



# recipes for success



Annual Report 2011

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engro.com

## recipes for success

At Engro Foods, whether it is our thick, creamy milk, scrumptious ice-cream or our refreshing range of beverages, our products are designed to give everyone a real taste of life and its wonderful flavors. The theme of our cover page 'Recipes for Success' clearly illustrates our ambition to elevate the consumer experience to new heights with brands that surprise, delight and fulfil consumer needs in every way, every step of the way. All illustrations of this report further depict our focus on giving everyone a real flavor of the essence of life with good food that makes for great taste and the best living.

# table of contents

## 03 Company Information

|                                |    |
|--------------------------------|----|
| Notice of the Meeting          | 04 |
| Our Vision                     | 05 |
| Core Values                    | 07 |
| Overview of Engro Foods        | 09 |
| Global Overview of Engro Foods | 13 |
| Our Portfolio                  | 15 |
| Our Footprint                  | 17 |

## 19 Corporate Governance

|                       |    |
|-----------------------|----|
| Board Committees      | 21 |
| Functional Committees | 22 |
| Board of Directors    | 23 |
| Management Committee  | 29 |
| Organogram            | 31 |

## 33 CEO's Message

|                              |    |
|------------------------------|----|
| Strategic Objectives         | 35 |
| Operational Highlights       | 37 |
| Key Figures                  | 39 |
| Directors' Report            | 41 |
| Financial Review             | 49 |
| Social Investments           | 59 |
| Our Family                   | 63 |
| Health, Safety & Environment | 67 |
| Awards & Recognition         | 71 |
| Future Outlook               | 73 |
| Shares & Shareholding        | 75 |

## 81 Our Brands

|                          |    |
|--------------------------|----|
| Marketing Communications | 87 |
|--------------------------|----|

## 101 Plant, Production and Supply Chain

|  |     |
|--|-----|
| Continuing the Tradition of Excellence | 105 |
| Our Supply Chain Network               | 106 |

## 107 Enabling Opportunities

|                                       |     |
|---------------------------------------|-----|
| Milk-Collection and Dairy Development | 108 |
|---------------------------------------|-----|

## 113 Financial Statements

|  |     |
|--|-----|
| Statement of Compliance With<br>The Code of Corporate Governance<br>review report to the members on<br>statement of compliance | 114 |
| auditors' report to the member on compliance   | 116 |
| Management Statement of Compliance   | 117 |
| auditors' report to the members  | 118 |
| Balance Sheet  | 119 |
| Profit and Loss Account  | 121 |
| Statement of Comprehensive Income  | 123 |
| Statement of Changes in Equity   | 125 |
| Statement of Cash Flows  | 126 |
| Notes to The Financial Statements  | 127 |

## 170 Annexure

|                              |     |
|------------------------------|-----|
| Employee Stock Option Scheme | 171 |
| Glossary                     | 172 |
| Proxy Form                   | 174 |



## company information

### Board of Directors

- Asad Umar, Chairman
- Afnan Ahsan, Chief Executive Officer
- Abdul Samad Khan
- Isar Ahmad
- Muhammad Amin
- Mujahid Hamid
- Ruhail Mohammed
- Shahzada Dawood
- Spenta Kandawala
- Zafar Ahmed Siddiqui

### Company Secretary

- Syed Bulent Sohail

### 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
- 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  
Website: www.engro.com

## notice of the meeting

NOTICE IS HEREBY GIVEN that the Seventh Annual General Meeting of Engro Foods Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Monday, 19th March 2012 at 10 a.m. to transact the following business:

### ORDINARY BUSINESS

- (1) To receive and consider the Audited Accounts for the year ended December 31, 2011 and the Directors' and Auditors' Reports thereon.
- (2) To appoint Auditors and fix their remuneration.
- (3) To elect nine directors in accordance with the Companies Ordinance, 1984. The retiring Directors are Messrs Asad Umar, Isar Ahmad, Muhammed Amin, Shahzada Dawood, Spenta Kandawalla, Abdul Samad Khan, Ruhail Mohammed, Zafar Ahmed Siddiqui and Mujahid Hamid.

By Order of the Board

Karachi,  
Dated: January 24, 2012.

**SYED BULENT SOHAIL**  
Company Secretary

### N.B.

- (1) The Directors of the Company have fixed, under sub-section (1) of Section 178 of the Companies ordinance, 1984, the number of elected directors of the Company at nine.
- (2) The Share Transfer Books of the Company will be closed from Tuesday, March 6, 2012 to Monday, March 19, 2012 (both days inclusive). Transfers received in order at the office of our Registrar, M/s. FAMCO Associates (Private) Limited, 1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00 p.m) on Monday, March 5, 2012 will be treated in time to entitle the transferees to attend the meeting.
- (3) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

By Order of the Board

Karachi,  
Dated: January 24, 2012.

**SYED BULENT SOHAIL**  
Company Secretary

# our vision growing perspectives



## elevating consumer delight world-wide

At Engro Foods, we believe that in order to create the ultimate consumer experience, we must go above and beyond conventional standards by redefining quality benchmarks, exceeding consumer expectations and delivering the greatest value to all our stake-holders.

As Pakistan's premier foods company that excels in creating top quality brands, we cater to local needs with products that conform to global standards.

As we continue to manufacture and market premium food brands that are mouth-watering and nutritious, we aim to join the leagues of industry leaders in all the markets that we enter.

From idea generation to product development and testing, innovation excellence is at the heart of everything we do at Engro Foods. Because we recognize that our continued success depends upon our ability to consistently deliver an unrivalled brand experience that elevates consumer delight and exceeds expectations every step of the way.

As a responsible corporate enterprise, we also strive to implement the highest standards of social responsibility by inspiring change that can positively impact the lives of our stake-holders, including the communities where we do business, and the consumers that we do business with.

As a foods company continuously engaged in elevating quality standards, we pride ourselves on finding new ways to engage our consumers with a diverse range of brands that offer outstanding choice and quality.

We believe that in order to create the ultimate consumer experience, we must go above and beyond conventional standards by redefining quality benchmarks, exceeding consumer expectations and delivering the greatest value to all our stake-holders.

# core values a bunch of ways to make a difference



## living our core values every day

Our core values represent our corporate ideology and ethos - guiding us in our day-to-day business practices whilst remaining firmly aligned with our vision for the future.



### Consumer Centric

We believe in redefining industry benchmarks and exceeding consumer expectations to create the ultimate brand experience. The consumer is discerning and aware; therefore all our products must be created after a thorough research of changing consumer needs and market expectations.



### Innovation

Innovation is at the heart of all we do. It is valued, encouraged and rewarded in all aspects of our operations. To deliver quality products and real value to our consumers, we strive to think outside the box to create products that can help us deliver a memorable brand experience that elevates consumer delight and exceeds market expectations at every step in every way.



### Our People

Passionate people with a positive and proactive approach are critical to our success. To empower and engage our people, we provide them with challenging opportunities, a stimulating environment and all the necessary tools to help them reach their full potential within the organization. To ensure that our people remain motivated, we also recognize and reward them for their achievements every step of the way.



### Integrity

We care how results are achieved and ensure the highest standards of integrity in all our undertakings. We have an open disclosure policy and our operations are conducted in a fair, transparent environment where strict emphasis is laid upon ensuring ethical and honest behavior within the organization.



### CSR

The triple bottom line approach is widely apparent in all our strategic undertakings – except that our consideration for people and the planet goes well beyond our need to fixate on profits. Our commitment to Corporate Social Responsibility (CSR) therefore extends far beyond mere lip service, and is deeply embedded within the very core of our business.

# overview of engro foods what's fresh at engro



## redefining quality, value and nutrition

The year 2005 marks Engro Foods surging entry in the consumer foods market – a move fueled by our vision to bring to the fore innovative food products packed with quality, value and nutrition.

Using dairy as a stepping stone to enter the foods business, we launched Olper's our flagship all-purpose milk in March 2006, which soon became our power brand after gaining preference nation-wide for its rich, creamy freshness, high nutrition content and vibrant packaging.

Since then, we have gained a firm footing in the local foods business and given it a new direction with the continued success of our brands that are redefining industry benchmarks by delivering a consistently unique consumer experience.

Today, Engro Foods is a fast growing local company with a total investment of Rs. 12.2 billion into Capex and Rs. 4.6 billion into brands. With an annual consumption of over one billion packs, we are also ranked as the 18th largest consumer of Tetra Pak world-wide.

Catering to a wide demographic consumer base from high income groups to the more economically conscious segment of the market, our product portfolio comprises some of the country's biggest and best-selling brands including Olper's, Olper's Lite, Olfrute, Omorè, Omung, Owsun and Tarang that have become household names and are the preferred choice for discerning consumers across the country and beyond.

So whether it is our thick, creamy all-purpose milk, scrumptious ice-cream high on nutrition content or our refreshing range of fruity beverages, our products are guaranteed to tickle your taste-buds and leave you spoilt for choice with a craving for more. Because at Engro Foods, we are passionate about providing our consumers with a memorable brand experience that exceeds expectations and raises the bar for quality, so that our products remain sought-after by every one every where.

To keep pace with the growing demand for our products, we have invested heavily in our production infrastructure – and own state-of-the-art manufacturing and processing units in Sahiwal and Sukkur. Sprawling over 60 acres of land, our plants are state-of-the-art facilities.

Our product portfolio comprises some of the country's biggest and best-selling brands including Olper's, Olper's Lite, Omorè, Owsun, Olfrute, Omung and Tarang that have become household names and are the preferred choice for discerning consumers across the country and beyond.

To source best with quality, we have also established a commercial dairy farm in the Nara Canal area of Sukkur.

At Engro Foods, we also take great pride in our highly effective and efficient supply chain network that ensures seamless execution of logistics within our distribution and delivery process so that our brands find their place on the shelves of every super-market, general store and retail outlet in the country well in time – and in ample quantity and the most reliable quality.

To ensure effective quality control and deliver the best consumer experience, our consumer support team at *Taalug* directly interacts with consumers and receives regular feedback on the quality of our products, keeping us informed of their views and suggestions every step of the way.

As we continue to increase our penetration locally with a greater focus on international markets, we are confident that the years ahead will forge the way for our continued growth and success with new milestones and bigger opportunities in the foods business.

Today, Engro Foods is a fast growing local company with a total investment of Rs. 12.2 billion into Capex and Rs. 4.6 billion into brands. With an annual consumption of over one billion packs, we are also ranked as the 18th largest customer of Tetra Pak world-wide.



### Well Positioned For Growth

OVER  
**05**  
MILLION  
consumers nation-wide use  
our products every day.

OVER  
**1,000**  
EMPLOYEES  
elevating consumer delight  
world-wide.

RS  
**30**  
BILLION  
revenue for 2011.

OVER  
**50**  
MILLION  
people start their day  
with Olper's.



# global overview of engro foods local flavor global standards



## exploring new horizons with untapped markets

Encouraged by our growing success in the local market, we have made our foray within the international arena with our recent acquisition of Al-Safa, a leading halal meat brand of North America.

As the demand for halal certified products continues to grow world-wide, an increasing number of global industry players are now vying for a slice of the industry by catering to the burgeoning halal foods market.

We take great pride in being Pakistan's consumer goods company to acquire an international halal meat brand within this high potential market, recognized as the world's fastest growing consumer segment at an estimated global value of 632 billion dollars.

Leveraging Al Safa's established North American footprint, we aim to strengthen our presence in the North American markets by expanding our product portfolio and drawing upon our local expertise in the foods business to emerge as a major contender and a key player within the international halal market.

As part of our long-term vision to achieve sustainable business growth, we aim to extend Al Safa's diverse product-line by introducing new brands to gain a larger market share. In our quest for continued penetration within the international markets, we are also planning to expand geographically by tapping new regions and unexplored segments within the mainstream foods business.

We take great pride in being a Pakistan's local conglomerate to acquire an international meat brand and enter the global foods market.



# our portfolio from brands to benchmarks



## our brands and our compelling value proposition

We have an exciting brand portfolio that comprises some of the country's biggest and fastest growing brands. In the last 6 years, we have launched 11 brands that have consistently resonated with consumers and contributed to our continued growth and success in the foods business.

Since our inception in 2005, we have also emerged as the market leader dominating Pakistan's ambient dairy segment.

With the recent acquisition of Al-Safa – our halal meat brand, we have entered the global foods market.

Our flagship brands Tarang, Olper's, Omung and Omorè have consistently garnered a place in the hearts of millions of consumers.



This is just the beginning for Engro Foods as we set the pace for our continued growth and work towards bigger opportunities and even greater success.

# our footprint a world of good taste



## expanding our brand footprint worldwide

Our market share covers more than 8 regions and over 310 cities and towns locally whereas our global footprint spans 18 states within United States and 4 provinces in Canada.

Every day, our brands touch the lives of our consumers in a multitude of ways. As Pakistan's premier foods company, our products deliver quality, value and nutrition to more than 4 million people in over 300 locations across the length and breadth of Pakistan – and beyond.

Our market share covers more than 8 regions and over 310 cities and towns locally whereas our global footprint spans 18 states in United States and 4 provinces in Canada.

With each passing year, our brands continue to tap new markets to encompass a wider consumer base and a greater market share. Our continued growth indicates our steady expansion across a diverse stream of product categories, geographical networks and consumer demographics.

## our footprint



# corporate governance

## ways to sustain our progress



## corporate governance

### Compliance Statement

The Board of Directors has throughout the year 2011 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

Since 2009, the Board has comprised of nine non-executive Directors of whom four are independent Directors, and three are executive 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. Asad Umar, chairs the Board and the Chief Executive Officer is Mr. Afnan Ahsan. Biographical details of the Directors are given on pages 24, 25 and 26.

A Board of Directors' meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board met seven 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 three committees which are chaired by independent non-executive directors. These committees are as follows:

### Board Compensation Committee

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

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

The committee met 3 times during 2011.

### Committee Members

The committee comprises the following members:

- Asad Umar, Chair
- Muhammad Amin
- Mujahid Hamid
- Shahzada Dawood

The Secretary of the Committee is Javed Iqbal, General Manager, HR.

### Board Audit Committee

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

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

The Committee met 5 times during 2011.

### Committee Members

The committee comprises the following members:

- Shahzada Dawood, Chair
- Abdul Samad Khan
- Ruhail Mohammed
- Zafar Ahmed Siddiqui

The Secretary of the committee is Mazhar Hasnani, General Manager, Internal Audit.

### Consumer Board Committee

The Consumer Board Committee assists the Board in consumer related issues by focusing on areas such as custodianship of the consumers' interest as well as the Company's interest matters requiring advisory input.

The Committee met 6 times during 2011.

### Committee Members

The committee comprises the following Members:

- Mujahid Hamid, Chair
- Afnan Ahsan
- Muhammad Amin
- Spenta Kandawalla
- Zafar Ahmed Siddiqui

The Secretary of the committee is Fuad Chundrigar, Vice President, Marketing.

## Functional Committees

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

The committee comprises the following members:

- Afnan Ahsan
- Babur Sultan
- Fuad Chundrigar
- Imran Anwer
- Shamsuddin Ahmed Shaikh

The Secretary of the committee is Javed Iqbal, General Manager HR.

### 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:

- Afnan Ahsan
- Babur Sultan
- Fuad Chundrigar
- Imran Anwer
- Javed Iqbal
- Shamsuddin Ahmed Shaikh

The Secretary of the Committee is Salman Goheer, General Manager, Supply Chain.

## Corporate HSE Committee

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

The Committee met 5 times during 2011.

The Committee comprises the following members:

- Afnan Ahsan, Chair
- Babur Sultan
- Fuad Chundrigar
- Imran Anwer
- Javed Iqbal
- Shamsuddin Ahmed Shaikh

The Secretary of the Committee is Rameez Ahmed Faraz, General Manager, HSE.

# board of directors the vital ingredients for leadership



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.



## Asad Umar

Chairman

Asad Umar graduated with an MBA from the IBA, Karachi in 1984. He started his career with HSBC, Pakistan and joined Exxon Chemical Pakistan Limited in 1985, which is now Engro Corporation Limited. He has worked in all major divisions of the business and assumed responsibility as President and Chief Executive of Engro Corporation in January 2004.

Asad is the Chairman of all Engro subsidiaries and affiliates, as well as the Pakistan Business Council, Pakistan Chemical & Energy Sector Skill Development Company and Punjab Skill Development Fund. He is a member of the Board of Directors of the Karachi Education Initiative, Pakistan Institute of Corporate Governance, State Bank of Pakistan and Board of Trustees of Lahore University Management Sciences. In 2010, he was awarded the Sitara-e-Imtiaz by the Government of Pakistan for his long-standing contribution towards community investment and social service in Pakistan.



## Afnan Ahsan

Chief Executive Officer

Afnan Ahsan graduated with an MBA in finance and marketing from the Arkansas State University of USA and brings with him a wealth of experience and learning in business management from South Africa, Canada, South East Asia and Pakistan.

Afnan is the Chief Executive Officer of Engro Foods Ltd. with core expertise in mergers and acquisitions, marketing, sales, foods & beverage manufacturing and supply chain management. His career spans over 20 years of professional experience in leading multinationals such as Coca-Cola and Nestle. Prior to joining Engro Foods Ltd., he was spearheading Nestle's beverage business as Senior VP and Business Executive Manager in Philippines.



### 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.

Abdul 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.

Abdul is a member of the Board of Directors for Engro Foods, Engro EXIMP Private Ltd. and Engro Foods Supply Chain Ltd.



### Isar Ahmad

Director

Isar Ahmad is a Chartered Accountant from the Institute of Chartered Accounts of England and Wales, and also holds a masters degree in Economics.

Isar joined the Board of Directors of Engro Foods in 2006. His career spans many years of professional experience in senior management positions in multinational and large Pakistani corporations.



### 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 & 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.

Mujahid 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.



### Ruhail Mohammed

Director

Ruhail Mohammed holds an MBA degree in Finance. Along with being the Senior Vice President, Finance and Administration, he is also the Chief Executive Officer of Engro Powergen. His career spans many years of professional experience in senior positions in Pakistan, UAE and Europe.

He joined the Board of Directors of Engro Foods in 2006 and is also on the Boards of Engro Powergen Qadirpur Limited, Avanceon Limited, Engro Powergen Limited, Engro Fertilizers Limited, Engro Eximp (Pvt.) Limited, and Sigma Leasing Corporation Limited.



### 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 Chemicals 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.



### Spenta C. Kandawalla

Director

Spenta Kandawalla holds a bachelors degree in Economics and Political Science from the Wellesley College, USA and is a PFCG Certified Board Director.

She joined the Board of Directors of Engro Foods in 2005 and is a member of the Board of Governors for the World Wild Life Fund Pakistan and Liaquat Medical Hospital.

Spenta is associated with many local and international non-profit organizations and also serves as the International Chair of the Business Leadership Council of Wesley College, USA.



### 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 career 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 & Maldives.

Zafar is also a member of the Board of Directors for the Pakistan Society for Training & Development, Inbox Business Technologies (Pvt.) Limited, Zulfiqar Industries and Faysal Asset Management Ltd.



**Board of Directors**

Left to Right (Standing)  
 Mr. Mujahid Hamid  
 Mr. Muhammad Amin

Mr. Shahzada Dawood  
 Mr. Abdul Samad Khan

Mr. Afnan Ahsan

Mr. Asad Umar

Left to Right (Sitting)  
 Mr. Israr Ahmad

Mr. Zafar Ahmed Siddiqui

Mr. Ruhail Mohammed

Ms. Spenta C. Kandawalla



## Management Committee

Left to Right (Standing)  
Mr. Imran Anwer

Mr. Shamsuddin Shaikh

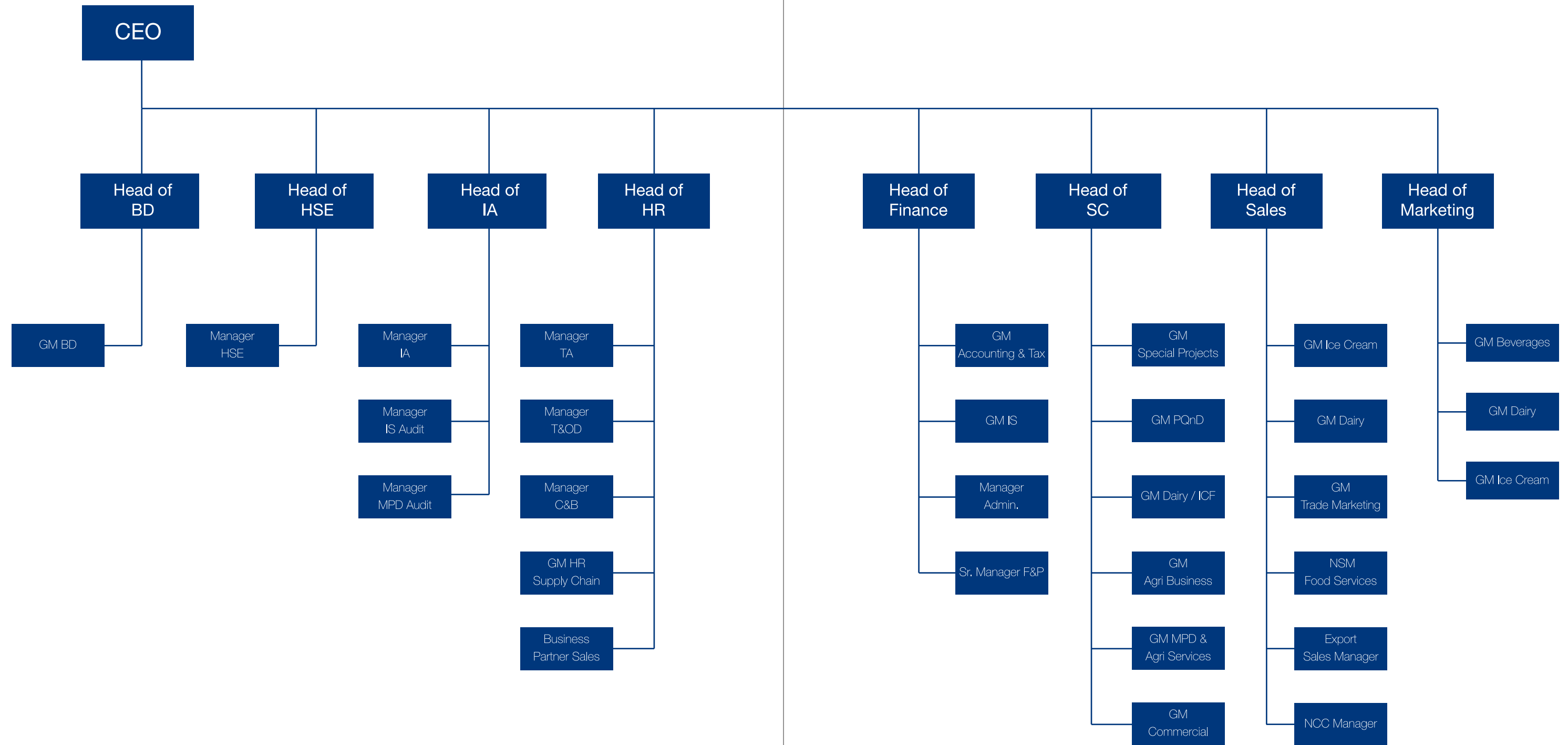
Mr. Javed Iqbal

Mr. Afnan Ahsan

Left to Right (Sitting)  
Mr. Fuad Chundrigar

Mr. Babur Sultan

# our organogram



\* This organogram does not include Engro Foods Canada Limited.

# ceo's message the secret recipe behind our growth



## highlighting our success

Sarfaraz Rehman,  
Former CEO

“life is all about  
the end product.”

The last five years have been an exciting and monumental journey for Engro Foods. Spurred by a vision to keep the Pakistani flag flying high by establishing a local center of excellence in the foods business with an international reach, we started our journey in 2005 with a strong sense of purpose and a passion to deliver quality brands that would resonate with consumers, and elevate consumer delight world-wide.

Since then, we have grown from strength to strength at an unprecedented pace, achieving many significant milestones along the way.

Today, we take great pride in being Pakistan's premier foods company with top quality brands that have consistently achieved record growth in the market well beyond our expectations. After achieving the 30 billion rupee revenue mark in 2011, our performance over the years clearly reveals a continued growth trend that is indicative of the strong consumer preference for all our brands.

To further add to our strength, with our recent acquisition of Al-Safa, we have taken yet another significant step forward by making inroads into the fast growing, global halal foods industry.

Aligned with our long-term strategy for growth, this acquisition is a strategic move that will provide Engro Foods with the opportunity to expand its presence globally and emerge as a leading contender in the halal foods business.

As we continue leveraging our strengths to generate sustainable long-term growth, I am confident that the next five years will witness even greater success for Engro Foods.

I consider it a privilege to have been given the opportunity to help the Engro Foods business evolve and grow since its inception. My association with Engro Foods has enriched my life beyond words and afforded me every opportunity to utilize my skills to the fullest.

Today, I am happy to leave behind the knowledge and a dedicated team at Engro Foods that will continue to work passionately to carry forward our mission of delivering the very best to our consumers.

## highlighting our success

The year 2011 was a landmark one for Engro Foods. With the company's listing on the Karachi Stock Exchange in July, Engro Foods has acquired a visibility that was key to highlighting what has been a remarkable success story for the business since its inception in 2006.

At Engro Foods our focus is to act as a conduit to mobilise Pakistan's strategic advantages in agriculture. We believe that the foods business has the ability to maximise the potential of the country's natural endowments through the use of more efficient technologies and sophisticated branding and marketing efforts. Two of our most successful projects for the year highlight just how this is possible.

One of Engro Foods' runaway success stories has been Tarang, our tea-whitening brand. While it did not have the first-mover advantage in the market, Tarang has successfully managed to redefine its own category and has become one of the leading brands in Pakistan and a top 20 brand for Tetrapak around the world selling 1 billion units across Pakistan.

We are particularly proud of our marketing efforts that helped Tarang achieve this level of sales. Our advertising campaigns have become a template for a successful, targeted marketing effort, one that has successfully redefined benchmarks in similar tea-drinking cultures.

The year 2011 was significant for us since Engro Corp completed the acquisition of Al-Safa Halal, a Canada-based food company whose halal food products are distributed throughout North America giving us a foothold in international markets.

The Engro Foods story thus far has been one of an insurgent player in the foods business rapidly growing its way to success. As the company enters its sixth year of operations, the focus will be primarily on consolidating its brand portfolio and strengthening its market position.

