Financial Statements 2015

Nestlé 150 Years

of Good Food, Good Life

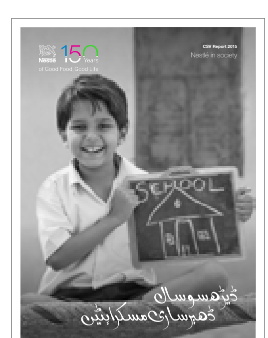
Financial Report 2015

Table of Contents

Accompanying reports

Management Report 2015

Nestlé in society
Creating Shared Value and meeting our commitments 2015



Auditors’ Report to the Members

We have audited the annexed balance sheet of Nestlé Pakistan Limited (“the Company”) as at 31 December 2015 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity 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 change in accounting policy as referred to in note 2.3 with which we concur;

   ii. the expenditure incurred during the period was for the purpose of the Company’s business; and

   iii. the business conducted, investments made and the expenditure incurred during the period 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with 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 31 December 2015 and of the profit and of its comprehensive income, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)

Lahore: February 16, 2016

Balance Sheet
As at 31 December 2015

(Rupees in '000)	Note	2015	2014
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized capital			
75,000,000 (2014: 75,000,000) ordinary shares of Rs. 10 each		750,000	750,000
Issued, subscribed and paid up capital	3	453,496	453,496
Share premium	4	249,527	249,527
General reserve		280,000	280,000
Hedging reserve	5	2,728	(13,999)
Accumulated profit		11,652,011	11,658,601
		12,637,762	12,627,625
Non-current liabilities			
Long term finances	6	8,000,000	6,951,459
Deferred taxation	7	2,271,523	3,263,372
Retirement benefits	8	1,215,067	1,110,999
		11,486,590	11,325,830
Current liabilities			
Current portion of long term finances	6	1,047,750	3,082,979
Short term borrowings	9	3,000,000	7,029,193
Short term running finance under mark-up arrangements - secured	10	2,461,648	2,934,546
Customer security deposits - interest free		221,305	220,957
Income tax - net		1,576,345	–
Trade and other payables	11	16,752,543	14,361,913
Interest and mark-up accrued	12	83,521	147,652
		25,143,112	27,777,240
Contingencies and commitments	13		
		49,267,464	51,730,695

The annexed notes 1 to 46 form an integral part of these financial statements.

Balance Sheet
As at 31 December 2015

(Rupees in '000)	Note	2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	29,996,095	30,550,199
Capital work-in-progress	15	882,230	2,233,971
Intangible assets	16	39,668	–
Goodwill	17	–	167,546
Long term loans and advances	18	276,199	317,600
Long term deposits and prepayments	19	43,674	55,599
		31,237,866	33,324,915
Current assets			
Stores and spares	20	1,262,789	1,208,547
Stock in trade	21	9,474,681	9,763,987
Trade debts	22	314,836	272,321
Current portion of long term loans and advances	18	98,775	76,082
Income tax - net		–	231,547
Sales tax refundable - net		5,796,612	5,868,716
Advances, deposits, prepayments and other receivables	23	828,638	758,437
Cash and bank balances	24	253,267	226,143
		18,029,598	18,405,780
		49,267,464	51,730,695

JOHN MICHAEL DAVIS
Head of Finance and Control

BRUNO BORIS OLIERHOEK
Chief Executive

SYED YAWAR ALI
Chairman

Profit and Loss Account
For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
Sales - net	25	102,985,916	96,457,743
Cost of goods sold	26	(68,859,344)	(69,133,753)
Gross profit		34,126,572	27,323,990
Distribution and selling expenses	27	(15,411,236)	(11,085,448)
Administration expenses	28	(2,397,996)	(2,125,079)
Operating profit		16,317,340	14,113,463
Finance cost	29	(1,724,420)	(2,155,637)
Other operating expenses	30	(2,210,540)	(1,472,550)
		(3,934,960)	(3,628,187)
Other income	31	137,742	523,892
Profit before taxation		12,520,122	11,009,168
Taxation	32	(3,759,192)	(3,079,897)
Profit after taxation		8,760,930	7,929,271
Earnings per share - basic and diluted (Rupees)	33	193.18	174.85

The annexed notes 1 to 46 form an integral part of these financial statements.

JOHN MICHAEL DAVIS
Head of Finance and Control

BRUNO BORIS OLIERHOEK
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Comprehensive Income
For the year ended 31 December 2015

(Rupees in '000)	2015	2014
Profit after taxation	8,760,930	7,929,271
Items that are or may be classified subsequently to profit and loss:		
Cash flow hedges - effective portion of changes in fair value	25,490	(21,537)
Related tax	(8,763)	7,538
	16,727	(13,999)
Items that will never be reclassified to profit and loss:		
Remeasurement of net retirement		
benefit liability recognised directly in the equity	(222,204)	(175,550)
Related tax	71,105	57,932
	(151,099)	(117,618)
Total comprehensive income for the year	8,626,558	7,797,654

The annexed notes 1 to 46 form an integral part of these financial statements.

JOHN MICHAEL DAVIS
Head of Finance and Control

BRUNO BORIS OLIERHOEK
Chief Executive

SYED YAWAR ALI
Chairman

Cash Flow Statement

For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
Cash flow from operating activities			
Cash generated from operations	35	22,369,861	21,106,707
Decrease in long term deposits and prepayments		11,925	15,769
Decrease/ (increase) in long term loans and advances		18,708	(45,594)
Customer security deposits - interest free		348	38,980
Sales tax refundable - net		72,104	(802,381)
Retirement benefits paid		(316,866)	(263,213)
Finance cost paid		(1,788,551)	(2,271,761)
Workers' profit participation fund paid		(662,690)	(613,420)
Workers' welfare fund paid		(214,300)	(164,004)
Income taxes paid		(2,880,807)	(2,336,451)
Net cash generated from operating activities		16,609,732	14,664,632
Cash flow from investing activities			
Fixed capital expenditure		(2,701,201)	(2,975,985)
Sale proceeds of property, plant and equipment		348,904	179,653
Net cash used in investing activities		(2,352,297)	(2,796,332)
Cash flow from financing activities			
Repayments of long term finances - net		(1,108,715)	(11,936,789)
Short term borrowings - net		(4,029,193)	4,028,883
Dividend paid		(8,619,505)	(7,032,581)
Net cash used in financing activities		(13,757,413)	(14,940,487)
Net increase/ (decrease) in cash and cash equivalents		500,022	(3,072,187)
Cash and cash equivalents at beginning of the year		(2,708,403)	363,784
Cash and cash equivalents at end of the year	36	(2,208,381)	(2,708,403)

The annexed notes 1 to 46 form an integral part of these financial statements.

