engro foods

sealing leadership

Financial Results – Half Year 2015



contents

company information	2
directors' report	4
auditors' report to the members on review of condensed interim financial information	6
condensed interim balance sheet	7
condensed interim profit and loss account	8
condensed interim statement of comprehensive income	9
condensed interim statement of changes in equity	10
condensed interim statement of cash flows	11
notes to the condensed interim financial information	12
auditors' report to the members on review of consolidated condensed interim financial information	23
consolidated condensed interim balance sheet	24
consolidated condensed interim profit and loss account	25
consolidated condensed interim statement of comprehensive income	26
consolidated condensed interim statement of changes in equity	27
consolidated condensed interim statement of cash flows	28
notes to the consolidated condensed interim financial information	29

company information

Company Information

Board of Directors

Abdul Samad Dawood	Chairman
Babur Sultan	Chief Executive Officer
Sarfaraz A. Rehman*	Chief Executive Officer*
Muhammed Amin	Non-Executive Director
Sabrina Dawood	Non-Executive Director
Rehan Hassan	Non-Executive Director
Zafaryab Ali Khan	Non-Executive Director
Marco L. Spits	Non-Executive Director
Khalid S. Subhani	Non-Executive Director
Wim Torfs	Non-Executive Director

* resigned from Board on July 31, 2015

Chief Financial Officer
Imran Husain

Company Secretary
Faiz Chapra

Members of Audit Committee

Muhammed Amin	Chairman
Abdul Samad Dawood	Member
Zafaryab Ali Khan	Member

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
First Floor, State Life Building 1-A, I.I. Chundrigar Road, Karachi - 74000, 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 HALF YEAR ENDED JUNE 30, 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 half year ended June 30, 2015.

BUSINESS REVIEW

During the period, the Company attained a revenue growth of 25.4%, mainly on the back of robust performance in the dairy segment. Revenue for the period was Rs.24.9 billion versus Rs. 19.9 billion in the same period last year. 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 20.4% to 26.2% attributable to favorable macroeconomic environment coupled with declining commodity and fuel prices. As a result, the overall profitability of the Company increased to Rs. 1,978 million from Rs. 329 million in the same period last year.



DAIRY AND BEVERAGES SEGMENT

During the half year ended June 30, 2015, the segment witnessed volumetric growth of 25% versus the same period last year. The segment reported highest ever top line of Rs. 23 billion registering a growth of 27% versus the same period last year. Aggressive marketing investment has further strengthened brand equities, succeeding in maintaining the market share at 55% as of May 2015 as per A.C. Nielsen. Profit after tax for the half year was Rs. 1,998 million witnessing an increase of 217% versus the same period last year. Two fold growth in profits was mainly attributable to higher volumes and improved margins on account of lower milk and fuel prices.





ICE CREAM AND FROZEN DESSERTS SEGMENT

During the first half ended June 30, 2015, the Ice Cream business witnessed volumetric growth of 11% 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. 18 million in the first half of the year versus loss of Rs. 10 million in corresponding period last year.



FINANCIAL PERFORMANCE

The financial performance of the company for first half of 2015 is summarized below:

(Rs. in million)	Half year ended June 30,		Variation
	2015	2014	
Net Sales	24,898	19,856	25.4%
Operating Profit	3,273	1,036	215.9%
% of sales	13.1%	5.2%	
Profit after tax	1,978	329	501.2%
% of sales	7.9%	1.7%	
Earnings per share (Rs.)	2.58	0.43	501.2%

FUTURE OUTLOOK

We remain confident of maintaining a strong performance for 2015 with sharpened focus on key growth parameters like innovation, brand health and operational excellence. We will continue to make effective investment in brands and efficiency related initiatives.

Finally, the Board would once again like to thank the retiring CEO Sarfaraz A. Rehman for all his efforts and support over the last couple of years and wish him all the best for the future. Sarfaraz leaves the company in a strong position, well poised to maintain our leadership position and enter a new period of growth.

Abdul Samad Dawood
Chairman
Karachi.
Date: July 31, 2015

Babur Sultan
Chief Executive

auditors' report to the members on review of condensed interim financial information

Introduction

We have reviewed the accompanying condensed interim balance sheet of Engro Foods Limited as at June 30, 2015 and the related 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, together with the notes forming part thereof (here-in-after referred to as the "condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

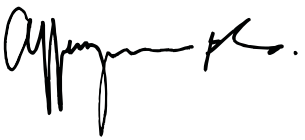
The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2015 and 2014 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2015.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended June 30, 2015 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



Chartered Accountants
Karachi
Date: August 20, 2015

Engagement Partner: Waqas A. Sheikh

condensed interim balance sheet (unaudited) as at june 30, 2015

(Amounts in thousand)

