

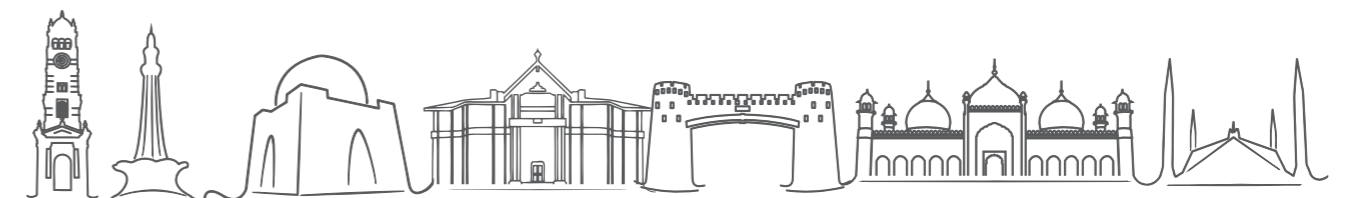
## khud pakistan

At Engro Foods, we take pride in our growing operations spanning the length and breadth of Pakistan and stand resolute in our commitment to serve our country by making a meaningful contribution to society, our consumers and the economy at large.

As the country's fastest growing local conglomerate, leading ice-cream manufacturer and market leader in UHT, our success today directly translates into growth of Pakistan's agri-business sector, accounting for more than 11% of Pakistan's GDP.

As a home-grown business that has evolved into Pakistan's biggest success story, the cover illustration is a reinforcement of our commitment to drive economic growth and impact life across all segments of Pakistani society, as we deliver value to our consumers, boost agri-business and improve life for low-income segments of Pakistan.

From the consumers who seek our guaranteed brand of nutrition and quality, to the myriad suppliers and thousands of small-scale dairy farmers relying on our business to make ends meet, at Engro Foods, we believe that our brands drive Pakistan's growth. Because we believe that we are Khud Pakistan.



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the frontier  
of good taste



## company information

### Board of Directors

Aliuddin Ansari, Chairman  
Afnan Ahsan, Chief Executive Officer  
Abdul Samad Khan  
Abdul Samad Dawood  
Muhammad Amin  
Mujahid Hamid  
Ruhail Mohammed  
Shahzada Dawood  
Roshaneh Zafar  
Zafar Ahmed Siddiqui

### Company Secretary

Faiz Chapra

### Bankers

Al-Baraka Bank Pakistan Limited  
Allied Bank Limited  
Askari Bank Limited  
Bank Al-Falah Limited  
Bank Al-Habib Limited  
Bank of Punjab  
Barclays Bank PLC Pakistan  
Burj Bank Limited  
Citibank N.A  
Dubai Islamic Bank Pakistan Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
HSBC Bank Middle East Limited  
JS Bank Limited  
MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Pak Brunei Investment Company Limited  
Pak Kuwait Investment Company (Private) Limited  
Soneri Bank Limited  
Standard Chartered Bank Pakistan Limited  
The Bank of Khyber  
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@engro.com](mailto:info@engro.com)  
Website: [www.engrofoods.com](http://www.engrofoods.com) | [www.engro.com](http://www.engro.com)

# notice of the meeting

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of Engro Foods Limited will be held at the Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Friday, March 22nd, 2013 at 10.00 a.m. to transact the following business:

## A. ORDINARY BUSINESS

- (1) To receive and consider the Audited Accounts for the year ended December 31, 2012 and the Directors' and Auditors' Reports thereon.
- (2) To appoint Auditors and fix their remuneration.

## B. SPECIAL BUSINESS

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

"RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to ratify/approve the amount of Rs. 863,018,392 (Equivalent to US\$ 10 mn) already invested and an amount of up to US\$ 5 mn (in equivalent Pak Rupees) invested and to be invested in future years, to acquire shares of Engro Foods Netherlands B.V from Engro Corporation Limited, and by way of additional equity."

By Order of the Board

Karachi,  
Dated: January 24, 2013.

**FAIZ CHAPRA**  
Head of Legal & Company Secretary

## N.B.

- (1) The Share Transfer Books of the Company will be closed from Friday, March 15, 2013 to Friday, March 22, 2013 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Pvt.) Limited, 1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00p.m) on Thursday, March 14, 2013 will be treated in time for the purpose of entitlement of the transferees to attend the meeting.
- (2) 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 Eighth Annual General Meeting of Engro Foods Limited to be held on March 22, 2013 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 (3) OF THE AGENDA

1. Engro Foods Limited ("EFoods"), as part of its plans to expand internationally, identified Al Safa Canada for acquisition. Al Safa deals in Halal Foods and its products are sold through many outlets in North America.
2. The funds required to complete the acquisition were required to be remitted from Pakistan. The State Bank of Pakistan ("SBP") however, only permits remittance overseas to companies that have 3 years of profitable operations. At the time of the acquisition, EFoods did not meet that criteria, consequently the acquisition was made (on its behalf) by Engro Corporation Limited ("ECorp"). For tax and other benefits, the investment was however made into an intermediary subsidiary especially set up for this purpose, Engro Foods Netherlands B.V., which invested in/acquired the shares of Al Safa (now renamed Engro Foods Canada Ltd). EFoods however manages the entire operations in North America. Engro Foods Netherlands B.V. issued 20,000 shares of Euro 1 each at the time of the initial investment. As permitted by Dutch Law, whenever further investments are made, no further shares are issued but, rather, the equity value of the shares increases. Where there is only one shareholder in a Dutch company, this is a preferred mode of operation.
3. At the time of the acquisition, it was always intended that Al Safa would be owned and operated by EFoods. ECorp (then the owner of 100% of the shares of EFoods) and EFoods entered into an agreement dated May 2011. Details of the agreement are as follows:
  - 3.1 ECorp shall invest up to Rs. 800,000,000 (Rs. Eight Hundred Million Only) in the Global Business Unit (GBU) till December 31, 2011 being set up in Canada and the United States of America via investment in Engro Foods Netherlands B.V. which will invest in the Canadian and USA companies.
  - 3.2 In case the investment requirements for the GBU exceed Rs. 800,000,000 (Rs. Eight Hundred Million Only), both Parties shall agree to the financial arrangement for the same.
  - 3.3 EFoods shall endeavor to purchase the entire shareholding of the GBU business (i.e. shares of Engro Foods Netherlands B.V.) from ECorp by June 30, 2012 at the actual rupee amount invested in the said business (shares of Engro Foods Netherlands B.V.) till that day by ECorp.
  - 3.4 In case EFoods is unable to purchase the entire shareholding of the GBU by June 30, 2012, both Parties shall agree to the way forward.
4. EFoods was listed in August 2011. Complete disclosure was made in the listing documents (the "Prospectus") exactly as set out in 3.1 to 3.4 above, that the North American business, though at that time owned by ECorp, would be acquired by EFoods by June, 2012 and if it could not do so, than the way forward, including payment of the amounts invested by ECorp on behalf of Efoods, would be agreed between the two companies.
5. The requirements of the North American business exceeded Rs. 800 million and on October 3, 2012, the amount then invested by ECorp, Rs.863,018,392/- was paid by EFoods to ECorp. EFoods benefitted because ECorp was only paid the actual rupee amount invested upto that time, and no interest/markup was charged by ECorp, either for the period prior to June 2012, or for the period thereafter. Transfer of the shares in Engro Foods Netherlands B.V. was agreed to be made by ECorp upon receiving SBP approval. As EFoods has now completed 3 years of profitable operations, this permission is in the process of being applied for. Both parties also formally documented the same in a supplemental to the earlier agreement. Also, as the North American operations are still in (planned) losses, there is no dividend/return from the Canadian entity, so the fact that the actual share transfer will take place later makes no practical/financial difference to EFoods. In addition, as per the original agreement of May 2011 (disclosed in full in the Prospectus), between EFoods and ECorp (at that time 100% owner of Foods shares) EFoods was anyway obliged to pay this money and, consequently, due to this reason and the fact that the public shareholders were made aware in the Prospectus of the requirement to acquire the shares of Engro Foods Netherlands B.V. and the obligation to pay ECorp, and that, in substance, this is

not really a case of acquiring shares from a third party, rather only taking onto its own books an investment that was always intended to be owned by it and has in fact been managed by the Company from the beginning, there was deemed to be no need to obtain 208 shareholder approval of the same. This being the case, the Company has, however, decided, out of abundant caution, to seek this ratification and approval. As Efoods Canada requires further funds, an amount of up to the Pak rupee equivalent of USD 5 million will be paid by Efoods to it, through ECorp and Engro Foods Netherlands B.V. (of which the Pak rupee equivalent of US\$ 700,000/- has been paid already in 2013) and following actual share transfer, amounts required by Efoods Canada will be paid by Efoods directly to Efoods Canada through Engro Foods Netherlands B.V.

The information required under S.R.O.27(I)/2012 is provided below:

- i. **name of the associated company or associated undertaking along with criteria based on which the associated relationship is established;**  
Engro Foods Netherlands B.V which is a wholly owned subsidiary of Engro Corporation Limited of which the Company is a subsidiary.
- ii. **purpose, benefits and period of investment;**  
To provide equity to Engro Foods Canada Ltd. through Engro Foods Netherlands B.V., for the North American operations. Efoods believes that the North American business will do well and be profitable in the medium term. There is no period as such for the investment. It is a long term investment in the North American business.
- iii. **maximum amount of investment;**  
Upto USD 15 million in equivalent Pak Rupees.
- iv. **maximum price at which securities will be acquired;**  
As explained above, Engro Foods Netherlands B.V's entire shareholding is being acquired and the number of shares (20,000) is not material.
- v. **maximum number of securities to be acquired;**  
20,000
- vi. **number of securities and percentage thereof held before and after the proposed investment;**  
Efoods does not hold any shares at present. It will hold 100% of the shares in Engro Foods Netherlands B.V.
- vii. **in case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired;**  
Not applicable.
- viii. **in case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1);**  
This is not applicable as:
  - (1) Efoods is not purchasing shares of a 'third party' company;
  - (2) Engro Foods Netherlands B.V. and Engro Foods Canada Ltd. are both entities set up (though of course not yet legally owned) by Efoods itself;
  - (3) Engro Foods Netherlands has been set up as an SPV whose purpose is to be used as an investment and holding vehicle to invest into the North American businesses; and
  - (4) Engro Foods Netherlands B.V's present fair market value is consequently irrelevant because (a) whatever is the value, Efoods has to pay the amounts invested to ECorp for the acquisition of the North American foods business as that was always planned to be owned by Efoods and has always been managed by it and (b) in any case, like most FMCG businesses, including Efoods itself, the North American business will make losses in its first few years.  
Therefore, this 'investment' is really only funding for a business that is to form part of the Efoods portfolio.

- ix. **break-up value of securities intended to be acquired on the basis of the latest audited financial statements;**  
Not applicable.
- x. **Earnings/(Losses) per share of the associated company or associated undertaking for the last three years;**
  - 2010: NA
  - 2011 CAD (60.36)/Share, PKR (5250.68)/Share
  - 2012 CAD (114.57)/Share, PKR (10,683.02)/Share
- xi. **sources of fund from which securities will be acquired;**  
Investment will be funded through internal cash generation of Efoods.
- xii. **where the securities are intended to be acquired using borrowed funds;**
  - (I) justification for investment through borrowings; and
  - (II) detail of guarantees and assets pledged for obtaining such funds;
 No borrowed funds are being used as set out above. The investment is funded through internal cash generation.
- xiii. **salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment;**  
Please see details of agreements with ECorp as stated above.
- xiv. **direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration;**  
None save that some directors of Engro Foods Limited also hold shares in Engro Foods.
- xv. **any other important details necessary for the members to understand the transaction; and**  
All relevant details have been provided above.
- xvi. **in case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information is required;**  
Not applicable.

By Order of the Board

Karachi,  
Dated: January 24, 2013.

**FAIZ CHAPRA**  
Head of Legal & Company Secretary

# our vision

## elevating consumer delight world-wide

Engro Foods will continue to make investments aimed at impacting lives and inspiring hope for millions of Pakistanis every day, in a multitude of ways.

At Engro Foods, at the heart of our operational strategy is an unwavering commitment to make investments geared towards bolstering the economy in ways that can translate our growth into heightened prosperity for Pakistan. Keeping this as our core focus, we have always strived to create value by making a meaningful contribution to our economy, our stake-holders and all the communities that we engage and do business with.

The scope of our long-term vision therefore extends far beyond our success as a business entity to encompass sustained economic growth through agri-business development across Pakistan.

Highlighting this vision, our corporate philosophy 'Khud Pakistan' further reinforces our commitment to foster growth and development across Pakistan by delivering value, creating livelihoods and improving life for thousands of vulnerable Pakistanis struggling at the lowest rung of the economic ladder in marginalized rural communities.

From the consumers who seek our guaranteed brand of nutrition and quality, to the myriad suppliers and thousands of small-scale dairy farmers relying on our business to make ends meet, 'Khud Pakistan' embodies Engro Foods' growing contribution across all segments of Pakistani society.

Empowering people in low-income communities, the Engro Foods Khud Pakistan business model is a symbol of hope that allows thousands of people to boost their livelihoods and contribute to economic development by becoming active participants in Pakistan's agribusiness supply chain.

Recognized by the International Finance Corporation (IFC) - a member of the World Bank Group at the 'G20 Challenge on Inclusive Business Innovation' for pioneering a business model that positively impacts neglected, low-income communities, at Engro Foods we are aware of the fact that our efforts are critical for Pakistan's long-term growth.

So as we stand resolute in our commitment to fuel growth by fueling the nation's economy, Engro Foods will continue to make investments aimed at impacting lives and inspiring hope for millions of Pakistanis every day, in a multitude of ways.



Pistachios from Khyber-Pakhtunkhwa are not only a tasty snack but a proud export to the world.



# core values

## living our core values every day

### Ethics & 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.



Green apples from the orchards surrounding Peshawar are known for their crisp tang and dietary benefits.



# our overview

## fostering agri-business growth with our business

Since our inception in 2005, we at Engro Foods have remained firmly committed to our goal of serving Pakistan's economy and our consumers with compelling brands unparalleled in quality, value and nutrition.

In the last seven years, as we have grown from strength to strength, we have redefined industry benchmarks and changed the very landscape of the country's foods business. Our products have consistently raised the bar for quality by setting the highest standards and paving the way for growing consumer expectations.

As Pakistan's fastest growing local company with an investment of Rs. 12 billion into Capex and Rs. 16 billion into brands, the continued success of our brands Olpers, Olper's Lite, Olfrute, Omoré, Omung and Tarang over the years has fueled growth within the country's socio-economic fabric.

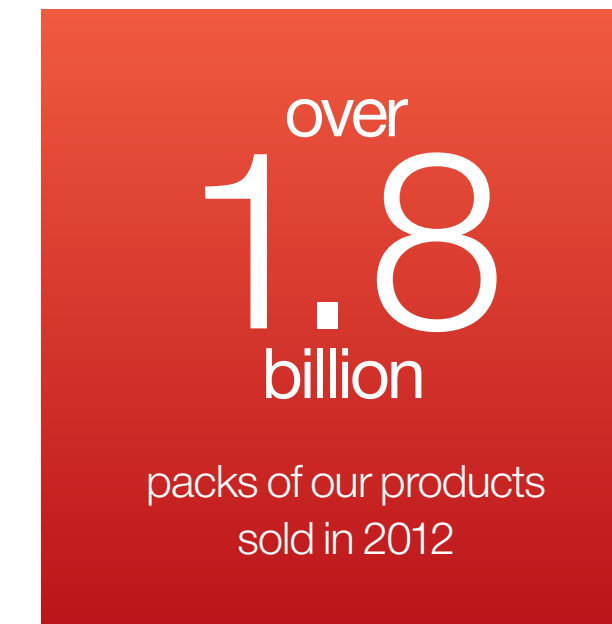
With over 1,300 milk collection units providing livelihood to 160,000 farmers across Pakistan, our success today directly translates into

growth of the country's agri-business sector accounting for more than 11% of Pakistan's GDP. At Engro Foods, we take pride in the fact that our growth fuels Pakistan's growth.

We are also immensely proud of our growing operations spanning 310 cities and four provinces of Pakistan, as well as across 18 US states and 4 Canadian provinces.

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.

Today Engro food products are sought after by everyone everywhere. So as we continue to solidify our presence locally with increased focus on our global expansion, we do so with the confidence that the years ahead will bring forth new milestones for Engro Foods, and greater prosperity for Pakistan.





# our portfolio

## new milestones bigger challenges

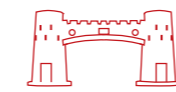
At Engro Foods, we put great emphasis on manufacturing food products that combine great taste with the best value and nutrition to enhance lives, excite consumers and exceed expectations every day.

It is this mindset that has contributed to our growing success over the years, making brands like Olper's, Omoré, Al Safa and Tarang household names and heavily relied upon by a thriving consumer base across Pakistan, Canada and North America.

Presently our product portfolio comprises some of the country's biggest and best-selling brands including Olper's, Olper's Lite, Olper's Flavoured Milk, Tarrka, Olfrute, Omoré, Dairy Omung, Omung Lassi, Dobala and Tarang. We also have a growing presence in the global halal foods market with a large assortment of halal food items marketed under the Engro Foods Al-Safa

brand, one of the most successful and fastest growing brands of Halal products in North America. Al Safa houses more than four different food categories and formats including Fresh, Ready to Eat, Ready to Cook, Deli and more. All Al Safa products are endorsed by the Muslim Advisory Board, which ensures the products meet Halal standards as described by the Sharia Law. Al Safa products are sold throughout North America, targeting one of the continent's fastest growing populations of more than 8 million Muslim consumers. At Engro Foods Canada, we are committed to make Al Safa the #1 Halal brand in the world.

So whether it is our thick, creamy all-purpose milk or our wide range of fruity beverages, nutritious ice-creams and frozen desserts and mouth-watering halal food products, our brands embody the highest standards of quality – making them sought after by consumers across Pakistan and beyond.



Locals have a traditional almond drink that is both sweet and thick. It helps to revitalize hardworking farmers during hot summer days.



# our footprint

Our growing market share covers over 8 regions and 310 cities in Pakistan as well as over 18 states in North America and 4 provinces in Canada, where our halal food range continues to attract a wide cross-section of consumers.

## North America

4 provinces in Canada

18+ states in USA

## Pakistan

310 cities

1300 milk collection centers

2 processing plants &  
a production farm



# the resolution for growth



## corporate governance

### Compliance Statement

The Board of Directors has throughout the year 2012 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, 2012, the Board comprises of Four independent Directors, 5 non-executive Directors of whom three are executives in other Engro 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. Afnan Ahsan. Biographical details of the Directors are given on pages 23 to 26.

A Board of Directors' meeting calendar is issued annually that provides dates for Board meeting during the year. The full Board met 06 times this year and discussed matters relating to 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.

## Board Committees

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

### Human Resource and Remuneration 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 Human Resource and Remuneration Committee Meeting by invitation.

The committee met 3 times during 2012.

#### Committee Members

The committee comprises the following members:

Ali Ansari	Chairman
Muhammad Amin	Member
Mujahid Hamid	Member
Shahzada Dawood	Member
Kanwer A. Saeed	Secretary
Afnan Ahsan	On Invitation

### 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 4 times during 2012.

#### Committee Members

The committee comprises the following members:

Zafar Siddiqui	Chairman
Abdul Samad Khan	Member
Ruhail Mohammed	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:

Aamir Khawas  
Afnan Ahsan  
Ahsan Afzaal Ahmad  
Babur Sultan  
Imran Anwer  
Javed Iqbal  
Kanwer A. Saeed

### 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:

Aamir Khawas  
Afnan Ahsan  
Ahsan Afzaal Ahmad  
Babur Sultan  
Imran Anwer  
Javed Iqbal  
Kanwer A. Saeed  
Salman Goheer  
Syed Saud A. 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 2012.

The Committee comprises the following members:

Afnan Ahsan	Chairman
Aamir Khawas	Member
Ahsan Afzaal Ahmad	Member
Babur Sultan	Member
Imran Anwer	Member
Javed Iqbal	Member
Kanwer A. Saeed	Member
Salman Goheer	Member
Syed Saud A. Pasha	Member
Adnan Mahmood	Secretary

# our directors

## directors profile

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.

Committed to our long-term success and growth, our board steers the strategic direction of our business and helps us carry our mission forward with passion and zeal.



**Muhammad Aliuddin Ansari**  
Chairman

Appointed President and CEO of Engro Corp in May 2012, Muhammad Aliuddin Ansari holds a degree in Business Administration, with a specialization in Finance and Investments. Ansari started

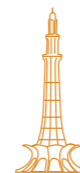
his career as an Investment Manager at Bank of America in London which later became Worldinvest after a management buyout. Thereafter, he worked as CEO Pakistan and later as COO Emerging Europe for Credit Lyonnais Securities Asia. He has also worked as CEO AKD Securities and Dewan Drilling, Pakistan's first independent drilling company. Ansari currently holds directorships in all Engro companies, and is also a member of the Board of Directors of Dawood Hercules Corporation Limited, Dewan Drilling Limited, Dewan Petroleum Limited, Pakistan Chemical and Energy Sector Skill Development Company and Pakistan Business Council. He has also chaired a number of SECP committees and has served on the Boards of the Karachi Stock Exchange, NCCPL, Lucky Cement and Al Meezan Investment Management amongst others. He joined the Engro Corp Board in 2009.



**Afnan Ahsan**  
Chief Executive Officer

Afnan Ahsan is the Chief Executive Officer of Engro Foods Limited since 2011. Ahsan has an extensive career of 20+ years in leading multinationals like Coca-Cola, Pepsi Cola and Nestle.

He brings with him a wealth of experience and learning in Business Management across several geographies namely South Africa, Canada, South East Asia and Pakistan. His expertise includes Mergers and Acquisitions, Marketing, Sales, Food and Beverages, Manufacturing and Supply Chain Management. He holds an MBA in Finance and Marketing from Arkansas State University, USA. Prior to joining Engro Foods, Ahsan was working with Nestle as Senior VP, and Business Executive Manager in Philippines leading their Beverages Business. During his career with Nestle he has also been involved in the water and Ice cream businesses.



A staple across the Punjab, corn is best paired with mustard to make a traditional Punjabi meal.



# directors profile



## Abdul Samad Khan

Director

Abdul Samad Khan holds an MBA degree from the IBA, Karachi and is the Chief Executive Officer, Engro EXIMP (Private) Ltd. and Senior Vice President, Engro Corporation Ltd.

Khan began his career at Engro in 1988 and has worked in numerous roles within the Company, including sales and marketing positions involving cross communication with rural customers at regional and national levels. He has also been involved in international trade for the last six years, focused mainly on driving profits through trading positions. Khan is a member of the Board of Directors for Engro Foods, Engro EXIMP (Private) Ltd. and Engro EXIMP AgriProducts (Private) Ltd.



## 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 (Pvt.) Limited. He is a Director on the Board of Dawood Hercules Corporation Limited, The Hub Power Company Limited, Sui Northern Gas Pipeline Limited, Dawood Lawrencepur Limited, Engro Fertilizers Limited, Engro Eximp (Private) Limited, International Industries Limited, DH Fertilizers Limited, Tenaga Generasi Limited, WWF Pakistan and Pebbles (Pvt.) Limited. He is a member of Young President Organization, Pakistan Chapter. He joined the Board in 2012.



## Muhammad Amin

Director

Muhammad Amin is a Chartered Accountant with over 25 years of professional experience. Muhammad Amin joined the Board of Directors of Engro Foods in 2005 and is presently

overseeing the operations at Cadbury Pakistan Limited as Managing Director. Prior to joining Kraft Foods Pakistan, he was associated with Gillette for 11 years in Pakistan and overseas. He last served Gillette as Regional Business Director, Middle East and Africa for the shaving business.



## Mujahid Hamid

Director

Mujahid Hamid holds a masters degree in Business Administration and is an international business consultant with core expertise in strategic consultancy services in

consumer products, media, entertainment and health care. Hamid joined the Board of Directors of Engro Foods in 2009 and is presently the Executive Director at ZIL (formerly Zulfiqar Industries). Also a member of the Board of Governors of Shaukat Khanum Cancer Hospital, his career spans many years of local and international experience in Pakistan as well as the Far East.



## Roshaneh Zafar

Director

Roshaneh Zafar is the Founder and Managing Director of Kashf Foundation, Chair Kashf Holdings and Founder Kashf Microfinance Bank Limited based in Pakistan. Prior to

starting Kashf, Roshaneh worked with the World Bank in Islamabad in the Water and Sanitation department for several years. She has also been awarded the Tamgha-i-Imtiaz, one of Pakistan's highest civilian awards 2005, by the President of Pakistan for her work in the field of development and women's empowerment. Roshaneh is a graduate of the Wharton Business School University of Pennsylvania in Finance and Economics and also holds a Masters in International and Development Economics from Yale University.



## 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 Corpora-

tion 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. Mohammed has 25 years of Financial and Commercial experience and prior to becoming CEO has worked in areas such as treasury, commodity and currency trading, derivatives, merger and acquisitions, risk management, strategy and 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 Cyan Limited, Hub Power Company Limited and Pakistan Institute of Corporate Governance.



## Shahzada Dawood

Director

Shahzada Dawood holds a masters degree in Global Textile Marketing from the Philadelphia University, USA and completed his LLB from Buckingham University, UK. He is

the Director of Dawood Lawrencepur Limited and Dawood Hercules Corporation Ltd. and joined the Board of Directors of Engro Foods in 2005. He is also a member of the Board of Governors of National Management Foundation (LUMS) and a member of the Board of Trustees of Dawood Foundation.



## 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, Zulfiqar Industries, Faysal Asset Management Limited, as well as holding the position of Director, Center for Entrepreneurial Development IBA.

## board of directors



### Back (left to right)

Mujahid Hamid  
Zafar Ahmed Siddiqui  
Shahzada Dawood  
Abdul Samad Dawood  
Abdul Samad Khan  
Muhammad Amin

### Front (left to right)

Roshaneh Zafar  
Aliuddin Ansari  
Afnan Ahsan  
Ruhail Muhammad



# management committee

**Left to Right (Back)**

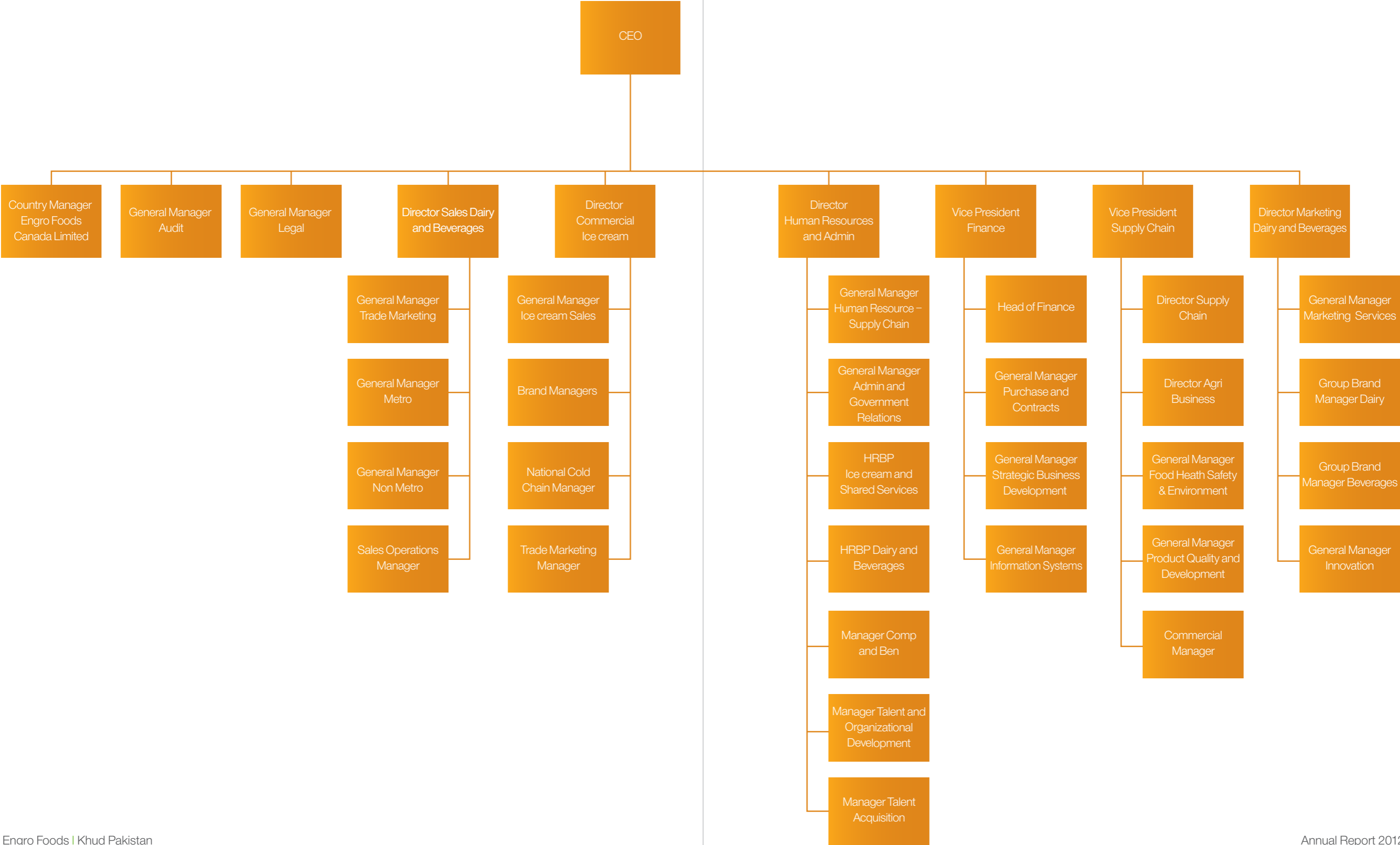
Salman Goheer  
Babur Sultan  
Syed Saud Ahmed Pasha  
Imran Anwer  
Javed Iqbal  
Aamir Khawas

**Left to Right (Front)**

Kanwer Anwer Saeed  
Afnan Ahsan  
Ahsan Afzaal



# our organogram



# the leader in nutrition



## ceo's message



At Engro Foods, we pride ourselves on going above and beyond what is expected of us. Despite facing a challenging business environment, 2012 proved to be an unmistakably outstanding year for Engro Foods as we grew in size, productivity and scalability by leaps and bounds.

Through the year our primary focus was evident in our quest for performance driven efficiency, where we sought to weave efficiency as a binding thread running through every fabric of our business including our operational, logistical, capital and people management frameworks. With all key business areas optimized for maximum efficiency, we achieved significant growth and high returns on all our investments, a trend that will continue to drive our success in the coming years. In 2012, we made conscious efforts to reignite the mindset that sets us apart as an excellence driven organization by embedding innovation within every facet of our operations including our business, marketing, manufacturing and communication strategies. Deeply shared by our people, this passion for innovation continues to drive our business growth, making our brands sought after across Pakistan and beyond.

As we strengthened our operations, sustaining our inclusive business model to impact lives and foster long-term economic growth remained a key area of focus for Engro Foods in 2012, as we sought to expand our footprint and create more opportunities for the small-hold dairy farmers who make an invaluable contribution to our business. This was in stark contrast to a CSR-focused approach where benefitting the peripheral rural community and bottom of the pyramid was made an intrinsic focus area of our business model. In our efforts to improve livelihoods and the quality of life for the thousands of dairy farmers who serve us, Engro Foods will continue to invest in productivity initiatives at the grassroots level to help farmers reap the full benefits of sustainable agriculture. To this end, we were amongst the winners of the G20 Challenge on Inclusive Business Innovation, further highlighting our commitment to pioneering business models which positively impact Pakistan's marginalized rural communities.