JOHN MICHAEL DAVIS
Head of Finance and Control

BRUNO BORIS OLIERHOEK
Chief Executive

SYED YAWAR ALI
Chairman

Statement of Changes in Equity

For the year ended 31 December 2015

(Rupees in '000)	Share capital	Capital reserves: Share premium	Capital reserves: Hedging reserve	Revenue reserves: General reserve	Revenue reserves: Accumulated profit	Total
Balance as at 01 January 2014	453,496	249,527	–	280,000	10,876,134	11,859,157
Total comprehensive income for the year:						
Profit after tax	–	–	–	–	7,929,271	7,929,271
Cash flow hedges - effective portion of changes in fair value-net	–	–	(13,999)	–	–	(13,999)
Remeasurement loss on employee retirement benefits	–	–	–	–	(117,618)	(117,618)
	–	–	(13,999)	–	7,811,653	7,797,654
Transaction with owners, directly recognised in equity:						
Final dividend for the year ended 31 December 2013 (Rs. 75 per share)	–	–	–	–	(3,401,219)	(3,401,219)
Interim dividend for the six months period ended 30 June 2014 (Rs. 30 per share)	–	–	–	–	(1,360,488)	(1,360,488)
Interim dividend for the nine months period ended 30 September 2014 (Rs. 50 per share)	–	–	–	–	(2,267,479)	(2,267,479)
Balance as at 31 December 2014	453,496	249,527	(13,999)	280,000	11,658,601	12,627,625
Total comprehensive income for the year:						
Profit after tax	–	–	–	–	8,760,930	8,760,930
Cash flow hedges - effective portion of changes in fair value-net	–	–	16,727	–	–	16,727
Remeasurement loss on employee retirement benefits	–	–	–	–	(151,099)	(151,099)
	–	–	16,727	–	8,609,831	8,626,558
Transaction with owners, directly recognised in equity:						
Final dividend for the year ended 31 December 2014 (Rs. 90 per share)	–	–	–	–	(4,081,463)	(4,081,463)
Interim dividend for the six months period ended 30 June 2015 (Rs. 50 per share)	–	–	–	–	(2,267,479)	(2,267,479)
Interim dividend for the nine months period ended 30 September 2015 (Rs. 50 per share)	–	–	–	–	(2,267,479)	(2,267,479)
Balance as at 31 December 2015	453,496	249,527	2,728	280,000	11,652,011	12,637,762

The annexed notes 1 to 46 form an integral part of these financial statements.

JOHN MICHAEL DAVIS	BRUNO BORIS OLIERHOEK	SYED YAWAR ALI
Head of Finance and Control	Chief Executive	Chairman

Notes to the Financial Statements

For the year ended 31 December 2015

1 Legal status and nature of business

Nestlé Pakistan Limited ("the Company") is a public limited company incorporated in Pakistan and its shares are quoted on Pakistan Stock Exchange (previously on Karachi and Lahore stock exchanges). The principal activity of the Company is manufacturing, processing and sale of food products including imported products (dairy, confectionery, culinary, coffee, beverages, infant nutrition and drinking water). Registered office of the Company is situated at Babar Ali Foundation Building, 308-Upper Mall, Lahore.

2 Basis of preparation and summary of significant accounting policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS's) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of, or directives issued under the Companies Ordinance, 1984 shall prevail.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee benefits at present value and recognition of certain financial instruments at fair value.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

	Note
• Impairment losses	2.9
• Taxation	2.10
• Retirement benefits	2.11
• Provisions and contingencies	2.15
• Useful life of depreciable assets	2.16
• Store and spares	2.17
• Stock in trade	2.17
• Recoverability of trade debts and other receivables	2.18

2.3 Summary of significant accounting policies

The significant accounting policies adopted in preparation of these financial statements are set out below.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the change explained below:

2.3.1 Change in accounting policy

During the period the Company has adopted IFRS 13 'Fair Value Measurement' which became effective for the financial periods beginning on or after 01 January 2015. IFRS 13 Fair Value Measurement establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair values as the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments Disclosures. As a result, the Company has included the additional disclosure in this regard in note 40.1(d) to the financial statements. In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. The application of IFRS 13 does not have any significant impact on the financial statements of the Company except for certain additional disclosures.

2.4 Business combination

Business combinations are accounted for using the acquisition method. Under this method, as of the acquisition date, the Company recognised separately from goodwill the identified assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill is recognised as the excess of cost of an acquisition over the fair value of net identifiable assets acquired in the business combination.

2.5 Financial instruments

All financial assets and liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company loses control of the contractual right that comprise the financial assets. Financial liabilities are de-recognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to profit and loss account currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

2.6 Derivative financial instruments and hedge accounting

Derivatives are recognised initially at fair value, any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit and loss account.

The Company also holds derivative financial instruments to hedge its foreign currency exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Fair value hedge

Derivatives which are designated and qualify as fair value hedge, changes in the fair value of such derivatives are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

When a derivative is designated as cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designated is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

2.7 Financial liabilities

Financial liabilities are classified according to substance of contractual arrangements entered into. Significant financial liabilities include short and long term borrowings, trade and other payables, interest free customer security deposits and interest and markup accrued.

Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction cost, if any. Subsequent to initial recognition, these are stated at amortized cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

Other financial liabilities

All other financial liabilities are initially recognised at fair value minus directly attributable cost, if any, and subsequently at amortized cost using effective interest rate method.

