



sealing leadership

Annual Report 2014



about the cover

When it comes to our products, Engro foods prides itself on always sealing the deal with a stamp of quality and commitment. For this reason, our report showcases stamps, trademarks and seals of approval that not only convey the range of our quality but also the quality of our range. As the premier provider of food products across the country, Engro Foods brings nutrition to your doorstep — sealed with that little extra so that you and your family will always know how committed we are to providing you the best in class brands that come sealed with our leadership.



about this report

Furthermore, at a group level Engro has been pushing ahead with a strategy to inform its shareholders and readers of how the Company creates value over time by showcasing both financial and non-financial information. Guided by this philosophy we launched our first integrated report last year that incorporated elements of our sustainability and annual reports as per the newly launched Integrated Reporting Framework.

To read more about our value creation process as per the new framework you can visit our group website www.engro.com and access the Integrated Report 2014 in the Downloads section. Alternatively you can also view a digital version of the report by visiting www.engro.com/integratedreview2014

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company information

sealing hygiene



company information

Board of Directors

Aliuddin Ansari, Chairman
Sarfaraz Ahmed Rehman, CEO
Muhammed Amin
Shahzada Dawood
Abdul Samad Dawood
Sabrina Dawood
Ruhail Mohammed
Zafar Ahmed Siddiqui
Mujahid Hamid
Roshaneh Zafar

Company Secretary

Faiz Chapra

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.
Deutsche 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

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

Registered Office

6th Floor, The Harbor Front Building,
HC # 3, Marine Drive, Block 4, Clifton,
Karachi-75600, Pakistan
Tel: +92(21) 35297501 – 35297510
Fax: +92(21) 35810669
e-mail: info@engrofoods.com
Website: www.engrofoods.com
www.engro.com

Share Registrar

M/s. FAMCO Associates (Pvt) Limited
8-F, Next to Hotel Faran, Block-6, PECHS,
Shahrah-e-Faisal
Karachi – Pakistan

notice of meeting

NOTICE IS HEREBY GIVEN that the Tenth Annual General Meeting of Engro Foods Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Monday, April 27, 2015 at 10 a.m. to transact the following business:

A. Ordinary Business

- (1) To receive and consider the Audited Accounts for the year ended December 31, 2014 and the Directors' and Auditors' Reports thereon.
- (2) To appoint Auditors and fix their remuneration.
- (3) To elect nine directors in accordance with the Companies Ordinance, 1984. The retiring Directors are Messrs Aliuddin Ansari, Abdul Samad Dawood, Muhammed Amin, Mujahid Hamid, Roshaneh Zafar, Ruhail Mohammed, Sabrina Dawood, Shahzada Dawood and Zafar Ahmed Siddiqui.

B. Special Business

- (4) To consider, and if thought fit, to pass the following Resolution as a Special Resolution:

“RESOLVED that the amended Rules of the Employee Share Option Scheme (ESOS) of the Company, placed in draft form before this meeting, be and are hereby approved subject to any amendments that may be required by the SECP or recommended by the Company and approved by the SECP.”

By Order of the Board

FAIZ CHAPRA
Company Secretary

Karachi,

Date: January 26, 2015.

N.B.

- (1) The Directors of the Company have fixed, under sub-section (1) of Section 178 of the Companies Ordinance, 1984, the number of elected directors of the Company at nine.
- (2) The Share Transfer Books of the Company will be closed from Tuesday, April 14, 2015 to Monday, April 27, 2015 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO ASSOCIATES (PVT.) LTD, 8-F, next to Hotel Faran, Nursery, Block 6, PECHS, Shakra-e-Faisal, Karachi PABX Nos. (92-21) 34380101-5 and email info.shares@famco.com.pk by the close of business (5:00 p.m) on Monday, April 13, 2015 will be treated in time to entitle the transferees to attend and vote at the meeting.
- (3) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

Statement under Section 160 of the Companies Ordinance, 1984

This Statement is annexed to the Notice of the Tenth Annual General Meeting of Engro Foods Limited to be held on Monday, April 27, 2015, at which certain Special Business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special Business.

ITEM (4) of the Agenda

The ESOS Rules of the Company were approved by the shareholders of the Company at an EGM held on March 22nd 2013.

In accordance with Rule 7 of the Public Companies (Employee Stock Option Scheme) Rules 2001, and the terms of the ESOS Rules (as approved previously), the Company now wishes to vary certain terms of the ESOS Rules such that the definition of 'Additional Option Year' is amended. Additional Option Year is defined in the ESOS Rules as meaning April 2014 and April 2015 and the Company wishes to seek approval to amend the definition such that Additional Option Year shall also include April 2016, April 2017 and April 2018. All other terms and conditions of the ESOS Rules shall remain substantially unchanged, including calculations of the Exercise Price. In accordance with the Public Companies (Employee Stock Option Scheme) Rules 2001, the amendment proposed is not in any way detrimental to the interest of the Company's employees or current option holders.

Of a total of 16.9m shares over which options are to be granted, 4.4m share options have been granted to date. The Vesting and Exercise Periods remain as previously notified and approved at the EGM held on March 22nd 2013. The Company is and shall continue to conform to the accounting policies as set out in rule 13 of the Public Companies (Employee Stock Option Scheme) Rules 2001.

The reasons for the Company wishing to amend the definition of Additional Option Year to include the ability to grant options in April 2016, April 2017 and April 2018 is that due to the Company reviewing its strategy for the next five years, it is not in a position to make decisions with respect to allocation of options by April 2015 (presently the last year where options may be granted). Therefore the Scheme is being extended so that options may be granted in April of 2016, 2017 and 2018 once the strategy for next five years is finalized.

A copy of the amended Scheme/Rules will be available at the Head Office of the Company (in the legal department) for inspection and perusal by any shareholder during office hours. A copy will also be provided to the shareholders who require one, at the meeting. The amended Rules include other necessary amendments which result from the amendment to the Additional Option Year however the main features and mechanics of the Scheme remain substantially unchanged.

The directors of the Company have no personal interest in this amended scheme but executive directors have been granted options under the scheme.

our vision

Engro Foods will continue to make investments aimed at impacting lives and delighting consumers each day, every day, in a multitude of ways.



core values

At Engro Foods our core values continue to define every aspect of our way of doing business ensuring that we value the five hats that we wear to guide us in our purpose, principles and business operations.



Ethics and Integrity

We do care how results are achieved and will demonstrate honest and ethical behavior in all our activities. Choosing the course of highest integrity is our intent and we will establish and maintain the highest professional and personal standards. A well-founded reputation for scrupulous dealing is itself a priceless asset.



Health, Safety & Environment

We will manage and utilize resources and operations in such a way that the safety and health of our people, neighbors, customers, and visitors is ensured. We believe our safety, health and environmental responsibilities extend beyond protection and enhancement of our own facilities



Innovation & Risk Taking

Success requires us to continually strive to produce breakthrough ideas that result in improved solutions and services. We encourage challenges to the status quo and seek organizational environments in which ideas are generated, nurtured and developed. Engro appreciates employees for well thought out risks taken in all realms of business, and for the results achieved due to them, acknowledging the fact that not all risks will result in success.



Our People

We strongly believe in the dignity and value of our people. We must consistently treat each other with respect and strive to create an organizational environment in which individuals are fairly treated, encouraged and empowered to contribute, grow and develop themselves and help to develop each other. We do not tolerate any form of harassment or discrimination.



Community & Society

We believe that a successful business creates much bigger economic impact and value in the community, which dwarfs any philanthropic contribution. Hence, sustainable business development is to be anchored in commitment to engage with key stakeholders in the community and society.

our overview

At Engro Foods we are proud of how in a decade our brands have become leading household products that the nation now relies on. We have grown from strength to strength, redefining industry benchmarks, but we always remain firmly committed to our goal of serving Pakistan's economy and our consumers with innovative brands that consistently raise the bar for quality.

Since our inception in 2005, we have changed the very landscape of the country's foods business so that our products are now synonymous with quality, value and nutrition. By setting the highest standards, we have seen our unparalleled compelling products pave the way for growing consumer

demand. Over the years, significant investment in our brands, such as Olper's, Tarang, Olper's Lite, Omoré and Dairy Omung has meant that Engro Foods now has the lion's share of the food's market.

The scale of production at Engro's plants continued to reflect an upwards trend for 2014 with key areas of focus being research and development to bring efficiency in the system to reduce costs. Engro Foods' South Plant near Sukkur Barrage which was the company's first production plant coming into operation in 2006 as Engro Foods started its business is spread over 27 Acres of land. The plant has flexible processes enabling it to make all Engro

Foods products and it serves the needs of key flagship brands such as Y-Frooter, Tarka Desi Ghee, Dairy Omung, Tarang, Omung Dobala as well as Olper's Milk, Olper's Cream, Olper's Lassi, Olper's Flavored Milk and Olper's Lite. In 2014, South Plant achieved a production milestone of a record 150 million litres, while meeting all our critical key performance indicators. TETRAPAK also acknowledge the performance of the South Plant's filling machines (A3SPD and A3Flex) which outperform regional players with higher efficiency and lower wastage as overall South Plant achieved the lowest ever Process Loss in 2014.

1600⁺ 12m

milk collection points spread throughout the country

consumers nationwide use our products every day

We have grown from strength to strength, redefining industry benchmarks, but we always remain firmly committed to our goal of serving Pakistan's economy and our consumers with innovative brands that consistently raise the bar for quality.

Engro Foods North Plant is spread over 101 Acres of land in Sahiwal, encompasses a product range of more than 70 SKU's of our dairy and ice cream brands and is at par with the biggest manufacturing facilities in the Dairy and Ice Cream Sector. Exceeding its record output of 1.12 billion packs in 2013, the Plant achieved a production milestone of 1.23 billion dairy packs in 2014.

The Engro Foods South Plant covers a total of 29 Acres of land at a distance from 1.5 Kilometers from Sukkur Barrage

with a product range of around 25+ SKUs of dairy and beverages. Exceeding its record output of 144 Million liters production in 2012, South Plant has achieved a production milestone of 150 Million Liters in the year 2014. Overall South Plant also achieves the lowest ever Process Loss in 2014.

Our Supply Chain Services have a vast network with 107 dedicated vehicles in the system serving 90 distributors through our dispatch centres in Sukkur, Sahiwal, Islamabad and a trans-docking station at Karachi. Our cold-chain network is designed for direct distribution in Karachi and Lahore with in-direct distribution in all other cities across Pakistan. With an emphasis on ensuring food safety by delivering on our promise of providing wholesome goodness, Engro thereby elevates consumer delight worldwide

Engro Foods is Pakistan's fastest growing local company fuelling our nation's economic growth and also contributing to the socio-economic fabric of society at large. With over 15,000 milk suppliers

providing livelihood to more than 350,000 farmers across Pakistan. Each new milestone for Engro Foods brings greater prosperity for Pakistan and we take immense pride in the fact that our growth today directly translates into growth of the country's agri-business sector accounting for more than 11.8% of Pakistan's GDP.

As the country's biggest local conglomerate, leading ice-cream manufacturer and market leader in UHT, at Engro Foods we have taken many firsts including our milestone of being the first Pakistani company to produce 1 billion tetra packs in a single year. Our growing operations span 310+ cities and four provinces of Pakistan.

It is our focus on provision of good quality products that has made our brands so highly sought after by everyone across the country and beyond. As we head towards our 10 year anniversary, we are committed to continued consolidation of our company's presence as we can say with confidence that Engro Foods does and will always represent the best of Pakistan.

Rs.

51b⁺

in payments to dairy farmers as direct income since inception

providing livelihood to

350k

farmers across pakistan



our portfolio

At Engro Foods, we put great emphasis on manufacturing food products that combine great taste with the best value and nutrition to enhance lives, excite consumers and exceed expectations every day.



our footprint

Our growing market share covers over 8 regions and 300+ cities in Pakistan while our products are used by 12 millions consumers every day. In our quest to expand our footprint and develop new markets, the coming years will therefore witness Engro Foods explore new product categories and bigger markets with quality food products guaranteed to leave our consumers craving for more.



2 processing plants & a production farm

300+ cities

1600+ milk collection points

corporate governance

sealing trade



Compliance Statement

The Board of Directors has throughout the year 2014 complied with the "Code of Corporate Governance" as per the listing requirements of the stock exchanges and the "Corporate and Financial Reporting Framework" of the Securities and Exchange Commission of Pakistan.

Internal Control Framework

Responsibility

The board is ultimately responsible for Engro's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board, whilst maintaining its overall responsibility for managing risk within the Company, has delegated the detailed design and operation of the system of internal controls to the Chief Executive.

Framework

The company maintains an established control framework comprising clear structures, authority limits and accountabilities, well understood policies and procedures and budgeting for review processes. All policies and control procedures are documented in manuals. The Board establishes corporate strategy and the Company's business objectives. Divisional management integrates these objectives into divisional business strategies with supporting financial objectives.

Review

The Board meets quarterly to consider Engro's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators.

The Board Audit Committee receives reports on the system of internal financial controls from the external and internal auditors and reviews the process for monitoring the effectiveness of internal controls.

There is a company-wide policy governing appraisal and approval of investment expenditure and asset disposals. Post completion reviews are performed on all material investment expenditure.

Audit

Engro has an Internal Audit function. The Board Audit Committee annually reviews the appropriateness of resources and authority of this function. The Head of Internal Audit functionally reports to the Audit Committee. The Board Audit Committee approves the audit program, based on an annual risk assessment of the operating areas. The Internal Audit function carries out reviews on the financial, operational and compliance controls, and reports on findings to the Board Audit Committee, Chief Executive and the divisional management.

Directors

As at December 31, 2014 the Board comprises of Four independent Directors, Five non-executive Directors of whom two are executives in other Engro Group companies, who have the collective responsibility for ensuring that the affairs of Engro Foods are managed competently and with integrity.

A non-executive Director, Mr. Aliuddin Ansari, chairs the Board and the Chief Executive Officer is Mr. Sarfaraz Ahmed Rehman. Biographical details of the Directors are given later in this section.

A Board of Directors' meeting calendar is issued annually that schedules the matters reserved for discussion and approval.

The full Board met 8 times this year and discussed matters relating to inter alia long term planning, giving consideration both to the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a detailed analysis on businesses and full papers on matters where the Board will be required to make a decision or give its approval.

The Board has established two committees which are chaired by independent and/or non-executive directors. These committees are as follows:

Board Compensation Committee

The Committee meets to review and recommend all elements of the compensation, organization and employee development policies relating to the senior executives remuneration and to approve all matters relating to the remunerations of the executive directors and members of the management committee.

The CEO of the Company and the Vice President HR of Engro Corp attend the Board Compensation Committee Meeting by invitation.

The committee met 6 times during 2014.

Committee Members

The committee comprises the following members:

Aliuddin Ansari	Chairman
Muhammad Amin	Member
Mujahid hamid	Member
Shahzada Dawood	Member

Board Audit Committee

The Board Audit Committee assists the board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to share-holders, systems of internal control and risk management and the audit process. It has the autonomy to call for information from management and to consult directly with the external auditors or their advisors as considered appropriate.

The Chief Financial Officer regularly attends the Board Audit Committee meetings by invitation to present the accounts. After each meeting, the Chairman of the Committee reports to the Board.

The committee met 5 times during 2014.

The committee comprises the following members:

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

Muhammad Imran Khalil GM Internal Audit/Secretary BAC

Functional Committees

COED Committee

COED Committee is responsible for the review of compensation, organization, training and development matters.

The committee comprises the following members:

Sarfaraz A. Rehman - CEO
Usman Zaheer
Imran Anwer

Babur Sultan
Salman Goheer
Ahsan Afzaal Ahmad

Management Committee

The Management Committee is responsible for devising the overall business strategy and overseeing operations to ensure that annual business plans are aligned with the company's long-term growth vision.

The Committee comprises the following members:

Sarfaraz A. Rehman - CEO
Usman Zaheer
Imran Anwer
Babur Sultan
Salman Goheer
Ahsan Afzaal Ahmad
Syed Saud Ahmed Pasha

Corporate Committee for Food Safety, Health, Personnel Safety and Environment

The Corporate FHSE Committee develops and implements the HSE policy whilst ensuring that all Company operations adhere to the policy.

The Committee met 5 times during 2014.

The Committee comprises the following members:

Sarfaraz A. Rehman	Chairman
Ahsan Afzaal Ahmad	Member
Babur Sultan	Member
Imran Anwer	Member
Salman Goheer	Member
Syed Saud A. Pasha	Member
Usman Zaheer	Member
Adnan Mahmood	Secretary

*Appointed as a member on April 17, 2014

directors' profiles

At Engro Foods, we draw our strength from the combined expertise, knowledge and skills of our board of directors representing a group of highly successful professionals and business leaders, who bring in a wealth of ideas and experience that can be applied to all aspects of our operations.



Aliuddin Ansari

Chairman

Muhammad Aliuddin Ansari is the President & Chief Executive Officer of Engro Corporation since May 2012. He is a graduate of Business Administration with a specialization in Finance & Investments.

Ali started his career as an Investment Manager at Bank of America in London which later became World Invest after a management buyout. Prior to joining Engro, he has also worked as CEO Pakistan and later as COO Emerging Europe for Credit Lyonnais Securities Asia (CLSA).

He has also worked as CEO AKD Securities and was instrumental in launching Online Trading, Venture Capital and Private Equity investments. In 2006 he partnered with an Oil & Gas company to form Dewan Drilling, Pakistan's first independent Drilling company which he led as its CEO before joining Engro.

Ali is a member of the Board of Directors of Engro Corporation Limited and the Chairman of Engro Corporation's subsidiaries along with being a member on Sindh Engro Coal Mining Company, Dewan Drilling Limited, Pakistan Chemical & Energy Sector Skill Development Company, and Pakistan Business Council. He has chaired a number of SECP committees, NCCPL and also served on the Boards of the Karachi Stock Exchange, Dawood Hercules Corporation Limited, Hubco, Lucky Cement and Al Meezan Investment Management amongst others. He joined the Board in 2012.



Sarfaraz A. Rehman

CEO

Sarfaraz is a chartered accountant by qualification and has 29 years of professional work experience, mainly in the FMCG industry with some time spent in the Healthcare industry also. He started his career with Unilever in 1983 and spent time in Finance, Marketing Services, Management Accounting and Cost savings projects. He then moved to Smithkline Beecham where he was involved in the Merger and Strategic Planning at the time of the merger.

Later he spent several years abroad with Jardine Matheson/Olayan mainly in Finance and Business Development. Sarfaraz then moved to PepsiCo and spent several years managing the Pakistan and Afghanistan Unit.

Later he was also involved with postings and consultancy assignments primarily outside Pakistan between 2004 and 2005. On his return to Pakistan, Sarfaraz launched Engro Foods Limited in 2005 and for over six years was in the position of CEO Engro Foods. In 2012, Sarfaraz decided to move out of commercial operations into philanthropy and was heading Dawood Foundation before he rejoined Engro Foods as the CEO in 2013.



Ruhail Mohammed

Director

Ruhail Mohammed is currently the Chief Executive Officer of Engro Fertilizers Limited. Prior to his current position, he was the Chief Financial Officer of Engro Corporation Limited and also the Chief Executive Officer of Engro Powergen Limited. He holds an MBA degree in Finance from the Institute of Business Administration Karachi, and is also a Chartered Financial Analyst (USA).

Ruhail has 25 years of Financial & Commercial experience and prior to becoming CEO has worked in areas such as treasury, commodity & currency trading, derivatives, merger & acquisitions, risk management, strategy & financial planning. He has worked in these areas in Pakistan, UAE and Europe.

He is on the Board of Engro Corporation Limited and its various subsidiaries. In addition, he is also on the Boards of Hub Power Company Limited, Sindh Board of Investment and Pakhtunkhwa Energy Development Organization. He joined the Board in 2006.

Shahzada Dawood

Director

Shahzada Dawood serves as a Director on the Boards of Dawood Hercules Corporation Ltd, Engro Corporation Ltd, DH Fertilizers Ltd, Dawood Corporation (Pvt) Ltd, Engro Foods Ltd, Engro Powergen Ltd, Engro Powergen Qadirpur Ltd, Engro Vopak Terminal Ltd, Pebbles (Pvt) Ltd, Patek (Pvt) Ltd, Engro Polymer & Chemicals Limited, Sirius (Pvt) Ltd and Tenaga Generasi Ltd. He also serves as a Director of Dawood Lawrencepur Ltd and Engro Fertilizers Ltd. He is a Trustee of The Dawood Foundation, which is one of the largest public charitable trusts in Pakistan, supporting education and health initiatives. He serves as a Member of the Board of Governors of the National Management Foundation, the sponsoring body of Lahore University of Management Sciences (LUMS). He is an M.Sc. in Global Textile Marketing from Philadelphia University, USA, and an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance. He joined the Board in 2006.

Muhammad Amin

Director

A Chartered Accountant with over 25 years of professional experience, Muhammad Amin joined the Board of Directors of Engro Foods Ltd. in 2005.

In his long career, Muhammed Amin has been associated with reputed multinational companies. He served at senior management positions in Finance, Sales, Marketing and General Management. Muhammed Amin had been CEO of Mondelez Pakistan Limited (previously Kraft Foods Pakistan Limited) for 10 years. Prior to Mondelez, he was associated with Gillette for 11 years in Pakistan and overseas. He last served Gillette as Regional Business Director, Middle East & Africa. He also served Bristol-Myers Squibb from 1985 to 1992 and worked with A.F.Ferguson Co from 1979 to 1985. He joined the Board in 2006

Zafar Ahmed Siddiqui

Director

Zafar Ahmed Siddiqui graduated with an MBA from the IBA, Karachi and holds a masters' degree in marketing communications from Chicago. His careers spans more than 27 years of FMCG experience in sales, marketing and management and includes a host of senior positions including Chief Executive Gillette Pakistan (Pvt.) Ltd., and Area Director, Gillette Afghanistan, Sri Lanka, Bangladesh, Nepal and Maldives. Siddiqui is also a member of the Board of Directors for Inbox Business Technologies (Pvt.) Limited and Zulfiqar Industries.

Currently he is a Professor of Practice at the Institute of Business Administration, Karachi. He joined the Board in 2006.



Mujahid Hamid

Director

Mr. Hamid has occupied key positions and played vital roles in the corporate world, within and outside Pakistan. Similarly he has contributed significantly to several not for profit organizations. He is an internationally experienced organizational consultant covering a broad range of industries, including consumer products, media, entertainment and health. He holds a Master's degree in Business Administration (Marketing) from IBA Karachi, and is an alumnus of Columbia University, New York in addition to Harvard Business School, Boston, USA from where he graduated from the Advance Management Program in 2001.

He has occupied many senior executive positions with Unilever in Pakistan, Australia, and Indonesia and was Chairman and CEO of Unilever HPC, China from 1998 to 2001. He has completed a ten year tenure at Shaukat Khanum Cancer Hospital based in Lahore while playing an active role as Director on a not for profit organization, Job Start, in Toronto, Canada from 2006 to 2008. Being a keen sports affiliate he is a founder member/Director of Punjab Veterans Cricket Association (PUVCA) since 2004 and has been their nominee on the Board of Pakistan Veterans Cricket Association (PVCA) since 2007. He is a founder member/Director of Active for Life, a not for profit body aiming to bring social change through sports in Pakistan.

From 2010 to July 2014 he was Managing Director of ZIL (formerly Zulfqar Industries). He joined the Board in 2009.

Abdul Samad Dawood

Director

Abdul Samad is a graduate in Economics from University College London, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance. He is the CEO of Cyan Limited, Dawood Corporation Private Limited, and Patek (Private) Limited. He is also a Director on the Board of Dawood Hercules Corporation Limited, The Hub Power Company Limited, Dawood Lawrencepur Limited, Engro Foods Limited, DH Fertilizers Limited, Tenaga Generasi Limited, and Pebbles (Private) Limited. He is a member of Young President Organization, Pakistan Chapter. He joined the Board in 2012.

Roshaneh Zafar

Director

Ms. Roshaneh Zafar is a graduate of the Wharton Business School, University of Pennsylvania, USA and also holds a Masters degree in Development Economics from Yale University, USA. She has worked with the World Bank as a women-in-development associate in the water and sanitation sectors. Ms. Zafar founded Pakistan's first specialized microfinance institution Kashf Foundation in 1996 after a chance meeting with Professor Yunus, and has also founded the Kashf Microfinance Bank in 2008. She has been representing Kashf and Pakistan on many international forums including the World Economic Forum and has been the recipient of many international and national awards, including Tamgha-i-Imtiaz, one of Pakistan's highest civilian awards. She is also on the board of other not-for profit organizations including Sahil, Women's World Banking and Karvaan Krafts, while she is also a Director on the Board of Engro Foods. Ms Zafar is also a member of the US-Pakistan Business women's council and a member of the Atlantic Council's US-Pakistan advisory group. She has also served on the World Economic Forums Global Agenda councils on the Gender gap and Pakistan and was a member of the United Nation's Advisors Group on Inclusive Financial sectors. She also serves on the advisory committee of the Microcredit Summit and on the faculty of the Boulder Microfinance Training Programme at Turin, Italy. She also writes regularly for Newsweek Pakistan. She joined the Board in 2012.

Sabrina Dawood

Director

Ms Sabrina Dawood is currently the CEO of The Dawood Foundation & Dawood Public School and Director of Engro Foods Limited, prior to which she has been working in different companies of The Dawood Group, such as Dawood Hercules Corporation Limited and Dawood Lawrencepur Limited in marketing, corporate communications, administration and CSR. She holds an MSc in Medical Anthropology from University College London and BA from London School of Economics in Anthropology & Law. She joined the Board in 2013.

board of directors

Left to Right

- Mujahid Hamid
- Roshaneh Zafar
- Zafar Ahmed Siddiqui
- Sarfaraz Rehman
- Shahzada Dawood
- Abdul Samad Dawood
- Aliuddin Ansari
- Sabrina Dawood
- Ruhail Mohammed
- Muhammad Amin



management committee

1. Sarfaraz Rehman
2. Babur Sultan
3. Salman Goheer
4. Imran Anwer
5. Syed Saud A. Pasha
6. Usman Zaheer
7. Ahsan Afzaal



directors' report

sealing quality



CEO's message

The heart of our success is without a doubt the dedication of our employees whose preparedness to reassess, adapt and modernize led to the delivery of uninterrupted product supply at maximum value to our customers. By building on our expertise to drive cost efficiency and heighten consumer satisfaction not only did our business succeed but we also made a significant contribution to raising food security and prosperity for Pakistan.

At Engro Foods the driving force behind our growth has been our deep commitment to elevating consumer while making a meaningful contribution to our country's economy, our stake-holders and all the communities that we operate within. To live up to this commitment, our business strategy has been geared towards versatility, innovation and inclusive growth, allowing us to readily confront the demands of the ever-changing and expanding market.

Despite a challenging business environment in 2014, we continued to build on our strengths and regained a significant competitive advantage in the market. A considerable challenge was to develop strategies to overcome and withstand the impact of rising costs caused by various factors such as higher energy costs and increase in the international prices of milk in the first half of the year. Layer by layer, a number of initiatives were implemented to bolster systems and improve margins. The heart of our success is without a doubt the dedication of our employees whose ability to reassess, adapt and modernize led to the delivery of maximum value to our consumers. By building on our expertise to drive cost efficiency and heighten consumer satisfaction not only did our business succeed but we also made a significant contribution to raising food security and prosperity for Pakistan.

Given unexpected bottlenecks in our distribution network last year (2013), we focused on tackling specific issues that caused our slowdown and also strove to bring back efficiency to our supply chain system by cost optimization and enhancing operational excellence. By 2014, our distribution network had undergone a comprehensive overhaul

and throughout the year supply chain services remained critical to our business vision and performance. Consequently, we continued to regain a dominant position in the market and achieved highest ever UHT market share of 56% in November 2014 alone as compared to 48% in December 2013. In addition, our exciting and cutting-edge marketing strategies bore fruit in 2014 and we saw significant gains in sales volumes for a number of our brands particularly Tarang and Olper's.

The FMCG industry has taught us that an organization's sustainability is a result of continuous growth, diversification and expansion. At Engro Foods we live these fundamentals every day. As we forge ahead we anticipate an increased growth in production and sales in all our current product lines and plan to expand our ice cream as well as our beverage business in 2015. At present we are also developing our diversification strategies to enter the market in other dairy segments, which we expect to drive sales volumes for the next 10 years or more.

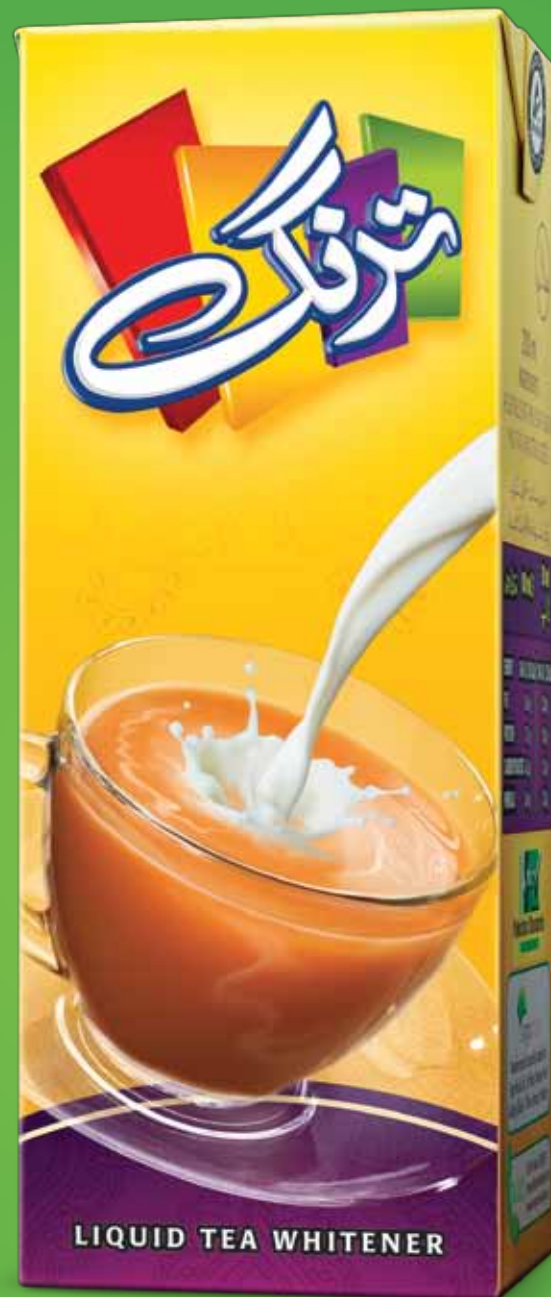
As we prepare to confront the unforeseen challenges of the new year, I can put my unreserved confidence in our team's ability to continue to sustain the current growth momentum and build on the tremendous gains of 2014 so the company achieves even greater levels in the future.



Sarfaraz A. Rehman
Chief Executive Officer

directors' report

On behalf of the Board of Directors of Engro Foods Limited (a majority owned subsidiary of Engro Corporation Limited), we are pleased to submit the annual report and the audited financial information of the Company for the year ended December 31, 2014.



Principal Activities

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

Business Overview

In 2014, the Company focused on further strengthening its position in the market by gaining market share in the UHT category. During the year, the country as well as the local foods industry faced numerous challenges. The energy crisis, security and political situation continued to exert significant pressure on the economy and business operations. Despite these challenges, the Company managed double digit revenue growth with positive long-term outlook and tested opportunities for business expansion through diversification into new product lines and brand differentiation. The Company's focus on key operational pillars, based on superior consumer insights helped the Company prioritize allocation of its resources to deliver results. Emphasis was placed on targeted innovation, product line consolidation, operational efficiency, and superior consumer communications.

The Company reported Rs. 43.4 billion in consolidated revenue vs. Rs. 37.9 billion reported last year exhibiting a growth of 14%. Effective investment on brands and efficient product mix management remained key elements in the achievements of growth in topline of 2014.

Gross margin declined from 22% to 19% on account of higher milk prices which were not passed on to consumers in the competitive market environment. On an overall basis, Company's profit increased

from Rs. 211 million in 2013 to Rs. 889 million in 2014.

The year 2014 also witnessed revitalization of the distribution network of the Company and significant growth in milk collection. Moreover, the successful commissioning of the new powder plant provided a clear advantage in terms of long term sustainability of the margins.

Dairy And Beverages Segment

During the year, the Company achieved highest ever UHT market share of 56% in November 2014 as compared to 49% in December 2013 as per A.C.Nielsen.

The key highlight of 2014 was Olper's significant volume growth which was led by continuous investment on brand and introduction of new innovative packaging in 2013 which yielded results in the current year. Tarang was under volumetric pressure during first half of 2014 due to intense competitive environment. With the support of price promotions and consumer centric campaigns, Tarang reclaimed its market share and has surpassed historical volumes in the last quarter of 2014 growing 35% in 4th quarter vs. 3rd quarter of this year.

During the year, two new products were launched, Olper's Lassi and Y Frooter, to tap into the ever growing beverage category. Olper's Lassi – a seasonal product in the Engro Foods portfolio, continued to reflect strong performance in its newly formed category. Whereas, Y Frooter provided immense learning to the Company in the kids segment of the beverages category.

During the last quarter of 2013, the Company commenced a pilot project to assess the viability of pasteurized milk in Pakistan, whereby, shops under the brand name of "Mabrook" were opened on a franchise model. The Company has carried out comprehensive analysis of

Pilot project and concluded that, while the results and consumer acceptance rate of the concept were encouraging, mass acceptance will take some time. We believe improvement in overall energy situation and regulators involvement to invoke minimum pasteurization law, as followed in other neighboring countries such as India, can be a key success criteria for pasteurized milk growth in the country. Accordingly, the Company has decided to conclude the pilot and has recorded all the expenses in these financial statements in relation to the closure of pilot.

As reported last year, the Punjab Food Authority (PFA) have raised certain reservations about Dairy Omung consequent to the promulgation of the 18th Constitutional Amendment there are certain provincial level changes in the regulations of food laws in the country.



The Dairy and Beverages segment reported a topline of Rs. 40 billion registering a growth of 14% over last year. Segment contributed Rs. 1,711 million to the Company's profitability this year registering a growth of 9%.

Dairy Omung is now registered as a dairy drink under the PSQCA law. Same was put forward to PFA but the authorities have rejected Company's request for formulation of standard for dairy drink. Engro Foods has also filed a petition against PFA directive in Lahore High Court. We are confident that all products of EFL comply with Pakistan's law including Dairy Omung, which is an innovative product produced to offer hygienic and affordable alternative to the consumers of loose milk.

The Dairy and Beverages segment reported a topline of Rs. 40 billion registering a growth of 14% over last year. Segment contributed Rs. 1,711 million to the Company's profitability this year registering a growth of 9%.



Ice Cream & Frozen Desserts Segment

During 2014, the ice cream business witnessed a tremendous turnaround as volume recovery and growth were pursued with success. Almost half of the industry growth this year was fuelled by Omore for which a mix of factors are responsible including improved sales efficiency, new innovations and very selective price revisions. Innovations played a major role in achieving growth in 2014 with star performers being Funties and Tutti Frutti. On the sales front, Omore continued to invest in the market by deploying new freezers and tapping into new geographical territories and focused on retailer and distributor ROIs to boost sales volume. The ice cream & frozen business segment reported revenue of Rs. 2.9 billion recording a growth of 11% over last year. The segment managed to reduce its loss from Rs. 320 million in 2013 to Rs. 293 million in 2014.

Dairy Farm Segment

The Company's Nara Dairy Farm continued to remain a rich and nutritious source of quality milk for our dairy segment. The farm currently produces 33,108 (2013: 24,874) liters per day with a total herd size of 4,726 animals of which 1,942 are part of the milking cycle. Due to improved production yield the Nara farm significantly reduced its losses to Rs. 32 million in 2014 as opposed to a loss of Rs. 137 million in 2013.

Engro Foods Canada

During the year, the Board carried out strategic review of its North American operations and decided to exit it, so that focus can be placed in growing local

operations where growth opportunities are enormous. As a result, EF Netherlands entered into a Share Purchase Agreement (SPA) with a Canadian registered company for sale of its North American businesses, which includes EFCL. The sale transaction was completed on October 31, 2014. Consequently, due to the sale of the Canadian operations, the Company has recorded an impairment charge of Rs. 596 million during the year.

Tax Credit Under Section 65B

During the year, based on the advice of tax consultant, a tax credit has been recorded on account of balancing, modernization, replacement, extension and expansion of plant and machinery, under section 65B of Income Tax Ordinance, 2001 amounting to Rs 667 million.

32_m

Nara farm losses significantly reduced

Social Investments

Engro Foods' has an abiding commitment towards improving the life of our stakeholders, and above all that of our host communities. We contributed over Rs. 17.4 million under our social investments commitments in 2014, as compared to Rs. 16.2 million in 2013. Engro Foundation (the single CSR front for all Engro companies) manages EFL's social investments programs.

The focal areas Engro Foundation and its partners worked on were education, health, environmental development, infrastructure and livelihoods thus providing socio-economic opportunities to a large number of individuals and households in our host communities.

In the year 2014 EFL Nara farm employees dedicated 245 volunteer hours to run a number of extremely effective and productive CSR campaigns aimed at improving the environmental, economic and social fabric of our host communities and the local areas where they reside.

Own a Tree Campaign

This education based campaign focused on raising awareness about the importance of plants to the environment and the invaluable contribution that individuals can make by caring for and raising a plant. 350 plants were distributed to students, local residents and to EFL's 3P workers. Each plant was named by the recipient and they were also instructed about best care practices.

Tree Plantation: In a drive to go GREEN, 4,000 plants were planted across the farm in different locations including the Calf section, Nara House, the Orchid, the New Milking Parlor as well as along the boundary of the fence.