During the year, there was tremendous emphasis on reigniting organizational innovation focus which has long remained a hallmark of our business operations.

Whilst we consolidate our resources to deliver this excellence through 2013, our pursuit of value creation for a broad category of our stakeholders will be fuelled with a strategic focus on three key areas: capability, scale and efficiency.

In 2012, we stepped up our focus on deploying an innovation culture which translated in Engro Foods breaking the market norms and adopting an innovation mindset across an array of business areas including products, processes, communication technologies and go-to market opportunities amongst others. To this end, we have developed a two-pronged strategy geared towards greater penetration, and increased outreach within the dairy sector with a target of tapping half a million small-time farmers over the next ten years. This is also reflected in our corporate philosophy 'Khud Pakistan' which underscores our commitment to foster development across Pakistan by achieving economic growth and social change in marginalized rural communities. Going forward, we remain keen to explore the informal foods sector in Pakistan, and plan to focus increasingly on expanding the scope of our product range to encompass all areas of agri-produce in the years to come.

As Pakistan's fastest growing foods business, at Engro Foods we pride ourselves on our penchant for innovation, which has always been the hallmark of our business operations and the guiding force behind our operational strategy. As we continue to translate our strengths into our business success, 2013 will pave the way for a new performance driven culture at Engro Foods, which will be geared towards enhancing our human resource capacity at par with global standards, embarking on a corporate management training plan to develop future leadership from within the organization, and achieving excellence at every level, every step of the way. Furthermore, whilst we consolidate our resources to deliver this excellence through 2013, our pursuit of value creation for a broad category of our stakeholders will be fuelled with a strategic focus on three key areas: capability, scale and efficiency.

At Engro Foods, we take honor in the fact that we have a tremendous responsibility to fulfill towards society, our consumers and the economy at large. Because we believe that we are 'Khud Pakistan', our passion to do good and contribute towards Pakistan's growth is constantly fuelled, never faltering.



Afnan Ahsan  
Chief Executive Officer

## redefining quality, value and nutrition

<b>Sales Revenue Rs. million</b> 2011 29,859 2012 <b>40,169</b>	<b>Weight Average number of ordinary shares (000's)</b> 2011 730,721 2012 <b>756,431</b>	<b>Profit after Tax Rs. Million</b> 2011 891 2012 <b>2,595</b>
<b>Earning per share Basic Rs.</b> 2011 1.22 2012 <b>3.43</b>	<b>EBITDA Rs. Million</b> 2011 3,375 2012 <b>6,071</b>	<b>Capital Expenditure Rs. Million</b> 2011 3,403 2012 <b>2,549</b>
<b>Market Capitalization (Year End) Rs. Million</b> 2011 16,990 2012 <b>74,783</b>	<b>Total Assets Rs. Million</b> 2011 16,639 2012 <b>22,189</b>	<b>Total Equity Rs. Million</b> 2011 7,237 2012 <b>10,054</b>

### Financial Indicators:

<b>Profit Growth</b> <b>191%</b> ↑	<b>Revenue Growth</b> <b>35%</b> ↑	<b>Gross Profit</b> <b>25.7%</b> ↑ <small>2011: 22.2%</small>
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# 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, 2012.

## Principal activities

Engro Foods Limited is a majority owned subsidiary engaged in the manufacturing, processing and marketing of dairy products, ice cream & frozen desserts and fruit juices. 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, Omung Lassi, Olper's Lite and Omore, amongst others. The business also manages and operates a meat-processing and marketing company based in Canada, Al Safa Halal, acquired by Engro Corp in 2011.

## Organizational review

In 2012, the Company continued its pursuit of excellence by delivering on its philosophy of elevating consumer delight worldwide. The Company posted a strong revenue growth of 35% and declared the highest ever profit of Rs. 2.6 billion as opposed to a profit of Rs. 891 million in 2011. Focused investment and growth, diversification of existing product portfolio and effective product mix management along with a strong emphasis on operational excellence through the various business segments remain the key elements in the achievement of our result in 2012.

## Business review

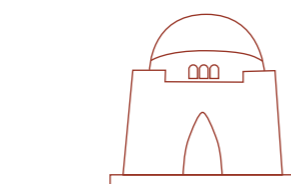
2012 was a challenging year for the country and the local foods industry. Energy crises and the security situation continued to exert significant pressure on the economy and the cost of living. However, despite these challenges, the Company maintained a positive long-term outlook and achieved strong growth fuelled by strategic planning. The Company continued to expand its infrastructure and

product portfolio in order to meet consumer needs – a trend widely reflected in our bottom line profitability.

The Company focused on key operational pillars, based on superior consumer understanding and helped the management to prioritize the allocation of resources to deliver results. These operational pillars include focused innovation, product mix management, operational efficiency and superior consumer communications.

Engro Foods was listed amongst the winners of the G20 Challenge on Inclusive Business Innovation, a global competition managed by International Finance Corporation (IFC), a member of the World Bank Group. The recognition at this G-20 summit stemmed from the Company's commitment to pioneering innovative business models that have positively impacted the marginalized communities of Pakistan and adopted an inclusive and sustainable business model that has significantly enhanced the livelihood and income generation opportunities for the bottom of the pyramid suppliers.

The year 2012 was also a hallmark year as the Company initiated the launch of its first-ever corporate campaign, under the slogan of 'Khud Pakistan' enhancing the association and pride for the Company's local roots and further reiterating our commitment to the inclusive growth and development of Pakistan. Portfolio expansion through the launch of Omung Lassi continued to enhance our consumer outreach and target consumer segments with a clear triple-tiered product strategy for top, middle and bottom of the pyramid consumers.



Dates are harvested across Sindh and are exported widely. Today, there are more than 300 varieties of dates cultivated across Pakistan.



# key operational highlights

Engro Foods was awarded the G20 Challenge on Inclusive Business Innovation, organized by the International Finance Corporation (a member of the World Bank).

Omung Lassi was launched in two refreshing flavours, with a clutter-breaking television commercial, that created much hype on the digital domain.

Omore Buzz was launched in five new exciting flavours – Tiramisu, Caramel Crunch, Strawberry Cheesecake, Chocolate Crispies and Strawberry Bliss (a yogurt-based stick).

Tarang launched a campaign in June 2012, with a television commercial, as well as presence on top radio stations, outdoor branding in major cities and across key cable channels in 11 towns.

'Khud Pakistan', Engro Foods' first ever corporate campaign was launched on August 14, 2012, and brought to life through outdoor branding and Below-The-Line activities in major cities.

## Dairy and beverages segment

The Company continued its aggressive business strategy of growth and diversification and achieved volume growth of 25% in 2012. The volumetric growth resulted in securing a market share of 51% in 2012 as opposed to 44% in 2011 across the Ambient UHT segment.

Growth in the ambient UHT milk segment was driven by tea creamers where Tarang maintained its leadership. Olper's continued to show strong performance through the year. Our brand Dairy Omung also continued to reflect strength and Omung Lassi – the new entrant in the market – showed promising performance in its newly formed category.



VOLUME GROWTH > 25% in 2012

## Ice Cream and Frozen Desserts Segment

The ice cream market showcased a downward spiral due to the continued energy shortage that severely impacted the cold chain infrastructure in the country. As a result the ice cream segment registered volumetric decline of 3%. Omore's revenue increased by 10% to Rs. 2.8 billion in 2012 as opposed to Rs. 2.6 billion in

2011 with an overall market share of 25% compared to 24% in 2011. Given these external factors and continued investments in product development and diversification of cold chain infrastructure, the segment made an operational loss of Rs. 409 million as opposed to loss of Rs. 405 million on 2011.



MARKET SHARE > 25% in 2012

## Dairy farm segment

The Company's Nara Dairy Farm continued to remain a rich and nutritious source of raw material for our dairy segment. The Farm currently produces 24,275 liters per day (2011: 15,806 liters per day) with a total herd size of 3,901 animals of which 1,814 are part of the milking cycle. Due to higher yields and better utilization of farm housing capacity, the Nara Farm registered a loss of Rs. 21 million in 2012 as opposed to a loss of Rs. 107 million in 2011.

INCREASE IN HERD SIZE > 30% in 2012

### Engro Foods Canada

Mirroring our success in the local market, Al-Safa Halal – halal meat brand in North America, with operations spread in Canada and North America – posted sales of Canadian \$10.8 million and a loss after tax of Canadian \$ 2.4 million.

The loss is directly consolidated in Engro Corporation financial statements and is not included in the financial performance mentioned below.

### Social investments

As part of our enduring commitment towards improving the life of our stakeholders, and especially that of our host communities, we contributed over Rs. 12.4 million towards our social investment commitments in 2012, as compared to Rs. 11.1 million in 2011. Our social investment programs were managed by Engro Foundation – the single CSR front for all Engro companies. Engro Foundation, together with its partners, worked in the areas of education, health, infrastructure, livelihoods and disaster management to provide socio-economic opportunities to a multitude of individuals and households in our host communities.

In 2012, we continued to improve the economic and social fabric of the primary milk producing communities in the Northern Sindh and Southern Punjab areas, which remain key segments of our production chain. Through our flagship WELD (Women Empowerment Through Livestock Development) program, we sought to increase the capacity of small-scale producers and strengthened the institutional framework for dairy production and milk collection network. Within the platform of the WELD project, we continued to train a cadre of Female Livestock Extension Workers (FLEW) and Female Village Milk Collectors (FVMC) to deliver doorstep services to livestock owners. In 2012, the WELD program registered over 5,600 milk producers' beneficiaries, and trained over 3,800 milk producer beneficiaries, 60 Female Village Milk Collectors (FVMCs) and 90 Female Livestock Extension Workers.

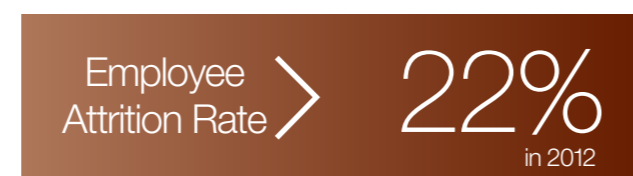


### Our family

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.

In 2012, we launched our Leadership Competency Model, which consists of different competencies, defining successful performances in a particular work setting. The model forms the DNA across Engro companies and paves the way forward for success and growth.

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. In 2012, we conducted Diversity trainings across all Engro companies for Managers and highlighted the anti-discrimination policies we have in place. 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.



### Health, safety and environment

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 – we are proud to emphasize that our consideration for our people and the planet goes well beyond our need to fixate on profits. We recognize the need to protect and preserve our planet by going the extra mile to prevent unnecessary wastage of our natural resources.

### Ensuring employee safety at the workplace

At Engro Foods, our 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.

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

At Engro Foods, the Total Recordable Injury Rate (TRIR) amongst employees has declined significantly over the last few years. The TRIR of our employees and contractors in 2012 was calculated at 0.147 signifying a 52% reduction in injury rate for the year with 2 Lost in Work Injuries.



### Ensuring responsible environmental practices

At Engro Foods, we recognize the need to protect and preserve our planet, and we care about the welfare and well-being of our people. Therefore, we go the extra mile to prevent unnecessary wastage of our natural resources and make a conscious effort to protect the environment. Our business strategies are fully aligned with this vision and have been designed taking in account the far-reaching environmental impact of our business decisions.

In an on-going effort to preserve our natural habitat, we have over 9,500 plants at our processing plants in Sahiwal and Sukkur. As part of our energy saving initiative, we have also installed nearly 297 solar water heaters at our milk collection centers.

As part of our vision to reduce greenhouse gas (GHG) emissions, we are actively promoting the use of Non CFC (chlorofluorocarbon) products at all our manufacturing units. Over the last few years, we have equipped 554 of our milk chillers with environment friendly refrigerant gas and are targeting a 10% reduction in the use of water for every liter of milk that we produce. At Engro Foods, we will continue to make concerted efforts to protect and preserve the planet for our future generations whilst exercising effective controls to minimize potential environmental hazards.



\* for more details on Social Investments, Our Family and Health, Safety & Environment please refer to relevant sections found ahead in this report.

## Value addition

Wealth Generated	2012		2011	
	Rupees in Million	%	Rupees in Million	%
Total Revenue inclusive of sales-tax and other income	41,153	-	30,669	-
bought-in material and services	(32,823)	-	(25,121)	-
	8,330	-	5,548	-
Wealth Distributed				
To employees Salaries, benefits and other costs	1,856	22.28%	1,271	22.91%
To Government: Taxes, duties and development surcharge	1,716	20.61%	1,363	24.56%
To Society: Donations towards education, health, environment and natural disaster	12	0.14%	11	0.20%
To Providers of Capital				
- Dividend to Shareholders	-	-	-	-
- Mark up/interest expense on borrowed money	903	10.84%	1,049	18.91%
Retained for reinvestment and future growth, depreciation, amortization, retained profit	3,843	46.13%	1,854	33.42%
	8,330		5,548	

## Cash flow and working capital management

Higher cash was generated from operations during the year (Rs. 3,214 million versus Rs. 1,080 million in 2011). Taxes paid for the year amounted to Rs. 333 million vs. Rs. 314 million last year.

## Capital Investment, Capital Structure and Finance

During the year, the company issued 9,788,720 shares to employees who exercised their rights under the Employee Share Option Scheme (ESOS).

Net long term borrowings at year end increased to Rs. 7,709 million (2011: Rs. 6,075 million).

The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2012 is 38:62 (2011: 44:56). The liquidity position of the Company remains robust with a year-end current ratio of 2.1 (2011: 1.8).

## Major Judgement Areas

Main areas related to taxation, Property, plant and equipment, intangible assets, biological assets, stock-in-trade and provision for staff retirement and other service benefits.

## Management Information Systems

We continue to enhance the efficiencies by increasing the SAP footprint 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

JCR-VIS in its last review of the Company's credit worthiness has upgraded the medium to long term rating of Engro Foods' Sukuk issue from 'A' (Single A) to 'A+' (Single A Plus). 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.

## Treasury Management

The treasury activities are controlled and carried out in accordance with the policies approved by the Board. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available at all times and that exposure to financial risk is minimized. The risks managed by the Treasury function are liquidity risk, interest rate and currency risk. We use derivative financial instruments to manage our exposure to foreign exchange rate and the objective is to reduce volatility in cash flow and earnings. The treasury function does not operate as a profit center.

## Liquidity Risk

In order to maintain adequate liquidity for its working capital requirements, the Board has approved adequate short-term funded facilities. Engro Foods' policy is to ensure that adequate short term funding and committed bank facilities are available to meet the forecast peak borrowing requirements. We mitigate

liquidity risk by careful monitoring of our cash flow needs, regular communication with our credit providers, and careful selection of financially strong banks to participate in our operating lines.

## Foreign Currency Risk

Where deemed appropriate, we eliminate currency exposure on purchases of goods and foreign currency loans through the use of forward exchange contracts as permitted by the prevailing foreign currency regulations.

## Employee Share Option Scheme

The company operates a Share Option Scheme. The details of each scheme is explained in note 18 of the accounts.

\* The Annexure on page 176 provides details of options granted and exercised during the current year and previous years.

## Pension, 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.

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, 2012 and the financial statements of these have been audited up to June 30, 2012. The Company has fully paid all its obligations on all the above schemes.

S.No.		Provident Fund Rupees in Million	Gratuity Fund Rupees in Million
	Audited upto	30 June 2012	30 June 2012
1	Net Assets as per audited financial statements	250	198
2	DSCs/PIBs/RICs	124	127
3	Mutual Funds	5	3
4	TFCs	82	53
5	Shares	7	5
6	Bank Deposits/T-Bills	9	9
7	Receivables	29	3
8	Payables	(6)	(2)
	Total	250	198

### Auditors

Messrs AF Ferguson & Co. have been appointed as the statutory auditors of the company. The Board Audit Committee and the Board of Directors of the Company have endorsed the communication.

### 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 2012 is shown later in this report.

### 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, amendments or interpretations to existing standards and reclassification of capital spares. Accounting estimates are based on reasonable and 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 and explained.
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.

### Board meetings and attendance

In 2012, the Board of Directors held 06 meetings to cover its complete cycle of activities. The attendance record of the Directors is as follows:

S.No.	Director's Name	Meetings Attended
1	Mr. Muhammad Aliuddin Ansari	****3
2	Mr. Afnan Ahsan	6
3	Mr. Abdul Samad Khan	6
4	Mr. Abdul Samad Dawood	*2
5	Mr. Muhammad Amin	4
6	Mr. Mujahid Hamid	6
7	Mr. Ruhail Mohammed	5
8	Ms. Roshaneh Zafar	*2
9	Mr. Shahzada Dawood	3
10	Mr. Zafar Ahmed Siddiqui	5
11	Mr. Asad Umar	**3
12	Mr. Isar Ahmed	***1
13	Ms. Spenta D. Kandawala	***3

\* Elected directors effective April 27, 2012.

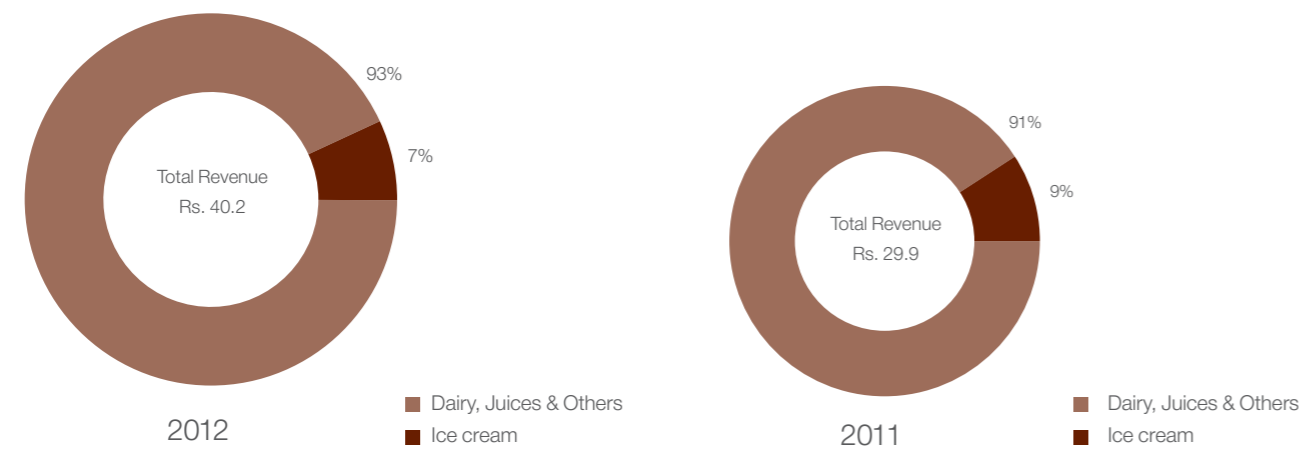
\*\* Resigned on Apr 30, 2012.

\*\*\* Retired on completion of tenure April 27, 2012.

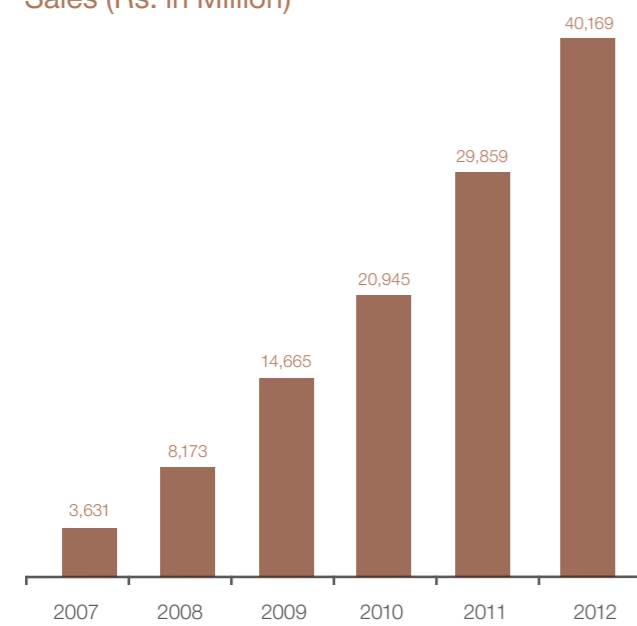
\*\*\*\* Appointed on July 17, 2012.

# financial review

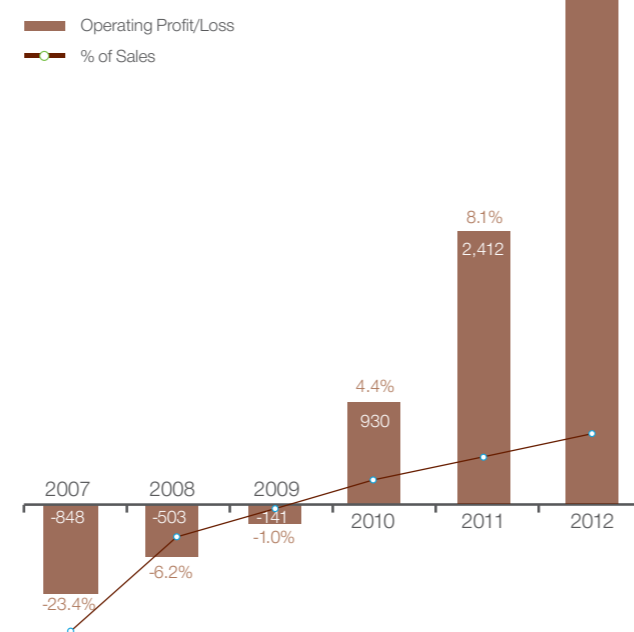
Business Revenue (Rs. in Billions)  
% Segment Share



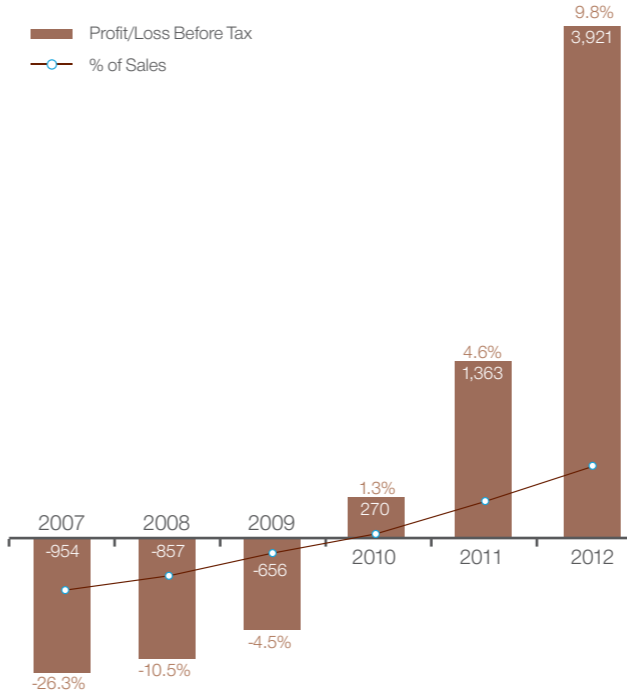
Sales (Rs. in Million)



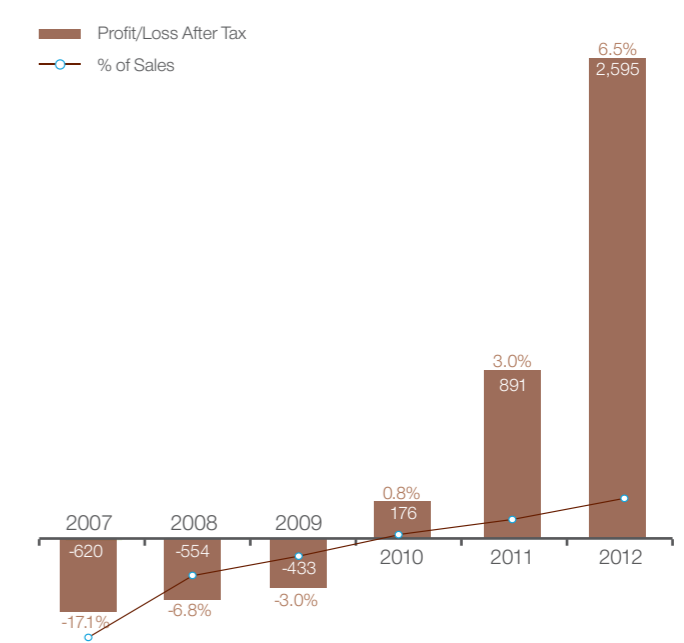
Operating Profit/Loss  
& % of Sales



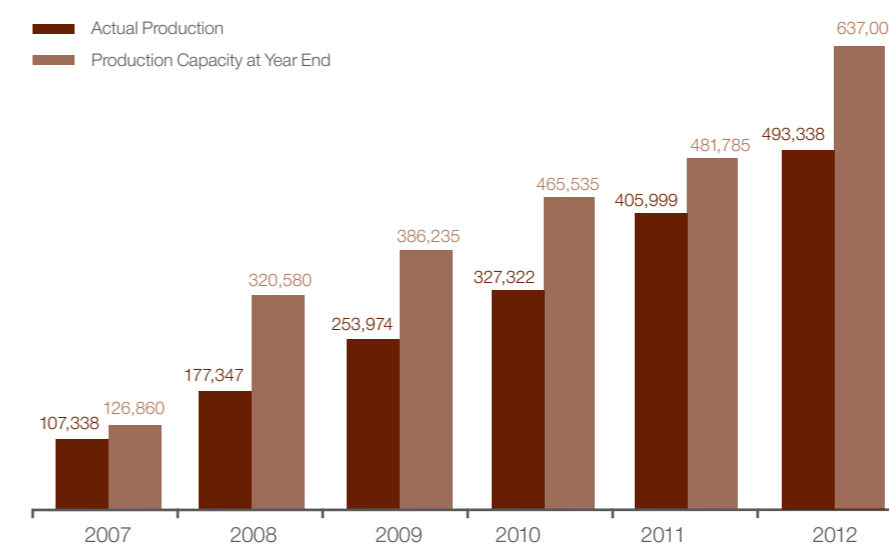
Profit / Loss Before Tax  
& % of Sales



Profit / Loss After Tax  
& % of Sales



Actual Production  
Production Capacity



## summary

	2012	2011	2010	2009	2008	2007
<b>Balance Sheet</b>						
Share capital	7,616	7,518	7,000	5,423	4,300	2,200
Share premium	810	722	-	-	-	-
Hedging Reserve	17	(18)	-	-	-	-
Unappropriated profit / (Accumulated loss)	1,610	(985)	(1,876)	(2,052)	(1,618)	(1,064)
Shareholders' funds / Equity	10,054	7,237	5,124	3,371	2,682	1,136
Long term borrowings	6,023	5,610	4,625	3,325	2,742	1,393
Deferred liabilities	-	2	3	3	3	2
Property, plant & equipment	10,958	9,615	7,148	5,809	4,567	2,744
Long term assets	82	24	23	8	9	6

### Profit and Loss

Sales	40,169	29,859	20,945	14,665	8,173	3,631
Gross profit	10,321	6,629	4,393	2,716	1,050	261
Operating profit	4,823	2,412	930	(141)	(503)	(848)
Profit before tax	3,921	1,363	270	(656)	(857)	(955)
Profit after tax	2,595	891	176	(433)	(554)	(620)

### Cash Flows

Net cash flow from operating activities	3,214	1,080	156	(113)	(1,342)	(999)
Net cash flow from investing activities	(3,379)	(2,341)	(2,972)	(1,921)	(2,354)	(1,603)
Net cash flow from financing activities	1,819	2,474	2,955	2,155	3,972	2,265
Changes in cash & cash equivalents	1,653	1,212	140	121	276	(338)
Cash & cash equivalents – Year end	3,045	1,392	180	41	(80)	(356)

### Comments on Cash Flows

- The Company's cash generation capacity has significantly improved over the years.
- Increase in amounts of investing activities is due to the continuous capacity expansion to fuel growth.