2.8 Offsetting of financial assets and financial liabilities

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

2.9 Impairment losses

Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets of the unit on a pro-rata basis. Impairment losses on goodwill shall not be reversed.

2.10 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is provided using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. In this regard, the effects on deferred taxation of the proportion of income that is subject to final tax regime is also considered in accordance with the treatment prescribed by the Institute of Chartered Accountants of Pakistan. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

2.11 Retirement benefits

Defined benefit plan

The Company's net obligation in respect of defined benefit plans is calculated separately for plan by estimating the amount of future benefits that employees have earned in current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When calculating results in a potential assets for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reduction in future contributions to the plan.

Remeasurement of net defined benefit liability, which comprise of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. The Company determines net interest expense/(income) on the defined benefit obligation for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit, taking into account any change in the net defined benefit obligation during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit and loss.

Defined contribution plan

The Company operates a recognised provident fund for all its regular employees, excluding expatriates. Equal monthly contributions are made to the fund both by the Company and the employees at the rate of 12% of the basic salary plus cost of living allowance. All regular employees are eligible to opt for provident fund upon their confirmation. Obligation for contributions to defined contribution plan is recognised as an expense in the profit and loss account as and when incurred.

2.12 Leases

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of lease.

Finance leases

Leases in terms of which 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 under the lease agreements and the fair value of the assets, less accumulated depreciation and any identified impairment loss.

The related rental obligations, net of finance costs are classified as current and long term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit and loss account over the lease term.

Assets acquired under a finance lease are depreciated over the estimated useful life of the asset on a straight-line method at the rates given in note 14. Depreciation of leased assets is charged to profit and loss account.

Residual value and the useful life of an asset are reviewed at least at each financial year-end.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired, while no depreciation is charged for the month in which the asset is disposed off.

2.13 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortized cost using effective interest rate method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.14 Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which dividends are approved.

2.15 Provisions and contingencies

Provisions are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of past events and it is probable that outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate. Where the outflow of resources embodying economic benefits is not probable, a contingent liability is disclosed, unless the possibility of outflow is remote.

2.16 Fixed capital expenditure and depreciation/amortization

Property, plant and equipment

Property, plant and equipment, except freehold land, are stated at cost less accumulated depreciation and any identified accumulated impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost in relation to self constructed assets includes direct cost of material, labour, applicable manufacturing overheads and borrowing costs on qualifying assets.

Depreciation is charged to profit and loss account, unless it is included in the carrying amount of another asset, on straight line method whereby cost of an asset is written off over its estimated useful life at the rates given in note 14.

Residual value and the useful life of an asset are reviewed at least at each financial year-end.

Depreciation on additions is charged from the month in which asset is capitalized, while no depreciation is charged for the month in which asset is disposed off. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the assets revised carrying amount over its estimated useful life.

Maintenance and repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposals of assets are included in profit and loss account.

Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified accumulated impairment loss. These are amortized using the straight line method at the rates given in note 16. Amortization on additions is charged from the month in which an intangible asset is acquired, while no amortization is charged for the month in which intangible asset is disposed off.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are charged to income as and when incurred.

2.17 Inventories

Inventories, except for stock in transit, are stated at lower of cost and net realizable value. Stock in transit is valued at cost comprising invoice value plus other charges thereon. Items in transit are valued at cost comprising invoice value plus other charges paid thereon. Net realizable value is the estimated selling price in ordinary course of business less estimated costs of completion and selling expenses. Cost is determined as follows:

Store and spares

Useable stores and spares are valued principally at moving average cost, while items considered obsolete are carried at nil value.

Finished goods and work in process

Cost of finished goods and work in process both manufactured and purchased, is determined on weighted average basis. Cost in relation to work-in-process and finished goods includes an appropriate portion of production overheads.

Raw and packing material

Cost in relation to raw and packing materials is arrived at on FIFO basis.

2.18 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

2.19 Revenue recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of discounts and sales tax. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably. Sales of products and services are recorded when the risks and rewards are transferred.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

2.20 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Exchange gains and losses are included in the income statement currently.

2.21 Borrowing cost

Borrowing costs are interest and other costs that the Company incurs in connection with the borrowing of funds. The Company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of these assets. The Company recognizes other borrowing costs as an expense in the period in which it incurs.

2.22 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand and demand deposits. Running finances that are repayable on demand are included as component of cash and cash equivalents for the purpose of cash flow statement.

2.23 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are regularly reviewed by the Company's Chief Executive to make decisions about resources to be allocated to the segment and assess their performance, and for which discrete financial information is available.

2.24 Standards and amendments to published approved International Financial Reporting Standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2016:

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Company's financial statements.

- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures) [effective for annual periods beginning on or after 1 January 2016) clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on the Company's financial statements.

- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are not likely to have an impact on the Company's financial statements.

- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016) allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not likely to have an impact on the Company's financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on the Company's financial statements.

- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:

    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.

    - IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements on continuing involvement in transferred financial assets in cases when they are derecognised in their entirety are in the scope of its disclosure requirements. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.

    - IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

    - IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

    These improvements are not likely to have any significant impact on the Company's financial statements.