	Note	Unaudited June 30, 2015	Audited December 31, 2014
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	14,665,154	15,021,519
Biological assets		909,005	858,680
Intangible assets		87,435	112,208
Long term advances and deposits		128,956	109,174
Deferred employee share option compensation expense	5	99,090	112,581
Investment in subsidiary	6	-	-
		15,889,640	16,214,162
Current Assets			
Stores, spares and loose tools		756,598	788,141
Stock-in-trade	7	6,860,965	3,697,787
Trade debts		131,982	95,962
Advances, deposits and prepayments		216,774	113,501
Other receivables		3,358,222	2,865,607
Deferred employee share option compensation expense	5	80,053	90,430
Taxes recoverable		2,106,883	1,637,018
Cash and bank balances		250,036	196,900
		13,761,513	9,485,346
TOTAL ASSETS		29,651,153	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		394,243	399,740
Hedging reserve		-	(27,736)
Remeasurement of post employment benefits - Actuarial loss		(35,715)	(35,715)
Unappropriated profit		4,687,598	2,710,013
		13,577,441	11,577,617
Non-Current Liabilities			
Long term finances		3,984,766	5,476,993
Deferred taxation		1,955,939	1,185,717
Deferred income		1,626	2,516
		5,942,331	6,665,226
Current Liabilities			
Current portion of long term finances		2,230,983	1,605,597
Trade and other payables		3,590,451	3,222,661
Derivative financial instruments		-	41,397
Accrued interest / mark-up on			
- long term finances		139,929	194,025
- short term finances		84,102	61,092
Short term finances	8	4,085,916	2,331,893
		10,131,381	7,456,665
Contingencies and Commitments	9		
TOTAL EQUITY AND LIABILITIES		29,651,153	25,699,508

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim
profit and loss account (unaudited)
for the half year ended june 30, 2015

(Amounts in thousand except for earnings per share)

	Note	Quarter ended June 30,		Half year ended June 30,	
		2015	2014	2015	2014
		Rupees			
Net sales		12,321,829	9,818,834	24,898,201	19,855,702
Cost of sales		(9,224,183)	(7,816,599)	(18,365,766)	(15,814,262)
Gross profit		3,097,646	2,002,235	6,532,435	4,041,440
Distribution and marketing expenses		(1,349,459)	(1,256,465)	(2,599,440)	(2,320,226)
Administrative expenses		(256,967)	(289,611)	(582,622)	(668,114)
Other operating expenses		(85,831)	(73,164)	(210,758)	(113,541)
Other income		41,059	85,758	133,540	96,934
Operating profit		1,446,448	468,753	3,273,155	1,036,493
Finance costs		(272,349)	(350,685)	(539,007)	(603,734)
Profit before taxation		1,174,099	118,068	2,734,148	432,759
Taxation		(265,421)	(8,340)	(756,563)	(103,614)
Profit for the period		908,678	109,728	1,977,585	329,145
Earnings per share - basic and diluted	10	1.19	0.14	2.58	0.43

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of comprehensive income (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Quarter ended June 30,		Half year ended June 30,	
	2015	2014	2015	2014
	Rupees			
Profit for the period	908,678	109,728	1,977,585	329,145
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Gain / (Loss) on hedges during the period	-	(22,301)	3,776	(50,240)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade	-	47,886	37,621	61,575
Income tax relating to hedging reserve	-	(8,731)	(13,661)	(3,886)
	-	16,854	27,736	7,449
Items that will not be reclassified to profit or loss				
Remeasurement of post employment benefits obligation - Actuarial loss	-	3,204	-	3,204
Income tax relating to Actuarial loss	-	(1,057)	-	(1,057)
	-	2,147	-	2,147
Other comprehensive income for the period, net of tax	-	19,001	27,736	9,596
Total comprehensive income for the period	908,678	128,729	2,005,321	338,741

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of changes in equity (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Share capital	RESERVES					Total
		CAPITAL		REVENUE			
		Share premium	Employee share option compensation reserve	Hedging reserve	Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	
	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	-	-	29,959	-	-	-	29,959
Total comprehensive income for the half year ended June 30, 2014	-	-	-	7,449	329,145	2,147	338,741
Balance as at June 30, 2014 (Unaudited)	7,665,961	865,354	437,092	(2,132)	2,150,327	(32,692)	11,083,910
Employee share option scheme	-	-	(37,352)	-	-	-	(37,352)
Total comprehensive (loss) / income for the half year ended December 31, 2014	-	-	-	(25,604)	559,686	(3,023)	531,059
Balance as at December 31, 2014 (Audited)	7,665,961	865,354	399,740	(27,736)	2,710,013	(35,715)	11,577,617
Employee share option scheme	-	-	(5,497)	-	-	-	(5,497)
Total comprehensive income for the half year ended June 30, 2015	-	-	-	27,736	1,977,585	-	2,005,321
Balance as at June 30, 2015 (Unaudited)	7,665,961	865,354	394,243	-	4,687,598	(35,715)	13,577,441

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

condensed interim statement of cash flows (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Note	Half year ended June 30, 2015	2014
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilized in) operations	11	779,634	(1,473,145)
Finance costs paid		(570,093)	(530,002)
Taxes paid		(469,867)	(661,618)
Retirement benefits paid		(6,543)	(58,420)
Long term advances and deposits - net		(19,782)	(18,726)
Net cash utilized in operating activities		(286,651)	(2,741,911)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(603,547)	(1,782,288)
- intangible assets		(2,819)	(31,434)
Proceeds from disposal of:			
- property, plant and equipment		33,588	36,171
- biological assets		29,926	37,535
Investment in Engro Foods Netherlands B.V. - net		-	(21,615)
Net cash utilized in investing activities		(542,852)	(1,761,631)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		(871,384)	(517,793)
Net decrease in cash and cash equivalents		(1,700,887)	(5,021,335)
Cash and cash equivalents at beginning of the period		(2,134,993)	727,266
Cash and cash equivalents at end of the period	12	(3,835,880)	(4,294,069)

The annexed notes 1 to 18 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 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.

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 has, however, been subjected to limited scope review by the auditors, as required under the Code of Corporate Governance, and should be read in conjunction with the annual 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 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, 2014.

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, 2015. 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.

