engro foods | FrieslandCampina

nourishing by nature

First Quarter 2018



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company information

Board of Directors

Abdul Samad Dawood (Chairman)
Ali Ahmed Khan (CEO)
Abrar Hasan
Eduardus Lambertus Holtzer
Petra Attje Zinkweg
Roeland Francois Van Neerbos
Zouhair Khaliq

Chief Financial Officer

Imran Husain

Company Secretary

Muneeza Iftikar

Members of Audit Committee

Abrar Hasan (Chairman)
Eduardus Lambertus Holtzer
Zouhair Khaliq

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

Auditors

A. F. Ferguson & Company
Chartered Accountants

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

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

Bankers

Conventional
Allied Bank Limited
Askari Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Citibank N.A.
Deutchse Bank AG
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Industrial and Commercial Bank of China Limited
MCB Bank Limited
National Bank of Pakistan
Samba Bank Limited
Soneri Bank Limited
Standard Chartered Bank Pakistan Limited
Summit Bank Limited
Tameer Micro Finance Bank Limited
The Bank of Punjab
United Bank Limited
Shariah Compliant
Al-Baraka Bank Pakistan Limited
Meezan Bank Limited
Bank Al-Habib Limited - Islamic Banking
Standard Chartered Bank Pakistan Limited - Saadiq

Registered Office

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



engro foods

CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED MARCH 31, 2018

directors' report

On behalf of the Board of Directors of Engro Foods Limited (a majority owned subsidiary of FrieslandCampina Pakistan Holdings B.V.), we are pleased to submit the report and the condensed interim financial information of the Company for the quarter ended March 31, 2018.

BUSINESS REVIEW:

During the period, the Company reported a revenue of Rs. 7.1 billion vs Rs. 8.7 billion in the same period last year. Implementing best practices and process excellence from FrieslandCampina's helped increase the gross margin from 19% to 21%. The price increase taken in second half of 2017 also helped to offset the impact of an overall decline in volumes. The overall profitability, however, declined to Rs. 301 million from Rs. 331 million, as the Company improved its gearing ratio resulting in higher finance costs. Furthermore, the changes in tax policy have led to cost increases that are almost exclusively being faced by the packaged milk sector, thereby leading to slower conversion from loose to packaged milk due to higher price differential between packaged and loose milk.

DAIRY AND BEVERAGES SEGMENT

The dairy industry continued to feel the pressure of regulatory challenges, created due to misalignment between federal and provincial food laws and tax changes. As a result, the overall UHT category witnessed a decline in this period vs last year.

The Dairy and Beverages segment reported a revenue of Rs. 6.5 billion vs Rs. 8.1 billion in the same period last year. The Company will continue to focus towards building brand equity and drive conversion from loose milk to fuel category growth, while also employing other tactical measures to gain market share.





ICE CREAM AND FROZEN DESSERTS SEGMENT

The Ice cream and Frozen Desserts segment performed well during the first quarter on the back of volumetric growth and innovations. The segment reported a revenue of Rs. 652 million, recording a 12% growth vs the corresponding period last year. New product launches & media campaigns will continue to play a pivotal role in the overall performance of the category during the year 2018.



DAIRY FARM SEGMENT

The Company's Dairy Farm continued to be a rich and nutritious source of raw material for our dairy segment. The segment reported a profit of Rs. 74 million in the first quarter versus a profit of Rs. 37 million in the corresponding period last year. This was mainly on account of a revaluation gain on biological assets due to currency devaluation.



FINANCIAL PERFORMANCE

The financial performance of the company for first quarter of 2018 is summarized below:

(Rs. in million)	Quarter ended March 31,		Variation
	2018	2017	
Net Sales	7,144	8,677	(18%)
Operating Profit	532	474	12%
% of sales	7.4%	5.5%	
Profit after tax	301	331	(9%)
% of sales	4.2%	3.8%	
Earnings per share (Rs.)	0.39	0.43	(9%)

FUTURE OUTLOOK

The Company will continue to actively engage with regulatory authorities to remove inconsistencies between the Federal and Provincial food laws, while supporting the authorities to draft legislation on minimum pasteurization and rationalization of tax laws to create an even playing field for the processed dairy sector.

Further, by educating consumers of the nutritional, health and safety benefits of processed milk, the Company will look to strengthen its brand equity and drive category growth through conversion from loose milk. The Company has embarked on a bold 360° marketing program which includes 'above the line', digital, activation, packaging refresh and direct marketing. The Company is hopeful that the relaunch of its brands will build consumer confidence and help revive the sales.

Leveraging on FrieslandCampina's experience in international markets, the Company will look to be at the forefront in the fight against malnutrition and adulteration by providing safer, healthier, and value-added choices of dairy products.

The Company would like to thank the outgoing Board of Directors for their invaluable contribution over the last three years. The Company would also like to welcome the new board members who, through their diverse experience, will help the company navigate the challenges and opportunities that are currently being faced by the business.