	2012	2011	2010	2009	2008	2007
<b>Others (Million)</b>						
Market capitalisation	74,783	16,990	-	-	-	-
Numbers of shares issued	762	752	700	542	430	220

### Quantitative Data (\*000 Litres)

<b>Production Capacity</b>						
Dairy & Juices	601,481	446,258	446,503	375,945	320,580	126,860
Ice cream	35,527	35,527	19,032	10,290	-	-
<b>Actual Production</b>						
Dairy & Juices	476,788	388,236	314,650	247,074	177,347	107,338
Ice cream	16,550	17,763	12,672	6,900	-	-

## cash flow statement based on direct method

	2012	2011	2010	2009	2008	2007
<b>Cash Flows From Operating Activities</b>						
Cash received from customers	39,849	29,963	20,984	14,812	8,176	3,660
Cash paid for goods and services	(35,249)	(27,563)	(20,053)	(14,324)	(9,217)	(4,590)
Finance costs paid	(982)	(938)	(567)	(531)	(231)	(36)
Taxes paid	(333)	(314)	(193)	(50)	(57)	(18)
Retirement benefits paid	(71)	(69)	(16)	(21)	(14)	(15)
<b>Net cash generated from operating activities</b>	<b>3,214</b>	<b>1,080</b>	<b>156</b>	<b>(113)</b>	<b>(1,342)</b>	<b>(999)</b>

### Cash Flows From Investing Activities

<b>Purchases of</b>						
- property, plant and equipment	(2,549)	(3,403)	(2,055)	(1,784)	(2,120)	(1,627)
- intangible assets	(74)	(33)	(44)	(11)	(242)	(13)
- biological assets	(4)	-	(129)	(17)	(19)	(1)
<b>Proceeds from disposal of</b>						
- property, plant and equipment	73	16	20	31	26	38
- biological assets	37	20	63	13	-	-
Advance against purchase of shares of Engro Foods Netherlands B.V.	(863)	-	-	-	-	-
Investment in Engro Eximp AgriProducts (Private) Limited [formerly Engro Foods Supply Chain (Private) Limited]	-	(350)	(827)	(153)	-	-
Proceeds from disposal of investment in Engro Eximp AgriProducts (Private) Limited [formerly Engro Foods Supply Chain (Private) Limited] - net of transaction costs	-	1,408	-	-	-	-
<b>Net cash utilized in investing activities</b>	<b>(3,379)</b>	<b>(2,341)</b>	<b>(2,972)</b>	<b>(1,921)</b>	<b>(2,354)</b>	<b>(1,603)</b>

### Cash Flows From Financing Activities

Proceeds from issue of share capital	186	1,264	-	-	-	-
Advance received against issue of share capital	1	-	1,577	1,073	1,950	798
Share issuance costs	-	(37)	-	-	-	-
Proceeds from long term finances	2,099	1,450	1,500	700	2,450	1,043
Proceeds from tax loss to ECPL, the Holding Company	-	-	-	450	622	429
Repayments of						
- long term finances	(465)	(200)	(117)	(58)	(1,043)	-
- obligations under finance lease	(3)	(3)	(5)	(10)	(7)	(5)
<b>Net cash generated from financing activities</b>	<b>1,819</b>	<b>2,474</b>	<b>2,955</b>	<b>2,155</b>	<b>3,972</b>	<b>2,265</b>
Net increase in cash and cash equivalents	1,653	1,212	140	121	276	(338)
Cash and cash equivalents at beginning of the year	1,392	180	41	(80)	(356)	(18)
<b>Cash and cash equivalents at end of the year</b>	<b>3,045</b>	<b>1,392</b>	<b>180</b>	<b>41</b>	<b>(80)</b>	<b>(356)</b>

# horizontal and vertical analyses profit and loss account

## Horizontal Analysis (Rs. in Million)

	2012	12 Vs. 11	2011	11 Vs. 10		2010	10 Vs. 09	2009	09 Vs. 08	2008	08 Vs. 07	2007	07 Vs. 06
	Rs.	%	Rs.	%		Rs.	%	Rs.	%	Rs.	%	Rs.	%
Sales	40,169	34.5	29,859	42.6		20,945	42.8	14,665	79.4	8,173	125.1	3,631	141.1
Cost of Sales	29,848	28.5	23,230	40.3		16,552	38.5	11,949	67.7	7,124	111.4	3,370	119.1
Gross profit	10,321	55.7	6,629	50.9		4,393	61.7	2,716	158.8	1,050	302.6	261	(913.0)
Distribution and marketing expenses	4,709	26.7	3,716	27.6		2,913	10.3	2,640	102.4	1,305	37.3	950	73.3
Administrative expenses	741	46.7	505	6.8		473	36.3	347	14.9	302	134.1	129	122.4
Other expenses	430	105.7	209	58.3		132	187.0	46	109.1	22	(31.3)	32	-
Other income	382	79.3	213	287.7		55	(68.8)	176	130.7	76	4,231.5	2	-
Operating profit/(loss)	4,823	100.0	2,412	159.4		930	(760.6)	(141)	(72.0)	(503)	(40.8)	(848)	33.4
Finance cost	903	(14.0)	1,049	59.0		660	28.0	515	45.6	354	235.7	105	360.5
Net profit before taxation	3,921	187.6	1,363	404.1		270	141.2	(656)	(23.4)	(857)	(10.2)	(954)	44.8
Provision for taxation	(1,326)	180.9	(472)	399.6		(94)	(142.4)	223	(26.5)	303	(9.2)	334	44.9
Net profit after taxation	2,595	191.2	891	406.5		176	(140.6)	(433)	(21.7)	(554)	(10.7)	(620)	44.7

## Vertical Analysis (Rs. in Million)

	2012		2011			2010		2009		2008		2007	
	Rs.	%	Rs.	%		Rs.	%	Rs.	%	Rs.	%	Rs.	%
Sales	40,169	100.0	29,859	100.0		20,945	100.0	14,665	100.0	8,173	100.0	3,631	100.0
Cost of Sales	29,848	74.3	23,230	77.8		16,552	79.0	11,949	81.5	7,124	87.2	3,370	92.8
Gross profit	10,321	25.7	6,629	22.2		4,393	21.0	2,716	18.5	1,050	12.8	261	7.2
Distribution and marketing expenses	4,709	11.7	3,716	12.4		2,913	13.9	2,640	18.0	1,305	16.0	950	26.2
Administrative expenses	741	1.8	505	1.7		473	2.3	347	2.4	302	3.7	129	3.6
Other expenses	430	1.1	209	0.7		132	0.6	46	0.3	22	0.3	32	0.9
Other operating income	382	1.0	213	0.7		55	0.3	176	1.2	76	0.9	2	0.1
Operating profit/(loss)	4,823	12.0	2,412	8.1		930	4.4	(141)	(1.0)	(503)	(6.2)	(848)	(23.4)
Finance cost	903	2.2	1,049	3.5		660	3.1	515	3.5	354	4.3	105	2.9
Net profit before taxation	3,921	9.8	1,363	4.6		270	1.3	(656)	(4.5)	(857)	(10.5)	(954)	(26.3)
Provision for taxation	(1,326)	(3.3)	(472)	(1.6)		(94)	0.5	223	1.5	303	3.7	334	9.2
Net profit after taxation	2,595	6.5	891	3.0		176	0.8	(433)	(3.0)	(554)	(6.8)	(620)	(17.1)

# horizontal and vertical analyses balance sheet

## Horizontal Analysis (Rs. in Million)

	2012	12 Vs. 11	2011	11 Vs. 10	2010	10 Vs. 09	2009	09 Vs. 08	2008	08 Vs. 07	2007	07 Vs. 06
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>EQUITY AND LIABILITIES</b>												
<b>EQUITY</b>												
Share capital	7,616	1.3	7,518	7.4	7,000	29.1	5,423	26.1	4,300	95.5	2,200	120.0
Share premium	810	12.2	722	100.0	-	-	-	-	-	-	-	-
Advance against issue of shares	1	100.0	-	-	-	-	(100.0)	50	(75.0)	200	(66.8)	-
Hedging reserve	17	(194.4)	(18)	100.0	-	-	-	-	-	-	-	-
Unappropriated profit / Accumulated loss	1,610	(263.5)	(985)	(47.5)	(1,876)	(8.6)	(2,052)	26.8	(1,618)	52.1	(1,064)	139.6
	10,054	38.9	7,237	41.2	5,124	52.0	3,371	23.4	2,732	104.5	1,336	15.4
<b>NON-CURRENT LIABILITIES</b>												
Long term finances	6,023	7.4	5,610	21.3	4,625	39.1	3,325	21.3	2,742	96.8	1,393	298.0
Obligation under finance lease	-	(100.0)	3	(50.0)	5	(37.5)	8	(46.7)	15	25.0	12	(29.4)
Deferred taxation	1,653	436.7	308	70.2	181	(39.9)	301	(49.8)	599	32.5	452	-
Deferred liabilities	-	(100.0)	2	(33.3)	3	-	3	50.0	2	-	2	-
Deferred Income	17	100.0	-	-	-	-	-	-	-	-	-	-
	7,693	29.9	5,923	23.0	4,814	32.4	3,637	8.3	3,358	80.6	1,859	403.8
<b>CURRENT LIABILITIES</b>												
Current portion of												
-long term finances	1,686	262.6	465	132.5	200	70.9	117	101.7	58	-	-	-
-Obligation under finance lease	3	-	3	(37.5)	4	(20.0)	5	(37.5)	8	60.0	5	-
Trade and other payables	2,359	0.6	2,344	14.8	2,041	29.0	1,582	59.8	990	60.2	618	105.3
Derivatives financial instruments	-	(100.0)	28	-	-	-	-	-	-	-	-	-
Accrued interest / mark up on												
-Long term finances	302	(17.9)	368	33.8	275	50.3	183	-	-	-	-	-
-Short term finances	7	(65.0)	20	900.0	2	-	2	-	-	-	-	-
Short term finances	85	(66.3)	252	-	-	(100)	108	(40.0)	180	(64.8)	511	231.9
	4,442	27.6	3,480	38.0	2,522	26.3	1,997	61.6	1,236	9.0	1,134	146.5
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,189</b>	<b>33.4</b>	<b>16,639</b>	<b>33.5</b>	<b>12,460</b>	<b>38.4</b>	<b>9,005</b>	<b>22.9</b>	<b>7,326</b>	<b>69.2</b>	<b>4,329</b>	<b>117.9</b>
<b>ASSETS</b>												
<b>NON-CURRENT ASSETS</b>												
Property, plant and equipment	10,958	14.0	9,615	34.5	7,148	23.1	5,809	27.2	4,567	66.4	2,744	109.6
Long term investments	-	-	-	(100.0)	980	540.5	153	-	-	-	-	-
Biological assets	668	34.4	497	16.0	428	(2.2)	438	42.7	307	2,970.0	10	-
Intangible assets	105	(21.6)	134	(5.9)	142	408.7	28	47.4	19	375.0	4	-
Long term advances, deposits and prepayments	82	241.7	24	3.8	23	194.8	8	(1.9)	8	60.0	5	25.0
Deferred taxation	-	-	-	-	-	-	-	-	-	-	-	-
Advance against purchase of shares of Engro Foods Netherlands B.V.	863	100.0	-	-	-	-	-	-	-	-	-	-
	12,676	23.4	10,270	17.7	8,722	35.5	6,436	31.3	4,901	77.4	2,763	76.6
<b>CURRENT ASSETS</b>												
Store, spares and loose tools	676	18.2	572	29.4	442	52.4	290	54.3	188	138.0	79	107.9
Stock-in-trade	3,495	32.5	2,638	26.3	2,089	79.5	1,164	(6.1)	1,239	196.4	418	175.0
Trade debts	149	71.3	87	67.3	52	108.0	25	177.8	9	12.5	8	300.0
Advances, deposits and prepayments	262	(1.5)	266	9.0	244	(28.0)	339	175.6	123	200.0	41	-
Other receivables	1,440	24.1	1,160	60.9	721	26.0	572	(19.1)	711	(17.8)	865	1,501.9
Taxes recoverable	334	33,300.0	1	(88.9)	9	(71.0)	31	(44.6)	56	-	-	-
Derivative financial instruments	26	100.0	-	(100.0)	1	100.0	-	-	-	-	-	-
Short term investments	2,709	109.4	1,294	-	-	-	-	-	-	-	-	-
Cash and bank balances	422	20.2	351	95.0	180	21.6	148	49.5	99	(36.1)	155	14.0
	9,513	49.4	6,369	70.4	3,738	45.5	2,569	5.9	2,425	54.9	1,566	270.2
<b>TOTAL ASSETS</b>	<b>22,189</b>	<b>33.4</b>	<b>16,639</b>	<b>33.5</b>	<b>12,460</b>	<b>38.4</b>	<b>9,005</b>	<b>22.9</b>	<b>7,326</b>	<b>69.2</b>	<b>4,329</b>	<b>117.9</b>

## Vertical Analysis (Rs. in Million)

	2012		2011		2010		2009		2008		2007	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>EQUITY AND LIABILITIES</b>												
<b>EQUITY</b>												
Share capital	7,616	34.3	7,518	45.2	7,000	56.2	5,423	60.2	4,300	58.7	2,200	50.8
Share premium	810	3.7	722	4.3	-	-	-	-	-	-	-	-
Advance against issue of shares	1	100.0	-	-	-	-	-	-	50	0.7	200	4.6
Hedging reserve	17	0.1	(18)	(0.1)	-	-	-	-	-	-	-	-
Accumulated loss	1,610	7.3	(985)	(5.9)	(1,876)	(15.1)	(2,052)	(22.8)	(1,618)	(22.1)	(1,064)	(24.6)
	10,054	45.3	7,237	43.5	5,124	41.1	3,371	37.4	2,732	37.3	1,336	30.9
<b>NON-CURRENT LIABILITIES</b>												
Long term finances	6,023	27.1	5,610	33.7	4,625	37.1	3,325	36.9	2,742	37.4	1,393	32.2
Obligation under finance lease	-	-	3	-	5	-	8	0.1	15	0.2	12	0.3
Deferred taxation	1,653	7.4	308	1.9	181	1.5	301	3.3	599	8.2	452	10.4
Deferred liabilities	-	-	2	-	3	-	3	0.0	2	-	2	0.1
Deferred Income	17	100.0	-	-	-	-	-	-	-	-	-	-
	7,693	34.7	5,923	35.6	4,814	38.6	3,637	40.4	3,358	45.8	1,859	42.9
<b>CURRENT LIABILITIES</b>												
Current portion of												
-long term finances	1,686	7.6	465	2.8	200	1.6	117	1.3	58	0.8	-	-
-Obligation under finance lease	3	-	3	-	4	0.0	5	0.1	8	0.1	5	0.1
Trade and other payables	2,359	10.6	2,344	14.1	2,041	16.4	1,582	17.6	990	13.5	618	14.3
Derivative financial instruments	-	-	28	0.2	-	-	-	-	-	-	-	-
Accrued interest / mark up on												
-Long term finances	302	1.4	368	2.2	275	2.2	183	2.0	-	-	-	-
-Short term finances	7	-	20	0.1	2	-	2	0.0	-	-	-	-
Short term finances	85	0.4	252	1.5	-	-	108	1.2	180	2.5	511	11.8
	4,442	20.0	3,480	20.9	2,522	20.2	1,997	22.2	1,236	16.9	1,134	26.2
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,189</b>	<b>100.0</b>	<b>16,639</b>	<b>100.0</b>	<b>12,460</b>	<b>100.0</b>	<b>9,005</b>	<b>100.0</b>	<b>7,326</b>	<b>100.0</b>	<b>4,329</b>	<b>100.0</b>
<b>ASSETS</b>												
<b>NON-CURRENT ASSETS</b>												
Property, plant and equipment	10,958	49.4	9,615	57.8	7,148	57.4	5,809	64.5	4,567	62.3	2,744	63.4
Long term investments	-	-	-	-	980	7.9	153	1.7	-	-	-	-
Biological assets	668	3.0	497	3.0	428	3.4	438	4.9	307	4.2	10	0.2
Intangible assets	105	0.5	134	0.8	142	1.1	28	0.3	19	0.3	4	0.1
Long term advances, deposits and prepayments	82	0.4	24	0.1	23	0.2	8	0.1	8	0.1	5	0.1
Deferred taxation	-	-	-	-	-	-	-	-	-	-	-	-
Advance against purchase of shares of Engro Foods Netherlands B.V.	863	3.9	-	-	-	-	-	-	-	-	-	-
	12,676	57.1	10,270	61.7	8,722	70.0	6,436	71	4,901	66.9	2,763	64
<b>CURRENT ASSETS</b>												
Store, spares and loose tools	676	3.0	572	3.4	442	3.6	290	3.2	188	2.6	79	1.8
Stock-in-trade	3,495	15.8	2,638	15.9	2,089	16.8	1,164	12.9	1,239	16.9	418	9.7
Trade debts	149	0.7	87	0.5	52	0.4	25	0.3	9	0.1	8	0.2
Advances, deposits and prepayments	262	1.2	266	1.6	244	2.0	339	3.8	123	1.7	41	1.0
Other receivables	1,440	6.5	1,160	7.0	721	5.8	572	6.4	711	9.7	865	20.0
Taxes recoverable	334	1.5	1	-	9	0.1	31	0.3	56	0.8	-	-
Derivative financial instruments	26	0.1	-	-	1	-	-	-	-	-	-	-
Short term investments	2,709	12.2	1,294	7.8	-	-	-	-	-	-	-	-
Cash and bank balances	422	1.9	351	2.1	180	1.5	148	1.6	99	1.4	155	3.6
	9,513	42.9	6,369	38.3	3,738	30.0	2,569	28.5	2,425	33.1	1,566	36.2
<b>TOTAL ASSETS</b>	<b>22,189</b>	<b>100.0</b>	<b>16,639</b>	<b>100.0</b>	<b>12,460</b>	<b>100.0</b>	<b>9,005</b>	<b>100.0</b>	<b>7,326</b>	<b>100.0</b>	<b>4,329</b>	<b>100.0</b>

# comments on six years profit and loss analysis

## Sales

The revenue has grown at a very rapid pace from 2006 level. This is primarily attributable to product innovation and launch of new segment.

## Gross Profit

Gross Profit ratio has significantly improved from 7.2% in 2007 to 25.7% in 2012.

The significant increase in gross profit is a direct consequence of efficiencies in production and economies of scale due to exponential growth in business volume.

## Distribution and Marketing Expenses

In order to support continuous growth trajectory, significant expenditure has been incurred for brand building which led to manifold increase in marketing costs.

With many brands now in a very established position, the marketing costs now stand at 12% of revenue in 2012 compared to 26% in 2007.

## Administrative and Other Expenses

These expenses have increased primarily due to larger support functions required to manage the business growth.

The expenses under these heads are mostly fixed in nature and therefore, have witnessed reduction in relation to revenue.

## Finance Cost

Finance costs increased with the higher amount of long-term borrowings.

Due to lowering of interest rates in 2012, the finance cost for 2012 is lower despite increase in amount of borrowing.

## Provision for taxation

Directly attributable to increase in profitability.

# comments on six years balance sheet analysis

## EQUITY

With time-to-time capital injections from the parent company and private placement in 2011, the share capital (including premium) has reached to Rs 8.4 billion in 2012 from Rs 2.2 billion in 2006.

The Company incurred losses in its earlier years. However, the recent profit trajectory has significantly increased Company's overall equity position.

## NON-CURRENT LIABILITIES

### Long-term finances

In order to maintain the growth momentum, the Company continues to finance a portion of its capital requirement by raising long-term loans. Therefore, the long-term loans have significantly increased over the years.

The ratio of long-term loans to equity has gone down to 38:62 in 2012 compared to 55:45 in 2007. The company has been able to reduce this ratio due to its higher cash generation capacity.

### Deferred taxation

Due to taxable losses in earlier years of operation, the Company's deferred tax liability has increased significantly.

## CURRENT LIABILITIES

### Current portion of Long-term finances

The increase is consequential to higher borrowings.

### Trade payables

Trade payables have quadrupled over the years in line with the rising business volume.

### Accrued interest / markup on finances

Increase in borrowings over the years has led to higher year end accruals for financing obligations.

## NON-CURRENT ASSETS

### Property, plant and equipment

Property, plant and equipment has witnessed a very large increase over the years. This is due to continuous investment in production facilities and infrastructure to support growing scale of business.

Property, plant and equipment represents almost half of the company's balance sheet size.

### Long-term investments

In 2009 and 2010, Engro Foods invested in a rice processing company (then Engro Foods Supply (Private) Limited).

The subsidiary was later sold to another group company as part of group strategy.

### Biological assets

This represents value of animals purchased at the time of establishment of Company's Dairy Farm in Nara.

### Advance against purchase of shares of Engro Foods Netherlands B.V.

This represents advance paid to Engro Corp for purchase of shares of Engro Foods Netherlands (Al Safa business).

The Company is already managing the Al Safa business in North American and Canadian markets.

## CURRENT ASSETS

### Stock-in-trade / Stores & Spares

The increase is in line with the continuous increase in the overall business volume.

On average, the company maintains at least a month's inventory to meet sales demand and production requirements.

### Other Receivables

The increase in Other Receivables is primarily due to two factors:

- Increase in sales tax refunds from the government arising mainly on input tax paid at the time of imports.
- Increase in receivable from Tetra under cost-sharing arrangements. This is a direct consequence of increase in business volume.

### Short-term investments / Cash

Cash and short-term investments were retained in 2011 & 2012 to finance upcoming capex commitments.

# financial performance indicators 2007 to 2012

Ratio	2012	2011	2010	2009	2008	2007
<b>Profitability Ratios</b>						
Gross Profit ratio	25.7%	22.2%	21.0%	17.1%	12.8%	7.2%
Net Profit to Sales	6.5%	3.0%	0.8%	-3.0%	-6.8%	-17.1%
EBITDA Margin to Sales	15.1%	11.3%	7.9%	2.5%	-2.6%	-19.1%
Operating leverage ratio	23.4%	16.6%	17.0%	5.6%	7.6%	-10.0%
Return on Equity	25.8%	12.3%	3.4%	-12.9%	-20.7%	-54.6%
Return on Capital employed	17.9%	7.9%	2.1%	-7.1%	-13.9%	-35.8%
<b>Liquidity Ratios</b>						
Current ratio	2.1	1.8	1.5	1.3	2.0	1.4
Quick / Acid test ratio	1.2	0.9	0.5	0.6	0.8	0.9
Cash to Current Liabilities	0.1	0.1	0.1	0.1	0.1	0.1
Cash flow from Operations to Sales	0.1	-	-	-	(0.2)	(0.3)
<b>Activity / Turnover Ratios</b>						
No. of Days Inventory	37.5	37.1	5.9	36.1	42.5	30.8
No. of Days Receivables	1.1	0.8	0.7	0.4	0.4	0.5
No. of Days Payables	32.5	39.2	44.1	47.0	44.9	59.2
Operating cycle	6.1	(1.2)	(7.5)	(10.6)	(2.0)	(27.8)
Inventory turnover	9.7	9.8	10.2	10.1	8.6	11.8
Debtors turnover	340.1	429.6	547.1	881.9	982.3	753.2
Creditors turnover	11.2	9.3	8.3	7.8	8.1	6.2
Total Assets turnover ratio / Fixed Assets turnover ratio	1.8	1.8	1.7	1.6	1.1	0.8
<b>Investment / Market Ratios</b>						
Earnings per Share (EPS) and diluted EPS	3.4	1.2	0.3	(1.0)	(2.3)	(3.4)
Price to Earning ratio	28.6	18.5	-	-	-	-
Dividend Yield ratio	-	-	-	-	-	-
Dividend Payout ratio	-	-	-	-	-	-
Dividend Cover ratio	-	-	-	-	-	-
Cash Dividend	-	-	-	-	-	-
Stock Dividend	-	-	-	-	-	-
Market value per share at the end of the year	98.1	22.6	-	-	-	-
Highest market value during the year	98.9	26.0	-	-	-	-
Lowest market value during the year	22.3	21.8	-	-	-	-
Breakup value per share without Surplus on Revaluation of Fixed Assets	13.2	9.6	7.3	6.2	6.2	5.2
Breakup value per share including the effect of Surplus on Revaluation of Fixed Assets	13.2	9.6	7.3	6.2	6.2	5.2
<b>Capital Structure Ratios</b>						
Long-term Debt to Equity ratio	37.5%	43.7%	47.5%	49.7%	50.7%	55.3%

# comments on six years financial performance indicators

## Gross Profit Ratio

The journey of improvement from 7.2% to 25.7% is largely a factor of innovation in product portfolio and economies of scale achieved via growth in business volume.

## Net Profit to Sales / EBITDA Margin to Sales

The negative margins of earlier years have now converted into rapidly growing positive contributions. This is a direct result of improvement in product profitability and fixed costs management across all functions of the Company.

## Operating leverage ratio

Over the last five years, the growth rate of operating profits has consistently surpassed revenue growth rate. Cost efficiencies and economies of scale have played a key role in this aspect.

## Return on Equity

During its infant stage, Engro Foods incurred heavy costs on production facilities and brand building which resulted in negative returns to equity holders.

## Return on Capital employed

Having borne the initial build up costs, the Company is on a consistently growing profit trajectory since 2010 which has increased returns to capital providers.

## Current ratio

As a best practice, Engro Foods intends to keep its current ratio higher than one. Cash and short-term investments were retained in 2011 & 2012 to finance upcoming capex commitments which significantly impacted this ratio.

## Quick / Acid test ratio

Due to build up of cash and short-term investments, the ratio has gone up in the recent years.

## Cash to Current Liabilities

The Company has maintained a consistent ratio throughout.

## Cash flow from Operations to Sales

Due to burn up of cash in early years, the ratio was negative. However, with the increased cash generation, the ratio is close to zero in recent years.

## No. of Days Inventory / Inventory turnover

In order to meet the production cycle and manage lead time for procurement, generally a month's inventory at the least is maintained throughout.

## No. of Days Receivables / Debtors turnover

Due to very low volume of credit sales, the days receivables are quite low.

## No. of Days Payables / Creditors turnover

The Company has considerably speeded up the payment process to avail payment discounts and improve its relationship with the key business partners.

## Operating cycle

In the initial years, the Company enjoyed a very good operating cycle of negative 28 days. However, the operating cycle followed the decreasing trend throughout and finally went positive in 2012.

## Total Assets turnover ratio / Fixed Assets turnover ratio

This ratio has been slightly inching up in the recent years.

## Price to Earning Ratio

The increase in this ratio is largely because of increase in market price of shares.

## Market value per share

The share price has quadrupled from last year as a direct consequence of improvement in profitability and general stock market trend.

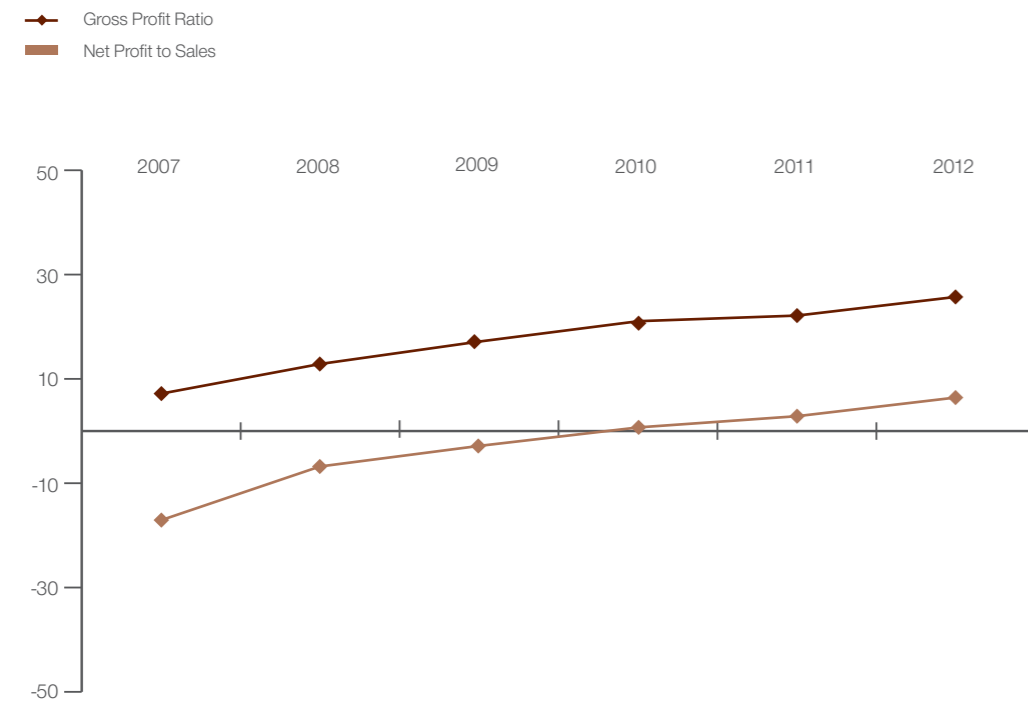
## Breakup value per share

Increase is primarily attributable to year-on-year profitability and issuance of shares on premium.

## Long-term Debt to Equity ratio

The long-term debt to equity ratio has consistently gone down over the years. In the initial years, the Company had higher borrowings to finance capex and lower cash generation base. As a direct result of increase in cash generation capacity, long-term borrowings now have a lower share in the total capital employed.

### Profitability Ratios



## future outlook

Despite the energy crisis, law and order issues and macroeconomic challenges, the Company continues to maintain a strong positive outlook on the country. With a burgeoning population and rise of the middle class on the back of increasing remittances, the Company is optimistic of the potential that the country holds. Engro Foods will continue to live its purpose-inspired growth strategy of elevating consumer delight worldwide and bring to the fore affordable and nutritious products that guarantee wholesome goodness to its consumers. With a constant stream of innovation and customer related improvements fuelled by translating keen consumer insights into meaningful decisions, Engro Foods is committed to overcome challenges by providing consumers with better value products, driven by strong brand equity and a customer-centric approach. The Company will continue to expand its market share in all categories it represents by exploring untapped markets within the country and beyond. We will also continue to streamline our operations and further enhance our focus on elevating consumer delight worldwide through our people, products and processes.

Aliuddin Ansari  
Chairman

Afnan Ahsan  
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 672,999,991

## 2. Directors, CEO & their spouses & minor children

Mr. Muhammad Aliuddin Ansari	1
Mr. Afnan Ahsan	100,000
Mr. Shahzada Dawood	1
Mr. Ruhail Mohammad	1
Mr. Muhammad Amin	1
Ms. Roshaneh Zafar	1
Mr. Abdul Samad Khan	1
Mr. Zafar Ahmed Siddiqui	1
Mr. Abdul Samad Dawood	501
Mr. Mujahid Hamid	1
Mrs Ayesha Dawood	1500
(Wife of Mr. Abdul Samad Dawood)	

3. Executives (Approximately) 1,211,525

## 4. Public Sector Companies & Corporations

-

5. Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modaraba and Pension Funds 26,799,276

## 6. Mutual Funds

NAME	HOLDING
GOLDEN ARROW SELECTED STOCKS FUND LIMITED	100,000
CDC - TRUSTEE PICIC INVESTMENT FUND	15,000
CDC - TRUSTEE PICIC GROWTH FUND	30,000
CDC - TRUSTEE ATLAS STOCK MARKET FUND	200,000
CDC - TRUSTEE MEEZAN BALANCED FUND	355,000
CDC - TRUSTEE AKD INDEX TRACKER FUND	27,300
MC FSL - TRUSTEE JS KSE-30 INDEX FUND	4,813
CDC - TRUSTEE AL MEEZAN MUTUAL FUND	756,000
CDC - TRUSTEE MEEZAN ISLAMIC FUND	3,246,521
CDC - TRUSTEE ATLAS ISLAMIC STOCK FUND	200,000
CDC - TRUSTEE ASKARI ASSET ALLOCATION FUND	45,000
CDC - TRUSTEE MEEZAN TAHAFFUZ PENSION FUND - EQUITY SUB FUND	290,300
CDC - TRUSTEE HBL - STOCK FUND	681,077
CDC - TRUSTEE APIF - EQUITY SUB FUND	15,000
CDC - TRUSTEE HBL MULTI - ASSET FUND	74,000
FIRST CAPITAL MUTUAL FUND LIMITED	25,000
CDC - TRUSTEE IGI STOCK FUND	95,500
MC FSL-TRUSTEE ASKARI ISLAMIC ASSET ALLOCATION FUND	30,000
CDC - TRUSTEE FIRST HABIB STOCK FUND	58,500
CDC - TRUSTEE AKD AGGRESSIVE INCOME FUND - MT	496,000
CDC - TRUSTEE KASB ASSET ALLOCATION FUND - MT	28,500
CDC-TRUSTEE MEEZAN CAPITAL PROTECTED FUND-II	114,263
CDC - TRUSTEE PICIC STOCK FUND	63,500
CDC - TRUSTEE ASKARI EQUITY FUND	50,000
MCBFSL - TRUSTEE NAMCO BALANCED FUND - MT	227,500
MCBFSL - TRUSTEE NAMCO INCOME FUND - MT	17,500
Total	7,246,274

7. Shareholders Holding five percent or more Voting Rights in the Listed Company:  
Engro Corporation Limited

672,999,991

8. Details of purchase/sale of shares by Directors, Executives and their spouses/minor children during 2012

S.NO.	NAME	DATE	PURCHASE	SALE	RATE / PER SHARE
1	Muhammad Bilal Akhtar Khan	20-02-2012		500	40.9
2	Muhammad Afnan Ahsan	13-03-2012	100,000		42
3	Ishrat Ganatra	23-03-2012		500	46
4	Arif Ahmed Khan	07-03-2012	129,800		19*
5	Hassan Ahmed	07-03-2012	85,140		19*
6	Sheikh Muhammad Amer Irshad	23-04-2012	130,000		19*
7	Dawood Ahmed Memon	4-05-2012	151,800		19*
8	Imran Anwer	9-05-2012	600,000		19*
9	Kanwer Muhammad Anwer Saeed Khan	9-05-2012	200,000		19*
10	Javed Iqbal	10-05-2012	100,000		19*
11	Shamsuddin Ahmed Shaikh	10-05-2012	1,000,000		19*
12	Shamsuddin Ahmed Shaikh	17-05-2012		1,000,000	73.01
13	Babur Sultan	16-05-2012	1,000,000		19*
14	Babur Sultan	17-05-2012		1,000,000	73.01
15	Shafaq Omar	21-05-2012	252,120		19*
16	Arif Ahmed Khan	21-05-2012	220,000		19*
17	Imran Anwer	24-05-2012	400,000		19*
18	Matloob Hussain	24-05-2012	143,220		19*
19	Syed Ali Akbar	24-07-2012	2,000,000		19*
20	Sheikh Muhammad Eiraj Saleh Daud	24-07-2012	266,640		19*
21	Ruhail Mohammed	2-08-2012		50,000	70.37
22	Syed Saud Ahmed Gillani Pasha	6-09-2012	372,000		19*
23	Babur Sultan	5-09-2012	1,000,000		19*
24	Kanwer Muhammad Anwar Saeed Khan	5-09-2012	100,000		19*
25	Zahid Mehmood	5-09-2012	199,000		19*
26	Zahid Mehmood	5-09-2012		199,000	73
27	Babur Sultan	6-09-2012		1,000,000	73
28	Syed Saud Ahmed Gillani Pasha	16-09-2012		372,000	68.1
29	Kanwer Mohammed Anwer Saeed Khan	17-09-2012	8,000		70.25
30	Javed Iqbal	20-09-2012		5,000	71.5
31	Javed Iqbal	28-09-2012		20,000	70.15
32	Javed Iqbal	1-10-2012		30,000	70.7
33	Kanwer M. Anwer Saeed Khan	2-10-2012		20,000	72
34	Kashif Ahmed Soomro	10-10-2012	5000		70.6
35	Kanwer Mohammed Anwer Saeed Khan	22-10-2012		30,000	73.5
36	Aisha Riaz W/o (Late Dr. Riaz Hussain Karrana)	31-10-2012	44,000		19*
37	Shamsuddin Ahmed Shaikh	31-10-2012	1,000,000		19*
38	Kashif Ahmed Soomro	1-11-2012	5,000		70.6
39	Kashif Ahmed Soomro	1-11-2012		5,000	71
40	Kanwer Mohammed Anwer Saeed Khan	5-11-2012		58,000	73.03
41	Asim Butt	7-11-2012	347,000		19*
42	Imran Anwer	13-11-2012		150,000	77.27
43	Javed Iqbal	29-11-2012	18000		87.3
44	Javed Iqbal	29-11-2012		18000	87.5
45	Sheikh Muhammad Amer Irshad	12-12-2012	48000		19*
46	Javed Iqbal	24-12-2012		30,000	95.4

\*Shares acquired through Employee Stock Option Scheme (ESOS).