4. PROPERTY, PLANT AND EQUIPMENT

	Unaudited June 30, 2015	Audited December 31, 2014
	Rupees	
Operating assets, at net book value (notes 4.1 and 4.2)	14,070,290	14,290,892
Capital work-in-progress (note 4.3)	440,302	605,918
Major spare parts and stand-by equipment	154,562	124,709
	14,665,154	15,021,519

(Amounts in thousand)

		Unaudited June 30, 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	684	5,469
	Buildings on freehold land	77,833	1,120,699
	Plant, machinery and related equipment	573,374	3,818,887
	Office equipment & furniture and fittings	9,681	83,777
	Computer equipment	10,664	34,742
	Vehicles	99,238	138,497
		771,474	5,202,071

4.2 The details of operating assets disposed-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	21,532	(17,757)	3,775	19,399	Insurance claims / Bidding / Auction
Vehicles - owned	28,243	(20,534)	7,709	13,290	Insurance claims / Employee buyback / Auction
Computer equipment	6,250	(6,015)	235	10	Insurance claims / Bidding / Auction
Office equipment & furniture and fixture	14,627	(10,743)	3,884	859	Insurance claims / Bidding / Auction
Building & civil work	800	(770)	30	30	Bidding
June 30, 2015	71,452	(55,819)	15,633	33,588	
December 31, 2014	211,662	(144,649)	67,013	80,124	

		Unaudited June 30, 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	684	5,469
	Building on freehold land	14,427	906,780
	Plant, machinery and related equipment	459,664	1,359,586
	IS and milk automation	2,819	39,461
	Office equipment, furniture & fittings and computer equipment	18,650	72,637
	Vehicles	110,122	144,883
		606,366	2,528,816
	Less:		
	Transfers to:		
	- Operating assets	(771,474)	(5,202,071)
	- Intangible assets	(508)	(49,190)
	Balance as at June 30 / December 31	440,302	605,918

(Amounts in thousand)

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 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. During the period, 800,000 share options have been granted to an employee. The details of share options granted to date under the scheme, which remained outstanding as at June 30, 2015 are as follows:

- number of options	5,200,000
- range of exercise price	Rs. 182.85 - Rs. 253.77
- weighted average remaining contractual life	4.16 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. 26.90 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 granted in 2015	Options to be granted
- number of options	4,400,000	800,000	11,700,000
- share price	Rs. 133.58	Rs. 107.67	Rs. 110.60
- exercise price	Rs. 220.67	Rs. 210.28	Rs. 210.28
- expected volatility	32.54%	30.32%	30.48%
- expected life	4.1 years	4.5 years	5.26 years
- annual risk free interest rate	9.42%	7.93%	7.93%

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 during the period 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. Further, the Company has applied to SECP for approval of aforementioned modification in the Scheme, which is pending till date. The Company due to the uncertainty involved in obtaining the approval of modification from SECP, has not recognized charge amounting to Rs. 127,300 for the quarter ended June 30, 2015 in respect of share options not yet granted.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 394,243 has been recognized, out of which Rs. 215,100 has been amortized to date, including Rs. 18,370 being charge for the current period, in respect of related employees services received to the balance sheet date.

6. INVESTMENT IN SUBSIDIARY

The Company holds entire shareholding in Engro Foods Netherlands B.V. The cost of the investment is Rs.1,269,328, which has been fully impaired, as the subsidiary currently does not have any operations and there are no estimated future cash flows.

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Unaudited June 30, 2015	Audited December 31, 2014
	Rupees	
7. STOCK-IN-TRADE		
Raw and packaging material (note 7.1)	3,060,530	2,300,790
Work in process (note 7.2)	2,930,598	529,977
Finished goods (note 7.3 and 7.4)	869,837	867,020
	6,860,965	3,697,787

7.1 Includes Rs. 284,583 (December 31, 2014: Nil) in respect of raw material held by third parties and Nil (December 31, 2014 : Rs. 7,000) in respect of stock carried at net realizable value.

7.2 Includes Rs. 735,756 (December 31, 2014: Nil) in respect of work in process held by third parties.

7.3 Includes Rs. 126,060 (December 31, 2014: Rs. 17,353) in respect of finished goods held by third parties.

7.4 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 43,923 (December 31, 2014: Rs. 81,403). Stock amounting to Rs. 54,449 (December 31, 2014: Rs. 66,270) has been written off against provision.

8. SHORT TERM FINANCES - secured

8.1 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 (December 31, 2014: Rs. 6,000,000). The unutilized balance against these facilities as at June 30, 2015 was Rs. 2,214,084 (December 31, 2014: Rs. 3,668,107). The rates of mark-up on these finances are KIBOR based and range from 7.15% to 10.00% (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.

8.2 The facilities for opening letters of credit and guarantees as at June 30, 2015 amounts to Rs. 6,695,000 (December 31, 2014: Rs. 5,515,000), of which the amount remaining unutilized as at June 30, 2015 was Rs. 4,449,191 (December 31, 2014: Rs. 2,896,087).

9. CONTINGENCIES AND COMMITMENTS

9.1 As at June 30, 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 (December 31, 2014: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Nil (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
- OC PAF Faisal Base amounting to Nil (December 31, 2014: Rs. 3,818) as collateral against supplies.

(Amounts in thousand)

9.2 As at June 30, 2015 post-dated cheques amounting to Rs. 4,591 (December 31, 2014: Nil) 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.

9.3 Commitments in respect of capital expenditure contracted for but not incurred as at June 30, 2015 amounted to Rs. 431,450 (December 31, 2014: Rs. 271,727).

9.4 Commitments in respect of purchase of certain commodities as at June 30, 2015 amounted to Rs. 1,533,797 (December 31, 2014: Rs. 1,955,039).