Abdul Samad Dawood
Chairman

Ali Ahmed Khan
Chief Executive

Karachi: April 26, 2018

condensed interim balance sheet (unaudited) as at march 31, 2018

(Amounts in thousand)

	Note	Unaudited March 31, 2018	Audited December 31, 2017
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	12,458,169	12,559,373
Biological assets		1,023,014	968,805
Intangibles		69,849	71,635
Long term advances and deposits		83,969	83,631
Deferred employee share option compensation expense	5	996	3,165
		13,635,997	13,686,609
Current Assets			
Stores, spares and loose tools	6	723,688	740,423
Stock-in-trade	7	5,119,810	2,645,994
Trade debts		202,959	170,639
Advances, deposits and prepayments		172,704	157,347
Other receivables		97,140	227,975
Sales tax recoverable		2,046,907	2,105,692
Taxes recoverable		2,697,489	2,391,766
Deferred employee share option compensation expense	5	18,425	23,417
Cash and bank balances	8	45,688	68,468
		11,124,810	8,531,721
TOTAL ASSETS		24,760,807	22,218,330
EQUITY AND LIABILITIES			
Equity			
Share capital		7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve	5	240,154	297,836
Remeasurement of post employment benefits - Actuarial loss		(80,643)	(80,643)
Unappropriated profit		967,200	972,516
		9,658,026	9,721,024
Non-Current Liabilities			
Long term finances		4,000,000	4,000,000
Liabilities against assets subject to finance lease	9	81,688	121,344
Deferred taxation		1,384,199	1,287,314
		5,465,887	5,408,658
Current Liabilities			
Current portion of:			
- long term finances		500,000	500,000
- liabilities against assets subject to finance lease	9	154,708	151,956
Trade and other payables	10	6,132,603	5,125,725
Unclaimed dividend		8,820	9,024
Accrued interest / mark-up on:			
- long term finances		133,149	63,853
- short term finances		56,539	33,889
Short term finances	11	2,651,075	1,204,201
		9,636,894	7,088,648
Contingencies and Commitments	12		
TOTAL EQUITY AND LIABILITIES		24,760,807	22,218,330

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Chairman | Chief Executive | Chief Financial Officer

condensed interim
profit and loss account (unaudited)
for the quarter ended march 31, 2018

(Amounts in thousand except for earnings per share)

	Note	Quarter ended March 31,	
		2018	2017
		Rupees	
Net sales		7,144,026	8,677,099
Cost of sales		(5,625,988)	(7,003,175)
Gross profit		1,518,038	1,673,924
Distribution and marketing expenses		(876,840)	(984,142)
Administrative expenses		(191,445)	(230,934)
Other operating expenses		(38,371)	(32,411)
Other income		120,308	47,513
Operating profit		531,690	473,950
Finance costs		(132,468)	(56,315)
Profit before taxation		399,222	417,635
Taxation		(97,900)	(86,816)
Profit after taxation		301,322	330,819
Other comprehensive income		-	-
Total comprehensive income		301,322	330,819
Earnings per share - basic and diluted	13	0.39	0.43

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

Chief Financial Officer

condensed interim statement of changes in equity (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

	Share capital	RESERVES				Total
		CAPITAL		REVENUE		
		Share premium	Employee share option compensation reserve	Remeasurement of post employment benefits - Actuarial loss	Unappropriated profit	
	Rupees					
Balance as at January 1, 2017 (Audited)	7,665,961	865,354	433,982	(73,958)	8,259,180	17,150,519
Employee share option scheme	-	-	(22,046)	-	-	(22,046)
Final dividend for the year ended December 31, 2016	-	-	-	-	(7,665,961)	(7,665,961)
Profit for the period	-	-	-	-	330,819	330,819
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	330,819	330,819
Balance as at March 31, 2017 (Unaudited)	7,665,961	865,354	411,936	(73,958)	924,038	9,793,331
Employee share option scheme	-	-	(114,100)	-	-	(114,100)
Profit for the period	-	-	-	-	48,478	48,478
Other comprehensive loss for the period	-	-	-	(6,685)	-	(6,685)
Total comprehensive income / (loss) for the period	-	-	-	(6,685)	48,478	41,793
Balance as at December 31, 2017 (Audited)	7,665,961	865,354	297,836	(80,643)	972,516	9,721,024
Employee share option scheme	-	-	(57,682)	-	-	(57,682)
Final dividend for the year ended December 31, 2017	-	-	-	-	(306,638)	(306,638)
Profit for the period	-	-	-	-	301,322	301,322
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	301,322	301,322
Balance as at March 31, 2018 (Unaudited)	7,665,961	865,354	240,154	(80,643)	967,200	9,658,026

The annexed notes 1 to 21 form an integral part of this condensed interim financial information.