As we move forward, we are set to focus more on product innovation as the route to our future growth and success.

**Afnan Ahsan**  
CEO

“our focus is to act as a conduit to mobilise Pakistan's strategic advantages in agriculture. We believe that the foods business has the ability to maximise the potential of the country's natural endowments.”



### Strategic Objectives

#### Diversify

and move beyond the traditional dairy portfolio and explore new categories to delight consumers.

#### Decipher

and bring clarity in approach within our dairy portfolio to encompass a wider consumer segment.

#### Distance

the brand portfolio to allow for further expansion.

#### Develop

and extend physical reach to other geographies for exploring untapped possibilities.

# operational highlights the main course



## the year 2011 in retrospect

2011 has been a year of significant developments and exciting growth for Engro Foods. We have surpassed local expectations with the growing success of our brands and transcended geographical boundaries by successfully launching our presence globally.

Fueled by increased distribution and a critical understanding of consumer insights, local demand for our products continues to soar nationwide - reinforcing stake-holder expectations in our capacity to capitalize on our growth well beyond our expectations.

### Category Highlights

Market Leader in UHT dairy segment.

One of Pakistan's leading ice cream brands.

Pakistan's first company to cross 1 Billion tetra packs in one year.

### Financial Indicators:

Profit Growth

406%



Revenue Growth

42.6%



Gross Profit

22.2%

2010: 21.0%



# key figures

## the right volumes



### redefining quality, value and nutrition

|  |  |  |
|--|--|--|
| <b>Sales Revenue Rs million</b><br>2010 20,945<br>2011 <b>29,859</b>                 | <b>Weight Average number of ordinary shares (000's)</b><br>2010 563,765<br>2011 <b>730,721</b> | <b>Profit after Tax Rs Million</b><br>2010 176<br>2011 <b>891</b>        |
| <b>Earning per share Basic &amp; Diluted Rs</b><br>2010 0.31<br>2011 <b>1.22</b>     | <b>EBITDA Rs Million</b><br>2010 1,665<br>2011 <b>3,475</b>                                    | <b>Capital Expenditure Rs Million</b><br>2010 2,099<br>2011 <b>3,403</b> |
| <b>Market Capitalization (Year End) Rs Million</b><br>2010 N/A<br>2011 <b>16,990</b> | <b>Total Assets Rs Million</b><br>2010 12,460<br>2011 <b>16,639</b>                            | <b>Total Equity Rs Million</b><br>2010 5,124<br>2011 <b>7,237</b>        |

# director's report chef's special



## from the directors'

The Directors of Engro Foods Limited are pleased to submit their Annual Report along with audited financial statements of the Company for the year ended December 31, 2011.

### Business Review

2011 was another challenging year for the country and the local foods industry. Energy crises, security situation and devastating floods continued to exert significant pressure on the economy and the cost of living. However, despite these ongoing challenges, the Company maintained a positive long term outlook and achieved strong growth fuelled by

strategic planning. Escalating inflationary pressures continued to impact key commodities in 2011 and rising consumer price index curbed discretionary expenditures giving rise to a more economically conscious consumer segment focusing on value and quality. The Company, however, continued to expand its infrastructure and product portfolio to meet consumer needs and achieved a profit of Rs. 891 million.

### Key Operational Highlights of 2011

Engro Corp – the holding company of Engro Foods – acquired Al Safa, one of the oldest halal meat brands in North America at a total cost of US \$ 6.3 million.

Strengthening our footprint, first public offering of 27 million shares for Engro Foods was made at a share price of Rs. 25/share (inclusive of premium of Rs. 15/share).

Dairy Omung – a nutritious and affordable dairy product targeted at lower income consumers was introduced in the market.

Olfrute was relaunched with two new refreshing flavors of Apricot & Green Cocktail. Omorè continued to spread its geographic footprint and achieved a volume growth of 43%.

Olper's introduced Badam Zafran and Rose flavors to increase its product portfolio.

Olper's Lite was launched to cater to the growing segment of health and nutrition conscious consumers.

Focused investment and growth, diversification of the existing product portfolio and effective product mix management remained the key elements in the achievements of our results in 2011. The Company focused on key operational pillars which are based on superior consumer understanding and helped the management to prioritize allocation of resources to deliver results. These include innovation, operational efficiency, product availability and consumer communication which drive sustainable growth and accelerate the execution of Company's objectives and strategy.

Bigger, bolder and better innovations helped expand our portfolio of healthy and trusted quality foods in 2011. Our product portfolio now comprises multi-category and multi-format products that target consumer segments with a clear triple-tiered strategy for top, middle and bottom of the pyramid consumers.

During the first half of the year, in May 2011, Engro Foods raised Rs. 1.2 billion by issuing 48 million shares to the institutional investors - mainly the US & UK mutual funds - and local investors. The shares were issued at a price of Rs. 25 per share.

Our commitment to enhance our footprint and pursue a focused growth strategy led to the first-ever public offering of 27 million shares of the Company by its holding entity - Engro Corp - to the general public at a price of Rs. 25 per share - inclusive of a premium of Rs. 15 per share.

As part of our plans to focus on our core business activities, the Board also approved sale of the 70% equity shares in Engro Foods Supply Chain (Pvt.) Limited at a fair value of Rs. 10,64 per share in the last quarter of 2011. The sale proceeds will be used to finance the robust expansion of the Company's business.

### Dairy Segment

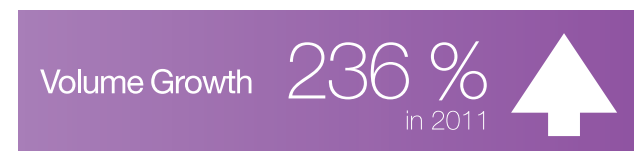
The Company continued its aggressive business strategy of growth and diversification and achieved volume growth of 22% in 2011.



Building on its promise of elevating consumer delight, the Company diversified into low cost high quality product category with the launch of Dairy Omung - a nutritious and affordable dairy product for lower income consumers. Innovation remained at the core of our product expansion strategies this year and we also introduced Olper's variants of BadamZafran and Rose flavors which were well received by the market.

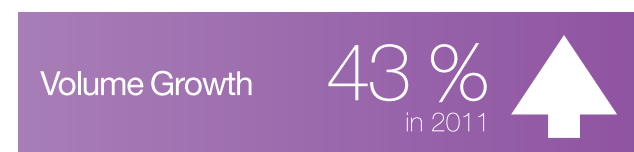
### Juices & Nectars Segment

The year marked the relaunch of our refreshing Olfrutebrand which continues to reflect strong consistent growth in its volume base. With six invigorating flavors Olfrute registered a volume growth of 236%.



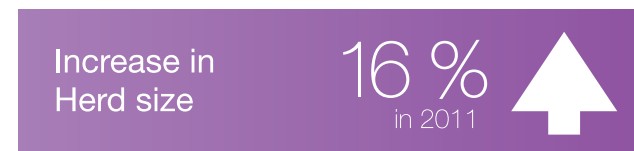
### Ice cream and Frozen Desserts Segment

Omorè's volume increased by 43% in 2011. Sales revenue grew by 62% from Rs. 1,580 million in 2010 to Rs. 2,552 million in 2011. However, the brand made an after tax loss of Rs. 405 million as opposed to Rs. 382 million in 2010 due to continued investments in brands, product development & diversification and cold chain infrastructure.



### 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 Nara Farm produced over 5.8million liters of milk in 2011 with a total herd size of over 3,000 animals. Due to lower yields and less utilization of farm housing capacity, the Nara Farm registered an operational loss of Rs. 107 million in 2011 as compared to a loss of Rs. 99 million in 2010.



### Engro Foods Canada

Mirroring our success in the local market, Engro Corp - the parent Company - made its foray in the international arena with acquisition of Al-Safa - a leading halal meat brand in North America - at a total cost of US \$6.3 million in April 2011. The business is owned by Engro Corp but managed by Engro Foods.

During the first 8 months of operations (since the acquisition) till December 31, 2011, Al-Safa brand sales were US \$5.283 million and the operational loss was US \$ 1.205 million including the pre-commencement cost of US \$0.33 million. Since Engro Corporation currently owns the equity stake in Engro Foods Canada these losses are not included in the Company's financial performance. Engro Foods will buy the equity shares from the holding Company at the actual cost post-approval of the Regulator.

## value addition

| Wealth Generated  | 2011              |             | 2010              |             |
|---|-------------------|-------------|-------------------|-------------|
|   | Rupees in Million | %           | Rupees in Million | %           |
| Total Revenue inclusive of sales-tax and other income   | 30,669            |             | 21,347            |             |
| bought-in material and services   | (25,121)          |             | (17,984)          |             |
|   | 5,548             |             | 3,363             |             |
| Wealth Distributed  |                   |             |                   |             |
| To employees Salaries, benefits and other costs   | 1,271             | 22.91%      | 1,168             | 34.73%      |
| To Government: Taxes, duties and development surcharge  | 1,363             | 24.57%      | 621               | 18.47%      |
| To Society: Donations towards education, health, environment and natural disaster                     | 11                | 0.20%       | 24                | 0.71%       |
| To Providers of Capital<br>- Dividend to Shareholders<br>- Mark up/interest expense on borrowed money | -<br>1,049        | -<br>18.91% | -<br>660          | -<br>19.63% |
| Retained for reinvestment and future growth, depreciation, amortization, retained profit              | 1,854             | 33.42%      | 890               | 26.46%      |
|   | 5,548             |             | 3,363             |             |

### Cash Flow and Working Capital Management

Significantly higher cash was generated from operating activities during the year (Rs. 1,080 million versus Rs. 156 million in 2010). Taxes paid for the year amounted to Rs. 314 million vs. Rs. 193 million last year.

### Capital Investment, Capital Structure and Finance

During the year, the company issued 48 million shares to certain private investors. In addition, the company also issued shares to employees who exercised their rights under the Employee Share Option Scheme (ESOS).

Long term borrowings at year end increased to Rs. 5,610 million (2010: Rs. 4,625 million).

The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2011 is 44:56 (2010: 47:53). The liquidity position of the Company remains robust with a year-end current ratio of 1.8 (2010: 1.5).

### 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, sales, 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 Food's Sukuk issue from 'A-' (Single A Minus) to 'A' (Single A). These ratings reflect 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 the scheme is explained in Note 18 of the accounts.

\* The Annexure on page 169 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, 2011 and the financial statements of these have been audited up to 30 June 2010. The Company has fully paid all its obligations on all the above schemes.

| S.No. |   | Provident Fund | Gratuity Fund |
|-------|---|----------------|---------------|
| 1     | Audited upto  | 30 June 2010   | 30 June 2010  |
| 2     | Net Assets as per last audited financial statements | 162            | 78            |
| 3     | DSCs/PIBs/RICs                                      | 65             | 23            |
| 4     | Mutual Funds  | 6              | 8             |
| 5     | TFCs  | 37             | 15            |
| 6     | Shares  | 8              | 2             |
| 7     | Bank Deposits/T-Bills                               | 35             | 16            |
| 8     | Receivables   | 14             | 16            |
| 9     | Payables  | (1)            | -             |
| 10    | Total   | 162            | 78            |

### 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, Company Secretary and their spouses including minor children during 2011 is shown on page 76 of 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 prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures there from have been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

### Board Meetings and Attendance

In 2011, the Board of Directors held 10 meetings to cover its complete cycle of activities. The attendance record of the Directors is as follows:

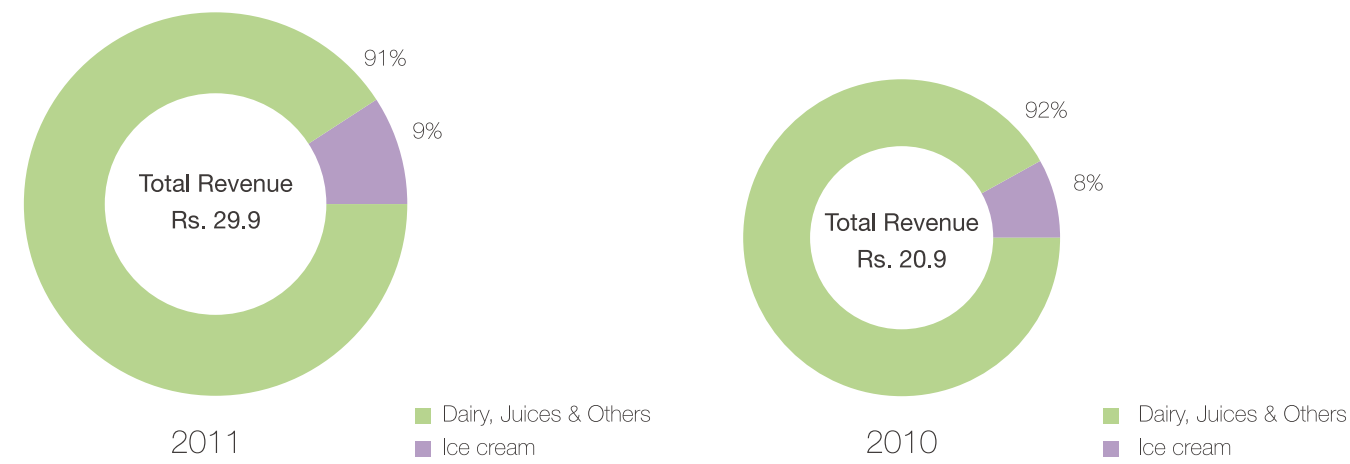
| S.No. | Director's Name          | Meetings Attended |
|-------|--------------------------|-------------------|
| 1     | Mr. Asad Umar            | 05/07             |
| 2     | Mr. Afnan Ahsan*         | 02/07             |
| 3     | Mr. Abdul Samad Khan     | 07/07             |
| 4     | Mr. Isar Ahmad           | 06/07             |
| 5     | Mr. Muhammad Amin        | 07/07             |
| 6     | Mr. Mujahid Hamid        | 06/07             |
| 7     | Mr. Ruhail Mohammed      | 06/07             |
| 8     | Mr. Sarfaraz Rehman**    | 05/07             |
| 9     | Mr. Shahzada Dawood      | 05/07             |
| 10    | Mr. Spenta C. Kandawalla | 05/07             |
| 11    | Mr. Zafar Ahmed Siddiqui | 04/07             |

\* Mr. Afnan Ahsan joined effective october 8, 2011,

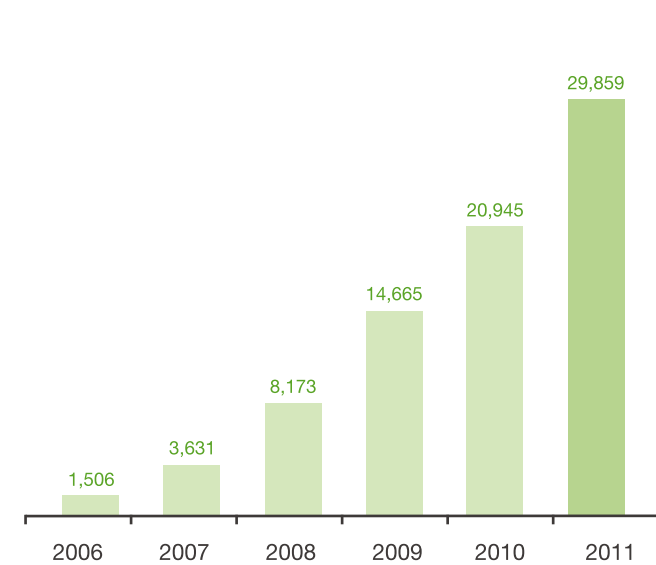
\*\* Mr. Sarfaraz Rehman resigned effective october 8, 2011.

# financial review

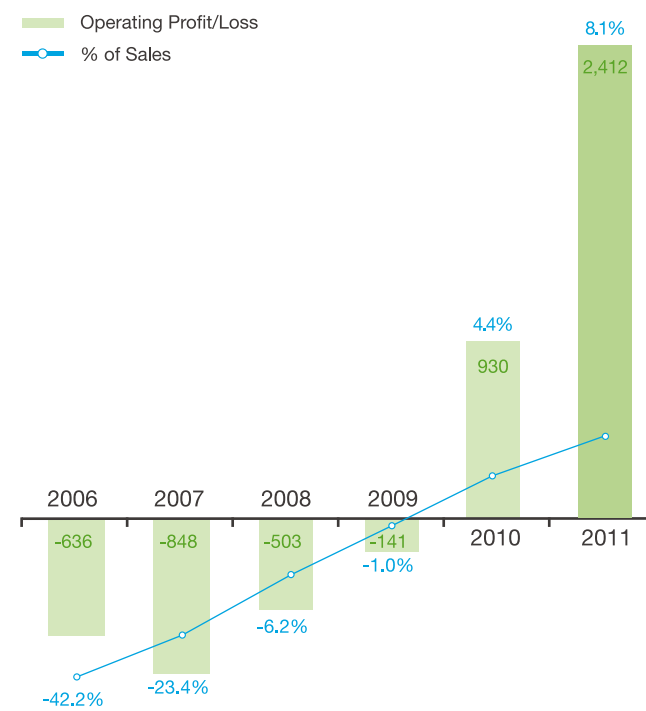
Business Revenue (Rs. in Billions)  
% Segment Share



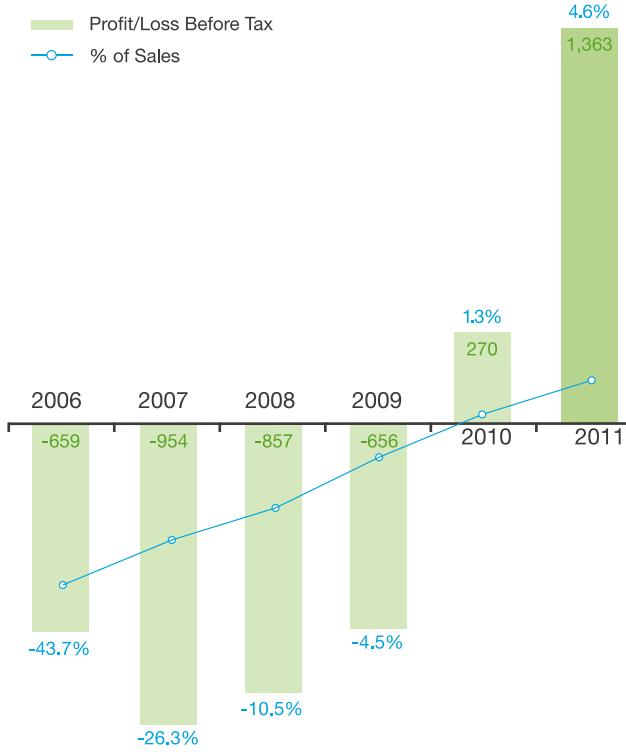
Sales (Rs. in Million)



Operating Profit/Loss  
& % of Sales



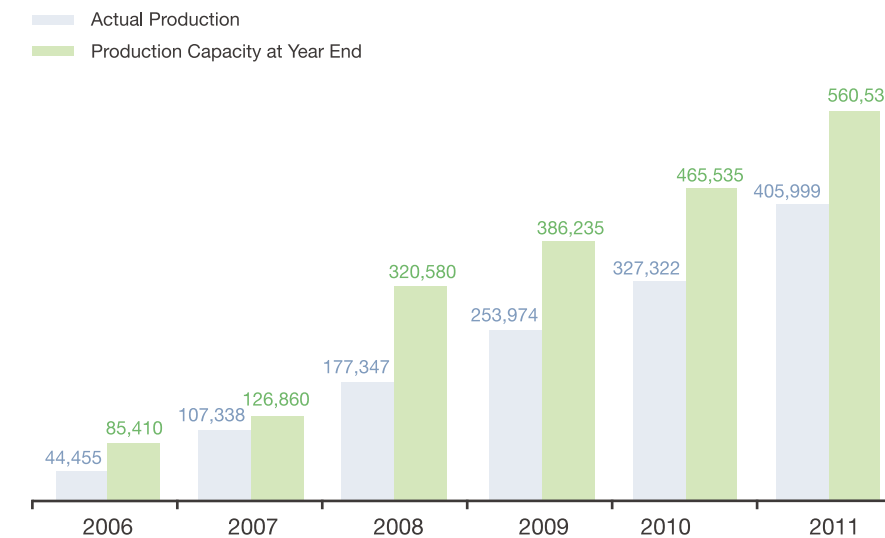
Profit / Loss Before Tax  
& % of Sales



Profit / Loss After Tax  
& % of Sales



Actual Production  
Production Capacity



## summary

### Summary

|   | 2011    | 2010    | 2009    | 2008    | 2007    | 2006  |
|---|---------|---------|---------|---------|---------|-------|
| <b>Balance Sheet</b>                    |         |         |         |         |         |       |
| Share capital                           | 7,518   | 7,000   | 5,423   | 4,300   | 2,200   | 1,000 |
| Share premium                           | 722     | -       | -       | -       | -       | -     |
| Hedging Reserve                         | (18)    | -       | -       | -       | -       | -     |
| Accumulated Losses                      | (985)   | (1,876) | (2,052) | (1,618) | (1,064) | (444) |
| Shareholders' funds / Equity            | 7,237   | 5,124   | 3,371   | 2,682   | 1,136   | 556   |
| Long term borrowings                    | 5,610   | 4,625   | 3,325   | 2,742   | 1,393   | 350   |
| Deferred liabilities                    | 2       | 3       | 3       | 3       | 2       | 2     |
| Property, plant & equipment             | 9,615   | 7,148   | 5,809   | 4,567   | 2,744   | 1,309 |
| Long term assets                        | 24      | 23      | 8       | 9       | 6       | 4     |
| <b>Profit and Loss</b>                  |         |         |         |         |         |       |
| Sales                                   | 29,859  | 20,945  | 14,665  | 8,173   | 3,631   | 1,506 |
| Gross profit                            | 6,629   | 4,393   | 2,716   | 1,050   | 261     | (32)  |
| Operating profit                        | 2,412   | 930     | (141)   | (503)   | (848)   | (635) |
| Profit before tax                       | 1,363   | 270     | (656)   | (857)   | (955)   | (658) |
| Profit after tax                        | 891     | 176     | (433)   | (554)   | (620)   | (428) |
| <b>Cash Flows</b>                       |         |         |         |         |         |       |
| Net cash flow from operating activities | 1,080   | 156     | (114)   | (1,342) | (1,000) | (574) |
| Net cash flow from investing activities | (3,335) | (2,972) | (1,921) | (2,353) | (1,601) | (705) |
| Net cash flow from financing activities | 2,474   | 2,955   | 2,155   | 3,972   | 2,264   | 1,226 |
| Changes in cash & cash equivalents      | 218     | 140     | 121     | 276     | (338)   | (54)  |
| Cash & cash equivalents – Year end      | 398     | 180     | 41      | (80)    | (356)   | (18)  |

### Others (Million)

|                          | 2011   | 2010 | 2009 | 2008 | 2007 | 2006 |
|--------------------------|--------|------|------|------|------|------|
| Market capitalisation    | 16,990 | -    | -    | -    | -    | -    |
| Numbers of shares issued | 752    | 700  | 542  | 430  | 220  | 100  |

### Quantitative Data ('000 Litres)

|                            | 2011    | 2010    | 2009    | 2008    | 2007    | 2006   |
|----------------------------|---------|---------|---------|---------|---------|--------|
| <b>Production Capacity</b> |         |         |         |         |         |        |
| Dairy & Juices             | 525,009 | 446,503 | 375,945 | 320,580 | 126,860 | 85,410 |
| Ice cream                  | 35,527  | 19,032  | 10,290  | -       | -       | -      |
| <b>Actual Production</b>   |         |         |         |         |         |        |
| Dairy & Juices             | 388,236 | 314,650 | 247,074 | 177,347 | 107,338 | 44,455 |
| Ice cream                  | 17,763  | 12,672  | 6,900   | -       | -       | -      |

## horizontal and vertical analyses profit and loss account

### Horizontal Analysis (Rs in Million)

|                                     | 2011<br>Rs. | 11 Vs. 10<br>% | 2010<br>Rs. | 10 Vs. 09<br>% |
|-------------------------------------|-------------|----------------|-------------|----------------|
| Sales                               | 29,859      | 42.6           | 20,945      | 42.8           |
| Cost of Sales                       | 23,230      | 40.3           | 16,552      | 38.5           |
| Gross profit                        | 6,629       | 51.9           | 4,393       | 61.7           |
| Distribution and marketing expenses | 3,716       | 27.6           | 2,913       | 10.3           |
| Administrative expenses             | 505         | 6.8            | 473         | 36.3           |
| Other expenses                      | 209         | 58.3           | 132         | 187.0          |
| Other income                        | 213         | 287.7          | 55          | (68.8)         |
| Operating profit/(loss)             | 2,412       | 159.4          | 930         | (760.6)        |
| Finance cost                        | 1,049       | 59.0           | 660         | 28.0           |
| Net profit before taxation          | 1,363       | 404.1          | 270         | 141.2          |
| Provision for taxation              | (472)       | 399.6          | (94)        | (142.4)        |
| Net profit after taxation           | 891         | 406.5          | 176         | (140.6)        |