Notes to the Financial Statements
For the year ended 31 December 2015

3 Issued, subscribed and paid up capital

2015	2014		2015	2014
(Number of shares)			(Rupees in '000)	
		Ordinary shares of Rs. 10 each		
29,787,058	29,787,058	as fully paid in cash	297,870	297,870
		Ordinary shares of Rs. 10 each		
15,476,867	15,476,867	as fully paid bonus shares	154,769	154,769
		Ordinary shares of Rs. 10 each issued for		
85,659	85,659	consideration other than cash	857	857
45,349,584	45,349,584		453,496	453,496

As at 31 December 2015, Nestlé S.A. Switzerland, the holding company, holds 26,778,229 (2014: 26,778,229) ordinary shares representing 59% (2014: 59%) equity interest in the Company. In addition, 8,799,235 (2014: 8,799,235) ordinary shares are held by the following related parties as at 31 December:

(Number of shares)	2015	2014
Name of related party:		
IGI Insurance Limited	4,364,666	4,364,666
Percentage of equity held 9.62% (2014: 9.62%)		
Packages Limited	3,649,248	3,649,248
Percentage of equity held 8.05% (2014: 8.05%)		
Gurmani Foundation	538,235	538,235
Percentage of equity held 1.19% (2014: 1.19%)		
Industrial Technical and Educational Institution	21,666	21,666
Percentage of equity held 0.05% (2014: 0.05%)		
National Management Foundation	224,720	224,720
Percentage of equity held 0.50% (2014: 0.50%)		
Nestle' Pakistan Limited Employees Provident Fund	700	700
Percentage of equity held 0.0015% (2014: 0.0015%)		
	8,799,235	8,799,235

4 Share premium

This reserve can be utilized by the Company only for the purposes specified in section 83(2) of the Companies Ordinance, 1984.

5 Hedging reserve

The hedging reserve comprises the effective portion of the cash flow hedge which will subsequently be recognised in the profit or loss as the hedged items effect on profit or loss.

(Rupees in '000)	Note	2015	2014
6 Long term finances			
Long term finances utilized under mark up arrangements:			
Related party - unsecured			
Associated company - foreign currency	6.1	1,047,750	3,764,813
From banking companies - secured	6.2	8,000,000	6,269,625
Less: Current maturity			
From associated company - foreign currency		(1,047,750)	(2,760,862)
From banking companies - secured		–	(322,117)
		(1,047,750)	(3,082,979)
		8,000,000	6,951,459

6.1 The Company availed two unsecured loan facilities form Nestle Treasury Center Middle East and Africa Limited, Dubai – an associated undertaking of US$ 15 million and US$ 50 million. During the year, US$ 15 million loan has been fully repaid. As per terms, duly authorized by the State Bank of Pakistan, US$ 50 million is repayable in 10 equal quarterly instalments starting from March 2014 and ending on May 2016 and carries markup @ 6 months average LIBOR plus 150 basis points. The outstanding balance as at 31 December 2015 has been converted into rupees at the exchange rate prevailing as at the balance sheet date.

(Rupees in '000)	Note	2015	2014
6.2 From banking companies - secured			
Allied Bank Limited			
Term Loan I	6.2.1	–	2,500,000
Term Loan II	6.2.2	2,000,000	–
United Bank Limited			
Long Term Finance Facility	6.2.1	–	1,269,625
Term Finance	6.2.1	–	2,500,000
Meezan Bank Limited			
Diminishing Musharika	6.2.3	2,000,000	–
Habib Bank Limited			
Term Loan I	6.2.4	2,500,000	–
Term Loan II	6.2.5	1,500,000	–
		8,000,000	6,269,625

6.2.1 These loans have been fully repaid during the year.

6.2.2 This represents a loan facility from Allied Bank Limited having an aggregate limit of Rs. 2,000 million. The term of the loan is 5 years and the principal repayment to take place in a single lump sum instalment on 29 December 2020. Mark-up is payable quarterly at a flat rate of 8.9% per annum. The loan is secured by first joint pari passu charge over present and future fixed assets i.e. plant and machinery of the Company.

6.2.3 This represents diminishing musharika facility from Meezan Bank Limited having an aggregate limit of Rs. 2,000 million. The term of the loan is 5 years and the principal repayment to take place in a single lump sum instalment on 29 December 2020. Mark up is payable semi annually at a flat rate of 8.7% per annum. The loan is secured by joint pari passu hypothecation charge over current assets and plant and machinery of the Company.

6.2.4 This represents a loan facility from Habib Bank Limited having an aggregate limit of Rs. 2,500 million. The term of the loan is 3 years with a grace period of 2 years and the principal repayment to take place in 2 equal instalments at six months interval starting from December 2017. Mark-up is payable semi annually at a flat rate of 8.65% per annum. The loan is secured by first joint pari passu hypothecation charge over fixed assets excluding land and building of the Company.

6.2.5 This represents a loan facility from Habib Bank Limited having an aggregate limit of Rs. 1,500 million. The term of the loan is 3 years and the principal repayment to take place in a single lump sum instalment on 30 December 2018. Mark-up is payable semi annually at a flat rate of 7.85% per annum. The loan is secured by first joint pari passu hypothecation charge over fixed assets excluding land and building of the Company.

(Rupees in '000)	2015	2014
7 Deferred taxation		
This is composed of:		
Liability for deferred taxation comprising temporary differences related to:		
Accelerated tax depreciation	3,389,567	4,176,943
Foreign exchange difference	(129,532)	(490,970)
Provisions and others	(988,512)	(422,601)
	2,271,523	3,263,372

7.1 Deferred tax asset on the above items is recognised on the expectation that future taxable profits will be available to the Company in the foreseeable future for realisation of such asset.

(Rupees in '000)	Note	2015	2014
7.2 Movement in deferred tax liability is as follows:			
Balance as at 01 January		3,263,372	4,102,160
Charged to OCI related to cash flow hedges		8,763	(7,538)
Charged to profit and loss account		(1,000,612)	(831,250)
Balance as at 31 December		2,271,523	3,263,372
8 Retirement benefits			
Gratuity fund	8.1	680,577	552,473
Pension fund	8.1	534,490	558,526
		1,215,067	1,110,999

The Company contributes to following defined benefit plans:

- Gratuity plan entitles an eligible employee to receive a lump sum amount equal to last drawn basic salary multiply by number of completed years of service with the Company at the time of cessation of employment. An eligible employee means the employee who has successfully completed one year of service with the Company. In case if the employee leaves the employment before successful completion of 10 years of service then he / she shall be entitled to 50% of gratuity amount.

- Pension plan comprises of two types i.e. Type A and Type B. Type A members are those members who have joined the plan and who have not opted to become members of Type B. Type B members are those members who fulfills the criteria and opted to become member of Type B.