Chairman

Chief Executive

Chief Financial Officer

condensed interim
statement of cash flows (unaudited)
for the quarter ended march 31, 2018

(Amounts in thousand)

	Note	Quarter ended March 31, 2018	2017
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	14	(638,000)	(2,096,746)
Finance costs paid		(40,522)	(22,832)
Taxes paid		(306,738)	(88,328)
Retirement benefits paid		(103,216)	(116,834)
Long term advances and deposits - net		(338)	3,520
Net cash generated from operating activities		(1,088,814)	(2,321,220)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(413,079)	(197,323)
- intangible assets		(4,582)	(376)
- biological assets		-	(3,041)
Proceeds from disposal of:			
- property, plant and equipment		47,273	23,425
- biological assets		26,656	23,853
Net cash utilized in investing activities		(343,732)	(153,462)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term finances		-	(402,543)
Dividends paid		(204)	-
Repayment of liabilities against assets subject to finance lease		(36,904)	-
Net cash utilized in financing activities		(37,108)	(402,543)
Net decrease in cash and cash equivalents		(1,469,654)	(2,877,225)
Cash and cash equivalents at beginning of the period		(1,135,733)	637,824
Cash and cash equivalents at end of the period	15	(2,605,387)	(2,239,401)

Chairman | Chief Executive | Chief Financial Officer

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 Engro Foods Limited (the Company), is a public listed company incorporated in Pakistan, under the Companies Ordinance, 1984, and its shares are quoted on Pakistan Stock Exchange. The Company is a subsidiary of FrieslandCampina Pakistan Holdings B.V. (the Holding Company) which is a subsidiary of Zuivelcoöperatie FrieslandCampina UA (the Ultimate Parent Company) and its registered office is situated at 5th Floor, The Harbour Front Building, Plot No. HC-3, Block-4, Scheme No. 5, Clifton, Karachi.

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

2. BASIS OF PREPARATION

2.1 This condensed interim financial information are unaudited and have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard 34, 'Interim Financial Reporting', issued by International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

2.2 The preparation of this condensed interim financial information in conformity with the approved accounting and reporting 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, 2017, 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, 2017.

3.2 There are certain amendments to published International Financial Reporting Standards and interpretations that are mandatory for the financial year beginning on January 1, 2018. These are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are, therefore, not disclosed in this condensed interim financial information.

3.3 Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

		Unaudited March 31, 2018	Audited December 31, 2017
		Rupees	
4.	PROPERTY, PLANT AND EQUIPMENT		
	Operating assets, at net book value (notes 4.1, 4.2 and 4.3)	11,919,572	11,879,426
	Capital work-in-progress (note 4.4)	390,028	537,737
	Major spare parts and stand-by equipment	148,569	142,210
		12,458,169	12,559,373
4.1	Following additions, including transfers from capital work-in-progress, were made to operating assets during the period / year:		
	Buildings on freehold land	46,299	149,978
	Plant, machinery and related equipment	435,044	1,331,491
	Office equipment & furniture and fittings	6,199	18,369
	Computer equipment	26,814	34,851
	Vehicles	44,954	95,487
		559,310	1,630,176

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

	Cost	Accumulated depreciation / impairment	Net book value	Sales proceeds	Mode of disposal
	Rupees				
Plant , machinery and equipment	156,388	(134,576)	21,812	38,673	Auction / Sales proceeds / Writeoff
Vehicles - owned	21,186	(16,307)	4,879	8,263	Employee buyback / Auction
Computer equipment	3,995	(3,806)	189	297	Insurance claims / Writeoff
Office equipment & furniture and fixture	655	(621)	34	40	Insurance claims / Auction
March 31, 2018	182,224	(155,310)	26,914	47,273	
December 31, 2017	732,424	(651,805)	80,619	140,453	

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

4.3 During the period, the Company has recorded an impairment charge, net of reversal, amounting to Rs. 14,287 (March 31, 2017: Rs. 35,000) against idle assets, determined on the basis of fair value of the assets less cost of disposal. The Company based on a review for impairment on the operating assets identified that the carrying values of certain operating assets in Dairy and Beverages segment exceed their estimated recoverable amounts. These assets were deemed as idle primarily due to discontinuation of certain SKUs to rationalize product portfolio of the Company. In addition, the Company identified that carrying value of certain previously impaired assets is lower than their estimated recoverable amounts. Accordingly, provision / reversal for impairment was recognized there against. The recoverable amount of these assets amounted to Rs. 3,505, determined on the basis of fair value less cost of disposal of underlying assets which is based on the historical experience of net recovery proceeds on similar nature of assets. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

(Amounts in thousand)

		Unaudited March 31, 2018	Audited December 31, 2017
		Rupees	
4.4	Movement in capital work-in-progress during the period / year:		
	Balance as at the beginning of the period / year	537,737	732,411
	Additions:		
	Building on freehold land	9,596	194,796
	Plant, machinery and related equipment	336,461	1,139,544
	IS and milk automation projects	4,582	25,998
	Office equipment, furniture & fittings and computers equipment	27,143	60,873
	Vehicles	39,879	69,181
		417,661	1,490,392
	Less:		
	Transfers to:		
	- Operating assets	(559,309)	(1,630,176)
	- Intangible assets	(6,061)	(54,890)
	Balance as at the end of the period / year	390,028	537,737

5. EMPLOYEES' SHARE OPTION SCHEME

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

Under the Scheme, options were to be granted in the years 2013 to April 2015. 50% of the options granted were to vest in two years whereas the remaining 50% were to vest in three years from the date of the grant of options. These options are exercisable within 3 years from the end of vesting period. During the period, 675,000 previously granted share options lapsed due to resignation of some employees. Further, during the period, 800,000 vested share options, granted in 2013, expired due to non-exercise by ex-employees within the exercise period.