### Vertical Analysis (Rs in Million)

|                                     | 2011   |       | 2010   |       |
|-------------------------------------|--------|-------|--------|-------|
|                                     | Rs.    | %     | Rs.    | %     |
| Sales                               | 29,859 | 100.0 | 20,945 | 100.0 |
| Cost of Sales                       | 23,230 | 77.8  | 16,552 | 79.0  |
| Gross profit                        | 6,629  | 22.2  | 4,393  | 21.0  |
| Distribution and marketing expenses | 3,716  | 12.4  | 2,913  | 13.9  |
| Administrative expenses             | 505    | 1.7   | 473    | 2.3   |
| Other expenses                      | 209    | 0.7   | 132    | 0.6   |
| Other operating income              | 213    | 0.7   | 55     | 0.3   |
| Operating profit/(loss)             | 2,412  | 8.1   | 930    | 4.4   |
| Finance cost                        | 1,049  | 3.5   | 660    | 3.1   |
| Net profit before taxation          | 1,363  | 4.6   | 270    | 1.3   |
| Provision for taxation              | (472)  | (1.6) | (94)   | 0.5   |
| Net profit after taxation           | 891    | 3.0   | 176    | 0.8   |

|                                     | 2009<br>Rs. | 09 Vs. 08<br>% | 2008<br>Rs. | 08 Vs. 07<br>% | 2007<br>Rs. | 07 Vs. 06<br>% | 2006<br>Rs. | 06 Vs. 05<br>% |
|-------------------------------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|
| Sales                               | 14,665      | 79.4           | 8,173       | 125.1          | 3,631       | 141.1          | 1,506       | 11,844.6       |
| Cost of Sales                       | 11,949      | 67.7           | 7,124       | 111.4          | 3,370       | 119.1          | 1,538       | 9,886.3        |
| Gross profit                        | 2,716       | 158.8          | 1,050       | 302.6          | 261         | (913.0)        | (32)        | 1,046.1        |
| Distribution and marketing expenses | 2,640       | 102.4          | 1,305       | 37.3           | 950         | 73.3           | 548         | 2,945.7        |
| Administrative expenses             | 347         | 14.9           | 302         | 134.1          | 129         | 122.4          | 58          | 1,350.0        |
| Other expenses                      | 46          | 109.1          | 22          | (31.3)         | 32          | -              | -           | -              |
| Other income                        | 176         | 130.7          | 76          | 4,231.5        | 2           | -              | 2           | -              |
| Operating profit/(loss)             | (141)       | (72.0)         | (503)       | (40.8)         | (848)       | 33.4           | (636)       | 2,464.7        |
| Finance cost                        | 515         | 45.6           | 354         | 235.7          | 105         | 360.5          | 23          | -              |
| Net profit before taxation          | (656)       | (23.4)         | (857)       | (10.2)         | (954)       | 44.8           | (659)       | 2,539.5        |
| Provision for taxation              | 223         | (26.5)         | 303         | (9.2)          | 334         | 44.9           | 230         | 2,537.5        |
| Net profit after taxation           | (433)       | (21.7)         | (554)       | (10.7)         | (620)       | 44.7           | (428)       | 2,540.6        |

|                                     | 2009   |       | 2008  |        | 2007  |        | 2006  |        |
|-------------------------------------|--------|-------|-------|--------|-------|--------|-------|--------|
|                                     | Rs.    | %     | Rs.   | %      | Rs.   | %      | Rs.   | %      |
| Sales                               | 14,665 | 100.0 | 8,173 | 100.0  | 3,631 | 100.0  | 1,506 | 100.0  |
| Cost of Sales                       | 11,949 | 81.5  | 7,124 | 87.2   | 3,370 | 92.8   | 1,538 | 102.1  |
| Gross profit                        | 2,716  | 18.5  | 1,050 | 12.8   | 261   | 7.2    | (32)  | (2.1)  |
| Distribution and marketing expenses | 2,640  | 18.0  | 1,305 | 16.0   | 950   | 26.2   | 548   | 36.4   |
| Administrative expenses             | 347    | 2.4   | 302   | 3.7    | 129   | 3.6    | 58    | 3.9    |
| Other expenses                      | 46     | 0.3   | 22    | 0.3    | 32    | 0.9    | -     | -      |
| Other operating income              | 176    | 1.2   | 76    | 0.9    | 2     | 0.1    | 2     | 0.2    |
| Operating profit/(loss)             | (141)  | (1.0) | (503) | (6.2)  | (848) | (23.4) | (636) | (42.2) |
| Finance cost                        | 515    | 3.5   | 354   | 4.3    | 105   | 2.9    | 23    | 1.5    |
| Net profit before taxation          | (656)  | (4.5) | (857) | (10.5) | (954) | (26.3) | (659) | (43.7) |
| Provision for taxation              | 223    | 1.5   | 303   | 3.7    | 334   | 9.2    | 230   | 15.3   |
| Net profit after taxation           | (433)  | (3.0) | (554) | (6.8)  | (620) | (17.1) | (428) | (28.4) |

## horizontal and vertical analyses balance sheet

### Horizontal Analysis (Rs in Million)

|  | 2011          | 11 Vs. 10   | 2010          | 10 Vs. 09   | 2009         | 09 Vs. 08   | 2008         | 08 Vs. 07   | 2007         | 07 Vs. 06    | 2006         | 06 Vs. 05    |
|--|---------------|-------------|---------------|-------------|--------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|
|  | Rs.           | %           | Rs.           | %           | Rs.          | %           | Rs.          | %           | Rs.          | %            | Rs.          | %            |
| <b>EQUITY AND LIABILITIES</b>                |               |             |               |             |              |             |              |             |              |              |              |              |
| <b>EQUITY</b>                                |               |             |               |             |              |             |              |             |              |              |              |              |
| Share capital                                | 7,518         | 7.4         | 7,000         | 29.1        | 5,423        | 26.1        | 4,300        | 95.5        | 2,200        | 120.0        | 1,000        | 566.7        |
| Share premium                                | 722           | 100.0       | -             | -           | -            | -           | -            | -           | -            | -            | -            | -            |
| Advance against issue of shares              | -             | -           | -             | -           | -            | (100.0)     | 50           | (75.0)      | 200          | (66.8)       | 602          | 0.7          |
| Hedging reserve                              | (18)          | 100.0       | -             | -           | -            | -           | -            | -           | -            | -            | -            | -            |
| Accumulated loss                             | (985)         | (47.5)      | (1,876)       | (8.6)       | (2,052)      | 26.8        | (1,618)      | 52.1        | (1,064)      | 139.6        | (444)        | 2,675.0      |
|  | 7,237         | 41.2        | 5,124         | 52.0        | 3,371        | 23.4        | 2,732        | 104.5       | 1,336        | 15.4         | 1,158        | 58.2         |
| <b>NON-CURRENT LIABILITIES</b>               |               |             |               |             |              |             |              |             |              |              |              |              |
| Long term finances                           | 5,610         | 21.3        | 4,625         | 39.1        | 3,325        | 21.3        | 2,742        | 96.8        | 1,393        | 298.0        | 350          | -            |
| Obligation under finance lease               | 1             | (80.0)      | 5             | (37.5)      | 8            | (46.7)      | 15           | 25.0        | 12           | (29.4)       | 17           | -            |
| Deferred taxation                            | 308           | 70.2        | 181           | (39.9)      | 301          | (49.8)      | 599          | 32.5        | 452          | -            | -            | -            |
| Deferred liabilities                         | 2             | (33.3)      | 3             | -           | 3            | 50.0        | 2            | -           | 2            | -            | 2            | (33.3)       |
|  | 5,921         | 23.0        | 4,814         | 32.4        | 3,637        | 8.3         | 3,358        | 80.6        | 1,859        | 403.8        | 369          | 12,200.0     |
| <b>CURRENT LIABILITIES</b>                   |               |             |               |             |              |             |              |             |              |              |              |              |
| Current portion of                           |               |             |               |             |              |             |              |             |              |              |              |              |
| -long term finances                          | 465           | 133.0       | 200           | 70.9        | 117          | 101.7       | 58           | -           | -            | -            | -            | -            |
| -Obligation under finance lease              | 4             | -           | 4             | (20.0)      | 5            | (37.5)      | 8            | 60.0        | 5            | -            | 5            | -            |
| Trade and other payables                     | 2,344         | 14.8        | 2,041         | 29.0        | 1,582        | 59.8        | 990          | 60.2        | 618          | 105.3        | 301          | 2,636.4      |
| Derivatives financial instruments            | 28            | -           | -             | -           | -            | -           | -            | -           | -            | -            | -            | -            |
| Accrued interest / mark up on                |               |             |               |             |              |             |              |             |              |              |              |              |
| -Long term finances                          | 368           | 33.8        | 275           | 50.3        | 183          | -           | -            | -           | -            | -            | -            | -            |
| -Short term finances                         | 20            | 900.0       | 2             | -           | 2            | -           | -            | -           | -            | -            | -            | -            |
| Short term finances                          | 252           | -           | -             | (100)       | 108          | (40.0)      | 180          | (64.8)      | 511          | 231.9        | 154          | -            |
|  | 3,481         | 38.0        | 2,522         | 26.3        | 1,997        | 61.6        | 1,236        | 9.0         | 1,134        | 146.5        | 460          | 4,081.8      |
| <b>TOTAL EQUITY AND LIABILITIES</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>1,987</b> | <b>166.4</b> |
| <b>ASSETS</b>                                |               |             |               |             |              |             |              |             |              |              |              |              |
| <b>NON-CURRENT ASSETS</b>                    |               |             |               |             |              |             |              |             |              |              |              |              |
| Property, plant and equipment                | 9,615         | 34.5        | 7,148         | 23.1        | 5,809        | 27.2        | 4,567        | 66.4        | 2,744        | 109.6        | 1,309        | 89.7         |
| Long term investments                        | -             | (100.0)     | 980           | 540.5       | 153          | -           | -            | -           | -            | -            | -            | -            |
| Biological assets                            | 497           | 16.0        | 428           | (2.2)       | 438          | 42.7        | 307          | 2,970.0     | 10           | -            | -            | -            |
| Intangible assets                            | 134           | (5.9)       | 142           | 408.7       | 28           | 47.4        | 19           | 375.0       | 4            | -            | 4            | -            |
| Long term advances, deposits and prepayments | 24            | 3.8         | 23            | 194.8       | 8            | (1.9)       | 8            | 60.0        | 5            | 25.0         | 4            | -            |
| Deferred taxation                            | -             | -           | -             | -           | -            | -           | -            | -           | -            | -            | 247          | -            |
|  | 10,270        | 17.7        | 8,722         | 35.5        | 6,436        | 31.3        | 4,901        | 77.4        | 2,763        | 76.6         | 1,564        | 122.5        |
| <b>CURRENT ASSETS</b>                        |               |             |               |             |              |             |              |             |              |              |              |              |
| Store, spares and loose tools                | 572           | 29.4        | 442           | 52.4        | 290          | 54.3        | 188          | 138.0       | 79           | 107.9        | 38           | -            |
| Stock-in-trade                               | 2,638         | 26.3        | 2,089         | 79.5        | 1,164        | (6.1)       | 1,239        | 196.4       | 418          | 175.0        | 152          | -            |
| Trade debts                                  | 87            | 67.3        | 52            | 108.0       | 25           | 177.8       | 9            | 12.5        | 8            | 300.0        | 2            | -            |
| Advances, deposits and prepayments           | 266           | 9.0         | 244           | (28.0)      | 339          | 175.6       | 123          | 200.0       | 41           | -            | 41           | 412.5        |
| Other receivables                            | 1,160         | 60.9        | 721           | 26.0        | 572          | (19.1)      | 711          | (17.8)      | 865          | 1,501.9      | 54           | -            |
| Taxes recoverable                            | 1             | (88.9)      | 9             | (71.0)      | 31           | (44.6)      | 56           | -           | -            | -            | -            | -            |
| Derivative financial instruments             | -             | (100.0)     | 1             | 100.0       | -            | -           | -            | -           | -            | -            | -            | -            |
| Short term investments                       | 1,294         | -           | -             | -           | -            | -           | -            | -           | -            | -            | -            | -            |
| Cash and bank balances                       | 351           | 95.0        | 180           | 21.6        | 148          | 49.5        | 99           | (36.1)      | 155          | 14.0         | 136          | 288.6        |
|  | 6,369         | 70.4        | 3,738         | 45.5        | 2,569        | 5.9         | 2,425        | 54.9        | 1,566        | 270.2        | 423          | 883.7        |
| <b>TOTAL ASSETS</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>1,987</b> | <b>166.4</b> |

### Vertical Analysis (Rs in Million)

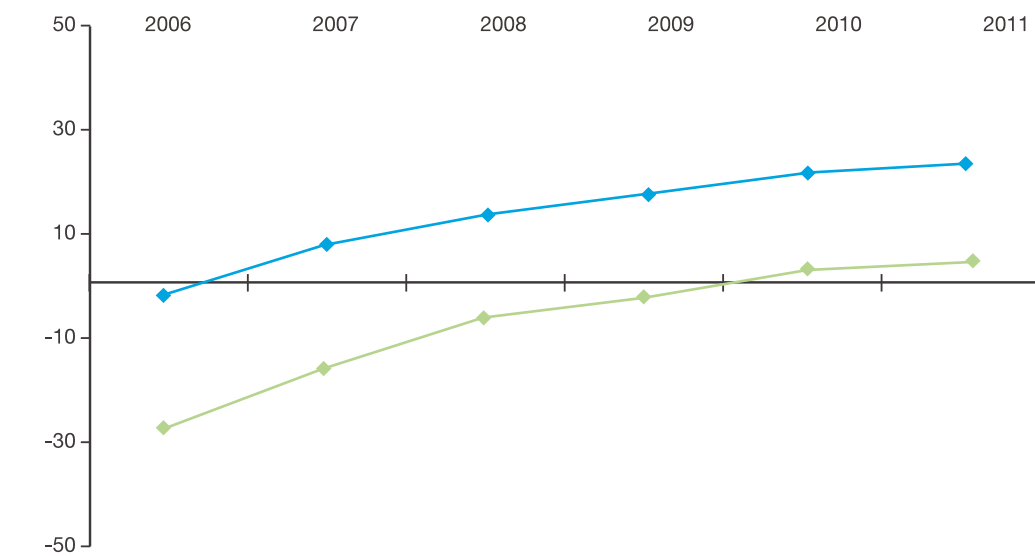
|  | 2011          |              | 2010          |              | 2009         |              | 2008         |              | 2007         |              | 2006         |              |
|--|---------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Rs.           | %            | Rs.           | %            | Rs.          | %            | Rs.          | %            | Rs.          | %            | Rs.          | %            |
| <b>EQUITY AND LIABILITIES</b>                |               |              |               |              |              |              |              |              |              |              |              |              |
| <b>EQUITY</b>                                |               |              |               |              |              |              |              |              |              |              |              |              |
| Share capital                                | 7,518         | 45.2         | 7,000         | 56.2         | 5,423        | 60.2         | 4,300        | 58.7         | 2,200        | 50.8         | 1,000        | 50.3         |
| Share premium                                | 722           | 4.3          | -             | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Advance against issue of shares              | -             | -            | -             | -            | -            | -            | 50           | 0.7          | 200          | 4.6          | 602          | 30.3         |
| Hedging reserve                              | (18)          | (0.1)        | -             | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Accumulated loss                             | (985)         | (5.9)        | (1,876)       | (15.1)       | (2,052)      | (22.8)       | (1,618)      | (22.1)       | (1,064)      | (24.6)       | (444)        | (22.3)       |
|  | 7,237         | 43.5         | 5,124         | 41.1         | 3,371        | 37.4         | 2,732        | 37.3         | 1,336        | 30.9         | 1,158        | 58.3         |
| <b>NON-CURRENT LIABILITIES</b>               |               |              |               |              |              |              |              |              |              |              |              |              |
| Long term finances                           | 5,610         | 33.7         | 4,625         | 37.1         | 3,325        | 36.9         | 2,742        | 37.4         | 1,393        | 32.2         | 350          | 17.6         |
| Obligation under finance lease               | 1             | -            | 5             | -            | 8            | 0.1          | 15           | 0.2          | 12           | 0.3          | 17           | 0.9          |
| Deferred taxation                            | 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          | 2            | 0.1          |
|  | 5,921         | 35.6         | 4,814         | 38.6         | 3,637        | 40.4         | 3,358        | 45.8         | 1,859        | 42.9         | 369          | 18.6         |
| <b>CURRENT LIABILITIES</b>                   |               |              |               |              |              |              |              |              |              |              |              |              |
| Current portion of                           |               |              |               |              |              |              |              |              |              |              |              |              |
| -long term finances                          | 465           | 2.8          | 200           | 1.6          | 117          | 1.3          | 58           | 0.8          | -            | -            | -            | -            |
| -Obligation under finance lease              | 4             | -            | 4             | 0.0          | 5            | 0.1          | 8            | 0.1          | 5            | 0.1          | 5            | 0.3          |
| Trade and other payables                     | 2,344         | 14.1         | 2,041         | 16.4         | 1,582        | 17.6         | 990          | 13.5         | 618          | 14.3         | 301          | 15.2         |
| Derivative financial instruments             | 28            | 0.2          | -             | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Accrued interest / mark up on                |               |              |               |              |              |              |              |              |              |              |              |              |
| -Long term finances                          | 368           | 2.2          | 275           | 2.2          | 183          | 2.0          | -            | -            | -            | -            | -            | -            |
| -Short term finances                         | 20            | 0.1          | 2             | -            | 2            | 0.0          | -            | -            | -            | -            | -            | -            |
| Short term finances                          | 252           | 1.5          | -             | -            | 108          | 1.2          | 180          | 2.5          | 511          | 11.8         | 154          | 7.8          |
|  | 3,481         | 20.9         | 2,522         | 20.2         | 1,997        | 22.2         | 1,236        | 16.9         | 1,134        | 26.2         | 460          | 23.2         |
| <b>TOTAL EQUITY AND LIABILITIES</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>1,987</b> | <b>100.0</b> |
| <b>ASSETS</b>                                |               |              |               |              |              |              |              |              |              |              |              |              |
| <b>NON-CURRENT ASSETS</b>                    |               |              |               |              |              |              |              |              |              |              |              |              |
| Property, plant and equipment                | 9,615         | 57.8         | 7,148         | 57.4         | 5,809        | 64.5         | 4,567        | 62.3         | 2,744        | 63.4         | 1,309        | 65.9         |
| Long term investments                        | -             | -            | 980           | 7.9          | 153          | 1.7          | -            | -            | -            | -            | -            | -            |
| Biological assets                            | 497           | 3.0          | 428           | 3.4          | 438          | 4.9          | 307          | 4.2          | 10           | 0.2          | -            | -            |
| Intangible assets                            | 134           | 0.8          | 142           | 1.1          | 28           | 0.3          | 19           | 0.3          | 4            | 0.1          | 4            | 0.2          |
| Long term advances, deposits and prepayments | 24            | 0.1          | 23            | 0.2          | 8            | 0.1          | 8            | 0.1          | 5            | 0.1          | 4            | 0.2          |
| Deferred taxation                            | -             | -            | -             | -            | -            | -            | -            | -            | -            | -            | 247          | 12.4         |
|  | 10,270        | 61.7         | 8,722         | 70.0         | 6,436        | 71           | 4,901        | 66.9         | 2,763        | 64           | 1,564        | 78.7         |
| <b>CURRENT ASSETS</b>                        |               |              |               |              |              |              |              |              |              |              |              |              |
| Store, spares and loose tools                | 572           | 3.4          | 442           | 3.6          | 290          | 3.2          | 188          | 2.6          | 79           | 1.8          | 38           | 1.9          |
| Stock-in-trade                               | 2,638         | 15.9         | 2,089         | 16.8         | 1,164        | 12.9         | 1,239        | 16.9         | 418          | 9.7          | 152          | 7.6          |
| Trade debts                                  | 87            | 0.5          | 52            | 0.4          | 25           | 0.3          | 9            | 0.1          | 8            | 0.2          | 2            | 0.1          |
| Advances, deposits and prepayments           | 266           | 1.6          | 244           | 2.0          | 339          | 3.8          | 123          | 1.7          | 41           | 1.0          | 41           | 2.1          |
| Other receivables                            | 1,160         | 7.0          | 721           | 5.8          | 572          | 6.4          | 711          | 9.7          | 865          | 20.0         | 54           | 2.7          |
| Taxes recoverable                            | 1             | -            | 9             | 0.1          | 31           | 0.3          | 56           | 0.8          | -            | -            | -            | -            |
| Derivative financial instruments             | -             | -            | 1             | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Short term investments                       | 1,294         | 7.8          | -             | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Cash and bank balances                       | 351           | 2.1          | 180           | 1.5          | 148          | 1.6          | 99           | 1.4          | 155          | 3.6          | 136          | 6.8          |
|  | 6,369         | 38.3         | 3,738         | 30.0         | 2,569        | 28.5         | 2,425        | 33.1         | 1,566        | 36.2         | 423          | 21.3         |
| <b>TOTAL ASSETS</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>1,987</b> | <b>100.0</b> |

# financial performance indicators 2006 to 2011

| Ratio   | 2011  | 2010  | 2009   | 2008   | 2007   | 2006   |
|---|-------|-------|--------|--------|--------|--------|
| <b>Profitability Ratios</b>   |       |       |        |        |        |        |
| Gross Profit ratio  | 22.2% | 21.0% | 17.1%  | 12.8%  | 7.2%   | -2.1%  |
| Net Profit to Sales   | 3.0%  | 0.8%  | -3.0%  | -6.8%  | -17.1% | -28.4% |
| EBITDA Margin to Sales  | 11.3% | 7.9%  | 2.5%   | -2.6%  | -19.1% | -36.5% |
| Operating leverage ratio  | 16.6% | 17.0% | 5.6%   | 7.6%   | -10.0% | -40.9% |
| Return on Equity  | 12.3% | 3.4%  | -12.9% | -20.7% | -54.6% | -77.0% |
| Return on Capital employed  | 7.9%  | 2.1%  | -7.1%  | -13.9% | -35.8% | -79.8% |
| <b>Liquidity Ratios</b>   |       |       |        |        |        |        |
| Current ratio   | 1.8   | 1.5   | 1.3    | 2.0    | 1.4    | 0.9    |
| Quick / Acid test ratio   | 0.9   | 0.5   | 0.6    | 0.8    | 0.9    | 0.5    |
| Cash to Current Liabilities   | 0.1   | 0.1   | 0.1    | 0.1    | 0.1    | 0.3    |
| Cash flow from Operations to Sales  | -     | -     | -      | (0.2)  | (0.3)  | (0.4)  |
| <b>Activity / Turnover Ratios</b>   |       |       |        |        |        |        |
| No. of Days Inventory   | 37.1  | 5.9   | 36.1   | 42.5   | 30.8   | 18.0   |
| No. of Days Receivables   | 1.8   | 0.7   | 0.4    | 0.4    | 0.5    | 0.2    |
| No. of Days Payables  | 39.2  | 44.1  | 47.0   | 44.9   | 59.2   | 44.2   |
| Operating cycle   | (1.2) | (7.5) | (10.6) | (2.0)  | (27.8) | (26.0) |
| Inventory turnover  | 9.8   | 10.2  | 10.1   | 8.6    | 11.8   | 20.3   |
| Debtors turnover  | 429.6 | 547.1 | 881.9  | 982.3  | 753.2  | 1,913  |
| Creditors turnover  | 9.3   | 8.3   | 7.8    | 8.1    | 6.2    | 8.3    |
| Total Assets turnover ratio<br>/ Fixed Assets turnover ratio                              | 1.8   | 1.7   | 1.6    | 1.1    | 0.8    | 0.8    |
| <b>Investment / Market Ratios</b>   |       |       |        |        |        |        |
| Earnings per Share (EPS) and diluted EPS  | 1.2   | 0.3   | (1.0)  | (2.3)  | (3.4)  | (5.9)  |
| Price earning Ratio   | 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   | 22.6  | -     | -      | -      | -      | -      |
| Highest market value during the year  | 26.0  | -     | -      | -      | -      | -      |
| Lowest market value during the year   | 21.8  | -     | -      | -      | -      | -      |
| Breakup value per share without Surplus<br>on Revaluation of Fixed Assets                 | 9.6   | 7.3   | 6.2    | 6.2    | 5.2    | 5.6    |
| Breakup value per share including the effect<br>of Surplus on Revaluation of Fixed Assets | 9.6   | 7.3   | 6.2    | 6.2    | 5.2    | 5.6    |
| <b>Capital Structure Ratios</b>   |       |       |        |        |        |        |
| Long-term Debt to Equity ratio  | 43.7% | 47.5% | 49.7%  | 50.7%  | 55.3%  | 39.8%  |

## Profitability Ratios

— Gross Profit Ratio  
— Net Profit to Sales



# social investments compassion for everyone



## collaborating for social change

We endeavor to impact lives and inspire change by helping people access better opportunities and a world of choices.

At Engro Foods besides ensuring the highest ethical standards in our business operations, we strive to create real value for our stake-holders by investing in sustainable initiatives that can impact lives and inspire change by achieving social and economic growth.

Our business strategies are therefore fully aligned with our vision to serve all our stake-holders beyond their expectations by taking complete responsibility for the far-reaching impact of our business decisions – as well as total ownership for the welfare and growth of the communities that we engage with.

Our efforts to inspire change in low-income communities include collaborating with Engro Foundation, the single CSR platform for Engro affiliates, on numerous social initiatives aimed at helping people access better opportunities for life. Keeping aside our focused projects, we continue to rise to the occasion in times of need. The flash floods that impacted roughly 20 million people across Pakistan saw Engro Foods at the forefront in relief and rehabilitation efforts. Apart from raising Rs. 7.5 million to provide immediate relief to the affectees, our various divisions continued to provide assistance in the form of product and cash donations.

To achieve our vision of inspiring social change and sustainable economic growth, we also build successful alliances with our stake-holders and forge strategic networks with development agencies to ensure that people living in marginalized communities are given easy access to improved basic amenities and opportunities to secure a better livelihood.

### Redefining Livestock Management

In a country where there is increasing reliance on cattle farming which remains a vital source of income for rural households, the recent floods in Pakistan posed a serious threat to the livelihoods

of thousands of villagers, who were rendered helpless in their efforts to save their livestock.

Responding promptly to the needs of our rural population, Engro Foods, collaborated with Engro Foundation and the United States Agency for International Development (USAID) to establish and launch the “Khushaal Livestock Project” aimed at restoring the productivity of farm animals to pre-flood levels in the disaster ridden areas of Larkana and Dadu.

As a result of our timely intervention, more than 18,000 households benefited from our investment of Rs 77.4 million towards the Khushaal Livestock Project, through which we provided much needed medication and health and nutritional supplements including mineral mixtures, multi-cut grass seeds (jowar), oat seeds, fertilizers and vaccinations to revive the productivity of the affected livestock.

Through our efforts aimed at providing emergency relief to the affected livestock, we were able to restore the productivity of over 100,000 animals and save the livelihoods of thousands of villagers, who rely heavily on their livestock in their day-to-day struggle for survival.

### Building A Better & Brighter Future For Children

Keeping with our objective of enhancing the communities we operate in, Engro Foods collaborates with CARE Foundation to provide safer, better and richer schooling experience to the community of Sahiwal. 4 schools have been adopted in the vicinity of Sahiwal that impart education to approximately 800 students whereas in Sukkur renovation work on a government school is in full swing.