- Type A members are required to make a contribution of 5% of pensionable salary whereas, the Company makes the contribution based on actuarial recommendations. The annual benefit amount of a Type A member shall be 2.75% of his/her pensionable salary at the time of retirement multiplied by number of years of pensionable service subject to a maximum of 82.5% of pensionable salary.

- Type B member can make a contribution of 3% or 5% of his/her pensionable salary and the Company will make a contribution equal to employee contribution +2%. In case of those members who are transferred from Type A to Type B, such members are required to make a contribution of 5% of pensionable salary and the Company will make a contribution of 11.4%. Type B member shall be entitled to 30% of employer benefit after successful completion of three years of pensionable service and thereafter additional 10% for each successful year till 10th year when he/she entitles to 100% of the benefit. Type A members are required to make a contribution of 5% of pensionable salary whereas, the employer will make contributions based on actuarial recommendations.

Gratuity and pension plans are administered through separate funds that are legally separated from the Company. The Trust of the funds comprises of five employees, out of which one employee is the Chair. The Trustees of the funds are required by law to act in the best interests of the plan participants and are responsible for making all the investments and disbursements out of the funds.

These defined benefit plans expose the Company to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk. As at balance sheet date, an actuarial valuation has been performed by M/s Nauman Associates (Actuarial experts) for valuation of defined benefit obligation. The disclosure made in notes 8.1 to 8.14 are based on the information included in the actuarial report.

These defined benefit plans are fully funded by the Company. The funding requirements are evaluated by the management using the funds' actuarial measurement framework set out in the funding policies of the plans. The funding of each plan is based on the a separate actuarial valuation for funding purposes for which the assumptions may differ from time to time.

The Company is responsible to manage the deficit in the defined benefit obligation towards fair value of the plan assets. The Company has devised an effective periodic contribution plan to maintain sufficient level of plan assets to meet its obligations. Further, the Company also performs regular maturity analysis of the defined benefit obligation and manage its contributions accordingly.

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	Gratuity 2015	Gratuity 2014	Pension 2015	Pension 2014
8.1 Present value of funded obligations				
Amounts recognised in balance sheet are as follows:				
Present value of defined benefit obligation	2,024,189	1,736,589	2,556,488	2,290,437
Fair value of plan assets	(1,343,612)	(1,184,116)	(2,021,998)	(1,731,911)
Net retirement benefit obligation	680,577	552,473	534,490	558,526
8.2 Movement in net obligation				
Net liability as at 01 January	552,473	528,222	558,526	334,181
Charge to profit and loss account	212,638	195,521	(13,908)	140,738
Actuarial losses/ (gains) arising due to				
Remeasurement of net retirement benefit obligation	84,802	(26,738)	137,402	202,288
Contribution made by the employees	–	–	70,586	52,053
Contribution made by the Company	(169,336)	(144,532)	(218,116)	(170,734)
Net liability as at 31 December	680,577	552,473	534,490	558,526
8.3 Movement in the liability for funded defined benefit obligations				
Liability for defined benefit obligations as at 01 January	1,736,589	1,523,346	2,290,437	1,765,958
Gain on transfer from Type A to Type B	–	–	(227,070)	–
Benefits paid by the plan	(130,886)	(68,656)	(105,573)	(57,502)
Current service costs	160,010	140,806	236,433	162,933
Past service cost	–	–	13,426	–
Interest cost	188,004	178,682	235,060	208,465
Remeasurements on obligation:				
Actuarial losses/(gains) on present value				
- Changes in demographic assumptions	–	(1,953)	–	116,845
- Changes in financial assumptions	(3,406)	(1,724)	137,299	66,799
- Experience adjustments	73,878	(33,912)	(23,524)	26,939
	70,472	(37,589)	113,775	210,583
Liability for defined benefit obligations as at 31 December	2,024,189	1,736,589	2,556,488	2,290,437
8.4 Movement in fair value of plan assets				
Fair value of plan assets as at 01 January	1,184,116	995,124	1,731,911	1,431,777
Contributions paid into the plan	169,336	144,532	218,116	170,734
Benefits paid by the plan	(130,886)	(68,656)	(105,573)	(57,502)
Interest income on plan assets	135,376	123,967	201,171	178,607
Remeasurements on fair value of plan assets	(14,330)	(10,851)	(23,627)	8,295
Fair value of plan assets as at 31 December	1,343,612	1,184,116	2,021,998	1,731,911

(Rupees in '000)	Note	Gratuity 2015	Gratuity 2014	Pension 2015	Pension 2014
8.5 Plan assets consist of the following:					
In terms of amount:					
Equity instruments		140,797	133,095	205,886	201,768
Debt instruments		309,493	594,663	426,525	801,355
Cash and other deposits		893,322	456,358	1,389,587	728,788
	8.5.1	1,343,612	1,184,116	2,021,998	1,731,911
8.5.1 Plan assets					
Plan assets comprise:					
Equity instrument					
Fertilizers		11,698	15,296	18,122	23,572
Oil and gas		36,707	48,319	57,185	75,250
Textile		14,700	3,083	21,382	4,796
Power		33,387	30,116	51,936	46,853
Financial institutions		28,375	26,690	41,217	41,582
Mutual funds		15,857	9,416	15,857	9,416
Others		73	175	187	299
		140,797	133,095	205,886	201,768
Debts instruments					
Government bonds		299,194	568,738	405,923	764,981
TFCs		10,299	25,925	20,602	36,374
		309,493	594,663	426,525	801,355
Cash at bank					
Cash and bank balances		256,238	256,304	375,080	428,708
Term deposit receipts		637,084	200,054	1,014,507	300,080
		893,322	456,358	1,389,587	728,788
		1,343,612	1,184,116	2,021,998	1,731,911

Before making any investment decision, an Asset-Liability matching study is performed by the Board of Trustees of the funds to evaluate the merits of strategic investments. Risk analysis of each category is done to analyse the impacts of the interest rate risk, currency risk and longevity risk.

