on translation of foreign operations	(10)	(49,563)
Other comprehensive income / (loss) for the period, net of tax	27,726	(58,968)
Total comprehensive income for the period	1,096,474	131,111

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of changes in equity (unaudited) for the quarter ended march 31, 2015

	RESERVE								
	CAPITAL				REVENUE				
	Share capital	Share premium	Employee share option compensation reserve	Hedging reserve	Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	Other reserve	Exchange revaluation reserve	Total
	Rupees								
Balance as at January 1, 2014 (Audited)	7,665,961	865,354	407,133	(9,581)	2,480,594	(34,839)	(628,780)	14,727	10,760,569
Employee share option scheme	-	-	114,254	-	-	-	-	-	114,254
Total comprehensive income for the period	-	-	-	(9,405)	190,079	-	-	(49,563)	131,111
Balance as at March 31, 2014 (Unaudited)	7,665,961	865,354	521,387	(18,986)	2,670,673	(34,839)	(628,780)	(34,836)	11,005,934
Employee share option scheme	-	-	(121,647)	-	-	-	-	-	(121,647)
Total comprehensive income for the period	-	-	-	(8,750)	677,797	(876)	-	25,329	693,500
Balance as at December 31, 2014 (Audited)	7,665,961	865,354	399,740	(27,736)	3,348,470	(35,715)	(628,780)	(9,507)	11,577,787
Share capital issued	-	-		-	-	-	-	-	-
Employee share option scheme	-	-	(846)	-	-	-	-	-	(846)
Total comprehensive income for the period	-	-	-	27,736	1,068,748	-	(10)	-	1,096,474
Balance as at March 31, 2015 (Unaudited)	7,665,961	865,354	398,894	-	4,417,218	(35,715)	(628,790)	(9,507)	12,673,415

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of cash flows (unaudited) for the quarter ended march 31, 2015

(Amounts in thousand)

	Note	Quarter ended March 31, 2015	Quarter ended March 31, 2014
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilized in) operations	10	129,410	(806,756)
Finance costs paid		(222,906)	(207,217)
Taxes paid		(127,863)	(342,909)
Retirement benefits paid		(162)	(58,633)
Long term advances and deposits - net		(28,360)	(18,037)
Net cash utilized in operating activities		(249,881)	(1,433,552)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(369,923)	(919,745)
- intangible assets		-	(21,978)
Proceeds from disposal of:			
- property, plant and equipment		18,792	24,680
- biological assets		24,580	14,616
Net cash utilized in investing activities		(326,551)	(902,427)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		(258,122)	(506,455)
Net decrease in cash and cash equivalents		(834,554)	(2,842,434)
Cash and cash equivalents at beginning of the period		(2,134,787)	531,631
Cash and cash equivalents at end of the period	11	(2,969,341)	(2,310,803)

The annexed notes 1 to 16 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

notes to the consolidated condensed interim financial information (unaudited) for the quarter ended march 31, 2015

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 Engro Foods Limited (the Holding Company), is a public listed company incorporated in Pakistan, under the Companies Ordinance, 1984, and its shares are quoted on the Karachi, Lahore and Islamabad Stock Exchanges. The Holding Company is a subsidiary of Engro Corporation Limited (ECL) and its registered office is situated at 6th Floor, The Harbour Front Building, Plot No. HC-3, Block-4, Scheme No. 5, Clifton, Karachi.

1.2 The principal activity of the Holding Company is to manufacture, process and sell dairy products, beverages, ice cream and frozen deserts. The Holding Company also owns and operates a dairy farm.

1.3 The Group consist of:

Holding Company: Engro Foods Limited

Subsidiary Company: Engro Foods Netherlands B.V. (note 1.3.1), in which the Holding Company had 100% voting rights and is controlled by the Holding Company.