## pattern of shareholding as at december 31, 2012

No. of Shareholders	Shareholdings		Total Shares Held	No. of Shareholders	Shareholdings		Total Shares Held
	From	To			From	To	
484	1	100	20,687	1	190,001	195,000	191,257
4,690	101	500	2,272,516	3	195,001	200,000	600,000
1,538	501	1,000	1,505,291	1	200,001	205,000	201,000
1,542	1,001	5,000	4,216,242	1	210,001	215,000	212,120
335	5,001	10,000	2,679,376	1	215,001	220,000	220,000
104	10,001	15,000	1,350,624	1	220,001	225,000	225,000
62	15,001	20,000	1,171,700	2	225,001	230,000	457,500
49	20,001	25,000	1,168,730	1	230,001	235,000	230,500
30	25,001	30,000	868,199	2	245,001	250,000	500,000
18	30,001	35,000	601,950	1	265,001	270,000	270,000
21	35,001	40,000	810,960	2	270,001	275,000	548,080
15	40,001	45,000	656,502	1	290,001	295,000	290,300
20	45,001	50,000	990,488	1	330,001	335,000	335,000
4	50,001	55,000	213,962	1	345,001	350,000	350,000
6	55,001	60,000	348,000	1	350,001	355,000	355,000
5	60,001	65,000	306,600	1	380,001	385,000	380,395
5	65,001	70,000	349,793	1	410,001	415,000	415,000
7	70,001	75,000	519,824	1	455,001	460,000	460,000
3	75,001	80,000	232,325	2	495,001	500,000	996,000
2	80,001	85,000	169,223	1	680,001	685,000	681,077
3	85,001	90,000	263,000	1	715,001	720,000	715,640
2	90,001	95,000	189,500	1	755,001	760,000	756,000
12	95,001	100,000	1,195,500	1	850,001	855,000	850,500
2	100,001	105,000	207,150	1	905,001	910,000	909,797
2	110,001	115,000	226,263	1	995,001	1,000,000	1,000,000
1	115,001	120,000	119,500	1	1,020,001	1,025,000	1,023,907
2	120,001	125,000	250,000	1	1,290,001	1,295,000	1,293,000
1	125,001	130,000	127,500	1	2,215,001	2,220,000	2,216,350
1	130,001	135,000	130,640	1	3,245,001	3,250,000	3,246,521
2	135,001	140,000	277,000	1	3,490,001	3,495,000	3,493,300
1	145,001	150,000	150,000	1	3,635,001	3,640,000	3,637,443
2	150,001	155,000	306,200	1	5,745,001	5,750,000	5,749,243
1	155,001	160,000	160,000	1	31,195,001	31,200,000	31,199,409
1	160,001	165,000	163,000	1	108,695,001	108,700,000	108,699,991
1	165,001	170,000	170,000	1	564,295,001	564,300,000	564,300,000
1	175,001	180,000	180,000	9,016	TOTAL		761,577,575

## category of shareholding as at december 31, 2012

S.No.	Shareholders Category	No. of Shareholder	No. of Shares	Percentage
01	Directors, Chief Executive Officer, and their spouse and minor children.	10	100,509	0.01
02	Associated Companies, Undertakings and Related Parties	2	672,999,991	88.37
03	Banks Development Finance Institutions, Non-Banking Finance Institutions	6	34,042,759	4.47
04	Insurance Companies	1	2,791	0.00
05	Modarabas and Mutual Funds	26	7,246,274	0.95
06	Share holders holding 10%	2	672,999,991	88.37
07	General Public (Individuals):			
	a. Local	8,870	27,081,583	3.56
	b. Foreign			
08	Others	99	20,103,668	2.64



Aliuddin Ansari  
Chairman



Afnan Ahsan  
Chief Executive Officer

# shareholder information

## Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on March 22, 2013 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of March 15, 2013 are encouraged to participate and vote.

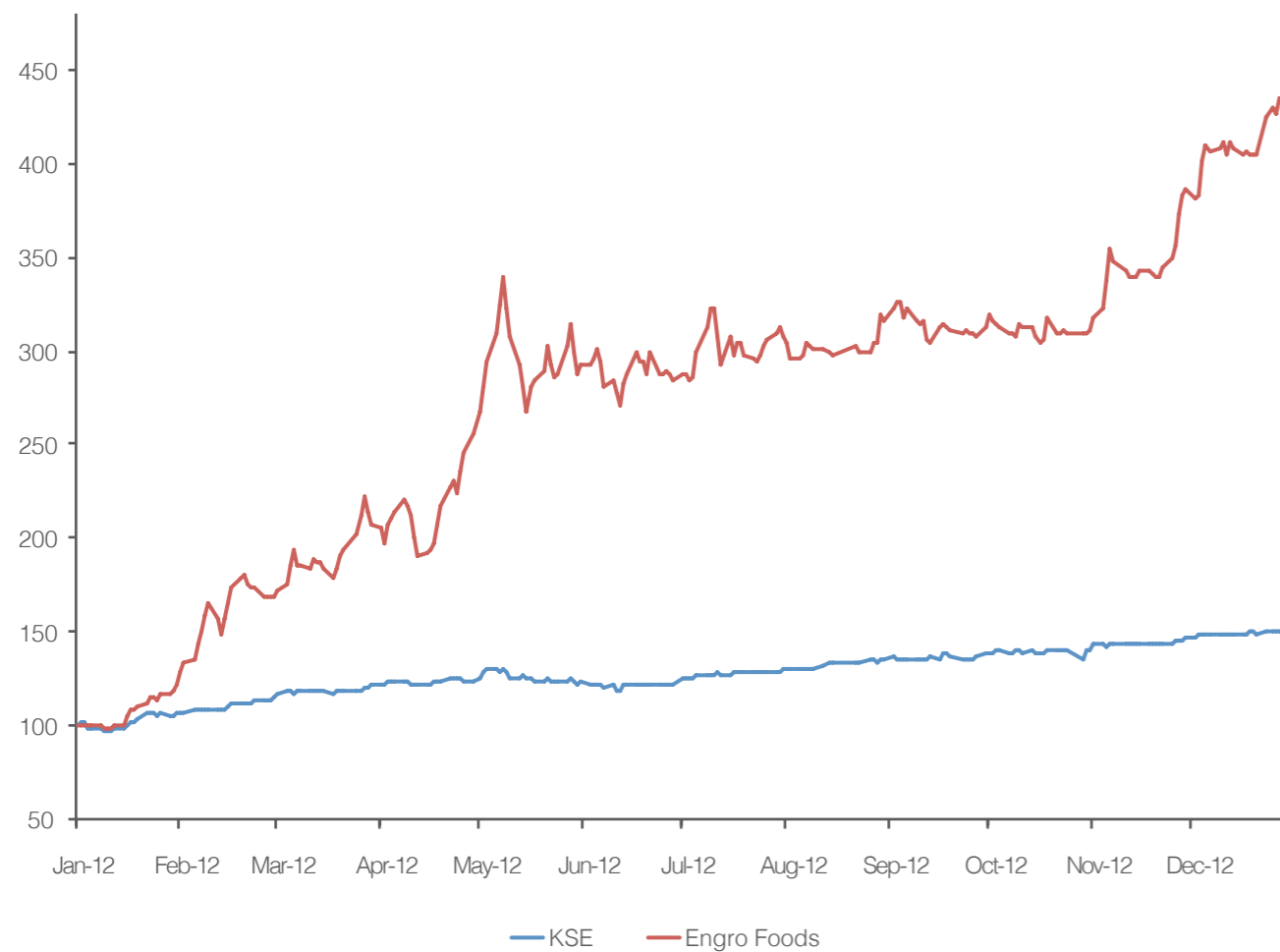
Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the company at least 48 hours before the meeting time.

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, 2012 there were 9016 shareholders on record of the Company's ordinary shares.

E-Foods Vs KSE 100 (2012)



## Quarterly Results

The Company issues quarterly financial statements. The planned dates for release of the quarterly results in 2013 are:

- 1st quarter: April 18, 2013
- 2nd quarter: July 30, 2013
- 3rd quarter: October 22, 2013

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 19, 2013
- 2nd quarter: July 31, 2013
- 3rd quarter: October 23, 2013

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

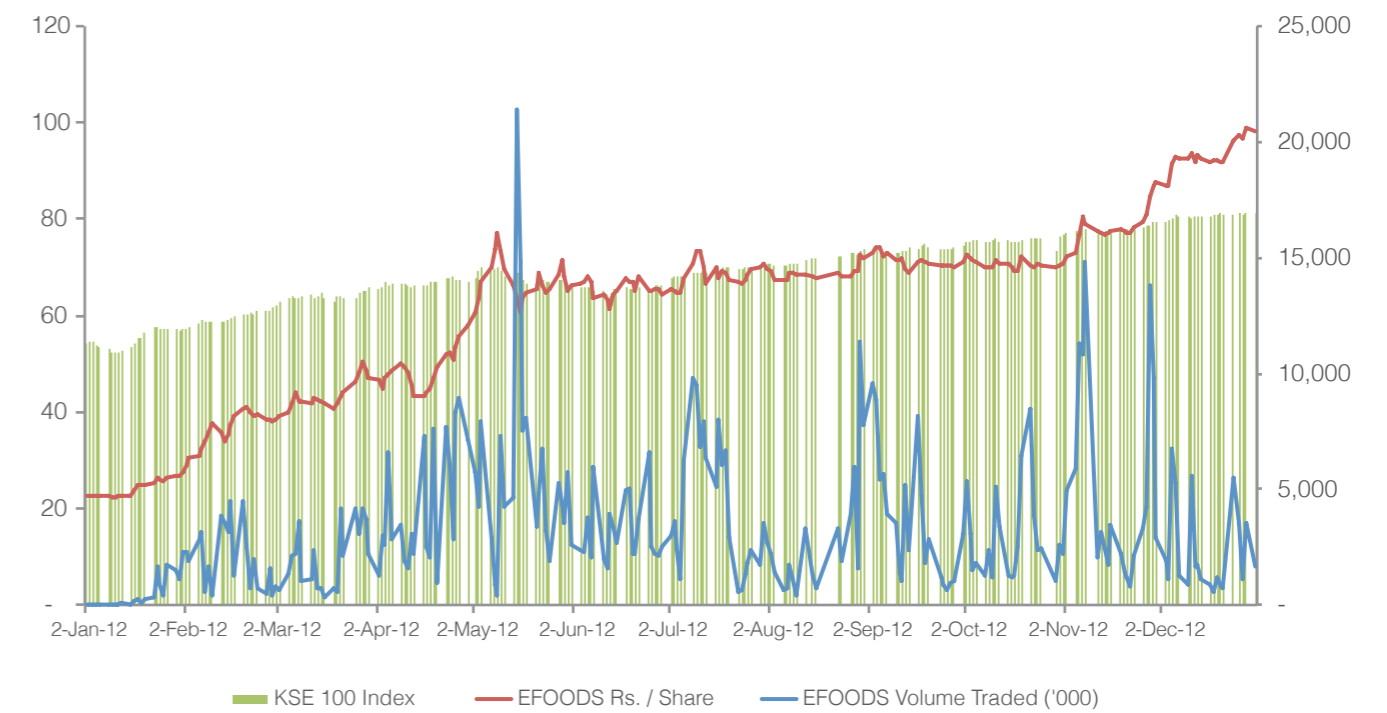
The Company reserves the right to change any of the above dates.

## Change of Address

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

M/s. FAMCO Associates (Private) Limited  
1st Floor, State Life Building No. 1-A  
I.I. Chundrigar Road  
Karachi-74000

Share Prices and Volumes (2012)



# the elevation of success



## our people

At Engro Foods, our employees are not only our biggest asset; they are also our greatest investment into our future, fundamental to our long-term growth and success.

Recognizing that our people make all the difference, we strive to consistently attract, hire and retain Pakistan's brightest and best 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.

We also place great emphasis on implementing standards and policies that will position working professionals in the global market for talent.

As an employer, we go the extra mile to invest in our people by equipping them with skills necessary for their professional growth and development, rewarding them for outstanding performance and providing them with a world-class environment and the relevant tools to optimize performance and motivate them to deliver their very best.

Our talent induction schemes, employee evaluation methods, training and development programs, compensation strategies, employee engagement surveys, HR synergy forums, employee volunteer programs and other HR policies are specially designed to help us foster a bond of trust, contentment, motivation, accountability and loyalty across the organization whilst demonstrating our commitment to develop an organizational culture thriving on transparency, openness and fairness.

As a leading employer and the recipient of the 2010 Employer of Choice Award, Engro Foods derives strength from a highly competitive compensation and benefits policy, which ensures that our employee pay structures are aligned with pay scales being offered at some of the largest and most prestigious multinational and local organizations in the country.

Engagement is a big part of the Engro Foods culture and through engagement surveys, we ensure our people feel engaged on a daily basis to their work, environment, peers and the business as a whole.

We also strive to create employee synergy and bonding through a number of out-of-the-box initiatives including in-house and external trainings, company-wide orientations and employee get-togethers to boost employee motivation and morale.

We emphasize on diversity and have in place a strict non-discrimination policy as we are passionate about creating a progressive and fair environment at all levels.

Our recruitment policies are specifically designed to provide greater opportunities to people hailing from diverse ethnic backgrounds. As a policy, our employees who have been a part of our team for a substantial period of time can avail our sabbatical option, giving them the opportunity to further their career development while retaining their connection to Engro.

At Engro Foods we make conscious efforts to increase the ratio of females employed by us.

To facilitate women employees juggling work responsibilities with family commitments, we have set-up a day-care centre for children and introduced flexible working hours in order to provide them with a higher level of care and convenience.

We also remain committed to maintaining the highest health, safety and environmental standards at our manufacturing units, to minimize potential risks to our employees, giving priority to their needs and well-being first and foremost.

But for all our policies, our biggest achievement by far lies in the creation of a highly passionate and dynamic team that plays a critical role in contributing to our bottom-line growth with its relentless pursuit for excellence, and drive for success.

As an employer, we go the extra mile to invest in our people by equipping them with skills necessary for their professional growth and development, rewarding them for outstanding performance and providing them with a world-class environment and the relevant tools to optimize performance and motivate them to deliver their very best.

# hr highlights: the year 2012 in retrospect

## Wearing Our Core Values

In our efforts to emphasize the essence of our belief system, Engro Foods launched five core values reflecting our approach in fundamental areas governing our operations. These include ethics and integrity; community and society; health, safety and environment; innovation and risk-taking and people. Each value is represented by a colored hat to give a symbolic representation of the philosophy behind every principle that we hold dear and adhere to as a company. Our move to brand each value with a specific hat, is our endeavor to show how we seamlessly integrate multiple roles that contribute to a work environment thriving on ethics and integrity, continuous innovation, responsible business practices, and a triple bottom-line approach focused on finding business solutions that are people and planet friendly. So for every hat, we have in place a unique attitude that we want our employees to adopt, so that with every hat we wear, we carry the Engro Foods philosophy with it.

## Developing Leaders

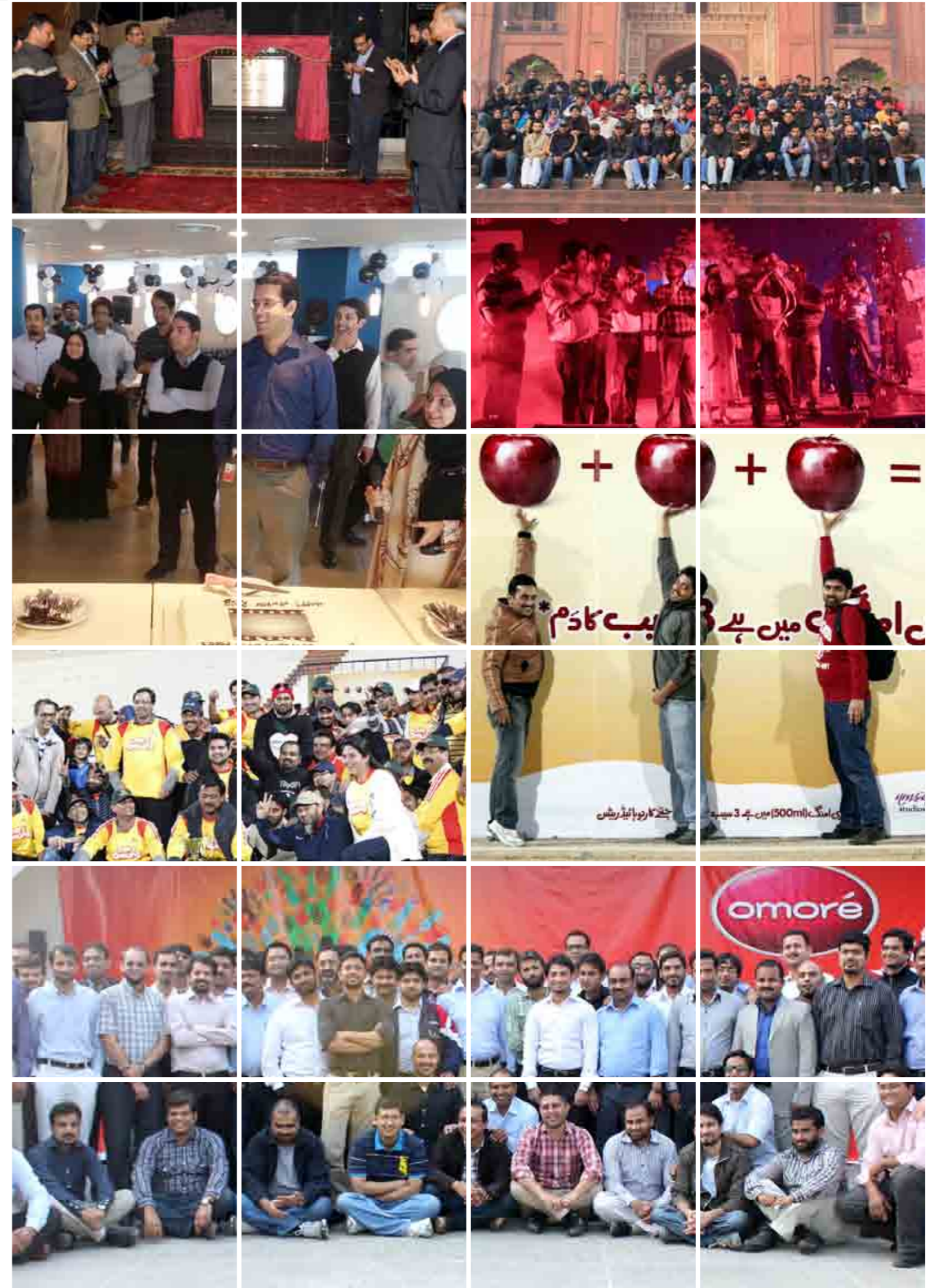
Engro Foods does not only believe in developing talent, but our goal is to develop leaders. Keeping this in mind, we launched our competency frame work that consists of different competencies, which define successful performance in a particular work setting. This framework was known as our Leadership Competency Model. The model forms the DNA across Engro companies and paves the way forward for success and growth. Energetic orientation sessions were planned and conducted across the whole Engro Group. This Leadership Competency Model is essential as it forms the basis for various other initiatives related to the learning and development of all employees.

## Embracing Diversity

In our efforts to ensure a non-discriminatory workplace and strengthen awareness of our policies on respect for people and their diversity, Engro Foods conducted diversity workshops across all Engro companies. The workshops targeted managers and highlighted the anti-discrimination policies we have in place. 'You, Me and Diversity' received an overwhelming response and managers were made custodians of our policies and nominated to cascade them down to their respective teams. The aim was to create awareness of our policies that respect every employee's belief system and safeguards their personal choices.

## Inducting New Talent

In our continuous efforts to expand our talent pool, Engro Foods launched The Engro Corp Summer Internship Drive 2012 aimed at providing students with the opportunity to gain an insight to our working environment and corporate culture. Targeting business and engineering students representing IBA, LUMS, LSE, IoBM and NUST Business School, the program is a platform for interns to turn a short-term position at Engro Foods into a permanent association. In our continuing efforts to groom talent and ensure that our future leaders stem from within the system, in the year 2012 we also implemented a program targeting Graduate Trainee Engineers for rigorous training programs across key functions within the organization. Through a series of development activities, the program aims to construct a concrete pipeline of emerging leaders, with a view to facilitate succession planning and build a pool of strong contenders for future leadership.



# health safety environment

## health, safety and environment

At Engro Foods we believe in doing business with an inherent consciousness that goes beyond the need to fixate on profits and incorporates the pillars of good corporate governance. In line with this spirit, all our strategic undertakings underscore the need to protect our people, communities and the environment in which we operate our businesses.

As we continue to deliver exciting possibilities for our stakeholders, creating value at each step of the chain, our emphasis on incorporating the highest standards in health, safety and environment (HSE) ensure the well-being of our employees. As a Company that prides itself in its roots as a Pakistani entity we will proudly continue to preserve and protect the environment for now and generations to come.

### Ensuring employee safety at the workplace

At Engro Foods our employees and contractors are expected to conform to our HSE management systems and processes which have been designed keeping in view international best practices. In the year 2012 we embarked on a plan to achieve Occupational Safety and Health Administration (OSHA) compliance through DuPont Alignment latest by 2013. .

Within this system, we set in place new procedures as well as customized existing documentation to address DuPont guidelines. A work-place safety program was installed that actively sought to reduce the potential risk of injuries within the work-place while evaluating the work environment for possible safety lapses by conducting safety gap analysis studies. Since the DuPont Safety Management is essentially a people-focused tool, we also invested heavily in employee engagement by conducting trainings for over 1000 employees in 43 sessions that spanned a total of 4000+ training hours.

To ensure a culture of safety and excellence in our HSE systems, DuPont team was also requested to conduct a direction check audit during the year. Furthermore, the progress on the DuPont Alignment is constantly monitored through rigorous internal audits and checks. Keeping on our focus seven such audits were conducted internally by Engro Foods teams and other Engro affiliates comprising 43 man-days spent on auditing and conducting interviews of 100+ management and non-management employees.

Moreover, to reaffirm our commitment to safety of our employees and draw maximum buy-in from them on the subject, Engro Foods hosted a series of engagement events. Our 'Zero Makes You a Hero' campaign was a major highlight and focus area throughout the year where extensive trainings and interventions were held amongst the employees to live our theme of 'Zero Food Safety Incidents, Zero Safety Incidents, Zero Health Incidents and Zero Environment Incidents'

As another step to champion health needs of our employees, we have also introduced behavior based safety techniques within the organization and strongly encourage incident reporting at the work-place to enable us to identify safety hazards and ensure that the possibility of further risk is duly minimized. During the year, we also introduced a 'Heat Stress Prevention' campaign where our production facilities were aligned to adopt a different colored flag system based upon the heat index as determined by ambient temperature and humidity. The color code of the flag hoisted at the site facility suggested behavior based actions to our employees such as rest breaks, ideal water consumption, etc.

As a result of our efforts and focus on stringent and best in class HSE guidelines, the total recordable injury rate (TRIR) has declined significantly over the last five years.

As compared to 0.31 in the year 2011, the Total Recordable Injury Rate (TRIR) of our employees and contractors was calculated at 0.147 (over 50% reduction in injury rate) in the year 2012 with over 17.5 million man hours clocked in by our employees.



The Kinnow has been steady fare across the Punjab from the early 1930's, since then it's cultivation has spread far and wide with ever increasing demand for the vitamin C packed fruit across the globe.



### Ensuring responsible environmental practices

At Engro Foods corporate social responsibility remains deeply embedded within the very core of our business. Therefore, we recognize the need to protect and preserve our planet, by going the extra mile to prevent unnecessary wastage of our natural resources.

Our business strategies are also fully aligned with this vision and have been designed taking in to account the far-reaching environmental impact of all our business decisions.

In an on-going effort to preserve our natural habitat, we have invested in installation of solar geysers at our area offices to substitute for the smoke that was generated through burning of wood in the conventional Cleaning in Place (CIP) geysers that were deployed at the area offices. As part of commitment to protect the environment in which we operate solar geysers were installed at 5 key area offices that have drastically reduced our environmental footprint since no wood is burnt. The application of this innovative and renewable technology has helped us cut down on burning of approximately 50kg of wood on a daily basis

at our area offices. In addition to the area offices, a detailed study was carried out of our vast milk collection infrastructure where warm water was a key requirement to ensure compliance to cleaning guidelines. To further reduce use of wood as a source to warm water, solar geysers have also been installed in over 295 milk collection centres thereby reducing our footprint and ensuring that we preserve the natural habitat of communities that continue to host us.

As part of our vision to reduce greenhouse gas (GHG) emissions, we are actively promoting the use of Non CFC products at all our manufacturing units. To further strengthen this practice we are now working in close coordination so that importers can build their stocks as per our growing demand in the years to come.

At Engro Foods Ltd., we will continue to make concerted efforts to protect and preserve the planet for our future generations whilst exercising effective controls to minimize potential environmental hazards.



# the foundations of good health

## social investments

At Engro Foods, we believe in doing business from the heart and leading by example. In our efforts to inspire change by providing livelihood solutions for the poorest of the poor, we continue to make targeted investments in underserved low-income communities, where we actively develop workable platforms that can impact lives by steering people towards self-sufficiency.

So as we go the extra mile to help people in vulnerable social segments evolve, prosper and grow, we do so with the conviction that these sustainable initiatives will not only inspire hope for better living, but will also pave the way for economic security, social advancement and community empowerment, thus steeling the future.

To bring our vision of achieving sustainable economic growth in marginalized communities to life, we forge successful partnerships with development agencies and our key stake-holders on targeted projects geared towards livelihood intervention, capacity building and disaster management.

### Empowering Women through Livestock Development

#### Our stake in the Weld Project

In our ongoing partnership with USAID aimed at strengthening the socio-economic fabric of primary milk producing communities in the Northern Sindh and Southern Punjab region, Engro Foods continues to play an active role in The Women Empowerment Through Livestock Development (WELD) Project.

Empowering women to become change agents within their communities, the WELD Project aims to boost livestock production and widen access to commercial milk marketing by developing women entrepreneurs whilst improving their earning potential and livestock management skills.

To achieve this goal, comprehensive training and implementation opportunities are provided to rural women on commercial milk marketing, livestock management and the adoption of best practices to improve yield and aid production.

Under the WELD platform, we are actively working to train a cadre of 300 female village milk collectors on effective milk collection management and delivery. A cadre of up to 300 female extension workers is also being developed to market livestock products required for better production.

The WELD project also seeks to enhance milk production by improving technical know-how of at least 19,000 rural women engaged in livestock management in the long run. To further aid production and economic growth, we have identified potential areas for the installation of at least 60 milk collection centers.

So far, we have trained 123 Female Livestock Extension Workers (FLEW) and 83 Female Village Milk Collectors (FVMC) on ways to serve dairy farmers and link their produce with relevant business providers.

We have also exceeded our targets for the July 2011 to September 2012 period by training 8,669 milk producing women entrepreneurs on animal housing, hygiene, health and nutrition.

More than 206 lead entrepreneurs have also benefited from our training sessions highlighting ways to boost revenue. As a result of our efforts, we have significantly increased the earning capacity of lead women entrepreneurs, enabling them to draw an average monthly income of Rs. 3,731 in 2012.

**we continue to make targeted investments in underserved low-income communities, where we actively develop workable platforms that can impact lives by steering people towards self-sufficiency.**

# saving livestock and livelihoods

**the khushaal livelihood recovery project**

In a country where cattle farming remains a key source of income for rural households, the damage caused by floods in Pakistan posed a serious threat to the livestock and livelihood of thousands of villagers, who were rendered helpless in their efforts to save their animals.

Responding promptly to the needs of our rural population, Engro Foundation collaborated with the United States Agency for International Development (USAID) to establish and launch the 'Khushaal Livelihood Recovery Project' aimed at restoring the productivity of farm animals to pre-flood levels in the flood affected villages of Larkana and Dadu.

Since our intervention in 2010, we have impacted over 22,579 households by successfully administering vaccinations to the animals against foot and mouth disease, supplementing the nutrition of milking animals and providing fodder crop inputs including multi-cut grass seeds, oat seeds and fertilizers to restore the productivity of the affected livestock.

Through our efforts, we were able to save over 100,000 animals in the flood affected villages of Dadu and Larkana, impacting the lives of thousands of villagers, who rely heavily on their livestock for their day-to-day survival.

The Khushaal livestock project has not only strengthened awareness about the benefits of vaccination and animal health in the affected regions, but has played a critical role in improving their knowledge of dairy animal diseases and prevention methods.

Additionally, an independent third-party evaluation in 2012 of our post flood livelihood recovery work in the flood affected villages further revealed a significant increase in the milk yield of the affected livestock in both Dadu and Larkana districts.

Following our intervention, the average milk yield of dairy animals was not only restored to pre-flood level, but increased by 9 % in cows and 56 % in buffalos when compared to pre-flood levels.

The study also concluded that the average monthly income derived from the milk of cows showed an increase by 39% in Dadu and 41% in Larkana, when compared with the pre-flood scenario. The average monthly income of our beneficiaries also showed an increase of 121% in Dadu and 100% in Larkana when compared with the pre-flood situation.

According to dairy farmers participating in the study, the Khushaal livestock project has not only strengthened awareness about the benefits of vaccination and animal health in the affected regions, but has played a critical role in improving their knowledge of dairy animal diseases and prevention methods.



# milk collection and dairy development



Cherries from Ziarat, are not only a national export but a favourite summertime fruit across the country.



## our vision for dairy innovation and integration

At Engro Foods, we take great pride in our contribution towards improving dairy standards in Pakistan and are passionate about enhancing the dairy sector by optimizing the contribution of farmers who rely heavily on our support to ensure the welfare of their families and the best care for their animals.