(Rupees in '000)	Gratuity 2015	Gratuity 2014	Pension 2015	Pension 2014
8.6 Profit and loss account includes the following in respect of retirement benefits:				
Interest cost for the year	188,004	178,682	235,060	208,465
Current service cost	160,010	140,806	236,433	162,933
Past service cost	–	–	13,426	–
Gain on transfer from Type A to Type B	–	–	(227,070)	–
Interest income on plan assets	(135,376)	(123,967)	(201,171)	(178,607)
Contribution made by the employees	–	–	(70,586)	(52,053)
	212,638	195,521	(13,908)	140,738

(Rupees in '000)	Gratuity 2015	Gratuity 2014	Pension 2015	Pension 2014
8.7 Charge for the year has been allocated as follows:				
Cost of goods sold	129,162	120,254	(938)	67,590
Distribution and selling expenses	50,763	44,087	(1,951)	35,826
Administration expenses	32,713	31,180	(11,019)	37,322
	212,638	195,521	(13,908)	140,738
8.8 Actual return on plan assets	121,046	113,116	177,544	186,902
8.9 Actuarial (gains) and losses recognised directly in other comprehensive income				
Cumulative amount at 01 January	575,831	602,569	499,472	297,184
Remeasurements on obligation:				
Actuarial (losses)/ gains on present value				
- Changes in demographic assumptions	–	(1,953)	–	116,845
- Changes in financial assumptions	(3,406)	(1,724)	137,299	66,799
- Experience adjustments	73,878	(33,912)	(23,524)	26,939
	70,472	(37,589)	113,775	210,583
Interest income on plan assets	14,330	10,851	23,627	(8,295)
Losses / (gains) recognised during the year	84,802	(26,738)	137,402	202,288
Cumulative amount at 31 December	660,633	575,831	636,874	499,472

(Rupees in '000)	2015	2014	2013	2012	2011
8.10 Historical Information for Gratuity plan					
Present value of defined benefit obligation	2,024,189	1,736,589	1,523,346	1,063,970	868,980
Fair value of the plan assets	(1,343,612)	(1,184,116)	(995,124)	(788,363)	(638,921)
Deficit in the plan	680,577	552,473	528,222	275,607	230,059
Experience adjustments arising on plan liabilities	73,878	(33,912)	304,181	67,328	(92,602)
Experience adjustments arising on plan assets	(14,330)	(10,851)	48,927	35,335	3,586

The Company expects to pay Rs. 245.09 million in contributions to gratuity fund in 2016.

(Rupees in '000)	2015	2014	2013	2012	2011
8.11 Historical Information for Pension plan					
Present value of defined benefit obligation	2,556,488	2,290,437	1,765,958	1,506,356	1,090,883
Fair value of the plan assets	(2,021,998)	(1,731,911)	(1,431,777)	(1,143,978)	(880,565)
Deficit in the plan	534,490	558,526	334,181	362,378	210,318
Experience adjustments arising on plan liabilities	(23,524)	26,939	139,032	38,393	(134,686)
Experience adjustments arising on plan assets	(23,627)	8,295	43,519	58,614	2,801

The Company expects to pay Rs. 259.79 million in contributions to pension fund in 2016.

	2015		2014	
	Gratuity fund per annum	Pension fund per annum	Gratuity fund per annum	Pension fund per annum
8.12 Significant actuarial assumptions used for valuation of these plans are as follows:				
Discount rate used for profit and loss charge	11.25%	11.25%	12.00%	12.00%
Discount rate used for year-end obligation	10.00%	10.00%	11.25%	11.25%
Expected rates of salary increase	10.00%	10.00%	11.25%	11.25%
Expected rates of return on plan assets	10.00%	10.00%	11.25%	11.25%
	SLIC	SLIC	SLIC	SLIC
	2001-2005	2001-2005	2001-2005	2001-2005
	Setback	Setback	Setback	Setback
	1 year	1 year	1 year	1 year

8.13 Actuarial assumptions sensitivity analysis

If the significant actuarial assumptions used to estimate the defined benefit obligation at the reporting date, had fluctuated by 50 bps with all other variables held constant, the impact on the present value of the defined benefit obligation would have been as follows:

		Gratuity		Pension	
		Impact on present value of defined benefit obligation as at 31 December 2015			
(Rupees in '000)	Change	Increase	Decrease	Increase	Decrease
Discount rate	50 bps	(1,923)	2,133	2,454	2,670
Future salary increase	50 bps	2,134	(1,921)	2,608	(2,508)

		Gratuity		Pension	
		Impact on present value of defined benefit obligation as at 31 December 2015			
(Rupees in '000)	Change	Scale up by	Scale down by	Scale up by	Scale down by
Expected mortality rates	1 year	2,024	(2,025)	(2,537)	2,575

The sensitivity analysis of the defined benefit obligation to the significant actuarial assumptions has been performed using the same calculation techniques as applied for calculation of defined benefit obligation reported in the balance sheet.

8.14 Weighted average duration of the defined benefit obligation is 10 years and 13 years for gratuity and pension plans, respectively.

Notes to the Financial Statements

For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
9 Short term borrowings			
Money market deals- secured	9.1	–	500,000
Export refinance facility- secured	9.2	3,000,000	3,015,368
Revolving credit facility- unsecured, foreign currency	9.3	–	3,513,825
		3,000,000	7,029,193

9.1 These represent money market deals obtained from various commercial banks which carries mark-up ranging from 6.25% to 9.75% (2014: 9.75% to 10.14%) per annum. These deals are obtained for a period ranging from 8 to 92 days and are secured by a hypothecation charge over fixed and current assets of the Company excluding land and building.

9.2 The Company has obtained export refinance from commercial bank having an aggregate limit of Rs 3,000 million (2014: Rs 3,015 million). The mark up on this facility ranges from 3.70.% to 6.70% (2014: 6.70% to 8.60%) per annum.

9.3 This represented short term US$ 35 million loan from Deutsche Bank A.G Frankfurt. The loan carried an interest rate of 6 months LIBOR plus 1%. The loan has been fully repaid during the year.