We are also constantly engaged in capacity expansion and development of teachers through training programs targeted to

OVER

18,000

households touched under  
Khushaal Livestock Project

OVER

12,000

livestock interventions under  
Khushaal Livestock Project

deploy a holistic schooling experience for students. In 2011, training programs were successfully conducted for over 25 teachers in collaboration with CARE Foundation for the schools that continue to impart quality education as per the national curriculum. In order to provide students with a thriving academic and extra-curricular atmosphere, various programs are organized from time to time. In 2011, summer camps were organized in all 4 schools of Sahiwal which benefited approximately 800 students.

### Better Livelihood Opportunities For Women

As a nation with a burgeoning female populace, we are cognizant of our responsibility of developing and empowering the rural female workforce. This philosophy is deeply woven in our Women Empowerment through Livestock Development (WELD) Project.

Initiated in collaboration with the United States Agency for International Development (USAID), this project seeks to empower and enhance the socio-economic opportunities available to rural women.

By creating and developing a cadre of over 300 Female Livestock Extension Workers (FLEW) and over 300 Female Village Milk Collectors throughout Pakistan, WELD is reshaping the lives of rural women whilst helping over 15,000 livestock farmers improve their livestock output.

Under this initiative, Engro Foods is constantly involved with developing capacity and enhancing collection infrastructure and imparting education to female workers on ways to maintain health and nutrition of livestock.

### Better Livelihood Opportunities For Farmers

At Engro Foods, we are deeply committed to helping dairy farmers improve the quality and quantity of their dairy products. In our on-going quest to help dairy farmers earn a better livelihood, we educate them on best farming practices in an effort to improve their yields and ensure quality preservation of freshly drawn milk.



We are constantly engaged in creating a domestic supply chain that eliminates some of the gross in-efficiencies within the agricultural sector by cutting out several layers of middle-men and ensuring better prices for suppliers.

We have also established over 900 milk collection centers stretching from Mirpurkhas to Sahiwal where we provide better livelihood opportunities to over 30,000 dairy farmers across Pakistan. Our flagship Dairy Hub Program provides livestock services to the farmers educating them on better livestock management and milk production practices that continue to redefine living standards for millions of farmers across Pakistan.

# our family the contents of our company



## our commitment to our family

Our biggest achievement lies in the 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.

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 us as the preferred employer of choice for college graduates as well as qualified 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. 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 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.

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. We also conduct surveys on a frequent basis to ensure that our increments are market competitive and fair.

Recently, we also implemented a new retirement policy with shorter vesting conditions to improve employee attainability of their benefits and ensure greater security for the organization.

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

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.

Towards this end, we have implemented an active SpeakOut Policy that encourages employees to voice their concerns when they see violations of our code of corporate governance or ethics.

Our recruitment policies are specially designed to provide greater opportunities to people hailing from diverse ethnic backgrounds. As a policy, we also allow permanent employees who have been at the company for a substantial period of time to take sabbaticals, giving them an opportunity to explore different career options while retaining their association with Engro.

At Engro Foods, as part of our commitment to women, we also make a conscious effort to increase the number of females working within the organization. To facilitate female employees who have to juggle work responsibilities with their family commitments, we have set up a day-care center for children, introduced flexible working hours and implemented a spouse employment policy to provide them with a higher level of care and convenience.

At Engro Foods, we also remain committed to maintaining the highest health, safety and environmental standards at our manufacturing units, and strive to minimize the potential risks to our employees by putting our people's needs and well-being first and foremost.

Our conscious efforts to adopt policies that set us apart as a responsible, caring and progressive employer recently culminated in Engro Foods receiving accolades that not many local companies have been able to achieve.

In 2010, after conducting a comprehensive survey assessment of our employees' motivation level, job satisfaction and working experience at Engro Foods, the Pakistan Society of Human Resource Management in collaboration with Engage Human Resources, nominated us for 'The Best Place To Work' Award in 2010, an achievement that speaks volumes for our commitment to the Engro Foods family.

However, our biggest achievement by far lies in the 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.

We are passionate about creating a progressive and fair environment at Engro Foods and have implemented targeted policies to achieve this goal.

Employee Attrition Rate

15% in 2011

Employee Strength

1,243 in 2011

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.



# health, safety & environment precautionary measures



## we put our people and the planet before our need to make profits

Corporate social responsibility remains deeply embedded within the very core of our business. We therefore recognize the need to protect our people and preserve the planet, by going the extra mile to prevent unnecessary wastage of our natural resources and minimize security risks at the work place.

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 our strategic undertakings – except that our consideration for our people and the planet goes well beyond our need to fixate on profits.

Therefore, as we go about our business, we aim to incorporate the highest global standards of health, safety and environmental (HSE) responsibility by implementing safe working practices and eco friendly, resource efficient policies that ensure the well-being of our employees whilst preserving the environment.

### 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.

Within this system, we have set in place a work-place safety program that actively seeks to reduce the potential risk of injuries while evaluating the work environment for possible security lapses through safety gap analysis studies. We also invest heavily in monitoring and investigation surveys and conduct a root cause analysis of malfunctioning equipment to minimize the possibility of security hazards.

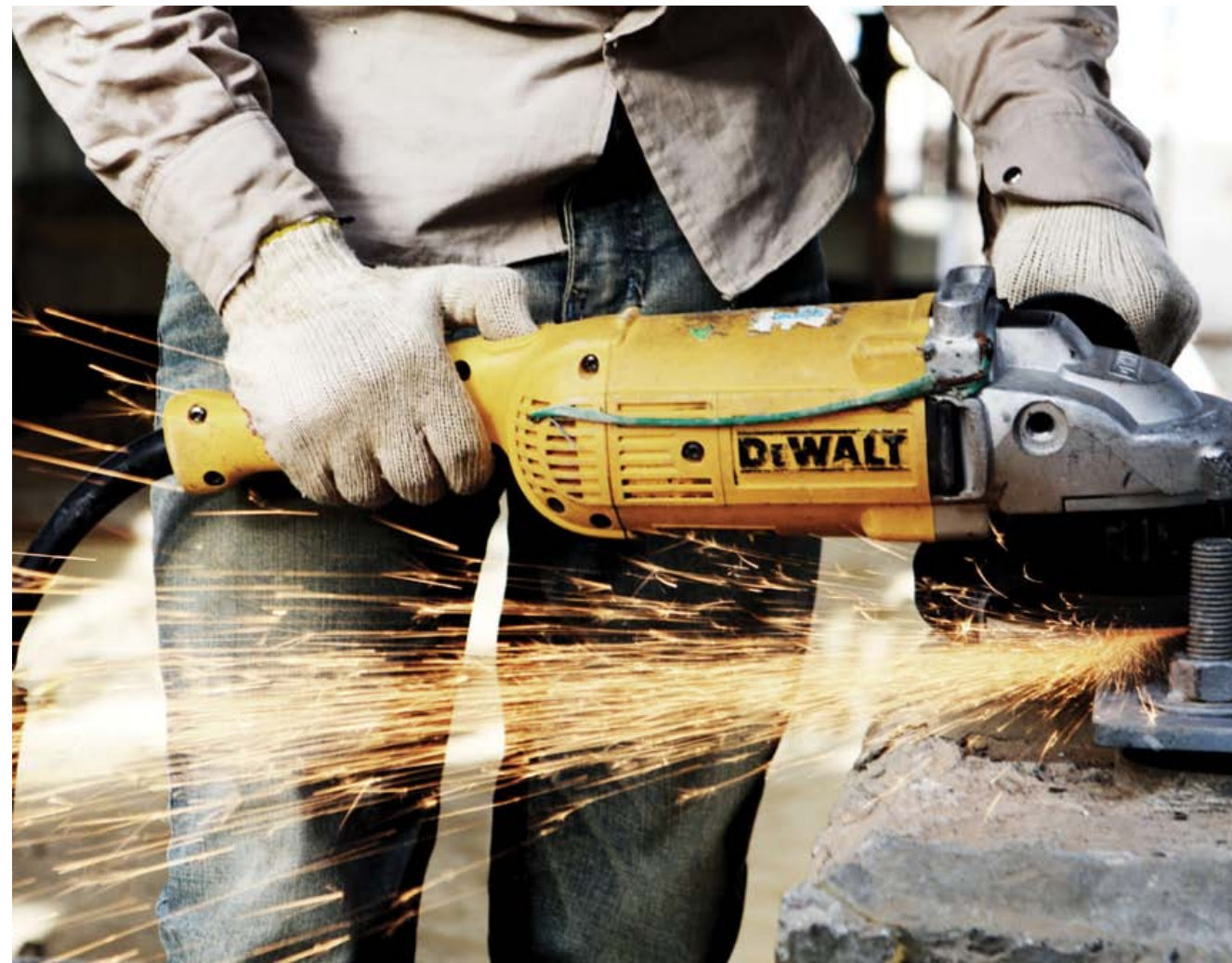
To foster a culture of safety, we have also introduced behavior based safety techniques within the organization and strongly encourage incident reporting to enable us to identify safety hazards to ensure that the possibility of further risk is duly minimized. Leading indicators and management safety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

At Engro Foods, the total recordable injury rate (TRIR) among employee has declined significantly in the last five years.

As compared to 0.97 in the year 2007, the Total Recordable Injury Rate (TRIR) of our employees and contractors in 2011 was calculated at 0.33 signifying a 65% reduction in injury rate for the year with ten working days lost in work injuries.

Since work injuries are a serious concern for us, we are focusing on developing an effective injury prevention program to fully achieve our goal of ensuring total safety, health and hygiene within the work environment for all our employees.

We have set in place a work-place safety program that actively seeks to reduce the potential risk of injuries while evaluating the work environment for possible security lapses by conducting safety gap analysis studies.



### Ensuring Responsible Environmental Practices

At Engro Foods, corporate social responsibility remains deeply embedded within the very core of our business because we recognize the need to protect and preserve our planet and 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 planted over 5,000 trees at our plants in Sahiwal and Sukkur. As part of our energy saving initiative, we have also installed nearly 235 solar water heaters at our milk collection centers.

As part of our vision to reduce green-house gas (GHG) emissions, we are actively promoting the use of Non CFC (chlorofluorocarbon) products at all our manufacturing units. Since the last three years, we have equipped 300 milk chillers with environment friendly refrigerant gas and are targeting a 15% 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.

# awards & recognition recognized recipe



as we set the pace for our growth,  
our accolades define our success

## Our Awards

### **PAS (Pakistan Advertisers Society) Award 2011**

PAS (Pakistan Advertisers Society) Award 2011 won by Tarang in the 'Breakfast Foods and Dairy' category.

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### **Outdoor Advertising Convention - OAC 2011.**

Engro Foods wins the Best International Outdoor campaign award at Outdoor Advertising Convention – OAC 2011.

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### **Pakistan's InfoComm Technology (ICT) Award 2011**

Eman won Pakistan's InfoComm Technology (ICT) Award (Karachi, Oct 2011)

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### **Asia Pacific InfoComm Technology Award 2011**

Eman won Merit Award in the regional Asia Pacific InfoComm Technology Award (APICTA) (Thailand, Nov 2011)

# future outlook nourishing tomorrow



## future outlook

With little respite in the ongoing energy crisis, continued economic volatility, aftermath of the floods and increasing fiscal weakness, significant economic growth will be a key challenge for the country. Coupled with stunting inflationary pressures on input and commodity costs, consumer off-take for food categories especially in the domain of discretionary categories will be impacted in the future.

However, despite these 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.

A handwritten signature in black ink, appearing to read 'Afnan Ahsan'.

Afnan Ahsan  
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Ruhail Mohammed'.

Ruhail Mohammed  
Director

# shares & shareholding slice for all



## key shareholding & shares traded

Information of shareholding required under reporting framework is as follows:

|  |             |
|--|-------------|
| 1. Associated Companies, undertakings & related parties<br>Engro Corporation Limited   | 672,999,991 |
| 2. NIT and ICP National Investment Trust<br>Investment Corporation of Pakistan   | -           |
| 3. Directors, CEO & their spouses & minor children   |             |
| Mr. Asad Umar  | 1           |
| Mr. Shahzada Dawood  | 1           |
| Mr. Ruhail Mohammad  | 50,001      |
| Mr. Muhammad Amin  | 1           |
| Ms. Spenta D. Kandawala  | 125,001     |
| Mr. Abdul Samad Khan   | 1           |
| Mr. Zafar Ahmed Siddiqui   | 1           |
| Mr. Isar Ahmad   | 1           |
| Mr. Mujahid Hamid  | 1           |
| 4. Executives<br>(Approximately)   | 270,000     |
| 5. Public Sector Companies &<br>Corporations   | -           |
| 6. Banks, Development Financial<br>Institutions, Non-Banking Financial<br>Institutions, Insurance Companies,<br>Modarabas and Mutual Funds       | 39,144,247  |
| 7. Shareholder holding ten percent or more<br>voting interest in the Company   |             |
| Engro Corporation Limited  | 672,999,991 |
| 8. Details of purchase/sale of shares by Directors/<br>Company Secretary/Chief Financial Officer and<br>their spouses/minor children during 2011 |             |

| Name                    | Dated      | Purchase  | Sale | Rate Rs./Share |
|-------------------------|------------|-----------|------|----------------|
| Mr. Ruhail Mohammad     | 14.11.2011 | 50,000*   | -    | 25.61          |
| Ms. Spenta D. Kandawala | 28.07.2011 | 125,000** | -    | 25.01          |
| Mr. Imran Anwer         | 28.07.2011 | 500**     | -    | 25.01          |

\* Shares purchased from Karachi Stock Exchange

\*\* Shares purchased from Initial Public Offering (IPO)

## pattern of holding of shares

Pattern of holding of the shares held by the shareholders as at December 31, 2011

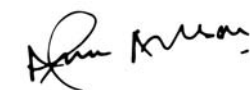
| Size of Holding Rs.10 Shares |         | No. of       | No. of    | Size of Holding Rs.10 Shares |             | No. of       | No. of             |
|------------------------------|---------|--------------|-----------|------------------------------|-------------|--------------|--------------------|
| From                         | To      | Shareholders | Shares    | From                         | To          | Shareholders | Shares             |
| 1                            | 100     | 165          | 5,264     | 120,001                      | 125,000     | 2            | 250,000            |
| 101                          | 500     | 5,407        | 2,678,283 | 145,001                      | 150,000     | 2            | 297,000            |
| 501                          | 1,000   | 1,402        | 1,384,288 | 155,001                      | 160,000     | 1            | 160,000            |
| 1,001                        | 5,000   | 947          | 2,589,336 | 170,001                      | 175,000     | 1            | 175,000            |
| 5,001                        | 10,000  | 138          | 1,185,528 | 195,001                      | 200,000     | 1            | 196,832            |
| 10,001                       | 15,000  | 34           | 428,192   | 205,001                      | 210,000     | 1            | 207,456            |
| 15,001                       | 20,000  | 43           | 842,755   | 210,001                      | 215,000     | 1            | 214,500            |
| 20,001                       | 25,000  | 15           | 369,112   | 215,001                      | 220,000     | 1            | 217,500            |
| 25,001                       | 30,000  | 4            | 115,656   | 220,001                      | 225,000     | 1            | 224,668            |
| 30,001                       | 35,000  | 1            | 32,500    | 230,001                      | 235,000     | 1            | 234,060            |
| 35,001                       | 40,000  | 12           | 475,894   | 395,001                      | 400,000     | 2            | 800,000            |
| 40,001                       | 45,000  | 1            | 42,500    | 995,001                      | 1,000,000   | 1            | 1,000,000          |
| 45,001                       | 50,000  | 7            | 344,000   | 1,090,001                    | 1,095,000   | 1            | 1,093,000          |
| 50,001                       | 55,000  | 2            | 103,890   | 1,505,001                    | 1,510,000   | 1            | 1,509,400          |
| 55,001                       | 60,000  | 1            | 60,000    | 1,995,001                    | 2,000,000   | 1            | 2,000,000          |
| 60,001                       | 65,000  | 1            | 63,000    | 2,950,001                    | 2,955,000   | 1            | 2,950,600          |
| 70,001                       | 75,000  | 2            | 147,000   | 4,850,001                    | 4,855,000   | 1            | 4,853,050          |
| 75,001                       | 80,000  | 3            | 234,665   | 4,995,001                    | 5,000,000   | 1            | 4,999,999          |
| 80,001                       | 85,000  | 1            | 81,000    | 6,880,001                    | 6,885,000   | 1            | 6,881,482          |
| 85,001                       | 90,000  | 1            | 90,000    | 8,495,001                    | 8,500,000   | 1            | 8,500,000          |
| 95,001                       | 100,000 | 6            | 600,000   | 13,670,001                   | 13,675,000  | 1            | 13,672,000         |
| 100,001                      | 105,000 | 3            | 305,958   | 20,825,001                   | 20,830,000  | 1            | 20,828,000         |
| 105,001                      | 110,000 | 1            | 105,495   | 667,995,001                  | 668,000,000 | 1            | 667,999,992        |
| 115,001                      | 120,000 | 2            | 240,000   | <b>Total</b>                 |             | <b>8,225</b> | <b>751,788,855</b> |

## category of shareholding

as at december 31, 2011

| S.NO. | Categories of Shareholders | Number of shareholders | Shares Held        | Percentage |
|-------|----------------------------|------------------------|--------------------|------------|
| 1     | INDMDUALS                  | 8,168                  | 13,901,753         | 1.85       |
| 2     | INVESTMENT COMPANIES       | 1                      | 147,000            | 0.02       |
| 3     | INSURANCE COMPANIES        | 1                      | 101,306            | 0.02       |
| 4     | JOINT STOCK COMPANIES      | 25                     | 673,241,855        | 89.55      |
| 5     | FINANCIAL INSTITUTIONS     | 11                     | 59,040,027         | 7.86       |
| 6     | MUTUAL FUNDS               | 14                     | 5,281,914          | 0.7        |
| 7     | MODARABA COMPANIES         | -                      | -                  | -          |
| 8     | COOPERATIVE SOCIETIES      | 1                      | 8,000              | -          |
| 9     | OTHERS                     | 4                      | 67,000             | -          |
|       | <b>TOTAL</b>               | <b>8,225</b>           | <b>751,788,855</b> | <b>100</b> |

On behalf of the Board of Directors



**Afnan Ahsan**  
Chief Executive Officer



**Ruhail Mohammed**  
Director

## shareholder information

### Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on March 19, 2012 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of March 06, 2012 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 Computerised 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, 2011 there were 8225 holders on record of the Company's ordinary shares.

### E-Foods vs KSE 100 (2011/12 - after listing)



### Quarterly Results

The Company issues quarterly financial statements. The planned dates for release of the quarterly results in 2012 are:

1st quarter : April 19  
 Half Yearly: August 8  
 3rd quarter: October 18

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 20  
 Half Yearly: August 9  
 3rd quarter: October 19

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

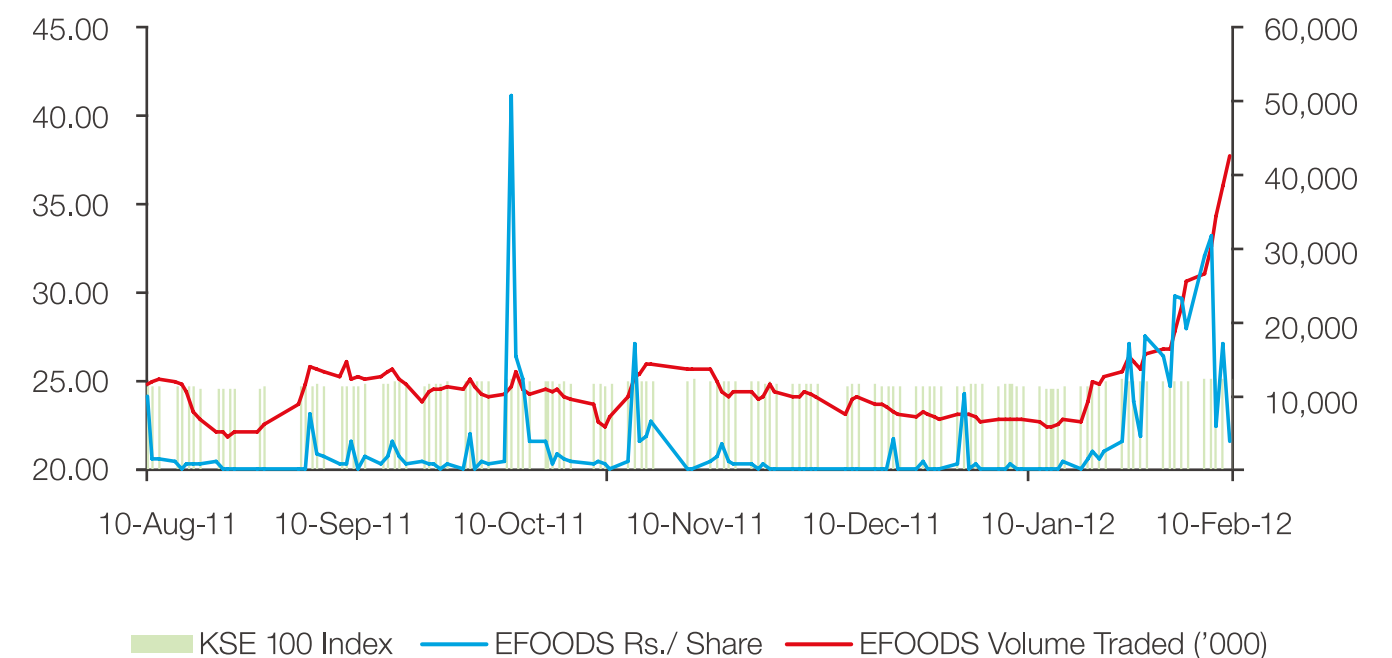
The Company reserves the right to change any of the above dates.

### 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 (2011)



# our brands the menu



as we enter new categories,  
our business continues to grow

## Our categories

### Dairy

Volume Growth

22%

- Market leader in UHT dairy segment.
- Our brands include Olper's, Olper's Lite, Olper's Cream, Omung, Owsun and Tarang.
- Ranked 18th largest customer of Tetra Pak world-wide with an annual consumption of one billion packs per annum.



### Ice-cream & Frozen Desserts

Volume Growth

43%

- Second largest brand in the ice-cream and frozen desserts segment in less than 3 years.
- Omorè is available in a wide spectrum of choices with over 40 SKUs.



### Juices & Nectars

Volume Growth

236%

- Launch of 2 new flavors of Green Cocktail and Apricot.



### Halal Foods

Sales USD\*

5.283

Million

- First Pakistani company to acquire halal meat brand Al-Safa, in North American and Canadian markets.
- Al-Safa caters to diverse consumer tastes with 34 product offerings in 54 SKUs of our product offerings.



\* During the first 8 months of operations (since the acquisition) till december 31, 2011.



## 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 what makes our brands a winning success in every category of every market that we explore.

### Exciting Brands That Win Every Time

At Engro Foods, we have an exciting brand portfolio that continues to expand and grow. Since our foray into the local foods business in 2005, we have launched 11 brands in 5 years, and are poised to continue our journey towards bigger opportunities and increased growth with food products delivering the highest standards of quality.

Our portfolio today comprises some of the country's biggest and fastest growing brands that are widely preferred by consumers for consistently delivering a compelling value proposition and a memorable brand experience.

As we strengthen our position as Pakistan's fast growing private sector company in the local foods business, we have taken yet another significant step forward by entering the \$632 billion global halal foods industry with the acquisition of Al-Safa – Pakistan's first halal meat brand in the North American and Canadian markets (acquired by our parent Engro Corp).

With continued focus on introducing new and exciting choices for our customers in Pakistan and overseas, we are confident that our brands will gain preference in every category that we seek to enter.



#### Olper's UHT 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. One of the leading brands in the all-purpose milk category, Olper's Milk 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 5 SKUs of 200 ml, 250 ml, 500 ml, 1000 ml and 1500 ml value packs, today Olper's combines nutrition, value and taste to deliver an unforgettable consumer experience to every individual within every house-hold where the day begins with Olper's.

#### 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.

Fich in Vitamin D 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 bone health, nutrition and well-being.

Available in liquid format of 1,000 ml and 200 ml SKUs.

#### Olper's Flavored Milk

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

Inspired by the traditional flavors of badam zafran and rose, 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 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 badam zafran and rose 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.



#### Olfrute

Refresh yourself on the go!

The launch of Olfrute beverages in 2010 is part of our non-dairy initiatives and a major step forward towards diversifying our product portfolio in high potential markets.

A refreshing fruit beverage to entice and delight even the most discerning taste-buds, Olfrute juices are available in two SKUs of 1000 ml and 200 ml and offer a wide assortment of exciting fruity flavors including apple, apricot, guava, green cocktail, mango, orange and red grape 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 soon increase its penetration in the market and become one of the leading brand in the juices and nectars category.

#### Dairy Omung

Rise up to a better life!

Sourced from pure milk, Dairy Omung is our wholesome drinking dairy brand that provides price and quality conscious consumers with a hygienic milk product at an affordable price.

Launched nationwide in July 2011 as an alternative to loose milk, Omung is available in 2 SKUs of 250 and 1000 ml.

Targeting house-wives who consume loose milk and are responsible for the health and well-being of their family, with Omung, consumers seeking quality products at affordable prices can now enjoy the safety of UHT milk at a price that is far more competitive than any other milk product.

#### Tarrka

Give your food some tarrka!

Launched in 2007, Tarrka is our asli desi ghee distinctly known for its pure flavor and rich aroma.

Prepared after heating butter sourced from our rich creamy milk, Tarrka is devoid of any impurities and external food substances. 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.

#### Omoré

Scrumptious treats for everyone!

Produced locally, Omoré's scrumptious range of ice-cream and frozen desserts are a glorious treat for everyone – be it children or adults.

With its rich, creamy taste and wide range of chunky flavors including bubble-gum, coffee, chocolate, kulfi, mango, strawberry cheesecake, tiramisu and vanilla, Omoré is a delectable brand that seeks to cater to a wide range of consumer groups and palettes.

Launched in 2009 and available in over 40 SKUs including ice-lollies, ice-cream tubs, ice-cream cones, and sticks in various sizes, Omoré is Pakistan's widely preferred ice-cream and frozen desserts brand that is sheer indulgence and impossible to resist.



#### Tarang

Sheer bliss in a tea-cup!

Pakistan's No. 1 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.

A tea-creamer that combines convenience with lasting quality and real value for money, Tarang is available in liquid and powder formats in 125 ml, 200 ml, 250 ml, 500 ml and 1 litre packs sizes that further extend the brand's appeal to a wider audience.