Treatments & Animal Handling Trainings

To educate and develop the residents in the vicinity of Nara farm is situated, an initiative was undertaken to conduct training sessions about Animal Handling and the Treatment of Sick Animals. The training sessions particularly emphasized the effective use of vaccines in the prevention of diseases effecting Livestock.

School Learning Program & Career Development

We consider Education the lynchpin for development and progress and as a result a great deal of man hours are committed to Education-based programs. We conduct

regular weekly and monthly high-quality lectures in local schools concentrating on key learning areas such as English, Urdu, Computers and Science. Study trips are also organized regularly to the dairy farm with an emphasis on career counseling.

Nara Schools

Engro Foundation with Engro Foods support opened two primary schools in the Nara Desert. Being the only schools in the area, the schools offer a lot of hope and aspirations to children and their parents in the Nara region. In 2014, Engro has opened two Library Resource Centres in the two schools. These Library Resource Centers contain a library, where children are encouraged to read and a computer lab, which offers computer classes to children. Over 300+ children are enrolled in the two schools. The Engro Foods Nara team are also heavily involved in the schools and offer computer classes and counseling to the children of the school.

Sahiwal Schools

Engro Foods started 4 primary schools in neighboring villages near Sahiwal City 5 years ago. In 2013, a girls middle school was added to the schools. These schools provide education to over 1100+ children. Engro working with CARE foundation (a leader in education in the area) ardously work towards promoting education and enhancing quality of learning in these schools. In 2014, the average rate of performance in these schools was 96% marks.

Health Initiatives

Engro Foods supports an OPD clinic in Sukkur City next to the Engro Foods Plant. The OPD clinic provides quality health care to the marginalized and underprivileged in the area. In 2014, as many as 15,000+ patients were treated through this clinic.

WELD Program

Engro Foods extensively works with farmers across rural Sindh and Punjab. Having a milk collection network of over 1,800 MCCs, Engro Foods ardously works to reach small dairy farmer and provide extension services along with an opportunity of buying milk from them. In 2011, Engro partnered with USAID under the Women Empowerment through Livestock Development. Under this project, 18,000 small dairy female farmers were trained in better livestock care practices. 300 women were also trained and supported to be livestock extension workers, who provided essential livestock extension services like vaccinations, treatment for basic ailments to livestock of other dairy farmers. 300 women were also trained and supported as village milk collectors, who collected/bought milk from their villages and sold to Engro at a markup. The program was immensely successful, and sustainable. 2014, saw closing of the project activities, with the entrepreneurs continuing their services to other farmers. Through the WELD project, increased milk production of the female dairy farmers was valued at Rs. 266 million, meanwhile it was found that the average income of the entrepreneurs was Rs. 2,500.

Engro partnered with USAID under the Women Empowerment through Livestock Development. Under this project, 18,000 small dairy female farmers were trained in better livestock care practices. 300 women were also trained and supported to be livestock extension workers

Our Family

Recognizing that our people make all the difference, we strive to consistently attract, hire, train, retain, develop and motivate high quality talent, so that together we can combine our strengths and skills to build a successful partnership that can help us sustain our competitive edge and continue our legacy of excellence. Our talent induction schemes, employee evaluation methods, training and development programs, compensation strategies, employee engagement surveys, HR synergy forums, employee volunteer programs and retirement policies are therefore, specially designed to help us foster a bond of trust, contentment, motivation, accountability and loyalty across the company whilst demonstrating our commitment to develop an organizational culture thriving on transparency, openness and fairness. We believe in diversity, and have implemented a strict non-discrimination policy that further sets us apart as a company passionate about creating a progressive and fair environment at all levels. Through these concerted efforts we continued our focus on creation of a highly passionate and dynamic team which plays a critical role in contributing to our bottom-line growth with its relentless pursuit for excellence, and drive for success.

Employee Attrition Rate

17.7%

(T3 employees +) in 2014

337

Employee Strength (T3 employees +) in 2014

myLearning

The myLearning platform was created to enhance the development of employees at EFL by ensuring that the workforce is engaged and fully equipped with the necessary tools and skills to perform at their full potential on a daily basis. The Talent and Organizational Development team's training agenda hinges on the philosophy that by investing in its employees EFL is essentially making the most beneficial investment for the Company. A set of customized programs based on the 'Leadership Competency Model' were developed targeting the soft skills and functional needs of all employees organization-wide. The myLearning training sessions were conducted throughout the year achieving an average of two training days per employee.

Talent Review Sessions

Building on the success of myCareer, a custom built platform on our intranet portal for employee appraisals launched in 2013, the HR Team took the system a step further in 2014 to include Succession and Career Planning of our employees also. This process consists of a number of exercises referred to as Talent Review Sessions (TRS) that identify successors for different roles and also creates development plans for all employees who have been identified as successors. At EFL we place the utmost importance on the careers of our employees and the objective of bringing this process online was to create transparency and efficiency in the overall procedure that fuels our talent pipeline. Through this system employees are able to track their performance and development effectively equipping them with the evaluation tools to take on additional responsibilities and progress in their new roles.

myEngro

Engro Foods Limited went live with the myCareer platform on the intranet portal last year, automating the appraisal processes for all our employees. Taking

the appraisal processes online was a milestone for EFL HR as it achieved its goal of streamlining procedures and establishing transparency. In 2014, myCareer further evolved into myEngro which aimed to bring all career related processes of employees for all Engro companies in one place. The initiative aimed to transform and automate the HR systems by providing employees with a 'one-stop-shop' to address all their HR needs. After the first successful cycle, the myEngro process was replicated by EFL HR for all the subsidiaries across the group and by year end, all the companies had been brought online.

This rollout would not have been possible without the relentless work, cooperation and feedback of the working and steering committees that executed the project, ensuring that all the improvements in the processes were aligned and smoothly implemented.

Diversity Initiatives

Diversity and inclusion are cherished and celebrated at Engro Foods. Each year we seek to inculcate these values in our culture so that it becomes an essential part of how we do business. EFL rolled out a number of initiatives this year and our partners in leading this drive were Engro Corporation and the NOWPDP (Network of Organizations Working with People with Disabilities).

We began the year by organizing focus group sessions for employees to gain an understanding of the issues and myths surrounding the employment of persons with disabilities. These mandatory sensitization sessions were specifically designed to dispel popular misconceptions about persons with disabilities covered disability awareness and etiquette. Approximately 400+ employees at all the sites were included in the sensitization sessions, which truly embodied the equal opportunity spirit through our attitudes and actions.

A retrofitting survey was also carried out at all the sites in order to make our work areas more accessible as specified by the Code of Minimum Accessibility Standards (guidelines endorsed by Institute of Architects Pakistan – IAP). Work has already started on meeting the

recommendations from the survey and this will continue through 2015 to ensure the highest standards.

We feel that these steps will go a long way to empowering all our employees, irrespective of their differences, so they

may always bring their best to work. By upholding our philosophy, this program also fosters a universal value for diversity, instilling the belief that each individual's inherent unique differences are of immense value and their inclusion serves to enhance our collective strength and humanity.

Health, Safety and Environment

Corporate Committee for Food Safety, Health, Personnel Safety and Environment

The Corporate FHSE Committee develops and implements the HSE policy whilst also ensuring that all Company operations adhere to it. The Committee met 5 times during 2014. The committee comprises of the following:

Sarfraz A. Rehman	Chairman
Ahsan Afzaal Ahmad	Member
Babur Sultan	Member
Imran Anwer	Member
Salman Goheer	Member
Syed Saud A. Pasha	Member
Usman Zaheer	Member
Adnan Mahmood	Secretary

Ensuring Employee Safety at the Workplace

At Engro Foods, we believe in doing business with a conscience and leading by example. As part of our efforts to ensure good corporate governance, we strive to implement the triple bottom line approach in all our strategic undertakings though our consideration for our people and the planet comes well before our need to fixate on only profits. Recognizing the need to protect our planet, we go the extra mile to preserve natural resources and prevent the unnecessary wastage of them.

In order to ensure employee safety at the workplace, all Engro Foods employees and contractors are expected to conform to our HSE management systems and

processes which have been designed keeping in view international best practices including Occupational Safety and Health Administration (OSHA) and DuPont Workplace Safety Standards. Our Sukkur and Sahiwal Plants along with our Nara Dairy Farm and Milk Procurement centres are now DuPont Level 3 and OSHA Compliant.

To enhance our safety management systems and to foster a culture of safety within the organization, behavior-based safety techniques have been put in place and workplace incident reporting is strongly encouraged thus enabling us to identify potential safety hazards and to ensure that the possibility of further risk is duly minimized. Leading indicators and management safety audit programs are the main pillars of

evaluating these safety initiatives. Through the year a work-place safety program was installed that engaged approximately 7,000 employees with a cumulative total of more than 25,000+ training hours.

The Total Recordable Injury Rate (TRIR) amongst employees & contractors at Engro Foods has declined significantly over the last few years. The TRIR of our employees and contractors in 2014 was calculated at 0.16 for the year with 2 working days lost due to work related injuries.

EFL has further embarked on the journey towards Occupational Health and Industrial Implementation (OHII). Baseline OHII Audits along with basic trainings for the team were conducted in order to be aligned with DuPont OHII Level 3 Compliance.

awards and certifications



FT/IFC Award

FT/IFC Transformational Business Award 2014 for Achievement in Inclusive Business. In 2014 Engro Foods was awarded the prestigious inclusive business award amongst competitors worldwide. This is testament to our world class organisation since the Company scored best in all 4 areas: volume and growth, women empowerment, effective use of technology and development of poor areas.



DuPont Certification

The Safety Management System of the Sukkur & Sahiwal plants, Nara Dairy Farm and Milk Procurement & Agri Services have been DuPont Level 3 & Occupational Safety and Health Administration (OSHA) compliant since December 2013. Once again achieving DuPont Level 3 bears testament to Engro Foods' commitment towards excellence in safety.



BRC Certification

The BRC is a Global Food Safety Initiative (GFSI) that is recognized as a standard benchmark for good manufacturing practices in Food Safety, Quality, and Consumer Products & Packaging. Both Engro Foods' Sukkur & Sahiwal plants have received an A grade, the highest possible, against the BRC (British Retail Consortium) standards. This certification was achieved for the third consecutive year.



ISO Certifications

Our Sukkur & Sahiwal Plants, Dairy Farm & 17 Area Offices for Milk Procurement & Agri Services are now ISO 14001 - Environment Management System; OSHAS 18001 - Safety Management System; FSSC 2200 - Food Safety Management System; ISO - 9001 & HALAL certified. Our Dairy Farm is also Global GAP (Good Agricultural Practices) Certified, making it the first and only dairy farm compliant with Global GAP in Pakistan.

In 2014, EFL's Sahiwal Plant commissioned a 10+ MW HFO Power Plant as an alternate to the existing Diesel based fuel generation. The system became operational in the 3rd Quarter of 2014. These state of the art units are fully NEQS Compliant and have no adverse impact on the environment.

Ensuring Responsible Environmental Practices

Engro Foods' ceaselessly strives to fulfill our commitment to Environmental protection and preservation. We care about the welfare and well-being of our people and the planet we inhabit. EFL's business strategies are fully aligned with this vision and always take in to account the far-reaching environmental impact of our business decisions. We ensure the prevention of unnecessary wastage of natural resources and we are constantly exploring innovative, reliable and competitive sources of energy.

One of the most divisive challenges in the business environment continues to be ever-escalating global energy prices. The spiraling and unpredictable price of energy inevitably inflates the cost of running a business and lays it bear to a major significant risk beyond its control. As traditional energy sources are proving to be increasingly unpredictable EFL realized it was of the utmost importance to diversify our energy portfolio and so EFL has pioneered a number of initiatives to combat and overcome these concerns.

In 2014, EFL's Sahiwal Plant commissioned a 10+ MW HFO Power Plant as an alternate to the existing Diesel based fuel generation. The system became operational in the 3rd Quarter of 2014. These state of the art units are fully NEQS Compliant and have no adverse impact on the environment.

Additionally, EFL's dependence on gas as the main source of energy for steam

generation has been also been significantly reduced by commissioning two third-party Biomass Plants at the Sahiwal Plant. Not only is Biomass energy a cleaner and more sustainable alternative to traditional diesel-based boilers, it is also a far more cost effective energy source.

Another major initiative completed in 2014 was EFL's pilot of Solar-based Milk Collection Centers (MCC) at two locations near Sahiwal. These MCCs are fully functional and are successfully using solar power as their sole source of energy. However, in this initial phase, WAPDA and diesel generators continue to be maintained as a backup if the need should arise. The results of this pilot are presently under analysis as EFL is considering extending this to a wider network.

EFL Manufacturing Division has always been committed to optimizing efficiency in the running of its plants, and over the last few years the improved performance of our machines has been noteworthy. Filling Machines are evaluated against three KPIs namely, Machine Mechanical Efficiency (MMU), Production Time Utilization (PTU) and Machine Wastage. In a study by Tetra Pak that compiles the results from their Greater Middle East and Africa Region (including Pakistan, Turkey, Saudia, Emirates, Nigeria, Egypt, Libya, South Africa), they found that EFL machines were far ahead of the Global Standards. One of the highlight was the performance of A3SPEED platform for which the results read:

- For MME, EFL stands first with 97.56% as compared to 93.8% of

- GMEA and 96.18% of the Pakistani industry
- For PTU, EFL stands first with 90.15% as compared to 80% of GMEA and 89.66% of the Pakistani industry
- While efficiency was high, EFL runs its machine with very low wastage and here also surpasses standards with 0.55% as compared to 0.71% of GMEA and 0.58% of the Pakistani industry

These statistics clearly demonstrate that EFL outshines other Pakistani and regional players in the industry in terms of efficiency and there can be no more irrefutable evidence than this to prove EFL's commitment towards excellence. At EFL, we are confident that we will continue to raise standards even further in the coming years, as we now consider our present unparalleled performance our new baseline for the future.

Cash Flow and Working Capital Management

Lower cash was generated from operations during the year Rs. 775 million versus Rs. 2,356 million in 2013. Taxes paid for the year amounted to Rs. 950 million vs. Rs. 680 million last year.

Capital Investment, Capital Structure and Finance

Net long term borrowings at year end decreased to Rs. 5,477 million (2013: Rs. 7,127 million). The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2014 is 32:68 (2013: 40:60). The liquidity position of the Company remains robust with a year-end current ratio of 1.3: 1 (2013: 1.7: 1).

Major Judgment Areas

Main areas related to taxation, Property, plant and equipment, intangible assets, biological assets, investment in subsidiary, stock-in-trade, employee share option scheme and provision for staff retirement & other service benefits.

Management Information Systems

Engro Foods processes state of the art MIS infrastructure, our footprint starts from milk collection deeply located in the rural areas spreading over 1,800 centres automated through Engro Milk Automation Network (EMAN). On the distribution front, we are connected to retail outlets through our secondary sales system 'Orange' and are also working on connecting to all these outlets through GPS technology. We continue to enhance

the efficiencies by increasing the SAP footprint (11 modules) in the company from the existing implementation of financial, accounting, supply chain and human resource applications.

Accounting Standards

The accounting policies of the Company reflect the requirements of the Companies Ordinance, 1984 and such approved International Accounting Standards and International Financial Reporting Standards as have been notified under this Ordinance as well as through the directives issued by the Securities and Exchange Commission of Pakistan.

Credit Rating

Engro Foods' Sukuk issue has been assigned a medium to long term credit rating of "A+" (Single A Plus) by JCR-VIS.

The rating reflects the Company's financial and management strength and denote a low expectation of credit risk and the capacity for timely payment of financial commitment.

Employee Share Option Scheme

The company operates a Share Option Scheme. The detail of each scheme is explained in note 8 of the accounts.

Gratuity and Provident Fund

The Company maintains plans that provide post-employment and retirement benefits to its employees. These include a contributory provident fund, a defined benefit gratuity scheme.

Statement of value of investments as at latest audited financial statement date:

S.No.		Provident Fund (Rs. in million)	Gratuity Fund (Rs. in million)
	Audited upto	June 30, 2014	June 30, 2014
1	Net assets as per audited financial statements	474	315
2	DSCs/PIBs/RICs	293	222
3	Mutual Funds	-	5
4	TFCs	116	59
5	Shares	10	30
6	Bank Deposits	17	6
7	Receivables	69	1
8	Payables	(31)	(8)
	Total	474	315

During the year, the Company merged its defined contribution provident fund with the Engro Corporation Limited's provident fund after re-measuring its plan assets and the liabilities as at September 30, 2014.

The above mentioned plans are funded schemes recognized by the tax authorities. The latest actuarial valuation of gratuity scheme was carried out at December 31, 2014 and the financial statements of these have been audited up to June 30, 2014. The Company has fully paid all its obligations on all the above schemes.

Auditors

The present auditors, M/s A.F.Ferguson & Co. retired and offered themselves for re-appointment as the statutory auditors of the Company. The Board Audit Committee and the Board of Directors of the Company have endorsed the recommendation.

Pattern of Shareholding

Major shareholder of Engro Foods Limited is Engro Corporation Limited. Other Shareholders are local institutions and the general public.

A statement of the general pattern of shareholding along with pattern of shareholding of certain classes of shareholders whose disclosure is required under the reporting framework and the statement of purchase and sale of shares by Directors, Executives and their spouses including minor children during 2014 is shown later in this report.

Dividend

Board believes that ploughing this year's profit back into the business will generate more growth and strengthen the profitability of the Company in the longer run. Therefore, the Board decided not to recommend the payment of a dividend.

Board of Directors

Statement of Director Responsibilities
The directors confirm compliance with Corporate and Financial Reporting Framework of the SECP Code of Governance for the following:

1. The financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts of the company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation

of the financial statements except for changes resulting on initial application of standards and amendments or interpretations to existing standards. Accounting estimates are based on reasonable prudent judgment.

4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures there from have been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Board Meetings and Attendance

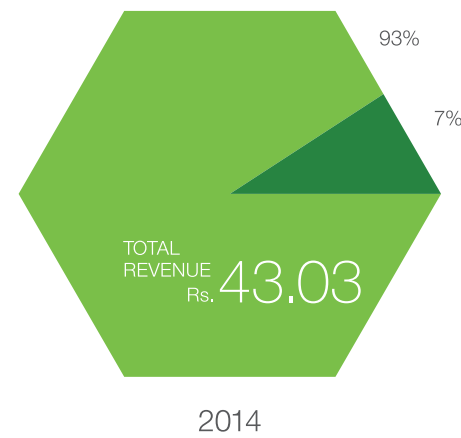
In 2014, the Board of Directors held 8 meetings to cover its complete cycle of activities. The attendance record of the Directors is as follows:

Director's Name	Meetings Attended
Muhammad Aliuddin Ansari	8
Sarfaraz A. Rehman	8
Ruhail Mohammed	7
Roshaneh Zafar	5
Shahzada Dawood	3
Abdul Samad Dawood	7
Zafar Ahmed Siddiqui	6
Mujahid Hamid	8
Muhammed Amin	6
Sabrina Dawood	6

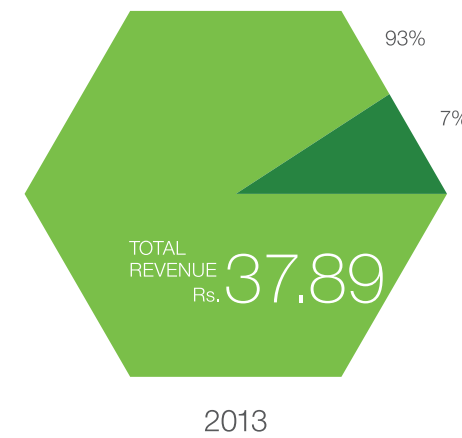
financial review

Business Revenue (Rs. in billions)
% Segment Share

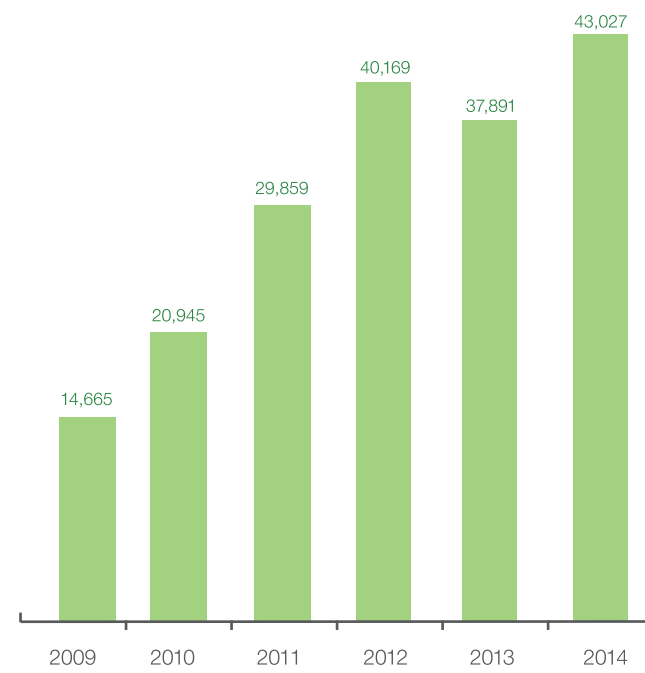
- Dairy, Beverages & Others
- Ice cream



- Dairy, Beverages & Others
- Ice cream



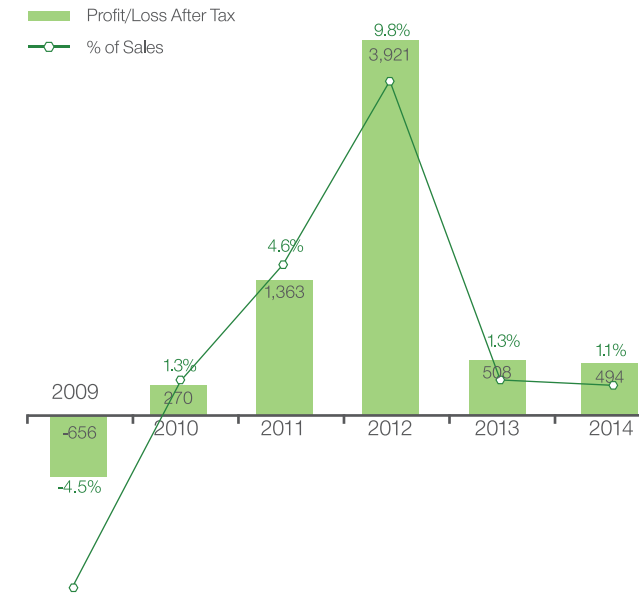
Sales (Rs. in million)



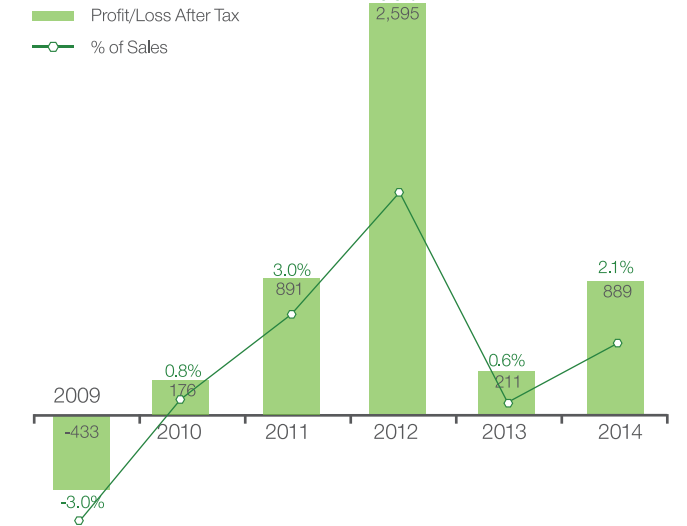
Operating Profit/Loss
& % of Sales (Rs. in million)



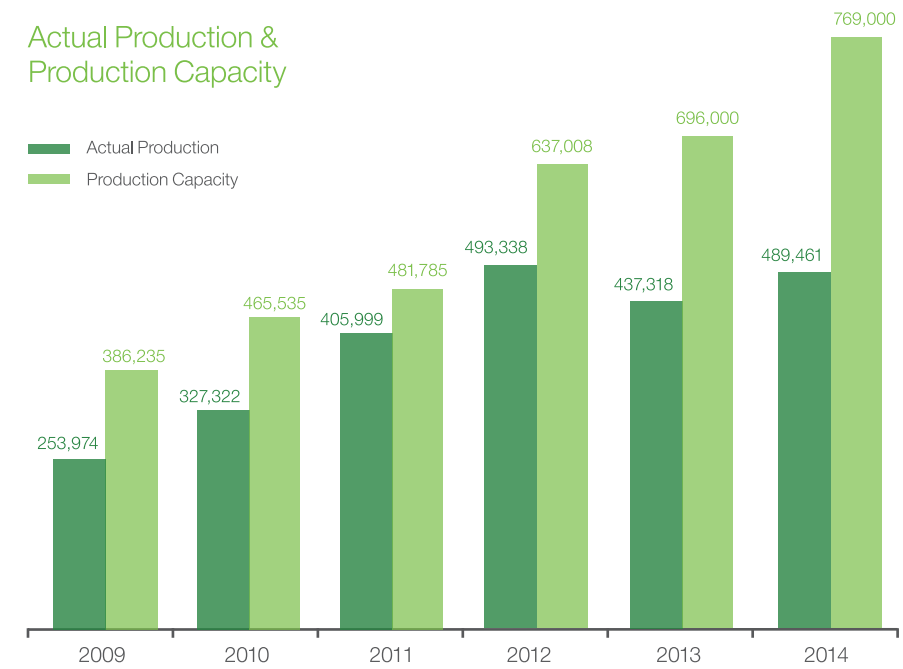
Profit / Loss Before Tax
& % of Sales (Rs. in million)



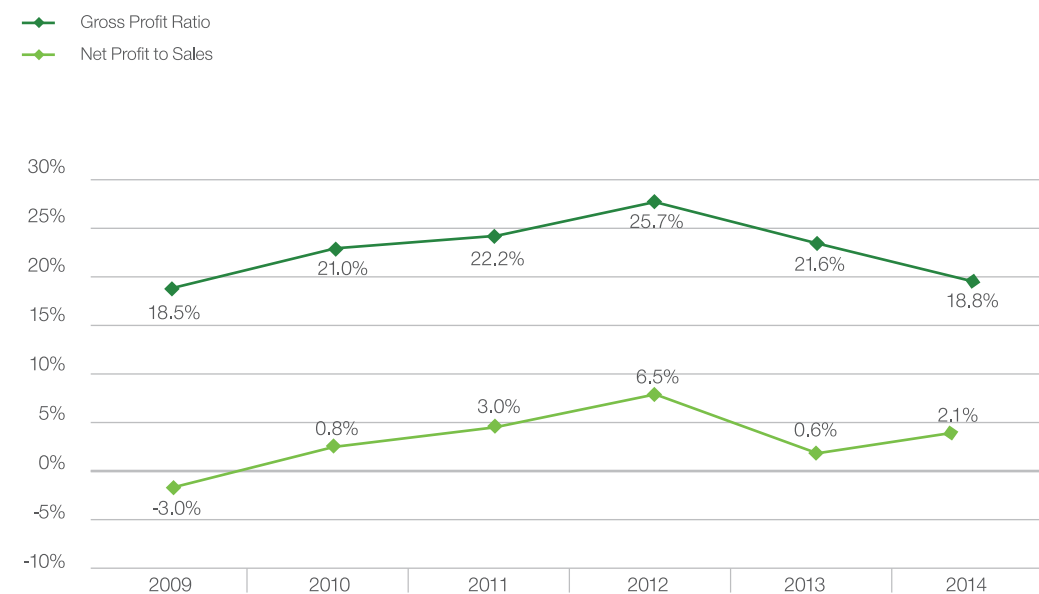
Profit / Loss After Tax
& % of Sales (Rs. in million)



Actual Production & Production Capacity



Profitability Ratios



Statement of value addition & distribution

	2014		2013	
	Rupees in Million	%	Rupees in Million	%
Wealth Generated				
Total Revenue inclusive of sales-tax and other income	44,058	-	38,802	-
bought-in material and services	(34,402)	-	(31,113)	-
	9,657	-	7,689	-
Wealth Distributed				
To employees Salaries, benefits and other costs	2,310	23.92%	1,946	25.31%
To Government Taxes, duties and development surcharge	3,254	33.70%	3,116	40.52%
To Society Donations towards education, health, environment and natural disaster	17	0.18%	16	0.21%
To Providers of Capital Mark up/interest expense on borrowed money	1,237	12.81%	785	10.21%
Retained for reinvestment and future growth, depreciation, amortization, retained profit	2,838	29.39%	1,826	23.75%
	9,657		7,689	

summary

Balance Sheet

	2014	2013	2012	2011	2010	2009
	(Rupees in millions)					
Share capital	7,666	7,666	7,616	7,518	7,000	5,423
Share premium	865	865	810	722	-	-
Employee compensation reserve	400	407	-	-	-	-
Hedging Reserve	(28)	(10)	17	(18)	-	-
Remeasurement of post employment benefits - Actuarial loss	(36)	(35)	(23)	(18)	-	-
Unappropriate profit / (Accumulated loss)	2,710	1,821	1,610	(985)	(1,876)	(2,052)
Shareholders' funds / Equity	11,578	10,715	10,031	7,219	5,124	3,371
Long term borrowings	5,477	7,127	6,023	5,610	4,625	3,325
Capital employed	17,055	17,842	16,054	12,829	9,949	6,813
Deferred liabilities	-	-	-	2	3	3
Property, plant & equipment	15,022	14,505	11,023	9,615	7,148	5,809
Long term assets	109	93	82	24	23	8

Profit and Loss

	2014	2013	2012	2011	2010	2009
Sales	43,027	37,891	40,169	29,859	20,945	14,665
Gross profit	8,101	8,173	10,321	6,629	4,393	2,716
Operating profit	2,328	2,174	4,823	2,412	930	(141)
Profit before tax	494	508	3,921	1,363	270	(656)
Profit after tax	889	211	2,595	891	176	(433)
EBITDA	3,681	2,907	6,071	3,375	1,644	365

Cash Flows

	2014	2013	2012	2011	2010	2009
Net cash flow from operating activities	775	2,356	3,214	1,080	156	(113)
Net cash flow from investing activities	(2,556)	(5,221)	(3,379)	(2,341)	(2,972)	(1,921)
Net cash flow from financing activities	(1,081)	547	1,819	2,474	2,955	2,155
Changes in cash & cash equivalents	(2,862)	(2,318)	1,653	1,212	140	121
Cash & cash equivalents - Year end	(2,135)	727	3,045	1,392	180	41

Others (Million)

	2014	2013	2012	2011	2010	2009
Market capitalisation	83,250	80,105	74,783	16,990	-	-
Numbers of shares issued	767	767	762	752	700	542

Quantitative Data ('000 Litres)

	2014	2013	2012	2011	2010	2009
Production Capacity						
Dairy & Beverages	730,000	657,000	601,481	446,258	446,503	375,945
Ice cream	39,000	39,000	35,527	35,527	19,032	10,290
Actual Production						
Dairy & Beverages	472,735	422,818	476,788	388,236	314,650	247,074
Ice cream	16,726	14,500	16,550	17,763	12,672	6,900

financial performance indicators 2009 to 2014

Ratio	2014	2013	2012	2011	2010	2009
Profitability Ratios						
Gross Profit ratio	18.8%	21.6%	25.7%	22.2%	21.0%	18.5%
Net Profit to Sales	2.1%	0.6%	6.5%	3.0%	0.8%	(3.0%)
EBITDA Margin to Sales	8.5%	7.7%	15.1%	11.3%	7.9%	2.5%
Operating leverage ratio	2.50	12.91	2.90	3.75	(17.76)	(0.91)
Return on Equity	7.7%	2.0%	25.9%	12.3%	3.4%	(12.9%)
Return on Capital employed	5.1%	1.2%	18.0%	7.9%	2.1%	(7.1%)
Liquidity Ratios						
Current ratio	1.3	1.7	2.1	1.8	1.5	1.3
Quick / Acid test ratio	0.7	0.9	1.2	0.9	0.5	0.6
Cash to Current Liabilities	0.0	0.1	0.1	0.1	0.1	0.1
Cash flow from Operations to Sales	0.0	0.1	0.1	-	-	-
Activity / Turnover Ratios						
No. of Days Inventory	35.4	40.4	37.5	37.1	35.9	36.7
No. of Days Receivables	1.1	1.5	1.1	0.8	0.7	0.4
No. of Days Payables	41.1	44.1	32.9	39.4	44.1	47.0
Operating cycle	(4.6)	(2.3)	5.6	(1.4)	(7.5)	(9.9)
Inventory turnover	10.3	9.0	9.7	9.8	10.2	9.9
Debtors turnover	344.9	250.4	340.1	429.6	547.1	881.9
Creditors turnover	8.9	8.3	11.1	9.3	8.3	7.8
Total Assets turnover ratio / Fixed Assets turnover ratio	1.7	1.6	1.8	1.8	1.7	1.6
Investment / Market Ratios						
Earnings per Share (EPS) and diluted EPS	1.2	0.3	3.4	1.2	0.3	(1.0)
Price Earnings ratio	93.6	373.0	28.6	18.5	-	-
Cash Dividend	-	-	-	-	-	-
Stock Dividend	-	-	-	-	-	-
Market value per share at the end of the year	108.5	104.4	98.1	22.6	-	-
Highest market value during the year	126.3	162.2	98.9	26.0	-	-
Lowest market value during the year	89.8	80.4	22.3	21.8	-	-
Breakup value per share	15.10	14.0	13.2	9.6	7.3	6.2
Capital Structure Ratios						
Long-term Debt to Equity	32.1%	39.9%	37.5%	43.7%	47.5%	49.7%

future outlook

The Company reviewed its strategy during the year and as a result of sharper focus, performance in fourth quarter 2014 improved significantly with the volume increase in Dairy and Beverages segment by 23% over 3rd Quarter 2014, achieving highest ever volumetric sale of Tarang and Olpers. Last quarter also witnessed highest ever production of milk per day at farm setting new benchmark for 2015.

Based on the 4th quarter performance we are confident that volume and sales growth journey of the company will continue in 2015. With constant stream of innovation and customer related improvements, the Company will continue to expand its market share in all categories by exploring untapped markets within the country and outside. Declining raw material and fuel prices are expected to result in margin expansion for the Company in 2015.

The Company continues to maintain a strong positive outlook on the country due to improved Macroeconomic indicators and declining international fuel prices. With a burgeoning population, increasing urbanization and rise of the middle class, the Company is optimistic of the potential that the country holds. Engro Foods will continue to live its purpose-inspired growth strategy and bring to the fore affordable and nutritious products that guarantee wholesome goodness to its consumers.