(Rupees in '000)	Note	2015	2014
10 Short term running finance under mark-up arrangements-secured			
Running finance	10.1	2,461,648	2,934,546

10.1 The Company has obtained short term running finances from various commercial banks under mark-up arrangements having an aggregate limit of Rs. 39,772 million (2014: Rs. 39,030 million) including sub-limits of other short term facilities. The mark up on these facilities ranges from 6.40% to 9.90% (2014: 6.65.% to 11.89%) per annum. These facilities are secured by joint pari passu hypothecation charge over fixed and current assets of the Company excluding land and building and assignment of receivables of the Company.

(Rupees in '000)	Note	2015	2014
11 Trade and other payables			
Trade creditors			
Related parties		971,637	1,300,478
Others		3,846,627	4,328,403
		4,818,264	5,628,881
Accrued liabilities			
Related parties		462,249	233,394
Others		10,176,983	7,210,163
		10,639,232	7,443,557
Advances from customers		300,433	397,053
Workers' profit participation fund	11.1	79,517	68,950
Workers' welfare fund		282,139	224,677
Royalty and technical assistance fee payable			
to holding company including taxes		286,715	243,104
Unclaimed dividend		4,238	7,322
Withholding income tax payable		80,285	70,739
Withholding sales tax payable		146,824	50,810
Derivative financial liability - cash flow hedge	11.2	3,547	28,651
Others		111,349	198,169
		16,752,543	14,361,913
11.1 Workers' profit participation fund			
Balance as at 01 January		68,950	91,115
Provision for the year	30	673,257	591,255
		742,207	682,370
Less: Net payments made during the year		(662,690)	(613,420)
Balance as at 31 December		79,517	68,950

11.2 The Company has outstanding exchange rate forward contracts with various banks for amounts aggregating to US$ 9.755 million (2014: US$ 10.70 million) and EUR€ 3.882 million (2014: EUR€ 1.60 million) to manage exchange rate exposure on outstanding foreign currency payments under the terms of commitments of letters of credit. Under the aforementioned contracts, the Company would pay respective rate agreed at the initiation of the contracts on respective settlement dates. As at 31 December 2015, the fair value of these derivatives is Rs. 1,461.53 million (2014: 1,297.75 million).

(Rupees in '000)	2015	2014
12 Interest and mark-up accrued		
Long term loan from associated company - unsecured	425	1,189
Long term finances from banking companies - secured	20,720	37,815
Short term borrowings	27,978	59,938
Short term running finance under mark-up arrangements - secured	34,398	48,710
	83,521	147,652

13 Contingencies and commitments

13.1 There is no material contingency as at balance sheet date.

(Rupees in '000)	2015	2014
13.2 Guarantees		
Outstanding guarantees	210,498	164,966
Un-utilized portion	264,502	385,034

13.3 Commitments

13.3.1 The amount of future payments under Ijarah and the period in which these payments will become due are as follows:

(Rupees in '000)	2015	2014
Not later than one year	45,691	–
Later than one year but not later than five years	47,674	–
	93,365	–
13.3.2 Commitments in respect of capital expenditure	243,073	254,401
13.4 Letters of credit		
Outstanding letters of credit	1,381,813	1,409,258
Un-utilized portion	7,669,312	6,992,915

14 Property, plant and equipment

(Rupees in '000)	Owned assets									
	Freehold land	Lease hold land	Building on freehold land	Building on lease hold land	Plant and machinery	Furniture and fixtures	Vehicles	IT equipment	Office equipment	Total
Cost										
Balance as at 01 January 2014	1,467,256	32,244	5,857,972	219,273	33,587,656	333,809	805,180	933,278	3,203	43,239,871
Additions during the year	–	68,150	396,514	–	2,062,730	56,508	148,339	87,051	–	2,819,292
Disposals / scrapped	–	–	(51)	–	(886,554)	–	(145,927)	(40,912)	–	(1,073,444)
Balance as at 31 December 2014	1,467,256	100,394	6,254,435	219,273	34,763,832	390,317	807,592	979,417	3,203	44,985,719
Balance as at 01 January 2015	1,467,256	100,394	6,254,435	219,273	34,763,832	390,317	807,592	979,417	3,203	44,985,719
Additions during the year	–	–	269,799	–	2,282,465	61,365	619,307	276,310	–	3,509,246
Disposals / scrapped	–	(18,483)	(175,259)	–	(737,425)	(11,964)	(151,098)	(94,253)	–	(1,188,482)
Balance as at 31 December 2015	1,467,256	81,911	6,348,975	219,273	36,308,872	439,718	1,275,801	1,161,474	3,203	47,306,483
Depreciation and impairment losses										
Balance as at 01 January 2014	122,639	4,495	829,893	152,661	9,540,358	225,915	355,060	537,774	3,203	11,771,998
Depreciation charge for the year	–	2,444	212,007	780	2,715,624	4,478	150,331	151,566	–	3,237,230
Depreciation and impairment on disposals	–	–	(35)	–	(622,054)	-	(83,218)	(39,709)	–	(745,016)
Impairment charge for the year	–	–	–	–	171,308	–	–	–	–	171,308
Balance as at 31 December 2014	122,639	6,939	1,041,865	153,441	11,805,236	230,393	422,173	649,631	3,203	14,435,520
Balance as at 01 January 2015	122,639	6,939	1,041,865	153,441	11,805,236	230,393	422,173	649,631	3,203	14,435,520
Depreciation charge for the year	–	2,279	217,491	780	2,795,639	41,722	163,823	205,196	–	3,426,930
Depreciation and impairment on disposals	–	(2,496)	(140,558)	–	(526,940)	(11,889)	(120,788)	(94,095)	–	(896,766)
Impairment charge for the year	–	–	–	–	344,704	–	–	–	–	344,704
Balance as at 31 December 2015	122,639	6,722	1,118,798	154,221	14,418,639	260,226	465,208	760,732	3,203	17,310,388
Net book value as at 31 December 2015	1,344,617	75,189	5,230,177	65,052	21,890,233	179,492	810,593	400,742	–	29,996,095
Net book value as at 31 December 2014	1,344,617	93,455	5,212,570	65,832	22,958,596	159,924	385,419	329,786	–	30,550,199
Rate of depreciation in %	–	1-6.67	2-5	2-5	4-33	20	20	10-33.3	20	