The details of share options granted to date under the Scheme, which remained outstanding as at March 31, 2018 are as follows:

- number of options 8,700,000
- range of exercise price Rs. 182.85 - Rs. 354.90
- weighted average remaining contractual life 3.40 years

The weighted average fair value of options granted to date, as estimated at the date of grant using the Black-Scholes model was Rs. 27.60 per option. The following weighted average assumptions have been used in calculating the fair values of the options:

(Amounts in thousand)

	Options granted in 2013	Options granted in 2015	Options granted in 2016	Options granted in 2017
Options granted and outstanding:				
- number of options	1,800,000	800,000	5,975,000	125,000
- share price	Rs. 133.58	Rs. 107.67	Rs. 156.85	Rs. 168.19
- exercise price	Rs. 191.89	Rs. 182.85	Rs. 230.76	Rs. 268.36
- expected volatility	32.54%	30.32%	34.86%	25.74%
- expected life	3 years	3.5 years	3.5 years	3.5 years
- annual risk free interest rate	9.42%	7.93%	6.15%	6.12%

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

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

As of March 31, 2018, 5,600,000 options remained ungranted which will lapse in option year 2018 with the expiry of scheme.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 240,154 has been recognized, out of which Rs. 220,733 has been amortized to date, including reversal of Rs 50,521 in current period owing to change in fair value of options granted and lapsed during the period, net of charge in respect of employees services received to the balance sheet date.

6. STORES, SPARES AND LOOSE TOOLS

These are net of provision against expired / obsolete stores and spares amounting to Rs. 77,485 (December 31, 2017: Rs. 60,449). Spares amounting to Nil. (December 31, 2017: 8,347) have been written off against provision during the period.

7. STOCK-IN-TRADE

	Unaudited March 31, 2018	Audited December 31, 2017
	Rupees	
Raw and packaging material (note 7.1)	2,050,743	2,123,048
Work in process (note 7.2)	2,669,724	200,171
Finished goods (notes 7.3 and 7.4)	399,343	322,775
	5,119,810	2,645,994

7.1 Includes Rs. 6,898 (December 31, 2017: Rs. 15,055) in respect of raw and packaging material held by third parties.

7.2 Includes Rs. 694,210 (December 31, 2017: 65,063) in respect of semi-finished stock held by third parties.

7.3 Includes Rs. 28,938 (December 31, 2017: Rs. 18,227) in respect of finished goods held by third parties.

7.4 These are net of provision against expired / obsolete stock amounting to Rs. 34,746 (December 31, 2017: Rs. 50,109). Stock amounting to Rs. 27,405 (December 31, 2017: Rs. 65,027) has been written off against provision during the period.

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

	Unaudited March 31, 2018	Audited December 31, 2017
	Rupees	

8. CASH AND BANK BALANCES

Cash at bank in:

- current accounts - note 8.1	19,161	34,106
- savings accounts - note 8.2	26,527	34,362
	45,688	68,468

8.1 Includes balance in foreign currency account of Rs. 4,946 (December 31, 2017: Rs. 1,049).

8.2 Includes balance in foreign currency account of Rs. 26,527 (December 31, 2017: Rs. 17,402).

	Unaudited March 31, 2018	Audited December 31, 2017
	Rupees	

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of minimum lease payments (note 9.1)	236,396	273,300
Current portion presented under current liabilities	(154,708)	(151,956)
	81,688	121,344

9.1 These represent machinery acquired under finance lease arrangements. The leases are priced at 7.2% (December 31, 2017: 7.2%) annually. Lease rentals are payable monthly within 2 years. The Company has the option to acquire these assets at the end of lease terms.

10. TRADE AND OTHER PAYABLES

This includes Rs. 306,638 (December 31, 2017: Nil) on account of the final dividend payable for the year ended December 31, 2017.

11. SHORT TERM FINANCES - secured

11.1 The facilities for short term running finance available from various banks, which represent the aggregate sale price of all mark-up arrangements, amounts to Rs. 7,962,630 (December 31, 2017: Rs. 7,899,840). The unutilized balance against these facilities as at March 31, 2018 was Rs. 5,311,555 (December 31, 2017: Rs. 6,695,639). The rates of mark-up on these finances are KIBOR based and range from 6.30% to 7.5% (December 31, 2017: 6.15% to 7.28%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

11.2 The facilities for opening letters of credit and bank guarantees as at March 31, 2018 amounts to Rs. 10,552,370 (December 31, 2017: Rs. 8,615,160), of which the amount remaining unutilized as at March 31, 2018 was Rs. 6,148,970 (December 31, 2017: Rs. 5,117,906).