With its perfect balance of taste, color and aroma, 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 across Pakistan.

#### Tarang Dobala

High energy at an affordable price!

Launched in 2010, Tarang Dobala is our low priced high nutrition vegetable fat cream that offers an alternative to expensive dairy based UHT cream.

Tarang Dobala is also one of our leading brands in Afghanistan and is being used as a staple diet. It provides Afghans the energy to go through their strenuous routine and mundane lifestyle with gusto.

# marketing communications developing the appetite



## spreading the word

We place great emphasis on doing things differently. Thinking outside the box is common-place for us, as we strive to create that vital link between our products, target audiences and surrounding communities.

### The Great Advertising Connect

At Engro Foods, we place great emphasis on doing things differently. Thinking outside the box is common-place for us, as we strive to create that vital link between our products, target audiences and surrounding communities.

Therefore, we rely heavily on powerful advertising that can break through the clutter by connecting our brands with consumers in ways that are relevant to them and can win our products guaranteed preference, and easy recall.

### Keeping Pace with the Changing Consumer Landscape

In today's rapidly changing consumer landscape, we respond to shifts in consumer mindsets, expectations and preferences by adopting a consumer-centric approach and effectively integrating their needs in our food products well ahead of time.

Mirroring this strategy in our marketing communications, we rely heavily on consumer centric media strategies that derive maximum leverage from changing market preferences, product innovations and a multi-faceted 360 degree cross channel approach that seeks to tap all available touch-points surrounding our consumers.

Through our tailored marketing strategies, we endeavor to engage current and new consumers with exciting campaigns that can win our brands the best place in store shelves, households and consumer lives.

To successfully achieve this objective and build on our understanding of critical market insights and consumer behavior, we also invest heavily in research.

### Giving Advertising A New Spin

At Engro Foods, we are recognized for our catchy and unconventional themes that never fail to challenge the status quo and hit the bull's eye.

In our quest to reach consumers wherever they consume media, we are increasingly focusing on tapping the right channels of communication - be it online through social media platforms, or on the go.

Therefore, as we bridge the distance between our brands and the consumer by covering maximum media outlets including social media platforms, out-door advertising and brand activations content integration marketing remains a key component of our marketing strategy.

We have also changed our communication focus from monologue to dialogue by relying on interactive engaging content through our TVCs, social media campaigns and branded entertainment.

As we maximize avenues and find new ways to interact and connect with our target audiences, we believe in letting our advertising speak for us by giving our consumers a complete picture through ads that resonate with them by integrating their mindsets and preferences within our core message.

Also highlighted in this report are key examples of communication strategies deployed for our flagship brands that have broken the mould with advertising that remains unconventional at its best - yet effective at its most.



## meet aisam-ul-haq the olper's man!

“Olper's has always been my preferred choice of milk brand. I definitely recommend Olper's to everyone seeking a healthy, balanced diet.”

– Aisam-ul-Haq

### Olper's House – Find Out What's Cooking At The Olper's House!

Olper's House is an exciting initiative launched to facilitate direct interaction with house-wives, a key segment of our target market. A unique opportunity for consumers to benefit from free product sampling, grooming workshops, in-house cooking competitions and LIVE demo sessions by our chefs, Olper's House is a great platform for consumers to relax in a personalized environment created especially for them.

IN OVER

300 TOWNS

Olper's continues to delight consumers nation-wide





یہی ہے چائے کا صحیح جوڑ

چائے کا صحیح جوڑ!

100% QUALITY  
Premium  
LIQUID TEA WHITENER  
MILK  
PREPARED WITH PURE

Liquid Tea Whitener

HERO  
BANNAY KI

Tranzak

صحیح جوڑ کی تلاش



Tranzak Presents

Kaun Banay Ga  
MEERA  
PATI

گاڑھا ترناک بنائے  
جی بھر چائے

Tranzak

## tarang and lollywood a winning formula

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

Tarang has adopted a bold and vibrant communication strategy that aims to depict Pakistan's rich folk heritage and diverse culture through the revival of Lollywood.

Through our exciting campaigns, we engage with Lollywood's biggest stars to strengthen Tarang's brand equity by using Lollywood as an effective platform to penetrate into Pakistan's semi-urban and rural areas. So whether it is Meera, Reema, Resham, Saima and Sahiba or Syed Noor, Javed Shaikh, Afzal Khan and Momar Raana, we have developed successful partnerships with all the biggest stars of Lollywood to sing and dance to our catchy Tarang slogans, so that our customers can also join in and sing to the Tarang tune.

From the very beginning, the focal point of our communication strategy for Tarang has remained on emphasizing the aspirational value of the brand through the glitz and glamour of Lollywood.

This is also reflected in our campaign "Tarang Bhara Des" – a one of its kind promotion launched to unite Pakistan's rich and diverse cultures – as is evident from the slogan "Mera des hai Tarang main, Suroor kay sachay rang main".

Yet another Tarang campaign 'Hero Bannay Kee Tarang', has followed a similar theme and is now leading the share of voice on television.

Bold and vibrant colours, sizzling dance-numbers and the biggest Lollywood stars engaging in festivities are therefore the hall-mark of all promotional campaigns for Tarang.



## hero bannay ki tarang our biggest reality show

Our multi-million rupee investment and the country's biggest reality show Hero Bannay Ki Tarang remains one of our most successful marketing initiatives to date, reaching out to millions of viewers across Pakistan, and receiving applications from over 19,000 consumers.

Aimed at reviving the popularity of Lollywood, we have now concluded two exciting seasons of the show. Our season Sahi Jorr Ki Talash for the year 2011 focused on our search for Lollywood's golden couple to revive memories of the industry's most charismatic couples of yester-year.

## courting meera: kaun banay ga meera patti?

As we continue to revive the popularity of Lollywood with our exciting and upbeat campaigns, our latest reality show for Tarang, Kaun Banay Ga Meera Patti created a tremendous stir nation-wide, as Meera launched her quest for the right partner with television viewers guessing her every move.

The biggest and most widely watched reality show, Kaun Banay Ga Meera Patti offered eligible young bachelors from all across Pakistan a once in a lifetime opportunity to score with Meera and win exciting prizes, giving them lessons in courtship that added to the show's wide-spread appeal.



# Olfrute

Taazgi jagaa rey!



## taazgi jaga rey: give yourself the olfrute boost!

The Olfrute slogan 'Taazgi Jaga Rey' highlights the brand's core positioning as a refreshing drink that revitalizes the senses, giving the body renewed energy and a much needed boost.

When Olfrute was launched, our communication strategy for the brand followed a recurring theme. Vibrant, jazzy advertising, upbeat music, catchy slogans and a fun jingle that had consumers tapping their feet soon became the hallmark of our campaign.

By associating Olfrute with music and positioning it as an exciting, fun brand that helps consumers feel rejuvenated, refreshed and revitalized, Olfrute soon became the preferred beverage for youngsters, who started integrating it in their daily lifestyle, paving the way for our entry in the juice on-the-go segment.

### Olfrute Green Cocktail: Juice On The Go!

Olfrute's increasing popularity with the youth represented the ideal opportunity for us to tap the on-the-go market segment with the launch of our new variant Olfrute Green Cocktail, which also marked our entry into the 200 ml value segment.

Coinciding the product launch with Pakistan Day and our much awaited cricket match with West-Indies, we introduced a special Facebook promotion to celebrate the occasion by highlighting the green packaging of Olfrute Green Cocktail with a catchy slogan 'Yeh Green Hamara Hai.'

Within this strategy we also linked the green packaging of Olfrute Green Cocktail with the Pakistan flag, to create a nationalistic association for the brand with Pakistan Day.

To generate additional hype about our new variant, we also set up refreshment squads across Karachi, Lahore and Islamabad where consumers visiting our lounges were offered free samples of Olfrute Green Cocktail and an opportunity to sit back and relax in a fun environment created especially for them.

**Best International Campaign Award**

Olfrute won the Best International Campaign Award at the Outdoor Advertising Convention Awards 2011

**Six Exciting Flavors**

Entering the 200 ml on-the-go segment Olfrute launched two new variants: Apricot and Green Cocktail in 2011



## launching olrock

To further strengthen our presence in the on-the-go-segment, we launched Olrock, a unique one of its kind concept that combines the platforms of music and drama to provide youngsters with the ultimate entertainment experience.

For the first time in the history of Pakistan's entertainment industry, an 8 episode drama serial was produced by a brand with every episode featuring new musical compositions

versions of original soundtracks by celebrated artists Bunny, Najam Sheraz and Ali Haider.

The story of the drama revolved around members of a music band, and their aspirations and conflicts. The highs and lows of the storyline were beautifully depicted through the music, making Olrock a highly watched drama-musical by teenagers as well as adults.



## omorè: fulfilling the art of happiness with a whole lot more!

At Engro Foods, we thrive on innovation. As we endeavor to deliver unique brands that offer consumers a unique value proposition, we are keen to fulfill their need for a healthy and long-lasting brand experience with premium food products that emphasize heavily on quality and craftsmanship.

Keeping this as our core vision when we made our big move into the ice-cream and frozen desserts segment with the launch of Omorè, we combined our focus on product innovation with powerful clutter-breaking communication to create a lasting impact for Omorè – which soon came to be recognized for its mouth-watering taste and multiple flavors, shapes and colors.

### Our Positioning Strategy

While selecting a brand name aligned with our objective of conveying the brand's essence of fulfilling the 'Art of happiness' for consumers, we created a synergy with the 'O' from Olper's linking it with the word 'more', to signify our proposition of value addition to the consumer experience.

This was further reinforced in our communication strategy through which we highlighted Omorè as a brand that delivers happiness in every bite, enabling our consumers to indulge in sheer moments of pleasure.

With a strong focus on breaking through the clutter with innovative advertising and brand activation, we developed a high-visibility 360-degree campaign for the launch of Omorè

emphasizing on extensive outdoor marketing, interactive media and unique, attention-grabbing TVCs that went beyond the realm of traditional advertising to elicit the desired consumer response and create a buzz about Omorè nation-wide.

### Entering The Big Cities

Launched initially in Rawalpindi, Lahore and Islamabad after a major investment in market and consumer research, we aligned our launch event in Lahore with the Jashn-e-Baharan Spring Festival, and branded the entire city in the vibrant colors of Omorè.

Fusing the air with the rich, bold colors of Omorè and targeting an audience of over 21 million, this was the biggest launch of an ice cream and frozen dessert brand ever witnessed in Pakistan.

The event not only had the desired impact but also set the market abuzz with speculation in Karachi, where anticipation and demand for Omorè reached an all-time high.

Once Omorè was launched in Karachi, the frenzy that had been created by our extensive advertising and out-door activation campaigns culminated in an opportunity for consumers in Karachi to experience the brand first-hand. With an equally effective launch strategy for Karachi, we managed to deliver the Omorè experience successfully to all our consumers within a short span of 3 months, in line with our vision for relentless growth and market expansion.



### Omorè and Mr. Bean London Jaaney Ka Scene!

Our show-stopping brand for children, Omorè Frooze recently launched a special promotion Omorè & Mr Bean London Jaaney Ka Scene, aimed at encouraging consumption of Omorè's popular ice-lolly brands amongst children and providing them with an opportunity to win a host of exciting prizes including our bumper prize of a free trip to London.

With more than 125,000 prizes given away to our lucky winners, the campaign received a phenomenal response with Syed Wajid Ali from Lahore winning the coveted free trip to London.



PKR

**2.6** BILLION

Revenue achieved by Omorè in 2011

**130** TOWNS

enjoy Omorè's 'art of happiness' across Pakistan

# plant, production and supply chain mixes and blends



Our manufacturing teams remain a key driver behind the sustained growth of our company with our supply chain registering a growth of 20% in our volume capacity through 2011.

Our state-of-the-art manufacturing and production facilities include the North Plant at Sahiwal, South Plant in Sukkur and the Nara Dairy Farm.

## our plants, production and distribution

### North Plant

- Spread across a total area of 33 acres of land.
- Commercial production commenced at the North Plant in March 2009.
- First batch of Omorè ice-cream was rolled out on 20th March 2009.
- Produces 60 SKUs of our ice-cream brand Omorè and other dairy products.



### South Plant

- Spread across a total area of 27 acres of land.
- Commercial production commenced on March 3, 2005.
- First batch of Olper's milk was rolled out on March 11, 2005.
- Produces 39 SKUs of our flagship brands: Olper's, Tarang, Olfrute, Omung and Tarka.



### Nara Farm

- Covers an area of 50 acres of 220 acres reserved for dairy farming.
- Milk production in 2011 was over 5.8 million liters.
- Houses world class breeds including Pure Frisian, Pure Jersey and Frisian Jersey Cross.



# Our Plants, Production and Supply Chain Network

## North Plant

Located at a distance of 8 kilometres from the National Highway Lahore, the Engro Foods North Plant started its commercial production in December 2007 in the well known dairy hub of Sahiwal.

Our North Plant produces 60 SKUs of our ice-cream brand Omoré as well as other dairy products.

Established with a vision to be amongst the biggest dairy plants in Pakistan, our SWL plant team also managed to deliver a reduction of more than 20% in maintenance costs.

In 2011, our North Plant continued its stringent focus on safe operations crossing 3 million safe man hours with a record production of more than 1 billion packs in dairy – an achievement that fueled our target to cross 6 million injury-free man hours for the site. Simultaneously with an inherent cost-saving mechanism built in to the manufacturing framework, the plant embarked on a plan to revamp its power generation system with a dual fuel solution – an innovation that has led to cost savings of Rs. 40 million per year.

As the scale of production increases for Engro Foods, the plant's output continues to reflect growth, rising significantly year after year.



## South Plant

Covering a total area of 27 acres of land at a distance of 1.5 kilometres from the Sukkur Barrage, the Engro Foods South Plant is the only third generation UHT unit in the country.

Commissioned in the year 2006, the South Plant has evolved to cater to the needs of our key flagship brands Olper's Milk, Olper's Cream, Tarka Ghee, Olwell, Olper's lite, Tarang, Owsum, Olfrute Juices, Dobala Cream and Daily Omung.

With a commitment to operational and quality excellence, the South Plant has crossed a safety milestone of 3.6 million man-hours.

**As our business grows, our investments in plants and production infrastructure continue to steward premium quality for our consumers.**

## Nara Dairy Farm

Building on our vision to elevate consumer delight and ensure high nutrition value in all our products, Engro Foods decided to enter the intensive dairy farming practice, giving us an edge over competition.

Our state-of-the-art Nara Dairy Farm at Sukkur is equipped to respond to rapid increase in demand for quality milk incorporating cutting-edge developments in the dairy sector. The Nara Farm is spread across over a geographical expanse of 50 acres with additional acreage available for future expansion and fodder production.

As a stepping stone in our journey towards creating milestones, we decided to import our first shipment of 1600 cattle from Australia and through various interventions acclimatized the foreign breed to the local climate – eventually leading to a 2.5 times increase in milk yield per animal.

The farm is fully capable of producing high nutrition forages through crop management, processing of high nutrition feed and via cow cooling systems to combat summer heat to produce world class quality milk at par with local and international quality standards.

As the first ISO certified dairy farm of the country, the Nara Dairy Farm currently houses over 3000 cattle including both young stock and dry animals.

**Our state-of-the-art Nara Dairy Farm at Sukkur is equipped to respond to rapid increase in demand for quality milk incorporating cutting-edge developments in the dairy sector.**



## continuing the tradition of excellence

In addition, to delight our valuable consumers and customers with even better quality and freshness, while excelling in compliance and safety standards throughout the value chain, we plan to go beyond the ISO 22000 certifications and have subscribed to the British Retail Consortium (BRC). Through the BRC platform, we aim to discover new ways of living our vision of elevating consumer delight worldwide for now and generations to come.

At Engro Foods we are cognizant of living our vision of elevating consumer delight worldwide through rigorous quality excellence that delivers an unparalleled consumer experience. Our plants continue to commit to a paradigm shift in ensuring transparency and accountability to improve the attitude of employees towards food safety. In the year 2011, our focus on establishing stringent product safety systems led to the implementation of the integrated management systems' certification with no major non-compliance.

The year 2011 marked a vibrant drive towards leveraging a continuous excellence cycle and achieving a series of ISO, HACCP and OHSAS certifications. With a renewed focus on excelling at the basics, Engro Foods continues to employ regular food safety trainings focusing on multiple areas.

In addition, to delight our valuable consumers and customers with even higher quality and freshness, while complying with safety standards throughout the value chain, Engro Foods is planning to go beyond the ISO 22000 certifications and has subscribed to the British Retail Consortium (BRC) in 2012. Through the BRC platform, we aim to discover new and better ways of living our vision of elevating consumer delight worldwide for now and generations to come.



## our supply chain network

Moving forward into the year 2012, we are aiming to streamline operations and improve service levels by enhancing customer focus and leveraging overall business synergies to ensure greater efficiency and faster delivery across our supply chain network.

At Engro Foods, despite logistical challenges posed by the recent floods, our supply chain remains a highly efficient and well-integrated network that is well connected with our manufacturing plants, distribution centers and trans-docking stations.

Despite the wide-scale disruption and infrastructure damage caused by the recent floods in key distribution areas, we successfully managed a fleet of over 250 vehicles, delivering 157 million liters of fresh milk and 390 million liters of finished products across Pakistan.

Over the years, our supply chain network has grown to extend our out-reach from milk collection at more than 900 centers and delivering products at over 350 customer distributions centers and over 8000 retail outlets.

Through our extended network, we are presently serving 12 regions across Pakistan from our three distribution centers in Islamabad, Sahiwal and Sukkur. Our customer services team continues to work with multiple world class logistics partners to ensure continuous success in the market with customers and distributors alike.

Owning a reliable and state-of-the-art fleet is also critical to our success with our present fleet structure comprising 120 vehicles in dedicated sizes of 14 feet, 20 feet and 50 feet and a cumulative capacity to serve our growing business needs.

Moving forward into the year 2012, we are aiming to streamline operations and improve service levels by enhancing customer focus and leveraging overall business synergies to ensure greater efficiency and faster delivery across our supply chain network.



enabling  
opportunities  
the seeds  
of change



## milk-collection and dairy development at engro foods – pure growth

At Engro Foods, we remain firmly committed to the growth and development of the local dairy sector and are highly passionate about enhancing the contribution of small-scale farmers – and their livestock and produce.

Because we care about the livelihood of our communities and the welfare of our animals.

And we pride ourselves on taking ownership for the long-term impact of their contribution on our country's food security and agricultural development.

Therefore, we continue to make great strides towards enhancing milk production efficiency nation-wide by leveraging our extensive resources to yield maximum output because we recognize that greater input leads to better output.

### Expanding Our Milk Collection Network Nation-wide

Milk collection in Pakistan was dominated by contractors who victimized small farmers by controlling pricing and payment methods and quantities based on market demand.

At Engro Foods, we focused all our efforts on breaking the monopoly by contractors who were controlling the system – and worked towards our vision of deploying our own state-of-the-art milk collection infrastructure aimed at improving payment cycles, guaranteeing milk collection and increasing profit margins for small dairy farmers who were not reaping the due benefits of their labour.

In our quest to penetrate in all the key milk collecting areas of Pakistan, we forged successful partnerships with over 5,500 farmers and invested heavily in state-of-the-art milk collection centers nation-wide. To further increase our capacity, we also acquired milk collection vehicles and established a network of chilled milk tankers that not only gave us a distinct lead in the market by increasing efficiency and reducing wastages but also helped us generate employment opportunities for people living in the rural areas of Pakistan.

Spread across a total area of 134,682 km covering more than 2,400 villages across Pakistan, our extensive milk collection network presently includes over 900 milk collection and cooling centers that enable us to deliver premium dairy products to a growing consumer base whilst providing livelihood opportunities to thousands of small-scale farmers nation-wide.

We ensure that our procurement and collection mechanisms remain transparent and embody the highest principles of responsible sourcing. As a step towards bringing innovation to the sector, we ensure that once milk is collected from farmers, payments are made directly through cash or credited to their account. By guaranteeing that payments are disbursed to the farmers on time, we continue to support and build rural societies. Our EMAN (Engro Milk Automation Network) Program is a radical new initiative that allows every farmer to own a Smart Card which they can swipe to record their daily transactions. The payment system is also in the process of being automated with a live recording of all transactions for the ease of farmers and community members. Employing United Bank Limited's



Omni Services, we not only provide direct payments to farmers but also provide them banking opportunities through the same card for a prosperous future.

Our efforts to enhance the milk collection process and improve the quality and quantity of dairy products since 2006 have culminated in significantly enhancing the dairy sector value chain and touching lives of more than 51,000 farmers across Pakistan.

We ensure that our procurement and collection mechanisms remain transparent and embody the highest principles of responsible sourcing.

**CELDAC aims to leverage women's livestock management skills in the areas of milking, breeding, washing, grazing and feeding animals to improve their average yield and output.**

### Empowering Women And Inspiring Change Through CELDAC

Community Empowerment through Livestock Development and Credit (CELDAC) is yet another successful Engro Foods initiative aimed at community development and livestock enhancement.

A collaborative gender support program jointly funded by the United Nations Development Program (UNDP), the Department For International Development (DFID) UK and the Swiss Agency for Development & Cooperation (SDC) the Royal Norwegian Embassy; CELDAC targets the social and economic empowerment of rural women in Sindh by motivating them to become change agents for livestock improvement.

To launch the initiative, a cadre of 1200 Lady Livestock Workers (LLWs) was created after an extensive capacity building program aimed at enabling rural women to deliver primary livestock management, production and extension services efficiently after providing them with access to institutionalized collateral free credit.

Developed after a thorough assessment of the differing roles of men and women in livestock management, CELDAC aims to leverage



women's livestock management skills in the areas of milking, breeding, washing, grazing and feeding animals to improve their average yield and output, thus improving the earning capacity of rural women and optimizing production capacity of a livestock population of animals producing below their potential yield.

With a minimum target of reaching out to rural women in 150 households for the upkeep of nearly 450 animals, the program focuses on training women in the core areas of health, nutrition, hygiene and mobilization, with the ultimate aim of enabling them to earn a better income by playing a key role in effective delivery of basic animal health services and community mobilization.

By connecting Lady Livestock Workers with community based NGOs and key players in dairy processing and achieving a higher yield, CELDAC has not only helped boost the self-confidence and technical skills of rural women, it has also significantly increased the level of respect given to rural women within their house-holds and the community at large.

Nominated as a Lady Livestock Worker for CELDAC after a careful screening across many households, Rashida Begum's family has

benefited immensely from her newly acquired livestock management skills and veterinary knowledge imparted during CELDAC. As the wife of a small-time farmer struggling with his livestock yield, Rashida's training proved to be extremely beneficial to her husband, who learnt how to improve production through the modern livestock management practices covered during CELDAC.

**“Upon completion of my livestock management training through CELDAC, my husband started relying heavily on my skills to take care of our animals. I now realize what a worth-while contribution CELDAC has made towards our family income.”**



### Agri Services Wing

The key objective of our 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 program has impacted the lives of more than 116,000 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 this program, we also partner with leading organizations for farmer development programs aimed at enhancing farmer education and increasing capacity in dairy development for communities. Rural women are also given due focus in large groups with an emphasis on building their overall capacity and skills.



### Our Dairy Hubs Impact Life At The Bottom Of The Pyramid

In a country where there is always a growing demand for dairy products, growth opportunities for small-time dairy farmers who wished to tap into this lucrative segment, were once few and far between.

Due to lack of adequate infrastructure and poor knowledge about modern agricultural methods and effective farming practices, the output produced by most animals a few decades ago usually remained sub-standard and well-below optimum capacity, leaving most farmers with no option but to sell off their milk as quickly as possible to the first available buyer.

At Engro Foods, after establishing our presence in the dairy sector, we focused our efforts on reducing the gap between the agricultural sector's demand and the industry's optimum capacity, by developing specialized dairy hubs offering training on best farming practices to help farmers increase their output and produce better yield.

By training farmers on modern farming interventions and giving them access to better preservation and collection infrastructure and technology, we have successfully managed to turn the tide for small-time farmers within a span of five years, who are now able to produce a better output and get a greater return on their investment.

All our efforts have always been geared towards achieving our vision to lead the dairy sector by establishing the biggest dairy hub in the country, as part of our three-pronged strategy aimed at increasing milk production of livestock, lowering the costs of production and creating better livelihood opportunities for people struggling at the lowest rung of the ladder.

Since our inception in 2006, we have continued to invest in the growth and development of small-scale farmers who contribute towards a significant proportion of our milk collection. Towards this end, we have also established five dairy farms across Sindh and Punjab which not only cater to the rural population residing within their allocated areas, but also provide services to the outlying villages and towns located within a radius of 20 kilometres.

Through our dairy farms, we have also improved livestock output and increased the income generating capacity of thousands of small-time farmers across Sindh and Punjab by up to 50%.

Apart from helping farmers optimize production capacity of their livestock, we are also providing them with a guaranteed market for their raw milk including all surplus amounts, which can be sold off at

our dairy hubs at competitive prices, thus increasing their dairy incomes and improving their quality of life.

Of the thousands of farmers benefiting from our dairy hubs, villager Habiullah Kheiran, the sole-bread earner in a family of twelve is a key example.

**“My earning capacity doubled after Engro Foods established its dairy hub in Multan. Now that my livestock and family are well taken care of, life for all of us has changed drastically. Today, I am no longer struggling to make ends meet.”**



financial  
statements  
keeping  
the perfect  
balance.



## statement of compliance with the code of corporate governance

This Statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the 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 Code in the following manner:

1. The Company encourages representation of independent nonexecutive directors and directors representing minority interests on its Board of Directors. At present the Board includes nine non-executive Directors of whom four are independent Directors, and three are executive in other Engro companies.
2. The Directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. A 'Statement of Ethics and Business Practices', has been circulated to all the Directors and employees of the Company, which is in the process of being signed.
6. That 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 the Board met at least once in every quarter. Written notices of the regular Board Meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of all meetings were appropriately recorded and circulated in time.
9. The members of the Board are well aware of their duties and responsibilities as outlined by corporate laws and listing regulations.
10. The Board has approved appointment of the CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The Report of the Directors for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the 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 Code.
15. The Board has formed an Audit Committee. It comprises of 4 members all of whom are non-executive directors including the Chairman.
16. The meeting of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, 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 International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. 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.
20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors alongwith pricing methods for such transactions.
21. We confirm that all other material principles contained in the Code have been complied with.