Ali Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

key shareholding and shares traded

Information of shareholding required under reporting framework is as follows:

1. Associated Companies, undertakings & related parties

Engro Corporation Limited 667,374,991

2. Directors, CEO & their spouses & minor children

Mr. Muhammad Aliuddin Ansari	1
Mr. Sarfaraz A. Rehman	-
Mr. Shahzada Dawood	1
Mr. Ruhail Mohammad	1
Mr. Muhammad Amin	1
Ms. Roshaneh Zafar	1
Ms. Sabrina Dawood	1
Mr. Zafar Ahmed Siddiqui	1
Mr. Abdul Samad Dawood	501
Mr. Mujahid Hamid	1

3. Executives

(Approximately)

168,400

4. Public Sector Companies & Corporations

-

5. Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modaraba and Pension Funds

34,191,259

6. Mutual Funds

BMA FUNDS LIMITED [PK1555-0]	75,000
CDC - TRUSTEE AKD AGGRESSIVE INCOME FUND - MT	38,800
CDC - TRUSTEE AKD INDEX TRACKER FUND	25,391
CDC - TRUSTEE AKD OPPORTUNITY FUND	260,800
CDC - TRUSTEE AL MEEZAN MUTUAL FUND	132,500
CDC - TRUSTEE ALFALAH GHP ALPHA FUND	59,000
CDC - TRUSTEE ASKARI HIGH YIELD SCHEME - MT	159,700
CDC - TRUSTEE FAYSAL INCOME & GROWTH FUND - MT	8,700
CDC - TRUSTEE FAYSAL SAVINGS GROWTH FUND - MT	15,300
CDC - TRUSTEE FIRST CAPITAL MUTUAL FUND	5,500
CDC - TRUSTEE HBL - STOCK FUND	1,000,000
CDC - TRUSTEE IGI INCOME FUND - MT	88,900
CDC - TRUSTEE IGI STOCK FUND	150,000
CDC - TRUSTEE KASB INCOME OPPORTUNITY FUND - MT	47,000
CDC - TRUSTEE MEEZAN BALANCED FUND	35,100
CDC - TRUSTEE MEEZAN ISLAMIC FUND	1,265,821
CDC - TRUSTEE MEEZAN TAHAFFUZ PENSION FUND - EQUITY SUB FUND	154,600
CDC - TRUSTEE NAFA INCOME OPPORTUNITY FUND - MT	99,700
CDC - TRUSTEE PAK STRATEGIC ALLOC. FUND	54,500
CDC - TRUSTEE PICIC INCOME FUND - MT	463,600
CDC-TRUSTEE NAFA SAVINGS PLUS FUND - MT	462,300
EVEREST CAPITAL FRONTIER MARKETS EQUITY FUND L.P. [1445-2]	2,503,500
FAMANDSFORENINGEN LAERERNES PENSION INVEST [1547-5]	110,000
LOMBARD ODIER FUNDS-ASIA CONSUMER [000911100008]	1,600,000
MATTHEWS EMERGING ASIA FUND [000910600034]	1,237,100
MC FSL - TRUSTEE JS KSE-30 INDEX FUND	4,694
Total	10,057,506

7. Shareholders holding five percent or more Voting Rights in the Listed Company:

Engro Corporation Limited

667,374,991

8. Details of purchase/sale of shares by Directors, Executives and their spouses/minor children during 2014:

S.NO.	NAME	DATE	PURCHASE	SALE	RATE / PER SHARE
01	Adnan Mahmood	18-Mar-14	5,000	-	115.7
02	Adnan Mahmood	19-Mar-14	2,500	-	115
03	Mujahid Hamid	27-Mar-14	-	10,000	118.63
04	Mujahid Hamid	1-Apr-14	-	32,500	121.09
05	Ajaz Rashid	5-May-14	500	-	110
06	Mudasir	6-Aug-14	-	15,000	102
07	Muhammad Tanveer	18-Nov-14	-	500	97.82

pattern of shareholding as at december 31, 2014

No. of Shareholders	Shareholdings		Total Shares Held	No. of Shareholders	Shareholdings		Total Shares Held
	From	To			From	To	
739	1	100	38,075	1	200,001	205,000	205,000
4,174	101	500	1,961,229	1	205,001	210,000	207,500
1,634	501	1,000	1,570,276	2	220,001	225,000	448,000
1,797	1,001	5,000	4,805,779	2	230,001	235,000	462,900
382	5,001	10,000	3,074,351	1	240,001	245,000	241,000
88	10,001	15,000	1,138,806	1	245,001	250,000	250,000
79	15,001	20,000	1,499,900	1	255,001	260,000	256,000
54	20,001	25,000	1,290,900	1	260,001	265,000	260,800
29	25,001	30,000	806,316	1	265,001	270,000	270,000
20	30,001	35,000	659,900	1	270,001	275,000	274,000
14	35,001	40,000	545,460	1	285,001	290,000	289,980
13	40,001	45,000	561,300	1	300,001	305,000	302,000
24	45,001	50,000	1,172,882	1	315,001	320,000	317,900
9	50,001	55,000	482,540	1	320,001	325,000	322,055
9	55,001	60,000	531,931	1	325,001	330,000	329,300
5	60,001	65,000	318,400	1	340,001	345,000	342,400
6	65,001	70,000	414,000	1	395,001	400,000	400,000
4	70,001	75,000	295,900	2	460,001	465,000	925,900
1	75,001	80,000	80,000	1	470,001	475,000	471,250
3	80,001	85,000	247,000	3	495,001	500,000	1,500,000
3	85,001	90,000	267,900	1	530,001	535,000	532,900
2	90,001	95,000	190,000	1	540,001	545,000	541,600
15	95,001	100,000	1,498,700	2	595,001	600,000	1,200,000
4	100,001	105,000	415,200	1	760,001	765,000	764,000
2	105,001	110,000	218,000	1	965,001	970,000	969,700
3	110,001	115,000	338,100	1	995,001	1,000,000	1,000,000
2	115,001	120,000	234,000	1	1,000,001	1,005,000	1,003,500
5	120,001	125,000	619,140	1	1,055,001	1,060,000	1,058,100
3	125,001	130,000	388,000	1	1,210,001	1,215,000	1,210,400
2	130,001	135,000	267,484	1	1,235,001	1,240,000	1,237,100
1	135,001	140,000	140,000	1	1,265,001	1,270,000	1,265,821
1	140,001	145,000	144,900	1	1,595,001	1,600,000	1,600,000
2	145,001	150,000	300,000	1	1,705,001	1,710,000	1,707,500
2	150,001	155,000	307,300	1	1,755,001	1,760,000	1,758,000
3	155,001	160,000	475,200	1	2,500,001	2,505,000	2,503,500
1	165,001	170,000	170,000	1	2,875,001	2,880,000	2,875,500
2	170,001	175,000	349,800	1	3,540,001	3,545,000	3,543,794
2	175,001	180,000	356,000	1	6,075,001	6,080,000	6,075,206
1	185,001	190,000	190,000	1	30,945,001	30,950,000	30,946,409
2	190,001	195,000	389,900	1	163,070,001	163,075,000	163,074,991
3	195,001	200,000	597,500	1	504,295,001	504,300,000	504,300,000
				9,192		TOTAL	766,596,075

category of shareholding as at december 31, 2014

S.No.	Shareholders Category	No. of Shareholder	No. of Shares	Percentage
01	Directors, Chief Executive Officer, their spouse and minor children.	10	509	0.00
02	Associated Companies, Undertakings and Related Parties	2	667,374,991	87.06
03	NIT & ICP	-	-	-
04	Banks Development Finance Institutions, Non-Banking Finance Institutions	18	33,819,859	4.41
05	Insurance Companies	4	323,400	0.04
06	Modarabas and Mutual Funds	23	4,579,906	0.60
07	Shareholders holding 10%	2	667,374,991	87.06
08	General Public (Individuals):			
	a. local	9,020	27,654,865	3.61
	b. Foreign	-	-	-
09	Others	115	32,842,545	4.28



Ali Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

shareholder information

Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on April 27, 2015 at Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of April 14, 2015 are encouraged to participate and vote.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the company at least 48 hours before the meeting time.

CDC Shareholders or their Proxies are requested to bring with them copies of their Computerized National Identity Card or passport alongwith the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

Ownership

On December 31, 2014 there were 9,192, shareholders on record of the Company's ordinary shares.

Election of Directors

Any person who seeks to contest the election of directors shall file with the Company at its Registered Office not later than fourteen days before the date of the said Meeting a notice of his/her intention to offer himself/herself for election as a director in terms of Section 178(3) of the Companies Ordinance, 1984 together with:

- (a) Consent to act as director in Form 28, duly completed, as required under Section 184(1) of the Companies Ordinance, 1984; and
- (b) A detailed personal profile along with office address for placement onto the Company's website in accordance with SRO No. 634(1)/2014 dated July 10, 2014 issued by the Securities and Exchange Commission of Pakistan (SECP).

Transmission of Annual Reports through E-Mail

The SECP has allowed the circulation of Annual Reports to the members of the Company through email. Therefore, all members of the Company who want to receive a soft copy of the Annual Report are requested to send their email addresses on the consent form to the Company's Share Registrar. The Company shall, however additionally also provide hard copies of the Annual Report to such members, on request, free of cost, within seven days of receipt of such request. The standard consent form for electronic transmission is available at the Company's website www.engrofoods.com.

Alternatively, members can fill up the Electronic transmission consent Form given in the Annexure Section at the end of this report.

Holding of General Meetings through Video Conference Facility

Members can also avail video conference facility in Lahore and Islamabad. If the Company receives consent at least 10 days prior to date of meeting, from members holding in aggregate 10% or more shareholding and residing at either Lahore and/or Islamabad to participate in the meeting through video conference, the company may arrange video conference facility in that city.

In this regard please fill up the Request for Video Conferencing Facility Form given in the Annexure Section at the end of this report and submit it to registered address of the Company 10 days before holding of the annual general meeting.

E-DIVIDEND MANDATE (OPTIONAL)

In pursuance of the directions given by the Securities and Exchange Commission of Pakistan vide Circular No. 18 of 2012 dated June 5, 2012, we hereby give you the opportunity to authorise the Company to directly credit in your bank account the cash dividend declared by the Company in the future.

Please note that this E-dividend mandate is optional and not compulsory, in case you do not wish your dividend to be directly credited into your bank account then the same shall be paid to you directly.

In case you wish that the cash dividend is directly credited to your bank account instead of issue of dividend warrants to you, then please provide the information mentioned on the Form placed on the

Company's website www.engrofoods.com and send the same to your brokers or the Central Depository Company Ltd. (in case the shares are held on the CDC) or to our Registrars, FAMCO Associates (Pvt) Ltd., at their address mentioned below (in case the shares are held in paper certificate form).

Quarterly Results

The Company issues quarterly financial statements. The planned dates for release of the quarterly results in 2015 are:

- 1st quarter : April 20, 2015
- 2nd quarter: July 31, 2015
- 3rd quarter: October 19, 2015

The Company holds quarterly briefings with Security Analysts to discuss the results and the business environment.

These sessions are planned to be held on:

- 1st quarter : April 21, 2015
- 2nd quarter: August 03, 2015
- 3rd quarter: October 20, 2015

All annual/quarterly reports and presentations from quarterly briefings are regularly posted at the Company's website: www.engro.com and www.engrofoods.com

The Company reserves the right to change any of the above dates.

Change of Address

All registered shareholders should send information on changes of address to:

M/s. FAMCO Associates (Private) Limited
8-F, Next to Hotel Faran Nursery, Block-6
P.E.C.H.S. Shahra-e-Faisal Karachi-74000



our brands

sealing future





brand portfolio

At Engro Foods, when we talk about our commitment to deliver the highest standards of quality, our focus goes well beyond how our brands will fare, to how they will impact consumer lives and enrich their health, happiness and well-being and that is precisely why we strive to create products combining good nutrition with great taste, value and quality.



Olper's Milk

The Milk of Choice for All Occasions

Our flagship dairy brand Olper's Milk is the country's leading All-Purpose standardized UHT processed milk brand. Olper's is sheer indulgence in every sip and is backed by its high nutrition content and strong credentials of being preservative and antibiotic free. Widely favored for its wholesome taste and full-cream richness, Olper's has steadily emerged as the leading dairy product in the market since its launch in 2006. Each of its 3 distinct SKUs has been developed with utmost care given to convenience and value; the 250 ml Ecolean mini-jug is designed with a perforated tip and an air handle making it Easy to Tear and Easy to Pour; the 1000 ml Edge pack has a slanted top to maximize the ease of pouring; the 1500 ml value pack is the only pack giving consumers added economy. Today, Olper's Milk, Pakistan's No. 1 UHT Milk brand, dominates dining tables across the country, combining nutrition, value and taste to deliver a consistently unforgettable consumer experience to households across the nation.



Olper's Lite

Look Great, Feel Greater

The ideal low-fat, hi-calcium milk for consumers who want to stay healthy, active and fit for life, Olper's Lite contains all the inherent nutrients of milk that can boost energy, without contributing any of the extra calories that cause weight gain. Rich in iron and calcium content, and fortified with vitamins, Olper's Lite has been specially formulated to provide nutritional benefits to the growing number of health conscious consumers in Pakistan. Launched in 2011 and available in a modern 1000 ml Edge pack, today Olper's Lite is the low-fat milk with all the necessary ingredients to help consumers reach their prime whilst keeping it light on the calories and guilt free!



Olper's Cream

The Cream of all Creams

The cream of all creams, Olper's Cream is a rich, creamy delight that has initiated a new trend not just amongst baking enthusiasts and dessert makers, but also within conventional households, where it is generously splurged over every day food items as the primary ingredient to enhance the culinary experience by transforming it into a scrumptious creamy sensation. Steadily garnering consumer loyalty and a growing market share since its launch in 2006, Olper's Cream ranks among the country's leading brands in the UHT cream category as it continues to make meal-times, as well as breakfast and afternoon tea rituals a rich, creamy celebration day after day.



Olper's Tarrka

Indulge in the goodness of life

Since 2007, Olper's Tarrka has been adding luxurious extravagance to many dishes. Olper's Tarrka is a premium desi ghee known for its distinct taste and utmost richness. A leading asli desi ghee brand made from 100% dairy fat, Tarrka is the true taste of indulgence. Cook your favorite cuisines in the richness of Tarrka to ensure that every meal time becomes an opportunity to treat your taste buds.



Dairy Omung

Rise up to a better life

Launched as an alternate to loose milk in response to the rising inflation in Pakistan, Dairy Omung is Engro Foods' economical, all-purpose UHT offering. Sourced 100% from dairy, Omung provides consumers with a hygienic, wholesome alternate to loose milk. With Dairy Omung, consumers can now enjoy the safety of a UHT product that affords them value for money without compromising on purity and hygiene.



Tarang

Tarang in your tea-cup makes for sheer bliss...

Pakistan's leading tea-whitening brand, Tarang is a specialized tea creamer that makes the perfect cup of tea guaranteed to transport tea-lovers into a state of sheer bliss any time of the day. The only tea-creamer that combines convenience with lasting quality and real value for money, Tarang is available in liquid format that extends the brand's appeal to a wider audience. With its distinctively fresh aroma, rich taste and strong focus on enhancing the tea-drinking experience for everyone, Tarang has evolved into our biggest and most profitable brand since its launch in 2007, after securing a firm place in the hearts of millions of tea-enthusiasts all across Pakistan.



Omung Dobala

The strength of a good morning

Launched in 2010, Omung Dobala is an affordable alternate to dairy-based cream. It is high in nutrition yet priced low enough to be within the reach of most. Every dollop of Omung Dobala is filled with more than a fair share of sustenance to keep your energy levels up throughout the day. Omung Dobala not only has a great demand in our north, it also has an appeal across the border: It is used in Afghanistan as a staple diet, providing the people with the strength to go through a strenuous life with vigor and vitality.



Olper's Lassi

The goodness of milk & yoghurt in one satisfying gulp

Olper's Lassi is a refreshing liquid snack that combines the goodness of milk & yoghurt. This traditional beverage, in its vibrant & contemporary Tetra Edge Packaging, is available in four flavours, Sweet, Salty, Strawberry & Mango. Not only does it boast the authentic taste & texture of Lassi, but through the helicap, Olper's Lassi gives consumers the liberty to enjoy the dairy drink in its true essence by gulping it down instead of struggling with a straw. The Olper's Lassi 250 ML Pack is the perfect partner to beat the heat-Olper's Lassi: Desi Gulp Trendy Ghoot!



Omorè

Ice-cream and frozen desserts

Launched in 2009, Omorè's delectable range of frozen desserts is a treat for everyone. With its great taste and wide variety of innovative flavours and formats including sticks, cones, bricks, tubs and cups, Omorè is a mouth-watering delight that provides the Pakistani consumer with a unique sensorial experience. Available in more than 50 SKUs that cater to kids, youth and families on all occasions, Omorè is the brand that spreads happiness to thousands of Pakistanis every day.

olper's milk

Olper's Milk has steadily emerged as the leading dairy product in the market, since its launch in 2006, after gaining preference over other established brands and securing a loyal consumer base all across the country.

For the Goodness of Milk

Our flagship dairy brand, Olper's Milk is a premium, pure and nutritious milk, with full cream richness. It has become the leading all-purpose standardized UHT processed milk brand because consumers can trust that the sheer indulgence of every sip will always be invigoratingly fresh. Ultra-heat treated to carefully preserve its high nutrition content, Olper's has become a name

Pakistanis rely on. Olper's Milk has steadily emerged as the leading dairy product in the market, since its launch in 2006, after gaining preference over other established brands and securing a loyal consumer base all across the country. Available in 3 SKUs of 250 ml, 1000 ml and 1500 ml value packs, the convenient packaging options of Olper's Milk complement the lifestyle of today's home maker, making it the ultimate choice for the modern family. Olper's delivers an unforgettable experience to consumers because it combines nutrition, value and great taste in every sip.

Olper's Mini Jug

In August 2014, Olper's launched a campaign for one of its most innovative offerings to the market— the Olper's Mini Jug! What puts the Mini Jug in a class apart from its rivals is the exquisitely designed, ultra modern packaging that turns the humble portion pack into a jug with all the benefits of Easy-to-Tear, Easy-to-Pour and Microwaveable features. Targeting the progressive homemaker, the TV ad campaign featured crisp, split screen visuals highlighting the pack's unique benefits leaving the audience in no doubt about why the Mini Jug is a notch above the rest. The Out of Home (OOH) marketing campaign targeting key cities successfully presented this innovation across the nation, further cementing Olper's position as the Number 1 All Purpose Milk in Pakistan!

Olper's Lite

Look Great, Feel Greater
Since 2011, Olper's Milk has met the needs of the health conscious consumer with Olper's Lite, a low-fat, hi-calcium milk in a convenient 1000 ml edge pack. With the same great taste but containing less than 1% fat, Olper's Lite has all the inherent nutritional value of milk without the extra calories. Delicious tasting and full of goodness, Olper's Lite is rich in iron and calcium content and has been specially formulated to provide all the nutritional benefits of milk. Olper's Lite is a popular low-fat milk in the market because of its winning combination that is high on health and taste and low on calories and fat thus making it the ultimate guilt free delicious sip of goodness!



Olper's Ramadan Campaign

Annually, Olper's Ramadan ad is the crown jewel of Engro Foods' advertisement campaigns. The Ramadan campaigns have historically been the most spectacular, having a tremendous uplifting impact on the nation. Olper's Ramadan 2014 TVC drove home the message of peace and empowerment urging each of us to make a change for the future generations to come. By asking the simple question, "Mein, tum, hum sub, Amn ke nighban kyun nahin?" the campaign sought to urge us to stop waiting for some miracle to bring peace and instead awaken to the realization that if we ourselves and those around us all come together then we can be the force that changes the destiny of our nation. To do justice to the high expectations of this campaign a spectacular event was held at the offices of Engro Foods on 25th June 2014. Transformed into a bohemian fantasy, the reception area was decorated with open cages, bird baths, a wooden Olper's grill, and an origami dove chandelier artistically lit by red spotlights.

Dove buntings in the air, beautiful jharokas and mirrors adorned the rest of the 5th floor all highlighting the imagery of the dove of peace. A life-sized pledge wall stood tall in the Marketing and Sales department, inviting employees to pin their pledges for the month of Ramadan. Our EFL family came to work dressed in white kurta shalwar wearing iconic dove pins and everyone gathered at Eat Inn to witness the unveiling of the advertisement.

After a few words from the CEO, Brand Manager and General Manager Marketing, the commercial was finally revealed and met with resounding applause. To bring the festivities to a fitting end, employees painted their messages for a better tomorrow on wooden doves whilst enjoying our Limited Edition offering for Ramadan – Olper's RoohAfza!



tarang

Product Description

Tarang is a tea-whitener that gives tea the perfect color, aroma and taste in every cup of tea. It is available in liquid format with different SKUs that appeal to everyone's needs and pockets.

Tarang Liquid was launched in 2007 and has grown to become the No. 1 brand in the packaged dairy UHT category. Tarang was launched as a tea-whitening brand with an aim to achieve excellence in terms of quality, affordability and brand experience. It enjoys the highest recall among all other brands in its category.

The Reinvigorated Tarang

2014 has been an enormously busy year for Tarang. The brand went through its first packaging revamp in 2014, with the colourful oil paint strokes being replaced by a minimalistic design with intricately designed motifs at the bottom of the pack and a captivating combination of yellow, purple and 3D pneumonics encapsulating the rest of the pack. Consumer feedback on the pack has been overwhelmingly positive, who find the new packaging stands out among several tea whitening brands.

The year began with a thematic instalment of the brand as it entered into the insightful journey of getting up close and personal with its target audience with its Tarang Mila ke Dekho campaign. The campaign encouraged consumers to deal with their daily obstacles the Tarang way, which is to look at things from a different and a more positive perspective. This thematic primarily focuses on encouraging consumers to face daily obstacles such as power outages and other daily problems with a dash of Tarang positivity.

A Recruitment Drive

A recruitment campaign was launched to put a revamping spin on the key Tarang functional message which is built on the promise of "Chai ka Sahi Jor". To reinforce the standing of Tarang as the biggest brand in both STC and UHT categories, the message "Chai ka No.1 Jor" was introduced as the new functional dialogue for the brand. With a festive spirit, the campaign emphasized the fact that Tarang is "Chai ka number 1 Jor" focusing on the unifying tradition of Tarang as it contributes to the national zest for sharing tea. The campaign had prominent presence in the national media with ads on TV and Radio channels as well as creative out-of-home promotions such as Cinema branding and captivating Rickshaw branding aimed at reaching the core target audience that rushes around in the bustling city on public transportation.

The campaign encouraged consumers to deal with their daily obstacles the Tarang way, which is to look at things from a different and a more positive perspective.



dairy omung

Product Description

Launched in 2011 as a revolutionary alternate to the low quality raw milk prevalent in Pakistan, Dairy Omung provides purity and essential nutrition at affordable prices. Homemakers wanting to give their family the strength and optimism to achieve their dreams need no longer fear that they might be giving their children low quality or adulterated milk - a risk they are forced to take when buying milk through traditional channels. Now the whole family can enjoy this hygienic alternate which gives them true value for money. Conveying this message of hope, Omung delivers consistently on affordable dairy nutrition making lives better across Pakistan.

Celebrating Hope

Dairy Omung has always been about providing affordable nutrition and we now more than ever keenly feel the need for Omung's message of hope. Creating a market category and then retaining leadership as multiple competitor brands began to target consumers was only

possible because of the loyalty of customers who continue to trust and believe in Omung's message of hope.

Especially designed to meet the needs of those most acutely impacted by the ever increasing cost of living, Omung carries its message to the core of Pakistan bringing hope to those who are most affected by inflationary pressures. Consumers are aware of the essential need for milk as a core aspect of ensuring well-being but they have been misled far too long by neighbourhood milk vendors who sell milk that is anything but free from adulteration. Omung provides consumers with a health-giving, nutritious, safe and unadulterated alternative.

Omung now communicates through a new platform that takes into account the nation's culture and the emotional nuances associated with the consumption of milk in every household. Through this platform Omung helps consumers understand the value of pure and nutritious Dairy Omung while providing a powerful insight into the risks of consuming adulterated milk.

Omung's new advertisement showed a loving mother giving her child honeyed milk before sleeping; a sensible grandmother worrying over her injured grandson with turmeric milk; and a wise grandfather blessing milk with a solemn prayer for his studying granddaughter. It was a reminder of the value the purity of milk holds for us. By speaking of these age old traditions that depicted our elders and their pragmatism, wisdom and love, Omung highlighted all the goodness associated with milk.

Blissfully unaware of how their precious milk is being handled during its delivery to them, Pakistani consumers needed to be educated about milk safety. Omung did this by turning adulteration on its head. "Adulteration is good..." we told them, "so long as it's the right kind done within the home by loving family members". In this simple but effective way the risks of consuming the far-from-pure, adulterated milk delivered by these vendors was communicated to the unaware, innocent consumers.

By touching on the emotional chords associated with the love of our family, Omung's message of hope went deep to the heart ensuring that blameless consumers are no longer duped into risking their family's health. Through the year, with the help of every department, the intrepid team at Engro Foods built such consumer trust that the brand met its targets well ahead of plan and ended the year with brand health indicators stronger than ever before. Omung's journey for 2015 begins with a pledge to reach new heights and to inspire even more hope in Pakistan.

By touching on the emotional chords associated with the love of our family, Omung's message of hope went deep in to the heart ensuring that blameless consumers are no longer duped into risking their family's health.



omoré

Great taste and availability in over 50 SKUs enable Omoré to spread happiness to thousands of Pakistanis every day.

Omoré

Launched in 2009, Omoré offers a delectable range of frozen desserts with a wide variety of innovative flavors that are sheer indulgence and impossible to resist. Omoré's mouth-watering delights are a treat for everyone giving the Pakistani consumer a unique sensorial experience. Available in different price categories and formats including sticks, cones, bricks, tubs and cups, Omoré caters to kids, youth and families on all occasions. Great taste and availability in over 50 SKUs enable Omoré to spread happiness to thousands of Pakistanis every day.

Funties Cone

Omoré has always prided itself on launching innovative products each year and 2014 was no different. For the first time, Omoré launched Funties, an exciting and scrumptious cone specifically for kids! A vanilla cone topped with colorfully coated chocolate bunties, Funties was a very exciting proposition and as expected, it was a spectacular hit with children. What's more though is that even adults loved it so we can safely assume everyone enjoys "Har Bite Rangeen"!

Funties was also the first campaign launch of Omoré in 2014. Designed to highlight the fun of munching on colorful Funties, the campaign's very catchy jingle quickly became the anthem of the season for kids across Pakistan. The memorability of the ad drove both trial and sales performance to the extent that Funties surpassed all targets set for the year by miles, becoming a star performer in its category.

Ice On

Launched in 2014, Ice On with its dual layers of creamy dessert encased in tangy ice-lolly was a ground-breaking innovation in the frozen desserts category! In-keeping with the offering, Ice On's all-encompassing media campaign had to be as cutting-edge too. The vibrant and trendy "Meethi Thund, Ice Mein Bund" marketing campaign was not only the biggest of 2014 but was also truly one-of-a-kind. Ice On with its two flavor varieties, Strawberry Ice On Mango and Mango Ice On Vanilla proved to be extremely popular with consumers improving our brand health parameter scores and establishing Omoré as an innovator that has something original and exciting to offer every year.

Tutti Frutti & Bricks

Omoré introduced a new member to the bricks family pack segment in 2014 offering the all-time classic flavor: Tutti Frutti. The addition of Tutti Frutti to Omoré's brick family pack segment did wonders for the format, with sales for that flavor reaching almost twice the target set for the year! Three different TV ads introduced the new flavor and promoted Omoré bricks with the simple message: the sweetness of Omoré is an instant cure for a bad mood. The campaign was such a resounding success that the stellar sales figures of Tutti Frutti translated into the launch of the same flavor in half-brick and cup format as well, making it available to consumers across demographics. The sweetness of Tutti Frutti has certainly been an instant pick me up for Omoré and we are sure that it is a sign of an even sweeter future ahead!



olper's lassi

Brand Description

Lassi is a refreshing drink that combines the goodness of milk & yoghurt. Olper's Lassi entered the unpackaged category in 2014 with the vision to create acceptability for a packaged on-the-go solution. The 250 ml portion pack of Olper's Lassi provides a traditional beverage in the form of a contemporary and convenient on-the-go solution. The Olper's Lassi Tetra Packaging comes with a cap that enables the consumer to enjoy the lassi experience by gulping it down instead of struggling with a straw. Olper's Lassi is available in four delectable flavours (Sweet, Salty, Strawberry & Mango) that are an authentic version of one of the nation's favorite traditional beverage.

Hum Sab Main Chupa Hai Ek Desi

The Olper's Lassi Launch Campaign was targeted at young adults in Pakistan to help them embrace the desi within. Seeking to redefine what today's youth sees as 'cool', the campaign aimed to shatter the peer pressure that has suppressed the unique individuality of our culture and forced our youth, out of fear of being judged and stereotyped, to deny desi instincts in a lighthearted tone, Olper's Lassi has been reminding young adults of their desi traditions across TV, Radio, Retail & most importantly Social Media asking them to enjoy the mix of traditional and modern experiences. Consumers have enjoyed indulging in the 'Desi Gulp Trendy Ghoonth' offering of Olper's Lassi.

Olper's Lassi has been reminding young adults of their desi traditions across TV, Radio, Retail & most importantly Social Media asking them to enjoy the mix of traditional and modern experiences.




OLPER'S

LASSI

DESI GULP
TRENDY GHOONT



 / Olper's Lassi

 / Olper's Lassi

olper's cream

Brand Description

The cream of all creams, Olper's Cream is a rich, creamy delight that has initiated a new trend not just amongst baking enthusiasts and dessert makers, but also within conventional households, where it is generously splurged over every day food items as the primary ingredient to enhance the culinary experience by transforming it into a scrumptious creamy sensation. Steadily garnering consumer loyalty and a growing market share since its launch in 2006, Olper's Cream ranks among the country's leading brands in the UHT cream category as it continues to make meal-times, as well as breakfast and

afternoon tea rituals a rich, creamy celebration day after day.

Aman aur Mohabbat

With a campaign that encapsulated the essence of love and the message of peace, Olper's Cream has grown to become the second largest cream brand in the country. A differentiating strategy gave us the opportunity to reach to our target audience and speak to them in a relatable way where they felt empowered by the brand.

Cream consumption is an integral part of the diet of our target audience; Pukhtoos.

We recognized the Pukhtoon community to be one of peace, love and honour. We knew that while the modern Pukhtoon values tradition, he maintains a progressive and peaceful outlook on life. This gave birth to the campaign for Aman aur Muhabbat; with the help of a progressive Pukhtoon man, we symbolized one community's message of peace and sent it to the nation. By creating an emotional and powerful song, we sang of the sentiments of tradition and progressiveness of their community. We met our challenge to create an own-able platform praising and encapsulating the life and emotions of the Pukhtoon community.

Olper's Cream has grown to become the second largest cream brand in the country. A differentiating strategy gave us the opportunity to reach to our target audience and speak to them in a relatable way where they felt empowered by the brand.



olper's y frooter

Brand Description

In 2014, EFL launched Olper's Y Frooter to develop an understanding of the beverages category. Even though a high volume of on-the-go Juices & Fruit Drinks Category is consumed by children, the industry has kept itself away from developing products for children & communicating with children. Olper's Y Frooter is the first brand that has been developed for children and communicates directly with them. The purpose of the brand is to establish itself as a play partner for children & to encourage them to enjoy the process of growing up.

The brand was launched during the second half of the year and therefore was unable to leverage the full potential of the entire year. In a 200 ml SKU, Olper's Y Frooter is available in 3 flavours-Mango, Apple & Mix. The offering is packaged in a transparent Ecolean pouch-the ability to squeeze the pack & the use of the telescopic straw makes the experience of consuming the product enjoyable for children.

Y Ka Sip On Karo

The unconstrained ability to question is one of the most endearing yet underestimated characteristics of childhood. Children have the ability to add a new perspective to some of the most taken for granted situations. The Olper's Y Frooter TVC Campaign celebrated this characteristic by highlighting a series of popular questions that occur to young minds through a catchy jingle & vibrant animated cartoons. To join the excitement of the back to school season Olper's Y Frooter launched a 6 pack back to school pack. This pack gave mothers the chance to buy a week long supply of their child's favourite fruit drink player and contained exciting giveaways for their children.

Olper's Y Frooter is the first brand that has been developed for children and communicates directly with them. The purpose of the brand is to establish itself as a play partner for children & to encourage them to enjoy the process of growing up.



financial statements

sealing success



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review report to the members on statement of compliance with best practices of code of corporate governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Engro Foods Limited (the Company) for the year ended December 31, 2014 to comply with Regulation No. 35 of Chapter XI contained in the Listing Regulations of Karachi and Lahore Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code of Corporate Governance.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code of Corporate Governance requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors, for their review and approval, its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2014.



Chartered Accountants

Karachi

Date: February 26, 2015

Engagement Partner: Waqas A. Sheikh

statement of compliance with the code of corporate governance

This statement is being presented to comply with the Code of Corporate Governance (the CCG) contained in Regulation 35 of the Listing Regulations of the Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. As at December 31, 2014 the Board included the following members:

Category	Name
Independent Directors	Muhammed Amin
	Roshaneh Zafar
	Zafar Ahmed Siddiqui
	Mujahid Hamid
Executive Director / CEO	Sarfaraz A. Rehman
Non-Executive Directors	Abdul Samad Dawood
	Shahzada Dawood
	Sabrina Dawood
	Muhammad Aliuddin Ansari
	Ruhail Mohammed

The independent directors meet the criteria of independence under clause i (b) of the CCG. Of the non-executive directors, Mr. Aliuddin Ansari and Mr. Ruhail Mohammad are executives in other Engro Group companies.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident Directors of the Company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year.
5. The Company has prepared a "Code of Conduct" comprising of Ethics and Business Practices policies and has ensured that appropriate steps have been taken to disseminate it through the Company along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and the meeting fees payable to the non- executive directors, have been taken by the Board.
8. All meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings, except for meetings held on short notice to discuss urgent matters. The minutes of the meetings were appropriately recorded and circulated.
9. Two of the directors attended the directors training course conducted by the Pakistan Institute of Corporate Governance (PICG) this year. Three other directors have already completed this course earlier.

independent assurance report to the members on the statement of compliance with employees share option scheme

10. There has been no new appointment, at the CFO, Company Secretary and Head of Internal Audit positions, during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of four members, all of whom are non-executive directors and the Chairman of the Committee is an independent director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee i.e. the Board Compensation Committee. It comprises of four members, of whom two are independent directors and two are non-executive directors. The non-executive directors are also directors on other Engro Group companies. The Chairman of the Committee is a non-executive director.
18. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel that are involved in the internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the Company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through the stock exchanges.
23. We confirm that all other material principles enshrined in the CCG have been complied with.



Aliuddin Ansari
Chairman

Karachi
Date January 26, 2015



Sarfaraz A. Rehman
Chief Executive Officer



Chartered Accountants
Karachi
Date: February 26, 2015

Engagement Partner: Waqas A. Sheikh

Scope of Our Work

We have performed an independent assurance engagement of Engro Foods Limited (the Company) to express an opinion on the annexed Statement of Compliance (the Statement) with the requirements of Employees Share Option Scheme as approved by the shareholders in their Extra Ordinary General Meeting held on March 22, 2013 (the Scheme), and the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) as of December 31, 2014. Our engagement was carried out as required under Rule 14 of the Rules issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I) 2001 dated May 11, 2001.

Responsibility of Company's Management

The responsibility for the preparation of the Statement (the subject matter information) and for compliance with the requirements of the Scheme and the Rules is that of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control to ensure compliance with the requirements of the Scheme, as approved by the shareholders of the Company, and the Rules (Scheme and Rules together being the 'Criteria').

Responsibility of Independent Assurance Provider

Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standard on Assurance Engagements 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' (ISAE 3000). This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the annexed Statement reflects the status of Company's compliance with the Scheme and the Rules (the Criteria).

The procedures selected depend on our judgment, including an assessment of the risks of material non-compliance with the requirements of the Scheme and the Rules. In making those risk assessments; we have considered internal controls relevant to the Company's compliance with the Scheme and the Rules in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Company was not materially non-compliant with the Scheme and the Rules. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Our procedures applied to the selected data primarily comprised:

- Verifying that only permanent employees have participated in the Scheme in compliance with the Rules.
- Verifying that variation, if any, in the terms of the Scheme has been approved by passing a special resolution in the general meeting.
- Verifying that the share options granted, vested, lapsed, surrendered or exercised under the Scheme have been recorded in the books of accounts in accordance with the requirements of the Rules.
- Ensuring that adequate disclosures have been made in respect of the Scheme in the Annual Report as required under the Rules.

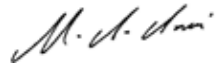
Conclusion

In our opinion, the annexed Statement, in all material respects, presents fairly the status of the Company's compliance with the Scheme and the Rules as of December 31, 2014

management statement of compliance

with employees share option scheme

The Engro Foods Limited as of December 31, 2014 has implemented its Employees Share Option Scheme as approved by the shareholders in their Extra Ordinary General Meeting held on March 22, 2013 (the Scheme), and has complied in all material respects with the requirements of the Scheme and the Public Companies (Employees Stock Option Scheme) Rules, 2001 issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I) 2001 dated May 11, 2001.