12. CONTINGENCIES AND COMMITMENTS

12.1 As at March 31, 2018, the Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 75,395 (December 31, 2017: Rs. 75,395) under the contract for supply of gas;

(Amounts in thousand)

- Sui Northern Gas Company Limited amounting to Rs. 34,350 (December 31, 2017: 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, 2017: 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, 2017: Rs. 172,000) have been received to-date;

- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 1,000 (December 31, 2017: Rs. 1,000) as collateral against supplies;

12.2 In 2017, the Company has received an order from Competition Commission of Pakistan, imposing a penalty of Rs. 62,293 in respect of Company's marketing activities relating to one of its products. The Company has filed an appeal against the aforementioned order. The Company, based on the opinion of its legal counsel, is confident of a favorable outcome of the appeal, and accordingly no provision has been recognized in the condensed interim financial information in this respect.

12.3 Commitments in respect of capital expenditure contracted for but not incurred as at March 31, 2018 amounts to Rs. 243,256 (December 31, 2017: Rs. 653,596).

12.4 Commitments in respect of purchase of certain commodities as at March 31, 2018 amounts to Rs.1,500,621 (December 31, 2017: Rs. 990,089).

12.5 Commitments for rentals payable under the Ijarah agreement as at March 31, 2018 amounts to Rs. 46,892 (December 31, 2017: Rs. 55,487).

12.6 Following is the position of the Company's open tax assessments / matters as at March 31, 2018:

a) The Company in accordance with section 59 B (Group Relief) of the Income Tax Ordinance (ITO), 2001 has surrendered to Engro Corporation Limited (ECL), the associated company (previously the holding company), its tax losses amounting to Rs. 4,288,134 out of the total tax losses of Rs. 4,485,498 for the years ended December 31, 2006, 2007 and 2008 (Tax years 2007, 2008 and 2009) for cash consideration aggregating Rs. 1,500,847, being equivalent to tax benefit/effect thereof.

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

Further, the Appellate Tribunal, in respect of surrender of aforementioned tax losses by the Company to ECL for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of ECL, whereby, allowing the surrender of tax losses by the Company to ECL. The tax department has filed reference application there against before the High Court of Sindh, which are under the process of hearings. In 2013, the Appellate Tribunal also decided similar appeal filed by ECL for the year ended December 31, 2008 in favour of ECL. The Company based on the merits of the case expects a favourable outcome of the matter.

b) The Company's appeal against the order of Commissioner Inland Revenue (CIR) for reduction of tax loss from Rs. 1,224,964 to Rs. 1,106,493 for the tax year 2007, is currently in the process of being heard. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the balance of taxes recoverable has not been reduced by the effect of the aforementioned disallowance.

c) In 2013, the Commissioner Inland Revenue raised a demand of Rs. 223,369 for tax year 2009 by disallowing the provision for advances, stock written-off, repair and maintenance, sales promotion and advertisement expenses etc. During 2015, in response to the appeal filed against the audit proceedings, the Commissioner Appeals issued an appellate order in favour of the Company holding the selection of case for audit to be illegal and without jurisdiction. The tax department has filed an appeal against the order with the Appellate Tribunal Inland Revenue, however, no hearing has been conducted to date. The Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly

(Amounts in thousand)

taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

d) In 2014, the Additional Commissioner Inland Revenue (ACIR) 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 benefits, marketing support reimbursements, purchase expenses, sales promotion and advertisement and other expenses etc. In 2017, CIR (Appeals) upheld the decision of ACIR in respect of provision for retirement benefits and marketing support reimbursements. The Company has filed an appeal with Appellate Tribunal Inland Revenue (ATIR) against the order of CIR (Appeals) and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

e) In 2015, the Additional Commissioner Inland Revenue raised a demand of Rs. 73,962 for tax year 2014 by disallowing the loss on sales of raw milk considered as trading activity, depreciation on certain additions to property, plant and equipment and tax credit under 65B etc. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

f) In 2016, the Deputy Commissioner Inland Revenue (DCIR) raised a demand of Rs. 541,221 for tax year 2013 by disallowing the loss on sales of raw milk considered as trading activity, stock written-off, finance cost allocation against advance for purchase of Engro Foods Netherlands and certain other items, research and business expenses, adjustment of tax losses for tax year 2011 and minimum turnover tax credit for tax years 2008, 2010 and 2011 etc against which the Company filed an appeal with CIR (Appeals). In 2017, CIR (Appeals) upheld the decision of DCIR in respect of minimum turnover tax credit and finance cost allocation. The Company filed an appeal with Appellate Tribunal Inland Revenue (ATIR) against the order of CIR (Appeals) and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

g) In 2016, the Additional Commissioner Inland Revenue raised a demand of Rs. 59,772 for tax year 2010, primarily on account of disallowance of sales promotion and freight expenses. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

h) In 2016, the Additional Commissioner Inland Revenue raised a demand of Rs. 34,134 for tax year 2011 by disallowing depreciation on certain additions to property, plant and equipment, provision for retirement and other service benefits, sales promotion and advertisement and other expenses etc. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

i) In 2017, the Additional Commissioner Inland Revenue raised a demand of Rs. 511,801 for tax year 2016 by disallowing minimum turnover tax credit, expenses on account of Employee Share Option Scheme and Worker's Welfare Fund. The Company filed an appeal with CIR (Appeals) against the order and based on the opinion of its tax consultant and of legal advisor in case of minimum turnover tax matter, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