9.5 Commitments for rentals payable under the Ijarah agreement as at June 30, 2015 amounted to Rs. 262,172 (December 31, 2014: Rs. 319,055).

9.6 Following is the position of the Company's open tax assessments/matters as at June 30, 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 due to certain disallowances, 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 the period, 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. 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. 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

(Amounts in thousand)

minimum tax amounting to Rs. 295,990, made in prior years and Rs. 606,097 made in the current period.

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 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.

	Unaudited June 30, 2015	Unaudited June 30, 2014
	Rupees	
10. 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	1,977,585	329,145
Weighted average number of ordinary shares for determination of basic & diluted EPS (in thousand)	766,596	766,596
11. CASH GENERATED FROM OPERATIONS		
Profit before taxation	2,734,148	432,759
Adjustment for non-cash charges and other items:		
- Depreciation	975,936	863,041
- Impairment of operating assets - net	507	-
- Impairment of intangibles assets	56	-
- Amortization of intangible assets	25,225	26,557
- Amortization of deferred income	(890)	(3,142)
- Amortization of arrangement fees on long term loan	4,543	2,701
- Amortization of deferred employee share option compensation reserve	18,371	64,964
- (Gain) / Loss on disposal of biological assets	(2,270)	496
- Gain on disposal of operating assets	(17,955)	(5,890)
- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(77,981)	(68,327)
- Provision for retirement and other service benefits	48,117	39,276
- Provision for stock-in-trade	16,969	77,393
- (Reversal of provision) / Provision for slow moving spares	(299)	2,214
- Provision for impairment of trade debts	2,109	124
- Provision for impairment of property, plant and equipment	-	8,222
- Provision against investment in subsidiary	-	61,805
- Finance costs	539,007	603,734
Working capital changes (note 11.1)	(3,485,959)	(3,579,072)
	779,634	(1,473,145)

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

		Unaudited June 30, 2015	Unaudited June 30, 2014
		Rupees	
11.1	Working capital changes		
	(Increase) / Decrease in current assets		
	- Stores, spares and loose tools	1,989	(92,254)
	- Stock-in-trade	(3,180,147)	(2,755,272)
	- Trade debts	(38,129)	17,294
	- Advances, deposits and prepayments	(103,273)	(76,271)
	- Other receivables	(492,615)	(175,439)
		(3,812,175)	(3,081,942)
	Increase / (Decrease) in current liabilities		
	- Trade and other payables - net	326,216	(497,130)
		(3,485,959)	(3,579,072)

12. CASH AND CASH EQUIVALENTS

Cash and bank balances [Including foreign currency account of Rs. 243,257 (June 30, 2014: Rs. 153,344)]	250,036	203,693
Short term finances	(4,085,916)	(4,497,762)
	(3,835,880)	(4,294,069)

13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

13.1 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.

13.2 Fair value estimation

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

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

14. TRANSACTIONS WITH RELATED PARTIES

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

		Half year ended June 30,	
		2015 Unaudited	2014 Unaudited
		Rupees	
Nature of relationship	Nature of transactions		
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	93,486	110,666
	Reimbursement of expense paid on behalf of	14,042	-
	Pension fund contribution	358	528
	Provident fund contribution	121,900	13,211
	Gratuity fund contribution	499	483
	Reimbursement of net cost incurred for meat business	-	38,943
Subsidiary and associated companies	Investment in subsidiary	-	21,615
	Arrangement for sharing of premises, utilities, personnel and assets	6,719	28,299
	Reimbursement of expense paid on behalf of	4,219	-
	Purchases of goods	38,483	53,188
	Sale of goods	2,979	-
	Purchases of services	75	31,450
	Donation	6,000	12,000
Contribution to staff retirement funds	Provident Fund	-	102,915
	Gratuity Fund	5,000	58,310
Key management personnel	Managerial remuneration	64,958	67,600
	Contribution for staff retirement benefits	5,301	5,519
	Bonus payment	11,370	7,071
	Other benefits	627	759

(Amounts in thousand)

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

15. SEGMENT INFORMATION

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

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

	Unaudited Half year ended June 30, 2015				Unaudited Half year ended June 30, 2014					
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	Others	Total
	Rupees									
Results for the period										
Net sales	23,180,436	1,815,010	435,529	25,430,975	18,212,293	1,680,996	426,468	39,551	-	20,359,308
Inter-segment sales	(122,858)	-	(435,529)	(558,387)	(98,225)	-	(426,468)	(11,119)	-	(535,812)
	23,057,578	1,815,010	-	24,872,588	18,114,068	1,680,996	-	28,432	-	19,823,496
Raw milk sales	25,613	-	-	25,613	32,206	-	-	-	-	32,206
	23,083,191	1,815,010	-	24,898,201	18,146,274	1,680,996	-	28,432	-	19,855,702
Net profit / (loss) after tax	1,998,209	(38,608)	17,984	1,977,585	630,126	(130,516)	(10,014)	(102,887)	(57,564)	329,145
	Unaudited June 30, 2015				Audited December 31, 2014					
Assets										
- Segment assets	22,248,256	2,563,976	1,924,249	26,736,481	18,829,236	2,453,786	1,932,461	130,508	-	23,345,991
- Un-allocated assets	-	-	-	2,914,672	-	-	-	-	-	2,353,517
	22,248,256	2,563,976	1,924,249	29,651,153	18,829,236	2,453,786	1,932,461	130,508	-	25,699,508

notes to the condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

16. 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 June 30, 2015 are not necessarily indicative of result to be expected for the full year.