Aliuddin Ansari
Chairman

Karachi
Date: January 26, 2015



Sarfaraz A. Rehman
Chief Executive Officer



A. F. FERGUSON & CO.

auditors' report to the members

We have audited the annexed balance sheet of Engro Foods Limited as at December 31, 2014 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2014 and of the profit, total comprehensive income, changes in equity and its cash flows for the year then ended; and
- (d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



Chartered Accountants
Karachi
Date: February 26, 2015

Engagement Partner: Waqas A. Sheikh

balance sheet as at december 31, 2014

(Amounts in thousand)

Assets

Non-Current Assets

	Note	2014	2013
Property, plant and equipment	4	15,021,519	14,504,771
Biological assets	5	858,680	716,465
Intangible assets	6	112,208	122,838
Long term advances and deposits	7	109,174	93,132
Deferred employee share option compensation expense	8	112,581	168,865
Investment in subsidiary	9	-	427,288
		16,214,162	16,033,359

Current Assets

Stores, spares and loose tools	10	788,141	739,671
Stock-in-trade	11	3,697,787	3,083,583
Trade debts	12	95,962	153,573
Advances, deposits and prepayments	13	113,501	181,080
Other receivables	14	2,865,607	2,354,280
Deferred employee share option compensation expense	8	90,430	136,153
Taxes recoverable		1,637,018	636,588
Short term investments	15	-	170,000
Cash and bank balances	16	196,900	557,266
		9,485,346	8,012,194

Total Assets

25,699,508 24,045,553

(Amounts in thousand)

Equity & Liabilities

Equity

	Note	2014	2013
Share capital	17	7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve	8	399,740	407,133
Hedging reserve		(27,736)	(9,581)
Remeasurement of post employment benefits - Actuarial loss		(35,715)	(34,839)
Unappropriated profit		2,710,013	1,821,182
		11,577,617	10,715,210

Non-Current Liabilities

Long term finances	18	5,476,993	7,126,994
Deferred taxation	19	1,185,717	1,538,583
Deferred income	20	2,516	9,410
		6,665,226	8,674,987

Current Liabilities

Current portion of long term finances	18	1,605,597	1,032,008
Trade and other payables	21	3,222,661	3,369,182
Derivative financial instruments	22	41,397	14,517
Accrued interest / mark-up on			
- long term finances		194,025	229,312
- short term finances		61,092	10,337
Short term finances	23	2,331,893	-
		7,456,665	4,655,356

Contingencies and Commitments

Total Equity & Liabilities

25,699,508 24,045,553

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

profit and loss account for the year ended december 31, 2014

(Amounts in thousand except for earnings per share)

	Note	2014	2013
		------(Rupees)-----	
Net sales	25	43,027,377	37,890,688
Cost of sales	26	(34,926,132)	(29,747,587)
Gross profit		8,101,245	8,143,101
Distribution and marketing expenses	27	(4,692,502)	(5,063,279)
Administrative expenses	28	(1,282,240)	(1,041,254)
Other operating expenses	29	(103,770)	(188,729)
Other income	30	304,854	324,301
Operating profit		2,327,587	2,174,140
Other expenses	31	(596,328)	(881,456)
Finance costs	32	(1,236,904)	(784,904)
Profit before taxation		494,355	507,780
Taxation	33	394,476	(296,820)
Profit for the year		888,831	210,960
Earnings per share - basic and diluted	34	1.16	0.28

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

statement of comprehensive income for the year ended december 31, 2014

(Amounts in thousand)

	Note	2014	2013
		------(Rupees)-----	
Profit for the year		888,831	210,960
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Loss on hedges during the year		(61,407)	(17,736)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade		34,527	(22,568)
Income tax relating to hedging reserve		8,725	13,962
		(18,155)	(26,342)
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefits obligation - Actuarial loss	37.6	(1,307)	(18,008)
Income tax relating to Actuarial loss		431	6,123
		(876)	(11,885)
Other comprehensive loss for the year, net of tax		(19,031)	(38,227)
Total comprehensive income for the year		869,800	172,733

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

statement of changes in equity for the year ended december 31, 2014

(Amounts in thousand)	Note	Share capital	Advance against issue of share capital	Reserve			Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	Total
				Share premium	Employee share option compensation reserve	Hedging reserve			
------(Rupees)-----									
Balance as at January 1, 2013		7,615,776	1,234	810,280	-	16,761	1,610,222	(22,954)	10,031,319
Transactions with owners									
- Share capital issued		50,185	(1,234)	55,074	-	-	-	-	104,025
Employee share option scheme	8	-	-	-	407,133	-	-	-	407,133
Total comprehensive income for the year		-	-	-	-	(26,342)	210,960	(11,885)	172,733
Balance as at December 31, 2013 / January 1, 2014		7,665,961	-	865,354	407,133	(9,581)	1,821,182	(34,839)	10,715,210
Employee share option scheme	8	-	-	-	(7,393)	-	-	-	(7,393)
Total comprehensive income for the year		-	-	-	-	(18,155)	888,831	(876)	869,800
Balance as at December 31, 2014		7,665,961	-	865,354	399,740	(27,736)	2,710,013	(35,715)	11,577,617

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

statement of cash flows for the year ended december 31, 2014

(Amounts in thousand)

Note 2014 2013
------(Rupees)-----

Cash Flows from Operating Activities

Cash generated from operations	35	3,100,359	3,975,595
Finance costs paid		(1,221,436)	(854,093)
Taxes paid		(949,664)	(680,185)
Retirement benefits paid		(137,940)	(74,005)
Long term advances and deposits - net		(16,042)	(11,270)
Net cash generated from operating activities		775,277	2,356,042

Cash Flows from Investing Activities

Purchases of			
- property, plant and equipment		(2,489,355)	(5,245,823)
- intangible assets		(39,461)	(20,376)
- biological assets		(1,320)	(5,696)
Proceeds from disposal of			
- property, plant and equipment		80,124	230,662
- biological assets		63,376	57,788
Investment in Engro Foods Netherland B.V., a subsidiary company - net		(169,040)	(237,270)
Net cash utilized in investing activities		(2,555,676)	(5,220,715)

Cash Flows from Financing Activities

Proceeds from issue of share capital		-	105,259
Advance adjusted against issue of share capital		-	(1,234)
Proceeds from long term finances		-	2,377,634
Repayments of:			
- long term finances		(1,081,860)	(1,932,500)
- obligations under finance lease		-	(2,589)
Net cash (utilized in) / generated from financing activities		(1,081,860)	546,570
Net decrease in cash and cash equivalents		(2,862,259)	(2,318,103)
Cash and cash equivalents at beginning of the year		727,266	3,045,369
Cash and cash equivalents at end of the year	36	(2,134,993)	727,266

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

notes to the financial statements for the year ended december 31, 2014

(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 and Lahore 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.
- 1.3 The Company holds 100% of the shares in Engro Foods Netherlands B.V. (EF Netherlands), which in turn held 100% shareholding of Engro Foods Canada Limited (EFCL). During the year, the Company decided to exit from its halal foods business in North America. Accordingly, EF Netherlands entered into a Share Purchase Agreement (SPA) with a Canadian registered company for sale of its North American business. The sale transaction was completed on October 31, 2014. The Company, as a result of aforementioned sale of shareholding in EFCL by EF Netherlands, has limited presence in the international market through its investment in EF Netherlands, which has no operations of its own.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

- 2.1.1 These financial statements have been prepared under the historical cost convention, as modified by remeasurement of biological assets and certain financial assets and financial liabilities, including derivative instruments, at fair value, and certain staff retirement and other service benefits at present value.
- 2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.
- 2.1.3 The preparation of financial statements in conformity with the above requirements 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. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations effective in 2014

The following amendments and interpretations to published standards are mandatory for the financial year beginning January 1, 2014 and are relevant to the Company:

- IAS 32 (Amendment), 'Financial instruments: Presentation'. This amendment updates the application guidance in IAS-32 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet date. The amendment clarifies that right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The Company's current accounting treatment is in line with this amendment.
- IAS 36 (Amendment) 'Impairment of assets'. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment only affects the disclosures in the Company's financial statements.

(Amounts in thousand)

- IFRIC 21 'Levies'. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company's current accounting treatment is materially in line with this amendment.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2014 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2014 and have not been early adopted by the Company:

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2015). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of the standard, however, initial indicators are that it is unlikely that standard will have any significant impact on the Company's financial statements.
- IAS 19 (Amendment) 'Employee benefits' (effective for annual periods beginning on or after July 1, 2014). The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognize the benefit of those contributions over employee's working lives. It is unlikely that the standard will have any significant impact on the Company's financial statements.
- Amendments to following standards as a result of annual improvements to International Financial Reporting Standards issued by IASB:
 - IFRS 2 'Share based payments' (effective for annual periods beginning on or after July 1, 2014). This amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. It is unlikely that the standard will have any significant impact on the Company's financial statements.
 - IFRS 7 'Financial instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2016). Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective. It is unlikely that the standard will have any significant impact on the Company's financial statements.
 - IFRS 8 'Operating segments' (effective for annual periods beginning on or after July 1, 2014). This amendment requires disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will only affect the disclosures in the Company's financial statements.
 - IAS 19 'Employee benefits' (effective for annual periods beginning on or after July 1, 2016). The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented. It is unlikely that the standard will have any significant impact on the Company's financial statements.

(Amounts in thousand)

- IAS 24 'Related party disclosures' (effective for annual periods beginning on or after July 1, 2014). The standard has been amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required. It is unlikely that the standard will have any significant impact on the Company's financial statements.
- IAS 34 'Interim financial reporting' (effective for annual periods beginning on or after July 1, 2016). This amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. It is unlikely that the standard will have any significant impact on the Company's financial statements.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Company and therefore, have not been presented here.

2.2 Property, plant and equipment

2.2.1 Owned

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land and capital work-in-progress, which are stated at cost.

Depreciation is charged to income using the straight-line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life at rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is available for use and on disposals upto the preceding month of disposal.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the year in which these are incurred.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount and the resulting impairment loss is recognized in the profit and loss account. The recoverable amount is the higher of fair value, less expected selling expenses, and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in the profit and loss account, however, is restricted to the original cost of the asset.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

2.2.2 Leased

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments and the fair value of the assets acquired on lease. Outstanding obligations under the lease less finance costs allocated to future periods are shown as a liability. Depreciation on leased assets is recognized using the same basis as for owned assets.

Finance costs are allocated to the period of the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Operating lease / Ijarah arrangements in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases / Ijarah arrangements. Rentals due under operating lease / Ijarah arrangements are recognized in the profit and loss.

(Amounts in thousand)

2.3 Biological assets

Livestock are measured at their fair value less estimated point-of-sale costs. Fair value of livestock is determined by an independent valuer on the basis of best available estimates for livestock of similar attributes. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Gains or losses arising from changes in fair value less estimated point-of-sale costs of livestock are recognized in the profit and loss account.

Crops in the ground and at the point of harvest at balance sheet date are measured at cost being an approximation of fair value, as these are presently being used as internal consumption for cattle feed and have a very short biological transformation and consumption cycle.

2.4 Intangible assets - Computer software

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can also be measured reliably.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead cost.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount in the profit and loss account. Reversal of impairment losses are also recognized in the profit and loss account.

2.5 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurements are recognized in the profit and loss account.

2.6 Investments in subsidiaries

Investments in subsidiaries are initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of the investments are adjusted accordingly.

The gain or loss on disposal of an interest in subsidiary, represented by the difference between the sales proceeds and the carrying amount of investment, is recognized as an income or expense in the period of disposal.

2.7 Financial instruments

2.7.1 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(Amounts in thousand)

a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, in which case they are classified as non-current assets. The Company's loans and receivables comprise of 'trade debts', 'other receivables', 'loans, advances and deposits' and 'cash and cash equivalents' in the balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose off the investment within 12 months of the balance sheet date.

All financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are presented in the profit and loss account within 'other operating income/expenses' in the period in which they arise. Dividend income from 'financial assets at fair value through profit and loss' is recognized in the profit and loss account as part of 'other operating income' when the Company's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the profit and loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of 'other operating income'. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of 'other operating income' when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transaction, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity – specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the account. Impairment losses previously recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

In the case of loans and receivables, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred

(Amounts in thousand)

only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The impairment loss is recognized by reducing the carrying amount of the asset and the amount of loss is recognized in profit and loss account in case of financial assets carried at amortized cost. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of previously recognized impairment loss is also recognized in the profit and loss account.

2.7.2 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account.

2.7.3 Offsetting of financial assets and liabilities

A financial asset and a financial liability are off set and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.8 Stores, spares and loose tools

These are valued at weighted average cost except for items in transit, which are stated at invoice value plus other charges paid thereon till the balance sheet date. A provision is made for any excess book value over estimated realizable value of items identified as surplus to the Company's requirements. Adequate provision is also made for slow moving items.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are shown separately as major spare parts and stand by equipment.

2.9 Stock-in-trade

Stock in trade is valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw materials in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Cost of finished goods comprises purchase cost and other manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and estimated costs necessary to make the sale. Provision is made for slow moving stocks where considered necessary.

2.10 Trade debts and other receivables

Trade debts and other receivables are stated initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. 'Trade debts' and 'other receivables' considered irrecoverable are written off.

Exchange gains and losses arising on translation in respect of 'trade debts' and 'other receivables' in foreign currency are added to the carrying amount of the respective receivables.

2.11 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows include cash in hand and in transit, balances with banks on current, deposit and saving accounts, and short-term highly liquid investments subject to insignificant risk of changes in values, and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

(Amounts in thousand)

2.12 Share capital

Ordinary shares are classified as equity and are recorded at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options, are recognized in equity as a deduction, net of tax, from the proceeds.

2.13 Employees' share option scheme

The grant date fair value of equity settled share based payments to employees is initially recognized in the balance sheet as deferred employee compensation expense with a consequent credit to equity as employee share option compensation reserve. The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in the profit and loss account, such employee compensation expense is reversed in the profit and loss account equal to the amortized portion with a corresponding effect to employee share option compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit and loss is reversed with a corresponding reduction to employee share option compensation reserve in the balance sheet.

When the options are exercised, employee share option compensation reserve relating to these options is transferred to share capital and share premium. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium.

2.14 Retirement and other service benefits

2.14.1 Gratuity fund

The Company operates a defined benefit funded gratuity plan (the Fund) for all its permanent employees. The Fund provides for a graduated scale of benefits dependent on the length of service of an employee on terminal date, subject to the completion of minimum qualifying period of service. Gratuity is based on employees' last drawn salary.

Provisions are made to cover the obligations under the Fund on the basis of actuarial valuation carried out annually by an independent expert, using the 'Projected Unit Credit Method'.

The amount recognized in the balance sheet represents the present value of defined benefit obligations as reduced by the fair value of plan assets.

2.14.2 Provident fund

During the year, the Company discontinued its provident fund scheme and replaced it with the provident fund scheme operated and managed by Engro Corporation Limited - the Holding Company. Accordingly, the related assets and liabilities of the Company's fund were transferred to the Holding Company's defined contribution provident fund, based on their values as at September 30, 2014.

Equal monthly contribution at rate 10% of the basic salary are made both by the Company and the employees to the Holding Company's defined contribution fund.

2.14.3 Compensated absences

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the reporting period.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

(Amounts in thousand)

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for atleast twelve months after the balance sheet date.

2.16 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.17 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

2.18 Taxation

2.18.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.18.2 Deferred

Deferred income tax is accounted for using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset will be realized or the deferred income tax liability will be settled. Deferred tax is charged or credited in the profit and loss account.

2.19 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees, which is Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

2.20 Derivatives financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are to:

(Amounts in thousand)

- minimize foreign currency exposure's impact on the Company's financial performance; and
- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedge

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss account.

Amounts accumulated in equity are reclassified to the profit and loss account in the periods when the hedged item affects income i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. inventory or fixed assets) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is shown net of sales returns and discounts. Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, on the following basis:

- sales are recorded on despatch of goods to the customers; and
- return on deposits / bank balances is recognized on accrual basis.

2.22 Research and development costs

Research and development costs are charged to income as and when incurred, except for certain development costs which are recognized as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

2.23 Borrowing costs

Borrowing costs are recognized as an expense in the period in which these are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset, in which case, such costs are capitalized as part of the cost of that asset.

(Amounts in thousand)

Borrowing costs include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.24 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

2.25 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes the strategic decisions.

3. Critical Accounting Estimates And Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. However, such differences are estimated to be insignificant and hence will not affect the true and fair presentation of the financial statements. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a) Taxation

In making the estimates for current income taxes payable by the Company, the management considers the applicable laws and the decisions / judgments of appellate authorities on certain issues in the past. Accordingly, the recognition of deferred tax is also made, taking into account these judgments and the best estimates of future results of operations of the Company.

b) Property, plant and equipment and intangible assets

The Company reviews the appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation / amortization on annual basis. Further, if required based on any indication for impairment, an estimate of recoverable amount of assets is made for possible impairment.

c) Biological assets

The fair values of biological assets (Dairy livestock) is determined semi-annually by utilizing the services of an independent expert. These valuations are mainly based on market conditions and physical attributes of livestock existing at the end of each reporting period, which are subject to change at each period end due to market conditions.

d) Investment in subsidiary

Investment in subsidiary is tested for impairment whenever there is any objective evidence or indication that the investment in subsidiary may be impaired. The recoverable amount of the investment in subsidiary is determined based on value in use or where value in use is not determinable, on the fair value of the net assets of the subsidiary i.e. terminal value of the investment.

e) Stock-in-trade

The Company regularly reviews the net realizable value of stock-in-trade to assess any diminution in the carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditure to be incurred to make the sale.

f) Provision for staff retirement and other service benefits

The present value of the obligations is determined by an independent actuary using a number of assumptions and other factors. Any change in these assumptions and factors will impact the obligations recorded in the financial statements.

(Amounts in thousand)

g) Employees' share option scheme

Employee share option compensation reserve and deferred employee share option compensation expense have been determined using the fair values of the options granted and expected to be granted in the ensuing year, using the Black Scholes Pricing Model. The fair values of the options granted during the year have been determined with reference to the respective grant dates of the options; and fair values of options expected to be granted in the ensuing year has been determined with reference to the balance sheet date in accordance with the requirements of IFRS 2 'Share based payment' and will be reassessed on the actual grant date. The fair values and the underlying assumptions are disclosed in note 8. Any change in these assumptions may significantly impact the carrying values of the related asset and reserve in the balance sheet.

4. Property, Plant and Equipment

Operating assets (note 4.1)

Capital work-in-progress (note 4.5)

Major spare parts and stand by equipment (note 10)

2014 2013
------(Rupees)-----

	2014	2013
Operating assets (note 4.1)	14,290,892	11,045,375
Capital work-in-progress (note 4.5)	605,918	3,328,363
Major spare parts and stand by equipment (note 10)	124,709	131,033
	<u>15,021,519</u>	<u>14,504,771</u>

(Amounts in thousand)

4.1 Operating assets

	Freehold land	Buildings and civil works on freehold land	Plant, machinery and related equipment (note 4.2)		Computer equipment (note 4.2)	Office equipment / furniture & fittings	Vehicles (note 4.2)		Total
			Owned	Leased			Owned	Leased	
------(Rupees)-----									
As at January 1, 2013									
Cost	173,378	2,381,265	10,215,675	34,595	153,950	236,637	692,182	2,800	13,890,482
Accumulated depreciation/ impairment	-	(442,668)	(2,819,631)	(32,846)	(67,735)	(103,627)	(228,493)	(2,800)	(3,697,800)
Net book value	<u>173,378</u>	<u>1,938,597</u>	<u>7,396,044</u>	<u>1,749</u>	<u>86,215</u>	<u>133,010</u>	<u>463,689</u>	<u>-</u>	<u>10,192,682</u>
Year ended December 31, 2013									
Opening net book value	173,378	1,938,597	7,396,044	1,749	86,215	133,010	463,689	-	10,192,682
Additions, including transfers (note 4.5)	228,625	200,265	1,960,870	-	58,793	44,663	141,169	-	2,634,385
Disposals (note 4.4)	-	(2,765)	(152,490)	-	(1,144)	(1,106)	(128,938)	-	(286,443)
Cost	-	426	3,298	-	297	406	64,831	-	69,258
Accumulated depreciation	-	(2,339)	(149,192)	-	(847)	(700)	(64,107)	-	(217,185)
Depreciation (note 4.3)	-	(152,766)	(1,078,342)	(1,676)	(41,692)	(43,971)	(142,689)	-	(1,461,136)
Impairment	-	-	(97,949)	-	-	-	(5,422)	-	(103,371)
Closing net book value	<u>402,003</u>	<u>1,983,757</u>	<u>8,031,431</u>	<u>73</u>	<u>102,469</u>	<u>133,002</u>	<u>392,640</u>	<u>-</u>	<u>11,045,375</u>
As at December 31, 2013									
Cost	402,003	2,578,765	12,024,055	34,595	211,599	280,194	704,413	2,800	16,238,424
Accumulated depreciation	-	(595,008)	(3,894,675)	(34,522)	(109,130)	(147,192)	(306,351)	(2,800)	(5,089,678)
Accumulated impairment	-	-	(97,949)	-	-	-	(5,422)	-	(103,371)
Net book value	<u>402,003</u>	<u>1,983,757</u>	<u>8,031,431</u>	<u>73</u>	<u>102,469</u>	<u>133,002</u>	<u>392,640</u>	<u>-</u>	<u>11,045,375</u>
Year ended December 31, 2014									
Opening net book value	402,003	1,983,757	8,031,431	73	102,469	133,002	392,640	-	11,045,375
Additions, including transfers (note 4.5)	5,469	1,120,699	3,818,887	-	34,742	83,777	138,497	-	5,202,071
Disposals (note 4.4)	-	(8,676)	(41,190)	-	(10,933)	(10,851)	(138,647)	(1,365)	(211,662)
Cost	-	6,683	34,570	-	9,478	9,518	83,035	1,365	144,649
Accumulated depreciation	-	(1,993)	(6,620)	-	(1,455)	(1,333)	(55,612)	-	(67,013)
Depreciation (note 4.3)	-	(215,081)	(1,403,842)	(73)	(42,738)	(53,534)	(130,915)	-	(1,846,183)
Impairment	-	(7,001)	(36,294)	-	-	-	-	-	(43,295)
Write-off	-	-	(159,843)	-	(2,894)	(5,967)	(7,691)	-	(176,395)
Cost	-	-	75,753	-	-	-	5,422	-	81,175
Accumulated impairment	-	-	80,412	-	2,853	5,601	6,291	-	95,157
Accumulated depreciation	-	-	(3,678)	-	(41)	(366)	4,022	-	(63)
Closing net book value	<u>407,472</u>	<u>2,880,381</u>	<u>10,399,884</u>	<u>-</u>	<u>92,977</u>	<u>161,546</u>	<u>348,632</u>	<u>-</u>	<u>14,290,892</u>
As at December 31, 2014									
Cost	407,472	3,690,788	15,641,909	34,595	232,514	347,153	696,572	1,435	21,052,438
Accumulated depreciation	-	(803,406)	(5,183,535)	(34,595)	(139,537)	(185,607)	(347,940)	(1,435)	(6,696,055)
Accumulated impairment	-	(7,001)	(58,490)	-	-	-	-	-	(65,491)
Net book value	<u>407,472</u>	<u>2,880,381</u>	<u>10,399,884</u>	<u>-</u>	<u>92,977</u>	<u>161,546</u>	<u>348,632</u>	<u>-</u>	<u>14,290,892</u>
Annual rate of depreciation (%)	-	5 to 33.3	8.33 to 25	20	20	20	25	25	

(Amounts in thousand)

4.2 Includes following assets held by third parties:

Description	2014		2013		Reason
	Cost	Net Book Value	Cost	Net Book Value	
------(Rupees)-----					
Plant and machinery	230,600	123,043	181,187	92,351	Equipment mounted on transport contractors' vehicles
Plant and machinery	809,575	340,796	859,361	369,578	Freezers held with third party for ice cream sales
Computer equipment	31,526	4,647	31,158	13,993	Computer equipment managed by a third party for disaster recovery
Vehicles	113,859	52,476	107,281	42,129	Trikes held with third party for ice cream sales
	<u>1,185,560</u>	<u>520,962</u>	<u>1,178,987</u>	<u>518,051</u>	

4.3 The depreciation charge has been allocated as follows:

- Cost of sales (note 26)
- Distribution and marketing expenses (note 27)
- Administrative expenses (note 28)

	2014	2013
------(Rupees)-----		
	1,593,754	1,180,044
	199,378	209,847
	53,051	71,245
	<u>1,846,183</u>	<u>1,461,136</u>

(Amounts in thousand)

4.4 The details of operating assets disposed off during the year are as follows:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
Vehicles					
By Company policy to existing / separating executives					
	A. Rehman Paracha	1,474	(737)	737	759
	Abu Bakar Sheikh	1,698	(957)	741	932
	Adeel Asim Munif	1,474	(668)	806	909
	Adnan Mehmood	1,354	(804)	550	915
	Adnan Rafique	572	(416)	156	162
	Ahmed Abdul Jameel	1,268	(1,038)	230	317
	Aitzaz ul Hassan	2,383	(372)	2,011	2,038
	Akhter Hussain	632	(201)	431	488
	Ali Masood	574	(366)	208	210
	Ali Umer Usmani	1,482	(776)	706	967
	Babur Sultan	6,750	(5,063)	1,687	1,688
	Dr. Essam Hanif	586	(460)	126	167
	Dr. Muhammad Ashraf	1,466	(1,040)	426	483
	Dr. Sarfaraz Ahmed	1,586	(684)	902	1,147
	Fahad Zia Waseem	1,586	(922)	664	1,010
	Farooq Khokher	519	(415)	104	104
	Hareem Zehra	612	(298)	314	387
	Imran Ahmed	1,849	(1,445)	404	462
	Imran Anwer	8,000	(3,625)	4,375	4,745
	Irfan Memon	1,269	(977)	292	317
	Javaid Iqbal	534	(429)	105	107
	Kamran Shamsi	537	(483)	54	107
	Kashif Shahzad	537	(483)	54	107
	Khawaja Rizwan	1,300	(878)	422	422
	Khurram Javed Maqbool	1,895	(1,421)	474	474
	Maha Usman	1,648	(753)	895	895
	Malik Muhammad Ali	1,269	(981)	288	317
	Marium Masood	1,648	(891)	757	894
	Mazhar Hasnani	1,895	(1,452)	443	474
	Mohsin Ali	612	(275)	337	419
	Muhammad Aleem	545	(491)	54	109
	Muhammad Ali	1,849	(1,417)	432	462
	Muhammad Hassan	1,300	(975)	325	325
	Muhammad Zubair	1,482	(637)	845	1,150
	Nasr Minhallah	1,586	(922)	664	1,002
	Qasim Ali	554	(416)	138	202
	Quasar Pervez	1,495	(706)	789	789
	Ramzan Dogar	1,482	(776)	706	1,003
	Sadoro Naz Keerio	846	(676)	170	169
	Sajid Hussain	504	(454)	50	101
	Shahbaz Ahmed Khan	1,424	(601)	823	890
	Shahzad Iqbal	537	(483)	54	107
	Shakeel Bahir	1,586	(803)	783	855
	Sharjeel Hussain	1,465	(1,153)	312	513
	Balance carried forward	65,664	(39,820)	25,844	30,100

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
----- (Rupees) -----					
	Balance brought forward	65,664	(39,820)	25,844	30,100
	Soban Farooq	1,289	(990)	299	322
	Suneel Kumar	1,586	(773)	813	983
	Syed Abbas Naqvi	1,586	(953)	633	831
	Syed Ali Abbas	1,482	(609)	873	938
	Syed Ishraq Ali	504	(454)	50	101
	Syed Rizwan Bukhari	1,625	(641)	984	1,456
	Umar Sharif	1,289	(990)	299	322
	Waseem ud din	537	(483)	54	107
	Younus Alam	537	(483)	54	107
	Zaid Bin Zeeshan	2,015	(1,227)	788	788
	Zeeshan Qazi	1,482	(859)	623	800
	Zulfiqar Ahmed	1,343	(1,108)	235	608
	Fahad Manzoor	1,474	(538)	936	936
	Kamran Kashif	1,289	(963)	326	561
		<u>18,038</u>	<u>(11,071)</u>	<u>6,967</u>	<u>8,860</u>
		83,702	(50,891)	32,811	38,960
By Company policy to existing / separating executives having net book value of less than Rs. 50		19,188	(15,198)	3,990	2,442
To employees and others through auction					
	Zulfiqar Ahmed	10,593	(4,410)	6,183	6,236
	Imran Ahmed	628	(564)	64	122
	Khusro Ahmed Khan	1,055	(791)	264	369
	Farrukh Sheikh	8,000	(2,875)	5,125	3,219
	Riaz Hussain	846	(676)	170	382
	Salman Zafar	1,780	(1,487)	293	1,185
	Sh. Muhammad Waseemuddin	612	(551)	61	380
	Syed Ameer Ali	591	(321)	270	379
	Tariq Anwar	501	(300)	201	313
		<u>24,606</u>	<u>(11,975)</u>	<u>12,631</u>	<u>12,585</u>
Insurance claims					
	EFU General Insurance Limited	1,767	(690)	1,077	1,703
	Adamjee Insurance Company Limited	9,384	(4,281)	5,103	6,647
		<u>11,151</u>	<u>(4,971)</u>	<u>6,180</u>	<u>8,350</u>
	Balance carried forward	138,647	(83,035)	55,612	62,337

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds	
----- (Rupees) -----						
	Balance brought forward	138,647	(83,035)	55,612	62,337	
Leased vehicles						
	To employees and others through auction having net book value of Rs. 50	1,365	(1,365)	-	518	
Building and civil works						
	Sold to group company through negotiations	Sindh Engro Coal Mining Company	8,676	(6,683)	1,993	5,331
Plant, machinery and related equipment						
	Sold through auction	Auction mart	37,000	(32,619)	4,381	6,377
	Insurance claims	Adamjee insurance Co. Limited	3,845	(1,760)	2,085	2,093
		Pak Kuwait Takaful Company Limited	345	(191)	154	230
			<u>41,190</u>	<u>(34,570)</u>	<u>6,620</u>	<u>8,700</u>
Office equipment						
	Sold to Group Company through negotiations	Sindh Engro Coal Mining Company	1,162	(477)	685	715
	Insurance Claims	Adamjee Insurance Co. Limited	125	(77)	48	53
		Sold through Auction	9,564	(8,964)	600	1,088
			<u>10,851</u>	<u>(9,518)</u>	<u>1,333</u>	<u>1,856</u>
Computer equipment						
	Insurance claims	Adamjee Insurance Co. Limited	1,722	(607)	1,115	634
	Sold through auction	Auction mart	9,211	(8,871)	340	748
			<u>10,933</u>	<u>(9,478)</u>	<u>1,455</u>	<u>1,382</u>
December 31, 2014		<u>211,662</u>	<u>(144,649)</u>	<u>67,013</u>	<u>80,124</u>	
December 31, 2013		<u>286,443</u>	<u>(69,258)</u>	<u>217,185</u>	<u>230,662</u>	

(Amounts in thousand)

4.5 Capital work-in-progress

	Land (note 4.5.1)	Building on freehold land	Plant, machinery and equipment	IS and milk automation projects	Office equipment/ Furniture & Fitting/Computer equipment	Vehicles	Total
------(Rupees)-----							
Year ended December 31, 2013							
Balance as at January 1, 2013	11,832	6,929	619,508	62,327	22,564	42,237	765,397
Additions during the year	216,793	515,260	4,272,590	20,376	132,791	108,389	5,266,199
Transferred to							
- operating assets (note 4.1)	(228,625)	(200,265)	(1,960,870)	-	(103,456)	(141,169)	(2,634,385)
- intangible assets (note 6)	-	-	-	(68,848)	-	-	(68,848)
Balance as at December 31, 2013	<u>-</u>	<u>321,924</u>	<u>2,931,228</u>	<u>13,855</u>	<u>51,899</u>	<u>9,457</u>	<u>3,328,363</u>
Year ended December 31, 2014							
Balance as at January 1, 2014	-	321,924	2,931,228	13,855	51,899	9,457	3,328,363
Additions during the year	5,469	906,780	1,359,586	39,461	72,637	144,883	2,528,816
Transferred to							
- operating assets (note 4.1)	(5,469)	(1,120,699)	(3,818,887)	-	(118,519)	(138,497)	(5,202,071)
- intangible assets (note 6)	-	-	-	(49,190)	-	-	(49,190)
Balance as at December 31, 2014	<u>-</u>	<u>108,005</u>	<u>471,927</u>	<u>4,126</u>	<u>6,017</u>	<u>15,843</u>	<u>605,918</u>

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

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

In 2013, few land owners filed writ petitions against the Government's action at Lahore High Court (the Court). During the year, the writ petitions have been decided by the Court in favor of the Company. However, an intra-court appeal has been filed against the aforesaid decision by few landowners, which is in the process of hearing at the Court, however, the Court has rejected the appeal of landowners for grant of stay order.

5. Biological Assets

Dairy livestock (note 5.1)

- mature
- immature

Provision for culling (notes 5.2 and 29)

Crops - feed stock

	2014	2013
------(Rupees)-----		
- mature	484,685	411,059
- immature	382,752	309,130
	<u>867,437</u>	<u>720,189</u>
Provision for culling (notes 5.2 and 29)	(22,314)	(15,961)
	<u>845,123</u>	<u>704,228</u>
Crops - feed stock	13,557	12,237
	<u>858,680</u>	<u>716,465</u>

(Amounts in thousand)

5.1 Reconciliation of carrying amounts of livestock

Carrying amount at the beginning of the year
Add:
Changes in fair value due to biological transformation
- Gain due to new births [inclusive of cost of feeding immature herd of Rs. 156,445 (2013: Rs. 127,764)]
- Loss due to increase in age of livestock

Changes in fair value due to price changes
- Gain / (Loss) due to currency devaluation / appreciation
- Gain / (Loss) due to increase / (decrease) in international market prices

Total gain (note 30)
Less:
- Biological assets written-off (note 29)
- Decrease due to deaths / disposals
- Provision for culling (note 5.2)
Carrying amount at the end of the year, which approximates the fair value

	2014	2013
------(Rupees)-----		
Carrying amount at the beginning of the year	704,228	661,914
Add:		
Changes in fair value due to biological transformation		
- Gain due to new births [inclusive of cost of feeding immature herd of Rs. 156,445 (2013: Rs. 127,764)]	224,817	194,193
- Loss due to increase in age of livestock	(10,245)	(17,120)
	<u>214,572</u>	<u>177,073</u>
Changes in fair value due to price changes		
- Gain / (Loss) due to currency devaluation / appreciation	(37,403)	59,988
- Gain / (Loss) due to increase / (decrease) in international market prices	68,337	(51,290)
	<u>30,934</u>	<u>8,698</u>
Total gain (note 30)	245,506	185,771
Less:		
- Biological assets written-off (note 29)	-	(50,533)
- Decrease due to deaths / disposals	(82,297)	(76,963)
- Provision for culling (note 5.2)	(22,314)	(15,961)
	<u>845,123</u>	<u>704,228</u>

5.2 Represents provision in respect of low yielding animals and / or animals having poor health.

5.3 As at December 31, 2014, the Company held 2,206 (2013: 2,058) mature assets able to produce milk and 1,998 (2013: 1,729) immature assets that are being raised to produce milk in the future. During the year, the Company produced approximately 12,084,302 (2013: 9,079,147) gross litres of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 734,120 (2013: Rs. 496,095), determined at the time of milking.

5.4 As at December 31, 2014, the Company held 522 (2013: 586) immature male calves.

5.5 The valuation of dairy livestock as at December 31, 2014 has been carried out by an independent valuer. In this regard, the valuer examined the physical condition of the livestock, assessed the farm conditions and relied on the representations made by the Company as at December 31, 2014. Further, in the absence of an active market of the Company's dairy livestock in Pakistan, market and replacement values of similar live stock from active markets in USA, Germany, Argentina and Australia, have been used by the independent valuer as a basis of his valuation. Immature male calves have not been included in the fair valuation due to the insignificant value in use.

(Amounts in thousand)

6. Intangible Assets – Computer software

Net carrying value

Balance at beginning of the year

Add: Additions at cost (note 4.5)

Less: Amortization charge for the year (notes 6.1 and 28)

Less: Impairment

Balance at end of the year

Gross carrying value

Cost

Less:

- Accumulated amortization

- Accumulated impairment

Net book value

	2014	2013
	(Rupees)	
Balance at beginning of the year	122,838	104,569
Add: Additions at cost (note 4.5)	49,190	68,848
Less: Amortization charge for the year (notes 6.1 and 28)	(52,966)	(50,579)
Less: Impairment	(6,854)	-
Balance at end of the year	112,208	122,838
Gross carrying value		
Cost	334,250	285,060
Less:		
- Accumulated amortization	(215,188)	(162,222)
- Accumulated impairment	(6,854)	-
Net book value	112,208	122,838

6.1 The cost is being amortized over a period of 5 years.

7. Long-term Advances and Deposits - Unsecured, considered good

Advances to Executives (notes 7.1, 7.2 and 7.3)

Less: Recoverable within one year shown
under current assets (note 13)

Deposits

Advances to Executives (notes 7.1, 7.2 and 7.3)	64,371	57,694
Less: Recoverable within one year shown under current assets (note 13)	(26,584)	(21,283)
	37,787	36,411
Deposits	71,387	56,721
	109,174	93,132

7.1 Reconciliation of the carrying amount of advances to executives

Balance as at January 1

Add: Disbursements

Less:

- Repayments

- Amortization

Balance as at December 31

Balance as at January 1	57,694	36,924
Add: Disbursements	45,827	55,698
Less:		
- Repayments	(13,657)	(13,884)
- Amortization	(25,493)	(21,044)
Balance as at December 31	64,371	57,694

7.2 This includes interest free advances to executives for vehicles given in accordance with the terms of employment under the vehicle earn-out scheme. These advances are amortized over a period of 48 months, unless repaid as a result of change in employee classification level or leaving the Company. This also includes investment loan plan assistance repayable after 3 years in lump sum and long-term incentive given to certain employees which is amortized over a period of 3 years, unless repaid as a result of leaving the Company.

7.3 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 71,075 (2013: Rs. 57,694).

7.4 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults ever.

(Amounts in thousand)

8. Employees' Share Option Scheme

On March 22, 2013, the shareholders of the Company approved a new 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. The Scheme was approved by the SECP on May 27, 2013.

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. However, for the purpose of the options granted in 2013 (Option year), 50% of such option shall vest on April 1, 2015 while remaining 50% will vest on April 1, 2016. Further, those eligible employees who will join the company or will be promoted to cadre / grade eligible for options, till April 1, 2015 are also entitled to these options. These options do not carry dividends or voting rights and the maximum number of options to be issued to a single eligible employee is for 1.69 million ordinary shares. These options are exercisable within 3 years from the end of vesting period. The details of share options granted to date, which remained outstanding as at December 31, 2014 are as follows:

- number of options	4,400,000
- range of exercise price	Rs. 191.89 - Rs. 253.77
- weighted average remaining contractual life	4.25 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. 26.65 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 22.60 per option. The following weighted average assumptions were used in calculating the fair values of the options:

	Options granted in 2013	Options to be granted
- number of options	4,400,000	12,500,000
- share price	Rs. 133.58	Rs. 108.54
- exercise price	Rs. 191.89	Rs. 169.33
- expected volatility	32.54%	30.61%
- expected life	3 years	3.75 years
- annual risk free interest rate	9.42%	10.08%

No new options have been granted during the year. Consequent to resignation of two employees, 1.3 million share options granted in 2013, lapsed during the year. In accordance with terms of the Scheme, such options are now available for grant to new or existing employees of the Company.

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective / expected grant date. In addition, the Company as at December 31, 2014 estimates that during the ensuing year options for remaining 12.5 million shares will be granted, after taking approval of modification in the Scheme, regarding extension in option grant period, from the SECP.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 399,740 has been recognized, out of which Rs.196,729 has been amortized to date, including Rs. 94,614 being charge for the current year, in respect of related employees services received to the balance sheet date.

9. Investment in Subsidiary

Cost of investment

Less: Impairment thereon (note 9.1)

	2014	2013
	(Rupees)	
Cost of investment	1,269,328	1,100,288
Less: Impairment thereon (note 9.1)	(1,269,328)	(673,000)
	-	427,288

(Amounts in thousand)

9.1 Investment in subsidiary (EF Netherlands) was tested for impairment following the completion of transaction for sale of North American business by EF Netherlands, as explained in note 1.3. For the purpose of impairment testing the carrying amount of investment has been compared with the estimated recoverable amount, determined on the basis of fair value less cost to sell, as EF Netherlands does not have any other operations and there is no estimated cash flows. Accordingly, fair value less cost to sell of the subsidiary is estimated as Nil and the entire carrying amount of investment in subsidiary has been impaired as at December 31, 2014.