12.7 Sales tax

a) In 2016, the Deputy Commissioner Inland Revenue after conducting sales tax audit for the year ended December 2013 raised sales tax demand amounting to Rs. 143,125 including penalty. The demand primarily arose on account of (i) mismatch of input tax claimed with suppliers output tax on FBR portal; (ii) alleged unlawful adjustment of input tax; and (iii) alleged non-withholding of sales tax on certain supplies. The Company has filed an appeal against the order and based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly sales tax recoverable has not been reduced by the effect of aforementioned order.

(Amounts in thousand)

b) The Deputy Commissioner Inland Revenue has issued show cause notices for sales tax on tea whitener and dairy drink product i.e. 'Tarang' and 'Omung' respectively for years 2013, 2014, 2015 & 2016 aggregating to Rs. 14,886,500 challenging the exemption/zero rating on these products. Against the show cause notices the Company has filed a Constitution Petition before the High Court of Sindh and has obtained an interim injunction against adverse action by tax authorities. Based on the opinion of its legal advisor, the Company is confident of a favourable outcome of this matter.

	Unaudited March 31, 2018	Unaudited March 31, 2017
	Rupees	
13. 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	301,322	330,819
Weighted average number of ordinary shares for determination of basic & diluted EPS (in thousand)	766,596	766,596
14. CASH GENERATED FROM OPERATIONS		
Profit before taxation	399,222	417,635
Adjustment for non-cash charges and other items:		
- Depreciation	477,962	472,460
- Impairment of operating assets - net	14,287	35,000
- Amortization of intangible assets	7,847	6,396
- Amortization of deferred income	-	(354)
- Amortization of arrangement fees on long term finances	-	(110)
- (Reversal of amortization) / Ammortization of employee share option compensation reserve	(50,521)	1,305
- Loss on death / disposal of biological assets	3,355	653
- Gain on disposal of operating assets	(20,359)	(11,354)
- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(84,220)	(28,003)
- Provision for retirement and other service benefits	27,677	27,224
- Provision for stock-in-trade	12,042	40,617
- Provision for slow moving spares	17,036	-
- (Reversal of provision) / Provision for impairment of trade debts	(341)	385
- Finance costs	132,468	56,315
Working capital changes (note 14.1)	(1,574,455)	(3,114,915)
	(638,000)	(2,096,746)

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

	Unaudited March 31, 2018	Unaudited March 31, 2017
	Rupees	
14.1 Working capital changes		
(Increase) / Decrease in current assets		
- Stores, spares and loose tools	(6,660)	(24,121)
- Stock-in-trade	(2,485,858)	(2,986,490)
- Trade debts	(31,979)	(26,584)
- Advances, deposits and prepayments	(15,357)	(127,932)
- Other receivables	130,835	(11,238)
- Sales tax recoverable	58,785	100,384
	(2,350,234)	(3,075,981)
Increase / (Decrease) in current liabilities		
- Trade and other payables	775,779	(38,934)
	(1,574,455)	(3,114,915)

15. CASH AND CASH EQUIVALENTS

Cash and bank balances	45,688	363,691
Short term finances	(2,651,075)	(2,603,092)
	(2,605,387)	(2,239,401)

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

16.1 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.

16.2 Fair value of financial assets and liabilities

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

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

17. TRANSACTIONS WITH RELATED PARTIES

17.1 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, 2018	Unaudited March 31, 2017
		Rupees	
Holding company	Dividend declared	156,386	3,909,640
Associated companies	Arrangement for sharing of premises, utilities, personnel and assets	1,822	59,706
	Fee for technical assistance	182,152	229,879
	Reimbursement of expense paid on behalf of	26,463	7,141
	Purchases of goods and services	202,689	3,914
	Donation	-	250
	Dividend declared	122,430	3,060,759
Contribution to staff retirement funds	Managed and operated by ECL:		
	- Gratuity fund contribution	103,216	116,834
	- Provident fund contribution	80,282	76,391
Key management personnel	Managerial remuneration	44,316	33,370
	Contribution for staff retirement benefits	5,065	3,266
	Bonus payment	23,439	14,889

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

18. SEGMENT INFORMATION

18.1 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, 2017.