By taking ownership for the agricultural output of over 200,000 farmers, we have successfully managed to integrate the dairy value supply chain, thus boosting agricultural development across Pakistan and alleviating poverty for low-income farm families in the country's rural segments.

Fueled by our vision for dairy innovation and a systematic integration of all key entities contributing to Pakistan's agricultural input, at Engro Foods we will continue leveraging our resources to enhance processes and yield maximum output, paving the way for a more sustainable, efficient and robust industry.

### Changing the Rules for Dairy Farming In Pakistan

Before the inception of Engro Foods, dairy farming in Pakistan followed a pre-dominant mode of backyard farming with over 80 percent of farmers having less than 5 animals. Milk collection for onward delivery to city markets in this traditional set-up was conducted by contractors (dodhis). Absence of milk transportation infrastructure not only resulted in wastage but also created a monopoly of contractors who controlled pricing and payment methods, depriving small-time dairy farmers of the opportunity to reap any benefits from their produce.

Following our entry in the dairy business, at Engro Foods we focused our efforts on breaking the vicious cycle of monopoly by contractors (dodhis) and deployed our own state-of-the-art milk collection infrastructure aimed at improving payment cycles, guaranteeing collection and increasing profit margins for small-scale dairy farmers who were not getting the due worth for their labour.

In our quest to penetrate in the key milk collecting areas of Pakistan, we have forged successful partnerships with over 1,300 farmers and invested in state-of-the-art milk collection centers nation-wide. Spanning 250,000 sq. km to cover over 2,400 villages across Pakistan, our extensive milk collection network presently includes over 1,300 milk collection centers enabling us to deliver premium dairy products to a growing consumer base.

To further enhance our efforts and contribute in a meaningful way to the rural farming families, we focus extensively on animal health, nutrition and integration of the best farming practices, hence

boosting production and efficiency within the sector. Our team of veterinary doctors available round-the-clock provide free livestock care and support to farmers, thus increasing the productivity of their animals and positively impacting the efficiency of their farms.

With regular investments in medical camps, fodder cultivation drives, and modern feeding techniques seminars, our contribution towards helping farmers optimize the production of their animals and improve their farming operations has been critical to our success in the last six years. Through our efforts, we have also been able to provide a steady livelihood to the most neglected segments in the dairy value chain of Pakistan.

We have also made great strides towards reducing the gap between the dairy sector's demand and the industry's optimum capacity, by establishing dairy hubs offering training on modern farming practices to help farmers increase their output, and produce better yield. Our dairy interventions have not only helped farmers optimize production capacity of their livestock, but are also providing them with a guaranteed market for their raw milk.

Of the thousands of small-scale farmers benefiting from our dairy hubs, villager Allahbaksh, the sole-bread earning member of a family of nine is a key example. "Due to Engro dairy hubs, we can now earn a market-competitive income from our produce, and no longer have to worry about holding on to surplus amounts of milk, which can be sold off at these dairy hubs at a fair price anytime."

Ghulam Rasool, a regular supplier within our dairy network is yet another example of our success in ensuring livelihood security to dairy farmers. "Ever since Engro Foods established its dairy hub in Ehsanpur, we now have the means to earn a steady source of regular income. I frequently seek support from their veterinary doctors for my animals which results in greater yield and more earnings for me."

Through our efforts, we have also been able to provide a steady livelihood to the most neglected segments in the dairy value chain of Pakistan.

### Winning the G-20 Award

Winning global recognition for Pakistan, Engro Foods won the G-20 Award for 'Inclusive Business Innovation' at the prestigious G20 leaders' 2012 summit in Mexico. With competition from 290 business models from emerging economies across the globe, Engro Foods was among the 15 businesses selected for their innovative, scalable and commercially viable methods of working with low-income people in neglected communities.

The Engro Foods Milk Procurement and Agri-services Business Model aimed at improving livestock management, enhancing milk procurement and providing livelihood security to thousands of dairy farmers in Pakistan's marginalized rural communities has been widely hailed as a successful initiative that has successfully bridged the gap between small-scale dairy farmers and Pakistan's agricultural economy.

### Streamlining Procurement and Milk Collection With EMAN

At Engro Foods, we go above and beyond to ensure that our procurement and collection mechanisms are transparent and embody the highest principles of responsible sourcing. In our efforts to bring innovation to the sector, we ensure that once milk is collected from farmers, payments are made directly through cash or as credit to their accounts. By guaranteeing that payments are disbursed to farmers on a timely basis, Engro Foods continues to forge successful partnerships that contribute to a thriving and transparent supply chain network.

The Engro Milk Automation Network (EMAN) is a unique innovative payment system introduced by Engro Foods to streamline payments and regulating transactions to avoid payment delays and manual errors. Before the introduction of EMAN in 2010, farmers had to face the unnecessary challenge of commuting back and forth to our milk collection centers to record their transactions, which were manually entered.

Following the implementation of the EMAN system, more than 30,000 farmers in our dairy network in Punjab and Sindh now have access to magnetic smart cards that can be swiped to record and track real time purchase and movement of milk. For the ease of farmers and our dairy communities, the EMAN payment system is automated with live recordings available of all transactions made. A back office system providing MIS reporting and payments processing further ensures accurate and timely payments and information.

EMAN not only offers real time entry of milk collection and movement at source but also provides better controls, real time engineering and farmer alerts, as well as an accurate and reliable feed of information.

With EMAN magnetic cards, suppliers, locations and routes can be conveniently identified and accessed, making it easier for us to monitor and track the system for progress and delivery. The availability of real-time data further ensures that payments are transferred to farmers weekly, as opposed to the previous system of issuing receipts on paper that took weeks to record, after which payments were processed.

Engro Foods' implementation of the EMAN system across Pakistan has paved the way for major automation within the dairy sector, helping us process millions of rupees in payments every week to farmers, who are now paid efficiently. In the year 2012, in our efforts to expand the scope of the EMAN system, we deployed a network of over 1400 machines in key milk collection areas in the remotest parts of the country, with plans to increase the EMAN infrastructure up to 2000 machines by the end of 2013.

Winning recognition globally for innovation at the Asia Pacific ICT Awards in Thailand under the e-Inclusion and e-Community Applications Category in 2011, the EMAN platform will continue to be a key area of investment for Engro Foods in the years to come.

### Agri Services Wing

The key objective of the Engro Foods agri services wing is to develop efficiencies in animal husbandry skills across rural Pakistan. Equipped with a team of veterinary doctors and village workers, our agri services program has impacted the lives of more than 200,000 farmers by educating them on best farming practices aimed at improving their milk yields, enhancing fodder cultivation and imparting training on balanced feeding techniques, animal health and breeding. Within our agri-based program, we have also partnered with leading organizations for farmer development programs aimed at enhancing farmer education and increasing the dairy capacity communities performing below optimum levels. Rural women are also given due focus within this program, with an emphasis on building their skills and knowledge to ensure better management of livestock in farming families.



# the tradition of flavour



## good nutrition and great taste go hand in hand

Since our foray into the foods business in 2005, at Engro Foods we have built an exciting brand portfolio that continues to evolve, expand and grow.

With some of the country's most exciting and sought-after food products on our portfolio, at Engro Foods, we believe that good nutrition and great taste go hand in hand.

Bringing this philosophy to life in a short span of six years, at Engro Foods we have earned an unrivaled reputation for developing enduring brands that not only combine good nutrition with great taste, but also deliver the best value and quality.

By consistently delivering on our promise for the ultimate brand experience, our brands continue to exceed expectations and enrich lives, elevating consumer delight.

So as we continue focusing on expanding our product portfolio with new and exciting choices for our loyal consumer base across Pakistan and overseas, we are confident that our brands will continue to gain preference in every category that we seek to enter.



Dairy  
Omung

OLPER'S  
MILK

OLPER'S  
TARRKA  
ASLI DESI GHEE

OLPER'S  
LITE

Olfrute

Breaded  
Chicken Nuggets  
Nugget-Shaped Chicken Patties  
Product of Canada

OLPER'S  
FLAVORED  
BADAMI  
ZAFRAN

Omung  
LASSI

Omung  
LASSI

OLPER'S  
CREAM  
all cream

amare  
Mango & Vanilla  
Create delicious  
DESSERTS

# the win-win formula behind our winning brands...

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.



## The Engro Foods' Al Safa Halal Range

Expand your palate with halal food

In our quest to cater to the burgeoning halal foods market and a growing demand for halal certified products world-wide, Engro Foods acquired leading North American brand Al Safa in 2011.

Recognized for being among the most successful and widely purchased halal food brands of North America and Canada, Engro Foods' Al Safa halal range features more than four different food categories and formats including Fresh, Ready to Eat, Ready to Cook and Deli lines amongst others.

Endorsed by the Muslim Advisory Board, Al-Safa products conform to Sharia law and meet global standards for halal food, providing Muslims in North America and Canada the opportunity to expand their palette by enjoying quality products that are deemed as halal for consumption.

Engro Foods' Al-Safa products have earned the trust of millions of Muslims seeking a reliable solution for their every-day halal food needs. Recognised for our seal of quality, we are continuously striving to expand our product line to include appetizing meal solutions that combine taste with the halal certification that makes them permissible for Muslim consumption.



## Olper's Milk

Give your day a fresh start with Olper's!

Our flagship dairy brand Olper's Milk is ultra-heat treated to carefully preserve its rich creamy thickness. As one of the country's leading all-purpose standardized UHT processed milk brands, Olper's is sheer indulgence in every sip and is backed by its high nutrition content and invigorating freshness that have become synonymous with the Olper's brand. Widely favored for its fresh wholesome taste and full-cream richness, Olper's 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 Pakistan. Available in 4 SKUs of 250 ml, 500ml, 1000 ml and 1500 ml value packs, today Olper's combines nutrition, value and taste to deliver an unforgettable consumer experience to every individual in every house-hold where the day begins with Olper's.



## Olper's Flavored Milk

Savour the flavor of tradition – in every sip of milk!

Inspired by the traditional flavors of badam, zafran & rose, and also the contemporary consumer palette preferring chocolate, strawberry & mango, Olper's flavored milk caters to a diverse cross-section of consumers, with a penchant for natural ingredients infused in rich, creamy and aromatic milk. Launched in 2011 and available in 250 ml packs, Olper's Badam, Olper's Zafran and Olper's Rose present the rare combination of great tasting milk fused with the natural flavors of badam, zafran and rose for discerning customers seeking a wholesome experience of nutrition, taste and tradition. Immensely popular within a growing segment of the market, Olper's Flavored Milk is the best choice for everyone craving the lingering aftertaste of the traditional and the contemporary flavours in every glass of milk.



## Olper's Cream

Every day is a celebration with our Crème de la Cream!

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. Olper's cream continues to make meal-times, as well as break-fast and afternoon tea rituals a rich, creamy celebration day after day.



## Olper's Lite

Embrace the lighter side of milk!

The ideal low-fat, hi-calcium milk for adults 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, Olper's Lite has been specially formulated to provide nutritional benefits to the growing number of health conscious consumers in Pakistan, who seek products that can keep their calories in check whilst ensuring their health, nutrition and well-being. Launched in 2011 and available in UHT format of 200 ml and 1000 ml packs, today Olper's Lite is the preferred low-fat milk in the market with all the necessary ingredients to help adults achieve optimum health and keep it light by staying calorie and guilt free!



## Olper's Tarrka

Give your food some tarrka!

Launched in 2007, Olper's Tarrka is our premium desi ghee distinct for its pure flavor and aroma. A leading desi ghee brand that is extracted from milk, a dash of Tarrka in your favorite cuisine is all it takes to bring out the flavor of your food and leave you craving for more.



## Dairy Omung

The next best thing to regular milk!

Launched in 2011 in response to the rising inflation in Pakistan, Dairy Omung is our economical and wholesome UHT dairy liquid brand. Dairy Omung is sourced from pure milk and provides hygienic and nutritious dairy liquid, which helps in the development of growing children. With Dairy Omung, consumers can now enjoy the safety of UHT milk at a price that is within their budget.



## Omung Dobala

High nutrition at a very low price..

Launched in 2012, Omung Dobala is our low priced, nutritional vegetable and dairy blend cream that offers an economical alternative to dairy-based UHT Cream. Omung Dobala is also one of our leading brands in Afghanistan and is being used as a staple diet, as it provides consumers with an energetic start to their day!



## Omung Lassi

Beat the heat with Omung Lassi!

Launched in 2012, Omung Lassi brings consumers the unique taste and tradition of authentic lassi with our trusted seal of quality, taste, hygiene and nutrition. Cherished as a hot weather drink that invigorates the mind and provides instant relief after a humid day, Omung Lassi has become the new favorite drink for consumers of all ages seeking a chilled pack of Lassi as a healthier alternative to traditional lassi. Available in 200 ml packs in two flavors of sweet and salty, Omung Lassi is attracting a growing consumer base covering a wide demographic segment, making it a winning brand for all age groups – and an irresistible refreshment that few can resist.



## Olfrute

Heavenly nectars from Engro Foods..

The launch of Olfrute beverages in 2010 is our first non-dairy initiative and a major leap forward towards the diversification of our product portfolio in high potential markets. A refreshing fruit beverage extracted from pure fruits to entice and delight even the most discerning taste-buds, Olfrute juices and nectars are available in two SKUs of 1000 ml and 200 ml and offer a wide assortment of exciting fruity flavors including red grape, apple, guava, green cock-tail, mango, apricot and orange to cater to a diverse spectrum of urban consumers. With a highly enthusiastic consumer response to our extensive range of fruity nectars, we are confident that Olfrute juices will do extremely well in the market.



## Omorè

Ice-cream and Frozen Desserts

Launched in 2009, Omorè's delectable range of ice cream and frozen desserts is a treat for everyone. With its great taste and wide range of innovative flavors and formats including sticks, cones, bricks, tubs and cups, Omorè is a mouth-watering delight that provides the Pakistani consumer with a unique sensorial delight. Available in more than 35 SKUs that cater to Kids, Youth and Families on all occasions, Omorè is the brand that spreads happiness to thousands of Pakistanis every day.



## 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.

# marketing communications



Traditionally, Sugar Cane is used in drinks, to make sugar, as a sweetener in desserts and is known for its dietary qualities that prevent illness.



## converting consumers into brand advocates

At Engro Foods, we believe in building enduring brands that can impact and inspire audiences by gaining credibility, trust and preference on a deeper level. Embodying our commitment to enrich consumer lives by delivering on their promise, our brands forge meaningful connections that can pave the way for lasting relationships.

Building on our tradition of excellence with new ideas and approaches, at Engro Foods we pride ourselves on communicating our shared values and brand ideology in ways that cultivate consumer loyalty and garner marketplace trust as we convert consumers into staunch brand advocates.

**Building shared values and a passion for our brands**  
At Engro Foods we take pride in creating brands that consumers strongly believe in and rely upon. Despite an influx of new products in the business landscape, we continue to build on our reputation of trust, by engaging with consumers who believe in our promise of quality and share our passion for our brands.

Mirroring this strategy in our communication, we invest in clutter-breaking advertising that is unique yet relevant to our brand identity and shared across multiple channels and touch points for a greater outreach.

By effectively integrating our core beliefs with consumer values, our advertising is strategically tailored to forge meaningful lasting connections with consumers based on our understanding of their mindsets, behavior, preferences and lifestyle choices.

To keep pace with changing consumer preferences and new media trends, we invest in research and rely on social media platforms to improve our knowledge of consumer behaviour so that our brands continue to be at the forefront of innovation and change.

**Letting our campaigns speak for us**  
Recognized for our catchy, vibrant and meaningful campaigns, our advertisements intrigue Pakistani consumers from all walks of life, who identify with our brands, and our need to create engaging marketing content that communicates our shared Pakistani values to a diverse cross-section of society.

Moving away from conventional monologue advertising by focusing on novel themes promoting interactive dialogue, our TVCs, social media campaigns and branded entertainment platforms combine to represent us as a company that takes pride in its corporate ideology and Pakistani heritage.

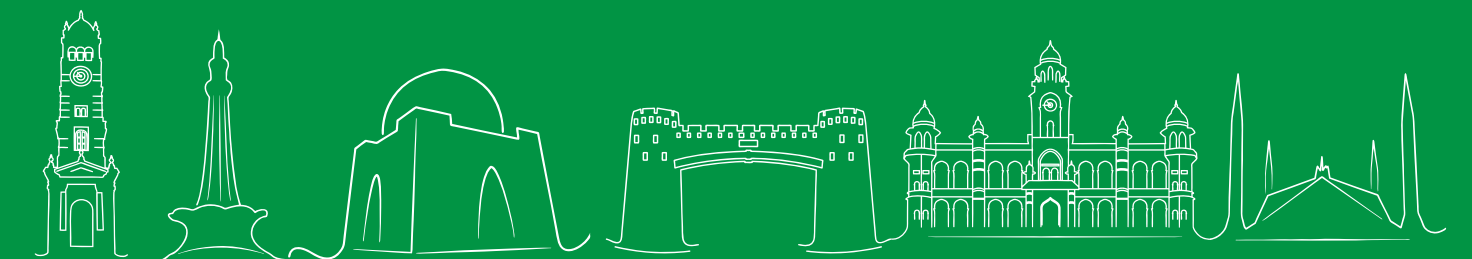
So whether it is a star-studded campaign that has audiences swaying to our 'Tarang hee Tarrang hai' slogan or an ad examining the many choices facing Pakistani women, our values manifest in all our campaigns and speak for us.

As we focus increasingly on finding new ways to interact and connect with our target audiences, our campaigns continue to resonate with our consumers and strengthen recall for our brands.

Highlighted further in this section are examples of key Engro Foods 2012 campaigns that have broken the mould of conventional advertising, paving the way for a new era of communication.



# خود پاکستان



# our khud pakistan philosophy

At Engro Foods, we believe that we are not a separate entity from Pakistan. We are in fact Khud Pakistan...

Celebrating six years of leadership in the foods business, the year 2012 marked the launch of Khud Pakistan – our first corporate campaign aimed at highlighting Engro as a local conglomerate that takes pride in our Pakistani heritage and plays a key role in fueling growth in our economy.

As a local conglomerate that has evolved into Pakistan's biggest success story, Khud Pakistan is our corporate campaign reinforcing our promise to serve Pakistan's social and economic segments, by enabling growth and impacting life for thousands of Pakistanis who rely on our interventions for their livelihoods and very survival.

From the consumers who seek our guaranteed brand of nutrition and quality, to the myriad suppliers and thousands of small-scale dairy farmers relying on our business to make ends meet, 'Khud Pakistan' embodies our pride in our country and showcases our competitive strength and commitment to give back to our community, impacting lives across all segments of Pakistani society.

Khud Pakistan has won global recognition at the G20 Challenge for Business Innovation, for creating a business model that directly impacts and improves life for Pakistanis at the bottom of the pyramid.

So as we deliver value to our consumers, boost agri-business, and improve life for low-income segments in Pakistan's marginalized rural communities, we do so with a sense of purpose, pride and ownership, because we believe that we are 'Khud Pakistan'.

A testament to our business model being inherently linked with the success of Pakistan and its people, our philosophy behind Khud Pakistan has won global recognition at the G20 Challenge for Business Innovation, for creating a business model that directly impacts and improves life for Pakistanis at the bottom of the pyramid.

## Launching the Engro Food's Khud Pakistan campaign

Strategically timing the launch date to coincide with Independence Day and Ramadan, the Khud Pakistan campaign highlights our inspiring journey as a home-grown success and a proud Pakistani business that was established from the ground up in 2005 to a thirty billion rupee investment.

Since then we have grown from strength to strength, gaining strong positions in all the product categories that we represent, in a span of only six years.

The hallmark of the Khud Pakistan campaign is our tagline 'Koi Hai Jo Khud Pakistan Hai', underscoring our commitment to Pakistan, as a Pakistani business deeply embedded in the different segments of the economy, making our contribution that much more significant to Engro Foods and Pakistan.

This is clearly communicated in our commercial for Khud Pakistan, a key element of our launch strategy, aimed at positioning Engro Foods as a proud Pakistani business that makes no distinction between its corporate and national identity. At Engro Foods, we believe that we are not a separate entity from Pakistan, we are in fact Khud Pakistan.

The Khud Pakistan ad highlights how our brands are an integral part of key family moments, bringing people together including families nationwide as well as the farming community of Pakistan.

## The Engro Foods Khud Pakistan TVC

Celebrating Pakistani culture, family ties and relationships, the Khud Pakistan corporate commercial begins on a nostalgic note, which successfully links Engro Foods as a home-grown Pakistani business responsible for bridging distances within Pakistan's diverse socio-economic groups, with a focus on our contribution to the country's agricultural, economic and business segments.

The ad also highlights how our brands are an integral part of key family moments, bringing people together including families nationwide as well as the farming community of Pakistan.

With a key stake in Pakistan's welfare, growth and prosperity, the numerous ways in which Engro Foods engages all its stakeholders, making life meaningful for thousands of Pakistanis is effectively communicated with the campaign message.

Focusing on evoking patriotism and love for Pakistan, the Engro Foods Khud Pakistan commercial celebrates the love that the progressive people of Pakistan have for their country. The true spirit of Independence Day celebrations in Pakistan are effectively highlighted in the ad as fireworks pierce through the air with subtle references made to link our brands' contribution to the economic landscape of Pakistan.

The end of the campaign seals our message conclusively, emphasizing our commitment to Pakistan, which is deeply embedded in the very core of our business, making Engro Foods Khud Pakistan.



# olper's mera intikhaab

the choice of pakistani women...

Olper's has evolved from its launch in 2006 to become the key contender in a fiercely competitive category, having under its belt a series of ground-breaking, larger than life campaigns that revolutionized the entire arena of communications in Pakistan.

Last year, Olper's repositioned itself to focus powerfully and closely on its core target audience: women. With Olper's target of progressive young women, the challenge was to create something hard-hitting and genuine: and that's exactly what was delivered through a brand new positioning. This positioning was undeniably fresh and entirely new for Pakistan: the idea of acknowledging, addressing and celebrating a woman as an individual, rather than the sum of her various family-driven roles.

Such a unique stance needed to be launched with a big bang, in an innovative fashion to hammer home the bold change. Execution was, therefore, crucial. Pakistani advertising has adhered to certain norms through the years, and we were intent on breaking these, both with our brand-new positioning, and with our style of execution.

The key idea was to emphasize the myriad choices a woman makes through her life, big and small. We arrived at the idea after considerable in-depth research with our target audience. An insight was gleaned from the observation that frequently, women in our society feel restricted in terms of their independence to make their own life choices. We took this insight and turned it around to empower our target audience through an honest, positive approach.

The idea of Intikhaab was acknowledging, addressing and celebrating a woman as an individual, rather than the sum of her various family-driven roles.

Our execution had to be as fresh and bold as our idea, and so we chose to use stop motion in our TVC, something innovative in this market. We assembled a world-class team to make it happen, employing technical experts from New York and Brazil. The TVC itself proved to be a true global undertaking and was also shot in Barcelona with the best of technical facilities taking the effort the extra mile.

Intikhab is the beginning of a revolution in the advertising industry and the approach to women.



# launching olper's tanhaiyaan naye silsilay

Consistently breaking through the clutter with our fresh take on advertising for Olper's, our key strategy for Olper's in 2012 focused on reinventing the brand by celebrating womanhood. Continuing in this vein, we launched Olper's Tanhaiyaan Naye Silsilay a sequel aimed at reviving the legacy of Tanhaiyaan by exploring the intricate choices that are confronted by women in family relationships, and how they do justice to their multiple roles in life.

A story of love, relationships, family ties and surviving against all odds, with plenty of humor thrown in for good measure, Haseena Moin's classic Pakistani drama Tanhaiyaan is one that will stay in the hearts of millions of Pakistanis, who grew up watching the story of Saniya and Zara unravel.

Bringing back memories of a classic that mesmerized audiences nationwide, the thirteen episodes of Olper's Tanhaiyaan Naye Silsilay focused on depicting emotions, family ties, love and traditional values in their true essence as the choices made by the play's central women characters Saniya, Serena, and Aani unraveled.

Our strategy to launch 'Olper's Tanhaiyaan Naye Silsilay' further strengthened Olper's positioning as a family brand that values family relationships and connects with audiences at a personal level.

## The Plot

"Olper's Tanhaiyan Nayay Silsilay" takes the plot of the old classic in an interesting new direction showing an unexpected twist in the story with the death of the play's central heroine, Zara who moved to the US after her marriage to Zain. Olper's Tanhaiyan Nayay Silsilay" explores how life changes for Saniya, Aani, Farhan, Bibi and Kabacha, and introduces Zara's daughters as new characters in the play, who having never experienced life in Pakistan, struggle to cope in a new environment as they mourn their mother's loss.

Olper's Tanhaiyaan Naye Silsilay also highlights unfortunate developments in the lives of Aani and Farhan, who end up disillusioned after experiencing betrayal by a loved one. Qutbuddin (Kabacha) continues to add humour to the plot, but reveals his own sadness in profound ways. The story ends on a feel good note, as the old characters unite to create a play thriving on family values, love, relationships and the traditional Pakistani way of life. Aired on PTV and ARY digital with the same star-studded cast that made the classic a raging success, Olper's Tanhaiyaan Naye Silsilay has been welcomed as a refreshing change from the content that is currently available to television audiences in Pakistan.

A highly effective branding platform, Olper's Tanhaiyaan Naye Silsilay has not only created top of the mind recall for Olpers', but has also strengthened its positioning as a brand that brings relationships and people together whilst recognizing the challenges faced by women.



# omoré dil boley desi...

## the kulfi for the desi in you!

At Engro Foods, breaking through the clutter with creative and colourful advertising that entertains and hits the bull's eye, has always been the hallmark of our communication strategy. Expanding the ice-cream category with a product exploring our traditional roots, the launch of our new sub-brand Omoré Desi in two exciting flavours of Desi Kulfi and Krunch Kulfi in 2012 was another big move that was served well with this approach.

In our efforts to create a unique identity for the brand in the local palette range, we focused on launching a bold 360-degree marketing campaign with a fun, desi touch in March.

Integrating both above-the-line (ATL) and below-the-line (BTL) advertising for maximum effectiveness, the campaign included two variations of our 35 second TVCs and radio jingles aired extensively on multiple channels nationwide with frequent airing on popular prime time spots covering entertainment, news, music and shows for children.

For outdoor advertising, two colourful and creative outdoor designs were installed for prominent display in Karachi and Lahore with additional sites targeted for branding displays nationwide. Vibrant posters and branded mobile vans and buntings in all Omoré towns further brought visibility to the brand nationwide.

To add to our campaign's success, our television commercial and radio jingles struck an instant chord with consumers of all ages. Desi to the core, with a quirky, colloquial tone that sets it apart from all market products within this category, the ad has a mass appeal that bridges the divide between audiences, bringing desi humour that few can resist.

The jingle 'Doodh nay mayway say chakkar chalya' (milk initiated a serenading with dry fruits) makes audiences chuckle out loud, as they tap their feet to the catchy tune, and embrace the brand for bringing Kulfi with such a refreshing twist into their lives.

Our TVC and radio jingles struck an instant chord with consumers of all ages with its theme that remains desi to the core, with a quirky, colloquial tone.



# omoré frooze

## consumer promotion

For individuals seeking some relief from the relentless hot summer, Engro Foods launched an exciting consumer promotion within our cool and refreshing Omoré ice-lolly brands Frooze jigsaw, Frooze Dasher and Frooze Lick A Flavor.

Specially targeting our young school going audience as well as retailers nation-wide, the Omoré Frooze Ice-Age promotion created a cool link for the hot season with Ice Age 4: Continental Drift, the most popular 3D adventure movie of 2012. Within this promotion, our young consumers were given the once in a lifetime opportunity to win our grand bumper prize of three tickets to ice-age world, London with free stay at Alton Towers resort for 3 people.

Consumers who purchased Omoré Frooze jigsaw, Omoré Frooze dasher, Omoré Frooze Lick-A-Flavor during the promotion had the opportunity to win free ice-lollies on the spot or enter our lucky draw to win exciting prizes including ice-age games for X box 360, ice-age adventure packs, all terrain vehicles (ATV) and a visit to ice-age world.

To ensure wide-spread participation in the campaign, our retailers nationwide also had the opportunity to participate in the Omoré Frooze Ice-Age promotion with a lucky draw participation coupon offered on the purchase of every 3 cartons of the targeted Frooze ice-lolly brands. Prizes for retailers in the lucky draw included generators and emergency lights. iPods as gifts were also given to our sales team members as incentives for selling up to 3 cartons.

With massive hype created through colorful ice-age frooze branding, activity boards, free Frooze trials at major consumer touch points including cinemas, malls, retail outlets and entertainment hot spots, the campaign generated a phenomenal response from our young consumers as well as older audiences nationwide.



## magic hat – opening a new world of adventures

Changing the concept of ice-cream as we know it to appeal to the vivid imagination of children, we expanded the Omoré frooze portfolio in 2012 with the introduction of Omoré Frooze Magic hat.

Shaped like an ice-cream hat, our strategy behind the introduction of Frooze magic hat was to explore a new market dimension that had remained previously untapped.

Positioning the Frooze magic hat as the ticket to a colorful, exciting world filled with adventures and magic, Omoré Frooze Magic Hat targets the inquisitive minds of children, encouraging them to step into an exciting dream world.

The TVC for Omoré magic Frooze effectively encapsulates this positioning by depicting the interaction between a boy and a girl whispering in the classroom. The girl is curious about the surprise in her friend's 'lunch box but before the boy can show it to her, their teacher intervenes angrily and orders them to sit on opposite sides of the classroom.

Upset at being reprimanded, the boy whips out his Omoré Frooze magic hat from his lunchbox and as he nibbles at it, his world inside the classroom changes into an exciting little adventure.

Just like magic, the Omoré Frooze magic chant Shaka Laka Boom, Frooze Machaey Dhoom, Magic ka jadoo chaey, Villain Ka The End Ho Jaey plays into his head, and a giant whale appears, destroying everything in the classroom but the boy's world, which includes his friend and his half nibbled bar of Omoré Frooze Magic Hat ice-cream.

The tagline 'Lick Bite, Shuru Surprise' further reinforces the concept that a bite of Omoré Frooze Magic Hat is enough to open up a new world of adventures for children.

With the launch of Omoré Frooze Magic hat, we have introduced an ice-cream that brings children so much more.

# omoré buzz

no shashka, just chaska!

We all know teenage years are confusing. Which college to go to? What do I want to be? Who am I? On top of all these questions the teenager is burdened with the expectations to change the world.

Omored understands how much stress this causes the youth of today and launch a sub-brand that promises to provide relief from these very stresses. With this premise, Omored Buzz was launched in 2012 to help fuel Omored's growth in the expanding Youth segment. With the promise of "No Shashka, Just Chaska", Omored Buzz was launched with the new Tiramisu Cone and the innovative frozen yogurt based Strawberry Bliss.

The campaign consisted of presence across multiple touchpoints, with presence on TV, radio, outdoor sites and social media. Creative ways of delivering the brand message came through the widely acclaimed "Radio Silence" radio spots and a teaser outdoor campaign with follow up creative outdoor designs.