	2014	2013
	------(Rupees)-----	
10. Stores, Spares and Loose Tools		
Stores	136,697	133,153
Spares and loose tools, including in-transit Rs. 15,749 (2013: Rs. 17,923) (note 10.1)	776,153	737,551
Less: Major spare parts and stand by equipment - shown under Property, plant and equipment (note 4)	(124,709)	(131,033)
	<u>788,141</u>	<u>739,671</u>

10.1 These are net of provision against slow moving items amounting to Rs. 6,781 (2013: Rs. 3,154).

	2014	2013
	------(Rupees)-----	
11. Stock-in-trade		
Raw and packaging material (notes 11.1 and 11.3)	2,300,790	2,128,503
Work in process	529,977	390,133
Finished goods (notes 11.2 and 11.3)	867,020	564,947
	<u>3,697,787</u>	<u>3,083,583</u>

11.1 Includes Rs.7,000 (2013: Nil) in respect of raw material carried at net realizable value and Nil (2013: Rs. 3,326) in respect of stock held by third parties.

11.2 Includes Nil (2013: Rs. 17,172) in respect of finished goods carried at net realizable value and Rs. 17,353 (2013: Rs. 33,010) in respect of stock held by third parties.

11.3 These are net of provision against expired / obsolete stock amounting to Rs. 81,403 (2013: Rs. 132,552). Stock amounting to Rs. 66,270 (2013: Rs. 12,510) has been written off against the provision during the year.

	2014	2013
	------(Rupees)-----	
12. Trade Debts, Unsecured		
Considered good (notes 12.1 and 12.2)	95,962	153,573
Considered doubtful (note 12.3)	4,959	5,389
	<u>100,921</u>	<u>158,962</u>
Less: Provision for impairment (note 12.3)	(4,959)	(5,389)
	<u>95,962</u>	<u>153,573</u>

12.1 As at December 31, 2014, trade debts aggregating to Rs. 2,028 (2013: Rs. 2,916) were past due but not impaired. These relate to various customers and have either been confirmed / acknowledged by the customer or cleared subsequent to the year end. These debts are less than 6 months old.

(Amounts in thousand)

12.2 As at December 31, 2014, trade debts aggregating to Rs.93,934 (2013: Rs. 150,657) were neither past due nor impaired. The credit quality of these receivables can be assessed with reference to their historical performance with no defaults ever.

12.3 As at December 31, 2014, trade debts aggregating to Rs. 4,959 (2013: Rs. 5,389) were deemed to have been impaired and provided for. The movement in provision during the year is as follows:

	2014	2013
	------(Rupees)-----	
Balance as at January 1	5,389	5,835
Add: Provision reversed during the year (note 28)	(430)	(446)
Balance as at December 31	<u>4,959</u>	<u>5,389</u>

**13. Advances, Deposits and Prepayments
- Unsecured, considered good**

Advances to:
- Executives (notes 13.1 and 13.2)
- Other employees (note 13.3)

Add: Current portion of long term advances to executives (note 7)

Advances to suppliers (note 13.4)
Deposits
Prepayments

	2014	2013
	7,152	7,716
	22,703	28,304
	29,855	36,020
	26,584	21,283
	56,439	57,303
	14,235	79,625
	12,513	10,895
	30,314	33,257
	<u>113,501</u>	<u>181,080</u>

13.1 This represents interest free advances to executives for house rent, given in accordance with the Company's policy.

13.2 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 7,152 (2013: Rs. 9,907).

13.3 This represents advances for incurring expenses for the Company's business.

13.4 Includes advances to Engro Fertilizers Limited amounting to Rs. 364 (2013: Nil).

13.5 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults ever.

(Amounts in thousand)

14. Other Receivables

Receivable from related parties:

- Engro Fertilizers Limited
- Engro Foundation
- Engro Foods Canada Limited (note 14.1)
- Engro Eximp (Private) Limited
- Sindh Engro Coal Mining Company
- Engro Polymer and Chemicals Limited

Sales tax refundable (note 14.2)

Receivable from Tetra Pak Pakistan Limited (note 14.3)

Receivable from Ecolean AB (note 14.3)

Others

	2014	2013
	------(Rupees)-----	
- Engro Fertilizers Limited	-	17
- Engro Foundation	899	-
- Engro Foods Canada Limited (note 14.1)	-	3,829
- Engro Eximp (Private) Limited	176	-
- Sindh Engro Coal Mining Company	4,645	-
- Engro Polymer and Chemicals Limited	-	484
	5,720	4,330
Sales tax refundable (note 14.2)	2,811,878	1,835,054
Receivable from Tetra Pak Pakistan Limited (note 14.3)	3,171	440,960
Receivable from Ecolean AB (note 14.3)	44,838	66,396
Others	-	7,540
	2,865,607	2,354,280

14.1 Engro Foods Canada Limited was a related party of the Company till October 31, 2014.

14.2 Sales tax has been zero rated on the Company's supplies (output) and raw materials, components and assemblies imported or purchased locally by the Company for manufacturing in respect of its dairy operations. The movement of the refundable is as follows:

	2014	2013
	------(Rupees)-----	
Balance as at January 1	1,835,054	1,128,313
Add: Refunds claimed during the year	1,247,746	1,019,637
Less: Refunds received during the year	(270,922)	(312,896)
Balance as at December 31	2,811,878	1,835,054

14.3 Represents reimbursement of expenses and other receivable under cost sharing agreements.

14.4 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to their historical performance with no defaults ever.

15. Short Term Investments

Term deposit placed with a bank, carried at fair value through profit or loss, amounting to Rs. 170,000 matured during the year.

(Amounts in thousand)

16. Cash and Bank Balances

Cash:

- in hand
- in transit (note 16.1)

Cash at bank on:

- current accounts [including foreign currency account of Rs. 97,017 (2013: Rs. 148,910)]
- savings accounts [including foreign currency account of Rs. 97,567 (2013: Nil)]

	2014	2013
	------(Rupees)-----	
- in hand	-	16
- in transit (note 16.1)	850	122,037
- current accounts [including foreign currency account of Rs. 97,017 (2013: Rs. 148,910)]	98,483	296,671
- savings accounts [including foreign currency account of Rs. 97,567 (2013: Nil)]	97,567	138,542
	196,050	435,213
	196,900	557,266

16.1 Represents banking instruments received from distributors at regional offices in respect of advance against future sales but not yet deposited in the Company's bank account.

17. Share Capital

Authorized capital

850,000,000 (2013: 850,000,000) Ordinary shares of Rs. 10 each

Issued, subscribed and paid-up capital

766,596,075 (2013: 766,596,075) Ordinary shares of Rs. 10 each fully paid in cash (note 17.1)

	2014	2013
	------(Rupees)-----	
Authorized capital	8,500,000	8,500,000
Issued, subscribed and paid-up capital	7,665,961	7,665,961

17.1 As at December 31, 2014, Engro Corporation Limited (the Holding Company) holds 667,374,991 (2013: 667,374,991) Ordinary shares of Rs. 10 each.

(Amounts in thousand)

18. Long Term Finances, Secured (Non-participatory)

Long term finances utilized under mark-up arrangements:

	Installments			2014	2013
	Number	Commencing from	Interest Rate	------(Rupees)-----	
Long term finances					
Syndicated Finance I	4 half yearly	February 20, 2015	6 months KIBOR + 0.69%	1,500,000	1,500,000
Syndicated Finance II	5 half yearly	July 10, 2012	6 months KIBOR + 2.6%	-	480,000
Syndicated Finance III	6 half yearly	February 16, 2013	6 months KIBOR + 2.0%	333,333	666,667
Habib Bank Limited (HBL)	6 half yearly	September 3, 2011	6 months KIBOR + 2.25%	-	83,333
Habib Bank Limited					
- LTFF Facility					
(notes 18.1 and 18.3)	8 half yearly	February 27, 2014	SBP LTFF Rate + 2.5%	177,847	221,355
- Conventional term loan					
(note 18.2)	6 half yearly	November 2, 2014	6 months KIBOR + 2.0%	634,353	775,039
NIB Bank Limited (note 18.2)	6 half yearly	June 5, 2015	6 months KIBOR + 2.1%	1,488,780	1,484,956
The Bank of Punjab (note 18.2)	6 half yearly	April 3, 2015	6 months KIBOR + 1.15%	498,277	497,652
United Bank Limited	6 half yearly	May 12, 2016	6 months KIBOR + 1.25%	1,500,000	1,500,000
				6,132,590	7,209,002
Certificate					
Sukuk Certificates	4 half yearly	July 13, 2015	6 month KIBOR + 0.69%	950,000	950,000
				7,082,590	8,159,002
Less: Current portion shown under current liabilities				(1,605,597)	(1,032,008)
				5,476,993	7,126,994

18.1 The proceeds from these finances are carried net of unamortized portion of transaction costs amounting to Rs. 15,280 (2013: Rs. 20,728).

18.2 The above finances and Ijarah arrangements (note 23.5) are secured by registered floating charges / mortgages over the present and future fixed assets of the Company upto a maximum of Rs.10,604,167 (2013: Rs. 12,729,500).

18.3 LTFF facility from HBL is based on State Bank LTFF rate which ranged from 10.85% to 12.35% (2013:10.90%) per annum throughout the year. Rest of the finances are KIBOR based and ranged from 10.86% to 12.18% (2013: 9.80% to 14.64%) per annum.

18.4 In view of the substance of the transactions, the sale and repurchase of assets under long term finances have not been recorded as such in these financial statements.

(Amounts in thousand)

19. Deferred Taxation

Credit balances arising due to:

- Accelerated tax depreciation / amortization
- Gain on biological assets
- Long term finances
- Others

Debit balances arising due to:

- Provisions for stock-in-trade, store & spares and receivables
- Minimum turnover tax (notes 19.1 and 33.2.4)
- Derivative financial instruments, net to equity
- Share issuance cost, net to equity
- Unutilized tax losses
- Others

	2014	2013
	------(Rupees)-----	
Accelerated tax depreciation / amortization	1,818,037	1,624,574
Gain on biological assets	240,401	166,342
Long term finances	5,042	7,047
Others	13,431	13,838
	2,076,911	1,811,801
Provisions for stock-in-trade, store & spares and receivables	(30,737)	(47,972)
Minimum turnover tax (notes 19.1 and 33.2.4)	(811,049)	(206,627)
Derivative financial instruments, net to equity	(13,661)	(4,936)
Share issuance cost, net to equity	(13,106)	(12,733)
Unutilized tax losses	(19,105)	-
Others	(3,536)	(950)
	(891,194)	(273,218)
	1,185,717	1,538,583

19.1 As explained in note 33.1, the Company has availed tax credit for tax year 2013 amounting to Rs. 185,175, which has resulted in reduction in tax liability for tax year 2013 and resultantly increase in the unrecouped minimum turnover tax. Accordingly, deferred tax asset on such recoupable minimum turnover tax has been recognized in current year.

20. Deferred Income

Deferred income under Ijarah arrangement:

- Balance as at January, 1
- Less: Amortization for the year
- Balance as at December, 31

	2014	2013
	------(Rupees)-----	
Balance as at January, 1	9,410	17,390
Less: Amortization for the year	(6,894)	(7,980)
Balance as at December, 31	2,516	9,410

21. Trade and Other Payables

- Trade payables (note 21.1)
- Accrued liabilities (note 21.2)
- Advances from customers
- Retention money
- Security deposits
- Withholding tax payable
- Payable to provident fund
- Payable to gratuity fund (note 37)
- Workers' profits participation fund (note 21.3)
- Workers' welfare fund
- Others (note 21.1)

Trade payables (note 21.1)	1,495,915	1,968,715
Accrued liabilities (note 21.2)	994,375	786,093
Advances from customers	421,390	248,686
Retention money	46,338	38,388
Security deposits	750	800
Withholding tax payable	45,979	59,102
Payable to provident fund	19,975	19,506
Payable to gratuity fund (note 37)	-	58,310
Workers' profits participation fund (note 21.3)	26,539	27,933
Workers' welfare fund	144,171	134,284
Others (note 21.1)	27,229	27,365
	3,222,661	3,369,182

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
21.1 Includes amount due to following related parties:		
- Engro Corporation Limited, the Holding Company	6,677	-
- Engro Eximp (Private) Limited	-	6,920
- Engro Fertilizers Limited	-	578
- Engro Polymer and Chemicals Limited	706	330
	<u>7,383</u>	<u>7,828</u>

21.2 Includes Rs. 66,123 (2013: Rs. 15,415) on account of Gas Infrastructure Development Cess (GIDC).

	2014	2013
	------(Rupees)-----	
21.3 Workers' profits participation fund		
Balance as at January, 1	27,933	10,489
Add: Allocation for the year (note 29)	26,864	28,041
	<u>54,797</u>	<u>38,530</u>
Less: Amount paid to the Fund	(28,258)	(10,597)
Balance as at December, 31	<u>26,539</u>	<u>27,933</u>

22. Derivative Financial Instruments

The Company has entered into various foreign currency forward contracts with banks to manage its foreign currency exposure. These contracts have maturity dates approximately matching with the anticipated payment dates for commitments with respect to import of plant and machinery and stock-in-trade. The fair value of the outstanding forward contracts as at December 31, 2014 amounts to a liability of Rs. 41,397 (2013: liability of Rs. 14,517).

23. Short Term Finances - Secured

23.1 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. 6,000,000 (2013: Rs. 3,200,000). The unutilized balance against these facilities as at year end was Rs. 3,668,107 (2013: Rs. 3,200,000). The rates of mark-up on these finances are KIBOR based and range from 10.54% to 12.21% (2013: 10.01% to 12.01%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

23.2 The facilities for opening letters of credit and guarantees as at December 31, 2014 amounts to Rs. 5,515,000 (2013: Rs. 4,515,000), of which the amount remaining unutilized as at year end was Rs. 2,896,087 (2013: Rs. 2,558,450).

24. Contingencies and Commitments

24.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 56,199 (2013: Rs. 55,242) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (2013: Rs. 34,350) under the contract for supply of gas;

(Amounts in thousand)

- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (2013: 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 (2013: Rs. 172,000) have been received to-date;
 - Controller Military Accounts, Rawalpindi amounting to Rs. 5,953 (2013: Rs. 6,872), as collateral against supplies;
 - Collector of Customs, Model Customs Collectorate amounting to Nil (2013: Rs. 54,081) against payment of sales tax on import of plant and machinery;
 - Parco Pearl Gas Co. (Private) Limited amounting to Rs. 600 (2013: Nil) as collateral against supplies; and
 - Officer Commanding PAF Faisal Base amounting to Rs. 3,818 (2013: Nil) as collateral against supplies.
- 24.2 As at December 31, 2014 post-dated cheques amounting to Nil (2013: Rs. 44,003) 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.
- 24.3 Commitments in respect of capital expenditure contracted for but not incurred as at December 31, 2014 amounts to Rs. 271,727 (2013: Rs. 966,772).
- 24.4 Commitments in respect of purchase of certain commodities as at December 31, 2014 amounts to Rs. 1,955,039 (2013: Rs. 731,586).
- 24.5 Commitments for rentals payable under the Ijarah agreement as at December 31, 2014 amounts to Rs. 319,055 (2013: Rs. 235,634) as follows:

	2014	2013
	------(Rupees)-----	
Not later than one year	95,054	66,100
Later than one year and not later than five years	224,001	169,534
	<u>319,055</u>	<u>235,634</u>

25. Net Sales

Manufactured goods	44,319,610	38,811,696
Less:		
- Sales tax	(726,054)	(587,343)
- Discounts	(609,537)	(361,071)
	<u>42,984,019</u>	<u>37,863,282</u>
Raw milk	43,358	27,406
	<u>43,027,377</u>	<u>37,890,688</u>

25.1 Includes export sales amounting to Rs. 1,115,077 (2013: Rs. 901,345).

(Amounts in thousand)

26. Cost of Sales

	2014	2013
	(Rupees)	
Raw and packaging material consumed (note 26.1)	28,310,065	23,779,526
Salaries, wages, and staff welfare (note 26.2)	1,082,852	838,260
Fuel and power	1,717,099	1,640,374
Repair and maintenance	508,112	522,862
Freight inwards	723,485	580,678
Depreciation (note 4.3)	1,593,754	1,180,044
Impairment of operating assets (note 4.1)	28,115	28,915
Travelling	144,492	139,484
Communication and other office expenses	128,191	136,233
Insurance	125,717	110,681
Rent and utilities	461,932	314,346
Research and business development	16,040	11,546
Legal and professional	3,523	18,527
Purchased services	462,566	330,416
Provision against:		
- stock-in-trade	15,121	125,154
- slow moving spares (note 10.1)	3,627	1,887
Manufacturing cost	35,324,691	29,758,933
Add: Opening stock of work-in-process	390,133	276,851
Less: Closing stock of work-in-process	(529,977)	(390,133)
Cost of goods manufactured	35,184,847	29,645,651
Add: Opening stock of finished goods manufactured	564,947	622,609
Less: Closing stock of finished goods manufactured	(867,020)	(564,947)
	34,882,774	29,703,313
Add: Cost of Raw milk sold directly (note 26.1)	43,358	44,274
	34,926,132	29,747,587

26.1 Raw and packaging material consumed		
Opening stock of raw and packaging material	2,128,503	2,595,145
Add: Purchases	29,259,830	23,853,253
Less:		
- Fair value of milk produced from biological assets (note 5.3)	(734,120)	(496,095)
- Raw milk sold directly	(43,358)	(44,274)
- Closing stock of raw and packaging material	(2,300,790)	(2,128,503)
Raw and packaging material consumed	28,310,065	23,779,526

26.2 Includes Rs. 91,763 (2013: Rs. 79,015) in respect of staff retirement benefits referred to in notes 37 and 47.

(Amounts in thousand)

27. Distribution and Marketing Expenses

	2014	2013
	(Rupees)	
Salaries, wages, and staff welfare (note 27.1)	674,362	614,024
Advertising	2,256,743	2,655,433
Freight outward	1,149,151	1,113,104
Travelling	128,728	135,872
Communication and other office expenses	50,891	57,889
Depreciation (note 4.3)	199,378	209,847
Impairment of operating assets (note 4.1)	15,180	74,456
Fuel and power	5,447	7,996
Repairs and maintenance	61,052	61,875
Rent, rates and taxes	21,984	20,984
Insurance	12,899	11,357
Research and business development	53,646	20,464
Legal and professional	516	25,445
Ijarah rentals	57,597	54,267
Purchased services	4,928	266
	4,692,502	5,063,279

27.1 Includes Rs. 57,147 (2013: Rs. 57,879) in respect of staff retirement benefits referred to in notes 37 and 47.

28. Administrative Expenses

	2014	2013
	(Rupees)	
Salaries, wages and staff welfare (notes 28.1 and 28.2)	552,649	474,128
Training and development	69,845	19,437
Communication and other office expenses	132,480	153,087
Rent, rates and taxes	102,938	95,816
Travelling	35,002	58,700
Depreciation (note 4.3)	53,051	71,245
Amortization (note 6)	52,966	50,579
Impairment of intangible assets (note 6)	6,854	-
Fuel and power	12,229	9,924
Repairs and maintenance	15,748	12,178
Insurance	3,751	3,302
Research and business development	35,532	5,481
Legal and professional	146,190	47,643
Auditors' remuneration (note 28.3)	4,544	2,837
Software maintenance and license cost	23,202	19,000
Reversal of provision for impairment of trade debts (note 12.3)	(430)	(446)
Purchased services	35,689	18,343
	1,282,240	1,041,254

28.1 Includes Rs. 52,770 (2013: Rs. 40,197) in respect of staff retirement benefits referred to in notes 37 and 47.

28.2 Includes Rs. 94,614 (2013: Rs. 102,115) in respect of Employees' share option compensation expense.

(Amounts in thousand)

	2014	2013
	(Rupees)	
28.3 Auditors' remuneration		
Fee for:		
- audit of annual financial statements	945	880
- review of half yearly financial information	215	175
- tax advisory services	200	-
- review of compliance with the Code of Corporate Governance	50	50
- audit of retirement benefit funds	205	100
- special certifications and other assurance services	2,634	1,447
	4,249	2,652
Reimbursement of expenses	295	185
	4,544	2,837

29. Other Operating Expenses

Workers' profits participation fund (note 21.3)	26,864	28,041
Workers' welfare fund	9,887	22,943
Donations (note 29.1)	17,435	16,220
Loss on death / disposals of biological assets	18,921	19,175
Provision for culling of biological assets (note 5)	22,314	15,961
Biological assets written-off (note 5.1)	-	50,533
Employee separation benefits (note 38)	-	16,600
Exchange loss	8,226	-
Others	123	19,256
	103,770	188,729

29.1 Includes donation to Engro Foundation, a related party, amounting to Rs. 17,000 (2013: Rs. 15,500). The Directors including the Chief Executive and their spouses do not have any interest in the donee, except that two Directors - Mr. Aliuddin Ansari and Mr. Ruhail Muhammad are trustees on the Board of Trustees of Engro Foundation.

30. Other Income

	2014	2013
	(Rupees)	
From financial assets		
Interest on bank deposits / saving accounts	2,198	16,787
Gain realized on disposal of short term investments	11,538	67,185
	13,736	83,972
From other than financial assets		
Gain arising from changes in fair value of biological assets (note 5.1)	245,506	185,771
Gain on disposal of operating assets	13,111	13,477
Exchange gain	-	3,814
Scrap sales	24,392	28,719
Others	8,109	8,548
	291,118	240,329
	304,854	324,301

(Amounts in thousand)

	2014	2013
	(Rupees)	
31. Other Expenses		
Impairment of investment in subsidiary (note 9.1)	596,328	673,000
Sales tax on exempt supplies (note 31.1)	-	208,456
	596,328	881,456

31.1 In 2013, Ministry of Finance, Economic Affairs, Government of Pakistan (MoF) through SRO 501(I)/2013 dated June 12, 2013 exempted the supplies of Milk and Cream (Dairy products) from levy of sales tax effective from June 13, 2013. Sales tax on these supplies was previously charged at rate of zero per cent (Zero-rated). Consequent to the aforementioned SRO, input tax amounting to Rs. 208,456 could not be claimed / adjusted against the out put tax on these supplies. Subsequently, on Company's plea the MoF through SRO 670/2013 dated July 18, 2013 reinstated the status of Zero-rating of Dairy products. However, effective date of applicability of Zero-rating is not mentioned in SRO 670/2013, therefore, the "Zero-rating" or "exempt" status of the supplies from June 13, 2013 to July 17, 2013 was not clear. Due to significant uncertainty regarding its recoverability the amount was charged-off last year.

32. Finance Costs

	2014	2013
	(Rupees)	
Mark-up on		
- short-term finances	361,515	20,187
- long-term finances	843,585	733,392
	1,205,100	753,579
Bank charges	31,804	31,325
	1,236,904	784,904

33. Taxation

	2014	2013
Current		
- for the year	101,671	379,824
- for prior periods (note 33.1)	(337,181)	16,971
	(235,510)	396,795
Deferred	(158,966)	(99,975)
	(394,476)	296,820

33.1 During the year, tax credits for the years 2012 and 2013 amounting to Rs. 185,175 and Rs. 152,006 respectively, have been recognized under section 65B of the Income Tax Ordinance, 2001 (ITO 2001) i.e. 10% of the value of additions to plant and machinery qualifying for balancing, modernisation, replacement, extension and expansion. The Company has filed its income tax return for the year 2013 and revised its income tax return for the year 2012, claiming the aforementioned credit under section 65B.

33.2 Following is the position of the Company's open tax assessments:

33.2.1 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.

(Amounts in thousand)

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.

33.2.2 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.

33.2.3 In 2013, the Commissioner Inland Revenue raised a demand of Rs. 223,369 for tax year 2009 by disallowing the provision for advances, stock written-off, repair and maintenance, sales promotion and advertisement expenses etc. The Company has obtained stay order from the Sindh High Court against the audit proceedings and has also filed an appeal thereagainst before the Commissioner Appeals. The Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

33.2.4 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 minimum tax amounting to Rs. 295,990, made in prior years and has recognized deferred tax asset on recoupable minimum turnover tax during the current year amounting to Rs. 419,239.

33.2.5 During the year, 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.

(Amounts in thousand)

33.3 Relationship between tax expense and accounting profit

Profit before taxation

Tax at the applicable tax rate of 33% (2013: 34%)

Tax effect of:

- differential of reduction in tax rate
- lower tax rate on exports and gain on short-term investments
- inadmissible expenses
- impairment of investment in subsidiary
- prior year credits (note 33.1)
- current year tax credit under section 65B of ITO, 2001
- others

	2014	2013
	----- (Rupees) -----	
Profit before taxation	494,355	507,780
Tax at the applicable tax rate of 33% (2013: 34%)	163,137	172,645
Tax effect of:		
- differential of reduction in tax rate	(51,330)	(52,844)
- lower tax rate on exports and gain on short-term investments	(43,868)	(59,256)
- inadmissible expenses	5,753	245
- impairment of investment in subsidiary	196,788	228,820
- prior year credits (note 33.1)	(337,181)	-
- current year tax credit under section 65B of ITO, 2001	(329,859)	-
- others	2,084	7,210
	(557,613)	124,175
	(394,476)	296,820

34. 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 year

Weighted average number of ordinary shares in issue during the year

Add: Weighted average adjustment for assumed conversion of employees' share options

Weighted average number of shares for determination of diluted earnings per share

	2014	2013
	Number of shares in thousand	
Profit for the year	888,831	210,960
Weighted average number of ordinary shares in issue during the year	766,596	765,129
Add: Weighted average adjustment for assumed conversion of employees' share options	-	1,135
Weighted average number of shares for determination of diluted earnings per share	766,596	766,264

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
35. Cash Generated from Operations		
Profit before taxation	494,355	507,780
Adjustment for non-cash charges and other items:		
- Depreciation	1,846,183	1,461,136
- Impairment of operating assets	43,295	103,371
- Operating assets written off, net	63	-
- Impairment of intangible assets	6,854	-
- Amortization of intangible assets	52,966	50,579
- Amortization of deferred income	(6,894)	(7,980)
- Amortization of arrangement fees on long term finances	5,448	4,975
- Amortization of deferred employee share option compensation reserve	94,614	102,115
- Loss on death / disposal of biological assets	18,921	19,175
- Biological assets written-off	-	50,533
- Gain on disposal of operating assets	(13,111)	(13,477)
- Sales tax refundable written-off	-	208,456
- Gain arising from changes in fair value of biological assets	(245,506)	(185,771)
- Provision for culling of biological assets	22,314	15,961
- Provision for retirement and other service benefits	78,323	73,992
- Provision for stock-in-trade	15,121	125,154
- Provision for slow moving spares	3,627	1,887
- Reversal of provision for impairment of trade debts	(430)	(446)
- Impairment of investment in subsidiary	596,328	673,000
- Finance costs	1,236,904	784,904
Working capital changes (note 35.1)	(1,149,016)	251
	<u>3,100,359</u>	<u>3,975,595</u>
35.1 Working capital changes		
(Increase) / Decrease in current assets		
- Stores, spares and loose tools	(45,773)	(196,784)
- Stock-in-trade	(629,325)	285,868
- Trade debts	58,041	(4,053)
- Advances, deposits and prepayments	67,579	80,710
- Other receivables	(511,327)	(1,122,569)
	<u>(1,060,805)</u>	<u>(956,828)</u>
Increase in current liabilities		
- Trade and other payables - net	(88,211)	957,079
	<u>(1,149,016)</u>	<u>251</u>
36. Cash and Cash Equivalents		
Short term investments (note 15)	-	170,000
Cash and bank balances (note 16)	196,900	557,266
Short term finances (note 23)	(2,331,893)	-
	<u>(2,134,993)</u>	<u>727,266</u>

(Amounts in thousand)

37. Staff Retirement and Other Service Benefits

37.1 As stated in note 2.14.1, the Company operates an approved funded gratuity scheme (the Fund), for all its permanent employees subjected to minimum prescribed period of service. Actuarial valuation of the Fund is carried out every year and the latest actuarial valuation was carried out as at December 31, 2014.

37.2 Plan assets held in trust are governed by local regulations which mainly includes Trust Act, 1882, Companies Ordinance, 1984, Income Tax Rules, 2002 and Rules under the Trust deed of the Fund. Responsibility for governance of the plan, including investment decisions and contribution schedules, lies with the Board of Trustees. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Trust deed of the Fund.

37.3 The latest actuarial valuation of the Fund as at December 31, 2014 was carried out using the Projected Unit Credit Method. Details of the Fund as per the actuarial valuation are as follows:

	2014	2013
	------(Rupees)-----	
37.4 Balance sheet reconciliation		
Present value of defined benefit obligation (note 37.7)	(382,274)	(312,434)
Fair value of plan assets (note 37.8)	383,822	253,792
Surplus / (Deficit)	1,548	(58,642)
Receivable / Payable to group companies	(1,548)	332
Net liability at end of the year	<u>-</u>	<u>(58,310)</u>
37.5 Movement in net liability in the balance sheet		
Net liability at beginning of the year	(58,310)	(40,315)
Charge for the year (note 37.9)	(78,323)	(73,992)
Contribution made during the year to the Fund (note 37.8)	137,940	74,005
Remeasurements recognized in Other Comprehensive Income (OCI) (note 37.6)	(1,307)	(18,008)
Net liability at end of the year	<u>-</u>	<u>(58,310)</u>
37.6 Remeasurement recognized in Other comprehensive income		
Loss from changes in demographic assumptions	-	(11)
Gain / (Loss) from changes in financial assumptions	(991)	6,531
Experience gains / (losses)	3,228	(18,110)
Remeasurement of defined benefit obligation	2,237	(11,590)
	<u>33,336</u>	<u>23,104</u>
Actual return on plan assets	(36,880)	(26,019)
Expected return on plan assets	-	(3,503)
Adjustment - inter-group transfers	(3,544)	(6,418)
Remeasurement of fair value of plan assets	<u>(1,307)</u>	<u>(18,008)</u>

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
37.7 Movement in present value of defined benefit obligations/unfunded obligations		
Present value of defined benefit obligations at beginning of the year	312,434	241,468
Current service cost	71,193	67,763
Interest cost	44,010	32,248
Liability in respect of transfers - Inter Group	(1,514)	-
Liability in respect of transfers - Inter Fund	(848)	5,705
Benefits paid during the year	(40,764)	(46,340)
	<u>(2,237)</u>	<u>11,590</u>
Present value of defined benefit obligation at end of the year	<u>382,274</u>	<u>312,434</u>
37.7.1 Analysis of present value of defined benefit obligation		
Vested Benefits	376,769	306,529
Non-Vested benefits	5,505	5,905
	<u>382,274</u>	<u>312,434</u>
Accumulated benefit obligation	143,131	117,145
Amounts attributed to future salary increases	239,143	195,289
	<u>382,274</u>	<u>312,434</u>
37.8 Movement in fair value of plan assets		
Fair value of plan assets at beginning of the year	253,792	200,821
Expected return on plan assets	36,880	26,019
Contributions for the year	137,940	74,005
Assets in respect of transfers - Inter Group	366	-
Assets in respect of transfers - Inter Fund	(848)	5,705
Benefits paid during the year	(40,764)	(46,340)
Remeasurement (note 37.6)	(3,544)	(6,418)
Fair value of plan assets at end of the year	<u>383,822</u>	<u>253,792</u>
37.9 Cost charged to profit and loss account		
Current service cost	71,193	67,763
Net interest cost	7,130	6,229
Cost for the year	<u>78,323</u>	<u>73,992</u>
37.10 Charge for the year has been allocated as follows:		
Cost of sales	35,637	33,014
Distribution and marketing expenses	22,193	24,183
Administrative expenses	20,493	16,795
	<u>78,323</u>	<u>73,992</u>

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
37.11 Principal actuarial assumptions used are as follows:		
Financial assumptions		
- Discount rate - per annum compound	12.25%	13%
- Expected rate of increase in salaries - per annum		
• First year	10.00%	10%
• Long-term	11.25%	12%
- Expected rate of return on plan assets - per annum	12.25%	13%
Demographic assumptions		
- Expected mortality rate	SLIC (2001-05)	SLIC (2001-05)
- Withdrawal rates / Rate of employees turnover	Moderate	Moderate

37.12 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	------(Rupees)-----		
Discount rate	1%	342,284	430,080
Expected rate of increase in salaries - long term	1%	428,160	343,166

37.13 The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability recognized within the statement of financial position.

37.14 Plan assets comprise of following:

	2014				2013			
	Quoted	Un-Quoted	Total	(%)	Quoted	Un-Quoted	Total	(%)
	------(Rupees)-----				------(Rupees)-----			
Equity Instruments								
Quoted Shares	46,682	-	46,682	12%	6,808	-	6,808	3%
Mutual Funds	5,097	-	5,097	1%	3,933	-	3,933	1%
	<u>51,779</u>	<u>-</u>	<u>51,779</u>	<u>13%</u>	<u>10,741</u>	<u>-</u>	<u>10,741</u>	<u>4%</u>
Debt Instruments								
Government Bonds	-	205,104	205,104	53%	-	54,474	54,474	21%
Term Finance Certificates	6,657	-	6,657	2%	19,870	-	19,870	8%
Engro Rupiya Certificates	17,566	-	17,566	5%	27,065	-	27,065	11%
Regular Income Certificates	-	14,638	14,638	4%	-	33,164	33,164	13%
	24,223	219,742	243,965	64%	46,935	87,638	134,573	53%
Cash and Cash Equivalents	-	86,766	86,766	23%	-	104,018	104,018	41%
Others	-	1,312	1,312	-	-	4,460	4,460	2%
Total	<u>76,002</u>	<u>307,820</u>	<u>383,822</u>	<u>100%</u>	<u>57,676</u>	<u>196,116</u>	<u>253,792</u>	<u>100%</u>

(Amounts in thousand)

37.15 The expected return on plan assets has been determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected return on equity investments reflect the long-term real rates of return experienced in the market.

37.16 Expected contributions to the Fund for the year ending December 31, 2015 are Rs. 89,135.

37.17 The weighted average duration of the defined benefit obligation is 17.65 years.

37.18 Historical information of staff retirement benefits:

	2014	2013	2012	2011	2010	2009
	------(Rupees)-----					
Present value of obligations	(382,274)	(312,434)	(241,468)	(171,407)	(137,469)	(77,010)
Fair value of plan assets	383,822	253,792	200,821	129,997	82,509	58,688
Surplus / (Deficit)	1,548	(58,642)	(40,647)	(41,410)	(54,960)	(18,322)

38. Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged in the financial statements in respect of remuneration and benefits to the Chief Executive, directors and executives are as follows:

	2014			2013		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	------(Rupees)-----					
Managerial remuneration	35,219	-	1,061,058	32,297	-	866,655
Contribution for staff retirement benefits	-	-	151,051	1,655	-	123,679
Bonus paid	1,302	-	21,313	29,511	-	192,504
Fees	-	4,500	-	-	2,820	-
Others - separation benefits	-	-	-	16,600	-	-
Total	36,521	4,500	1,233,422	80,063	2,820	1,182,838
Number of persons, including those who worked part of the year	1	7	605	2	9	507

38.1 The Company also provides company owned and maintained vehicles for use of the Chief Executive and certain executives.

38.2 Premium charged in respect of non-executive directors indemnity insurance amounts to Rs. 759 (2013: Rs. 748).

(Amounts in thousand)

39. Financial Instruments by Category

39.1 Financial assets as per balance sheet

- At fair value through profit and loss
 - Short-term investments
- Loans and receivables at amortized cost
 - Long term deposits
 - Trade debts
 - Advances and deposits
 - Other receivables
 - Cash and bank balances

	2014	2013
	------(Rupees)-----	
Short-term investments	-	170,000
Long term deposits	71,387	56,721
Trade debts	95,962	153,573
Advances and deposits	19,665	18,611
Other receivables	53,729	519,226
Cash and bank balances	196,900	557,266
	437,643	1,305,397
	437,643	1,475,397

39.2 Financial liabilities as per balance sheet

- Financial liabilities measured at amortized cost
 - Long term finances
 - Trade and other payables
 - Accrued interest / mark-up
 - Short term finances

Long term finances	7,082,590	8,159,002
Trade and other payables	2,564,607	2,821,361
Accrued interest / mark-up	255,117	239,649
Short term finances	2,331,893	-
	12,234,207	11,220,012

39.3 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

40. Financial Risk Management Objectives and Policies

40.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Company's risk management program focuses on unpredictability of the financial markets for having cost effective funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to the shareholders. Risk management is carried out by the Company's finance department under the policies approved by the Company's Board of Directors.

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Company's exposure to currency risk is limited as all the foreign purchases are made against on sight letters of credit where the payment is made on the date of delivery with no credit period. The Company imports plant and machinery and certain raw materials which exposes it to currency risk, primarily with respect to liabilities denominated in US Dollars. The Company manages the currency risk relating to US Dollar and Euro through forward exchange contracts.

At December 31, 2014, if the Pakistan Rupee had weakened/strengthened by 5% against the US Dollar with all other variables held constant, the effect on post-tax profit for the year would have been immaterial.

(Amounts in thousand)

ii) Interest rate risk

Interest rate risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Company's interest rate risk arises primarily from long and short term borrowings. Borrowings at variable rates expose the Company to cash flow interest rate risk. As there are no borrowings at fixed rates, the Company is not exposed to fair value interest rate risk.

The Company analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into account various other financing options available. For borrowing at variable rates, the rates are determined in advance for stipulated periods with reference to KIBOR.

At December 31, 2014, if interest rates on the Company's borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been higher / lower by Rs. 58,138 (2013: Rs. 56,272) mainly as a result of higher / lower interest exposure on variable rate borrowings.

iii) Other price risk

Price risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to price risk as it carries no price sensitive financial instrument.