17. CORRESPONDING FIGURES

17.1 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.

17.2 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 June 30, 2014	Head of account in condensed interim financial information for the period ended June 30, 2015
Profit and loss account			
Research & business development	39,362	Other operating expenses	Administrative expenses
,,	8,631	,,	Distribution and marketing expenses
,,	6,309	,,	Cost of sales
Legal and professional	12,586	,,	Administrative expenses
,,	4,333	,,	Distribution and marketing expenses
,,	2,784	,,	Cost of sales
Auditor's remuneration	900	,,	Administrative expenses
Software maintenance & license cost	13,317	,,	,,

18. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on July 31, 2015 by the Board of Directors of the Company.

Chairman

Chief Executive



engro foods

CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2015

auditors' report to the members on review of consolidated condensed interim financial information

Introduction

We have reviewed the annexed consolidated condensed interim balance sheet of Engro Foods Limited (the Holding Company) and its subsidiary company, Engro Foods Netherlands B.V. as at June 30, 2015 and the related 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, together with the notes forming part thereof (here-in-after referred to as the "consolidated condensed interim financial information") for the half year then ended. Management is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this consolidated condensed interim financial information based on our review.

The figures of the consolidated condensed interim profit and loss account and consolidated condensed interim statement of comprehensive income for the quarters ended June 30, 2015 and 2014 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2015.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information as of and for the half year ended June 30, 2015 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants
Karachi
Date: August 20, 2015

Engagement Partner: Waqas A. Sheikh

consolidated condensed interim balance sheet (unaudited) as at june 30, 2015

(Amounts in thousand)

	Note	Unaudited June 30, 2015	Audited December 31, 2014
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	14,665,154	15,021,519
Biological assets		909,005	858,680
Intangible assets		87,435	112,208
Long term advances and deposits		128,956	109,174
Deferred employee share option compensation expense	5	99,090	112,581
		15,889,640	16,214,162
Current Assets			
Stores, spares and loose tools		756,598	788,141
Stock-in-trade	6	6,860,965	3,697,787
Trade debts		131,982	95,962
Advances, deposits and prepayments		216,774	113,501
Other receivables		3,358,222	2,865,607
Deferred employee share option compensation expense	5	80,053	90,430
Taxes recoverable		2,106,883	1,637,018
Cash and bank balances		250,036	197,106
		13,761,513	9,485,552
TOTAL ASSETS		29,651,153	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		394,243	399,740
Hedging reserve		-	(27,736)
Remeasurement of post employment benefits - Actuarial loss		(35,715)	(35,715)
Other reserve		(628,780)	(628,780)
Exchange revaluation reserve		(9,517)	(9,507)
Unappropriated profit		5,325,895	3,348,470
		13,577,441	11,577,787
Non-Current Liabilities			
Long term finances		3,984,766	5,476,993
Deferred taxation		1,955,939	1,185,717
Deferred income		1,626	2,516
		5,942,331	6,665,226
Current Liabilities			
Current portion of long term finances		2,230,983	1,605,597
Trade and other payables		3,590,451	3,222,697
Derivative financial instruments		-	41,397
Accrued interest / mark-up on			
- long term finances		139,929	194,025
- short term finances		84,102	61,092
Short term finances	7	4,085,916	2,331,893
		10,131,381	7,456,701
Contingencies and Commitments	8		
TOTAL EQUITY AND LIABILITIES		29,651,153	25,699,714

The annexed notes 1 to 17 form an integral part of this consolidated condensed interim financial information

Chairman

Chief Executive

consolidated condensed interim profit and loss account (unaudited) for the half year ended june 30, 2015

(Amounts in thousand except for earnings per share)

	Note	Quarter ended June 30,		Half year ended June 30,	
		2015	2014	2015	2014
		Rupees			
Net sales		12,321,829	9,931,364	24,898,201	20,099,605
Cost of sales		(9,224,183)	(7,918,476)	(18,365,766)	(16,025,057)
Gross profit		3,097,646	2,012,888	6,532,435	4,074,548
Distribution and marketing expenses		(1,349,459)	(1,276,562)	(2,599,440)	(2,350,861)
Administrative expenses		(256,967)	(310,379)	(582,622)	(724,273)
Other operating expenses		(85,831)	(10,556)	(210,771)	(53,349)
Other income		41,058	85,758	133,555	96,934
Operating profit		1,446,447	501,149	3,273,157	1,042,999
Finance costs		(272,349)	(353,743)	(539,169)	(610,240)
Profit before taxation		1,174,098	147,406	2,733,988	432,759
Taxation		(265,421)	(8,340)	(756,563)	(103,614)
Profit for the period		908,677	139,066	1,977,425	329,145
Earnings per share - basic and diluted	9	1.19	0.18	2.58	0.43

The annexed notes 1 to 17 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of comprehensive income (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Quarter ended June 30,		Half year ended June 30,	
	2015	2014	2015	2014
	Rupees			
Profit for the period	908,677	139,066	1,977,425	329,145
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Gain / (Loss) on hedges during the period	-	(22,301)	3,776	(50,240)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade	-	47,886	37,621	61,575
Income tax relating to hedging reserve	-	(8,731)	(13,661)	(3,886)
	-	16,854	27,736	7,449
Items that will not be reclassified to profit or loss				
Remeasurement of post employment benefits obligation - Actuarial loss	-	3,204	-	3,204
Income tax relating to Actuarial loss	-	(1,057)	-	(1,057)
	-	2,147	-	2,147
Exchange differences on translation of foreign operations	-	12,599	(10)	(36,964)
Other comprehensive income for the period, net of tax	-	31,600	27,726	(27,368)
Total comprehensive income for the period	908,677	170,666	2,005,151	301,777