After a successful talk-of-the-town launch, Omored Buzz commenced 'The No Shashka Show' – an 8-episode magazine show – promoting the talented youth of Pakistan who continue to reflect the Pakistani spirit and bring positive light to the country in these difficult times. The 'No Shashka Show' was a reinforcement of our creative approach to target our consumer audience through innovative, clutter breaking ideas. In a world where the youth is constantly bombarded with multiple messages from various fronts and tasked with the burden to make important decisions, we believed that it is time to liven things up and give them a reason to chill out! The 'No Shashka Show' was an extension of the Omored Buzz brand promise to offer simple yet addictive flavor without any superficial promises or grandeur.

The Omored Buzz launch generated talkability for Omored and helped cement Omored's position as a strong contender in the youth segment.

The 'No Shashka Show' was a reinforcement of our creative approach to target our consumer audience through innovative, clutter breaking ideas in a world where the youth is constantly bombarded with multiple messages.



# omung dobala

for a good morning and an even better day...

## Tawanai bhari Subah... only with Omung Dobala

After a strategic review of the functional benefits and brand identity of our high nutrition vegetable and dairy blend Dobala in 2012, we relaunched it as Omung Dobala, in a targeted move to position it as a brand that is affordable, nutritious and filled with energy boosting strength.

This is also encapsulated in our launch campaign establishing Omung Dobala as "Bakifayat, Ghizayat bhara and Tawanai baksh". A unique blend of dairy and vegetable fat, Omung Dobala is available in a 200 ml pack at a price that makes it well within reach of the labour segment that remains by far our biggest market.

Aimed at the pukhtun tribal segments of Pakistan and Afghanistan who consume it as their staple diet with naan and paratha every morning, Omung Dobala has become a daily ritual and the most affordable solution for pathans seeking energizing food to suit their physically demanding lifestyles.

The average prototypical Omung Dobala consumer hails from the pakhtun tribe and is a hard-working, high spirited individual who is price-conscious and a minimalist by nature.

Undeterred by physical labour, he derives a strong sense of pride from taking ownership of his responsibilities yet recognizes the need for energizing food to support his demanding lifestyle. Listening to music and having traditional food and drinks during 'baithak' sessions with his friends bring him peace and happiness.

The concept 'Strength of a Morning' for our Omung Dobala TVC very effectively highlights how Omung Dobala is critical for the labour segments in Pakistan's rural segments of Quetta, Peshawar, Balochistan and Afghanistan's tribal regions.

## The Omung Dobala Lifestyle

For the thousands of pakhtuns falling within this category in Pakistan and Afghanistan, Omung Dobala has become an integral part of their lifestyle by virtue of being the most nutritious and affordable solution in the market.

This is clearly evident from our launch TVC highlighting the morning routine of three pathans in different scenarios endorsing the brand for giving them a "Tawanai bhari subah".

The Omung Dobala TVC begins by focusing on a pathan labourer (mazdoor) shown at a construction site at daybreak. As he sits down with his friends to have breakfast, he pours Omung Dobala generously on a naan, while commenting in his native language on the demanding nature of his work which keeps him on the move all day. "Bari mehnat ka kaam hai, poora din ooper neechay aana jaana hai", he exclaims in Pashtu.

He is nonetheless ready for the challenge, as he devours his meal eagerly, clearly enjoying the taste of Dobala, and the value it brings to his life.

As the scene changes, a pathan truck driver sitting at a dhaaba is shown beginning his first meal of the day which includes Omung Dobala consumed with a huge paratha. Pouring Omung Dobala on it in circular motion and enjoying it with relish, he comments on the tough day ahead of him.

"Subah truck ley kay nikloo phir poora din gol gol phirtay raho". Similar to the labourer, he relies on Omung Dobala for the nourishment he needs to get through the day.

The third scenario features a pathan fruit-seller sitting with his family on a dastarkhwaan, for breakfast. He is also shown enjoying Omung Dobala with his naan. The fruit-seller's routine is yet again a struggle that requires "taaqaat" (strength) tawanai (energy) and ghiza (fortifying food) which he claims can only be found in Omung Dobala.

The concept 'Strength of a Good Morning' for our Omung Dobala TVC very effectively highlights how Omung Dobala is critical for the labour segments in Quetta, Peshawar, Balochistan and Afghanistan.

Reflecting daybreak on the brand's packaging to highlight the significance of this peak time for our growing market, we supplemented our TVC with a radio jingle in sync with our concept of 'Tawanai Bhari Subah' and leveraged outdoor advertising and onground activation for maximum effectiveness.

Targeting dhabas in Kabul, Peshawar, Karachi and Quetta for on-ground activation to strengthen awareness of the brand, and induce trials to expand market share, free experience of Omung Dobala was also given to pathans purchasing parathas and naans.

As we focus on deeper penetration of the brand within these key markets, our positioning will continue to highlight how Omung Dobala gives consumers the strength to have a good morning, and an even better day.



## omung lassi and our love guru – the talk of the town

### Love Guru.... Ho Ja Shuru!

Taking yet another bold move for the launch strategy of our new brand Omung Lassi, the year 2012 proved to be a phenomenal year for Engro Foods as we explored advertising concepts that intrigued audiences, and made our brands the talk of the town.

Launched in June 2012 at a market competitive price in two delicious flavors of sweet and salty in 200 ml and 1000 ml sizes, Omung Lassi is a product innovation that uses the original formulation of traditional Lassi in a packaged, branded solution.

However, despite the product bearing its roots from the rural set-up of the country, our campaign focuses on delinking it from the perception that ties Lassi to village life.

Launching Omung Lassi with our sexy Love Guru, our communication strategy for the brand focused on creating a campaign that would break the mould of Lassi being viewed as a 'paindu, desi' drink consumed only in tall glasses by hefty men and women residing in our rural villages.

Instead, we focused on positioning Omung Lassi as a trendy product innovation that would be identified as the Love Guru, a pro at guiding young people in matters of the heart. Establishing the character of the brand through Love Guru who is a suave and slick

young lad surrounded by a flock of attractive girls, our concept created a stir and made people sit up and take notice as we launched our campaign in full effect nationwide.

Aimed at young people aged between 24 – 30 years, a key segment constituting a large majority of our country's population, Omung Lassi is synonymous with Love Guru, who dazzles young girls with his dashing, sexy wit and inspires young men to follow in his footsteps by consuming Omung Lassi which according to him is "Pyaar Ka Naya Ilaaj".

Once the character of Love Guru was clearly established through our 40-second launch TVC, we focused on three 20-second follow-up ads to further strengthen our positioning of the brand as a stylish Love Guru giving quirky love advice to young people. Each follow-up ad had a different theme, but the underlying concept remained the same. Every time, a young lad presented Love Guru with a problem – Love Guru pitched Omung Lassi as the ultimate solution to all problems in love. This is repeatedly emphasized in the campaign through our tagline 'Guru Ho Ja Shuru'!

Translating the concept into radio jingles, followed by outdoor advertising and extensive brand activation at retail chains as well as sampling activities, Omung Lassi was the most exciting launch for Engro Foods in 2012.



چائے کا صحیح جوڑ!

## tarang – fusing the golden age with the present

At Engro Foods, we view our biggest and most profitable brand Tarang as a key opportunity for growth. A catchy, vibrant and compelling advertising and communication strategy therefore remains critical for our continued growth in the tea whitening segment.

The only tea-whitening brand to invest millions on its ad spend, the year 2012 posed a new challenge for us at Engro Foods as we changed tracks for Tarang's advertising strategy by making a subtle shift from our original Lollywood formula to fusion.

With a large number of brands cashing in on our original strategy to create a differential positioning through Lollywood, our decision to change the formula for Tarang in 2012 is in line with our vision to stay ahead of the game by remaining inherently unique and setting new trends through all our communication.

The feedback and market response to our campaign has been simply overwhelming with the whole nation chanting "Tarang hi Tarang hai!"

Building on our big idea of Fusion for the year, Tarang brings forth a mix of the past and the present through bringing Nur Jehan back to life and making her move to true Tarangi tunes. Along with Nur Jehan, the heartthrob of millions, Fawad Khan of Humsafar fame features for the first time in Tarang's advertisement along with none other than Nur Jehan's own grand daughter, Soniya Jehan, dancing to the tunes of "Jawan hai mohabbat... Tarang mein zamana!"



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Keeping true to our vision, the innovative concept proved to be a real clutter breaker in the history of Pakistani advertising. The campaign did a national outbreak across all mainstream TV channels, radio stations, outdoors and cable, and made waves nationwide with all audiences delighted to see Pakistan's famous legend Madam Noor Jehan, embracing the Tarang lifestyle.

The feedback and market response to our campaign has been simply overwhelming with the whole nation chanting "Tarang hi Tarang hai," further strengthening its positioning as the perfect complement for tea – chai ka sahi jor.

### Introducing Our Functional Ad

Highlighting the key attributes of Tarang on functional parameters to change the mindset of consumers who use loose milk, we leveraged Tarang functional attributes of high yield, more cups of tea and thickness ("garhapan") to create a distinct advantage for the brand in the market.

By increasing acceleration to advantage with the message "Garhaa Tarang banaye jee bhar chai", the ad is set in a grand haveli of artistic arches and illustrious décor, illustrating our concept of a fusion of time, generation and taste.

The theme of the ad is entirely festive with musical nuances and melodramatic dialogues giving it a true Tarangi style. Featuring mega stars of film and TV, the campaign went on air across mainstream satellite and terrestrial channels. This was the first time that Tarang created an association with cricket by sponsoring Pak-Australia series on PTV sports and winning us wide-spread appreciation from all quarters around the country. For greater outreach, the TVC was broadcast across cable networks, adding to the campaign's strength and enhancing the brand's population nationwide.



چائے کا صحیح جوڑا!

the icon  
of vitality

## ensuring productivity through supply chain excellence

At Engro Foods, our growing network of production, manufacturing and distribution facilities is fueled by world-class technology, best practices and a commitment to excellence.

Managed by a team of 850+ employees passionate about serving our consumers across Pakistan and world-wide with enduring commitment, our production and supply chain network plays a key role in driving our operational success as we continue to focus on innovation, expansion and growth of our business model.

From research and development to product management, distribution and quality control, at Engro Foods we effectively leverage our strengths to ensure maximum efficiency at every level of our operations, and within the very core of our business.

Presently, our state-of-the-art manufacturing, distribution and production set-up includes our North Plant at Sahiwal, South Plant in Sukkur and our Nara Dairy farm.

### The Engro Foods North Plant

Located at a distance of 8 kilometres from the National Highway Sahiwal Bypass - Pakpattan Road, the Engro Foods North Plant covers an area of 33.5 acres of land in the well-known dairy hub of Sahiwal. With a production range encompassing 70 SKUs of our dairy and ice-cream brands Olpers, Omung, Tarang and Omore, our North Plant was fuelled by our vision to be at par with the nation's biggest manufacturing facilities.



Exceeding its record output of 1 billion packs in 2011, the Engro Foods North Plant achieved a production milestone of 1.3 billion dairy

packs in the year 2012, while meeting all our critical key performance indicators. As the scale of production continued to reflect an upward trend for our North Plant with a volume growth of 14% in 2012, research and development remained a key area of focus, with emphasis on ensuring food safety by conducting a Hazard Analysis and Critical Control Points (HACCP) study at the plant.

During the year 2012, in an effort to improve operational efficiency, we also embarked upon an expansion plan for our North Plant which included the following new additions:

- Installation of a new AMF Plant with a production capacity of 3000 litres per hour.
- Installation of two new A3 lines with a production capacity of 6000 litres per hour.
- Installation of a new SL-900 (sticks production line) with a production capacity of 720 litres per hour.
- Installation of two new Ecolean lines with a production capacity of 2250 litres per hour each.



Our expansion plans for the Engro Foods North Plant also focused extensively on revamping its Tetra Pack unit in line with world-class standards critical for increased output, superior quality and continued growth year after year.

### The Engro Foods South Plant

The Engro Foods South Plant covers a total area of 27 acres of land at a distance of 1.5 kilometers from the Sukkur Barrage.



After commencing operations in the year 2006, the Engro Foods South Plant has evolved to cater to the needs of our key flagship brands Olpers Milk, Olper's Cream, Tarka Ghee, Olwell, Olper's lite, Tarang, Owsun, Olfrute Juices, Dobala Cream and Dairy Omung.



With a commitment to operational and quality excellence, our South plant has crossed a safety milestone of 6.72 million man-hours, operating for three consecutive years without losing a single day of work due to an injury. During the year 2012, The Engro Foods South Plant produced an output of 145 million litres (0.55 billion packs) with increased focus on expansion and growth. Towards this end, three A 3 lines with a production capacity of 12,000 litres per hour were installed at the Engro Foods South Plant in line with our vision to enhance plant operations, and exceed outcomes year after year.

### The Engro Foods Nara Dairy Farm

Spread across 50 acres of land with additional acreage available for further expansion and fodder production, the Engro Foods Nara Dairy Farm located in Sukkur is the country's first ISO certified dairy farm currently having a total herd size of 3900 animals, which makes it the largest imported cattle farm in Pakistan.



With a focus on automated, cutting edge solutions to enhance dairy efficiency, the Engro Foods Nara Dairy Farm at Sukkur is fully equipped to respond to the industry's growing demand for quality milk. This is clearly indicated by our milk output of 9.2 million litres in 2012, with an annual increase in production by 53% since the year 2011.

With a production capacity of 3,400 animals milked three times a day, our Nara farm is also equipped to produce high nutrition forages through crop management, processing of high nutrition feed and the use of cow cooling systems to combat summer heat and produce quality milk at par with global standards.

## continuing our tradition of excellence

### Implementing food safety standards at engro foods

At Engro Foods, our vision to elevate consumer delight worldwide is brought to life by our relentless pursuit of quality and excellence that permeates every aspect of our business and operations.

Uniquely positioned to contribute to the local dairy sector in ways that can drive innovation and foster excellence, at Engro Foods, we have always focused on steering our operations to reflect greater efficiency, improved processes and the highest food safety standards throughout our value chain. Core to our strategy is a focus on continuing our tradition of excellence by incorporating food safety parameters in all our processes and operations.

Towards this end, shortly after the launch of our operations in 2005, we adopted early use of Plate Heat Exchangers (PHEs) in our manufacturing facilities at Sahiwal, Sukkur and subsequently at our Nara Dairy Farm for the chilling of milk in a conscious effort to improve safety practices across our operations.

In line with our tradition of excellence, we focused on finding systematic ways to improve food safety and enhance product quality at Engro Foods and applied for International Certifications to standardize processes, documentation and practices across the board for better safety mechanisms and quality control.

As a result of our efforts, in March 2011, Engro Foods was formally certified as a company approved by International Standards of ISO-9001, ISO-14001, OHSAS 18001, ISO-22000 and also came to be formally recognized as a Halal certified company.

With increased emphasis on garnering support for our brands from consumers and retailers in Pakistan as well as overseas, at Engro Foods we applied for the British Retail Consortium Certification – also recognised as the Global Standard for Food Safety, a more stringent food safety standard for implementation at our processing plants in Sukkur and Sahiwal.

Upon successful completion of ISO certification, the Engro Foods team after close collaboration with all key stakeholders started working on BRC implementation at our dairy processing plants in October 2011. After a thorough intervention aimed at ensuring integration of our hygiene and food safety practices with BRC requirements, we achieved successful implementation of the certification at our

manufacturing units, and throughout our operations, securing our future in the years to come. At present, Engro Foods is the only dairy company in Pakistan that has BRC certified processing plants.

### Increased safety measures and their long-term impact

Reaffirming our commitment to operational excellence, we focused on fostering a culture of safety across the organization in 2012, by creating food safety objectives that were made mandatory across all levels of the organization as well as for all employees.

Within this initiative, food safety training sessions covering halal requirements, food hygiene, allergens control, internal auditing and international safety standards were conducted for employees. More than 2000 training man-hours focused specifically on food safety to ensure effective quality control for our products.

To streamline processes whilst ensuring adherence to our new safety culture, more than 70 internal audits were conducted across 50 different functions of our operations targeting 9 locations in multiple cities with no major deviation from Food Safety practices reported.

As a result of these measures, there is now increased awareness about our food safety culture within the organization. Plant hygiene at our manufacturing units has also significantly improved, with a 75% reduction in customer complaints, as well as better quality controls for our dairy products.

### Continuing our tradition of safety and excellence

In the year 2013, Engro Foods will continue to focus on food safety and operational excellence with plans to apply for the ISO 17025 for our labs, Global GAP for Nara Dairy Farm, ISO-9001, ISO-14001, OHSAS-18001, ISO-22000 Certifications for our remaining PHEs. Additionally, we will also increase surveillance audits at our plant and dairy facilities, whilst striving to incorporate the British Retail Consortium-Certification at our Sukkur and Sahiwal plants, and IFC Brokerage certification at Engro Foods Canada. At Engro Foods, these initiatives have not only paved the way for better controls within the organization, but have also set the stage for sustaining our competitive edge in Pakistan as well as overseas.

# supply chain network

## optimizing our supply chain for responsible output

At the forefront of our supply chain innovation is a dedicated team that continually strives to ensure operational excellence, compliance and efficiency across all functions of our integrated supply chain network of manufacturing plants, distribution centers and trans-docking stations.

At Engro Foods, operating a reliable, state-of-the-art fleet remains critical to our success with our fleet structure continuously expanding every year to serve our growing business needs.

With over 350 distributors, we are presently serving 12 regions across Pakistan from our three distribution centers in Islamabad, Sahiwal and Sukkur and our single trans-docking station in Karachi.

Our present fleet structure comprises 225 vehicles in dedicated sizes of 14 feet, 20 feet and 50 feet to deliver thousands of liters of finished products nationwide. Our cold chain network is designed for direct distribution in Lahore, Karachi and Islamabad and in-direct distribution in other cities of Pakistan.

As we continue to find ways to build our success on the principles of operational excellence and business integrity, our supply chain network secured growth by 24% in our volume delivery of dairy and ice-cream products during the year 2012.

As a step towards overall supply chain optimization, we have also implemented VMI with our packaging suppliers, which has greatly reduced our working capital, whilst enabling long term sustainability and increased growth prospects for our business.

Towards this end, our dairy and beverages dispatch model has also been re-engineered to minimize costs and ensure longer shelf life for our products.

At Engro Foods, we have also implemented a cost-effective, and optimized reverse logistics operation aimed at improving fuel efficiency in Pakistan. Improving supply chain efficiency, our outbound logistic team has also successfully implemented the use of pallet pools for the transfer of products to ensure better product quality and optimized vehicle utilization.

Moving forward into the year 2013, we will continue to streamline operations and improve service delivery by introducing best practices, systems and technologies to ensure greater efficiency across our supply chain network.



Strawberry cultivation is on the rise in Pakistan. Currently, it serves as a flavoring in many other products such as milk, ice-cream and yoghurt.



# financial statements

## review report to the members on statement of compliance

### with best practices of code of corporate governance

We have reviewed the 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, 2012 to comply with the Listing Regulations of the 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.

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.

Further, Listing Regulations of the Karachi and Lahore Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval 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. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before 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, 2012.



Chartered Accountants

Karachi

Date: February 21, 2013

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, 2012 the Board included the following members:

Category	Name
Independent Directors	Muhammed Amin
	Roshaneh Zafar
	Zafar Ahmed Siddiqui
	Mujahid Hamid
Executive Director / CEO	Afnan Ahsan
Non-Executive Directors	Muhammad Aliuddin Ansari
	Abdul Samad Dawood
	Shahzada Dawood
	Abdul Samad Khan
	Ruhail Mohammed

The independent directors meet the criteria of independence under clause i (b) of the CCG. Of the non-executive directors, three 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 NBF1, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the Board on April 30, 2012 was filled up by the Directors within 77 days.
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 other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose 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. The minutes of the meetings were appropriately recorded and circulated.
9. One of the directors attended the directors training course conducted by the Pakistan Institute of Corporate Governance (PICG) this year. Two others have already completed this course earlier.
10. The Board has approved the appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

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 4 members, of whom 3 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. It comprises of 4 members, of whom 2 are independent directors and 2 are non-executive directors. The non-executive directors are also directors on other Engro Group companies and 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

  
Afnan Ahsan  
Chief Executive Officer

Karachi  
Date: January 24, 2013

# auditors' report to the member on compliance

## with employees share option scheme

### 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 (the Scheme), as approved by the shareholders of the Company, and the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) as of December 31, 2012. 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-compliances 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, 2012.



Chartered Accountants  
Karachi  
Date: February 21, 2013

Engagement Partner: Waqas A. Sheikh

# management statement of compliance

## with employees share option scheme

The Engro Foods Limited as of December 31, 2012 has implemented its Employees Share Option Scheme (the Scheme), as approved by the shareholders of the Company, and has complied 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



Afnan Ahsan  
Chief Executive Officer

Karachi  
Date: January 24, 2013

## auditors' report to the members

We have audited the annexed balance sheet of Engro Foods Limited as at December 31, 2012 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 except for the changes resulted on initial application of standards, amendments or interpretations to existing standards, as stated in note 2.1.4 (a) and 2.1.4 (b) to the financial statements, with which we concur;
  - (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, 2012 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 21, 2013

Engagement Partner: Waqas A. Sheikh

# balance sheet

# balance sheet as at december 31, 2012

(Amounts in thousand)

## Assets

### Non-Current Assets

Property, plant and equipment	4	10,958,079	9,615,426
Biological assets	5	668,455	496,809
Intangible assets	6	104,569	133,598
Long term advances and deposits	7	81,862	24,212
Advance against purchase of shares of Engro Foods Netherlands B. V.	8	863,018	-

### Current Assets

Stores, spares and loose tools	9	675,807	571,812
Stock-in-trade	10	3,494,605	2,637,816
Trade debts	11	149,074	87,121
Advances, deposits and prepayments	12	261,790	266,093
Other receivables	13	1,440,167	1,160,126
Taxes recoverable		334,714	1,443
Derivative financial instruments	14	25,787	-
Short term investments	15	2,708,750	1,294,000
Cash and bank balances	16	422,008	350,728

### TOTAL ASSETS

Note	(Audited) December 31, 2012	(Audited) December 31, 2011
	------(Rupees)-----	
	12,675,983	10,270,045
	9,512,702	6,369,139
	22,188,685	16,639,184

(Amounts in thousand)

## Equity & Liabilities

### Equity

Share capital	17	7,615,776	7,517,889
Advance against issue of share capital		1,234	-
Share premium	17.1	810,280	722,182
Hedging reserve		16,761	(18,178)
Unappropriated profit / (Accumulated loss)		1,610,222	(984,951)

### Non-Current Liabilities

Long term finances	19	6,023,070	5,610,000
Obligations under finance lease	20	-	2,589
Deferred taxation	21	1,652,520	308,090
Deferred liabilities - pension scheme		-	1,870
Deferred income	22	17,390	-

### Current Liabilities

Current portion of			
- long term finances	19	1,685,823	465,000
- obligations under finance lease	20	2,589	2,590
Trade and other payables	23	2,358,793	2,343,506
Derivative financial instruments	14	-	27,966
Accrued interest / mark-up on			
- long term finances		302,273	368,152
- short term finances		6,565	20,229
Short term finances	24	85,389	252,250

### Contingencies and Commitments

### Total Equity & Liabilities

The annexed notes 1 to 48 form an integral part of these financial statements.

  
Aliuddin Ansari  
Chairman

  
Afnan Ahsan  
Chief Executive Officer

## profit and loss account for the year ended december 31, 2012

(Amounts in thousand except for earning per share)

	Note	(Audited) December 31, 2012 ------(Rupees)-----	(Audited) December 31, 2011 ------(Rupees)-----
Net sales	26	40,168,919	29,859,226
Cost of sales	27	(29,848,301)	(23,230,445)
<b>Gross profit</b>		<b>10,320,618</b>	<b>6,628,781</b>
Distribution and marketing expenses	28	(4,709,275)	(3,716,489)
Administrative expenses	29	(740,690)	(504,722)
Other operating expenses	30	(429,763)	(208,902)
Other operating income	31	382,402	213,133
<b>Operating profit</b>		<b>4,823,292</b>	<b>2,411,801</b>
Finance costs	32	(902,503)	(1,049,141)
<b>Profit before taxation</b>		<b>3,920,789</b>	<b>1,362,660</b>
Taxation	33	(1,325,616)	(471,687)
<b>Profit for the year</b>		<b>2,595,173</b>	<b>890,973</b>
<b>Earnings per share - basic and diluted</b>	34		
- basic		3.43	1.22
- diluted		3.40	1.22

The annexed notes 1 to 48 form an integral part of these financial statements.

  
Aliuddin Ansari  
Chairman

  
Afnan Ahsan  
Chief Executive Officer

## statement of comprehensive income for the year ended december 31, 2012

(Amounts in thousand)

	(Audited) December 31, 2012 ------(Rupees)-----	(Audited) December 31, 2011 ------(Rupees)-----
<b>Profit for the year</b>	<b>2,595,173</b>	<b>890,973</b>
<b>Other comprehensive income - Potentially reclassifiable to profit and loss subsequently:</b>		
<b>Hedging reserve</b>		
Gain / (loss) arising during the year	42,240	(28,910)
Less: Adjustments for amounts transferred to initial carrying amounts of hedged items - Capital work-in-progress / Stock-in-trade	11,513	613
Income tax relating to hedging reserve	(18,814)	9,788
Other comprehensive income / (loss) for the year, net of tax	34,939	(18,509)
<b>Total comprehensive income for the year</b>	<b>2,630,112</b>	<b>872,464</b>

The annexed notes 1 to 48 form an integral part of these financial statements.

  
Aliuddin Ansari  
Chairman

  
Afnan Ahsan  
Chief Executive Officer

## statement of changes in equity for the year ended december 31, 2012

(Amounts in thousand)	Share capital	Advance against issue of share capital	Reserve		Unappropriated profit / (Accumulated loss)	Total
			Share premium	Hedging reserve		
	(Rupees)					
Balance as at January 1, 2011	7,000,000	-	-	331	(1,875,924)	5,124,407
Share capital issued	517,889	-	746,522	-	-	1,264,411
Share issuance cost, net	-	-	(24,340)	-	-	(24,340)
Total comprehensive income for the year	-	-	-	(18,509)	890,973	872,464
Balance as at December 31, 2011 / January 1, 2012	7,517,889	-	722,182	(18,178)	(984,951)	7,236,942
Advance received during the year	-	1,234	-	-	-	1,234
Share capital issued	97,887	-	88,098	-	-	185,985
Total comprehensive income for the year	-	-	-	34,939	2,595,173	2,630,112
Balance as at December 31, 2012	7,615,776	1,234	810,280	16,761	1,610,222	10,054,273

The annexed notes 1 to 48 form an integral part of these financial statements.

  
Aliuddin Ansari  
Chairman

  
Afnan Ahsan  
Chief Executive Officer

## statement of cash flows for the year ended december 31, 2012

(Amounts in thousand)

### Cash Flows From Operating Activities

Cash generated from operations  
Finance costs paid  
Taxes paid  
Retirement benefits paid  
Deferred liabilities - pension scheme  
Unamortized deferred income  
Long term advances and deposits - net

### Net cash generated from operating activities

### Cash Flows From Investing Activities

Purchases of  
- property, plant and equipment  
- intangible assets  
- biological assets  
Proceeds from disposal of  
- property, plant and equipment  
- biological assets  
Advance against purchase of shares of Engro Foods Netherlands B.V.  
Investment in Engro Eximp AgriProducts (Private) Limited  
[formerly Engro Foods Supply Chain (Private) Limited]  
Proceeds from disposal of investment in Engro Eximp AgriProducts  
(Private) Limited [formerly Engro Foods Supply Chain (Private)  
Limited] - net of transaction costs

### Net cash utilized in investing activities

### Cash Flows From Financing Activities

Proceeds from issue of share capital  
Advance received against issue of share capital  
Share issuance costs  
Proceeds from long term finances  
Repayments of  
- long term finances  
- obligations under finance lease

### Net cash generated from financing activities

### Net increase in cash and cash equivalents

Cash and cash equivalents at beginning of the year

### Cash and cash equivalents at end of the year

Note	(Audited) December 31, 2012	Restated (Audited) December 31, 2011
	----- (Rupees) -----	
35	4,641,886	2,400,864
	(982,046)	(938,027)
	(333,271)	(313,692)
	(70,800)	(66,977)
	(1,870)	(1,562)
	17,390	-
	(57,650)	(1,086)
	<u>3,213,639</u>	<u>1,079,520</u>
	(2,548,749)	(3,402,806)
	(73,993)	(32,880)
	(4,031)	-
	73,460	16,043
	37,061	20,229
	(863,018)	-
	-	(350,000)
	-	1,408,437
	<u>(3,379,270)</u>	<u>(2,340,977)</u>
	185,985	1,264,411
	1,234	-
	-	(37,447)
	2,098,893	1,450,000
	(465,000)	(200,000)
	(2,590)	(3,210)
	<u>1,818,522</u>	<u>2,473,754</u>
	<u>1,652,891</u>	<u>1,212,297</u>
	1,392,478	180,181
36	<u>3,045,369</u>	<u>1,392,478</u>

The annexed notes 1 to 48 form an integral part of these financial statements.

  
Aliuddin Ansari  
Chairman

  
Afnan Ahsan  
Chief Executive Officer

# notes to the financial statements for the year ended december 31, 2012

(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, juices, ice cream and frozen deserts. The Company also owns and operates a dairy farm. Further, the Company also has presence in the international market; its first venture being to manage the halal food business, Al Safa Halal, Inc. (Al-Safa) in North America, which has been acquired by ECL through Engro Foods Netherlands B.V. (EF Netherlands). The entire interest of ECL in EF Netherlands is proposed to be acquired by the Company at cost subject to requisite approvals from the regulators.

## 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 2012 and relevant

The following amendment to published standard is mandatory for the financial year beginning January 1, 2012:

- IFRS 7 (Amendment) 'Financial instruments: Disclosures' on transfer of assets. These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment only affects the disclosures in the Company's financial statements.

(Amounts in thousand)

#### b) Standards, amendments to published standards and interpretations that are not yet effective but have 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, 2012 but have been early adopted by the Company:

- IAS 1 (Amendment) 'Financial statement presentation' (effective for periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'Other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The Company has early adopted the amendment by incorporating the effects in these financial statements.
- Amendments to following standards as a result of annual improvements to International Financial Reporting Standards 2011, issued by IASB in May 2012:
  - IAS 16 (Amendment) 'Property, plant and equipment' (effective for periods beginning on or after January 1, 2013). The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The Company's policy is already in line with the requirements of this amendment.
  - IAS 32 (Amendment) 'Financial instruments: Presentation' (effective for periods beginning on or after January 1, 2013). The amendment clarifies that the treatment of income tax relating to distributions and transaction costs is in accordance with IAS 12. So, income tax related to distributions is to be recognised in the profit and loss account, and income tax related to the costs of equity transactions is to be recognised in equity. The Company's current accounting treatment is already in line with this amendment.
  - IAS 34 (Amendment) 'Interim financial reporting' (effective for periods beginning on or after January 1, 2013). The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements. The amendment brings IAS 34 into line with the requirements of IFRS 8, 'Operating segments' whereby a measure of total assets and liabilities is required for an operating segment in interim financial statements if such information is regularly provided to the chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The Company has already adopted the above amendment for its interim financial reporting.

#### c) Standards, amendments to published standards and interpretations that are effective in 2012 but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2012 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations.