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

As at December 31, 2014, the Company has significant concentration of credit risk resulting from receivable from Tetra Pak Pakistan Limited, Ecolean AB and deposits with banks and financial institutions amounting to Rs. 244,909 (2013: Rs. 1,234,606). The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings as follows:

Banks	Rating Agency	2014	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Faysal Bank Limited	JCR-VIS	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
Bank of Punjab	PACRA	A1+	AA-
Habib Bank Limited	JCR-VIS	A1+	AAA
MCB Bank Limited	PACRA	A1+	AAA
Meezan Bank Limited	JCR-VIS	A1+	AA
National Bank of Pakistan	JCR-VIS	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Barclays Bank PLC Pakistan	Moody's	P1	A2
Askari Bank Limited	PACRA	A1+	AA
Al-Baraka Bank Pakistan Limited	JCR-VIS	A1	A
Standard Chartered Bank Pakistan Limited	PACRA	A1+	AAA
Soneri Bank Limited	PACRA	A1+	AA-
NIB Bank Limited	PACRA	A1+	AA-
Citi Bank N.A.	Moody's	P1	A2
Bank Al-Habib Limited	PACRA	A1+	AA+
Deutsche Bank AG	Moody's	P1	A3
Samba Bank Limited	JCR-VIS	A1	AA-
Industrial & Commercial Bank of China	Moody's	P1	A1
Summit Bank	JCR-VIS	A1	A

(Amounts in thousand)

The Company attempts to control credit risk arising on receivable from Tetra Pak Pakistan Limited and Ecolean AB, through legally binding agreements that are signed between the two parties. The Company is not materially exposed to credit risk on trade debts as the Company has the policy of receiving the sales value prior to or at the time of supply of the products and credit is only granted to few reputed customers with good credit standings, with whom the Company has written terms of arrangement.

c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities. The Company's liquidity management involves projecting cash flows and consider the level of liquid funds necessary to meet these, monitoring balance sheet liquidity ratios against external regulatory requirements and maintaining debt financing plans. These objectives are achieved by maintaining sufficient cash and readily marketable securities and availability of funding through committed credit facilities. Due to dynamic nature of the business, the Company maintains flexibility in funding by maintaining committed credit lines available.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2014			2013		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	------(Rupees)-----					
Long term finances	1,605,597	5,476,993	7,082,590	1,032,008	7,126,994	8,159,002
Trade and other payables	2,564,607	-	2,564,607	2,821,361	-	2,821,361
Accrued interest / mark-up	255,117	-	255,117	239,649	-	239,649
Short term finances	2,331,893	-	2,331,893	-	-	-
	<u>6,757,214</u>	<u>5,476,993</u>	<u>12,234,207</u>	<u>4,093,018</u>	<u>7,126,994</u>	<u>11,220,012</u>

41. Capital Risk Management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital.

The Company manages its capital structure and makes adjustment to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt. The Company also manages capital by maintaining gearing and current ratios at certain levels. The Company's strategy is to maintain the gearing and current ratio in accordance with the Prudential Regulations issued by the State Bank of Pakistan and in accordance with agreements with financial institutions.

The Company manages capital by maintaining gearing ratio at certain level. The ratio is calculated as long term finances (note 18) divided by total capital. Total capital is calculated as 'equity' in the balance sheet plus long term finances. The gearing ratio as at December 31 is as follows:

	2014	2013
	------(Rupees)-----	
Long term finances	5,476,993	7,126,994
Total equity	11,577,617	10,715,210
Total capital	<u>17,054,610</u>	<u>17,842,204</u>
Debt to Equity ratio	<u>0.32</u>	<u>0.40</u>

(Amounts in thousand)

42. Transactions with Related Parties

42.1 Transactions with related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

		2014	2013	
		------(Rupees)-----		
Nature of relationship	Nature of transactions			
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	248,813	211,961	
	Advance against purchase of shares of Engro Foods Netherlands B. V. - Net	-	237,270	
	Pension fund contribution	1,226	1,229	
	Provident fund contribution	82,870	25,027	
	Gratuity fund contribution	802	1,479	
	Reimbursement of net cost incurred for meat pilot project	50,607	-	
	Subsidiary and associated companies	Investment in subsidiary	253,716	-
		Refund of advance against issue of shares	84,676	-
		Arrangement for sharing of premises, utilities, personnel and assets	50,428	99,171
		Purchases of goods	106,883	125,466
Purchases of services		32,386	8,306	
Donations		17,000	15,500	
Subsidy received		-	17,829	
Contribution to staff retirement funds	Provident fund	155,935	178,819	
	Gratuity fund	137,348	68,407	
Key management personnel	Managerial remuneration	136,108	113,033	
	Contribution for staff retirement benefits	10,694	13,085	
	Bonus payments	7,071	103,934	
	Other benefits	759	748	

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

42.3 The related party status of outstanding receivables and payables as at December 31, 2014 are included in respective notes to the financial statements.

(Amounts in thousand)

43. Segment Information

43.1 A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. Management has determined the operating segments based on the information that is presented to the Board of Directors of the Company for allocation of resources and assessment of performance. Based on internal management reporting structure and products produced and sold, the Company is organized into the following four operating segments:

- Dairy & Beverages
- Ice cream;
- Dairy farm; and
- Business development and Others.

Management monitors the operating results of the abovementioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in table below, is measured differently from profit and loss in the financial statements. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

The following information presents operating results information regarding operating segments for the year ended December 31, 2014 and asset information regarding operating segments as at December 31, 2014:

	2014					2013						
	Dairy & Beverages	Ice cream	Dairy farm	Business Development	Others	Total	Dairy & Beverages	Ice cream	Dairy farm	Business Development	Others	Total
Results for the year												
Net sales	40,129,978	2,935,634	734,120	85,436	-	43,885,168	35,383,618	2,642,933	496,095	9,144	-	38,531,790
Inter-segment sales	(154,405)	(60)	(734,120)	(12,564)	-	(901,149)	(172,413)	-	(496,095)	-	-	(668,508)
	39,975,573	2,935,574	-	72,872	-	42,984,019	35,211,205	2,642,933	-	9,144	-	37,863,282
Raw milk sales	43,358	-	-	-	-	43,358	27,406	-	-	-	-	27,406
Depreciation, impairment and amortization	40,018,931	2,935,574	-	72,872	-	43,027,377	35,238,611	2,642,933	-	9,144	-	37,890,688
Finance costs	1,494,140	343,667	68,769	42,723	-	1,949,299	1,129,370	418,105	62,770	4,840	-	1,615,085
	716,275	337,627	167,932	15,070	-	1,236,904	339,882	309,343	135,589	90	-	784,904
Net profit / (loss) after tax	1,710,175	(292,515)	(31,388)	(238,294)	(259,147)	888,831	1,572,634	(320,196)	(136,524)	(127,465)	(777,489)	210,960
Assets												
- Segment assets	18,829,236	2,453,786	1,932,461	130,508	-	23,345,991	16,913,103	2,610,091	1,706,295	58,859	-	21,288,348
- Un-allocated assets	-	-	1,932,461	130,508	-	2,353,517	-	-	-	-	-	2,757,205
	18,829,236	2,453,786	1,932,461	130,508	-	25,699,508	16,913,103	2,610,091	1,706,295	58,859	-	24,045,553

(Amounts in thousand)

44. Seasonality

The Company's 'Ice cream' 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.

45. Production Capacity

	Designed Annual Capacity (note 45.1)		Actual Production		Remarks
	2014	2013	2014	2013	
	----- (Litres in thousand) -----				
Dairy and Beverages	730,000	657,000	472,735	422,818	Production planned as per market demand
Ice cream	39,000	39,000	16,726	14,500	

45.1 Represents capacity as at balance sheet date.

46. Number of Employees

	Number of employees as at		Average number of employees	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Management employees	1,415	1,366	1,414	1,283
Non-management employees	197	199	200	200
	<u>1,612</u>	<u>1,565</u>	<u>1,614</u>	<u>1,483</u>

47. Provident Fund

The following information is based upon the audited financial statements of provident fund as at June 30, 2013 and June 30, 2014:

	June 30, 2014	June 30, 2013
	----- (Rupees) -----	
Size of the fund - Total assets	504,987	392,079
Fair value of investments	419,329	357,204
Percentage of investments made	83%	91%

The break-up of fair value of investments is as follows:

	June 30, 2014		June 30, 2013	
	Rupees	%	Rupees	%
Government securities	293,762	70%	277,102	78%
Listed securities	125,567	30%	80,102	22%
	<u>419,329</u>		<u>357,204</u>	

47.1 Investments out of provident have been made in accordance with provision of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

(Amounts in thousand)

47.2 An amount of Rs. 123,354 (2013: Rs. 103,099) has been charged during the year in respect of contribution to the provident fund.

47.3 As stated in note 2.14.2, during the year, the Company discontinued its provident fund and replaced it with defined contribution provident fund maintained by Engro Corporation Limited - the Holding Company. Accordingly, fund's assets and the liabilities / obligations were remeasured as at September 30, 2014 and were substantially transferred to the defined contribution fund maintained by the Holding Company.

2014 2013
----- (Rupees) -----

48. Supplementary Information

48.1 Details of expenses allocated to export business are as follows:

Salaries, wages and staff welfare	13,925	10,997
Freight outward	49,968	39,694
Rent and utilities	332	430
Communication and other office expenses	2,482	623
Travelling	2,423	580
Legal charges	1,435	8,316
Bank charges	4,312	3,642
	74,877	64,282

48.2 Represents all expenses directly attributable to exports and incremental expenses incurred due to exports.

49. Corresponding Figures

For better presentation, following reclassifications have been made in these financial statements:

Description	Rupees	Head of account in financial statements for the year ended December 31, 2013	Head of account in financial statements for the year ended December 31, 2014
Profit and loss account			
Research and business development	5,481	Other operating expenses	Administrative expenses
"	20,464	"	Distribution and marketing expenses
"	11,546	"	Cost of sales
Legal and professional	47,643	"	Administrative expenses
"	25,445	"	Distribution and marketing expenses
"	18,527	"	Cost of sales
Auditor's remuneration	2,837	"	Administrative expenses
Software maintenance and license cost	19,000	"	"

The effects of other rearrangements and reclassifications are not material.

(Amounts in thousand)

50. Date of Authorization for Issue

These financial statements were authorized for issue on January 26, 2015 by the Board of Directors of the Company.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer



auditors' report to the members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Foods Limited (the Holding Company) and its subsidiary company Engro Foods Netherlands B.V. as at December 31, 2014 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company and the subsidiary company.

These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Engro Foods Limited (the Holding Company) and its subsidiary company as at December 31, 2014 and the results of their operations, changes in equity and cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'Waqas A. Sheikh'.

Chartered Accountants
Karachi
Date: February 26, 2015

Engagement Partner: Waqas A. Sheikh

consolidated balance sheet as at december 31, 2014

(Amounts in thousand)

Assets

Non-Current Assets

	Note	2014	2013
Property, plant and equipment	4	15,021,519	14,509,608
Biological assets	5	858,680	716,465
Intangible assets	6	112,208	603,719
Long term advances and deposits	7	109,174	93,132
Deferred employee share option compensation expense	8	112,581	168,865
		<u>16,214,162</u>	<u>16,091,789</u>

Current Assets

Stores, spares and loose tools	9	788,141	739,671
Stock-in-trade	10	3,697,787	3,199,390
Trade debts	11	95,962	245,767
Advances, deposits and prepayments	12	113,501	186,754
Other receivables	13	2,865,607	2,359,162
Deferred employee share option compensation expense	8	90,430	136,153
Taxes recoverable		1,637,018	636,588
Short term investments	14	-	170,000
Cash and bank balances	15	197,106	575,036
		<u>9,485,552</u>	<u>8,248,521</u>

Total Assets

25,699,714 24,340,310

(Amounts in thousand)

Equity & Liabilities

Equity

	Note	2014	2013
Share capital	16	7,665,961	7,665,961
Share premium		865,354	865,354
Employee share option compensation reserve	8	399,740	407,133
Hedging reserve		(27,736)	(9,581)
Remeasurement of post employment benefits - Actuarial loss		(35,715)	(34,839)
Other reserve		(628,780)	(628,780)
Exchange revaluation reserve		(9,507)	14,727
Unappropriated profit		3,348,470	2,480,594
		<u>11,577,787</u>	<u>10,760,569</u>

Non-Current Liabilities

Long term finances	17	5,476,993	7,126,994
Deferred taxation	18	1,185,717	1,538,583
Deferred income	19	2,516	9,410
		<u>6,665,226</u>	<u>8,674,987</u>

Current Liabilities

Current portion of long term finances	17	1,605,597	1,032,008
Trade and other payables	20	3,222,697	3,405,175
Derivative financial instruments	21	41,397	14,517
Accrued interest / mark-up on			
- long term finances		194,025	229,312
- short term finances		61,092	10,337
Short term finances	22	2,331,893	213,405
		<u>7,456,701</u>	<u>4,904,754</u>

Contingencies and Commitments

Total Equity & Liabilities

25,699,714 24,340,310

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

consolidated profit and loss account for the year ended december 31, 2014

(Amounts in thousand except for earnings per share)

	Note	2014	2013
		------(Rupees)-----	
Net sales	24	43,422,187	37,929,238
Cost of sales	25	(35,306,950)	(29,782,081)
Gross profit		8,115,237	8,147,157
Distribution and marketing expenses	26	(4,744,092)	(5,066,178)
Administrative expenses	27	(1,389,722)	(1,051,133)
Other operating expenses	28	(112,608)	(188,729)
Other income	29	304,854	326,911
Operating profit		2,173,669	2,168,028
Other expenses	30	(453,381)	(208,456)
Finance costs	31	(1,246,888)	(785,467)
Profit before taxation		473,400	1,174,105
Taxation	32	394,476	(303,733)
Profit for the year		867,876	870,372
Profit / (Loss) attributable to:			
- Continued operations	33	1,512,185	883,874
- Discontinued operations	33	(644,309)	(13,502)
		867,876	870,372
Earnings per share - basic and diluted:	34		
- Continued operations		1.97	1.16
- Discontinued operations		(0.84)	(0.02)
		1.13	1.14

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

consolidated statement of comprehensive income for the year ended december 31, 2014

(Amounts in thousand)

	Note	2014	2013
		------(Rupees)-----	
Profit for the year		867,876	870,372
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Loss on hedges during the year		(61,407)	(17,736)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - capital work-in-progress / stock-in-trade		34,527	(22,568)
Income tax relating to hedging reserve		8,725	13,962
		(18,155)	(26,342)
Exchange differences on translation of foreign operations		(24,234)	1,442
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefits obligation - Actuarial loss	37.6	(1,307)	(18,008)
Income tax relating to Actuarial loss		431	6,123
		(876)	(11,885)
Other comprehensive loss for the year, net of tax		(43,265)	(36,785)
Total comprehensive income for the year		824,611	833,587
Total comprehensive income attributable to equity shareholders arises from:			
- Continued operations		1,493,154	845,647
- Discontinued operations		(668,543)	(12,060)
		824,611	833,587

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

consolidated statement of changes in equity for the year ended december 31, 2014

(Amounts in thousand)	Note	Share capital	Advance against issue of share capital	Reserve						Exchange revaluation reserve	Total
				Share premium	Capital Employee share option compensation reserve	Hedging reserve	Revenue Unappropriated profit	Remeasurement of post employment benefits - Actuarial loss	Other reserve		
------(Rupees)-----											
Balance as at January 1, 2013		7,615,776	1,234	810,280	-	16,761	1,610,222	(22,954)	-	-	10,031,319
Transactions with owners - Share capital issued		50,185	(1,234)	55,074	-	-	-	-	-	-	104,025
Reserve on acquisition of subsidiary		-	-	-	-	-	-	-	(628,780)	13,285	(615,495)
Total comprehensive income for the year		-	-	-	-	(26,342)	870,372	(11,885)	-	1,442	833,587
Employee share option scheme	8	-	-	-	407,133	-	-	-	-	-	407,133
Balance as at December 31, 2013 / January 1, 2014		7,665,961	-	865,354	407,133	(9,581)	2,480,594	(34,839)	(628,780)	14,727	10,760,569
Total comprehensive income for the year		-	-	-	-	(18,155)	867,876	(876)	-	(24,234)	824,611
Employee share option scheme	8	-	-	-	(7,393)	-	-	-	-	-	(7,393)
Balance as at December 31, 2014		7,665,961	-	865,354	399,740	(27,736)	3,348,470	(35,715)	(628,780)	(9,507)	11,577,787

The annexed notes 1 to 50 form an integral part of these financial statements.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

consolidated statement of cash flows for the year ended december 31, 2014

(Amounts in thousand)

Cash Flows from Operating Activities

Cash generated from operations	35	3,050,096	3,976,118
Finance costs paid		(1,231,420)	(854,656)
Taxes paid		(949,664)	(680,185)
Retirement benefits paid		(137,940)	(74,005)
Long term advances and deposits - net		(16,042)	(11,270)
Net cash generated from operating activities		715,030	2,356,002

Cash Flows from Investing Activities

Purchases of:			
- property, plant and equipment		(2,489,355)	(5,245,823)
- intangible assets		(39,461)	(20,376)
- biological assets		(1,320)	(5,696)
Proceeds from disposal of:			
- property, plant and equipment		80,124	230,662
- biological assets		63,376	57,788
Disposal of subsidiary - net of exit costs and working capital disposed-off		87,048	-
Advance against purchase of shares of Engro Foods Netherlands B.V., net of cash and cash equivalent acquired		-	(432,865)
Net cash utilized in investing activities		(2,299,588)	(5,416,310)

Cash Flows from Financing Activities

Proceeds from issue of share capital		-	105,259
Advance adjusted against issue of share capital		-	(1,234)
Proceeds from long term finances		-	2,377,634
Repayments of:			
- long term finances		(1,081,860)	(1,932,500)
- obligations under finance lease		-	(2,589)
Net cash (utilized in) / generated from financing activities		(1,081,860)	546,570
Net decrease in cash and cash equivalents		(2,666,418)	(2,513,738)
Cash and cash equivalents at beginning of the year		531,631	3,045,369
Cash and cash equivalents at end of the year	36	(2,134,787)	531,631

The annexed notes 1 to 50 form an integral part of these financial statements.

notes to the consolidated financial statements for the year ended december 31, 2014

(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 and Lahore Stock Exchanges. The Holding Company is a subsidiary of Engro Corporation Limited (ECL) (the Ultimate 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 desserts. The Holding Company also owns and operates a dairy farm.

1.3 The Group consist of:

Holding Company: Engro Foods Limited

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

1.3.1 Engro Foods Netherlands B.V. (the Subsidiary Company), was incorporated in Netherlands in 2011. The principal activity of the Subsidiary Company is to manage investments in subsidiary companies. For this purpose, the Subsidiary Company acquired an existing brand of halal meat business known as 'Al-Safa', engaged in supply of variety of packaged halal food products across North America, through Engro Foods Canada Limited (EFCL). EFCL was a wholly owned subsidiary of Engro Foods Netherlands, incorporated in Canada on April 5, 2011 having its registered office situated at 1900 Minnesota Court, Unit No. 112, Mississauga, ON L5N 3C9.

As more fully explained in note 33, during the year, the Group decided to exit from its North American business, i.e. EFCL. Accordingly, Engro Foods Netherlands entered into a Share Purchase Agreement (SPA) with a Canadian registered company (the Purchaser) for sale of its North American business. The sale transaction was completed on October 31, 2014, accordingly, the balances of assets and liabilities as of that date have been transferred to the Purchaser as per the SPA.

2. Summary Of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 These consolidated financial statements have been prepared under the historical cost convention, as modified by remeasurement of biological assets and certain financial assets and financial liabilities, including derivative instruments, at fair value, and certain staff retirement and other service benefits at present value.

2.1.2 These consolidated financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.1.3 The preparation of consolidated financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(Amounts in thousand)

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

a) Standards, amendments to published standards and interpretations effective in 2014

The following amendments and interpretations to published standards are mandatory for the financial year beginning January 1, 2014 and are relevant to the Holding Company:

- IAS 32 (Amendment), 'Financial instruments: Presentation'. This amendment updates the application guidance in IAS-32 'Financial Instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet date. The amendment clarifies that right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The Group's current accounting treatment is in line with this amendment.

- IAS 36 (Amendment) 'Impairment of assets'. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment only affects the disclosures in the Group's financial statements.

- IFRIC 21 'Levies'. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group's current accounting treatment is materially in line with this amendment.

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2014 are considered not to be relevant or to have any significant effect on the Group's financial reporting and operations.

b) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Group

The following new standards and amendments to published standards are not effective for the financial year beginning on January 1, 2014 and have not been early adopted by the Group:

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2015). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Group is yet to assess the full impact of the standard, however, initial indicators are that it is unlikely that standard will have any significant impact on the Group's financial statements.

- IAS 19 (Amendment) 'Employee benefits' (effective for annual periods beginning on or after July 1, 2014). The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognize the benefit of those contributions over employee's working lives. It is unlikely that the standard will have any significant impact on the Group's financial statements.

- Amendments to following standards as a result of annual improvements to International Financial Reporting Standards issued by IASB:

• IFRS 2 'Share based payments' (effective for annual periods beginning on or after July 1, 2014). This amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. It is unlikely that the standard will have any significant impact on the Group's financial statements.

• IFRS 7 'Financial instruments: Disclosures' (effective for annual periods beginning on or after July 1, 2016). Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective. It is unlikely that the standard will have any significant impact on the Group's financial statements.

(Amounts in thousand)

- IFRS 8 'Operating segments' (effective for annual periods beginning on or after July 1, 2014). This amendment requires disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will only affect the disclosures in the Group's financial statements.
- IAS 19 'Employee benefits' (effective for annual periods beginning on or after July 1, 2016). The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented. It is unlikely that the standard will have any significant impact on the Group's financial statements.
- IAS 24 'Related party disclosures' (effective for annual periods beginning on or after July 1, 2014). The standard has been amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required. It is unlikely that the standard will have any significant impact on the Group's financial statements.
- IAS 34 'Interim financial reporting' (effective for annual periods beginning on or after July 1, 2016). This amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. It is unlikely that the standard will have any significant impact on the Group's financial statements.

There are number of other standards, amendments and interpretations to the published standards that are not yet effective and are also not relevant to the Group and therefore, have not been presented here.

2.1.5 Basis of consolidation

- These consolidated financial statements include the financial statements of Engro Foods Limited and Engro Foods Netherlands B.V., its wholly owned subsidiary – '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 Company's share capital in the consolidated financial statements; and
- Material inter-company transactions, balances, income and expenses on transactions between group companies have been eliminated.

2.2 Property, plant and equipment

2.2.1 Owned

These are stated at cost less accumulated depreciation and impairment, if any, except for freehold land and capital work-in-progress, which are stated at cost.

Depreciation is charged to income using the straight-line method whereby the cost of an operating asset less its estimated residual value is written off over its estimated useful life at rates given in note 4.1. Depreciation on additions is charged from the month in which the asset is available for use and on disposals up to the preceding month of disposal.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other

(Amounts in thousand)

repairs and maintenance are charged to the consolidated profit and loss account during the year in which these are incurred.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount and the resulting impairment loss is recognized in the consolidated profit and loss account. The recoverable amount is the higher of fair value, less expected selling expenses, and value in use. Reversal of impairment is effected in the case of indications of a change in recoverable amount and is recognized in the consolidated profit and loss account, however, is restricted to the original cost of the asset.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense in the period of disposal or retirement.

2.2.2 Leased

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Assets subject to finance lease are stated at the lower of present value of minimum lease payments and the fair value of the assets acquired on lease. Outstanding obligations under the lease less finance costs allocated to future periods are shown as a liability. Depreciation on leased assets is recognized using the same basis as for owned assets.

Finance costs are allocated to the period of the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Operating lease / Ijarah arrangements in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases / Ijarah arrangements. Rentals due under operating lease / Ijarah arrangements are recognized in the profit or loss.

2.3 Biological assets

Livestock are measured at their fair value less estimated point-of-sale costs. Fair value of livestock is determined by an independent valuer on the basis of best available estimates for livestock of similar attributes. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Gains or losses arising from changes in fair value less estimated point-of-sale costs of livestock is recognized in the consolidated profit and loss account.

Crops in the ground and at the point of harvest at consolidated balance sheet date are measured at cost being an approximation of fair value, as these are presently being used as internal consumption for cattle feed and have a very short biological transformation and consumption cycle.

2.4 Intangible assets

a) Goodwill

Goodwill represents the difference between the consideration paid for acquiring interests in a company and the value of the net assets at the date of acquisition.

b) Brands

These are stated at cost less impairment, if any. Carrying amounts of these intangible assets are subject to impairment review at each consolidated balance sheet date and where conditions exist, impairment is recognized. The useful lives of intangible assets are reviewed at each consolidated balance sheet date to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset.

c) Computer software

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can also be measured reliably.

Generally, costs associated with maintaining computer software programmes are recognized as an expense as incurred. However, costs that are directly associated with identifiable software and have probable economic benefits exceeding the cost beyond one year, are

(Amounts in thousand)

recognized as an intangible asset. Direct costs include the purchase cost of software and related employee and other overhead cost.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount in the consolidated profit and loss account. Reversal of impairment losses are also recognized in the consolidated profit and loss account.

2.5 Financial instruments

2.5.1 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the consolidated balance sheet date, in which case they are classified as non-current assets. The Group's loans and receivables comprise of 'trade debts', 'other receivables', 'loans, advances and deposits' and 'cash and cash equivalents' in the consolidated balance sheet.

c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose off the investment within 12 months of the consolidated balance sheet date.

All financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated profit and loss account within 'other operating income/expenses' in the period in which they arise. Dividend income from 'financial assets at fair value through profit or loss' is recognized in the consolidated profit and loss account as part of 'other operating income' when the Group's right to receive payments is established.

(Amounts in thousand)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in consolidated other comprehensive income are included in the consolidated profit and loss account as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated profit and loss account as part of 'other operating income'. Dividends on available-for-sale equity instruments are recognized in the consolidated profit and loss account as part of 'other operating income' when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transaction, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the account. Impairment losses previously recognized in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account.

In the case of loans and receivables, the Group assesses at each consolidated balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The impairment loss is recognized by reducing the carrying amount of the asset and the amount of loss is recognized in consolidated profit and loss account in case of financial assets carried at amortized cost. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of previously recognized impairment loss is also recognized in the consolidated profit and loss account.

2.5.2 Financial liabilities

All financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the consolidated profit and loss account.

2.5.3 Offsetting of financial assets and liabilities

A financial asset and a financial liability are off set and the net amount is reported in the consolidated balance sheet if the Group has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.6 Stores, spares and loose tools

These are valued at weighted average cost except for items in transit, which are stated at invoice value plus other charges paid thereon till the consolidated balance sheet date. A provision is made for any excess book value over estimated realizable value of items identified as surplus to the Group's requirements. Adequate provision is also made for slow moving items.

Spare parts of capital nature which can be used only in connection with an item of property, plant and equipment are shown separately as major spare parts and stand by equipment.

(Amounts in thousand)

2.7 Stock-in-trade

Stock in trade is valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw materials in transit which are stated at invoice value plus other charges paid thereon till the consolidated balance sheet date. Cost of finished goods comprises purchase cost and other manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated cost of completion and estimated costs necessary to make the sale. Provision is made for slow moving stocks where considered necessary.

2.8 Trade debts and other receivables

Trade debts and other receivables are stated initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. 'Trade debts' and 'other receivables' considered irrecoverable are written off.

Exchange gains and losses arising on translation in respect of 'trade debts' and 'other receivables' in foreign currency are added to the carrying amount of the respective receivables.

2.9 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows include cash in hand and in transit, balances with banks on current, deposit and saving accounts, and short-term highly liquid investments subject to insignificant risk of changes in values, and short term finances. Short term finances on the consolidated balance sheet are shown as part of current liabilities.

2.10 Share capital

Ordinary shares are classified as equity and are recorded at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options, are recognized in equity as a deduction, net of tax, from the proceeds.

2.11 Employees' share option scheme

The grant date fair value of equity settled share based payments to employees is initially recognized in the balance sheet as deferred employee compensation expense with a consequent credit to equity as employee share option compensation reserve. The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in the consolidated profit and loss account, such employee compensation expense is reversed in the consolidated profit and loss account equal to the amortized portion with a corresponding effect to employee share option compensation reserve in the consolidated balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the consolidated profit or loss is reversed with a corresponding reduction to employee share option compensation reserve in the consolidated balance sheet.

When the options are exercised, employee share option compensation reserve relating to these options is transferred to share capital and share premium. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium.

(Amounts in thousand)

2.12 Retirement and other service benefits

2.12.1 Gratuity fund

The Holding Company operates a defined benefit funded gratuity plan (the Fund) for all its permanent employees. The Fund provides for a graduated scale of benefits dependent on the length of service of an employee on terminal date, subject to the completion of minimum qualifying period of service. Gratuity is based on employees' last drawn salary.

Provisions are made to cover the obligations under the Fund on the basis of actuarial valuation carried out annually by an independent expert, using the 'Projected Unit Credit Method'.

The amount recognized in the consolidated balance sheet represents the present value of defined benefit obligations as reduced by the fair value of plan assets.

2.12.2 Provident fund

During the year, the Holding Company discontinued its provident fund scheme and replaced it with the provident fund scheme operated and managed by Engro Corporation Limited (the Ultimate Parent Company). Accordingly, the related assets and liabilities of the Holding Company's fund were transferred to Engro Corporation Limited defined contribution provident fund, based on their values as at September 30, 2014.

Equal monthly contribution at rate 10% of the basic salary are made both by the Holding Company and the employees to the Ultimate Parent Company's defined contribution fund.

2.12.3 Compensated absences

The Group accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the reporting period.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the consolidated balance sheet date.

2.14 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Exchange gains and losses arising in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.15 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each consolidated balance sheet date and adjusted to reflect current best estimate.

2.16 Taxation

2.16.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

(Amounts in thousand)

2.16.2 Deferred

Deferred income tax is accounted for using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset will be realized or the deferred income tax liability will be settled. Deferred tax is charged or credited in the consolidated profit and loss account.

2.17 Foreign currency transactions and translation

2.17.1 These consolidated financial statements are presented in Pakistan Rupees, which is Group's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated profit and loss account.

2.17.2 The results and financial position of all the group entities (none of which has the currency of a hyperinflation economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the consolidated balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates; in which case income and expenses are translated at the rate on the dates of the transactions); and
- all the resulting exchange differences are recognized as a separate component of equity.

2.18 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are to:

- minimize foreign currency exposure's impact on the Group's financial performance; and
- protect the Group's cash flow from adverse movements in foreign currency exchange rates.

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

b) Cash flow hedge

On an ongoing basis, the Group assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

(Amounts in thousand)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in consolidated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated profit and loss account.

Amounts accumulated in equity are reclassified to the consolidated profit and loss account in the periods when the hedged item affects income i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the consolidated profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated profit and loss account or the cost of the related non-financial asset (for e.g. inventory or fixed assets) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated profit and loss account.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is shown net of sales returns and discounts. Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following basis:

- sales are recorded on dispatch of goods to the customers; and
- return on deposits / bank balances and other financial assets are recognized on accrual basis.

2.2 Research and development costs

Research and development costs are charged to income as and when incurred, except for certain development costs which are recognized as intangible assets when it is probable that the development project will be a success and certain criteria, including commercial and technological feasibility have been met.

2.21 Borrowing costs

Borrowing costs are recognized as an expense in the period in which these are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset, in which case, such costs are capitalized as part of the cost of that asset. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs. Borrowing cost also includes bank charges incurred during the year.

2.22 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the consolidated financial statements in the period in which these are approved.

2.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Group that makes the strategic decisions.

(Amounts in thousand)

3. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. However, such differences are estimated to be insignificant and hence will not affect the true and fair presentation of the consolidated financial statements. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a) Taxation

In making the estimates for current income taxes payable by the Group, the management considers the applicable laws and the decisions/judgements of appellate authorities on certain issues in the past. Accordingly, the recognition of deferred tax is also made, taking into account these judgements and the best estimates of future results of operations of the Group.

b) Property, plant and equipment and intangible assets

The Group reviews the appropriateness of the rate of depreciation / amortization, useful life and residual values used for recording the depreciation / amortization on annual basis. Further, if required based on any indication for impairment, an estimate of recoverable amount of assets is made for possible impairment.

c) Biological assets

The fair values of biological assets (Dairy livestock) is determined semi-annually by utilizing the services of an independent expert. These valuations are mainly based on market conditions and physical attributes of livestock existing at the end of each reporting period, which are subject to change at each period end due to market conditions.

d) Stock-in-trade

The Group regularly reviews the net realizable value of stock-in-trade to assess any diminution in the carrying values. Net realizable value is determined with reference to estimated selling price less estimated expenditure to be incurred to make the sale.

e) Provision for staff retirement and other service benefits

The present value of the obligations is determined by an independent actuary using a number of assumptions and other factors. Any change in these assumptions and factors will impact the obligations recorded in the consolidated financial statements.

f) Employee share option scheme

Employee share option compensation reserve and deferred employee share option compensation expense have been determined using the fair values of the options granted and expected to be granted in the ensuing year, using the Black Scholes Pricing Model. The fair values of the options granted during the year have been determined with reference to the respective grant dates of the options; and fair values of options expected to be granted in the ensuing year has been determined with reference to the consolidated balance sheet date in accordance with the requirements of IFRS 2 'Share based payment' and will be reassessed on the actual grant date. The fair values and the underlying assumptions are disclosed in note 8. Any change in these assumptions may significantly impact the carrying values of the related asset and reserve in the consolidated balance sheet.