The annexed notes 1 to 17 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 half year ended june 30, 2015

(Amounts in thousand)

	Share capital	RESERVES					Other reserve	Exchange revaluation reserve	Total
		CAPITAL		REVENUE					
		Share premium	Employee share option compensation reserve	Hedging reserve	Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss			
	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	-	-	29,959	-	-	-	-	-	29,959
Total comprehensive income for the half year ended June 30, 2014	-	-	-	7,449	329,145	2,147	-	(36,964)	301,777
Balance as at June 30, 2014 (Unaudited)	7,665,961	865,354	437,092	(2,132)	2,809,739	(32,692)	(628,780)	(22,237)	11,092,305
Employee share option scheme	-	-	(37,352)	-	-	-	-	-	(37,352)
Total comprehensive (loss) / income for the half year ended December 31, 2014	-	-	-	(25,604)	538,731	(3,023)	-	12,730	522,834
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
Employee share option scheme	-	-	(5,497)	-	-	-	-	-	(5,497)
Total comprehensive income for the half year ended June 30, 2015	-	-	-	27,736	1,977,425	-	-	(10)	2,005,151
Balance as at June 30, 2015 (Unaudited)	7,665,961	865,354	394,243	-	5,325,895	(35,715)	(628,780)	(9,517)	13,577,441

The annexed notes 1 to 17 form an integral part of this consolidated condensed interim financial information.

Chairman

Chief Executive

consolidated condensed interim statement of cash flows (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Note	Half year ended June 30, 2015	2014
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilized in) operations	10	779,590	(1,470,050)
Finance costs paid		(570,255)	(536,508)
Taxes paid		(469,867)	(661,618)
Retirement benefits paid		(6,543)	(58,420)
Long term advances and deposits - net		(19,782)	(18,726)
Net cash utilized in operating activities		(286,857)	(2,745,322)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(603,547)	(1,782,288)
- intangible assets		(2,819)	(31,434)
Proceeds from disposal of:			
- property, plant and equipment		33,588	36,171
- biological assets		29,926	37,535
Net cash utilized in investing activities		(542,852)	(1,740,016)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		(871,384)	(517,793)
Net decrease in cash and cash equivalents		(1,701,093)	(5,003,131)
Cash and cash equivalents at beginning of the period		(2,134,787)	531,631
Cash and cash equivalents at end of the period	11	(3,835,880)	(4,471,500)

The annexed notes 1 to 17 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 half year ended june 30, 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 (the Parent Company). The registered office of the Holding Company 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. in which the Holding Company has 100% voting rights and is controlled by the Holding Company.

Engro Foods Netherlands B.V. (the Subsidiary Company), was incorporated in 2011. The principal activity of the Subsidiary Company is to manage investments in other subsidiary companies. However, in 2014, the Group exited from its halal foods business in North America (Al-Safa) owned by Engro Foods Netherlands B.V. through Engro Foods Canada Limited. Accordingly, the Subsidiary Company has no investments and operations of its own as at the balance sheet date.

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 has, however, been subjected to limited scope review by the auditors, as required under the Code of Corporate Governance, and should be read in conjunction with the consolidated annual financial statements of the Group 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). 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.

2.3 Basis of consolidation

- This consolidated condensed interim financial information includes the condensed interim financial information of Engro Foods Limited and its subsidiary company - Engro Foods Netherlands B.V. (the Group).

- The assets and liabilities of subsidiary company have been consolidated on a line by line basis at their book value. The carrying value of investment held by the Holding Company is eliminated against the subsidiary's share capital in the consolidated condensed interim financial information.

(Amounts in thousand)

- Material intra-group balances and transactions are eliminated.

3. ACCOUNTING POLICIES

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

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, 2015. These are considered not to be relevant or to have any significant effect on the Group's financial reporting and operations and are, therefore, not disclosed in this consolidated 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.

	Unaudited June 30, 2015	Audited December 31, 2014
	Rupees	
4. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value (notes 4.1 and 4.2)	14,070,290	14,290,892
Capital work-in-progress (note 4.3)	440,302	605,918
Major spare parts and stand-by equipment	154,562	124,709
	14,665,154	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	684	5,469
Buildings on freehold land	77,833	1,120,699
Plant, machinery and related equipment	573,374	3,818,887
Office equipment & furniture and fittings	9,681	83,777
Computer equipment	10,664	34,742
Vehicles	99,238	138,497
	771,474	5,202,071

(Amounts in thousand)

4.2 The details of operating assets disposed-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	21,532	(17,757)	3,775	19,399	Insurance claims / Bidding / Auction
Vehicles - owned	28,243	(20,534)	7,709	13,290	Insurance claims / Employee buyback / Auction
Computer equipment	6,250	(6,015)	235	10	Insurance claims / Bidding / Auction
Office equipment & furniture and fixture	14,627	(10,743)	3,884	859	Insurance claims / Bidding / Auction
Building & civil work	800	(770)	30	30	Bidding
June 30, 2015	71,452	(55,819)	15,633	33,588	
December 31, 2014	211,662	(144,649)	67,013	80,124	

	Unaudited June 30, 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	684	5,469
Building on freehold land	14,427	906,780
Plant, machinery and related equipment	459,664	1,359,586
IS and milk automation	2,819	39,461
Office equipment, furniture & fittings and computer equipment	18,650	72,637
Vehicles	110,122	144,883
	606,366	2,528,816
Less:		
Transfers to:		
- Operating assets	(771,474)	(5,202,071)
- Intangible assets	(508)	(49,190)
Balance as at June 30 / December 31	440,302	605,918