1.3.1 Engro Foods Netherland B.V. (the Subsidiary Company), was incorporated in 2011. The principle activity of the Subsidiary Company is to manage investments in subsidiary companies. However, in 2014, the Holding Company exited from its halal foods business in North America (Al-Safa) owned by Engro Foods Netherlands B.V. Accordingly, the Holding Company has limited presence in international market through investment in EF Netherlands, which has no operations of its own.

2. BASIS OF PREPARATION

2.1 This consolidated 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 consolidated condensed interim financial information should be read in conjunction with the consolidated financial statements of the Holding Company for the year ended December 31, 2014.

2.2 The preparation of this consolidated 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 Group'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 consolidated condensed interim financial information, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation and uncertainty are the same as those that apply to the consolidated financial statements for the year ended December 31, 2014, except for change in certain estimates / judgments regarding the Employees Share Options Scheme (ESOS) of the Holding Company. The estimated fair value of these options and the underlying assumptions are disclosed in note 6. 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

The accounting policies and the methods of computation adopted in the preparation of this consolidated condensed interim financial information are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended December 31, 2014.

		Unaudited March 31, 2015	Audited December 31, 2014
		Rupees	
4	PROPERTY, PLANT AND EQUIPMENT		
	Operating assets, at net book value (notes 4.1 and 4.2)	14,167,443	14,290,892
	Capital work-in-progress (note 4.3)	607,752	605,918
	Major spare parts and stand by equipments	131,149	124,709
		14,906,344	15,021,519
4.1	Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
	Free hold land (note 4.1.1)	625	5,469
	Buildings on freehold land	69,217	1,120,699
	Plant, machinery and related equipment	218,330	3,818,887
	Office equipment and furniture and fixture	3,208	83,777
	Computers	6,676	34,742
	Vehicles	69,526	138,497
		367,582	5,202,071

4.1.1 The Holding Company acquired land measuring 537 Kanals, 37 Marlas surrounding its Sahiwal plant through the Commissioner, Sahiwal Division, Government of Punjab (the Government) action, by invoking provisions of Land Acquisition Act, 1894.

Under the said law, the price of the nearby land was assessed by the Government authorities and the Holding Company paid Rs. 212,514 to the Government for purchase of the land. The Government will in turn pay to the respective land owners.

In 2013, few land owners filed writ petitions against the Government's action at Lahore High Court (the Court). The writ petitions has been decided in favor of the Holding Company by the Court. The Holding Company filed a petition before Accountablility Court, Lahore for de-freezing of Land, which during the period has been decided in favour of the Holding Company. Accordingly, the Holding Company has completed all the legal formalities of the mutation and possession of the Land.

4.2 The details of operating assets disposed/written-off during the period / year are as follows:

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , Machinery and Equipment	17,918	(14,265)	3,653	16,160	Insurance claims / Bidding / Auction
Vehicles	3,786	(2,373)	1,413	2,257	Insurance claims / Employee buybacks
Computer Equipment	6,084	(5,934)	150	10	Insurance claims / Bidding / Auction
Office Equipment & Furniture and Fixture	14,031	(10,159)	3,872	365	
March 31, 2015	41,819	(32,731)	9,088	18,792	
December 31, 2014	211,662	(144,649)	67,013	80,124	

		Unaudited March 31, 2015	Audited December 31, 2014
		Rupees	
4.3	Movement in capital work-in-progress during the period / year:		
	Balance as at January 1	605,918	3,328,363
	Additions:		
	Land	625	5,469
	Building on freehold land	4,751	906,780
	Plant, machinery and related equipment	288,606	1,359,586
	IS and milk automation	-	39,461
	Office equipment, furniture, fittings and computers	6,303	72,637
	Vehicles	69,638	144,883
		369,923	2,528,816
	Less:		
	Transfer to:		
	- Operating assets	(367,582)	(5,202,071)
	- Intangibles	(507)	(49,190)
	Balance as at March 31 / December 31	607,752	605,918
5	STOCK-IN-TRADE		
	Raw and packaging material (note 5.1)	5,053,573	2,300,790
	Work in process	65,044	529,977
	Finished goods (note 5.2 and 5.3)	1,188,340	867,020
		6,306,957	3,697,787

5.1 Includes Rs. 627,976 (December 31, 2014: Nil) in respect of stock held by third parties.

5.2 Includes Rs. 14,329 (December 31, 2014: Rs. 17,353) in respect of stock held by third parties.

5.3 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 63,612 (December 31, 2014: Rs. 81,403).