  
**Afnan Ahsan**  
 Chief Executive Officer

  
**Ruhail Mohammed**  
 Director

Karachi  
 Date: February 3, 2012

## 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 for the year ended December 31, 2011 prepared by the Board of Directors of Engro Foods Limited 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 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, 2011.



**Chartered Accountants**  
 Karachi  
 Date: February 3, 2012

Engagement Partner: Waqas A. Sheikh

## 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, 2011. 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 and that the share options granted, vested, lapsed, exercised or surrendered 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, 2011.



Chartered Accountants

Karachi

Date: February 10, 2012

Engagement Partner: Waqas A. Sheikh

## management statement of compliance

with employees share option scheme

The Engro Foods Limited as of December 31, 2011 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.



Afnan Ahsan  
Chief Executive Officer

Karachi

Date: February 10, 2012



Ruhail Mohammed  
Director

## auditors' report to the members

We have audited the annexed balance sheet of Engro Foods Limited as at December 31, 2011 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) 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, 2011 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 3, 2012

Engagement Partner: Waqas A. Sheikh

# balance sheet

# balance sheet as at december 31, 2011

(Amounts in thousand)

## Assets

### Non-Current Assets

|  |   |           |           |
|--|---|-----------|-----------|
| Property, plant and equipment                | 4 | 9,615,426 | 7,148,219 |
| Long term investments                        | 5 | -         | 980,000   |
| Biological assets                            | 6 | 496,809   | 428,293   |
| Intangible assets                            | 7 | 133,598   | 142,433   |
| Long term advances, deposits and prepayments | 8 | 24,212    | 23,126    |

### Current Assets

|                                    |    |           |           |
|------------------------------------|----|-----------|-----------|
| Stores, spares and loose tools     | 9  | 571,812   | 441,841   |
| Stock-in-trade                     | 10 | 2,637,816 | 2,089,221 |
| Trade debts                        | 11 | 87,121    | 51,879    |
| Advances, deposits and prepayments | 12 | 266,093   | 244,209   |
| Other receivables                  | 13 | 1,160,126 | 720,735   |
| Taxes recoverable                  |    | 1,443     | 9,417     |
| Derivative financial instruments   | 14 | -         | 510       |
| Short term investments             | 15 | 1,294,000 | -         |
| Cash and bank balances             | 16 | 350,728   | 180,181   |

### TOTAL ASSETS

| Note | (Audited)<br>December 31,<br>2011 | (Audited)<br>December 31,<br>2010 |
|------|-----------------------------------|-----------------------------------|
|      | ------(Rupees)-----               |                                   |
|      | 10,270,045                        | 8,722,071                         |
|      | 6,369,139                         | 3,737,993                         |
|      | 16,639,184                        | 12,460,064                        |

(Amounts in thousand)

## Equity & Liabilities

### Equity

|                  |      |           |             |
|------------------|------|-----------|-------------|
| Share capital    | 17   | 7,517,889 | 7,000,000   |
| Share premium    | 17.1 | 722,182   | -           |
| Hedging reserve  |      | (18,178)  | 331         |
| Accumulated loss |      | (984,951) | (1,875,924) |

### Non-Current Liabilities

|                                 |    |           |           |
|---------------------------------|----|-----------|-----------|
| Long term finances              | 19 | 5,610,000 | 4,625,000 |
| Obligations under finance lease | 20 | 1,295     | 4,714     |
| Deferred taxation               | 21 | 308,090   | 180,964   |
| Deferred liabilities            | 22 | 1,870     | 3,462     |

### Current Liabilities

|                                   |    |           |           |
|-----------------------------------|----|-----------|-----------|
| Current portion of                |    |           |           |
| - long term finances              | 19 | 465,000   | 200,000   |
| - obligations under finance lease | 20 | 3,884     | 3,675     |
| Trade and other payables          | 23 | 2,343,506 | 2,040,575 |
| Derivative financial instruments  | 14 | 27,966    | -         |
| Accrued interest / mark-up on     |    |           |           |
| - long term finances              |    | 368,152   | 275,077   |
| - short term finances             |    | 20,229    | 2,190     |
| Short term finances               | 24 | 252,250   | -         |

### Contingencies and Commitments

### Total Equity & Liabilities

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Afnan Ahsan  
Chief Executive Officer

  
Ruhail Mohammed  
Director

| Note | (Audited)<br>December 31,<br>2011 | (Audited)<br>December 31,<br>2010 |
|------|-----------------------------------|-----------------------------------|
|      | ------(Rupees)-----               |                                   |
|      | 7,236,942                         | 5,124,407                         |
|      | 5,921,255                         | 4,814,140                         |
|      | 3,480,987                         | 2,521,517                         |
|      | 16,639,184                        | 12,460,064                        |

## profit and loss account as at december 31, 2011

(Amounts in thousand except for earning per share)

|   | Note | (Audited)<br>December 31,<br>2011<br>------(Rupees)----- | (Audited)<br>December 31,<br>2010 |
|---|------|--|-----------------------------------|
| Net sales                                     | 26   | 29,859,226   | 20,944,943                        |
| Cost of sales                                 | 27   | (23,230,445)   | (16,552,117)                      |
| <b>Gross profit</b>                           |      | <b>6,628,781</b>   | <b>4,392,826</b>                  |
| Distribution and marketing expenses           | 28   | (3,716,489)  | (2,913,448)                       |
| Administrative expenses                       | 29   | (504,722)  | (473,198)                         |
| Other operating expenses                      | 30   | (208,902)  | (131,460)                         |
| Other operating income                        | 31   | 213,133  | 54,942                            |
| <b>Operating profit</b>                       |      | <b>2,411,801</b>   | <b>929,662</b>                    |
| Finance costs                                 | 32   | (1,049,141)  | (659,562)                         |
| <b>Profit before taxation</b>                 |      | <b>1,362,660</b>   | <b>270,100</b>                    |
| Taxation                                      | 33   | (471,687)  | (94,478)                          |
| <b>Profit for the year</b>                    |      | <b>890,973</b>   | <b>175,622</b>                    |
| <b>Earnings per share - basic and diluted</b> | 34   | <b>1.22</b>  | <b>0.31</b>                       |

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Afnan Ahsan  
Chief Executive Officer

  
Ruhail Mohammed  
Director

## statement of comprehensive income for the year ended december 31, 2011

(Amounts in thousand)

|  | (Audited)<br>December 31,<br>2011<br>------(Rupees)----- | (Audited)<br>December 31,<br>2010 |
|--|--|-----------------------------------|
| <b>Profit for the year</b>   | <b>890,973</b>   | <b>175,622</b>                    |
| <b>Other comprehensive income:</b>   |  |                                   |
| <b>Hedging reserve</b>   |  |                                   |
| Gain / (loss) arising during the year  | (28,910)   | 10,204                            |
| Less: Adjustments for amounts transferred<br>to initial carrying amounts of hedged<br>items - Capital work-in-progress | 613  | (9,694)                           |
| Income tax relating to hedging reserve   | 9,788  | (179)                             |
| Available for sale investment<br>Gain arising during the year  | (18,509)   | 331                               |
| Less: Realized during the year   | -  | 365                               |
| Other comprehensive income / (loss) for the year, net of tax   | (18,509)   | 331                               |
| <b>Total comprehensive income for the year</b>   | <b>872,464</b>   | <b>175,953</b>                    |

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Afnan Ahsan  
Chief Executive Officer

  
Ruhail Mohammed  
Director

## statement of changes in equity for the year ended december 31, 2011

| (Amounts in thousand)                                    | Share capital       | Share premium  | Advance against issue of share capital | Hedging reserve | Accumulated Loss | Total            |
|--|---------------------|----------------|--|-----------------|------------------|------------------|
|  | ------(Rupees)----- |                |  |                 |                  |                  |
| <b>Balance as at January 1, 2010</b>                     | 5,423,000           | -              | -                                      | -               | (2,051,546)      | 3,371,454        |
| Advance received during the year                         | -                   | -              | 1,577,000                              | -               | -                | 1,577,000        |
| Share capital issued                                     | 1,577,000           | -              | (1,577,000)                            | -               | -                | -                |
| Total comprehensive income for the year                  | -                   | -              | -                                      | 331             | 175,622          | 175,953          |
| <b>Balance as at December 31, 2010 / January 1, 2011</b> | 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          |
| <b>Balance as at December 31, 2011</b>                   | <u>7,517,889</u>    | <u>722,182</u> | <u>-</u>                               | <u>(18,178)</u> | <u>(984,951)</u> | <u>7,236,942</u> |

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Afnan Ahsan  
Chief Executive Officer

  
Ruhail Mohammed  
Director

## statement of cash flows for the year ended december 31, 2011

| (Amounts in thousand)   | Note | (Audited)<br>December 31,<br>2011 | (Audited)<br>December 31,<br>2010 |
|---|------|-----------------------------------|-----------------------------------|
|   |      | ------(Rupees)-----               |                                   |
| <b>Cash Flows From Operating Activities</b>   |      |                                   |                                   |
| Cash generated from operations  | 35   | 2,400,864                         | 947,083                           |
| Finance costs paid  |      | (938,027)                         | (566,637)                         |
| Taxes paid  |      | (313,692)                         | (193,133)                         |
| Retirement benefits paid  |      | (68,539)                          | (15,777)                          |
| Long term advances and deposits - net   |      | (1,086)                           | (15,280)                          |
| <b>Net cash generated from operating activities</b>   |      | <u>1,079,520</u>                  | <u>156,256</u>                    |
| <b>Cash Flows From Investing Activities</b>   |      |                                   |                                   |
| Purchases of  |      |                                   |                                   |
| • property, plant and equipment   |      | (3,402,806)                       | (2,055,456)                       |
| • biological assets   |      | -                                 | (43,553)                          |
| • intangible assets   |      | (32,880)                          | (128,789)                         |
| Proceeds from disposal of   |      |                                   |                                   |
| • property, plant and equipment   |      | 16,043                            | 19,530                            |
| • biological assets   |      | 20,229                            | 63,085                            |
| Investments in Mutual fund securities   |      | (994,000)                         | -                                 |
| Investment in Engro Foods Supply Chain (Private) Limited  |      | (350,000)                         | (827,000)                         |
| Proceeds from disposal of investment in Engro Foods Supply Chain (Private) Limited - net of transaction costs |      | 1,408,437                         | -                                 |
| <b>Net cash utilized in investing activities</b>  |      | <u>(3,334,977)</u>                | <u>(2,972,183)</u>                |
| <b>Cash Flows From Financing Activities</b>   |      |                                   |                                   |
| Advance against issue of share capital received from Engro Corporation Limited, the Holding Company           |      | -                                 | 1,577,000                         |
| Proceeds from issue of share capital  |      | 1,264,411                         | -                                 |
| Share issuance costs  |      | (37,447)                          | -                                 |
| Proceeds from long term finances  |      | 1,450,000                         | 1,500,000                         |
| Repayments of   |      |                                   |                                   |
| • long term finances  |      | (200,000)                         | (116,666)                         |
| • obligations under finance lease   |      | (3,210)                           | (4,892)                           |
| <b>Net cash generated from financing activities</b>   |      | <u>2,473,754</u>                  | <u>2,955,442</u>                  |
| <b>Net increase in cash and cash equivalents</b>  |      | <u>218,297</u>                    | <u>139,515</u>                    |
| Cash and cash equivalents at beginning of the year  |      | 180,181                           | 40,666                            |
| <b>Cash and cash equivalents at end of the year</b>   | 36   | <u>398,478</u>                    | <u>180,181</u>                    |

The annexed notes 1 to 47 form an integral part of these financial statements.

  
Afnan Ahsan  
Chief Executive Officer

  
Ruhail Mohammed  
Director

# notes to the financial statements as at december 31, 2011

(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, juices, ice cream and frozen deserts. The Company also owns and operates a dairy farm. Further, during the year, the Company has also entered into international market and its first venture is to manage a halal food business, Al Safa Halal, Inc. (Al-Safa) in North America, which has been recently acquired by ECL. The entire shares of Al-Safa are proposed to be acquired by the Company from ECL 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 2011 and relevant

The following amendments to published standards are mandatory for the financial year beginning January 1, 2011:

- IFRS 7 (Amendment), 'Financial instruments: Disclosures'. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment only affects disclosures in the Company's financial statements which have been made.
- IAS 1 (Amendment), 'Presentation of financial statements'. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Company's current policy and disclosures are in line with this amendment.
- IAS 34 (Amendment), 'Interim financial reporting'. This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their

(Amounts in thousand)

classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets, changes in contingent liabilities and assets.

#### b) Standards, amendments to published standards and interpretations that are effective in 2011 but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 1, 2011 are considered not to be relevant.

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

The following new standards, amendments to published standards and interpretations are not effective for the financial year beginning on January 1, 2011 and have not been early adopted by the Company:

- IFRS 7 (Amendment) 'Financial instruments: Disclosures' (effective for periods beginning on or after July 1, 2011). 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 will only affect the disclosures in the Company's financial statements.
- IFRS 9 'Financial instruments' (effective for periods beginning on or after January 1, 2013). IFRS 9 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, initial indications are that it may not affect the Company's financial assets significantly.
- IFRS 13 'Fair value measurement' (effective for periods beginning on or after January 1, 2013). 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.
- IAS 1 (Amendment) 'Financial statement presentation' (effective for periods beginning on or after July 1, 2012). The main change resulting from this amendment 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 do not address which items are presented in OCI. The amendment will only affect the disclosures in the Company's financial statements.
- IAS 19 (Amendment) 'Employee benefits' (effective for periods beginning on or after January 1, 2013). The amendments eliminate the corridor approach and recognize all actuarial gains and losses in OCI as they occur and to replace 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 Company is yet to assess the full impact of the amendments.
- IAS 27 (Revised) 'Separate financial statements' (effective for periods beginning on or after January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard is already applied in principle by the Company and therefore will have no further consequences.

(Amounts in thousand)

There are no other standards, amendments and interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 2.2 Property, plant and equipment

### 2.2.1 Owned

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

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

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

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

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

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

### 2.2.2 Leased

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

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

## 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.

(Amounts in thousand)

## 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.

## 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.

(Amounts in thousand)

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.

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.

(Amounts in thousand)

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.

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 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.

(Amounts in thousand)

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'.

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 Pension scheme

Till December 2010, the Company operated an unfunded defined benefit scheme for pension for two of its management employees. Effective January 1, 2011, the scheme has been converted into a defined contribution scheme where contributions to the fund are made by the Company at the rate of 13.75% of employee salary.

##### 2.13.3 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.

##### 2.13.4 Compensated absences

Accrual is made for employees compensated absences on the basis of accumulated leaves of 15 working days and the last drawn gross salary, adjusted to the extent of the leaves availed subject to the completion of minimum qualifying period of service.

#### 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 atleast twelve months after the balance sheet date.

(Amounts in thousand)

#### 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 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:

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

(Amounts in thousand)

a) **Fair value hedge**

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

b) **Cash flow hedge**

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

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

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

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

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

2.20 **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 and is recognized 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.

(Amounts in thousand)

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:

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, 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.

d) **Stock-in-trade**

The Company regularly reviews the net realizable value of stock-in-trade to assess any diminution in the carrying values.

e) **Provision for staff retirement and other service benefits**

The present value of the obligations towards the Gratuity Fund 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)

|                                     | 2011                | 2010             |
|-------------------------------------|---------------------|------------------|
|                                     | ------(Rupees)----- |                  |
| Operating assets (note 4.1)         | 8,432,467           | 6,661,790        |
| Capital work-in-progress (note 4.5) | 1,182,959           | 486,429          |
|                                     | <u>9,615,426</u>    | <u>7,148,219</u> |

(Amounts in thousand)

| 4.1 Operating assets                      | Freehold Land  | Buildings on freehold land | Plant, machinery and related equipment (note 4.2) |              | Office equipment | Computers     | Furniture and fittings | Vehicles       |            | Total            |
|---|----------------|----------------------------|---|--------------|------------------|---------------|------------------------|----------------|------------|------------------|
|   |                |                            | Owned   | Leased       |                  |               |                        | Owned          | Leased     |                  |
| As at January 1, 2010                     |                |                            |   |              |                  |               |                        |                |            |                  |
| Cost                                      | 173,377        | 1,433,001                  | 4,323,498   | 12,946       | 68,083           | 48,880        | 21,158                 | 224,165        | 11,245     | 6,316,353        |
| Accumulated depreciation/impairment       | -              | (147,120)                  | (731,445)   | (4,471)      | (12,594)         | (23,160)      | (8,075)                | (62,257)       | (11,127)   | (1,000,249)      |
| Net book value                            | <u>173,377</u> | <u>1,285,881</u>           | <u>3,592,053</u>                                  | <u>8,475</u> | <u>55,489</u>    | <u>25,720</u> | <u>13,083</u>          | <u>161,908</u> | <u>118</u> | <u>5,316,104</u> |
| Year ended December 31, 2010              |                |                            |   |              |                  |               |                        |                |            |                  |
| Opening net book value                    | 173,377        | 1,285,881                  | 3,592,053   | 8,475        | 55,489           | 25,720        | 13,083                 | 161,908        | 118        | 5,316,104        |
| Additions, including transfers (note 4.5) | -              | 249,121                    | 1,615,920   | -            | 30,335           | 13,246        | -                      | 153,097        | -          | 2,061,719        |
| Disposals / write off (note 4.4)          | -              | (18,547)                   | (126)   | -            | -                | (289)         | -                      | (29,299)       | (6,995)    | (55,256)         |
| Cost                                      | -              | (18,547)                   | (126)   | -            | -                | (289)         | -                      | (29,299)       | (6,995)    | (55,256)         |
| Accumulated depreciation/impairment       | -              | 18,547                     | 71  | -            | -                | 104           | -                      | 13,858         | 6,995      | 39,575           |
|   | -              | -                          | (55)  | -            | -                | (185)         | -                      | (15,441)       | -          | (15,681)         |
| Depreciation charge (note 4.3)            | -              | (81,307)                   | (521,737)   | (2,630)      | (15,426)         | (13,218)      | (4,229)                | (61,687)       | (118)      | (700,352)        |
| Closing net book value                    | <u>173,377</u> | <u>1,453,695</u>           | <u>4,686,181</u>                                  | <u>5,845</u> | <u>70,398</u>    | <u>25,563</u> | <u>8,854</u>           | <u>237,877</u> | <u>-</u>   | <u>6,661,790</u> |
| As at December 31, 2010                   |                |                            |   |              |                  |               |                        |                |            |                  |
| Cost                                      | 173,377        | 1,663,575                  | 5,939,292   | 12,946       | 98,418           | 61,837        | 21,158                 | 347,963        | 4,250      | 8,322,816        |
| Accumulated depreciation                  | -              | (209,880)                  | (1,253,111)                                       | (7,101)      | (28,020)         | (36,274)      | (12,304)               | (110,086)      | (4,250)    | (1,661,026)      |
| Net book value                            | <u>173,377</u> | <u>1,453,695</u>           | <u>4,686,181</u>                                  | <u>5,845</u> | <u>70,398</u>    | <u>25,563</u> | <u>8,854</u>           | <u>237,877</u> | <u>-</u>   | <u>6,661,790</u> |
| Year ended December 31, 2011              |                |                            |   |              |                  |               |                        |                |            |                  |
| Opening net book value                    | 173,377        | 1,453,695                  | 4,686,181   | 5,845        | 70,398           | 25,563        | 8,854                  | 237,877        | -          | 6,661,790        |
| Additions, including transfers (note 4.5) | -              | 397,170                    | 2,080,612   | -            | 70,310           | 48,951        | 1,622                  | 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)      | (18,858)         | (13,540)      | (485)                  | (74,728)       | -          | (921,003)        |
| Closing net book value                    | <u>173,377</u> | <u>1,742,665</u>           | <u>6,065,442</u>                                  | <u>1,263</u> | <u>121,850</u>   | <u>60,924</u> | <u>9,991</u>           | <u>256,955</u> | <u>-</u>   | <u>8,432,467</u> |
| As at December 31, 2011                   |                |                            |   |              |                  |               |                        |                |            |                  |
| Cost                                      | 173,377        | 2,059,795                  | 8,019,258   | 12,946       | 168,728          | 110,688       | 22,780                 | 428,069        | 4,250      | 10,999,891       |
| Accumulated depreciation                  | -              | (317,130)                  | (1,953,816)                                       | (11,683)     | (46,878)         | (49,764)      | (12,789)               | (171,114)      | (4,250)    | (2,567,424)      |
| Net book value                            | <u>173,377</u> | <u>1,742,665</u>           | <u>6,065,442</u>                                  | <u>1,263</u> | <u>121,850</u>   | <u>60,924</u> | <u>9,991</u>           | <u>256,955</u> | <u>-</u>   | <u>8,432,467</u> |
| Annual rate of depreciation (%)           | -              | 5 to 10                    | 8.33 to 25  | 20           | 20               | 20            | 20                     | 25             | 25         |                  |

(Amounts in thousand)

4.2 Includes equipment costing Rs. 135,495 (2010: Rs. 135,469) having net book value of Rs. 79,604 (2010: Rs. 93,337) mounted on transport contractors' vehicles. Also includes freezers and trikes held by third parties costing Rs. 825,002 (2010: Rs. 482,023), having net book value of Rs. 621,164 (2010: Rs. 392,258).

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)

|  | 2011                | 2010           |
|--|---------------------|----------------|
|  | ------(Rupees)----- |                |
|  | 732,594             | 590,622        |
|  | 148,483             | 96,709         |
|  | <u>39,926</u>       | <u>13,021</u>  |
|  | <u>921,003</u>      | <u>700,352</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)-----                    |   |      |                          |                |                |
| Building on freehold land              |   |      |                          |                |                |
| Negotiation                            | Ghulam Murtaza Nara Canal, District Rohri | 950  | (439)                    | 511            | 490            |
| Plant, machinery and related equipment |   |      |                          |                |                |
| Insurance claims                       | EFU General Insurance                     | 646  | (416)                    | 230            | 304            |

(Amounts in thousand)

| Description and method of disposal                    | Sold to               | Cost   | Accumulated depreciation | Net book value | Sales proceeds |
|---|-----------------------|--------|--------------------------|----------------|----------------|
| -----Rupees-----                                      |                       |        |                          |                |                |
| <b>Vehicles</b>                                       |                       |        |                          |                |                |
| By Company policy to existing / separating executives |                       |        |                          |                |                |
|   | Azeem Abro            | 599    | (539)                    | 60             | 120            |
|   | Adnan Rafiq           | 537    | (84)                     | 453            | 500            |
|   | Amir Rauf             | 50     | (34)                     | 16             | 20             |
|   | Fahad                 | 600    | (495)                    | 105            | 245            |
|   | Farrukh Waseem        | 54     | (49)                     | 5              | 11             |
|   | Fatima Ahmad          | 1,289  | (524)                    | 765            | 806            |
|   | Hamza Bin Zahid Lodhi | 632    | (452)                    | 180            | 202            |
|   | Hashim Ali            | 51     | (38)                     | 13             | 18             |
|   | Hassan Zeb            | 600    | (540)                    | 60             | 120            |
|   | Ijaz Ali              | 600    | (540)                    | 60             | 120            |
|   | Irfan Ahmed           | 57     | (51)                     | 6              | 11             |
|   | Kanwer Anwer Saeed    | 1,500  | (1,125)                  | 375            | 516            |
|   | Khalid Ur Rehman      | 57     | (51)                     | 6              | 11             |
|   | M. Abbas Hayat        | 600    | (540)                    | 60             | 120            |
|   | Malik M. Shoaib       | 57     | (51)                     | 6              | 11             |
|   | Malik Yasir Khan      | 632    | (403)                    | 229            | 270            |
|   | Abrar                 | 408    | (367)                    | 41             | 81             |
|   | Muhammad Hussain      | 57     | (51)                     | 6              | 11             |
|   | Muhammad Yahya        | 63     | (15)                     | 48             | 53             |
|   | Naveed Shahid         | 632    | (403)                    | 229            | 286            |
|   | Omayer Arshad         | 1,300  | (305)                    | 995            | 995            |
|   | Saad Kamran           | 600    | (529)                    | 71             | 120            |
|   | Saeed Ahmed           | 51     | (39)                     | 12             | 23             |
|   | Sajjad Hussain        | 612    | (528)                    | 84             | 181            |
|   | Sanam Lodhi           | 603    | (542)                    | 61             | 131            |
|   | Sharjeel Hussain      | 503    | (387)                    | 116            | 151            |
|   | Sheikh Wajid          | 59     | (53)                     | 6              | 12             |
|   | Sohaib Akhiyar        | 57     | (51)                     | 6              | 11             |
|   | Syed Ali Akbar        | 6,750  | (2,109)                  | 4,641          | 4,649          |
|   | Tehseen Ullah         | 408    | (367)                    | 41             | 88             |
|   | Umar Farooq Shahid    | 449    | (288)                    | 161            | 206            |
|   | Usman                 | 504    | (435)                    | 69             | 102            |
|   | Waqas Azhar           | 899    | (675)                    | 224            | 260            |
|   |                       | 21,870 | (12,660)                 | 9,210          | 10,461         |
| Insurance claims                                      | EFU General Insurance | 4,954  | (1,040)                  | 3,914          | 4,714          |
|   |                       | 26,824 | (13,700)                 | 13,124         | 15,175         |
| <b>Computers</b>                                      |                       |        |                          |                |                |
| Insurance claims                                      | EFU General Insurance | 100    | (50)                     | 50             | 74             |
|   |                       | 28,520 | (14,605)                 | 13,915         | 16,043         |
| December 31, 2010                                     |                       | 55,256 | (39,575)                 | 15,681         | 19,530         |

(Amounts in thousand)

4.5 Capital work-in-progress

|                                     | Building on freehold land | Other ancillary costs | Plant, machinery and equipment | SAP project and milk automation | Office equipment/ Furniture & Fitting/Computers | Vehicles  | Total       |
|-------------------------------------|---------------------------|-----------------------|--------------------------------|---------------------------------|---|-----------|-------------|
| -----Rupees-----                    |                           |                       |                                |                                 |   |           |             |
| <b>Year ended December 31, 2010</b> |                           |                       |                                |                                 |   |           |             |
| Balance as at January 1, 2010       | 31,973                    | -                     | 423,788                        | 3,595                           | 24,768  | 8,568     | 492,692     |
| Additions during the year           | 266,376                   | 99,323                | 1,486,631                      | 83,439                          | 69,588  | 178,888   | 2,184,245   |
| Allocation of other ancillary cost  | -                         | (99,323)              | 60,201                         | 39,122                          | -   | -         | -           |
| Transferred to                      |                           |                       |                                |                                 |   |           |             |
| • operating assets (notes 4.1)      | (249,121)                 | -                     | (1,615,920)                    | (1,646)                         | (41,935)  | (153,097) | (2,061,719) |
| • intangible assets (note 7)        | -                         | -                     | -                              | (123,829)                       | (4,960)   | -         | (128,789)   |
| Balance as at December 31, 2010     | 49,229                    | -                     | 354,699                        | 681                             | 47,461  | 34,359    | 486,429     |
| <b>Year ended December 31, 2010</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 (note 4.1)       | (397,170)                 | -                     | (2,080,612)                    | -                               | (120,883)                                       | (106,930) | (2,705,595) |
| • intangible assets (note 7)        | -                         | -                     | -                              | (33,561)                        | -   | -         | (33,561)    |
| Balance as at December 31, 2011     | 143,000                   | -                     | 887,947                        | -                               | 32,389  | 119,623   | 1,182,959   |

4.5.1 During the year, the Company has purchased and capitalized additional filling, cone baking and UHT machines.

4.5.2 The balance as at December 31, 2011 mainly relates to capital expenditure incurred in respect of new filling machines, freezers, trikes and refrigeration system.