#### d) Standards, amendments to published standards and interpretations that are not yet effective

- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on or after January 1, 2013). The amendment eliminates the corridor approach and recognizes all actuarial gains and losses in 'Other comprehensive income' (OCI) as they occur and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The application of the amendment is likely to result in immediate recognition of all actuarial gain and losses in OCI and requires additional disclosures to present the characteristics of benefit plans, the amount recognized in the financial statements, and results in changes in benefit classification and presentation.
- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2015), not yet notified by SECP. IFRS 9

(Amounts in thousand)

replaces the parts of IAS 39, 'Financial instruments: recognition and measurement' that relate to classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. For financial liabilities, the standard retains most of the requirements of IAS 39. The Company is yet to assess the full impact of IFRS 9, however, the initial indications are that it may not affect the Company's financial statements significantly.

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2013), not yet notified by SECP. This 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. It is unlikely that this 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.

(Amounts in thousand)

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 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 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.

(Amounts in thousand)

## 2.6 Financial instruments

### 2.6.1 Financial assets

The Company 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 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 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 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 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 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 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.

(Amounts in thousand)

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 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.

### 2.6.2 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.

### 2.6.3 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.

## 2.7 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.

## 2.8 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.

(Amounts in thousand)

2.9 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.

2.10 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.

2.11 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.

2.12 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 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 or 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.

2.13 Retirement and other service benefits

2.13.1 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 and are charged to profit and loss account. The valuation is carried out annually by an independent expert, using the 'Projected Unit Credit Method'.

(Amounts in thousand)

The amount recognized in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, if any, as reduced by the fair value of plan assets.

Actuarial gains and losses are recognized over the expected future services of current members, using the recommended approach under IAS 19 – Employee Benefits as determined by the independent expert.

2.13.2 Provident fund

The Company operates a defined contribution provident fund for its permanent employees. Equal monthly contributions are made both by the Company and the employees to the fund at the rate of 10% of basic salary.

2.13.3 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.

2.14 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 Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.15 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.

2.16 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.

2.17 Taxation

2.17.1 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.

2.17.2 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

(Amounts in thousand)

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.

2.18 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.

2.19 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:

- a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- b) 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 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.

(Amounts in thousand)

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.

2.20 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.

2.21 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.

2.22 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.

2.23 Dividend and appropriation to reserves

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

2.24 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 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:

(Amounts in thousand)

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) 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 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 financial statements.

4. Property, Plant and Equipment

Operating assets (note 4.1)  
Capital work-in-progress (note 4.5)

	2012	2011
	----- (Rupees) -----	
Operating assets (note 4.1)	10,192,682	8,432,467
Capital work-in-progress (note 4.5)	765,397	1,182,959
	<u>10,958,079</u>	<u>9,615,426</u>

(Amounts in thousand)

4.1 Operating assets

	Freehold land	Buildings on freehold land	Plant, machinery and related equipment (note 4.2)		Computers	Office equipment and furniture & fittings	Vehicles (note 4.2)		Total
			Owned	Leased			Owned	Leased	
----- Rupees -----									
<b>As at January 1, 2011</b>									
Cost	173,378	1,664,712	5,921,110	34,800	54,815	121,941	347,810	4,250	8,322,816
Accumulated depreciation/ impairment	-	(207,646)	(1,238,684)	(25,767)	(28,058)	(47,125)	(109,496)	(4,250)	(1,661,026)
Net book value	<u>173,378</u>	<u>1,457,066</u>	<u>4,682,426</u>	<u>9,033</u>	<u>26,757</u>	<u>74,816</u>	<u>238,314</u>	<u>-</u>	<u>6,661,790</u>
<b>Year ended December 31, 2011</b>									
Opening net book value	173,378	1,457,066	4,682,426	9,033	26,757	74,816	238,314	-	6,661,790
Additions, including transfers (note 4.5)	-	397,170	2,080,612	-	48,951	71,932	106,930	-	2,705,595
Disposals (note 4.4)	-	(950)	(646)	-	(100)	-	(26,824)	-	(28,520)
Cost	-	(950)	(646)	-	(100)	-	(26,824)	-	(28,520)
Accumulated depreciation	-	439	416	-	50	-	13,700	-	14,605
	-	(511)	(230)	-	(50)	-	(13,124)	-	(13,915)
Depreciation charge (note 4.3)	-	(107,689)	(701,121)	(4,582)	(13,540)	(19,343)	(74,728)	-	(921,003)
Closing net book value	<u>173,378</u>	<u>1,746,036</u>	<u>6,061,687</u>	<u>4,451</u>	<u>62,118</u>	<u>127,405</u>	<u>257,392</u>	<u>-</u>	<u>8,432,467</u>
<b>As at December 31, 2011</b>									
Cost	173,378	2,060,932	8,001,076	34,800	103,666	193,873	427,916	4,250	10,999,891
Accumulated depreciation	-	(314,896)	(1,939,389)	(30,349)	(41,548)	(66,468)	(170,524)	(4,250)	(2,567,424)
Net book value	<u>173,378</u>	<u>1,746,036</u>	<u>6,061,687</u>	<u>4,451</u>	<u>62,118</u>	<u>127,405</u>	<u>257,392</u>	<u>-</u>	<u>8,432,467</u>
<b>Year ended December 31, 2012</b>									
Opening net book value	173,378	1,746,036	6,061,687	4,451	62,118	127,405	257,392	-	8,432,467
Additions, including transfers (note 4.5)	-	320,333	2,216,129	-	51,583	43,733	396,860	-	3,028,638
Disposals (note 4.4)	-	-	(1,530)	(205)	(1,299)	(969)	(132,594)	(1,450)	(138,047)
Cost	-	-	(1,530)	(205)	(1,299)	(969)	(132,594)	(1,450)	(138,047)
Accumulated depreciation	-	-	828	136	740	240	73,369	1,450	76,763
	-	-	(702)	(69)	(559)	(729)	(59,225)	-	(61,284)
Depreciation charge (note 4.3)	-	(127,772)	(881,070)	(2,633)	(26,927)	(37,399)	(131,338)	-	(1,207,139)
Closing 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>
<b>As at December 31, 2012</b>									
Cost	173,378	2,381,265	10,215,675	34,595	153,950	236,637	692,182	2,800	13,890,482
Accumulated depreciation	-	(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>
Annual rate of depreciation (%)	-	5 to 10	8.33 to 25	20	20	20	25	25	

(Amounts in thousand)

4.2 Includes equipment costing Rs. 145,011 (2011: Rs. 135,495) having net book value of Rs. 74,560 (2011: Rs. 79,604) mounted on transport contractors' vehicles. Also includes freezers and trikes held by third parties costing Rs. 900,937 (2011: Rs. 825,002), having net book value of Rs. 565,412 (2011: Rs. 621,164).

4.3 The depreciation charge for the year has been allocated as follows:

- Cost of sales (note 27)
- Distribution and marketing expenses (note 28)
- Administrative expenses (note 29)

	2012	2011
	------(Rupees)-----	
	969,495	732,594
	186,374	148,483
	51,270	39,926
	<u>1,207,139</u>	<u>921,003</u>

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	Sales proceeds
-----Rupees-----					

**Vehicles**

By Company policy to existing / separating executives

Aamir Mustafa		408	(327)	81	82
Aamir Saeed		801	(452)	349	414
Abdul Samad		504	(315)	189	278
Abdul Wahid Qazi		835	(424)	411	474
Abdullah Aslam		935	(701)	234	234
Abu Bakar Sheikh		835	(377)	458	515
Adeel Ahmed Khan		537	(225)	312	376
Adeela Khan		1,239	(716)	523	775
Ahsan Afzal		1,844	(954)	890	1,009
Ahtisham Baig		519	(211)	308	311
Aisha Athar		1,331	(718)	613	624
Akhtar Tahir		814	(509)	305	306
Aleem Bhatti		454	(409)	45	91
Aleem Maqsood		63	(34)	29	30
Ali Hafeez		835	(352)	483	499
Ameerzada Mumtaz		612	(490)	122	122
Arif Ahmed Khan		1,859	(1,177)	682	682
Asad Ali		1,289	(636)	653	943
Asim Butt		1,775	(1,420)	355	471
Ather M. Jameeli		549	(127)	422	422
Ather Shakeel		1,036	(712)	324	329
Atif Zubair		870	(696)	174	181
Ayaz Ahmed		408	(327)	81	82
Ayaz Ahmed Khan		50	(45)	5	10
Bakhshal Shah		627	(502)	125	125
Bilal Ali Shah		898	(674)	224	224
Bilal Niazi		809	(528)	281	387
Dawood Memon		915	(818)	97	183
Balance carried forward		23,651	(14,876)	8,775	10,179

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sales proceeds
-----Rupees-----					
	Dr. Rafiq	612	(490)	122	122
	Eiraj Saleh	1,692	(1,244)	448	476
	Fahim Aamir	835	(350)	485	497
	Faisal Aslam	835	(433)	402	488
	Faisal Ishrat	835	(350)	485	498
	Faisal Waseem	519	(187)	332	401
	Fakhra Ashraf	884	(689)	195	236
	Faraz	600	(540)	60	120
	Faraz Malik	63	(19)	44	44
	Farrukh Sheikh	829	(739)	90	263
	Faryan Mama	924	(693)	231	321
	Hassan Ahmed	1,859	(1,162)	697	719
	Hazoor Askari	1,980	(743)	1,237	1,267
	Imran Ali	835	(402)	433	495
	Imran Dawood	499	(321)	178	212
	Irfan ul Haq Siddiqui	1,289	(478)	811	886
	Jamal Mehmood	1,248	(741)	507	516
	Javed Iqbal	53	(48)	5	11
	Jawad Noor Malik	814	(509)	305	318
	Junaid Dar	63	(32)	31	34
	Kamran Abbasi	63	(50)	13	26
	Kamran Chishti	846	(375)	471	472
	Kashif Ahmed Soomro	870	(609)	261	327
	M. Tariq Hafeez Gill	1,050	(840)	210	210
	M. Yousuf Noon	537	(233)	304	358
	Maha Usman	925	(729)	196	231
	Muhammad Tanveer	398	(392)	6	80
	Mansoor Majid	795	(487)	308	425
	Masood Tariq	814	(509)	305	312
	Matloob Hussain	1,269	(825)	444	444
	Mian Waqas Qayyum	504	(326)	178	210
	Miraj Sheikh	603	(542)	61	121
	Muhammad Armaghan	846	(349)	497	502
	Muhammad Latif	53	(48)	5	11
	Muhammad Muddassir	1,337	(423)	914	1,059
	Muhammad Ramzan	835	(377)	458	460
	Muhammad Raza	499	(323)	176	176
	Muhammad Waseem	53	(48)	5	11
	Mujtaba Rizvi	906	(748)	158	290
	Nabeel Ahmed	868	(358)	510	514
	Nabeel Gilani	811	(520)	291	298
	Nabeel Kamran	419	(205)	214	289
	Nasir Hameed	814	(509)	305	314
	Nasir Iqbal	426	(341)	85	85
	Naveed Zafar	1,239	(581)	658	663
		<u>35,048</u>	<u>(20,917)</u>	<u>14,131</u>	<u>15,812</u>
Balance carried forward		58,699	(35,793)	22,906	25,991

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sales proceeds
		-----Rupees-----			
Nida Mohsin		449	(359)	90	145
Omair Zahid Nagi		924	(740)	184	231
Qasim Ali		51	(46)	5	10
Raheel Ahmed		63	(42)	21	21
Raja Talat		63	(32)	31	37
Ramzan Buriro		1,006	(805)	201	201
Rashif Saeed		835	(424)	411	474
Rizwan Hussain Bukhari		1,108	(997)	111	222
Rshid Maqsood		50	(45)	5	10
Saadutullah		468	(288)	180	180
Salman Goheer		1,800	(1,139)	661	815
Samiullah Khan Mahar		896	(282)	614	838
Saqib Siddiqui		563	(219)	344	361
Sarfaraz A.Rehman		4,375	(3,281)	1,094	1,800
Sarfaraz A.Rehman		5,866	(2,016)	3,850	3,922
Sarwat Aftab		514	(331)	183	199
Saud A. Pasha		2,015	(591)	1,424	1,477
Shafaq Omar		1,859	(1,328)	531	756
Shaharyar Jehangir		671	(537)	134	154
Shahbaz A. Khan		1,063	(797)	266	266
Shahbaz Nawaz		1,269	(647)	622	629
Shakil Akram		1,300	(511)	789	813
Shamsuddin A. Shaikh		6,750	(3,620)	3,130	3,270
Shehzad Bhatti		834	(459)	375	400
Siraj Ur Rehman		806	(546)	260	329
Sohail Ahmed		1,300	(573)	727	730
Syed Hassan imam		900	(718)	182	182
Syed Intikhab		801	(452)	349	414
Syed Kashif Nisar		814	(509)	305	326
Tajamul Abbas		50	(45)	5	10
Talha Habib		814	(509)	305	320
Tariq Mehmood		449	(359)	90	165
Tashfeen Peerzada		830	(578)	252	339
Usama Akram		63	(45)	18	40
Usman Ali		671	(537)	134	154
Usman Asif Khan		1,331	(948)	383	535
Usman Khalid Khan		612	(551)	61	122
Usman Sheerwani		801	(437)	364	410
Vajid Hussain Kamran		671	(537)	134	134
Yasir Ehsan		63	(23)	40	40
Zeeshan Abbasi		519	(240)	279	284
Zeeshan Ahmed Qazi		835	(433)	402	484
Zeeshan Anjum		814	(509)	305	305
Zeeshan ur Rab		900	(675)	225	225
Zulfiqar		63	(38)	25	25
		<u>48,899</u>	<u>(28,798)</u>	<u>20,101</u>	<u>22,804</u>
Balance carried forward		107,598	(64,591)	43,007	48,795

(Amounts in thousand)

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sales proceeds
		-----Rupees-----			
M.Kabeer Ahmed		59	(53)	6	12
Raja Wasif		56	(46)	10	16
Farooq Keera		409	(328)	81	81
Safdar Hussain		672	(538)	134	153
Babar Iqbal		595	(595)	-	119
Nabeel ud Din		42	(42)	-	8
Salma Kalson		595	(595)	-	119
		<u>2,428</u>	<u>(2,197)</u>	<u>231</u>	<u>508</u>
		110,026	(66,788)	43,238	49,303
Auction					
Ameer Jan		119	(108)	11	20
Musharaf Colony, Hawksbay					
Muhammad Kamran		992	(736)	256	658
PIB Colony, Jamshed Road					
Waqas		189	(105)	84	98
Abbasi House Khudadad Colony					
Tahir Maded		835	(405)	430	739
New Kalgasht Colony					
Khair Agencies		943	(18)	925	928
Merry Mension, Frere Road					
		<u>3,078</u>	<u>(1,372)</u>	<u>1,706</u>	<u>2,443</u>
Insurance claims	EFU General Insurance	<u>20,940</u>	<u>(6,659)</u>	<u>14,281</u>	<u>19,505</u>
		134,044	(74,819)	59,225	71,251
Plant, machinery and related equipment					
Insurance claims	EFU General Insurance	1,735	(964)	771	942
Office Equipment					
Insurance claims	EFU General Insurance	969	(240)	729	728
Computers					
Insurance claims	EFU General Insurance	953	(417)	536	519
Auction	Akbar Hussain	346	(323)	23	20
	Ghazi Town, Malir				
		<u>1,299</u>	<u>(740)</u>	<u>559</u>	<u>539</u>
		<u>138,047</u>	<u>(76,763)</u>	<u>61,284</u>	<u>73,460</u>
December 31, 2011		<u>28,520</u>	<u>(14,605)</u>	<u>13,915</u>	<u>16,043</u>

(Amounts in thousand)

4.5 Capital work-in-progress

	Land	Building on freehold land	Plant, machinery and equipment	IS and milk automation project	Office equipment/ Furniture & Fitting/Computers	Vehicles	Total
-----Rupees-----							
<b>Year ended December 31, 2011</b>							
Balance as at January 1, 2011	-	49,229	354,699	681	47,461	34,359	486,429
Additions during the year	-	490,941	2,613,860	32,880	105,811	192,194	3,435,686
Transferred to							
- operating assets (notes 4.1)	-	(397,170)	(2,080,612)	-	(120,883)	(106,930)	(2,705,595)
- intangible assets (note 6)	-	-	-	(33,561)	-	-	(33,561)
Balance as at December 31, 2011	<u>-</u>	<u>143,000</u>	<u>887,947</u>	<u>-</u>	<u>32,389</u>	<u>119,623</u>	<u>1,182,959</u>
<b>Year ended December 31, 2012</b>							
Balance as at January 1, 2012	-	143,000	887,947	-	32,389	119,623	1,182,959
Additions during the year	11,832	184,262	1,947,690	73,993	85,491	319,474	2,622,742
Transferred to							
- operating assets (note 4.1)	-	(320,333)	(2,216,129)	-	(95,316)	(396,860)	(3,028,638)
- intangible assets (note 6)	-	-	-	(11,666)	-	-	(11,666)
Balance as at December 31, 2012	<u>11,832</u>	<u>6,929</u>	<u>619,508</u>	<u>62,327</u>	<u>22,564</u>	<u>42,237</u>	<u>765,397</u>

(Amounts in thousand)

5. Biological Assets

Dairy livestock (note 5.1)

- mature
- immature

Crops - feed stock

2012  
------(Rupees)-----  
2011

	313,470	250,339
	348,444	243,960
	661,914	494,299
	6,541	2,510
	668,455	496,809

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. 87,344 (2011: Rs. 63,211)]
- Loss due to increase in age of livestock

Changes in fair value due to price changes

- Gain due to currency devaluation
- Gain due to increase in international market prices

Total gain (note 31)

Less: Decrease due to deaths / disposals

Carrying amount at the end of the year, which approximates the fair value

	494,299	421,603
	145,264	78,632
	(30,341)	(25,810)
	114,923	52,822
	40,111	17,744
	45,332	20,264
	85,443	38,008
	200,366	90,830
	(32,751)	(18,134)
	661,914	494,299

5.2 As at December 31, 2012, the Company held 1,829 (2011: 1,593) mature assets able to produce milk and 1,697 (2011: 1,325) immature assets that are being raised to produce milk in the future. During the year, the Company produced approximately 9,224,185 (2011: 5,679,360) gross litres of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 477,417 (2011: Rs. 270,042), determined at the time of milking.

5.3 As at December 31, 2012, the Company held Nil (2011: 3) mature bulls and 375 (2011: 120) immature male calves.

5.4 The valuation of dairy livestock as at December 31, 2012 has been carried out by an independent valuer. In this regard, the valuer examined the physical condition of the livestock, assessed the key assumptions and estimates and relied on the representations made by the Company as at December 31, 2012. 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 as basis of valuation model by the independent valuer. Mature bulls and immature male calves were not 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 (note 6.1 and 29)  
Balance at end of the year

	2012	2011
	------(Rupees)-----	
Balance at beginning of the year	133,598	142,433
Add: Additions at cost (note 4.5)	11,666	33,561
Less: Amortization charge for the year (note 6.1 and 29)	(40,695)	(42,396)
Balance at end of the year	<u>104,569</u>	<u>133,598</u>

### Gross carrying value

Cost  
Less: Accumulated amortization  
Net book value

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

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

### Advances to:

Executives (note 7.1, 7.2 and 7.3)  
Less: Recoverable within one year shown  
under current assets (note 12)

	2012	2011
	------(Rupees)-----	
Executives (note 7.1, 7.2 and 7.3)	36,924	28,459
Less: Recoverable within one year shown under current assets (note 12)	(8,813)	(14,325)
	<u>28,111</u>	<u>14,134</u>

### Deposits

	<u>53,751</u>	<u>10,078</u>
	<u>81,862</u>	<u>24,212</u>

### 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	28,459	23,687
Add: Disbursements	45,702	21,859
Less:		
- Repayments	(19,886)	(7,666)
- Amortization	(17,351)	(9,421)
Balance as at December 31	<u>36,924</u>	<u>28,459</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 Company. This also includes investment loan plan assistance repayable after 3 years in lumpsum 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.

(Amounts in thousand)

7.3 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 52,363 (2011: Rs. 29,022).

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. Advance Against Purchase of Shares of Engro Foods Netherlands B. V.

This represents advance paid to ECL for purchase of entire shareholding of ECL in Engro Foods Netherlands B. V., which holds the entire shareholding in Engro Foods Canada Limited (formerly Al-Safa Halal, Inc.). The purchase transaction is subject to requisite approvals from the regulatory authorities (note 1.2).

## 9. Stores, Spares and Loose Tools

Stores  
Spares and loose tools including in-transit  
Rs. 1,774 (2011: Nil) (note 9.1)

	2012	2011
	------(Rupees)-----	
Stores	132,195	139,357
Spares and loose tools including in-transit	<u>543,612</u>	<u>432,455</u>
Rs. 1,774 (2011: Nil) (note 9.1)	<u>675,807</u>	<u>571,812</u>

9.1 These are net of provision against slow moving items amounting to Rs.1,267 (2011: Rs. 583).

## 10. Stock-in-trade

Raw and packaging material (note 10.1 and 10.3)  
Work in process  
Finished goods (note 10.2 and 10.3)

	2012	2011
	------(Rupees)-----	
Raw and packaging material (note 10.1 and 10.3)	2,595,145	1,685,987
Work in process	276,851	128,689
Finished goods (note 10.2 and 10.3)	<u>622,609</u>	<u>823,140</u>
	<u>3,494,605</u>	<u>2,637,816</u>

10.1 Includes Nil (2011: Rs. 115,442) in respect of stock held by third parties.

10.2 Includes Rs. 42,500 (2011: Rs. 32,611) in respect of finished goods carried at net realizable value and Rs. 40,198 (2011: Rs. 50,309) in respect of stock held by third parties.

10.3 These are net of provision against expired/obsolete stock amounting Rs. 19,908 (2011: Rs. 23,283).

## 11. Trade Debts, Unsecured

Considered good (note 11.1 and 11.2)  
Considered doubtful (note 11.3)

Considered good (note 11.1 and 11.2)	149,074	87,121
Considered doubtful (note 11.3)	<u>5,835</u>	<u>4,644</u>
	154,909	91,765
Less: Provision for impairment (notes 11.3)	<u>(5,835)</u>	<u>(4,644)</u>
	<u>149,074</u>	<u>87,121</u>

(Amounts in thousand)

11.1 As at December 31, 2012, trade debts aggregating to Rs. 2,806 (2011: Rs. 8,269) 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, 2012, trade debts aggregating to Rs.146,268 (2011: Rs. 78,852) 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, 2012, trade debts aggregating to Rs. 5,835 (2011: Rs. 4,644) were deemed to have been impaired and provided for. The movement in provision during the year is as follows:

	2012 ------(Rupees)-----	2011 ------(Rupees)-----
Balance as at January 1	4,644	5,297
Add: Recognized / (Reversed) during the year (note 29)	1,191	(653)
Balance as at December 31	<u>5,835</u>	<u>4,644</u>

## 12. Advances, Deposits and Prepayments - Unsecured, Considered Good

Advances to:

- Executives (notes 12.1 and 12.2)
- Other employees (note 12.3)

7,703	2,174
23,753	29,734
<u>31,456</u>	<u>31,908</u>

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

8,813	14,325
<u>40,269</u>	<u>46,233</u>

Advances to suppliers (note 12.4)

125,786	140,490
---------	---------

Deposits

4,325	16,359
-------	--------

Prepayments

91,410	63,011
--------	--------

<u>261,790</u>	<u>266,093</u>
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12.1 This represents interest free advances to executives for house rent, given in accordance with the Company's policy.

12.2 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 10,152 (2011: Rs. 8,121).

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

12.4 Includes advances to following related parties:

- Avanceon Limited
- Engro Fertilizers Limited

	2012 ------(Rupees)-----	2011 ------(Rupees)-----
-	1,120	
1,127	231	
<u>1,127</u>	<u>1,351</u>	

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.

(Amounts in thousand)

## 13. Other Receivables

Receivable from related parties:

- Engro Corporation Limited, the Holding Company
- Engro Fertilizers Limited
- Engro Foundation
- Engro Foods Canada Limited
- Engro Eximp AgriProducts (Private) Limited
- Engro Eximp (Private) Limited
- Engro PowerGen Limited
- Engro Polymer and Chemicals Limited

	2012 ------(Rupees)-----	2011 ------(Rupees)-----
5,001	2,991	
874	265	
833	2,269	
-	3,742	
-	8,601	
390	1,650	
39	58	
255	-	
<u>7,392</u>	<u>19,576</u>	
1,128,313	827,268	
286,307	311,785	
18,155	1,497	
<u>1,440,167</u>	<u>1,160,126</u>	

Sales tax refundable (note 13.1)

Receivable from Tetra Pak Pakistan Limited (note 13.2)

Others

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 Company for manufacturing in respect of its dairy operations. The movement of the refundable is as follows:

	2012 ------(Rupees)-----	2011 ------(Rupees)-----
827,268	518,439	
1,066,294	668,299	
Less:		
- Refunds received during the year	(769,607)	(355,112)
- (Provision for) / Reversal of impairment (note 28)	4,358	(4,358)
Balance as at December 31	<u>1,128,313</u>	<u>827,268</u>

13.2 Represents reimbursements receivable under cost sharing agreement for marketing related expenses and quantity discount, net of payable on account of packaging material purchased.

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. 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, 2012 amounts to an asset of Rs. 25,787 (2011: liability of Rs. 27,966).

(Amounts in thousand)

## 15. Short Term Investments

At fair value through profit or loss:

- Fixed income placement
- Mutual fund securities (note 15.1)

	2012	2011
	------(Rupees)-----	
-	-	300,000
	2,708,750	994,000
	<u>2,708,750</u>	<u>1,294,000</u>

15.1 These represents investments in various money market funds which are valued at their respective net assets value as at balance sheet date.

## 16. Cash and Bank Balances

Cash

- in hand
- in transit (note 16.1)

	2012	2011
	------(Rupees)-----	
94	94	481
194,522	194,522	90,607
67,278	67,278	158,528
160,114	160,114	101,112
	<u>227,392</u>	<u>259,640</u>
	<u>422,008</u>	<u>350,728</u>

Cash at bank on:

- current accounts [including foreign currency account of Rs. 61,555 (2011: Rs. 717)]
- savings accounts

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 (2011: 850,000,000) Ordinary shares  
of Rs. 10 each

Issued, subscribed and paid-up capital

761,577,575 (2011: 751,788,855) Ordinary shares  
of Rs. 10 each fully paid in cash (note 17.1 and 17.2)

	2012	2011
	------(Rupees)-----	
8,500,000	8,500,000	8,500,000
	<u>8,500,000</u>	<u>8,500,000</u>
7,615,776	7,615,776	7,517,889
	<u>7,615,776</u>	<u>7,517,889</u>

17.1 During the year the Company issued and allotted 9,788,720 Ordinary shares at Rs. 19 per share to employees who exercised their share options under the Employees' Share Option Scheme.

17.2 As at December 31, 2012, Engro Corporation Limited (the Holding Company) holds 672,999,991 Ordinary shares of Rs. 10 each (2011: 672,999,991 Ordinary shares of Rs. 10 each).

(Amounts in thousand)

## 18. Employees' Share Option Scheme

The shareholders of the Company approved an Employees' Share Option Scheme (the Scheme), for granting of options to its certain eligible critical employees upto 21 million new ordinary shares. The Scheme was approved by the Securities and Exchange Commission of Pakistan (SECP) on July 10, 2008 (the date of grant).

Under the Scheme, the vesting period, which commenced from the date of grant has ended on December 31, 2010. Those eligible employees who joined the Company after the date of grant but before December 31, 2008 are also entitled to these options, however, their vesting period commenced when they attained the right to these options and comprises of the same number of days as the vesting period of all other eligible employees. The maximum number of options to be issued to a single eligible employee is for 2,500,000 ordinary shares. These options are exercisable within 4 years from the end of vesting period at the following exercise prices:

Year	Rs. / share
2011	17
2012	19
2013	21
2014	23

The fair value of options granted, determined at the grant date using the Black-Scholes model was Nil per option. The significant inputs into the model were share price (using net assets value) of Rs. 5.61 at the grant date, exercise price of Rs. 17, volatility of 10%, an expected option life of approximately two and half years and an annual risk-free interest rate of 14%. The volatility is measured at the standard deviation of gross profits over the last two years. Since estimated share price was significantly less than the exercise price and the option had a Nil value at grant date, therefore no expense has been recognized in the profit and loss account for share options granted under the Scheme.

During the year 9,788,720 ordinary shares at Rs. 19 per share were issued to employees who exercised their share options under the Scheme.

(Amounts in thousand)

### 19. Long Term Finances, Secured (Non-Participatory)

Long term finances utilized under mark-up arrangements:

	Installments		2012	2011
	Number	Commencing from	------(Rupees)-----	-----
Long term finances				
Faysal Bank Limited	6 half yearly	August 21, 2009	-	58,333
Syndicated Finance I	4 half yearly	February 20, 2015	1,500,000	1,500,000
Syndicated Finance II	5 half yearly	July 10, 2012	960,000	1,200,000
Habib Bank Limited	6 half yearly	September 3, 2011	250,000	416,667
Syndicated Finance III	6 half yearly	February 16, 2013	1,000,000	1,000,000
Citibank, N.A.	One bullet payment	January 14, 2013	700,000	700,000
Habib Bank Limited				
- LTFF Facility (note 19.1 & 19.3)	8 half yearly	February 27, 2014	220,548	-
Habib Bank Limited				
- Conventional term loan (note 19.1)	6 half yearly	November 2, 2014	397,213	-
NIB Bank Limited	6 half yearly	June 5, 2015	1,481,132	-
Pak Kuwait Investment Company (Private) Limited	6 half yearly	June 30, 2014	250,000	250,000
			6,758,893	5,125,000
Certificate				
Sukuk Certificates	4 half yearly	July 13, 2015	950,000	950,000
			7,708,893	6,075,000
Less: Current portion shown under current liabilities			(1,685,823)	(465,000)
			6,023,070	5,610,000

19.1 During the year, the Company has entered into agreements for following finance facilities:

	Rupees
- Habib Bank Limited	1,000,000
- NIB Bank Limited	1,500,000
- Bank of Punjab	500,000

The proceeds from these loans are carried net of unamortized portion of transaction costs amounting to Rs. 23,203.

19.2 The above finances are secured by registered floating charges / mortgages over the present and future fixed assets of the Company upto a maximum of Rs. 11,375,000.

19.3 LTFF facility from HBL is based on State Bank LTFF rate which ranged from 11.10% to 12.60% per annum during the year. Rest of the finances are KIBOR based and ranged from 11.23% to 15.63% (2011: 14.02% to 16.40%) per annum.

19.4 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)

### 20. Obligations Under Finance Lease

	2012	2011
	------(Rupees)-----	-----
Balance as at January 1	5,179	8,389
Less: Principal re-paid during the year	(2,590)	(3,210)
Present value of minimum lease payments	2,589	5,179
Less: Current portion shown under current liabilities	(2,589)	(2,590)
	-	2,589

20.1 Represents mark-up free leases of milk cooling chillers, obtained by the Company under a tripartite arrangement with the Bank of Punjab and Pakistan Dairy Development Corporation (PDDC). Under this arrangement mark-up is to be borne by PDDC, whereas, Company's obligation is restricted to the extent of principal amount, payable in 20 equal installments by April 15, 2013.

### 21. Deferred Taxation

Credit balances arising due to:

- Accelerated tax depreciation / amortization
- Gain on biological assets
- Derivate financial instruments, net to equity
- Long term finances
- Others

	2012	2011
	------(Rupees)-----	-----
	1,711,034	953,430
	142,734	79,312
	9,026	-
	8,121	-
	3,063	-
	1,873,978	1,032,742
Debit balances arising due to:		
- Provisions for inventory and receivables	(9,453)	(12,208)
- Unutilized tax losses	-	(82,130)
- Minimum turnover tax (note 21.1)	(197,021)	(606,966)
- Derivate financial instruments, net to equity	-	(9,788)
- Share issuance cost, net to equity	(13,107)	(13,107)
- Others	(1,877)	(453)
	(221,458)	(724,652)
	1,652,520	308,090

21.1 During the year, minimum turnover tax amounting to Rs. 409,945 has been recouped against the tax liability for the year.