6 EMPLOYEES' SHARE OPTION SCHEME

In 2013, the shareholders of the Holding 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 of the Holding Company.

Under the Scheme, options can be granted in the years 2013 to April 2015. 50% of the options granted will vest in two years whereas the remaining 50% will 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. The details of share options granted to date, which remained outstanding as at March 31, 2015 are as follows:

- number of options	4,400,000
- range of exercise price	Rs. 191.89 - Rs. 253.77
- weighted average remaining contractual life	3.65 years

The weighted average fair value of options granted till date, as estimated at the date of grant using the Black-Scholes model was Rs. 28.89 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 21.74 per option. The following weighted average assumptions were used in calculating the fair values of the options:

	Options granted in 2013	Options to be granted
- number of options	4,400,000	12,500,000
- share price	Rs. 133.58	Rs. 110.60
- exercise price	Rs. 220.67	Rs. 210.28
- expected volatility	32.54%	30.48%
- expected life	4.1 years	5.26 years
- annual risk free interest rate	9.42%	7.93%

No new options have been granted during the period.

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective / expected grant date. In addition, the Holding Company as at March 31, 2015 estimates that during the current year options for remaining 12.5 million shares will be granted, after taking approval of modification in the Scheme, regarding extension in option grant period, from the SECP.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 398,894 has been recognized, out of which Rs.203,232 has been amortized to date, including Rs. 6,502 being charge for the current period, in respect of related employees services received to the balance sheet date.

7 SHORT TERM FINANCES - secured

7.1 The Holding Company

7.1.1 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. 6,300,000 (2014: Rs. 6,000,000). The unutilized balance against these facilities as at March 31, 2015 was Rs. 3,107,410 (December 31, 2014: Rs. 3,668,107). The rates of mark-up on these finances are KIBOR based and range from 8.98% to 11.63% (December 31, 2014: 10.54% to 12.21%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

7.1.2 The facilities for opening letters of credit and guarantees as at March 31, 2015 amounts to Rs. 6,615,000 (December 31, 2014: Rs. 5,515,000), of which the amount remaining unutilized as at March 31, 2015 was Rs. 3,632,051 (December 31, 2014: Rs. 2,896,087).

8 CONTINGENCIES AND COMMITMENTS

8.1 As at March 31, 2015, the Holding Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 62,842 (December 31, 2014: Rs. 56,199) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2014: 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, 2014: 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 (2014: Rs. 172,000) have been received to-date;

- Controller Military Accounts, Rawalpindi amounting to Rs. 5,953 (December 31, 2014: Rs. 5,953), as collateral against supplies;

- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 1,000 (December 31, 2014: Rs. 600) as collateral against supplies; and

- Officer Commanding PAF Faisal Base amounting to Rs. 3,818 (December 31, 2014: Rs. 3,818) as collateral against supplies.

8.2 As at March 31, 2014 post-dated cheques amounting to Rs. 11,476 (December 31, 2014: Nil) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notification dated July 8, 2011 and August 1, 2011.

8.3 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2015 amounts to Rs. 411,705 (December 31, 2014: Rs. 271,727).

8.4 Commitments in respect of purchase of certain commodities as at March 31, 2015 amounts to Rs. 2,265,879 (December 31, 2014: Rs. 1,955,039).