(Amounts in thousand)

## 5. Long-term Investments - Subsidiary, at cost

Engro Foods Supply Chain (Private) Limited  
[equity held: Nil (2010: 70%)]

- Nil (2010: 98,000,000) ordinary shares of Rs. 10 each (note 5.2)

2011                      2010  
------(Rupees)-----

|  | 2011 | 2010    |
|--|------|---------|
|  | -    | 980,000 |

5.1 During the year, the Company invested additional Rs. 350,000 in 35,000,000 ordinary shares of Rs. 10 each.

5.2 Effective October 1, 2011, the Company disposed of its entire holding in Engro Foods Supply Chain (Private) Limited, subsidiary, to Engro Eximp (Private) Limited, an associated company, at a price of Rs. 10.64 per share.

## 6. Biological Assets

Dairy livestock (note 6.1)

- mature
- immature

Crops - feed stock

2011                      2010  
------(Rupees)-----

|                            | 2011    | 2010    |
|----------------------------|---------|---------|
| Dairy livestock (note 6.1) |         |         |
| • mature                   | 250,339 | 257,537 |
| • immature                 | 243,960 | 164,066 |
|                            | 494,299 | 421,603 |
| Crops - feed stock         | 2,510   | 6,690   |
|                            | 496,809 | 428,293 |

### 6.1 Reconciliation of carrying amounts of livestock

Carrying amount at the beginning of the year

Add:

- Purchases during the year
- Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical / price changes (note 31)

Less: Decrease due to deaths / disposals

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

|   | 2011     | 2010     |
|---|----------|----------|
| Carrying amount at the beginning of the year  | 421,603  | 434,906  |
| Add:  |          |          |
| • Purchases during the year   | -        | 40,830   |
| • Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical / price changes (note 31) | 90,830   | 14,309   |
| Less: Decrease due to deaths / disposals  | (18,134) | (68,442) |
| Carrying amount at the end of the year, which approximates the fair value   | 494,299  | 421,603  |

(Amounts in thousand)

6.2 As at December 31, 2011, the Company held 1,593 (2010: 1,476) mature assets able to produce milk and 1,325 (2010: 1,035) immature assets that are being raised to produce milk in the future. During the year, the Company produced approximately 5,679,360 (2010: 5,273,854) litres of milk from these biological assets with a fair value less estimated point-of-sale costs of Rs. 270,042 (2010: Rs. 236,827), determined at the time of milking.

6.3 As at December 31, 2011, the Company held 3 (2010: 3) mature bulls and 120 (2010: 77) immature male calves. Mature bulls are used for insemination and subsequent disposal at the end of their inseminating life.

6.4 The valuation of dairy livestock as at December 31, 2011 has been carried out by an independent valuer. In this regard, the valuer examined the physical condition of the livestock in October 2011, assessed the key assumptions and estimates and also relied on representations made by the Company as at December 31, 2011. 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.

## 7. 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 7.1 and 29)

Balance at end of the year

Gross carrying value

Cost

Less: Accumulated amortization

Net book value

2011                      2010  
------(Rupees)-----

|  | 2011     | 2010     |
|--|----------|----------|
| Balance at beginning of the year                         | 142,433  | 27,804   |
| Add: Additions at cost (note 4.5)                        | 33,561   | 128,789  |
| Less: Amortization charge for the year (note 7.1 and 29) | (42,396) | (14,160) |
| Balance at end of the year                               | 133,598  | 142,433  |
| Cost   | 204,546  | 170,985  |
| Less: Accumulated amortization                           | (70,948) | (28,552) |
| Net book value   | 133,598  | 142,433  |

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

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

Advances to:

Executives (note 8.1, 8.2 and 8.3)

Less: Recoverable within one year shown under current assets (note 12)

Deposits

Prepayments

|  | 2011     | 2010    |
|--|----------|---------|
| Executives (note 8.1, 8.2 and 8.3)                                     | 28,459   | 23,687  |
| Less: Recoverable within one year shown under current assets (note 12) | (14,325) | (7,592) |
| Deposits   | 14,134   | 16,095  |
| Prepayments  | 10,078   | 4,197   |
|  | -        | 2,834   |
|  | 24,212   | 23,126  |

(Amounts in thousand)

|   | 2011                | 2010          |
|---|---------------------|---------------|
|   | ------(Rupees)----- |               |
| 8.1 Reconciliation of the carrying amount of advances to executives   |                     |               |
| Balance as at January 1   | 23,687              | 7,511         |
| Add: Disbursements  | 21,859              | 23,655        |
| Less:   |                     |               |
| • Repayments  | (7,666)             | (2,550)       |
| • Amortization  | (9,421)             | (4,929)       |
| Balance as at December 31   | <u>28,459</u>       | <u>23,687</u> |
| 8.2 This represents 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. |                     |               |
| 8.3 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 29,022 (2010: Rs. 23,687).   |                     |               |
| 8.4 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 in recent history.  |                     |               |

## 9. Stores, Spares and Loose Tools

|  | 2011                | 2010           |
|--|---------------------|----------------|
|  | ------(Rupees)----- |                |
| Stores   | 139,357             | 89,904         |
| Spares and loose tools including in-transit<br>Nil (2010: Rs. 18,244) (note 9.1) | <u>432,455</u>      | <u>351,937</u> |
|  | <u>571,812</u>      | <u>441,841</u> |

9.1 These are net of provision against slow moving items amounting to Rs. 583 (2010: Rs. 500).

## 10. Stock-in-Trade

|   | 2011                | 2010             |
|---|---------------------|------------------|
|   | ------(Rupees)----- |                  |
| Raw and packaging material (note 10.1 and 10.3) | 1,685,987           | 1,484,350        |
| Work in process                                 | 128,689             | 48,564           |
| Finished goods (note 10.2 and 10.3)             | <u>823,140</u>      | <u>556,307</u>   |
|   | <u>2,637,816</u>    | <u>2,089,221</u> |

10.1 Includes Rs. 19,356 (2010: Rs. 18,939) in respect of harvested feed stock and Rs. 115,442 (2010: Rs. 65,206) in respect of stock held by third parties.

10.2 Includes Rs. 32,611 (2010: Rs. 30,731) in respect of finished goods carried at net realizable value and Rs. 50,309 (2010: Rs. 35,102) in respect of stock held by third parties.

10.3 These are net of provision against expired/obsolete stock amounting Rs. 23,283 (2010: Rs. 29,691)

(Amounts in thousand)

|  | 2011                | 2010           |
|--|---------------------|----------------|
|  | ------(Rupees)----- |                |
| 11. Trade Debts, Unsecured   |                     |                |
| Considered good (note 11.1 and 11.2)   | 87,121              | 51,879         |
| Considered doubtful (note 11.3)  | <u>4,644</u>        | <u>5,297</u>   |
|  | 91,765              | 57,176         |
| Less: Provision for impairment (notes 11.3)  | <u>(4,644)</u>      | <u>(5,297)</u> |
|  | <u>87,121</u>       | <u>51,879</u>  |
| 11.1 As at December 31, 2011, trade debts aggregating to Rs. 8,269 (2010: Rs. 1,573) 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, 2011, trade debts aggregating to Rs. 78,852 (2010: Rs. 50,306) were neither past due nor impaired. The credit quality of these receivables can be assessed with reference to their historical performance with no defaults in recent history.                              |                     |                |
| 11.3 As at December 31, 2011, trade debts aggregating to Rs. 4,644 (2010: Rs. 5,297) were deemed to have been impaired and provided for. These debts are less than 6 months old. The movement in provision during the year is as follows:  |                     |                |

|  | 2011                | 2010         |
|--|---------------------|--------------|
|  | ------(Rupees)----- |              |
| Balance as at January 1                                | 5,297               | 2,661        |
| Add: Recognized / (Reversed) during the year (note 29) | <u>(653)</u>        | <u>2,636</u> |
| Balance as at December 31                              | <u>4,644</u>        | <u>5,297</u> |

## 12. Advances, Deposits and Prepayments - Unsecured, considered good

|   | 2011           | 2010           |
|---|----------------|----------------|
| Advances to:  |                |                |
| • Executives (notes 12.1 and 12.2)                                | 2,174          | 6,573          |
| • Other employees (note 12.3)                                     | <u>29,734</u>  | <u>18,424</u>  |
|   | 31,908         | 24,997         |
| Add: Current portion of long term advances to executives (note 8) | <u>14,325</u>  | <u>7,592</u>   |
|   | 46,233         | 32,589         |
| Advances to suppliers (note 12.4)                                 | 140,490        | 147,507        |
| Deposits  | 16,359         | 8,973          |
| Prepayments   | <u>63,011</u>  | <u>55,140</u>  |
|   | <u>266,093</u> | <u>244,209</u> |

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

(Amounts in thousand)

12.2 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 8,121 (2010: Rs. 7,159).

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

12.4 Includes advance to following related parties:

- Engro Polymer and Chemicals Limited
- Avanceon Limited
- Engro Fertilizer Limited

|  | 2011                | 2010         |
|--|---------------------|--------------|
|  | ------(Rupees)----- |              |
|  | -                   | 3,276        |
|  | 1,120               | 3,028        |
|  | 231                 | -            |
|  | <u>1,351</u>        | <u>6,304</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 in recent history.

### 13. Other Receivables

Receivable from related parties:

- Engro Corporation Limited, the Holding Company
- Engro Fertilizer Limited
- Engro Foundation
- Engro Foods Canada Limited
- Engro Foods Supply Chain (Private) Limited
- Engro Eximp (Private) Limited
- Engro PowerGen Limited

|  | 2011                | 2010           |
|--|---------------------|----------------|
|  | ------(Rupees)----- |                |
|  | 2,991               | -              |
|  | 265                 | -              |
|  | 2,269               | -              |
|  | 3,742               | -              |
|  | 8,601               | 3,268          |
|  | 1,650               | -              |
|  | 58                  | -              |
|  | <u>19,576</u>       | <u>3,268</u>   |
| Sales tax refundable (note 13.1)                       | 827,268             | 518,439        |
| Receivable from Tetra Pak Pakistan Limited (note 13.2) | 311,785             | 165,876        |
| Others   | 1,497               | 33,152         |
|  | <u>1,160,126</u>    | <u>720,735</u> |

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:

|                                      | 2011                | 2010           |
|--------------------------------------|---------------------|----------------|
|                                      | ------(Rupees)----- |                |
| Balance as at January 1              | 518,439             | 409,328        |
| Add: Refunds claimed during the year | 668,299             | 356,873        |
| Less:                                |                     |                |
| • Refunds received during the year   | (355,112)           | (247,762)      |
| • Provision for impairment           | (4,358)             | -              |
| Balance as at December 31            | <u>827,268</u>      | <u>518,439</u> |

(Amounts in thousand)

13.2 Includes marketing support subsidy receivable under an agreement dated April 7, 2011, quantity size discount and investment support allowance, 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 in recent history.

### 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. The fair value of the outstanding forward contracts as at December 31, 2011 amounts to a liability of Rs. 27,966 (2010: asset of Rs. 510).

### 15. Short Term Investment

At fair value through profit or loss:

- Fixed income placement (note 15.1)
- Mutual fund securities (note 15.2)

|  | 2011                | 2010     |
|--|---------------------|----------|
|  | ------(Rupees)----- |          |
|  | 300,000             | -        |
|  | 994,000             | -        |
|  | <u>1,294,000</u>    | <u>-</u> |

15.1 This represents investment in Term Deposit Receipt (TDR) at the rate of 12% maturing on January 16, 2012.

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

### 16. Cash and Bank Balances

Cash

- in hand
- in transit (note 16.1)

Cash at bank on:

- current accounts
- saving accounts
- deposit accounts (note 16.2)

|  | 2011                | 2010           |
|--|---------------------|----------------|
|  | ------(Rupees)----- |                |
|  | 481                 | 134            |
|  | -                   | 59,135         |
|  | 249,135             | 96,164         |
|  | 101,112             | 24,273         |
|  | -                   | 475            |
|  | <u>350,247</u>      | <u>120,912</u> |
|  | <u>350,728</u>      | <u>180,181</u> |

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.

16.2 Represents amount of security deposits collected from transporters and distributors.

(Amounts in thousand)

## 17. Share Capital

Authorized capital  
850,000,000 (2010: 800,000,000) Ordinary shares  
of Rs. 10 each (note 17.1)

Issued, subscribed and paid-up capital  
751,788,855 (2010: 700,000,000) Ordinary shares  
of Rs. 10 each fully paid in cash (note 17.2 and 17.3)

2011                      2010  
------(Rupees)-----

|  | 2011      | 2010      |
|--|-----------|-----------|
| Authorized capital                     | 8,500,000 | 8,000,000 |
| Issued, subscribed and paid-up capital | 7,517,889 | 7,000,000 |

17.1 During the year the Company increased its authorized capital by 50,000,000 ordinary shares of Rs. 10 each.

17.2 During the year the Company issued and allotted:

- 48,000,000 shares to certain private investors at Rs. 25 per share, after waiver by ECL of its pre-emptive rights to these shares.
- 3,788,855 shares at Rs. 17 per share to employees who exercised their share options under Employees' Share Option Scheme.

17.3 As at December 31, 2011, Engro Corporation Limited (the Holding Company) holds 672,999,991 ordinary shares of Rs. 10 each (2010: 700,000,000 ordinary shares of Rs. 10 each).

## 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.

(Amounts in thousand)

During the year 3,788,855 ordinary shares at Rs. 17 per share were issued to employees who exercised their share options under the Scheme.

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

Long term finances utilized under mark-up arrangements:

|   | Installments       |                   | 2011                | 2010      |
|---|--------------------|-------------------|---------------------|-----------|
|   | Number             | Commencing from   | ------(Rupees)----- |           |
| <b>Long term finances</b>                                   |                    |                   |                     |           |
| Faysal Bank Limited   | 6 half yearly      | August 21, 2009   | 58,333              | 175,000   |
| Syndicated Finance I  | 4 half yearly      | February 20, 2015 | 1,500,000           | 1,500,000 |
| Syndicated Finance II                                       | 5 half yearly      | July 10, 2012     | 1,200,000           | 1,200,000 |
| Habib Bank Limited  | 6 half yearly      | September 3, 2011 | 416,667             | 500,000   |
| Syndicated Finance III (note 19.1)                          | 6 half yearly      | February 16, 2013 | 1,000,000           | 500,000   |
| Citibank, N.A. (note 19.1)                                  | One bullet payment | February 1, 2013  | 700,000             | -         |
| Pak Kuwait Investment Company (Private) Limited (note 19.1) | 6 half yearly      | June 30, 2014     | 250,000             | -         |
|   |                    |                   | 5,125,000           | 3,875,000 |
| <b>Certificate</b>  |                    |                   |                     |           |
| Sukuk Certificates  | 4 half yearly      | July 13, 2015     | 950,000             | 950,000   |
|   |                    |                   | 6,075,000           | 4,825,000 |
|   |                    |                   | (465,000)           | (200,000) |
|   |                    |                   | 5,610,000           | 4,625,000 |

Less: Current portion shown under current liabilities

### 19.1 During the year, the Company:

- further utilized the Syndicated Term Finance Facility III obtained from syndicate of banks led by NIB Bank Limited to the extent of Rs. 1,000,000; and
- obtained loans of Rs. 700,000 and Rs. 250,000 from Citibank, N.A. and Pak Kuwait Investment Company (Private) Limited, respectively.

19.2 The above finances are secured by a registered subordinate floating charge/ mortgage over the present and future operating assets of the Company upto a maximum of Rs. 8,062,500.

19.3 The rates of mark-up on above finances are KIBOR based and range from 14.02% to 16.4% (2010: 12.71% to 15.12%) 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

Balance as at January 1  
Less: Principal re-paid during the year  
Present value of minimum lease payments  
Less: Current portion shown under current liabilities

2011  
------(Rupees)-----  
2010

|         |         |
|---------|---------|
| 8,389   | 13,281  |
| (3,210) | (4,892) |
| 5,179   | 8,389   |
| (3,884) | (3,675) |
| 1,295   | 4,714   |

20.1 Includes 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 will 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. The principal outstanding under this arrangement amounts to Rs. 5,179 (2010: Rs. 7,368).

20.2 The amount of future payments for the leases and the period in which the lease payments will become due are as follows:

| Year ended / ending | 2011                   |               |   | 2010                                    |
|---------------------|------------------------|---------------|---|---|
|                     | Minimum lease payments | Finance costs | Present value of minimum lease payments | Present value of minimum lease payments |
| December 31, 2011   | -                      | -             | -                                       | 3,611                                   |
| 2012                | 3,884                  | -             | 3,884                                   | 2,589                                   |
| 2013                | 1,295                  | -             | 1,295                                   | 2,189                                   |
|                     | 5,179                  | -             | 5,179                                   | 8,389                                   |

2011  
------(Rupees)-----  
2010

## 21. Deferred Taxation

Credit balances arising due to accelerated tax depreciation

Debit balances arising due to:

- recoupable carried forward tax losses (note 21.1)
- minimum turnover tax
- derivate financial instruments, net to equity
- share issuance costs, net to equity

|           |           |
|-----------|-----------|
| 1,020,081 | 720,909   |
| (82,130)  | (231,915) |
| (606,966) | (308,030) |
| (9,788)   | -         |
| (13,107)  | -         |
| (711,991) | (539,945) |
| 308,090   | 180,964   |

(Amounts in thousand)

21.1 Deferred income tax asset is recognized on tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. Such tax losses available for carry-forward on which the deferred income tax asset has been recognized as at December 31, 2011 amount to Rs. 234,658 (2010: Rs. 662,614), net off surrender of tax losses to ECL, the Holding Company (note 33.2).

## 22. Deferred Liabilities

Deferred income on sale and lease back arrangements for vehicles:

- Balance as at January 1
- Less: Amortization for the year (note 31)
- Balance as at December 31

Retirement and other service benefits

- Pension scheme

2011  
------(Rupees)-----  
2010

|       |       |
|-------|-------|
| 30    | 111   |
| (30)  | (81)  |
| -     | 30    |
| 1,870 | 3,432 |
| 1,870 | 3,462 |

## 23. Trade and Other Payables

Trade payables  
Accrued liabilities  
Advances from customers  
Retention money  
Security deposits  
Withholding tax payable  
Payable to provident fund  
Payable to gratuity fund (note 37)  
Workers' profits participation fund (note 23.1)  
Workers' welfare fund  
Others (note 23.2)

|           |           |
|-----------|-----------|
| 1,168,250 | 866,936   |
| 583,196   | 833,570   |
| 385,222   | 280,264   |
| 26,829    | 12,066    |
| 180       | 345       |
| 23,968    | 5,983     |
| 9,494     | 396       |
| 13,737    | 15,777    |
| 73,545    | 14,506    |
| 32,924    | 5,512     |
| 26,161    | 5,220     |
| 2,343,506 | 2,040,575 |

### 23.1 Workers' Profits Participation Fund

Balance as at January 1  
Add: Allocation for the year

Less: Amount paid to the Fund  
Balance as at December 31

|          |        |
|----------|--------|
| 14,506   | -      |
| 73,196   | 14,506 |
| 87,702   | 14,506 |
| (14,157) | -      |
| 73,545   | 14,506 |

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

- Engro Corporation Limited, the Holding Company
- Engro Fertilizers Limited

|   |       |
|---|-------|
| - | 1,204 |
| - | 880   |
| - | 2,084 |

(Amounts in thousand)

## 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. 2,800,000 (2010: Rs. 1,600,000). The unutilized balance against these facilities as at year end was Rs. 2,547,750 (2010: Rs. 1,600,000). The rates of mark-up on these finances are KIBOR based and range from 12.90% to 13.58% (2010: 13.03% to 14.59%) per annum. These facilities are secured by way of hypothecation upon all the present and future current assets of the Company. The corresponding purchase prices are payable on various dates by July 31, 2012.

24.2 The facilities for opening letters of credit and guarantees as at December 31, 2011 amounts to Rs. 3,500,000 (2010: Rs. 3,115,000), of which the amount remaining unutilized at year end was Rs. 1,830,159 (2010: Rs. 1,305,600).

## 25. Contingencies and Commitments

### 25.1 The Company has provided bank guarantees to:

- Sui Southern Gas Company Limited amounting to Rs. 39,037 (2010: Rs. 33,993) under the contract for supply of gas;
- Sui Northern Gas Company Limited amounting to Rs. 34,350 (2010: Rs. 34,350) under the contract for supply of gas;
- Irrigation and Power Department, Government of Sindh amounting to Rs. 100 (2010: Rs. 100) under an agreement for disposal of treated waste water;
- Collector of Sales Tax, Large Tax Payers Unit (LTU), Karachi amounting to Rs. 258,712 (2010: Rs. 258,800) under Sales Tax Rules 2006, against refund claim of input sales tax. Against these guarantees, sales tax refunds amounting to Rs. 172,000 (2010: Rs. 172,000) have been received to-date; and
- Controller Military Accounts, Rawalpindi amounting to Rs. 5,351 (2010: Rs. 3,217), as collateral against supplies.

25.2 As at December 31, 2011 post-dated cheques amounting to Rs. 153,342 (2010: Nil) have been provided as collateral to customs authorities, in accordance with the procedures prescribed by the Government of Pakistan through notifications dated July 8, 2011 and August 1, 2011.

25.3 Commitments in respect of capital expenditure contracted for but not incurred as at December 31, 2011 amounted to Rs. 661,295 (2010: Rs. 696,170).