4. Property, Plant and Equipment

Operating assets (note 4.1)
Capital work-in-progress (note 4.5)
Major spare parts and stand by equipment (note 9)

	2014	2013
	14,290,892	11,050,212
	605,918	3,328,363
	124,709	131,033
	<u>15,021,519</u>	<u>14,509,608</u>

(Amounts in thousand)

4.1 Operating assets

	Freehold land	Buildings on civil works on freehold land	Plant, machinery and related equipment (note 4.2)		Computer equipment (note 4.2)	Office equipment / furniture & fittings	Vehicles (note 4.2)		Total
			Owned	Leased			Owned	Leased	
As at January 1, 2013									
Cost	173,378	2,381,265	10,215,675	34,595	153,950	236,637	692,182	2,800	13,890,482
Accumulated depreciation/ impairment	-	(442,668)	(2,819,631)	(32,846)	(67,735)	(103,627)	(228,493)	(2,800)	(3,697,800)
Net book value	<u>173,378</u>	<u>1,938,597</u>	<u>7,396,044</u>	<u>1,749</u>	<u>86,215</u>	<u>133,010</u>	<u>463,689</u>	<u>-</u>	<u>10,192,682</u>
Year ended December 31, 2013									
Opening net book value	173,378	1,938,597	7,396,044	1,749	86,215	133,010	463,689	-	10,192,682
Additions, including transfers (note 4.5)	228,625	200,265	1,960,870	-	58,793	44,663	141,169	-	2,634,385
Disposals (note 4.4)	-	-	-	-	-	-	-	-	-
Cost	-	(2,765)	(152,490)	-	(1,144)	(1,106)	(128,938)	-	(286,443)
Accumulated depreciation	-	426	3,298	-	297	406	64,831	-	69,258
Acquisition of subsidiary	-	(2,339)	(149,192)	-	(847)	(700)	(64,107)	-	(217,185)
Cost	-	-	-	-	2,457	6,003	-	-	8,460
Accumulated depreciation	-	-	-	-	(1,136)	(2,512)	-	-	(3,648)
Currency translation effect	-	-	-	-	1,321	3,491	-	-	4,812
Depreciation (note 4.3)	-	(152,766)	(1,078,342)	(1,676)	(41,713)	(44,027)	(142,689)	-	(1,461,213)
Impairment	-	-	(97,949)	-	-	-	(5,422)	-	(103,371)
Closing net book value	<u>402,003</u>	<u>1,983,757</u>	<u>8,031,431</u>	<u>73</u>	<u>103,790</u>	<u>136,518</u>	<u>392,640</u>	<u>-</u>	<u>11,050,212</u>
As at December 31, 2013									
Cost	402,003	2,578,765	12,024,055	34,595	214,077	286,278	704,413	2,800	16,246,986
Accumulated depreciation	-	(595,008)	(3,894,675)	(34,522)	(110,287)	(149,760)	(306,351)	(2,800)	(5,093,403)
Accumulated impairment	-	-	(97,949)	-	-	-	(5,422)	-	(103,371)
Net book value	<u>402,003</u>	<u>1,983,757</u>	<u>8,031,431</u>	<u>73</u>	<u>103,790</u>	<u>136,518</u>	<u>392,640</u>	<u>-</u>	<u>11,050,212</u>
Year ended December 31, 2014									
Opening net book value	402,003	1,983,757	8,031,431	73	103,790	136,518	392,640	-	11,050,212
Additions, including transfers (note 4.5)	5,469	1,120,699	3,818,887	-	34,742	83,777	138,497	-	5,202,071
Disposals (note 4.4)	-	-	-	-	-	-	-	-	-
Cost	-	(8,676)	(41,190)	-	(10,933)	(10,851)	(138,647)	(1,365)	(211,662)
Accumulated depreciation	-	6,683	34,570	-	9,478	9,518	83,035	1,365	144,649
Currency translation effect	-	(1,993)	(6,620)	-	(1,455)	(1,333)	(55,612)	-	(67,013)
Subsidiary's assets disposed of	-	-	-	-	(79)	(283)	-	-	(362)
Depreciation (note 4.3)	-	(215,081)	(1,403,842)	(73)	(43,194)	(56,773)	(130,915)	-	(1,849,878)
Impairment	-	(7,001)	(36,294)	-	-	-	-	-	(43,295)
Write-off	-	-	-	-	-	-	-	-	-
Cost	-	-	(159,843)	-	(2,894)	(5,967)	(7,691)	-	(176,395)
Accumulated impairment	-	-	75,753	-	-	-	5,422	-	81,175
Accumulated depreciation	-	-	80,412	-	2,853	5,601	6,291	-	95,157
Closing net book value	<u>407,472</u>	<u>2,880,381</u>	<u>10,399,884</u>	<u>-</u>	<u>92,977</u>	<u>161,546</u>	<u>348,632</u>	<u>-</u>	<u>14,290,892</u>
As at December 31, 2014									
Cost	407,472	3,690,788	15,641,909	34,595	234,127	352,960	696,572	1,435	21,059,858
Accumulated depreciation	-	(803,406)	(5,183,535)	(34,595)	(141,150)	(191,414)	(347,940)	(1,435)	(6,703,475)
Accumulated impairment	-	(7,001)	(58,490)	-	-	-	-	-	(65,491)
Net book value	<u>407,472</u>	<u>2,880,381</u>	<u>10,399,884</u>	<u>-</u>	<u>92,977</u>	<u>161,546</u>	<u>348,632</u>	<u>-</u>	<u>14,290,892</u>
Annual rate of depreciation (%)	-	5 to 33.3	8.33 to 25	20	20	20	25	25	

(Amounts in thousand)

4.2 Includes following assets held by third parties:

Description	2014		2013		Reason
	Cost	Net Book Value	Cost	Net Book Value	
------(Rupees)-----					
Plant and machinery	230,600	123,043	181,187	92,351	Equipment mounted on transport contractors' vehicles
Plant and machinery	809,575	340,796	859,361	369,578	Freezers held with third party for ice cream sales
Computer equipment	31,526	4,647	31,158	13,993	Computer equipment managed by a third party for disaster recovery
Vehicles	113,859	52,476	107,281	42,129	Trikes held with third party for ice cream sales
	<u>1,185,560</u>	<u>520,962</u>	<u>1,178,987</u>	<u>518,051</u>	

4.3 The depreciation charge has been allocated as follows:

- Cost of sales (note 25)
- Distribution and marketing expenses (note 26)
- Administrative expenses (note 27)

	2014	2013
------(Rupees)-----		
	1,593,754	1,180,044
	199,378	209,847
	56,746	71,322
	<u>1,849,878</u>	<u>1,461,213</u>

(Amounts in thousand)

4.4 The details of operating assets disposed off during the year are as follows:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
Vehicles					
By Company policy to existing / separating executives					
	A. Rehman Paracha	1,474	(737)	737	759
	Abu Bakar Sheikh	1,698	(957)	741	932
	Adeel Asim Munif	1,474	(668)	806	909
	Adnan Mehmood	1,354	(804)	550	915
	Adnan Rafique	572	(416)	156	162
	Ahmed Abdul Jameel	1,268	(1,038)	230	317
	Aitzaz ul Hassan	2,383	(372)	2,011	2,038
	Akhter Hussain	632	(201)	431	488
	Ali Masood	574	(366)	208	210
	Ali Umer Usmani	1,482	(776)	706	967
	Babur Sultan	6,750	(5,063)	1,687	1,688
	Dr. Essam Hanif	586	(460)	126	167
	Dr. Muhammad Ashraf	1,466	(1,040)	426	483
	Dr. Sarfaraz Ahmed	1,586	(684)	902	1,147
	Fahad Zia Waseem	1,586	(922)	664	1,010
	Farooq Khokher	519	(415)	104	104
	Hareem Zehra	612	(298)	314	387
	Imran Ahmed	1,849	(1,445)	404	462
	Imran Anwer	8,000	(3,625)	4,375	4,745
	Irfan Memon	1,269	(977)	292	317
	Javaid Iqbal	534	(429)	105	107
	Kamran Shamsi	537	(483)	54	107
	Kashif Shahzad	537	(483)	54	107
	Khawaja Rizwan	1,300	(878)	422	422
	Khurram Javed Maqbool	1,895	(1,421)	474	474
	Maha Usman	1,648	(753)	895	895
	Malik Muhammad Ali	1,269	(981)	288	317
	Marium Masood	1,648	(891)	757	894
	Mazhar Hasnani	1,895	(1,452)	443	474
	Mohsin Ali	612	(275)	337	419
	Muhammad Aleem	545	(491)	54	109
	Muhammad Ali	1,849	(1,417)	432	462
	Muhammad Hassan	1,300	(975)	325	325
	Muhammad Zubair	1,482	(637)	845	1,150
	Nasr Minhallah	1,586	(922)	664	1,002
	Qasim Ali	554	(416)	138	202
	Quasar Pervez	1,495	(706)	789	789
	Ramzan Dogar	1,482	(776)	706	1,003
	Sadoro Naz Keerio	846	(676)	170	169
	Sajid Hussain	504	(454)	50	101
	Shahbaz Ahmed Khan	1,424	(601)	823	890
	Shahzad Iqbal	537	(483)	54	107
	Shakeel Bahir	1,586	(803)	783	855
	Sharjeel Hussain	1,465	(1,153)	312	513
	Balance carried forward	65,664	(39,820)	25,844	30,100

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
	Balance brought forward	65,664	(39,820)	25,844	30,100
	Soban Farooq	1,289	(990)	299	322
	Suneel Kumar	1,586	(773)	813	983
	Syed Abbas Naqvi	1,586	(953)	633	831
	Syed Ali Abbas	1,482	(609)	873	938
	Syed Ishraq Ali	504	(454)	50	101
	Syed Rizwan Bukhari	1,625	(641)	984	1,456
	Umar Sharif	1,289	(990)	299	322
	Waseem ud din	537	(483)	54	107
	Younus Alam	537	(483)	54	107
	Zaid Bin Zeeshan	2,015	(1,227)	788	788
	Zeeshan Qazi	1,482	(859)	623	800
	Zulfiqar Ahmed	1,343	(1,108)	235	608
	Fahad Manzoor	1,474	(538)	936	936
	Kamran Kashif	1,289	(963)	326	561
		18,038	(11,071)	6,967	8,860
		83,702	(50,891)	32,811	38,960
By Company policy to existing / separating executives having net book value of less than Rs. 50		19,188	(15,198)	3,990	2,442
To employees and others through auction					
	Zulfiqar Ahmed	10,593	(4,410)	6,183	6,236
	Imran Ahmed	628	(564)	64	122
	Khusro Ahmed Khan	1,055	(791)	264	369
	Farrukh Sheikh	8,000	(2,875)	5,125	3,219
	Riaz Hussain	846	(676)	170	382
	Salman Zafar	1,780	(1,487)	293	1,185
	Sh. Muhammad Waseemuddin	612	(551)	61	380
	Syed Ameer Ali	591	(321)	270	379
	Tariq Anwar	501	(300)	201	313
		24,606	(11,975)	12,631	12,585
Insurance claims					
	EFU General Insurance Limited	1,767	(690)	1,077	1,703
	Adamjee Insurance Company Limited	9,384	(4,281)	5,103	6,647
		11,151	(4,971)	6,180	8,350
	Balance carried forward	138,647	(83,035)	55,612	62,337

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
	Balance brought forward	138,647	(83,035)	55,612	62,337
Leased vehicles					
To employees and others through auction having net book value of Rs. 50		1,365	(1,365)	-	518
Building and civil works					
Sold to group company through negotiations	Sindh Engro Coal Mining Company	8,676	(6,683)	1,993	5,331
Plant, machinery and related equipment					
Sold through auction	Auction mart	37,000	(32,619)	4,381	6,377
Insurance claims					
	Adamjee insurance Co. Limited	3,845	(1,760)	2,085	2,093
	Pak Kuwait Takaful Company Limited	345	(191)	154	230
		41,190	(34,570)	6,620	8,700
Office equipment					
Sold to Group Company through negotiations	Sindh Engro Coal Mining Company	1,162	(477)	685	715
Insurance Claims	Adamjee Insurance Co. Limited	125	(77)	48	53
	Sold through Auction	9,564	(8,964)	600	1,088
		10,851	(9,518)	1,333	1,856
Computer equipment					
Insurance claims	Adamjee Insurance Co. Limited	1,722	(607)	1,115	634
Sold through auction	Auction mart	9,211	(8,871)	340	748
		10,933	(9,478)	1,455	1,382
December 31, 2014		211,662	(144,649)	67,013	80,124
December 31, 2013		286,443	(69,258)	217,185	230,662

(Amounts in thousand)

4.5 Capital work-in-progress

	Land (note 4.5.1)	Building on freehold land	Plant, machinery and equipment	IS and milk automation projects	Office equipment/ Furniture & Fitting/Computer equipment	Vehicles	Total
------(Rupees)-----							
Year ended December 31, 2013							
Balance as at January 1, 2013	11,832	6,929	619,508	62,327	22,564	42,237	765,397
Additions during the year	216,793	515,260	4,272,590	20,376	132,791	108,389	5,266,199
Transferred to							
- operating assets (note 4.1)	(228,625)	(200,265)	(1,960,870)	-	(103,456)	(141,169)	(2,634,385)
- intangible assets (note 6)	-	-	-	(68,848)	-	-	(68,848)
Balance as at December 31, 2013	<u>-</u>	<u>321,924</u>	<u>2,931,228</u>	<u>13,855</u>	<u>51,899</u>	<u>9,457</u>	<u>3,328,363</u>
Year ended December 31, 2014							
Balance as at January 1, 2014	-	321,924	2,931,228	13,855	51,899	9,457	3,328,363
Additions during the year	5,469	906,780	1,359,586	39,461	72,637	144,883	2,528,816
Transferred to							
- operating assets (note 4.1)	(5,469)	(1,120,699)	(3,818,887)	-	(118,519)	(138,497)	(5,202,071)
- intangible assets (note 6)	-	-	-	(49,190)	-	-	(49,190)
Balance as at December 31, 2014	<u>-</u>	<u>108,005</u>	<u>471,927</u>	<u>4,126</u>	<u>6,017</u>	<u>15,843</u>	<u>605,918</u>

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

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

In 2013, few land owners filed writ petitions against the Government's action at Lahore High Court (the Court). During the year, the writ petitions have been decided by the Court in favor of the Company. However, an intra-court appeal has been filed against the aforesaid decision by few landowners, which is in the process of hearing at the Court, however, the Court has rejected the appeal of landowners for grant of stay order.

5. Biological Assets

Dairy livestock (note 5.1)

- mature
- immature

Provision for culling (notes 5.2 and 28)

Crops - feed stock

	2014	2013
------(Rupees)-----		
- mature	484,685	411,059
- immature	382,752	309,130
Provision for culling (notes 5.2 and 28)	867,437	720,189
Crops - feed stock	(22,314)	(15,961)
	845,123	704,228
	13,557	12,237
	<u>858,680</u>	<u>716,465</u>

(Amounts in thousand)

5.1 Reconciliation of carrying amounts of livestock

Carrying amount at the beginning of the year
Add:
Changes in fair value due to biological transformation
- Gain due to new births [inclusive of cost of feeding immature herd of Rs. 156,445 (2013: Rs. 127,764)]
- Loss due to increase in age of livestock

Changes in fair value due to price changes
- Gain / (Loss) due to currency devaluation / appreciation
- Gain / (Loss) due to increase / (decrease) in international market prices

Total gain (note 29)
Less:
- Biological assets written-off (note 28)
- Decrease due to deaths / disposals
- Provision for culling (note 5.2)
Carrying amount at the end of the year, which approximates the fair value

	2014	2013
------(Rupees)-----		
Carrying amount at the beginning of the year	704,228	661,914
Add:		
Changes in fair value due to biological transformation		
- Gain due to new births [inclusive of cost of feeding immature herd of Rs. 156,445 (2013: Rs. 127,764)]	224,817	194,193
- Loss due to increase in age of livestock	(10,245)	(17,120)
	214,572	177,073
Changes in fair value due to price changes		
- Gain / (Loss) due to currency devaluation / appreciation	(37,403)	59,988
- Gain / (Loss) due to increase / (decrease) in international market prices	68,337	(51,290)
	30,934	8,698
Total gain (note 29)	245,506	185,771
Less:		
- Biological assets written-off (note 28)	-	(50,533)
- Decrease due to deaths / disposals	(82,297)	(76,963)
- Provision for culling (note 5.2)	(22,314)	(15,961)
Carrying amount at the end of the year, which approximates the fair value	<u>845,123</u>	<u>704,228</u>

5.2 Represents provision in respect of low yielding animals and / or animals having poor health.

5.3 As at December 31, 2014, the Holding Company held 2,206 (2013: 2,058) mature assets able to produce milk and 1,998 (2013: 1,729) immature assets that are being raised to produce milk in the future. During the year, the Holding Company produced approximately 12,084,302 (2013: 9,079,147) gross litres of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 734,120 (2013: Rs. 496,095), determined at the time of milking.

5.4 As at December 31, 2014, the Holding Company held 522 (2013: 586) immature male calves.

5.5 The valuation of dairy livestock as at December 31, 2014 has been carried out by an independent valuer. In this regard, the valuer examined the physical condition of the livestock, assessed the farm conditions and relied on the representations made by the Holding Company as at December 31, 2014. Further, in the absence of an active market of the Holding Company's dairy livestock in Pakistan, market and replacement values of similar live stock from active markets in USA, Germany, Argentina and Australia, have been used by the independent valuer as a basis of his valuation. Immature male calves have not been included in the fair valuation due to the insignificant value in use.

(Amounts in thousand)

	Computer Software	Goodwill (note 6.2)	Brand (note 6.2)	Total
(Rupees)				
6. Intangible Assets				
As at January 1, 2013				
Cost	216,212	-	-	216,212
Accumulated amortization	(111,643)	-	-	(111,643)
Net Book Value	<u>104,569</u>	<u>-</u>	<u>-</u>	<u>104,569</u>
Year ended December 31, 2013				
Opening net book value	104,569	-	-	104,569
Acquisition of subsidiary	-	49,151	431,730	480,881
Additions at cost (note 4.5)	68,848	-	-	68,848
Less: Amortization charge for the year (notes 6.1 and 27)	(50,579)	-	-	(50,579)
Closing net book value	<u>122,838</u>	<u>49,151</u>	<u>431,730</u>	<u>603,719</u>
As at January 1, 2014				
Cost	285,060	49,151	431,730	765,941
Accumulated amortization	(162,222)	-	-	(162,222)
Net Book Value	<u>122,838</u>	<u>49,151</u>	<u>431,730</u>	<u>603,719</u>
Year ended December 31, 2014				
Opening net book value	122,838	49,151	431,730	603,719
Assets of subsidiary disposed-off	-	(49,151)	(431,730)	(480,881)
Additions at cost (note 4.5)	49,190	-	-	49,190
Less: Impairment	(6,854)	-	-	(6,854)
Less: Amortization charge for the year (notes 6.1 and 27)	(52,966)	-	-	(52,966)
Closing net book value	<u>112,208</u>	<u>-</u>	<u>-</u>	<u>112,208</u>
As at December 31, 2014				
Cost	327,395	-	-	327,395
Accumulated amortization	(208,333)	-	-	(208,333)
Accumulated impairment	(6,854)	-	-	(6,854)
Net Book Value	<u>112,208</u>	<u>-</u>	<u>-</u>	<u>112,208</u>

6.1 The cost of computer software is being amortized over a period of 5 years.

6.2 Represented brand 'Al-Safa' a halal meat business acquired by EFCL (the former subsidiary) on May 6, 2011 for supply of variety of packaged halal food products across North America.

The aforementioned acquisition had resulted in Goodwill amounting to Rs. 49,151 (CAD \$ 499) which represented purchase consideration paid over and above the fair value of assets acquired at the date of acquisition.

The aforementioned brand and goodwill have been disposed-off as part of disposal of the subsidiary.

(Amounts in thousand)

	2014	2013
(Rupees)		
7. Long-term Advances, and Deposits - unsecured, considered good		
Advances to Executives (notes 7.1, 7.2 and 7.3)	64,371	57,694
Less: Recoverable within one year shown under current assets (note 12)	(26,584)	(21,283)
Deposits	37,787	36,411
	<u>71,387</u>	<u>56,721</u>
	<u>109,174</u>	<u>93,132</u>
7.1 Reconciliation of the carrying amount of advances to executives		
Balance as at January 1	57,694	36,924
Add: Disbursements	45,827	55,698
Less:		
- Repayments	(13,657)	(13,884)
- Amortization	(25,493)	(21,044)
Balance as at December 31	<u>64,371</u>	<u>57,694</u>
7.2 This includes interest free advances to executives for vehicles given in accordance with the terms of employment under the vehicle earn-out scheme. These advances are amortized over a period of 48 months, unless repaid as a result of change in employee classification level or leaving the Holding Company. This also includes investment loan plan assistance repayable after 3 years in lump sum and long-term incentive given to certain employees which is amortized over a period of 3 years, unless repaid as a result of leaving the Holding Company.		
7.3 The maximum aggregate amount due from executives of the Group at the end of any month during the year was Rs. 71,075 (2013: Rs. 61,192).		
7.4 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults ever.		
8. Employees' Share Option Scheme		
On March 22, 2013, the shareholders of the Holding Company approved a new 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. The Scheme was approved by the SECP on May 27, 2013.		
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. However, for the purpose of the options granted in 2013 (Option year), 50% of such option shall vest on April 1, 2015 while remaining 50% will vest on April 1, 2016. Further, those eligible employees who will join the Holding Company or will be promoted to cadre / grade eligible for options, till April 1, 2015 are also entitled to these options. These options do not carry dividends or voting rights and the maximum number of options to be issued to a single eligible employee is for 1.69 million ordinary shares. These options are exercisable within 3 years from the end of vesting period. The details of share options granted to date, which remained outstanding as at December 31, 2014 are as follows:		
- number of options	4,400,000	
- range of exercise price	Rs. 191.89 - Rs. 253.77	
- weighted average remaining contractual life	4.25 years	

(Amounts in thousand)

The weighted average fair value of options granted till date, as estimated at the date of grant using the Black-Scholes model was Rs. 26.65 per option, whereas weighted average fair value of options to be granted has been estimated as Rs. 22.60 per option. The following weighted average assumptions were used in calculating the fair values of the options:

	Options granted in 2013	Options to be granted
- number of options	4,400,000	12,500,000
- share price	Rs. 133.58	Rs. 108.54
- exercise price	Rs. 191.89	Rs. 169.33
- expected volatility	32.54%	30.61%
- expected life	3 years	3.75 years
- annual risk free interest rate	9.42%	10.08%

No new options have been granted during the year. Consequent to resignation of two employees, 1.3 million share options granted in 2013, lapsed during the year. In accordance with terms of the Scheme, such options are now available for grant to new or existing employees of the Holding Company.

The volatility has been measured as the standard deviation of quoted share prices over the last one year from each respective / expected grant date. In addition, the Holding Company as at December 31, 2014 estimates that during the ensuing year options for remaining 12.5 million shares will be granted, after taking approval of modification in the Scheme, regarding extension in option grant period, from the SECP.

In respect of the Scheme, Employee share option compensation reserve and the related deferred expense amounting to Rs. 399,740 has been recognized, out of which Rs.196,729 has been amortized to date, including Rs. 94,614 being charge for the current year, in respect of related employees services received to the consolidated balance sheet date.

9. Stores, Spares and Loose Tools

	2014	2013
Stores	136,697	133,153
Spares and loose tools, including in-transit Rs. 15,749 (2013: 17,923) (note 9.1)	776,153	737,551
Less: Major spare parts and stand by equipment - shown under Property, plant and equipment (note 4)	(124,709)	(131,033)
	<u>788,141</u>	<u>739,671</u>

9.1 These are net of provision against slow moving items amounting to Rs. 6,781 (2013: Rs. 3,154).

(Amounts in thousand)

10. Stock-in-trade

	2014	2013
Raw and packaging material (notes 10.1 and 10.3)	2,300,790	2,150,536
Work in process	529,977	390,133
Finished goods (notes 10.2 and 10.3)	867,020	658,721
	<u>3,697,787</u>	<u>3,199,390</u>

10.1 Includes Rs. 7,000 (2013: Nil) in respect of raw material carried at net realizable value and Nil (2013: Rs. 3,326) in respect of stock held by third parties.

10.2 Includes Nil (2013: Rs. 17,172) in respect of finished goods carried at net realizable value and Rs. 17,353 (2013: Rs. 33,010) in respect of stock held by third parties.

10.3 These are net of provision against expired / obsolete stock amounting to Rs. 81,403 (2013: Rs. 132,552). Stock amounting to Rs. 66,270 (2013: Rs. 12,510) has been written off against the provision during the year.

11. Trade Debts, Unsecured

	2014	2013
Considered good (notes 11.1 and 11.2)	95,962	251,900
Considered doubtful (note 11.3)	4,959	5,389
	<u>100,921</u>	<u>257,289</u>
Less: Provision for impairment (note 11.3)	(4,959)	(11,522)
	<u>95,962</u>	<u>245,767</u>

11.1 As at December 31, 2014, trade debts aggregating to Rs. 2,028 (2013: Rs. 33,578) were past due but not impaired. These relate to various customers and have either been confirmed / acknowledged by the customer or cleared subsequent to the year end. These debts are less than 6 months old.

11.2 As at December 31, 2014, trade debts aggregating to Rs. 93,934 (2013: Rs. 218,322) were neither past due nor impaired. The credit quality of these receivables can be assessed with reference to their historical performance with no defaults ever.

11.3 As at December 31, 2014, trade debts aggregating to Rs. 4,959 (2013: Rs. 11,522) were deemed to have been impaired and provided for. The movement in provision during the year is as follows:

	2014	2013
Balance as at January 1	11,522	5,835
Additions / (disposal) due to acquisition / disposal of subsidiary	(6,133)	6,133
Provision reversed during the year (note 27)	(430)	(446)
Balance as at December 31	<u>4,959</u>	<u>11,522</u>

(Amounts in thousand)

12. Advances, Deposits and Prepayments - Unsecured, considered good

Advances to:

- Executives (notes 12.1 and 12.2)
- Other employees (note 12.3)

Add: Current portion of long term advances to executives (note 7)

Advances to suppliers (note 12.4)

Deposits

Prepayments

	2014	2013
	7,152	9,260
	22,703	28,304
	29,855	37,564
	26,584	21,283
	56,439	58,847
	14,235	81,099
	12,513	10,895
	30,314	35,913
	113,501	186,754

12.1 This represents interest free advances to executives for house rent, given in accordance with the Holding Company's policy.

12.2 The maximum aggregate amount due from executives of the Group at the end of any month during the year was Rs. 7,152 (2013: Rs. 13,405).

12.3 This represents advances for incurring expenses for the Holding Company's business.

12.4 Includes advances to Engro Fertilizers Limited amounting to Rs. 364 (2013: Nil).

12.5 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to no defaults ever.

13. Other Receivables

Receivable from related parties:

- Engro Fertilizers Limited
- Engro Foundation
- Engro Eximp (Private) Limited
- Sind Engro Coal Mining Company
- Engro Polymer and Chemicals Limited

Sales tax refundable (note 13.1)

Receivable from Tetra Pak Pakistan Limited (note 13.2)

Receivable from Ecolean AB (note 13.2)

Harmonized sales tax receivable

Others

	2014	2013
	-	17
	899	-
	176	-
	4,645	-
	-	484
	5,720	501
	2,811,878	1,835,054
	3,171	440,960
	44,838	66,396
	-	6,363
	-	9,888
	2,865,607	2,359,162

(Amounts in thousand)

13.1 Sales tax has been zero rated on the Company's supplies (output) and raw materials, components and assemblies imported or purchased locally by the Holding Company for manufacturing in respect of its dairy operations. The movement of the refundable is as follows:

	2014	2013
Balance as at January 1	1,835,054	1,128,313
Add: Refunds claimed during the year	1,247,746	1,019,637
Less: Refunds received during the year	(270,922)	(312,896)
Balance as at December 31	2,811,878	1,835,054

13.2 Represents reimbursement of expenses and other receivable under cost sharing agreements.

13.3 The carrying values of these financial assets are neither past due nor impaired. The credit quality of these financial assets can be assessed with reference to their historical performance with no defaults ever.

14. Short Term Investments

Term deposit placed with a bank, carried at fair value through profit or loss, amounting to Rs. 170,000 matured during the year.

15. Cash And Bank Balances

Cash

- in hand
- in transit (note 15.1)

Cash at bank on:

- current accounts [including foreign currency account of Rs. 97,223 (2013: Rs. 161,141)]
- savings accounts [including foreign currency account of Rs. 97,567 (2013: Nil)]

	2014	2013
	-	4,022
	850	122,037
	98,689	310,435
	97,567	138,542
	196,256	448,977
	197,106	575,036

15.1 Represents banking instruments received from distributors at regional offices in respect of advance against future sales but not yet deposited in the Holding Company's bank account.

16. Share Capital

Authorized capital

850,000,000 (2013: 850,000,000) Ordinary shares of Rs. 10 each

Issued, subscribed and paid-up capital

766,596,075 (2013: 766,596,075) Ordinary shares of Rs. 10 each fully paid in cash (note 16.1)

	2014	2013
	8,500,000	8,500,000
	7,665,961	7,665,961

(Amounts in thousand)

16.1 As at December 31, 2014, Engro Corporation Limited (the Ultimate Parent Company) holds 667,374,991 (2013: 667,374,991) Ordinary shares of Rs. 10 each.

17. Long Term Finances, Secured (Non-participatory)

Long term finances of the Holding Company utilized under mark-up arrangements:

	Installments			2014	2013
	Number	Commencing from	Interest Rate	------(Rupees)-----	
Long term finances					
Syndicated Finance I	4 half yearly	February 20, 2015	6 months KIBOR + 0.69%	1,500,000	1,500,000
Syndicated Finance II	5 half yearly	July 10, 2012	6 months KIBOR + 2.6%	-	480,000
Syndicated Finance III	6 half yearly	February 16, 2013	6 months KIBOR + 2.0%	333,333	666,667
Habib Bank Limited (HBL)	6 half yearly	September 3, 2011	6 months KIBOR + 2.25%	-	83,333
Habib Bank Limited					
- LTFF Facilit					
(notes 17.1 and 17.3)	8 half yearly	February 27, 2014	SBP LTFF Rate + 2.5%	177,847	221,355
- Conventional term loan					
(note 17.2)	6 half yearly	November 2, 2014	6 months KIBOR + 2.0%	634,353	775,039
NIB Bank Limited (note 17.2)	6 half yearly	June 5, 2015	6 months KIBOR + 2.1%	1,488,780	1,484,956
The Bank of Punjab (note 17.2)	6 half yearly	April 3, 2015	6 months KIBOR + 1.15%	498,277	497,652
United Bank Limited	6 half yearly	May 12, 2016	6 months KIBOR + 1.25%	1,500,000	1,500,000
				6,132,590	7,209,002
Certificate					
Sukuk Certificates	4 half yearly	July 13, 2015	6 month KIBOR + 0.69%	950,000	950,000
				7,082,590	8,159,002
Less: Current portion shown under current liabilities				(1,605,597)	(1,032,008)
				5,476,993	7,126,994

17.1 The proceeds from these finances are carried net of unamortized portion of transaction costs amounting to Rs. 15,280 (2013: Rs. 20,728).

17.2 The above finances and Ijarah arrangements (note 23.5) are secured by registered floating charges / mortgages over the present and future fixed assets of the Holding Company upto a maximum of Rs.10,604,167 (2013: Rs. 12,729,500).

17.3 LTFF facility from HBL is based on State Bank LTFF rate which ranged from 10.85% to 12.35% (2013:10.90%) per annum throughout the year. Rest of the finances are KIBOR based and ranged from 10.86% to 12.18% (2013: 9.80% to 14.64%) per annum.

17.4 In view of the substance of the transactions, the sale and repurchase of assets under long term finances have not been recorded as such in these consolidated financial statements.

(Amounts in thousand)

18. Deferred Taxation

Credit balances arising due to:

- Accelerated tax depreciation / amortization
- Gain on biological assets
- Long term finances
- Others

Debit balances arising due to:

- Provisions for stock-in-trade, store & spares and receivables
- Minimum turnover tax (notes 18.1 and 32.2.4)
- Derivative financial instruments, net to equity
- Share issuance cost, net to equity
- Unutilized tax losses
- Others

	2014	2013
	------(Rupees)-----	
	1,818,037	1,624,574
	240,401	166,342
	5,042	7,047
	13,431	13,838
	2,076,911	1,811,801
	(30,737)	(47,972)
	(811,049)	(206,627)
	(13,661)	(4,936)
	(13,106)	(12,733)
	(19,105)	-
	(3,536)	(950)
	(891,194)	(273,218)
	1,185,717	1,538,583

18.1 As explained in note 32.1, the Company has availed tax credit for tax year 2013 amounting to Rs. 185,175, which has resulted in reduction in tax liability for tax year 2013 and resultantly increase in the unrecouped minimum turnover tax. Accordingly, deferred tax asset on such recoupable minimum turnover tax has been recognized in current year.

19. Deferred Income

Deferred income under Ijarah arrangement:

- Balance as at January, 1
- Less: Amortization for the year
- Balance as at December, 31

	2014	2013
	------(Rupees)-----	
	9,410	17,390
	(6,894)	(7,980)
	2,516	9,410

20. Trade and Other Payables

- Trade payables (note 20.1)
- Accrued liabilities (note 20.2)
- Advances from customers
- Retention money
- Security deposits
- Withholding tax payable
- Payable to provident fund
- Payable to gratuity fund (note 37)
- Workers' profits participation fund (note 20.3)
- Workers' welfare fund
- Others (note 20.1)

	1,495,951	1,989,989
	994,375	800,812
	421,390	248,686
	46,338	38,388
	750	800
	45,979	59,102
	19,975	19,506
	-	58,310
	26,539	27,933
	144,171	134,284
	27,229	27,365
	3,222,697	3,405,175

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
20.1 Includes amount due to following related parties:		
- Engro Corporation Limited, the Ultimate Parent Company	6,677	-
- Engro Eximp (Private) Limited	-	6,920
- Engro Fertilizers Limited	-	578
- Engro Polymer and Chemicals Limited	706	330
	<u>7,383</u>	<u>7,828</u>

20.2 Includes Rs. 66,123 (2013: Rs. 15,415) on account of Gas Infrastructure Development Cess (GIDC).

20.3 Workers' profits participation fund		
Balance as at January, 1	27,933	10,489
Add: Allocation for the year (note 28)	26,864	28,041
	<u>54,797</u>	<u>38,530</u>
Less: Amount paid to the Fund	(28,258)	(10,597)
Balance as at December, 31	<u>26,539</u>	<u>27,933</u>

21. Derivative Financial Instruments

The Holding Company has entered into various foreign currency forward contracts with banks to manage its foreign currency exposure. These contracts have maturity dates approximately matching with the anticipated payment dates for commitments with respect to import of plant and machinery and stock-in-trade. The fair value of the outstanding forward contracts as at December 31, 2014 amounts to a liability of Rs. 41,397 (2013: liability of Rs. 14,517).

22. Short Term Finances - Secured

22.1 The Holding Company

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. 6,000,000 (2013: Rs. 3,200,000). The unutilized balance against these facilities as at year end was Rs. 3,668,107 (2013: Rs. 3,200,000). The rates of mark-up on these finances are KIBOR based and range from 10.54% to 12.21% (2013: 10.01% to 12.01%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Holding Company.

The facilities for opening letters of credit and guarantees as at December 31, 2014 amounts to Rs. 5,515,000 (2013: Rs. 4,515,000), of which the amount remaining unutilized as at year end was Rs. 2,896,087 (2013: Rs. 2,558,450).

22.2 Subsidiary Company

Last year EFCL entered into certain financing facilities from various banks, which represented the aggregate sale price of all mark-up arrangements amounting to Rs. 295,875. The unutilized balance against these facilities was Rs. 82,470. The rates of mark-up on these finances were US prime rate based.

(Amounts in thousand)

23. Contingencies and Commitments

23.1 The Holding Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 56,199 (2013: Rs. 55,242) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (2013: 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 (2013: 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 (2013: Rs. 172,000) have been received to-date;
- Controller Military Accounts, Rawalpindi amounting to Rs. 5,953 (2013: Rs. 6,872), as collateral against supplies;
- Collector of Customs, Model Customs Collectorate amounting to Nil (2013: Rs. 54,081) against payment of sales tax on import of plant and machinery;
- Parco Pearl Gas Co. (Private) Limited amounting to Rs. 600 (2013: Nil) as collateral against supplies; and
- Officer Commanding PAF Faisal Base amounting to Rs. 3,818 (2013: Nil) as collateral against supplies.

23.2 As at December 31, 2014 post-dated cheques amounting to Nil (2013: Rs. 44,003) 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.

23.3 Commitments in respect of capital expenditure contracted for but not incurred as at December 31, 2014 amounts to Rs. 271,727 (2013: Rs. 966,772).

23.4 Commitments in respect of purchase of certain commodities as at December 31, 2014 amounts to Rs. 1,955,039 (2013: Rs. 731,586).

23.5 Commitments for rentals payable under the Ijarah agreement / operating lease arrangement as at December 31, 2014 amounts to Rs. 319,055 (2013: Rs. 239,176) as follows:

	2014	2013
	------(Rupees)-----	
Not later than one year	95,054	69,074
Later than one year and not later than five years	224,001	170,102
	<u>319,055</u>	<u>239,176</u>

24. Net Sales

Manufactured goods	44,714,420	38,850,246
Less:		
- Sales tax	(726,054)	(587,343)
- Discounts	(609,537)	(361,071)
	<u>43,378,829</u>	<u>37,901,832</u>
Raw milk	43,358	27,406
	<u>43,422,187</u>	<u>37,929,238</u>

24.1 Includes export sales amounting to Rs. 1,115,077 (2013: Rs. 901,345).

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
25. Cost of Sales		
Raw and packaging material consumed (note 25.1)	28,216,291	23,873,607
Purchased product cost	380,818	31,847
Salaries, wages, and staff welfare (note 25.2)	1,082,852	838,260
Fuel and power	1,717,099	1,640,374
Repair and maintenance	508,112	522,862
Freight inwards	723,485	583,008
Depreciation (note 4.3)	1,593,754	1,180,044
Impairment of operating assets (note 4.1)	28,115	28,915
Travelling	144,492	139,484
Communication and other office expenses	128,191	136,233
Insurance	125,717	110,681
Rent and utilities	461,932	314,346
Research and business development	16,040	11,546
Legal and professional	3,523	18,527
Purchased services	462,566	330,426
Provision against:		
- stock-in-trade (note 10.3)	15,121	125,154
- slow moving spares (note 9.1)	3,627	1,887
Manufacturing cost	<u>35,611,735</u>	<u>29,887,201</u>
Add: Opening stock of work-in-process	390,133	276,851
Less: Closing stock of work-in-process (note 10)	<u>(529,977)</u>	<u>(390,133)</u>
Cost of goods manufactured	35,471,891	29,773,919
Add: Opening stock of finished goods manufactured	658,721	622,609
Less: Closing stock of finished goods manufactured (note 10)	<u>(867,020)</u>	<u>(658,721)</u>
	35,263,592	29,737,807
Add: Cost of Raw milk sold directly (note 25.1)	43,358	44,274
	<u>35,306,950</u>	<u>29,782,081</u>
25.1 Raw and packaging material consumed		
Opening stock of raw and packaging material	2,150,536	2,595,145
Add: Purchases	29,144,023	23,969,367
Less:		
- Fair value of milk produced from biological assets (note 5.3)	(734,120)	(496,095)
- Raw milk sold directly (note 25)	(43,358)	(44,274)
- Closing stock of raw and packaging material (note 10)	<u>(2,300,790)</u>	<u>(2,150,536)</u>
Raw and packaging material consumed	<u>28,216,291</u>	<u>23,873,607</u>

25.2 Includes Rs. 91,763 (2013: Rs. 79,015) in respect of staff retirement benefits referred to in notes 37 and 47.

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
26. Distribution and Marketing Expenses		
Salaries, wages, and staff welfare (note 26.1)	674,362	614,024
Advertising	2,308,333	2,658,311
Freight outward	1,149,151	1,113,104
Travelling	128,728	135,872
Communication and other office expenses	50,891	57,889
Depreciation (note 4.3)	199,378	209,847
Impairment of operating assets (note 4.1)	15,180	74,456
Fuel and power	5,447	7,995
Repairs and maintenance	61,052	61,875
Rent, rates and taxes	21,984	20,984
Insurance	12,899	11,357
Research and business development	53,646	20,464
Legal and professional	516	25,445
Ijarah rentals	57,597	54,267
Purchased services	4,928	288
	<u>4,744,092</u>	<u>5,066,178</u>

26.1 Includes Rs. 57,147 (2013: Rs. 57,879) in respect of staff retirement benefits referred to in notes 37 and 47.

	2014	2013
	------(Rupees)-----	
27. Administrative Expenses		
Salaries, wages and staff welfare (notes 27.1 and 27.2)	652,312	481,041
Training and development	69,845	19,437
Communication and other office expenses	138,127	153,716
Rent, rates and taxes	109,629	96,120
Travelling	39,364	59,238
Depreciation (note 4.3)	56,746	71,322
Amortization (note 6)	52,966	50,579
Impairment of intangible assets (note 6)	6,854	-
Fuel and power	12,229	9,924
Repairs and maintenance	16,751	12,273
Insurance	8,465	3,640
Research and business development	5,885	5,481
Legal and professional	156,334	48,155
Auditors' remuneration (note 27.3)	4,544	3,126
Software maintenance and license cost	23,202	19,000
Reversal of impairment of trade debts (note 11.3)	(430)	(446)
Purchased services	36,899	18,527
	<u>1,389,722</u>	<u>1,051,133</u>

27.1 Includes Rs. 52,770 (2013: Rs. 40,197) in respect of staff retirement benefits referred to in notes 37 and 47.

27.2 Includes Rs. 94,614 (2013: Rs. 102,115) in respect of Employees' share option compensation expense.

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
27.3 Auditors' remuneration		
Fee for:		
- audit of annual financial statements	945	935
- review of half yearly financial information	215	175
- tax advisory services	200	-
- review of compliance with the Code of Corporate Governance	50	50
- audit of retirement benefit funds	205	100
- special certifications and other advisory services	2,634	1,681
	<u>4,249</u>	<u>2,941</u>
Reimbursement of expenses	295	185
	<u>4,544</u>	<u>3,126</u>

28. Other Operating Expenses

Workers' profits participation fund (note 20.3)	26,864	28,041
Workers' welfare fund	9,887	22,943
Donations (note 28.1)	17,434	16,220
Loss on death / disposals of biological assets	18,921	19,175
Provision for culling of biological assets (note 5)	22,314	15,961
Biological assets written-off (note 5.1)	-	50,533
Employee separation benefits (note 38)	-	16,600
Exchange loss	17,065	-
Others	123	19,256
	<u>112,608</u>	<u>188,729</u>

28.1 Includes donation to Engro Foundation, a related party, amounting to Rs. 17,000 (2013: Rs. 15,500). The Directors including the Chief Executive and their spouses do not have any interest in the donee, except that two Directors - Mr. Aliuddin Ansari and Mr. Ruhail Muhammad are trustees on the Board of Trustees of Engro Foundation.