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

(Amounts in thousand)

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

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

	Unaudited Quarter ended March 31, 2018				Unaudited Quarter ended March 31, 2017			
	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total	Dairy and Beverages	Ice cream & frozen desserts	Dairy farm	Total
	Rupees							
Results for the period								
Net sales	6,489,979	652,104	389,842	7,531,925	8,107,294	582,897	349,327	9,039,518
Inter-segment sales	(9,247)	-	(389,842)	(399,089)	(24,149)	-	(349,327)	(373,476)
	6,480,732	652,104	-	7,132,836	8,083,145	582,897	-	8,666,042
Raw milk sales	11,190	-	-	11,190	11,057	-	-	11,057
	6,491,922	652,104	-	7,144,026	8,094,202	582,897	-	8,677,099
Net profit / (loss) after tax	263,526	(36,211)	74,007	301,322	397,135	(103,340)	37,024	330,819

	Unaudited Quarter ended March 31, 2018				Audited December 31, 2017			
	Rupees							
Assets								
- Segment assets	15,426,450	2,087,797	2,108,438	19,622,685	13,226,462	1,819,511	2,157,578	17,203,551
- Un-allocated assets	-	-	-	5,138,122	-	-	-	5,014,779
	15,426,450	2,087,797	2,108,438	24,760,807	13,226,462	1,819,511	2,157,578	22,218,330

19. SEASONALITY

The Company's 'Ice Cream & frozen desserts' and 'Beverages' businesses are subject to seasonal fluctuation, with demand of ice cream and beverages products increasing in summer. The Company's dairy business is also subject to seasonal fluctuation due to lean and flush cycles of milk collection. Therefore, revenues and profits as at March 31, 2018 are not necessarily indicative of result to be expected for the full year.

20. CORRESPONDING FIGURES

20.1 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 statement of 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.

notes to the condensed interim financial information (unaudited) for the quarter ended march 31, 2018

(Amounts in thousand)

20.2 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 March 31, 2017	Head of account in condensed interim financial information for the period ended March 31, 2018
Profit and loss account			
Trade discounts and rebates	135,141	Distribution and marketing expenses	Net sales
Freight charges	82,179	Cost of sales	Distribution and marketing expenses

21. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on April 26, 2018 by the Board of Directors of the Company.

Chairman | Chief Executive | Chief Financial Officer

ڈائریکٹرز رپورٹ

ہم، اینگرو فوڈز لمیٹڈ (یہ فریز لینڈ کمپنیا پاکستان ہولڈنگز بی. وی. کی مکمل ملکیتی ذیلی کمپنی ہے) کے بورڈ آف ڈائریکٹرز کی جانب سے کمپنی کی ۳۱ مارچ ۲۰۱۸ کو اختتام پذیر مدت کی رپورٹ اور درمیانی مدت کی مالیاتی معلومات کا خلاصہ پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔

کاروباری تجزیہ

مذکورہ مدت میں کمپنی کی آمدنی 7.1 بلین روپے رہی جو کہ گذشتہ برس اسی مدت میں 8.7 بلین روپے تھی۔ فریز لینڈ کمپنیا کی بہترین پریکٹسز اور پراسس کی عمدگی کے نفاذ سے گروس مارجن 19 فیصد سے بڑھ کر 21 فیصد ہو گیا۔ سال ۲۰۱۷ کے دوسرے نصف میں قیمتوں میں کیے گئے اضافے نے مجموعی کاوباری حجم میں کمی کے اثر کو کم کرنے میں مدد دی۔ تاہم، مجموعی منافع بخشی (profitability) 331 ملین روپے سے کم ہو کر 301 ملین روپے ہو گئی جس کی وجہ کمپنی کے گیرینگ تناسب (gearing ratio) میں بہتری کرنے کی وجہ سے سرمایہ کاری کی لاگت (Finance Cost) میں اضافہ ہوا ہے۔ مزید، ٹیکس پالیسی میں تبدیلی کی وجہ سے اخراجات میں اضافہ ہوا جس کا سامنا خاص طور پر پیکیجڈ دودھ کے سیکٹر کو کرنا پڑا، کھلے دودھ اور ڈبے کے دودھ کے درمیان قیمت کا فرق پڑا جس کی وجہ کھلے دودھ سے ڈبے کے دودھ پر منتقلی کی رفتار کم ہوئی۔

ڈیری اور مشروبات کا شعبہ

ڈیری کی صنعت کو وفاقی اور صوبائی فوڈ کے قوانین اور ٹیکس میں تبدیلی سے پیدا ہونے والے ریگولیٹری چیلنجز کی وجہ سے مسلسل دباؤ کا سامنا ہے۔ جس کے نتیجے میں، مجموعی UHT کیٹیگری میں گذشتہ سال اسی مدت کے مقابلے میں کمی دیکھی گئی۔