25.4 Commitments in respect of purchase of certain commodities as at December 31, 2011 amounted to Rs. 1,142,344 (2010: Nil)

## 26. Net Sales

Manufactured goods (note 26.1)

Less:

- Sales tax
- Discounts

Raw milk

|                                | 2011                | 2010              |
|--------------------------------|---------------------|-------------------|
|                                | ------(Rupees)----- |                   |
| Manufactured goods (note 26.1) | 30,779,441          | 21,377,245        |
| Less:                          |                     |                   |
| • Sales tax                    | (597,246)           | (346,734)         |
| • Discounts                    | (335,824)           | (95,144)          |
|                                | <u>29,846,371</u>   | <u>20,935,367</u> |
| Raw milk                       | 12,855              | 9,576             |
|                                | <u>29,859,226</u>   | <u>20,944,943</u> |

26.1 Includes export sales amounting to Rs. 614,560 (2010: Rs. 20,998).

(Amounts in thousand)

## 22. Cost of Sales

Raw and packaging material consumed (note 27.1)  
Salaries, wages, and staff welfare (note 27.2)  
Fuel and power  
Repair and maintenance  
Freight inwards  
Depreciation (note 4.3)  
Travelling  
Communication and other office expenses  
Insurance  
Rent and utilities  
Land lease rentals of dairy farm  
Purchased services

Provision against:

- stock-in-trade
- slow moving spares (note 9.1)

Reversal of provision against sales tax refundable

Manufacturing cost

Add: Opening stock of work-in-process

Less: Closing stock of work-in-process

Cost of goods manufactured

Add: Opening stock of finished goods manufactured

Less: Closing stock of finished goods manufactured

Add: Cost of Raw milk sold directly (note 27.1)

### 27.1 Raw and packaging material consumed

Opening stock of raw and packaging material

Add: Purchases

Less:

- Fair value of milk produced from biological assets
- Raw milk sold directly
- Closing stock of raw and packaging material

Raw and packaging material consumed

27.2 Includes Rs. 49,521 (2010: Rs. 54,015) in respect of staff retirement benefits referred to in note 37.

2011                      2010  
------(Rupees)-----

|  |                   |                   |
|--|-------------------|-------------------|
| Raw and packaging material consumed (note 27.1)    | 19,926,540        | 14,046,193        |
| Salaries, wages, and staff welfare (note 27.2)     | 516,611           | 476,636           |
| Fuel and power                                     | 984,659           | 622,988           |
| Repair and maintenance                             | 412,753           | 332,006           |
| Freight inwards                                    | 388,789           | 360,051           |
| Depreciation (note 4.3)                            | 732,594           | 590,622           |
| Travelling   | 88,481            | 60,846            |
| Communication and other office expenses            | 88,799            | 89,867            |
| Insurance  | 72,436            | 53,063            |
| Rent and utilities                                 | 129,089           | 91,670            |
| Land lease rentals of dairy farm                   | -                 | 5,031             |
| Purchased services                                 | 198,744           | 125,772           |
| Provision against:                                 |                   |                   |
| • stock-in-trade                                   | 18,118            | 27,912            |
| • slow moving spares (note 9.1)                    | 83                | -                 |
| Reversal of provision against sales tax refundable | -                 | (121,539)         |
| Manufacturing cost                                 | <u>23,557,696</u> | <u>16,761,118</u> |
| Add: Opening stock of work-in-process              | 48,564            | 38,969            |
| Less: Closing stock of work-in-process             | (128,689)         | (48,564)          |
| Cost of goods manufactured                         | <u>23,477,571</u> | <u>16,751,523</u> |
| Add: Opening stock of finished goods manufactured  | 556,307           | 339,987           |
| Less: Closing stock of finished goods manufactured | (823,140)         | (556,307)         |
|  | <u>23,210,738</u> | <u>16,535,203</u> |
| Add: Cost of Raw milk sold directly (note 27.1)    | 19,707            | 16,914            |
|  | <u>23,230,445</u> | <u>16,552,117</u> |

|  |                   |                   |
|--|-------------------|-------------------|
| Opening stock of raw and packaging material          | 1,484,350         | 784,851           |
| Add: Purchases                                       | 20,417,926        | 14,999,433        |
| Less:  |                   |                   |
| • Fair value of milk produced from biological assets | (270,042)         | (236,827)         |
| • Raw milk sold directly                             | (19,707)          | (16,914)          |
| • Closing stock of raw and packaging material        | (1,685,987)       | (1,484,350)       |
| Raw and packaging material consumed                  | <u>19,926,540</u> | <u>14,046,193</u> |

(Amounts in thousand)

## 28. Distribution and Marketing Expenses

|  | 2011<br>------(Rupees)----- | 2010             |
|--|-----------------------------|------------------|
| Salaries, wages, and staff welfare (note 28.1)     | 508,040                     | 412,955          |
| Advertising and sales promotion                    | 1,812,309                   | 1,377,790        |
| Freight outward                                    | 1,000,927                   | 837,630          |
| Travelling   | 89,159                      | 83,985           |
| Communication and other office expenses            | 96,235                      | 63,005           |
| Depreciation (note 4.3)                            | 148,483                     | 96,709           |
| Fuel and power                                     | 5,351                       | 5,182            |
| Repairs and maintenance                            | 29,729                      | 12,525           |
| Rent, rates and taxes                              | 17,887                      | 16,232           |
| Provision against sales tax refundable (note 13.1) | 4,358                       | -                |
| Professional services                              | -                           | 332              |
| Insurance  | 4,011                       | 7,103            |
|  | <u>3,716,489</u>            | <u>2,913,448</u> |

28.1 Includes Rs. 45,674 (2010: Rs. 37,470) in respect of staff retirement benefits referred to in note 37.

## 29. Administrative Expenses

|   | 2011           | 2010           |
|---|----------------|----------------|
| Salaries, wages and staff welfare (note 29.1)                                 | 246,463        | 278,527        |
| Communication and other office expenses                                       | 78,102         | 64,377         |
| Rent, rates and taxes   | 70,845         | 72,444         |
| Travelling  | 11,115         | 16,981         |
| Depreciation (note 4.3)   | 39,926         | 13,021         |
| Amortization (note 7)   | 42,396         | 14,160         |
| Fuel and power  | 4,121          | 2,742          |
| Repairs and maintenance   | 2,069          | 1,620          |
| Insurance   | 1,984          | 1,646          |
| Provision / (Reversal of provision) for impairment of trade debts (note 11.3) | (653)          | 2,636          |
| Purchased services  | 8,354          | 5,044          |
|   | <u>504,722</u> | <u>473,198</u> |

29.1 Includes Rs. 29,256 (2010: Rs. 13,944) in respect of staff retirement benefits referred to in note 37.

(Amounts in thousand)

## 30. Other Operating Expenses

|   | 2011<br>------(Rupees)----- | 2010           |
|---|-----------------------------|----------------|
| Research and business development             | 15,414                      | 21,315         |
| Legal and professional                        | 73,167                      | 51,386         |
| Auditors' remuneration (note 30.1)            | 1,139                       | 1,214          |
| Donations (note 30.2)                         | 11,085                      | 24,483         |
| Operating assets written-off                  | -                           | 55             |
| Loss on death / disposal of biological assets | -                           | 5,357          |
| Software maintenance and license cost         | 6,530                       | -              |
| Workers' profits participation fund           | 73,196                      | 14,506         |
| Workers' welfare fund                         | 27,270                      | 5,512          |
| Exchange loss                                 | 778                         | -              |
| Others  | 323                         | 7,632          |
|   | <u>208,902</u>              | <u>131,460</u> |

### 30.1 Auditors' remuneration

Fee for:

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

Reimbursement of expenses

|   | 2011         | 2010         |
|---|--------------|--------------|
| annual statutory audit  | 600          | 580          |
| half yearly review  | 125          | 110          |
| review of compliance with the Code of Corporate Governance    | 25           | 10           |
| audit of retirement benefit funds and other advisory services | 300          | 272          |
|   | <u>1,050</u> | <u>972</u>   |
| Reimbursement of expenses                                     | 89           | 242          |
|   | <u>1,139</u> | <u>1,214</u> |

### 30.2 Includes donation to following related parties:

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

|   | 2011          | 2010          |
|---|---------------|---------------|
| Engro Foundation (note 30.2.1)                      | 11,035        | 24,000        |
| Pakistan Veterans Cricket Association (note 30.2.1) | 50            | -             |
|   | <u>11,085</u> | <u>24,000</u> |

30.2.1 The Directors including the Chief Executive and their spouses do not have any interest in the donee, except that a Director - Mr. Asad Umar is on the Board of Trustees of Engro Foundation as Trustee and Chairman 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 (note 5.2 and 31.1)

2011  
------(Rupees)-----  
2010

|   | 2011           | 2010          |
|---|----------------|---------------|
| Interest on bank deposits / saving accounts                             | 3,504          | 9,692         |
| Gain on sale of investment in subsidiary (note 5.2 and 31.1)            | 78,436         | -             |
|   | <u>81,940</u>  | <u>9,692</u>  |
| <b>From other than financial assets</b>                                 |                |               |
| Gain arising from changes in fair value of biological assets (note 6.1) | 90,830         | 14,309        |
| Gain on disposal of biological assets                                   | 2,095          | -             |
| Amortization of deferred income (note 22)                               | 30             | 81            |
| Profit on disposal of operating assets                                  | 2,128          | 3,904         |
| Exchange gain   | -              | 935           |
| Scrap sales   | 34,243         | 17,218        |
| Insurance claims  | -              | 3,543         |
| Others  | 1,867          | 5,260         |
|   | <u>131,193</u> | <u>45,250</u> |
|   | <u>213,133</u> | <u>54,942</u> |

31.1 The gain is net of transaction related costs amounting to Rs, 6,684.

### 32. Finance Costs

Mark-up on

- short-term finances
- long-term finances
- finance lease

Bank charges

|                       | 2011             | 2010           |
|-----------------------|------------------|----------------|
| Mark-up on            |                  |                |
| • short-term finances | 137,737          | 46,384         |
| • long-term finances  | 885,956          | 586,811        |
| • finance lease       | 51               | 3,760          |
|                       | <u>1,023,744</u> | <u>636,955</u> |
| Bank charges          | 25,397           | 22,607         |
|                       | <u>1,049,141</u> | <u>659,562</u> |

### 33. Taxation

Current, for the year (note 33.1)  
Deferred

|                                   | 2011           | 2010          |
|-----------------------------------|----------------|---------------|
| Current, for the year (note 33.1) | 321,666        | 215,140       |
| Deferred                          | 150,021        | (120,662)     |
|                                   | <u>471,687</u> | <u>94,478</u> |

(Amounts in thousand)

33.1 Current year charge comprises of minimum tax at the rate of 1% (2010: 1%) of the turnover in accordance with section 113 of the Income Tax Ordinance, 2001, and also includes tax on gain on disposal of investment in subsidiary.

33.2 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 last year in favour of the Holding Company, whereby, allowing the surrender of tax losses by the Company to the Holding Company. The tax department has filed reference application thereagainst before the Sindh High Court, which is pending for 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) Last year, 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.

### 33.3 Relationship between tax expense and accounting profit

Profit before taxation  
Tax at the applicable tax rate of 35% (2010: 35%)  
Tax effect of exempt income, lower tax rate on exports and others

2011  
------(Rupees)-----  
2010

|   | 2011           | 2010          |
|---|----------------|---------------|
| Profit before taxation  | 1,362,660      | 270,100       |
| Tax at the applicable tax rate of 35% (2010: 35%)                 | 476,931        | 94,535        |
| Tax effect of exempt income, lower tax rate on exports and others | (5,244)        | (57)          |
|   | <u>471,687</u> | <u>94,478</u> |

(Amounts in thousand)

### 34. Earnings / Loss Per Share - Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, which is based on:  
Profit for the year

2011                      2010  
----- (Rupees) -----

|         |         |
|---------|---------|
| 890,973 | 175,622 |
|---------|---------|

(Number of shares)

|         |         |
|---------|---------|
| 730,721 | 563,765 |
|---------|---------|

Weighted average number of ordinary shares in issue during the year (in thousand)

### 35. Cash Generated From / (UTILIZED IN) OPERATIONS

Profit before taxation  
Adjustment for non-cash charges and other items:

- Depreciation
- Amortization of intangible assets
- Amortization of deferred income
- Gain on disposal of investment in subsidiary, net
- Loss/(Gain) on disposal of biological assets
- Profit on disposal of operating assets
- Operating assets written-off
- Provision against sales tax refundable
- Gain arising from changes in fair value less estimated point-of-sale costs of biological assets
- Provision for retirement and other service benefits
- Finance costs

Working capital changes (note 35.1)

|           |           |
|-----------|-----------|
| 1,362,660 | 270,100   |
| 921,003   | 700,352   |
| 42,396    | 14,160    |
| (30)      | (81)      |
| (78,436)  | -         |
| (2,095)   | 5,357     |
| (2,128)   | (3,904)   |
| -         | 55        |
| 4,358     | -         |
| (90,830)  | (14,309)  |
| 64,937    | 32,401    |
| 1,049,141 | 659,562   |
| (870,112) | (716,610) |
| 2,400,864 | 947,083   |

#### 35.1 Working capital changes

(Increase) / decrease in current assets

- Stores, spares and loose tools
- Stock-in-trade
- Trade debts
- Advances, deposits and prepayments
- Other receivables

Increase / (decrease) in current liabilities

- Trade and other payables - net

|             |             |
|-------------|-------------|
| (129,971)   | (152,186)   |
| (548,595)   | (925,414)   |
| (35,242)    | (27,196)    |
| (21,884)    | 94,380      |
| (439,391)   | (148,461)   |
| (1,175,083) | (1,158,877) |
| 304,971     | 442,267     |
| (870,112)   | (716,610)   |

(Amounts in thousand)

### 36. Cash and Cash Equivalents

Short term investments (note 15)  
Cash and bank balances (note 16)  
Short term finances (note 24)

|           |         |
|-----------|---------|
| 300,000   | -       |
| 350,728   | 180,181 |
| (252,250) | -       |
| 398,478   | 180,181 |

### 37. Staff Retirement and Other Service Benefits

The latest actuarial valuation of the defined benefit plans was carried out as at December 31, 2011 using the 'Projected Unit Credit Method'. Details of the defined benefit plans are as follows:

(Amounts in thousand)

|   | Funded<br>Gratuity Fund |           | Unfunded<br>Pension Scheme |         | Total     |           |
|---|-------------------------|-----------|----------------------------|---------|-----------|-----------|
|   | 2011                    | 2010      | 2011                       | 2010    | 2011      | 2010      |
| ----- (Rupees) -----  |                         |           |                            |         |           |           |
| <b>37.1 Reconciliation of obligations as at year end</b>                                  |                         |           |                            |         |           |           |
| Present value of defined benefit obligation   | (171,407)               | (137,469) | -                          | -       | (171,407) | (137,469) |
| Fair value of plan assets   | 129,997                 | 82,509    | -                          | -       | 129,997   | 82,509    |
| Deficit   | (41,410)                | (54,960)  | -                          | -       | (41,410)  | (54,960)  |
| Present value of unfunded obligations   | -                       | -         | -                          | (1,307) | -         | (1,307)   |
| Payable to group companies  | 396                     | (1,410)   | -                          | -       | 396       | (1,410)   |
| Unrecognized actuarial (gain)/ loss   | 27,277                  | 40,593    | -                          | (2,125) | 27,277    | 38,468    |
| Net liability at end of the year  | (13,737)                | (15,777)  | -                          | (3,432) | (13,737)  | (19,209)  |
| <b>37.2 Movement in liability</b>   |                         |           |                            |         |           |           |
| Net liability at beginning of the year  | (15,777)                | -         | (3,432)                    | (2,585) | (19,209)  | (2,585)   |
| Transfers to defined contribution pension scheme  | -                       | -         | 3,432                      | -       | 3,432     | -         |
| Charge for the year   | (64,937)                | (31,554)  | -                          | (847)   | (64,937)  | (32,401)  |
| Contributions   | 66,977                  | 15,777    | -                          | -       | 66,977    | 15,777    |
| Net liability at end of the year  | (13,737)                | (15,777)  | -                          | (3,432) | (13,737)  | (19,209)  |
| <b>37.3 Movement in fair value of plan assets</b>   |                         |           |                            |         |           |           |
| Fair value of plan assets at beginning of the year  | 82,509                  | 58,688    | -                          | -       | 82,509    | 58,688    |
| Expected return on plan assets  | 14,857                  | 8,752     | -                          | -       | 14,857    | 8,752     |
| Contributions for the year  | 66,977                  | 15,777    | -                          | -       | 66,977    | 15,777    |
| Transfers   | (3,383)                 | 4,054     | -                          | -       | (3,383)   | 4,054     |
| Benefits paid during the year   | (18,000)                | (2,096)   | -                          | -       | (18,000)  | (2,096)   |
| Actuarial gain / (loss) on assets   | (12,963)                | (2,666)   | -                          | -       | (12,963)  | (2,666)   |
| Fair value of plan assets at end of the year  | 129,997                 | 82,509    | -                          | -       | 129,997   | 82,509    |
| <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                     | 137,469                 | 77,010    | -                          | 2,372   | 137,469   | 79,382    |
| Service cost  | 52,266                  | 28,764    | -                          | 530     | 52,266    | 29,294    |
| Interest cost   | 25,767                  | 10,783    | -                          | 317     | 25,767    | 11,100    |
| Transfers   | (9,999)                 | 2,645     | -                          | -       | (9,999)   | 2,645     |
| Benefits paid during the year   | (18,000)                | (2,096)   | -                          | -       | (18,000)  | (2,096)   |
| Liability reversed  | 8,421                   | -         | -                          | -       | 8,421     | -         |
| Actuarial (gain) / loss   | (24,520)                | 20,363    | -                          | (1,912) | (24,520)  | 18,451    |
| Present value of defined benefit obligation/ unfunded obligation at end of the year       | 171,404                 | 137,469   | -                          | 1,307   | 171,404   | 138,776   |
| <b>37.5 Cost charged to profit and loss account</b>                                       |                         |           |                            |         |           |           |
| Current service cost  | 52,266                  | 28,764    | -                          | 530     | 52,266    | 29,294    |
| Interest cost   | 25,770                  | 10,783    | -                          | 317     | 25,770    | 11,100    |
| Expected return on plan assets  | (14,857)                | (8,752)   | -                          | -       | (14,857)  | (8,752)   |
| Recognition of actuarial (gain) / loss  | 1,758                   | 759       | -                          | -       | 1,758     | 759       |
| Cost for the year   | 64,937                  | 31,554    | -                          | 847     | 64,937    | 32,401    |

(Amounts in thousand)

37.6 In addition, salaries, wages and benefits also include Rs. 59,515 (2010: Rs. 73,284) in respect of defined contribution provident fund and pension scheme.

37.7 Principal actuarial assumptions used are as follows:

|  | Gratuity Fund |              | Un-funded<br>Pension Scheme |          |
|--|---------------|--------------|-----------------------------|----------|
|  | 2011          | 2010         | 2011                        | 2010     |
| Discount rate  | 12.5%         | 14.5%        | -                           | 14.5%    |
| Expected per annum rate of return on plan assets       | 12.5%         | 14.5%        | -                           | 14.5%    |
| Expected per annum rate of increase in future salaries | 11.5%         | 14.5%        | -                           | 14.5%    |
| Expected per annum rate of increase in pension         | -             | -            | -                           | 6.5%     |
| <b>37.8 Actual return on plan assets</b>               | <b>5,232</b>  | <b>6,086</b> | <b>-</b>                    | <b>-</b> |

37.9 Plan assets comprise of following:

|  | Gratuity Fund |      |        |     |
|--|---------------|------|--------|-----|
|  | 2011          |      | 2010   |     |
|  | Rupees        | %    | Rupees | %   |
| Held to maturity investments                 |               |      |        |     |
| • Pakistan Investment Bonds (PIBs)           | 46,278        | 36%  | 3,239  | 4%  |
| • Term Finance Certificates (TFCs)           | 50,802        | 39%  | 17,351 | 21% |
| • Regular Income Certificates (RICs)         | 18,633        | 14%  | 19,000 | 23% |
| • Treasury Bills                             | -             | -    | 19,479 | 24% |
|  | 115,713       | 89%  | 59,069 | 72% |
| Mutual fund securities (Equity Fund) - Units | 2,112         | 2%   | 8,962  | 11% |
| Listed securities                            | 7,855         | 6%   | 1,826  | 2%  |
| Balances with banks                          | 1,352         | 1%   | 11,537 | 14% |
| Others                                       | 2,965         | 2%   | 1,115  | 1%  |
|  | 129,997       | 100% | 82,509 | 84% |

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. 54,322.

(Amounts in thousand)

37.12 Historical information of staff retirement benefits:

|                              | 2011                | 2010      | 2009     | 2008     | 2007     | 2006    |
|------------------------------|---------------------|-----------|----------|----------|----------|---------|
|                              | ------(Rupees)----- |           |          |          |          |         |
| Present value of obligations | (171,407)           | (137,469) | (77,010) | (39,033) | (18,947) | (8,088) |
| Fair value of plan assets    | 129,997             | 82,509    | 58,688   | 29,417   | 15,464   | -       |
| Deficit                      | (41,410)            | (54,960)  | (18,322) | (9,616)  | (3,483)  | (8,088) |

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:

|   | 2011                |        |            | 2010            |        |            |
|---|---------------------|--------|------------|-----------------|--------|------------|
|   | Directors           |        | Executives | Directors       |        | Executives |
|   | Chief Executive     | Others |            | Chief Executive | Others |            |
|   | ------(Rupees)----- |        |            |                 |        |            |
| Managerial remuneration                                       | 28,581              | -      | 749,213    | 14,954          | -      | 409,098    |
| Contribution for staff retirement benefits                    | 2,308               | -      | 79,061     | 2,131           | -      | 77,086     |
| Bonus   | 15,803              | -      | 164,847    | 9,276           | -      | 90,121     |
| Fees  | -                   | 3,550  | -          | -               | 2,950  | -          |
| Total   | 46,692              | 3,550  | 993,121    | 26,361          | 2,950  | 576,305    |
| Number of persons including those who worked part of the year | 2                   | 6      | 537        | 1               | 6      | 374        |

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. 304 (2010: Rs. 712).

(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

|                        | 2011                | 2010    |
|------------------------|---------------------|---------|
|                        | ------(Rupees)----- |         |
| Short-term investments | 1,294,000           | -       |
| Long term deposits     | 10,078              | 4,197   |
| Trade debts            | 87,121              | 51,879  |
| Advances and deposits  | 18,533              | 15,546  |
| Other receivables      | 332,858             | 202,296 |
| Cash and bank balances | 350,728             | 180,181 |
|                        | 799,318             | 454,099 |
|                        | 2,093,318           | 454,099 |

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              | 6,075,000 | 4,825,000 |
| Obligations under finance lease | 5,179     | 8,389     |
| Trade and other payables        | 1,804,616 | 1,718,137 |
| Accrued interest / mark-up      | 388,381   | 277,267   |
| Short term finances             | 252,250   | -         |
|                                 | 8,525,426 | 6,828,793 |

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 shareholders. Risk management is carried out by the Company's finance department under policies approved by the Company's Board of Directors.

a) Market risk

i) Currency risk

Currency risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Company's exposure to currency risk is limited as all the foreign purchases are made against on

(Amounts in thousand)

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, 2011, 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, 2011, 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. 30,200 (2010: Rs. 27,812) mainly as a result of higher/lower interest exposure on variable rate borrowings.

iii) **Other price risk**

Price risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to price risk, as none of its investments are in listed 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. Out of the total financial assets of Rs. 2,079,234 (2010: Rs. 454,099), the financial assets exposed to credit risk amount to Rs. 2,079,234 (2010: Rs. 452,526).

As at December 31, 2011, 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. 1,956,513 (2010: Rs. 346,057). The credit risk on liquid funds is limited because the counter parties are banks and investment funds with reasonably high credit rating as follows:

(Amounts in thousand)

| Bank                            | Rating agency     | 2011       |           |
|---------------------------------|-------------------|------------|-----------|
|                                 |                   | Short term | Long term |
| Allied Bank Limited             | PACRA             | A1+        | AA        |
| Faysal Bank Limited             | PACRA             | A1+        | AA        |
|                                 | JCR-VIS           | A-1+       | AA        |
| Bank Alfalah Limited            | PACRA             | A1+        | AA        |
| Bank of Punjab                  | PACRA             | A1+        | AA -      |
| Habib Bank Limited              | JCR-VIS           | A-1+       | AA+       |
| MCB Bank Limited                | PACRA             | A1+        | 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        | A1        |
|                                 | Fitch             | F1+        | AA-       |
| Deutsche Bank AG                | Standard & Poor's | A-1        | A+        |
|                                 | Moody's           | P-1        | Aa3       |
|                                 | Fitch             | F1+        | 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)    |

The Company attempts to control credit risk arising on receivable from Tetra Pak Pakistan Limited through legally binding contracts 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 project cash flows and consider the level of liquid funds necessary to meet these, monitoring balance sheet liquidity ratios against external regulatory requirements and maintaining debt financing plans. These objectives are achieved by maintaining sufficient cash and 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.

(Amounts in thousand)

|                                 | 2011                   |                         |                  | 2010                   |                         |                  |
|---------------------------------|------------------------|-------------------------|------------------|------------------------|-------------------------|------------------|
|                                 | Maturity upto one year | Maturity after one year | Total            | Maturity upto one year | Maturity after one year | Total            |
|                                 | ------(Rupees)-----    |                         |                  |                        |                         |                  |
| Long term finances              | 465,000                | 5,610,000               | 6,075,000        | 200,000                | 4,625,000               | 4,825,000        |
| Obligations under finance lease | 3,884                  | 1,295                   | 5,179            | 3,675                  | 4,714                   | 8,389            |
| Trade and other payables        | 1,804,616              | -                       | 1,804,616        | 1,718,137              | -                       | 1,718,137        |
| Accrued interest / mark-up      | 388,381                | -                       | 388,381          | 277,267                | -                       | 277,267          |
| Short term finances             | 252,250                | -                       | 252,250          | -                      | -                       | -                |
|                                 | <u>2,914,131</u>       | <u>5,611,295</u>        | <u>8,525,426</u> | <u>2,199,079</u>       | <u>4,629,714</u>        | <u>6,828,793</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:

|                      | 2011                | 2010             |
|----------------------|---------------------|------------------|
|                      | ------(Rupees)----- |                  |
| Long term finances   | 5,610,000           | 4,625,000        |
| Total equity         | 7,236,942           | 5,124,407        |
| Total capital        | <u>12,846,942</u>   | <u>9,749,407</u> |
| Debt to Equity ratio | 0.44                | 0.47             |

(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   | 2011   | 2010      |         |
|---------------------------------|--|--|-----------|---------|
|                                 |  | ------(Rupees)-----  |           |         |
| <b>Holding company</b>          | Arrangement for sharing of premises, utilities, personnel and assets | 173,726  | 167,576   |         |
|                                 | Pension fund contribution  | 8,613  | 2,396     |         |
|                                 | Provident fund contribution  | 3,917  | 5,521     |         |
|                                 | Gratuity fund contribution   | 721  | 420       |         |
|                                 | Subordinated loan  | -  | 300,000   |         |
|                                 | Repayment of subordinated loan                                       | -  | (300,000) |         |
|                                 | <b>Subsidiary and associated companies</b>                           | Amount paid on behalf of subsidiary                                  | 88,130    | 48,838  |
|                                 |  | Advance against issue of share capital                               | 350,000   | 827,000 |
|                                 |  | Arrangement for sharing of premises, utilities, personnel and assets | 91,418    | 34,863  |
|                                 |  | Provident fund contribution  | 467       | 280     |
| Gratuity fund contribution      |  | -  | 98        |         |
| Expense claimable               |  | 17,163   | 9,477     |         |
| Purchases of goods              |  | 47,679   | 16,628    |         |
| Purchases of services           |  | 14,381   | 14,710    |         |
| Sale of investment              |  | 1,415,120  | -         |         |
| Donation                        |  | 11,085   | 24,000    |         |
| Sale of goods                   | -  | 32,352   |           |         |
| <b>Key management personnel</b> | Managerial remuneration  | 79,566   | 65,668    |         |
|                                 | Contribution for staff retirement benefits                           | 13,546   | 11,722    |         |
|                                 | Bonus payment  | 53,466   | 26,179    |         |
|                                 | Other benefits   | 3,687  | 2,487     |         |

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

42.3 The related party status of outstanding receivables and payable as at December 31, 2011 are included in respective notes to the financial statements.



# annexure

(Amounts in thousand)

#### 44. SEASONALITY

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<br>Actual Capacity |         | Actual Production |         | Remarks                                    |
|---|-----------------------------|---------|-------------------|---------|--|
|   | 2011                        | 2010    | 2011              | 2010    |  |
| Dairy & Juices<br>(weighted average single SKU basis) | 525,009                     | 446,503 | 388,236           | 314,650 | Production planned<br>as per market demand |
| Ice cream   | 35,527                      | 19,032  | 17,763            | 12,672  |  |

#### 47. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison, the effects of which are not material.

#### 47. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on January 24, 2012 by the Board of Directors of the Company.

  
Afnan Ahsan  
Chief Executive Officer

  
Ruhail Mohammed  
Director

## 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, 2011 are 17,547,785 shares. To date, options of 3,788,855 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 407,025 (2010: 397,230). To date, Rs. 64,410,535 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                  | Granted During Year 2011 |
|-------|----------------------------------|----------------------------------|--------------------------|
| 1     | Sarfaraz A. Rehman (ex-employee) | 2,500,000<br>(options exercised) | -                        |
| 2     | Shamsuddin A. Shaikh             | 2,000,000                        | -                        |
| 3     | Ali Akbar                        | 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 2011 |
|-------|----------------------|-----------------|--------------------------|
| 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 19th day of March, 2012  
and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2012.

### 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.