8.5 Commitments for rentals payable under the Ijarah agreement as at March 31, 2015 amounts to Rs. 296,847 (December31, 2014: Rs. 319,055)

8.6 Following is the position of the Holding Company's open tax assessments/matters as at March 31, 2015:

a) The Holding Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance (ITO), 2001 has surrendered to ECL, the Ultimate Parent 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 Holding 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 Holding Company to the Ultimate Parent Company for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of the Ultimate Parent Company, whereby, allowing the surrender of tax losses by the Holding Company to the Ultimate Parent Company. The tax department has filed reference application thereagainst 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 Holding Company, it will only culminate into recognition of deferred income tax asset thereon with a corresponding liability to the Ultimate Parent Company for refund of the consideration received. As such there will be no effect on the results of the Holding Company.

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

b) The Holding 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 Holding 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. The Holding Company has obtained stay order from the Sindh High Court against the audit proceedings and has also filed an appeal thereagainst before the Commissioner Appeals. The Holding 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 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 Holding Company has obtained a stay order from the Sindh High Court against the recovery proceedings and has also filed an appeal thereagainst before the Commissioner Appeals. The Holding 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.

		Unaudited March 31, 2015	Unaudited March 31, 2014
		Rupees	
9	EARNINGS PER SHARE - Basic and diluted		
	There is no dilutive effect on the basic earnings per share of the Group, which is based on:		
	Profit for the period	1,068,748	190,079
	Weighted average number of ordinary shares for determination of basic & dilluted EPS (in thousand)	766,596	766,596
10	CASH GENERATED FROM OPERATIONS		
	Profit before taxation	1,559,890	285,353
	Adjustment for non-cash charges and other items:		
	- Depreciation	481,896	407,515
	- Impairment of operating assets - net	47	-
	- Amortization of intangible assets	12,567	59,231
	- Foreign currency translation	(10)	(49,057)
	- Amortization of deferred income	(51)	(1,835)
	- Amortization of arragement fees on long term loan	1,343	1,343
	- Amortization of deferred emplolyee share option compensation reserve	6,503	45,055
	- (Gain) / Loss on disposal of biological assets	(3,159)	1,544
	- Gain on disposal of operating assets	(9,703)	(6,193)
	- Loss / (Gain) arising from changes in fair value less estimated point-of-sale costs of 'biological assets	(61,494)	7,460
	- Provision for retirement and other service benefits	23,992	21,299
	- Provision for stock-in-trade	23,480	105,000
	- Provision / (Reversal of provision) for slow moving spares	(299)	1,853
	- Provision for impairment of trade debts	2,135	90
	- Finance costs	266,820	256,497
	Working capital changes (note 10.1)	(2,174,547)	(1,941,911)
		129,410	(806,756)

notes to the consolidated condensed interim financial information (unaudited) for the quarter ended march 31, 2015

		Unaudited March 31, 2015	Unaudited March 31, 2014
		Rupees	
10.1	Working capital changes		
	(Increase) / decrease in current assets		
	- Stores, spares and loose tools	(2,032)	(44,252)
	- Stock-in-trade	(2,632,650)	(3,009,637)
	- Trade debts	(11,554)	80,845
	- Advances, deposits and prepayments	(123,166)	(62,351)
	- Other receivables	(292,442)	257,149
		(3,061,844)	(2,778,246)
	Increase / (decrease) in current liabilities		
	- Trade and other payables - net	887,297	836,335
		(2,174,547)	(1,941,911)
11	CASH AND CASH EQUIVALENTS		
	Cash and bank balances [Including foreign currency account of Rs. 220,402 (March 31, 2014: Rs. 162,559)]	223,249	260,716
	Short term finances	(3,192,590)	(2,571,519)
		(2,969,341)	(2,310,803)

notes to the consolidated condensed interim financial information (unaudited) for the quarter ended march 31, 2015