ڈیری اور مشروبات سیگمنٹ نے اس سال 6.5 ارب کی آمدنی دکھائی جو کہ گذشتہ سال اسی مدت میں 8.1 ارب تھی۔ کمپنی اپنی توجہ برانڈ ایکیوٹی کو بنانے پر مرکوز رکھے گی اور کھلے دودھ سے ڈبے کے دودھ پر منتقلی کے عمل کو متحرک کیا جائے گا تاکہ کیٹیگری کی نمو میں اضافہ کیا جائے جبکہ دیگر تدبیری اقدامات کو اختیار کر کے مارکیٹ شئیر کو بڑھایا جائے گا۔

آئسکریم اور منجمند ڈیزرٹس سیگمنٹ

اس شعبے نے پہلی سہ ماہی میں اچھی کارکردگی دکھائی جس کی وجہ حجمی نمو اور جدت تھی۔ شعبے نے 652 ملین روپے کی آمدنی کا اندراج کیا جس میں گذشتہ سال اسی مدت کے مقابلے میں ۱۲ فیصد کا اضافہ ہوا۔ نئی مصنوعات کا اجراء اور میڈیا مہمات سے شعبے کی ترقی کا عمل جاری رہے گا۔

ڈیری فارم سیگمنٹ

یہ سیگمنٹ کمپنی کے لئے مسلسل زیادہ پیداوار اور بلند معیار کے خام مال کا ماخذ ہے۔ شعبے نے پہلی سہ ماہی میں 74 ملین روپے کے منافع کا اندراج کیا جو کہ گذشتہ سال کی اسی مدت میں 37 ملین روپے تھا۔ اس کی بنیادی وجہ کرنسی کی قدر میں کمی سے حیاتیاتی اثاثہ جات کی revaluation سے اضافہ ہے۔

مالیاتی کارکردگی

سال ۲۰۱۸ کی پہلی سہ ماہی کی کمپنی کی مالیاتی کارکردگی کا خلاصہ درج ذیل ہے۔

رقم ملین میں	۳۱ مارچ ۲۰۱۸ کو اختتام پذیر سہ ماہی مدت		تبدیلی
	۲۰۱۸	۲۰۱۷	
خالص فروخت	7,144	8,677	(18%)
آپریٹنگ منافع	532	474	12%
فروخت کی شرح	7.4%	5.5%	
منافع بعد از ٹیکس	301	331	(9%)
فروخت کی شرح	4.2%	3.8%	
آمدنی فی شیئر Rs.	0.39	0.43	(9%)

مستقبل کا منظر نامہ

کمپنی انضباطی اتھاریٹیز کے ساتھ متحرک طور پر مصروف رہے گی تاکہ وفاقی اور صوبائی فوڈ کے قوانین اور انضباطی ناموافق چیزوں کو دور کیا جاسکے اور ان کی کم سے کم پیسچیرائزنگ (pasteurization) کے ضابطہ کے مسودے کی تیاری میں مدد کی جائے اور ٹیکس قوانین کو حقیقت پسندانہ بنایا جائے تاکہ پراسسڈ ڈیری کے سیکٹر کو مساوی مواقع مل سکیں۔

مزید یہ کہ پراسسڈ ملک کی غذائیت، صحت اور حفاظت کے فوائد کے بارے میں صارفین کو تعلیم دی جائے، اپنی برانڈ ایکوٹی کو مستحکم کیا جائے اور کھلے دودھ کی منتقلی کے ذریعے سے کیٹیگری میں اضافہ کیا جاسکے۔ کمپنی نے 360° مارکیٹنگ پروگرام شروع کیا ہے جس میں ابوو دی لائن (Above the line)، ڈیجیٹل

ایکٹیویشن، پیکیجنگ ریفرش اور ڈائیریکٹ مارکیٹنگ شامل ہے۔ کمپنی امید کرتی ہے کہ برانڈز کو دوبارہ متعارف کرانے سے وہ صارفین میں اپنا اعتماد قائم کرے گی اور سیلز کو بہتر کرنے میں مدد ملے گی۔

فریزلینڈ کمپنیا کے شریک کار کی حیسیت سے ہم بین الاقوامی منڈیوں میں فریزلینڈ کمپنیا کے تجربے کو مجرب بنائیں گے۔ اور غذائی کمی اور دودھ میں ملاوٹ کے خلاف جنگ میں اگلے محاذ پر رہتے ہوئے بہترین معیاری دودھ کی مصنوعات کی فراہمی کو یقینی بنائیں گے۔

کمپنی اپنے سبکدوش ہونے والے بورڈ آف ڈائریکٹرز کا ان کی گذشتہ تین سالوں کی گراں قدر خدمات کا شکریہ ادا کرنا چاہتی ہے۔ مزید کمپنی اپنے نئے آنے والے بورڈ اراکین کو خوش آمدید کہتی ہے جو اپنے ماہرانہ تجربے سے اس کمپنی کو آنے والے چیلینجز سے نمٹنے میں مدد کریں گے۔

علی احمد خان
چیف ایگزیکٹو

عبدالصمد داؤد
چیئرمین
کراچی: ۲۶ اپریل ۲۰۱۸

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