(Amounts in thousand)

5. 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. During the period, 800,000 share options have been granted to an employee. The details of share options granted to date under the scheme, which remained outstanding as at June 30, 2015 are as follows:

- number of options 5,200,000
- range of exercise price Rs. 182.85 - Rs. 253.77
- weighted average remaining contractual life 4.16 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. 26.90 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 granted in 2015	Option to be granted
- number of options	4,400,000	800,000	11,700,000
- share price	Rs. 133.58	Rs. 107.67	Rs. 110.60
- exercise price	Rs. 220.67	Rs. 210.28	Rs. 210.28
- expected volatility	32.54%	30.32%	30.48%
- expected life	4.1 years	4.5 years	5.26 years
- annual risk free interest rate	9.42%	7.93%	7.93%

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 during the period in April 2015. However, the Holding 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. Further, the Holding Company has applied to SECP for approval of aforementioned modification in the Scheme, which is pending till date. The Holding Company due to the uncertainty involved in obtaining the approval of modification from SECP, has not recognized charge amounting to Rs. 127,300 for the quarter ended June 30, 2015 in respect of share options not yet granted.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 394,243 has been recognized, out of which Rs. 215,100 has been amortized to date including Rs. 18,370 as charge for the current period in respect of related employees services received to the balance sheet date.

6. STOCK-IN-TRADE

	Unaudited June 30, 2015	Audited December 31, 2014
	Rupees	
Raw and packaging material (note 6.1)	3,060,530	2,300,790
Work in process (note 6.2)	2,930,598	529,977
Finished goods (note 6.3 and 6.4)	869,837	867,020
	6,860,965	3,697,787

(Amounts in thousand)

6.1 Includes Rs. 284,583 (December 31, 2014: Nil) in respect of raw material held by third parties and Nil (December 31, 2014: Rs. 7,000) in respect of stock carried at net realizable value.

6.2 Includes Rs. 735,756 (December 31, 2014: Nil) in respect of work in process held by third parties.

6.3 Includes Rs. 126,060 (December 31, 2014: Rs. 17,353) in respect of finished goods held by third parties.

6.4 These are net of provision against expired / obsolete stock and net realizable value amounting to Rs. 43,923 (December 31, 2014: Rs. 81,403). Stock amounting to Rs. 54,449 (December 31, 2014: Rs. 66,270) has been written off against provision.

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 (December 31, 2014: Rs. 6,000,000). The unutilized balance against these facilities as at June 30, 2015 was Rs. 2,214,084 (December 31, 2014: Rs. 3,668,107). The rates of mark-up on these finances are KIBOR based and range from 7.15% to 10.00% (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 Holding Company.

7.2 The facilities for opening letters of credit and guarantees as at June 30, 2015 amounts to Rs. 6,695,000 (December 31, 2014: Rs. 5,515,000), of which the amount remaining unutilized as at June 30, 2015 was Rs. 4,449,191 (December 31, 2014: Rs. 2,896,087).

8. CONTINGENCIES AND COMMITMENTS

8.1 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 (December 31, 2014: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Nil (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
- OC PAF Faisal Base amounting to Nil (December 31, 2014: Rs. 3,818) as collateral against supplies.

8.2 As at June 30, 2015 post-dated cheques amounting to Rs. 4,591 (December 31, 2014: Nil) 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.

8.3 Commitments in respect of capital expenditure contracted for but not incurred as at June 30, 2015 amounted to Rs. 431,450 (December 31, 2014: Rs. 271,727).

8.4 Commitments in respect of purchase of certain commodities as at June 30, 2015 amounted to Rs. 1,533,797 (December 31, 2014: Rs. 1,955,039).

8.5 Commitments for rentals payable under the Ijarah agreement as at June 30, 2015 amounted to Rs. 262,172 (December 31, 2014: Rs. 319,055).

(Amounts in thousand)

8.6 Following is the position of the Holding Company's open tax assessments/matters as at June 30, 2015:

a) The Holding Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance (ITO), 2001 has surrendered to the 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 the Parent Company 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 Parent Company for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of the Parent Company, whereby, allowing the surrender of tax losses by the Holding Company to the 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 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 Parent Company for the year ended December 31, 2008 in favour of the 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 due to certain disallowances, 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. During the period, in response to the appeal filed against the audit proceedings, the Commissioner Appeals issued an appellate order in favour of the Holding Company holding the selection of case for audit to be illegal and without jurisdiction. 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. The Holding 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 Holding Company has maintained the adjustment of carried forward minimum tax amounting to Rs. 295,990, made in prior years and Rs. 606,097 made in the current period.