12 TRANSACTIONS WITH RELATED PARTIES

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

		Unaudited March 31, 2015	Unaudited March 31, 2014
		Rupees	
Nature of relationship	Nature of transactions		
The Ultimate Holding company	Arrangement for sharing of premises, utilities, personnel and assets	46,851	63,832
	Reimbursement of expense paid on behalf of	4,280	-
	Pension fund contribution	358	224
	Provident fund contribution	61,989	6,215
	Gratuity fund contribution	163	286
Subsidiary and associated companies	Investment in subsidiary	-	21,615
	Arrangement for sharing of premises, utilities, personnel and assets	3,104	14,072
	Reimbursement of expense paid on behalf of	1,314	-
	Purchases of goods	25,206	24,675
	Purchases of services	55	346
	Donation	6,000	-
Contribution to staff retirement funds	Provident Fund	-	49,941
	Gratuity Fund	-	58,310
Key management personnel	Managerial remuneration	32,845	34,483
	Contribution for staff retirement benefits	2,797	2,935
	Bonus payment	11,370	7,071
	Other benefits	627	759

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

notes to the consolidated condensed interim financial information (unaudited) for the quarter ended march 31, 2015

13 SEGMENT INFORMATION

13.1 The basis of segmentation and reportable segments presented in this consolidated condensed interim financial information are the same which were disclosed in published annual financial statements for the year ended December 31, 2014.

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

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 & forzen desserts and inter-segment sales of raw milk are made by Dairy farm to Dairy, at market value.

13.2 Information regarding the Group's operating segments is as follows:

	Unaudited Quarter ended March 31, 2015						Unaudited Quarter ended March 31, 2014					
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	Others	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	Others	Total
	Rupees											
Results for the period												
Net sales	12,048,746	575,212	262,284	-	-	12,886,242	9,538,389	511,812	243,454	14,006	131,373	10,439,034
Inter-segment sales	(62,256)	-	(262,284)	-	-	(324,540)	(38,388)	-	(243,454)	(6,220)	-	(288,062)
	11,986,490	575,212	-	-	-	12,561,702	9,500,001	511,812	-	7,786	131,373	10,150,972
Raw milk sales	14,670	-	-	-	-	14,670	17,269	-	-	-	-	17,269
	12,001,160	575,212	-	-	-	12,576,372	9,517,270	511,812	-	7,786	131,373	10,168,241
Net profit / (loss) after tax	1,172,242	(136,671)	33,336	-	(159)	1,068,748	447,011	(168,531)	(20,470)	(38,593)	(29,338)	190,079

	Unaudited March 31, 2015						Audited December 31, 2014					
Assets												
- Segment assets	21,728,531	2,555,197	1,925,590	-	-	26,209,318	18,829,236	2,453,786	1,932,461	130,508	206	23,346,197
- Un-allocated assets	-	-	-	-	-	2,608,770	-	-	-	-		2,353,517
	21,728,531	2,555,197	1,925,590	-	-	28,818,088	18,829,236	2,453,786	1,932,461	130,508		25,699,714

14 SEASONALITY

The Holding Company's 'Ice Cream' and 'Beverages' business is subject to seasonal fluctuation, with demand of ice cream and beverages products increasing in summer. The Holding 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, 2015 are not necessarily indicative of result to be expected for the full year.

15 CORRESPONDING FIGURES

15.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', the consolidated condensed interim balance sheet has been compared with the balances of annual audited financial statements of preceding financial year, whereas the consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.

15.2 During the period, for better presentation, the following reclassifications were made in these consolidated condensed interim financial statements:

Description	Rupees	Head of account in consolidated condensed interim financial statements for the period ended March 31, 2014	Head of account in consolidated condensed interim financial statements for the period ended March 31, 2015
Profit and loss account			
Research & business development	198	Other operating expenses	Administrative expenses
"	1,609	"	Distribution and marketing expenses
"	1,719	"	Cost of sales
Legal and professional	3,227	"	Administrative expenses
"	4,355	"	Distribution and marketing expenses
"	1,578	"	Cost of sales
Auditor's remuneration	300	"	Administrative expenses
Software maintenance & license cost	5,655	"	"

16 DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on April 20, 2015 by the Board of Directors of

Chairman

Chief Executive

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