### 22. Deferred Income

Deferred income on sale and lease back arrangements for vehicles:

	2012	2011
	------(Rupees)-----	-----
Balance as at January 1	-	30
Less: Amortization for the year (note 31)	-	(30)
Balance as at December 31	-	-
Deferred income under Ijarah arrangement	17,390	-
	17,390	-

(Amounts in thousand)

### 23. Trade and Other Payables

	2012	2011
	------(Rupees)-----	
Trade payables	1,281,398	1,168,250
Accrued liabilities	769,122	583,196
Advances from customers	94,807	385,222
Retention money	22,552	26,829
Security deposits	50	180
Withholding tax payable	40,305	23,968
Payable to provident fund	13,305	9,494
Payable to gratuity fund (note 37)	5,000	13,737
Workers' profits participation fund (note 23.1)	10,489	73,545
Workers' welfare fund	111,341	32,924
Others (note 23.2)	10,424	26,161
	<u>2,358,793</u>	<u>2,343,506</u>

#### 23.1 Workers' Profits Participation Fund

Balance as at January 1	73,545	14,506
Add: Allocation for the year (note 30)	211,021	73,196
	<u>284,566</u>	<u>87,702</u>
Less: Amount paid to the Fund	(274,077)	(14,157)
Balance as at December 31	<u>10,489</u>	<u>73,545</u>

#### 23.2 Includes amount due to following related parties:

- Engro Corporation Limited, the Holding Company	14,156	-
- Engro Foods Canada Limited	984	-
- Engro Polymer and Chemicals Limited	2,256	2,131
	<u>17,396</u>	<u>2,131</u>

### 24. Short Term Finances - Secured

24.1 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. 3,600,000 (2011: Rs. 2,800,000). The unutilized balance against these facilities as at year end was Rs. 3,514,611 (2011: Rs. 2,547,750). The rates of mark-up on these finances are KIBOR based and range from 10.38% to 13.60% (2011: 12.90 % to 13.58%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company.

24.2 The facilities for opening letters of credit and guarantees as at December 31, 2012 amounts to Rs. 5,315,000 (2011: Rs. 3,500,000), of which the amount remaining unutilized as at year end was Rs. 2,881,378 (2011: Rs. 1,830,159).

(Amounts in thousand)

### 25. Contingencies and Commitments

25.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (2011: Rs. 39,037) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (2011: 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 (2011: 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 (2011: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 4,680 (2011: Rs. 5,351), as collateral against supplies.

25.2 As at December 31, 2012 post-dated cheques amounting to Rs. 15,106 (2011: Rs. 153,342) 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.

25.3 Commitments in respect of capital expenditure contracted for but not incurred as at December 31, 2012 amounted to Rs. 2,139,539 (2011: Rs. 661,295).

25.4 Commitments in respect of purchase of certain commodities as at December 31, 2012 amounted to Rs. 181,420 (2011: 1,142,344)

25.5 Commitments for rentals payable under the Ijarah agreement as at December 31, 2012 amounted to Rs. 296,581 (2011: Nil) as follows:

	2012	2011
	------(Rupees)-----	
Not later than one year	63,737	-
Later than one year and not later than five years	232,844	-
	<u>296,581</u>	<u>-</u>

### 26. Net Sales

Manufactured goods (note 26.1)

Less:

- Sales tax
- Discounts

Raw milk

	41,142,420	30,779,441
	(601,780)	(597,246)
	(398,982)	(335,824)
	<u>40,141,658</u>	<u>29,846,371</u>
	27,261	12,855
	<u>40,168,919</u>	<u>29,859,226</u>

26.1 Includes export sales amounting to Rs. 667,833 (2011: Nil).

(Amounts in thousand)

## 27. Cost of Sales

	2012	2011
	------(Rupees)-----	------(Rupees)-----
Raw and packaging material consumed (note 27.1)	24,963,306	19,926,540
Salaries, wages, and staff welfare (note 27.2)	829,730	516,611
Fuel and power	1,316,939	984,659
Repair and maintenance	411,179	412,753
Freight inwards	489,652	388,789
Depreciation (note 4.3)	969,495	732,594
Travelling	111,105	88,481
Communication and other office expenses	121,811	88,799
Insurance	96,703	72,436
Rent and utilities	178,288	129,089
Purchased services	242,752	198,744
Provision against:		
- stock-in-trade	16,972	18,118
- slow moving spares (note 9.1)	684	83
Manufacturing cost	29,748,616	23,557,696
Add: Opening stock of work-in-process	128,689	48,564
Less: Closing stock of work-in-process	(276,851)	(128,689)
Cost of goods manufactured	29,600,454	23,477,571
Add: Opening stock of finished goods manufactured	823,140	556,307
Less: Closing stock of finished goods manufactured	(622,609)	(823,140)
	29,800,985	23,210,738
Add: Cost of Raw milk sold directly (note 27.1)	47,316	19,707
	<u>29,848,301</u>	<u>23,230,445</u>

### 27.1 Raw and packaging material consumed

Opening stock of raw and packaging material	1,685,987	1,484,350
Add: Purchases	26,397,197	20,417,926
Less:		
- Fair value of milk produced from biological assets	(477,417)	(270,042)
- Raw milk sold directly	(47,316)	(19,707)
- Closing stock of raw and packaging material	(2,595,145)	(1,685,987)
	<u>24,963,306</u>	<u>19,926,540</u>

27.2 Includes Rs. 99,340 (2011: Rs. 67,296) in respect of staff retirement benefits referred to in note 37.

(Amounts in thousand)

## 28. Distribution and Marketing Expenses

	2012	2011
	------(Rupees)-----	------(Rupees)-----
Salaries, wages, and staff welfare (note 28.1)	624,891	508,040
Advertising and sales promotion	2,415,522	1,812,309
Freight outward	1,190,585	1,000,927
Travelling	105,720	89,159
Communication and other office expenses	93,189	96,235
Depreciation (note 4.3)	186,374	148,483
Fuel and power	5,418	5,351
Repairs and maintenance	48,038	29,729
Rent, rates and taxes	17,252	17,887
Provision / (Reversal of provision) against sales tax refundable (note 13.1)	(4,358)	4,358
Insurance	6,220	4,011
Ijarah rentals	20,051	-
Purchased services	373	-
	<u>4,709,275</u>	<u>3,716,489</u>

28.1 Includes Rs. 74,002 (2011: Rs. 61,774) in respect of staff retirement benefits referred to in note 37.

	2012	2011
	------(Rupees)-----	------(Rupees)-----
Salaries, wages and staff welfare (note 29.1)	401,739	246,463
Communication and other office expenses	94,955	78,102
Rent, rates and taxes	78,130	70,845
Travelling	34,931	11,115
Depreciation (note 4.3)	51,270	39,926
Amortization (note 6)	40,695	42,396
Fuel and power	10,594	4,121
Repairs and maintenance	5,071	2,069
Insurance	3,014	1,984
Provision / (Reversal of provision) for impairment of trade debts (note 11.3)	1,191	(653)
Purchased services	19,100	8,354
	<u>740,690</u>	<u>504,722</u>

29.1 Includes Rs. 51,480 (2011: Rs. 49,900) in respect of staff retirement benefits referred to in note 37.

(Amounts in thousand)

### 30. Other Operating Expenses

Research and business development		
Legal and professional		
Auditors' remuneration (note 30.1)		
Donations (note 30.2)		
Software maintenance and license cost		
Workers' profits participation fund (note 23.1)		
Workers' welfare fund		
Exchange loss		
Others		

2012      2011  
-----  
-----  
(Rupees)-----

55,126	15,414
54,934	73,167
2,711	1,139
12,359	11,085
14,178	6,530
211,021	73,196
78,418	27,270
-	778
1,016	323
<u>429,763</u>	<u>208,902</u>

#### 30.1 Auditors' remuneration

Fee for:

- annual statutory audit
- half yearly review
- tax advisory services
- review of compliance with the Code of Corporate Governance
- audit of retirement benefit funds
- special certification and other advisory services

700	600
125	125
1,341	-
50	25
100	70
230	230
2,546	1,050
165	89
<u>2,711</u>	<u>1,139</u>

Reimbursement of expenses

#### 30.2 Includes donation to following related parties:

- Engro Foundation (note 30.2.1)
- Pakistan Veterans Cricket Association (note 30.2.1)

11,800	11,035
50	50
<u>11,850</u>	<u>11,085</u>

30.2.1 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 Ruhail Mohammed are on the Board of Trustees of Engro Foundation as Trustee and a Director - Mr. Mujahid Hamid is a Director of Pakistan Veterans Cricket Association.

(Amounts in thousand)

### 31. Other Operating Income

From financial assets

Interest on bank deposits / saving accounts		
Gain on sale of investment in subsidiary		
Gain realised on disposal of short term investments		
Gain on revaluation of short term investments at fair value		

From other than financial assets

Gain arising from changes in fair value of biological assets (note 5.1)		
Gain on disposal of biological assets		
Amortization of deferred income (note 22)		
Gain on disposal of operating assets		
Exchange gain		
Scrap sales		
Stale liabilities reversed		
Others		

2012      2011  
-----  
-----  
(Rupees)-----

33,355	3,504
-	78,436
44,411	-
8,750	-
<u>86,516</u>	<u>81,940</u>
200,366	90,830
4,310	2,095
-	30
12,176	2,128
7,349	-
32,363	34,243
38,653	-
669	1,867
<u>295,886</u>	<u>131,193</u>
<u>382,402</u>	<u>213,133</u>

### 32. Finance Costs

Mark-up on

- short-term finances
- long-term finances

Bank charges

33,177	137,737
837,514	886,007
870,691	1,023,744
31,812	25,397
<u>902,503</u>	<u>1,049,141</u>

### 33. Taxation

Current, for the year  
Deferred

409,945	321,666
915,671	150,021
<u>1,325,616</u>	<u>471,687</u>

(Amounts in thousand)

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

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

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

Further, the Appellate Tribunal, in respect of surrender of aforementioned tax losses by the Company to the Holding Company for the years ended December 31, 2006 and 2007, decided the appeals in 2010 in favour of the Holding Company, whereby, allowing the surrender of tax losses by the Company to the Holding Company. The tax department has filed reference application thereagainst before the Sindh High Court, have been heard and is pending for next hearing. 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.

- b) The Company's appeal against the order of Commissioner Inland Revenue (CIR) for reduction of tax loss from Rs. 1,224,964 to Rs. 1,106,493 for the tax year 2007, is currently in the process of being heard. However, the Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.
- c) In 2010, the Commissioner Inland Revenue raised a demand of Rs. 337,386 for tax year 2008 by disallowing the provision for gratuity, advances and stock written-off, repair and maintenance, provision for bonus, sales promotion and advertisement expenses. Further, in the aforementioned order the consideration receivable from ECL, the Holding Company, on surrender of tax loss has been added to income for the year. The Company had filed an appeal thereagainst before the Commissioner Appeals. The Commissioner Appeals through his order dated September 16, 2011, has decided certain matters in favour of the Company whereby withdrawing the demand amounting to Rs. 222,357. The Company has filed an appeal at the Tribunal level for the remainder matters remanded back or decided against the Company. The Company, based on the opinion of its tax consultant, is confident of a favourable outcome of the appeal, and hence the deferred tax asset recognized on taxable losses has not been reduced by the effect of the aforementioned disallowance.

(Amounts in thousand)

33.2 Relationship between tax expense and accounting profit

Profit before taxation	
Tax at the applicable tax rate of 35% (2011: 35%)	
Tax effect of:	
- lower tax rate on exports and gain on short-term investments	
- inadmissible expenses	
- others	

	2012	2011
	------(Rupees)-----	
	3,920,789	1,362,660
	1,372,276	476,931
	(53,916)	-
	4,326	3,880
	2,930	(9,124)
	(46,660)	(5,244)
	1,325,616	471,687

34. Earnings Per Share - Basic and Diluted

There is a dilutive effect on the basic earnings per share of the Company, after taking into the effect of options granted on Company's shares to employees of the Company under the Employees' Share Option Scheme (the Scheme) referred to in note 18. Such dilution is based on the average market price of the Company's shares, which is higher than the respective exercise prices of options granted under the Scheme.

	2012	2011
	------(Rupees)-----	
Profit for the year	2,595,173	890,973
	Number of shares in thousand	
Weighted average number of ordinary shares in issue during the year	756,431	730,721
Add: Weighted average adjustment for assumed conversion of employees' share options	6,817	-
Weighted average number of shares for determination of diluted earnings per share	763,248	730,721

(Amounts in thousand)

### 35. Cash Generated from / (Utilized In) Operations

	2012 ------(Rupees)-----	2011 ------(Rupees)-----
Profit before taxation	3,920,789	1,362,660
Adjustment for non-cash charges and other items:		
- Depreciation	1,207,139	921,003
- Amortization of intangible assets	40,695	42,396
- Amortization of deferred income	-	(30)
- Gain on disposal of investment in subsidiary, net	-	(78,436)
- Gain on disposal of biological assets	(4,310)	(2,095)
- Gain on disposal of operating assets	(12,176)	(2,128)
- Provision/ (Reversal of provision) against sales tax refundable	(4,358)	4,358
- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	(200,366)	(90,830)
- Provision for retirement and other service benefits	62,063	64,937
- Provision for stock-in-trade	(16,972)	(18,118)
- Provision for slow moving spares	(684)	(83)
- Provision/ (Reversal of provision) for impairment of trade debts	(1,191)	653
- Finance costs	902,503	1,049,141
Working capital changes (note 35.1)	(1,251,246)	(852,564)
	<u>4,641,886</u>	<u>2,400,864</u>

#### 35.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(103,311)	(129,888)
- Stock-in-trade	(839,817)	(530,477)
- Trade debts	(60,762)	(35,895)
- Advances, deposits and prepayments	4,303	(21,884)
- Other receivables	(275,683)	(439,391)
	<u>(1,275,270)</u>	<u>(1,157,535)</u>
Increase / (decrease) in current liabilities		
- Trade and other payables - net	24,024	304,971
	<u>(1,251,246)</u>	<u>(852,564)</u>

(Amounts in thousand)

### 36. Cash and Cash Equivalents

	2012 ------(Rupees)-----	(Restated) 2011 ------(Rupees)-----
Short term investments (note 15)	2,708,750	1,294,000
Cash and bank balances (note 16)	422,008	350,728
Short term finances (note 24)	(85,389)	(252,250)
	<u>3,045,369</u>	<u>1,392,478</u>

### 37. Staff Retirement and other Service Benefits

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2012 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

(Amounts in thousand)

	Funded Gratuity Fund		Unfunded Pension Scheme		Total	
	2012	2011	2012	2011	2012	2011
------(Rupees)-----						
<b>37.1 Reconciliation of obligations as at year end</b>						
Present value of defined benefit obligation	(241,468)	(171,407)	-	-	(241,468)	(171,407)
Fair value of plan assets	200,821	129,997	-	-	200,821	129,997
Deficit	(40,647)	(41,410)	-	-	(40,647)	(41,410)
Receivable from group companies	332	396	-	-	332	396
Unrecognized actuarial (gain)/ loss	35,315	27,277	-	-	35,315	27,277
Net liability at end of the year	(5,000)	(13,737)	-	-	(5,000)	(13,737)
<b>37.2 Movement in liability</b>						
Net liability at beginning of the year	(13,737)	(15,777)	-	(3,432)	(13,737)	(19,209)
Transfers to defined contribution pension scheme	-	-	-	3,432	-	3,432
Charge for the year	(62,063)	(64,937)	-	-	(62,063)	(64,937)
Contributions	70,800	66,977	-	-	70,800	66,977
Net liability at end of the year	(5,000)	(13,737)	-	-	(5,000)	(13,737)
<b>37.3 Movement in fair value of plan assets</b>						
Fair value of plan assets at beginning of the year	129,997	82,509	-	-	129,997	82,509
Expected return on plan assets	18,228	14,857	-	-	18,228	14,857
Contributions for the year	70,800	66,977	-	-	70,800	66,977
Transfers	(10,723)	(3,383)	-	-	(10,723)	(3,383)
Benefits paid during the year	(27,647)	(18,000)	-	-	(27,647)	(18,000)
Actuarial gain / (loss) on assets	20,166	(12,963)	-	-	20,166	(12,963)
Fair value of plan assets at end of the year	200,821	129,997	-	-	200,821	129,997
<b>37.4 Movement in present value of defined benefit obligations/ unfunded obligations</b>						
Present value of defined benefit obligations at beginning of the year	171,407	137,469	-	-	171,407	137,469
Service cost	54,727	52,266	-	-	54,727	52,266
Interest cost	25,098	25,770	-	-	25,098	25,770
Transfers	(10,787)	(9,999)	-	-	(10,787)	(9,999)
Benefits paid during the year	(27,647)	(18,000)	-	-	(27,647)	(18,000)
Liability reversed	-	8,421	-	-	-	8,421
Actuarial (gain) / loss	28,670	(24,520)	-	-	28,670	(24,520)
Present value of defined benefit obligation/ unfunded obligation at end of the year	241,468	171,407	-	-	241,468	171,407
<b>37.5 Cost charged to profit and loss account</b>						
Current service cost	54,727	52,266	-	-	54,727	52,266
Interest cost	25,098	25,770	-	-	25,098	25,770
Expected return on plan assets	(18,228)	(14,857)	-	-	(18,228)	(14,857)
Recognition of actuarial (gain) / loss	466	1,758	-	-	466	1,758
Cost for the year	62,063	64,937	-	-	62,063	64,937

(Amounts in thousand)

37.6 In addition, salaries, wages and benefits also include Rs. 162,759 (2011: Rs. 114,033) in respect of defined contribution provident fund.

37.7 Principal actuarial assumptions used are as follows:

	Gratuity Fund	
	2012	2011
Discount rate	12.0%	12.5%
Expected per annum rate of return on plan assets	12.0%	12.5%
Expected per annum rate of increase in future salaries	11.0%	11.5%
37.8 Actual return on plan assets	22,500	5,232

37.9 Plan assets comprise of following:

	Gratuity Fund			
	2012		2011	
	Rupees	%	Rupees	%
Held to maturity investments				
- Pakistan Investment Bonds (PIBs)	94,426	47%	46,278	36%
- Term Finance Certificates (TFCs)	51,165	25%	50,802	39%
- Regular Income Certificates (RICs)	33,610	17%	18,633	14%
	179,201	89%	115,713	89%
Mutual fund securities (Equity Fund) - Units	2,907	2%	2,112	2%
Listed securities	4,267	2%	7,855	6%
Balances with banks	7,820	4%	1,352	1%
Others	6,626	3%	2,965	2%
	200,821	100%	129,997	100%

37.10 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 long-term real rates of return experienced in the market.

37.11 Expected contributions to post employment benefit plans for the year ending December 31, 2012 are Rs. 63,206.

(Amounts in thousand)

37.12 Historical information of staff retirement benefits:

	2012	2011	2010	2009	2008	2007
	(Rupees)					
Present value of obligations	(241,468)	(171,407)	(137,469)	(77,010)	(39,033)	(18,947)
Fair value of plan assets	200,821	129,997	82,509	58,688	29,417	15,464
Deficit	(40,647)	(41,410)	(54,960)	(18,322)	(9,616)	(3,483)

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:

	2012			2011		
	Directors		Executives	Directors		Executives
	Chief Executive	Others		Chief Executive	Others	
	(Rupees)					
Managerial remuneration	25,291	-	814,656	28,581	-	749,213
Contribution for staff retirement benefits	3,185	-	98,845	2,308	-	79,061
Bonus paid	6,530	-	189,970	15,803	-	164,847
Fees	-	2,050	-	-	3,550	-
Total	35,006	2,050	1,103,471	46,692	3,550	993,121
Number of persons, including those who worked part of the year	1	9	700	2	6	537

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. 797 (2011: Rs. 304).

(Amounts in thousand)

39. Financial Instruments by Category

39.1 Financial assets as per balance sheet

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

	2012	2011
	(Rupees)	
Short-term investments	2,708,750	1,294,000
Long term deposits	53,751	10,078
Trade debts	149,074	87,121
Advances and deposits	12,028	18,533
Other receivables	311,854	332,858
Cash and bank balances	422,008	350,728
	948,715	799,318
	3,657,465	2,093,318

39.2 Financial liabilities as per balance sheet

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

Long term finances	7,708,893	6,075,000
Obligations under finance lease	2,589	5,179
Trade and other payables	2,083,546	1,804,616
Accrued interest / mark-up	308,838	388,381
Short term finances	85,389	252,250
	10,189,255	8,525,426

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.

(Amounts in thousand)

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, 2012, 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 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, 2012, 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. 50,109 (2011: Rs. 39,488) 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 exposed to insignificant price risk due to its investments in mutual fund securities.

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, 2012, the Company has significant concentration of credit risk resulting from receivable from Tetra Pak Pakistan Limited, short term investments and deposits with banks and financial institutions amounting to Rs. 3,417,065

(Amounts in thousand)

(2011: Rs. 1,956,513). The credit risk on liquid funds is limited because the counter parties are banks and investment funds with reasonably high credit ratings as follows:

Banks / Investments	Rating Agency	2012	
		Short term	Long term
Allied Bank Limited	PACRA	A-1+	AA+
Faysal Bank Limited	PACRA	A-1+	AA
Bank Alfalah Limited	PACRA	A-1+	AA
Bank of Punjab	PACRA	A-1+	AA-
Habib Bank Limited	JCR-VIS	A-1+	AAA
MCB Bank Limited	PACRA	A-1+	AA+
Meezan Bank Limited	JCR-VIS	A-1+	AA -
National Bank of Pakistan	JCR-VIS	A-1+	AAA
United Bank Limited	JCR-VIS	A-1+	AA+
HSBC Bank Middle East Ltd.	Moody's	P-1	A-1
Barclays Bank PLC Pakistan	Moody's	P-1	A-2
Askari Bank Limited	PACRA	A-1+	AA
Al-Baraka Bank Pakistan Limited	PACRA	A-1	A
Burj Bank Limited	JCR-VIS	A-1	A
Dubai Islamic Bank Pakistan Limited	JCR-VIS	A-1	A
Standard Chartered Bank Pakistan Ltd	PACRA	A-1+	AAA
Soneri Bank Limited	PACRA	A-1+	AA-
NIB Bank Limited	PACRA	A-1+	AA-
Citi Bank N.A.	Moody's	P-1	A-1
Bank Al-Habib Limited	PACRA	A-1+	AA+
Meezan Cash Fund	JCR-VIS	-	AA(f)
HBL Money Marketing Fund	JCR-VIS	-	AA(f)
Askari Sovereign Fund	PACRA	-	AA+(f)
MCB Cash Management Optimiser Fund	PACRA	-	AA(f)
ABL Cash Fund	JCR-VIS	-	AA+(f)
NAFA Government Securities Fund	PACRA	-	AAA(f)
UBL Liquidity Fund	JCR-VIS	-	AA+(f)
UBL Government Securities	JCR-VIS	-	A+(f)
ABL Government Securities Fund - B	JCR-VIS	-	A+(f)
Lakson Money Market Fund	PACRA	-	AA(f)

The Company attempts to control credit risk arising on receivable from Tetra Pak Pakistan Limited 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.

(Amounts in thousand)

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.

	2012			2011		
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total
	------(Rupees)-----					
Long term finances	1,685,823	6,023,070	7,708,893	465,000	5,610,000	6,075,000
Obligations under finance lease	2,589	-	2,589	2,589	2,590	5,179
Trade and other payables	2,083,546	-	2,083,546	1,804,616	-	1,804,616
Accrued interest / mark-up	308,838	-	308,838	388,381	-	388,381
Short term finances	85,389	-	85,389	252,250	-	252,250
	<u>4,166,185</u>	<u>6,023,070</u>	<u>10,189,255</u>	<u>2,912,836</u>	<u>5,612,590</u>	<u>8,525,426</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 19) divided by total capital. Total capital is calculated as 'equity' in the balance sheet plus long term borrowings. The gearing ratio as at December 31 is as follows:

	2012	2011
	------(Rupees)-----	
Long term finances	6,023,070	5,610,000
Total equity	10,054,273	7,236,942
Total capital	<u>16,077,343</u>	<u>12,846,942</u>
Debt to Equity ratio	<u>0.37</u>	<u>0.44</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:

Nature of relationship	Nature of transactions	2012	2011
		------(Rupees)-----	
Holding company	Arrangement for sharing of premises, utilities, personnel and assets	324,780	173,726
	Advance against purchase of shares of Engro Foods Netherlands B. V.	863,018	-
	Pension fund contribution	4,568	8,613
	Provident fund contribution	23,534	17,509
	Gratuity fund contribution	3,242	721
	Subsidiary and associated companies	Amount paid on behalf of subsidiary	-
Advance against issue of share capital		-	350,000
Arrangement for sharing of premises, utilities, personnel and assets		168,914	91,418
Provident fund contribution		40	467
Expenses claimable		-	17,163
Purchases of goods		347,349	47,679
Purchases of services		456	14,381
Disposal of investment in subsidiary		-	1,415,120
Donations		11,850	11,085
Subsidy received		7,708	-
Contribution to staff retirement funds	Provident fund	162,759	114,033
	Gratuity fund	70,800	66,977
Key management personnel	Managerial remuneration	98,219	79,566
	Contribution for staff retirement benefits	12,124	13,546
	Bonus payments	46,208	53,466
	Other benefits	797	3,687

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

42.3 While the Company manages the Al-Safa business in North America, no remuneration has been charged to Engro Foods Canada Limited as the business is owned by ECL and will be acquired from ECL at cost subject to regulatory approvals.

42.4 The related party status of outstanding receivables and payables as at December 31, 2012 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, juices and others;  
Ice cream;  
Dairy farm; and  
Business development.

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 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, Juices and others 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, 2012 and asset information regarding operating segments as at December 31, 2012:

	December 31, 2012				December 31, 2011					
	Dairy, Juices & Others	Ice cream	Dairy farm	Business Development	Total	Dairy, Juices & Others	Ice cream	Dairy farm	Business Development	Total
<b>Results for the year</b>										
Net sales	37,588,856	2,801,366	477,417	-	40,867,639	27,547,162	2,551,934	270,042	-	30,369,138
Inter-segment sales	(248,564)	-	(477,417)	-	(725,981)	(252,725)	-	(270,042)	-	(522,767)
	37,340,292	2,801,366	-	-	40,141,658	27,294,437	2,551,934	-	-	29,846,371
Raw milk sales	27,261	-	-	-	27,261	12,855	-	-	-	12,855
	37,367,553	2,801,366	-	-	40,168,919	27,307,292	2,551,934	-	-	29,859,226
Depreciation and amortization	859,800	329,976	56,720	1,338	1,247,834	639,912	282,930	39,999	558	963,999
Finance costs	447,777	324,946	129,780	-	902,503	624,545	315,211	109,385	-	1,049,141
Net profit / (loss) after tax	3,070,137	(409,091)	(21,006)	(44,867)	2,595,173	1,432,075	(405,287)	(107,267)	(28,548)	890,973
<b>Assets</b>										
- Segment assets	12,513,007	2,989,067	1,632,305	5,470	17,139,849	9,998,461	3,127,662	1,305,092	1,974	14,433,189
- Un-allocated assets	-	-	-	-	5,048,836	-	-	-	-	2,205,995
	12,513,007	2,989,067	1,632,305	5,470	22,188,685	9,998,461	3,127,662	1,305,092	1,974	16,639,184

(Amounts in thousand)

#### 44. Seasonality

44.1 The Company's 'Ice cream' and 'Juice' businesses are subject to seasonal fluctuation, with demand of ice cream and juice 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
	2012	2011	2012	2011	
	------(Litre in thousand)-----				
Dairy & Juices	601,481	446,258	476,788	388,236	Production planned as per market demand
Ice cream	35,527	35,527	16,550	17,763	

45.1 Represents capacity as at balance sheet date.

#### 46. Supplementary Information

46.1 Details of expenses allocated to export business is as follows:

	2012	2011
	------(Rupees)-----	
Salaries, wages, and staff welfare	12,493	-
Freight outward	18,333	-
Rent and utilities	285	-
Communication and other office expenses	519	-
Travelling	1,246	-
Depreciation	242	-
Legal charges	329	-
Bank charges	1,987	-
	<u>35,434</u>	<u>-</u>

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

(Amounts in thousand)

#### 47. Corresponding Figures

For better presentation, corresponding figure of short term investments in mutual fund securities has been reclassified from 'Cash flows from investing activities' to 'Cash and cash equivalents' in the Statement of cash flows.

The effects of other rearrangements and reclassifications are not material.

#### 48. Date Of Authorization for Issue

These financial statements were authorized for issue on January 24, 2013 by the Board of Directors of the Company.

  
Aliuddin Ansari  
Chairman

  
Afnan Ahsan  
Chief Executive Officer

# annexure

## employee stock option scheme

The Company in the Extra Ordinary General Meeting held on October 08, 2007, has approved an Employee Share Option Scheme (ESOS) for granting of options to its certain eligible employees. The fair value of the option was determined by management using the Black-Scholes model.

According to this scheme, 21 million shares have been granted to eligible employees. The vested options as on December 31, 2012 are 21 million shares. To date, options of 13,577,575 shares have been exercised. There has been no variation in the terms of the options during the year.

The number of options that lapsed during the year was 643,280 (2011: 407,025). To date, Rs. 250,396,215 has been received on account of exercise of the options.

Out of total options granted, 9,500,000 shares were granted to the following senior management personnel:

S.NO.	Name	Options Granted & Exercised	Granted During Year 2012
1	Sarfaraz A. Rehman (ex-employee)	2,500,000	-
2	Shamsuddin A. Shaikh (ex-employee)	2,000,000	-
3	Ali Akbar (ex-employee)	2,000,000	-
4	Babur Sultan	2,000,000	-
5	Imran Anwer	1,000,000	-

The following employees were given more than 5% of total options issued:

S.NO.	Name	Options Granted	Granted During Year 2012
1	Sarfaraz A. Rehman	2,500,000	-
2	Shamsuddin A. Shaikh	2,000,000	-
3	Ali Akbar	2,000,000	-
4	Babur Sultan	2,000,000	-

None of the employees were issued with options exceeding 1% of the paid up capital of Company.

## glossary

Acronym	Name
BD	Business Development
IA	Internal Audit
HR	Human Resources
SC	Supply Chain
MPD	Milk Procurement Department
IS	Information Systems
TA	Talent Acquisition
T&OD	Training and Organizational development
C&B	Compensation & Benefits
F&P	Finance and Planning
HSE	Health Safety and Environment
SKUs	Stock Keeping Units
PQnD	Product Quality & Development
ICF	Ice Cream Factory
GM	General Manager
SC	Supply Chain
NSM	National Sales Manager
NCC	Manager-National Channel & Category Manager
PAT	Profit After Tax
PBT	Profit Before Tax
CELDAC	Community Empowerment through Livestock Development & Credit
WELD	Women Empowerment through Livestock Development
EMAN	Engro Milk Automation Network

## 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 proxy to vote for me and on my behalf at the annual general meeting of the Company to be held on the 22nd day of March, 2013 and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2013.

### 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.