29. Other Income

	2014	2013
	------(Rupees)-----	
From financial assets		
Interest on bank deposits / savings accounts	2,198	16,787
Gain realized on disposal of short term investments	11,538	67,185
	<u>13,736</u>	<u>83,972</u>
From other than financial assets		
Gain arising from changes in fair value of biological assets (note 5.1)	245,506	185,771
Foreign currency translation	-	2,610
Gain on disposal of operating assets	13,111	13,477
Exchange gain	-	3,814
Scrap sales	24,392	28,719
Others	8,109	8,548
	<u>291,118</u>	<u>242,939</u>
	<u>304,854</u>	<u>326,911</u>

(Amounts in thousand)

	2014	2013
	------(Rupees)-----	
30. Other Expenses		
Loss on disposal of subsidiary (note 33.2)	453,381	-
Sales tax on exempt supplies (note 30.1)	-	208,456
	<u>453,381</u>	<u>208,456</u>

30.1 In 2013, Ministry of Finance, Economic Affairs, Government of Pakistan (MoF) through SRO 501(I)/2013 dated June 12, 2013 exempted the supplies of Milk and Cream (Dairy products) from levy of sales tax effective from June 13, 2013. Sales tax on these supplies was previously charged at rate of zero per cent (Zero-rated). Consequent to the aforementioned SRO, input tax amounting to Rs. 208,456 could not be claimed / adjusted against the out put tax on these supplies. Subsequently, on Holding Company's plea the MoF through SRO 670/2013 dated July 18, 2013 reinstated the status of Zero-rating of Dairy products. However, effective date of applicability of Zero-rating is not mentioned in SRO 670/2013, therefore, the "Zero-rating" or "exempt" status of the supplies from June 13, 2013 to July 17, 2013 was not clear. Due to significant uncertainty regarding its recoverability the amount was charged-off last year.

	2014	2013
	------(Rupees)-----	
31. Finance Costs		
Mark-up on:		
- short-term finances	371,499	20,187
- long-term finances	843,585	733,955
	<u>1,215,084</u>	<u>754,142</u>
Bank charges	31,804	31,325
	<u>1,246,888</u>	<u>785,467</u>

32. Taxation

Current		
- for the year	101,671	379,824
- for prior periods (note 32.1)	(337,181)	16,971
	<u>(235,510)</u>	<u>396,795</u>
Deferred	(158,966)	(93,062)
	<u>(394,476)</u>	<u>303,733</u>

32.1 During the year, the Holding Company availed tax credits for the years 2012 and 2013 amounting to Rs. 185,175 and Rs. 152,006 respectively, have been recognized under section 65B of the Income Tax Ordinance, 2001 (ITO 2001) i.e. 10% of the value of additions to plant and machinery qualifying for balancing, modernization, replacement, extension and expansion. The Company has filed its income tax return for the year 2013 and revised its income tax return for the year 2012, claiming the aforementioned credit under section 65B.

32.2 Following is the position of the Company's open tax assessments:

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

(Amounts in thousand)

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

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

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

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

32.2.3 In 2013, the Commissioner Inland Revenue raised a demand of Rs. 223,369 for tax year 2009 by disallowing the provision for advances, stock written-off, repair and maintenance, sales promotion and advertisement expenses etc. The Holding Company has obtained stay order from the Sindh High Court against the audit proceedings and has also filed an appeal thereagainst before the Commissioner Appeals. The Holding Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and, accordingly taxes recoverable have not been reduced by the effect of the aforementioned disallowances.

32.2.4 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 has recognized deferred tax asset on recoupable minimum turnover tax during the current year amounting to Rs. 419,239.

32.2.5 During the year, 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.

(Amounts in thousand)

32.3 Relationship between tax expense and accounting profit

Profit before taxation

Tax at the applicable tax rate of 33% (2013: 34%)

Tax effect of:

- Differential of reduction in tax rate
- lower tax rate on exports and gain on short-term investments
- inadmissible expenses
- losses of Subsidiary Company not subject to corporate tax
- prior year credits (note 32.1)
- deferred tax on unused tax losses of the Subsidiary Company written off.
- current year tax credit under section 65B of ITO, 2001
- others

	2014	2013
	------(Rupees)-----	
Profit before taxation	473,400	1,174,105
Tax at the applicable tax rate of 33% (2013: 34%)	156,222	399,196
Tax effect of:		
- Differential of reduction in tax rate	(51,330)	(52,844)
- lower tax rate on exports and gain on short-term investments	(43,868)	(59,256)
- inadmissible expenses	5,753	245
- losses of Subsidiary Company not subject to corporate tax	203,703	2,269
- prior year credits (note 32.1)	(337,181)	-
- deferred tax on unused tax losses of the Subsidiary Company written off.	-	6,913
- current year tax credit under section 65B of ITO, 2001	(329,859)	-
- others	2,084	7,210
	(550,698)	(95,463)
	(394,476)	303,733

33. Analysis of Operations

33.1 Continued Operations

Net sales

Cost of sales

Gross profit

Distribution and marketing expenses

Administrative expenses

Other operating expenses

Other income

Operating profit

Other expenses

Finance costs

Profit before taxation

Taxation

Profit for the year

Net sales	43,027,377	37,890,688
Cost of sales	(34,926,132)	(29,747,587)
Gross profit	8,101,245	8,143,101
Distribution and marketing expenses	(4,692,502)	(5,063,279)
Administrative expenses	(1,252,215)	(1,041,254)
Other operating expenses	(106,304)	(188,815)
Other income	304,854	324,301
Operating profit	2,355,078	2,174,054
Other expenses	-	(208,456)
Finance costs	(1,237,369)	(784,904)
Profit before taxation	1,117,709	1,180,694
Taxation	394,476	(296,820)
Profit for the year	1,512,185	883,874

33.2 Discontinued Operations

During the year, the Board of Directors of the Holding Company decided to entirely divest EFCL and its wholly owned subsidiary Engro Foods US LLC to the Purchaser. Accordingly, a Share Purchase Agreement (SPA) was entered into with the Purchaser. In accordance with the SPA, the Subsidiary Company transferred its entire shareholding (100%) in EFCL to the Purchaser. The share disposal transaction was completed on October 31, 2014. Consequently, the Holding Company, on disposal of its investment in EFCL has recognized a loss of Rs. 453,381 representing total investment less accumulated losses (on the date of disposal) net of sales proceeds.

(Amounts in thousand)

An analysis of the discontinued operations i.e. EFCL at the time of disposal of investment is as under:

	(Unaudited) October 31, 2014	
	Rupees	
a) Assets		
Property, plant & equipment	780	
Intangibles - Brand & Goodwill	48,232	
Stock-in-trade	18,304	
Trade debts	55,122	
Advances, deposits and prepayments	5,191	
Others receivable	1,510	
Cash and bank balances	12,758	
	<u>141,897</u>	
b) Liabilities		
Trade and other payables	<u>51,655</u>	
	For the period ended	For the period ended
	October 31, 2014	December 31, 2013
	------(Rupees)-----	
c) Results of operations		
Sales	394,810	38,550
Expenses	(585,738)	(45,139)
Loss before tax	(190,928)	(6,589)
Taxation	-	(6,913)
Loss for the year	(190,928)	(13,502)
Loss on disposal of investment in subsidiary (note 30)	(453,381)	-
Total loss on discontinued operations	<u>(644,309)</u>	<u>(13,502)</u>
d) Cash flows		
Operating cash flows	(41,107)	(245,761)
Investing cash flows	-	(226)
Financing cash flows	251,033	245,987
	<u>209,926</u>	<u>-</u>

33.2.1 Comparative amounts for results of operations represent transactions for the period from December 16, 2013, date of acquisition of the subsidiary company, to December 31, 2013.

34. Earnings Per Share - Basic and Diluted

There is no dilutive effect on the basic earnings per share of the Holding Company, which is based on:

	2014		2013	
	------(Rupees)-----			
Profit for the year	867,876		870,372	
	Number of shares			
	in thousand			
Weighted average number of ordinary shares in issue during the year	766,596		765,129	
Add: Weighted average adjustment for assumed conversion of employees' share options	-		1,135	
Weighted average number of shares for determination of diluted earnings per share	<u>766,596</u>		<u>766,264</u>	

(Amounts in thousand)

35. Cash Generated from Operations

Profit before taxation including discontinued operations

Adjustment for non-cash charges and other items:

- Depreciation	1,849,878	1,461,213
- Impairment of operating assets	43,295	103,371
- Operating assets written off, net	63	-
- Impairment of intangible assets	6,854	-
- Amortization of intangible assets	52,966	50,579
- Amortization of deferred income	(6,894)	(7,980)
- Amortization of arrangement fees on long term finances	5,448	4,975
- Amortization of deferred employee share option compensation reserve	94,614	102,115
- Foreign currency translation	(54,168)	-
- Loss on death / disposal of biological assets	18,921	19,175
- Biological assets written-off	-	50,533
- Gain on disposal of operating assets	(13,111)	(13,477)
- Sales tax refundable written-off	-	208,456
- Gain arising from changes in fair value of biological assets	(245,506)	(185,771)
- Provision for culling of biological assets	22,314	15,961
- Provision for retirement and other service benefits	78,323	73,992
- Provision for stock-in-trade	15,121	125,154
- Provision for slow moving spares	3,627	1,887
- Reversal of provision for impairment of trade debts	(430)	(446)
- Loss on disposal of investment in subsidiary	453,381	-
- Finance costs	1,246,888	785,467
Working capital changes (note 35.1)	(994,888)	6,809
	<u>3,050,096</u>	<u>3,976,118</u>

35.1 Working capital changes

(Increase) / Decrease in current assets

- Stores, spares and loose tools	(45,773)	(196,784)
- Stock-in-trade	(531,822)	285,868
- Trade debts	95,113	(4,053)
- Advances, deposits and prepayments	68,062	80,710
- Other receivables	(507,955)	(1,118,740)
	<u>(922,375)</u>	<u>(952,999)</u>

Increase / (Decrease) in current liabilities

- Trade and other payables - net	(72,513)	959,808
	<u>(994,888)</u>	<u>6,809</u>

36. Cash and Cash Equivalents

Short term investments (note 14)

Cash and bank balances (note 15)

Short term finances (note 22)

	2014		2013	
	------(Rupees)-----			
	473,400		1,174,105	
	1,849,878		1,461,213	
	43,295		103,371	
	63		-	
	6,854		-	
	52,966		50,579	
	(6,894)		(7,980)	
	5,448		4,975	
	94,614		102,115	
	(54,168)		-	
	18,921		19,175	
	-		50,533	
	(13,111)		(13,477)	
	-		208,456	
	(245,506)		(185,771)	
	22,314		15,961	
	78,323		73,992	
	15,121		125,154	
	3,627		1,887	
	(430)		(446)	
	453,381		-	
	1,246,888		785,467	
	(994,888)		6,809	
	<u>3,050,096</u>		<u>3,976,118</u>	
	-		170,000	
	197,106		575,036	
	(2,331,893)		(213,405)	
	<u>(2,134,787)</u>		<u>531,631</u>	

(Amounts in thousand)

37. Staff Retirement and Other Service Benefits

37.1 As stated in note 2.12.1, the Holding Company operates an approved funded gratuity scheme (the Fund), for all its permanent employees subjected to minimum prescribed period of service. Actuarial valuation of the Fund is carried out every year and the latest actuarial valuation was carried out as at December 31, 2014.

37.2 Plan assets held in trust are governed by local regulations which mainly includes Trust Act, 1882, Companies Ordinance, 1984, Income Tax Rules, 2002 and Rules under the Trust deed of the Fund. Responsibility for governance of the plan, including investment decisions and contribution schedules, lies with the Board of Trustees. The Board of Trustees must be composed of representatives of the Holding Company and plan participants in accordance with the Trust deed of the Fund.

37.3 The latest actuarial valuation of the Fund as at December 31, 2014 was carried out using the Projected Unit Credit Method. Details of the Fund as per the actuarial valuation are as follows:

	2014	2013
	------(Rupees)-----	
37.4 Balance sheet reconciliation		
Present value of defined benefit obligation (note 37.7)	(382,274)	(312,434)
Fair value of plan assets (note 37.8)	383,822	253,792
Surplus / (Deficit)	1,548	(58,642)
(Payable) / Receivable to group companies	(1,548)	332
Net liability at end of the year	-	(58,310)
37.5 Movement in net liability in the balance sheet		
Net liability at beginning of the year	(58,310)	(40,315)
Charge for the year (note 37.9)	(78,323)	(73,992)
Contribution made during the year to the Fund (note 37.8)	137,940	74,005
Remeasurements recognized in Other Comprehensive Income (OCI) (note 37.6)	(1,307)	(18,008)
Net liability at end of the year	-	(58,310)
37.6 Remeasurement recognized in Other comprehensive income		
Loss from changes in demographic assumptions	-	(11)
(Gain) / Loss from changes in financial assumptions	(991)	6,531
Experience losses	3,228	(18,110)
Remeasurement of defined benefit obligation	2,237	(11,590)
Actual return on plan assets	33,336	23,104
Expected return on plan assets	(36,880)	(26,019)
Adjustment - inter-group transfers	-	(3,503)
Remeasurement of fair value of plan assets	(3,544)	(6,418)
	(1,307)	(18,008)

(Amounts in thousand)

37.7 Movement in present value of defined benefit obligations / unfunded obligations

Present value of defined benefit obligations at beginning of the year
 Current service cost
 Interest cost
 Liability in respect of transfers - Inter Group
 Liability in respect of transfers - Inter Fund
 Benefits paid during the year
 Remeasurement on obligation (note 37.6)
 Present value of defined benefit obligation at end of the year

37.7.1 Analysis of present value of defined benefit obligation

Vested Benefits
 Non-Vested benefits

Accumulated benefit obligation
 Amounts attributed to future salary increases

37.8 Movement in fair value of plan assets

Fair value of plan assets at beginning of the year
 Expected return on plan assets
 Contributions for the year
 Assets in respect of transfers - Inter Group
 Assets in respect of transfers - Inter Fund
 Benefits paid during the year
 Remeasurement (note 37.6)
 Fair value of plan assets at end of the year

37.9 Cost charged to profit and loss account

Current service cost
 Net interest cost
 Cost for the year

37.10 Charge for the year has been allocated as follows:

Cost of sales
 Distribution and marketing expenses
 Administrative expenses

	2014	2013
	------(Rupees)-----	
Present value of defined benefit obligations at beginning of the year	312,434	241,468
Current service cost	71,193	67,763
Interest cost	44,010	32,248
Liability in respect of transfers - Inter Group	(1,514)	-
Liability in respect of transfers - Inter Fund	(848)	5,705
Benefits paid during the year	(40,764)	(46,340)
Remeasurement on obligation (note 37.6)	(2,237)	11,590
Present value of defined benefit obligation at end of the year	382,274	312,434
37.7.1 Analysis of present value of defined benefit obligation		
Vested Benefits	376,769	306,529
Non-Vested benefits	5,505	5,905
	382,274	312,434
Accumulated benefit obligation	143,131	117,145
Amounts attributed to future salary increases	239,143	195,289
	382,274	312,434
37.8 Movement in fair value of plan assets		
Fair value of plan assets at beginning of the year	253,792	200,821
Expected return on plan assets	36,880	26,019
Contributions for the year	137,940	74,005
Assets in respect of transfers - Inter Group	366	-
Assets in respect of transfers - Inter Fund	(848)	5,705
Benefits paid during the year	(40,764)	(46,340)
Remeasurement (note 37.6)	(3,544)	(6,418)
Fair value of plan assets at end of the year	383,822	253,792
37.9 Cost charged to profit and loss account		
Current service cost	71,193	67,763
Net interest cost	7,130	6,229
Cost for the year	78,323	73,992
37.10 Charge for the year has been allocated as follows:		
Cost of sales	35,637	33,014
Distribution and marketing expenses	22,193	24,183
Administrative expenses	20,493	16,795
	78,323	73,992

(Amounts in thousand)

37.11 Principal actuarial assumptions used are as follows:

	2014	2013
Financial assumptions		
- Discount rate - per annum compound	12.25%	13%
- Expected rate of increase in salaries - per annum		
- First year	10.00%	10%
- Long-term	11.25%	12%
- Expected rate of return on plan assets - per annum	12.25%	13%
Demographic assumptions		
- Expected mortality rate	SLIC (2001-05)	SLIC (2001-05)
- Withdrawal rates / Rate of employees turnover	Moderate	Moderate

37.12 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	------(Rupees)-----		
Discount rate	1%	342,284	430,080
Expected rate of increase in salaries - long term	1%	428,160	343,166

37.13 The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability recognized within the statement of financial position.

37.14 Plan assets comprise of following:

	2014				2013			
	Quoted	Un-Quoted	Total	(%)	Quoted	Un-Quoted	Total	(%)
	------(Rupees)-----							
Equity Instruments								
Quoted Shares	46,682	-	46,682	12%	6,808	-	6,808	3%
Mutual Funds	5,097	-	5,097	1%	3,933	-	3,933	1%
	51,779	-	51,779	13%	10,741	-	10,741	4%
Debt Instruments								
Government Bonds	-	205,104	205,104	53%	-	54,474	54,474	21%
Term Finance Certificates	6,657	-	6,657	2%	19,870	-	19,870	8%
Engro Rupiya Certificates	17,566	-	17,566	5%	27,065	-	27,065	11%
Regular Income Certificates	-	14,638	14,638	4%	-	33,164	33,164	13%
	24,223	219,742	243,965	64%	46,935	87,638	134,573	53%
Cash and Cash Equivalents	-	86,766	86,766	23%	-	104,018	104,018	41%
Others	-	1,312	1,312	-	-	4,460	4,460	2%
Total	76,002	307,820	383,822	100%	57,676	196,116	253,792	100%

37.15 The expected return on plan assets has been determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the consolidated balance sheet date. Expected return on equity investments reflect the long-term real rates of return experienced in the market.

(Amounts in thousand)

37.16 Expected contributions to the Fund for the year ending December 31, 2015 are Rs. 89,135.

37.17 The weighted average duration of the defined benefit obligation is 17.65 years.

37.18 Historical information of staff retirement benefits:

	2014	2013	2012	2011	2010	2009
	------(Rupees)-----					
Present value of obligations	(382,274)	(312,434)	(241,468)	(171,407)	(137,469)	(77,010)
Fair value of plan assets	383,822	253,792	200,821	129,997	82,509	58,688
Surplus / (Deficit)	1,548	(58,642)	(40,647)	(41,410)	(54,960)	(18,322)

38. Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged in the consolidated financial statements in respect of remuneration and benefits to the Chief Executive, directors and executives are as follows:

	2014			2013		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	------(Rupees)-----					
Managerial remuneration	35,219	-	1,149,376	32,928	-	871,525
Contribution for staff retirement benefits	-	-	154,637	1,665	-	123,843
Bonus paid	1,302	-	21,313	29,511	-	192,634
Fees	-	4,500	7,759	23	2,820	289
Others - separation benefits	-	-	-	16,600	-	-
Total	36,521	4,500	1,333,085	80,727	2,820	1,188,291
Number of persons, including those who worked part of the year	1	7	623	3	9	540

38.1 The Holding Company also provides company owned and maintained vehicles for use of the Chief Executive and certain executives.

38.2 Premium charged in respect of non-executive directors indemnity insurance amounts to Rs. 759 (2013: Rs. 748).

(Amounts in thousand)

39. Financial Instruments by Category

39.1 Financial assets as per consolidated balance sheet

- At fair value through profit and loss

Short-term investments

- Loans and receivables at amortized cost

Long term deposits

Trade debts

Advances and deposits

Other receivables

Cash and bank balances

	2014	2013
	------(Rupees)-----	
	-	170,000
	71,387	56,721
	95,962	245,767
	19,665	20,155
	53,729	524,108
	197,106	575,036
	437,849	1,421,787
	437,849	1,591,787

39.2 Financial liabilities as per consolidated balance sheet

- Financial liabilities measured at amortized cost

Long term finances

Trade and other payables

Accrued interest / mark-up

Short term finances

	7,082,590	8,159,002
	2,564,643	2,857,354
	255,117	239,649
	2,331,893	213,405
	12,234,243	11,469,410

39.3 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. The carrying values of all financial assets and liabilities reflected in the consolidated financial statements approximate their fair values.

40. Financial Risk Management Objectives And Policies

40.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's risk management program focuses on unpredictability of the financial markets for having cost effective funding as well as to manage financial risk to minimize earnings volatility and provide maximum return to the shareholders. Risk management is carried out by the Holding Company's finance department under the policies approved by the Holding Company's Board of Directors.

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk is limited as all the foreign purchases are made against on sight letters of credit where the payment is made on the date of delivery with no credit period. The Holding Company imports plant and machinery and certain raw materials which exposes it to currency risk, primarily with respect to liabilities denominated in US Dollars. The Group manages the currency risk relating to US Dollar and Euro through forward exchange contracts.

(Amounts in thousand)

At December 31, 2014, if the Pakistan Rupee had weakened / strengthened by 5% against the US Dollar with all other variables held constant, the effect on post-tax profit for the year would have been immaterial.

ii) Interest rate risk

Interest rate risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises primarily from long and short term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. As there are no borrowings at fixed rates, the Group is not exposed to fair value interest rate risk.

The Group analyses its interest rate exposure on a regular basis by monitoring existing facilities against prevailing market interest rates and taking into account various other financing options available. For borrowing at variable rates, the rates are determined in advance for stipulated periods with reference to KIBOR.

At December 31, 2014, if interest rates on the Holding Company's borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been higher / lower by Rs. 58,138 (2013: Rs. 56,272) mainly as a result of higher / lower interest exposure on variable rate borrowings.

iii) Other price risk

Price risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group is not exposed to price risk as it carries no price sensitive financial instrument.

b) Credit risk

Credit risk represents the risk of financial loss being caused if counter parties fail to discharge their obligations.

Credit risk arises from deposits with banks and financial institutions, trade debts, loans, advances, deposits and other receivables. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

As at December 31, 2014, the Holding Company has significant concentration of credit risk resulting from receivable from Tetra Pak Pakistan Limited, Ecolan AB and deposits with banks and financial institutions amounting to Rs. 244,909 (2013: Rs. 1,234,606). The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings as follows:

Banks	Rating Agency	2014	
		Short term	Long term
Allied Bank Limited	PACRA	A1+	AA+
Faysal Bank Limited	JCR-VIS	A1+	AA
Bank Alfalah Limited	PACRA	A1+	AA
Bank of Punjab	PACRA	A1+	AA-
Habib Bank Limited	JCR-VIS	A1+	AAA
MCB Bank Limited	PACRA	A1+	AAA
Meezan Bank Limited	JCR-VIS	A1+	AA
National Bank of Pakistan	JCR-VIS	A1+	AAA
United Bank Limited	JCR-VIS	A1+	AA+
Barclays Bank PLC Pakistan	Moody's	P1	A2
Askari Bank Limited	PACRA	A1+	AA
Al-Baraka Bank Pakistan Limited	JCR-VIS	A1	A
Standard Chartered Bank Pakistan Limited	PACRA	A1+	AAA
Soneri Bank Limited	PACRA	A1+	AA-
NIB Bank Limited	PACRA	A1+	AA-
Citi Bank N.A.	Moody's	P1	A2
Bank Al-Habib Limited	PACRA	A1+	AA+
Deutsche Bank AG	Moody's	P1	A3
Samba Bank Limited	JCR-VIS	A1	AA-
Industrial & Commercial Bank of China	Moody's	P1	A1
Summit Bank	JCR-VIS	A1	A

(Amounts in thousand)

The Group attempts to control credit risk arising on receivable from Tetra Pak Pakistan Limited and Ecolan AB, through legally binding agreements that are signed between the two parties. The Group is not materially exposed to credit risk on trade debts as the Group has the policy of receiving the sales value prior to or at the time of supply of the products and credit is only granted to few reputed customers with good credit standings, with whom the Group has written terms of arrangement.

c) Liquidity risk

Liquidity risk represents the risk that the Group will encounter difficulties in meeting obligations associated with its financial liabilities. The Group's liquidity management involves projecting cash flows and consider the level of liquid funds necessary to meet these, monitoring consolidated balance sheet liquidity ratios against external regulatory requirements and maintaining debt financing plans. These objectives are achieved by maintaining sufficient cash and readily marketable securities and availability of funding through committed credit facilities. Due to dynamic nature of the business, the Group maintains flexibility in funding by maintaining committed credit lines available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2014			2013		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	------(Rupees)-----					
Long term finances	1,605,597	5,476,993	7,082,590	1,032,008	7,126,994	8,159,002
Trade and other payables	2,564,643	-	2,564,643	2,857,354	-	2,857,354
Accrued interest / mark-up	255,117	-	255,117	239,649	-	239,649
Short term finances	2,331,893	-	2,331,893	213,405	-	213,405
	<u>6,757,250</u>	<u>5,476,993</u>	<u>12,234,243</u>	<u>4,342,416</u>	<u>7,126,994</u>	<u>11,469,410</u>

41. Capital Risk Management

The objective of the Group when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital.

The Group manages its capital structure and makes adjustment to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Holding Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt. The Group also manages capital by maintaining gearing and current ratios at certain levels. The Group's strategy is to maintain the gearing and current ratio in accordance with the Prudential Regulations issued by the State Bank of Pakistan and in accordance with agreements with financial institutions.

The Group manages capital by maintaining gearing ratio at certain level. The ratio is calculated as long term finances (note 17) divided by total capital. Total capital is calculated as 'equity' in the consolidated balance sheet plus long term finances. The gearing ratio as at December 31 is as follows:

	2014	2013
	------(Rupees)-----	
Long term finances	5,476,993	7,126,994
Total equity	11,577,787	10,760,569
Total capital	<u>17,054,780</u>	<u>17,887,563</u>
Debt to Equity ratio	<u>0.32</u>	<u>0.40</u>

(Amounts in thousand)

42. Transactions with Related Parties

42.1 Transactions with related parties, other than those which have been disclosed elsewhere in these consolidated financial statements, are as follows:

Nature of relationship	Nature of transactions	2014	2013
		------(Rupees)-----	
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	248,813	211,961
	Advance against purchase of shares of Engro Foods Netherlands B. V. - Net	-	237,270
	Pension fund contribution	1,226	1,229
	Provident fund contribution	82,870	25,027
	Gratuity fund contribution	802	1,479
	Reimbursement of net cost incurred for meat pilot project	50,607	-
Associated companies	Arrangement for sharing of premises, utilities, personnel and assets	50,428	79,582
	Purchases of goods	106,883	125,466
	Purchases of services	2,739	8,306
	Donations	17,000	15,500
	Subsidy received	-	17,829
Contribution to staff retirement funds	Provident fund	155,935	178,819
	Gratuity fund	137,348	68,407
Key management personnel	Managerial remuneration	136,108	113,033
	Contribution for staff retirement benefits	10,694	13,085
	Bonus payments	7,071	103,934
	Other benefits	759	748

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

42.3 The related party status of outstanding receivables and payables as at December 31, 2014 are included in respective notes to the consolidated financial statements.

(Amounts in thousand)

43. Segment Information

43.1 A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. Management has determined the operating segments based on the information that is presented to the Board of Directors of the Holding Company for allocation of resources and assessment of performance. Based on internal management reporting structure and products produced and sold, the Group is organized into the following four operating segments:

- Dairy & Beverages
- Ice cream;
- Dairy farm; and
- Business development and others.

Management monitors the operating results of the abovementioned segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in table below, is measured differently from profit or loss in the consolidated financial statements. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

The following information presents operating results information regarding operating segments for the year ended December 31, 2014 and asset information regarding operating segments as at December 31, 2014:

	2014				2013				Total				
	Dairy & Beverages	Ice cream	Dairy farm	Business Development	Others	Total	Dairy & Beverages	Ice cream		Dairy farm	Business Development	Others	Total
Results for the year													
Net sales	40,129,978	2,935,634	734,120	85,436	394,810	44,279,978	35,383,618	2,642,933	496,095	9,144	38,550	38,570,340	
Inter-segment sales	(154,405)	(60)	(734,120)	(12,564)	-	(901,149)	(172,413)	-	(496,095)	-	-	(665,508)	
	39,975,573	2,935,574	-	72,872	394,810	43,378,829	35,211,205	2,642,933	-	9,144	38,550	37,901,832	
Raw milk sales	43,358	-	-	-	-	43,358	27,406	-	-	-	-	27,406	
Depreciation, impairment and amortization	40,018,931	2,935,574	-	72,872	394,810	43,422,187	35,238,611	2,642,933	-	9,144	38,550	37,929,238	
Finance costs	1,494,140	343,667	68,769	42,723	3,695	1,952,994	1,129,370	418,105	62,770	4,840	78	1,615,163	
Net profit / (loss) after tax	716,275	337,627	167,932	15,070	9,984	1,246,888	339,882	309,343	135,589	90	563	785,467	
	1,710,175	(292,515)	(31,388)	(238,294)	(280,102)	867,876	1,572,634	(320,196)	(136,524)	(127,465)	(118,077)	870,372	
Assets													
- Segment assets	18,829,236	2,453,786	1,932,461	130,508	206	23,346,197	17,121,104	2,610,091	1,706,295	58,859	485,718	21,982,067	
- Unallocated assets	-	-	-	-	-	2,353,517	-	-	-	-	-	2,353,517	
	18,829,236	2,453,786	1,932,461	130,508	206	25,699,714	17,121,104	2,610,091	1,706,295	58,859	485,718	24,340,310	

(Amounts in thousand)

44. Seasonality

The Company's 'Ice cream' 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.

45. Production Capacity

	Designed Annual Capacity (note 45.1)		Actual Production		Remarks
	2014	2013	2014	2013	
------(Litres in thousand)-----					
Dairy and Beverages	730,000	657,000	472,735	422,818	Production planned as per market demand
Ice cream	39,000	39,000	16,726	14,500	

45.1 Represents capacity as at balance sheet date.

46. Number of Employees

	Number of employees as at		Average number of employees	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Management employees	1,415	1,400	1,440	1,313
Non-management employees	197	199	200	200
	<u>1,612</u>	<u>1,599</u>	<u>1,640</u>	<u>1,513</u>

47. Provident Fund

The following information is based upon the audited financial statements of provident fund as at June 30, 2013 and June 30, 2014:

	June 30, 2014	June 30, 2013
------(Rupees)-----		
Size of the fund - Total assets	504,987	392,079
Fair value of investments	419,328	357,204
Percentage of investments made	83%	91%

The break-up of fair value of investments is as follows:

	June 30, 2014		June 30, 2013	
	Rupees	%	Rupees	%
Government securities	293,762	70%	277,102	78%
Listed securities	125,566	30%	80,102	22%
	<u>419,328</u>		<u>357,204</u>	

47.1 Investments out of provident fund have been made in accordance with the provisions of section 227 of the Company Ordinance, 1984 and the rules formulated for this purpose.

47.2 An amount of Rs. 123,354 (2013: Rs. 103,099) has been charged during the year in respect of contribution to the provident fund.

(Amounts in thousand)

47.3 As stated in note 2.12.2, during the year, the Holding Company discontinued its provident fund and replaced it with defined contribution provident fund maintained by Engro Corporation Limited - the Ultimate Parent Company. Accordingly, fund's assets and the liabilities / obligations were remeasured as at September 30, 2014 and were substantially transferred to the defined contribution fund maintained by the Ultimate Parent Company.

48. Supplementary Information

48.1 Details of expenses allocated to export business are as follows:

	2014	2013
------(Rupees)-----		
Salaries, wages and staff welfare	13,925	10,997
Freight outward	49,968	39,694
Rent and utilities	332	430
Communication and other office expenses	2,482	623
Travelling	2,423	580
Legal charges	1,435	8,316
Bank charges	4,312	3,642
	<u>74,877</u>	<u>64,282</u>

48.2 Represents all expenses directly attributable to exports and incremental expenses incurred due to exports.

49. Corresponding Figures

For better presentation, following reclassifications have been made in these financial statements:

Description	Rupees	Head of account in financial statements for the year ended December 31, 2013	Head of account in financial statements for the year ended December 31, 2014
Profit and loss account			
Research and business development	5,481	Other operating expenses	Administrative expenses
"	20,464	"	Distribution and marketing expenses
"	11,546	"	Cost of sales
Legal and professional	47,643	"	Administrative expenses
"	25,445	"	Distribution and marketing expenses
"	18,527	"	Cost of sales
Auditor's remuneration	2,837	"	Administrative expenses
Software maintenance and license cost	19,000	"	"

The effects of other rearrangements and reclassifications are not material.

50. Date of Authorization for Issue

These consolidated financial statements were authorized for issue on January 26, 2015 by the Board of Directors of the Holding Company.



Aliuddin Ansari
Chairman



Sarfaraz A. Rehman
Chief Executive Officer

employee share option scheme

The Company in the Extra Ordinary General Meeting held on March 22, 2013, has approved an Employee Share Option Scheme (ESOS) for granting of options to its certain critical employees. The fair value of the option was determined by management using the Black-Scholes model.

According to this scheme, 16.9 million shares can be granted to certain critical employees in the years 2013 to 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. Granted options are exercisable within 3 years from the end of vesting period. There has been no variation in the terms of the options during the year. The Company intends to modify the Scheme, regarding extension in option grant period, after taking necessary approval from the SECP.

No new options have been granted during the year. Consequent to resignation of two employees, 1.3 million share options granted in 2013, lapsed during the year. In accordance with terms of the Scheme, such options are now available for grant to new or existing employees of the Company.

Till date 4,400,000 shares have been granted to the following senior management personnel:

S.No.	Name	No. of Options
1	Ahsan Afzal Ahmed	800,000
2	Babur Sultan	1,000,000
3	Imran Anwer	1,000,000
4	Salman Goheer	800,000
5	Usman Zaheer	800,000

The following employees were given more than 5% of total options issued:

S.No.	Name	No. of Options
1	Babur Sultan	1,000,000
2	Imran Anwer	1,000,000

None of the employees were issued with options exceeding 1% of the paid up capital of Company.

proxy form

I/We _____
of _____ being a member of ENGRO FOODS LIMITED
and holder of _____
(Number of Shares)

Ordinary shares as per share Register Folio No. _____ and/or CDC
Participant I.D. No. _____ and Sub Account No. _____, hereby appoint
_____ of _____ or failing him
_____ of _____

as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held on the 27th day of April, 2015 and at any adjournment thereof.

Signed this _____ day of _____ 2015.

WITNESSES:

1) Signature : _____
Name : _____
Address : _____

CNIC or : _____
Passport No.: _____

2) Signature : _____
Name : _____
Address : _____

CNIC or : _____
Passport No.: _____

Signature
Signature should agree with the specimen
registered with the Company

Note:

Proxies in order to be effective, must be received by the Company not less than 48 hours before the meeting. A Proxy need not be a member of the Company.

CDC Shareholders and their proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the Company.

electronic transmission consent form

The Securities & Exchange Commission of Pakistan through SRO 787(I)/2014 of September 8, 2014 allowed the Company to circulate its annual balance sheet and profit & loss accounts, auditor's report and directors' report etc. (Audited Financial Statements) along with the Company's Notice of Annual General Meeting to its shareholders through email. Those shareholders who wish to receive the Company's Annual Report through email are requested to complete the requisite form below.

CDC shareholders are requested to submit their Electronic Transmission Consent Form along with their CNIC directly to their broker (participant)/CDC; while shareholders having physical shares are to send the forms and a copy of their CNIC to the Company's Registrar, FAMCO Associates (Pvt) Limited, 8-F, Block 6, P.E.C.H.S, next to Hotel Faran, Nursery, Shahrah-e-Faisal, Karachi.

Electronic Transmission Consent Form

Pursuant to the directions given by the Securities & Exchange Commission of Pakistan through its SRO 787(I)/2014 of September 8, 2014, I, Mr. /Ms. _____, S/o, D/o, W/o _____

hereby consent to have the Engro Foods Limited's Audited Financial Statements and Notice of Annual General Meeting delivered to me via email on my email address provided below:

Name of Member/Shareholder	
Folio/CDC Account Number	
CNIC	
Email Address	

It is stated that the above mentioned information is true and correct and that I shall notify the Company and its Share Registrar in writing of any change in my email address or withdrawal of my consent to email delivery of the Company's Audited Financial Statements and Notice of the Meeting.

Signature of Member/Shareholder

Date: _____

request for video conferencing facility form

Members can also avail video conference facility in Lahore and Islamabad. If the Company receives consent at least 10 days prior to date of meeting, from members holding in aggregate 10% or more shareholding and residing at either Lahore and/or Islamabad to participate in the meeting through video conference, the company may arrange video conference facility in that city.

In this regard please fill up the following form and submit it to registered address of the Company 10 days before holding of the annual general meeting.

I/We, _____ of _____ being a member of Engro Foods Limited,
holder of _____ Ordinary Share(s) as per Register Folio No/CDC A/c No. _____
hereby opt for video conference facility at _____.

Signature of Member/Shareholder

Date: _____