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 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.

notes to the consolidated condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

		Unaudited June 30, 2015	Unaudited June 30, 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	1,977,425	329,145
	Weighted average number of ordinary shares for determination of basic & diluted EPS (in thousand)	766,596	766,596
10.	CASH GENERATED FROM OPERATIONS		
	Profit before taxation	2,733,988	432,759
	Adjustment for non-cash charges and other items:		
	- Depreciation	975,936	864,200
	- Impairment of operating assets - net	507	-
	- Impairment of intangibles assets	56	-
	- Amortization of intangible assets	25,225	56,684
	- Amortization of deferred income	(890)	(3,142)
	- Amortization of arrangement fees on long term loan	4,543	2,701
	- Amortization of deferred employee share option compensation reserve	18,371	64,964
	- Effect of translation of foreign operations	(10)	(36,964)
	- (Gain) / Loss on disposal of biological assets	(2,270)	496
	- Gain on disposal of operating assets	(17,955)	(5,890)
	- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(77,981)	(68,327)
	- Provision for retirement and other service benefits	48,117	39,277
	- Provision for stock-in-trade	16,969	77,393
	- (Reversal of provision) / Provision for slow moving spares	(299)	2,214
	- Provision for impairment of trade debts	2,109	124
	- Provision for impairment of property, plant and equipment	-	8,222
	- Finance costs	539,169	610,240
	Working capital changes (note 10.1)	(3,485,995)	(3,515,001)
		779,590	(1,470,050)

notes to the consolidated condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

	Unaudited June 30, 2015	Unaudited June 30, 2014
	Rupees	
10.1 Working capital changes		
(Increase) / Decrease in current assets		
- Stores, spares and loose tools	1,989	(92,254)
- Stock-in-trade	(3,180,147)	(2,696,913)
- Trade debts	(38,129)	50,257
- Advances, deposits and prepayments	(103,273)	(78,562)
- Other receivables	(492,615)	(174,894)
	(3,812,175)	(2,992,366)
Increase / (Decrease) in current liabilities		
- Trade and other payables - net	326,180	(522,635)
	(3,485,995)	(3,515,001)

11. CASH AND CASH EQUIVALENTS

Cash and bank balances [Including foreign currency account of Rs. 243,257 (June 30, 2014:Rs. 153,906)]	250,036	204,255
Short term finances	(4,085,916)	(4,675,755)
	(3,835,880)	(4,471,500)

12. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

12.1 Financial risk factors

The Group'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 consolidated condensed interim financial information does not include all the financial risk management information and disclosures required in the annual financial statements.

12.2 Fair value estimation

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

notes to the consolidated condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

13. TRANSACTIONS WITH RELATED PARTIES

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

		Half year ended June 30,	
		2015 Unaudited	2014 Unaudited
		Rupees	
Nature of relationship	Nature of transactions		
The Parent company	Arrangement for sharing of premises, utilities, personnel and assets	93,486	110,666
	Reimbursement of expense paid on behalf of	14,042	-
	Pension fund contribution	358	528
	Provident fund contribution	121,900	13,211
	Gratuity fund contribution	499	483
	Reimbursement of net cost incurred for meat business	-	38,943
Subsidiary and associated companies	Arrangement for sharing of premises, utilities, personnel and assets	6,719	28,299
	Reimbursement of expense paid on behalf of	4,219	-
	Purchases of goods	38,483	53,188
	Sale of goods	2,979	-
	Purchases of services	75	1,803
	Donation	6,000	12,000
Contribution to staff retirement funds	Provident Fund	-	102,915
	Gratuity Fund	5,000	58,310
Key management personnel	Managerial remuneration	64,958	67,600
	Contribution for staff retirement benefits	5,301	5,519
	Bonus payment	11,370	7,071
	Other benefits	627	759

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

14. SEGMENT INFORMATION

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

(Amounts in thousand)

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

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

	Unaudited Half year ended June 30, 2015					Unaudited Half year ended June 30, 2014					
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Others	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Business Development	Others	Total
	Rupees										
Results for the period											
Net sales	23,180,436	1,815,010	435,529	-	25,430,975	18,212,293	1,680,996	426,468	39,551	243,903	20,603,211
Inter-segment sales	(122,858)	-	(435,529)	-	(558,387)	(98,225)	-	(426,468)	(11,119)	-	(535,812)
	23,057,578	1,815,010	-	-	24,872,588	18,114,068	1,680,996	-	28,432	243,903	20,067,399
Raw milk sales	25,613	-	-	-	25,613	32,206	-	-	-	-	32,206
	23,083,191	1,815,010	-	-	24,898,201	18,146,274	1,680,996	-	28,432	243,903	20,099,605
Net profit / (loss) after tax	1,998,209	(38,608)	17,984	(160)	1,977,425	630,126	(130,516)	(10,014)	(102,887)	(57,564)	329,145
	Unaudited June 30, 2015					Audited December 31, 2014					
Assets											
- Segment assets	22,248,256	2,563,976	1,924,249	-	26,736,481	18,829,236	2,453,786	1,932,461	130,508	206	23,346,197
- Un-allocated assets	-	-	-	-	2,914,672	-	-	-	-	-	2,353,517
	22,248,256	2,563,976	1,924,249	-	29,651,153	18,829,236	2,453,786	1,932,461	130,508	206	25,699,714

15. SEASONALITY

The Holding Company's 'Ice Cream' and 'Beverages' business are 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 June 30, 2015 are not necessarily indicative of result to be expected for the full year.

notes to the consolidated condensed interim financial information (unaudited) for the half year ended june 30, 2015

(Amounts in thousand)

16. CORRESPONDING FIGURES

16.1 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 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.

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

Description	Rupees	Head of account in consolidated condensed interim financial information for the period ended June 30, 2014	Head of account in consolidated condensed interim financial information for the period ended June 30, 2015
Profit and loss account			
Research & business development	9,715	Other operating expenses	Administrative expenses
,,	8,631	,,	Distribution and marketing expenses
,,	6,309	,,	Cost of sales
Legal and professional	12,586	,,	Administrative expenses
,,	4,333	,,	Distribution and marketing expenses
,,	2,784	,,	Cost of sales
Auditor's remuneration	900	,,	Administrative expenses
Software maintenance & license cost	13,317	,,	,,

17. DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on July 31, 2015 by the Board of Directors of

Chairman

Chief Executive

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