(Rupees in '000)	Note	2015	2014
14.1 Depreciation and impairment charge for the year has been allocated as follows:			
Cost of goods sold	26	2,883,740	2,720,126
Distribution and selling expenses	27	427,316	401,012
Administration expenses	28	115,874	113,234
Charged to projects during the year		–	2,858
		3,426,930	3,237,230

14.2 Detail of significant property, plant and equipment sold during the year is as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
Leasehold land	18,483	(2,496)	15,987	20,507	Negotiation	M/S Ibadullah Welfare Trust
Building on leasehold land	175,207	(140,522)	34,685	44,493	Negotiation	M/S Ibadullah Welfare Trust
Plant and Machinery	14,616	(13,618)	998	990	Negotiation	M/S Maqsood Barlas & Sons
	6,547	(6,092)	455	452	Negotiation	M/S Maqsood Barlas & Sons
	6,330	(5,898)	432	429	Negotiation	M/S Maqsood Barlas & Sons
	5,790	(5,394)	396	392	Negotiation	M/S Maqsood Barlas & Sons
	3,897	(3,724)	173	171	Negotiation	M/S Maqsood Barlas & Sons
	2,776	(2,586)	190	188	Negotiation	M/S Maqsood Barlas & Sons
	2,332	(1,205)	1,127	910	Negotiation	M/S Al Noor Trading Corporation
	2,078	(1,934)	144	143	Negotiation	M/S Maqsood Barlas & Sons
	1,400	(1,097)	303	615	Negotiation	M/S Al Noor Trading Corporation
	1,300	(308)	992	118	Negotiation	M/S Maqsood Barlas & Sons
	1,160	(1,063)	97	510	Negotiation	M/S Al Noor Trading Corporation
	1,087	(1,011)	76	76	Negotiation	M/S Maqsood Barlas & Sons
	1,072	(750)	322	303	Negotiation	M/S Al Noor Trading Corporation
	914	(850)	64	63	Negotiation	M/S Maqsood Barlas & Sons
	827	(771)	56	56	Negotiation	M/S Maqsood Barlas & Sons
	814	(757)	57	56	Negotiation	M/S Maqsood Barlas & Sons
	720	(660)	60	316	Negotiation	M/S Al Noor Trading Corporation
	618	(474)	144	82	Negotiation	M/S Al Noor Trading Corporation
	549	(134)	415	450	Negotiation	M/S Tariq & Tariq
	535	(375)	160	84	Negotiation	M/S Maqsood Barlas & Sons
	486	(253)	233	5	Negotiation	M/S Pervaiz Jalal
	478	(394)	84	470	Negotiation	M/S Tariq & Tariq
	456	(179)	277	61	Negotiation	M/S Al Noor Trading Corporation
	450	(345)	105	60	Negotiation	M/S Al Noor Trading Corporation
	442	(181)	261	250	Negotiation	M/S Al Noor Trading Corporation
	392	(142)	250	2	Negotiation	M/S Pervaiz Jalal
	390	(225)	165	52	Negotiation	M/S Al Noor Trading Corporation
	384	(329)	55	30	Negotiation	M/S Karim Technologies
	382	(270)	112	90	Negotiation	M/S Al Noor Trading Corporation
	365	(292)	73	49	Negotiation	M/S Al Noor Trading Corporation
	350	(190)	160	153	Negotiation	M/S Al Noor Trading Corporation
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	318	(127)	191	400	Negotiation	M/S Tariq & Tariq
	313	(120)	193	42	Negotiation	M/S Al Noor Trading Corporation
	313	(131)	182	175	Negotiation	M/S Al Noor Trading Corporation
	289	(231)	58	38	Negotiation	M/S Al Noor Trading Corporation
	270	(182)	88	36	Negotiation	M/S Al Noor Trading Corporation
	256	(122)	134	110	Negotiation	M/S Al Noor Trading Corporation
	250	(169)	81	2	Negotiation	M/S Pervaiz Jalal
	249	(189)	60	20	Negotiation	M/S Karim Technologies
	249	(151)	98	33	Negotiation	M/S Al Noor Trading Corporation
	249	(151)	98	33	Negotiation	M/S Al Noor Trading Corporation
	246	(96)	150	143	Negotiation	M/S Al Noor Trading Corporation
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	222	(89)	133	286	Negotiation	M/S Tariq & Tariq
	210	(144)	66	90	Negotiation	M/S Tariq & Tariq
	200	(135)	65	2	Negotiation	M/S Pervaiz Jalal
	197	(99)	98	60	Negotiation	M/S Tariq & Tariq
	193	(117)	76	72	Negotiation	M/S Al Noor Trading Corporation
	187	(72)	115	148	Negotiation	M/S Al Noor Trading Corporation
	187	(83)	104	50	Negotiation	M/S Al Noor Trading Corporation
	187	(83)	104	25	Negotiation	M/S Al Noor Trading Corporation
	187	(81)	106	83	Negotiation	M/S Al Noor Trading Corporation
	187	(87)	100	127	Negotiation	M/S Al Noor Trading Corporation
	184	(73)	111	105	Negotiation	M/S Al Noor Trading Corporation
	183	(87)	96	24	Negotiation	M/S Al Noor Trading Corporation
	183	(93)	90	108	Negotiation	M/S Al Noor Trading Corporation
	183	(93)	90	86	Negotiation	M/S Al Noor Trading Corporation
	183	(93)	90	86	Negotiation	M/S Al Noor Trading Corporation
	183	(93)	90	86	Negotiation	M/S Al Noor Trading Corporation

Notes to the Financial Statements
For the year ended 31 December 2015

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	181	(84)	97	24	Negotiation	M/S Al Noor Trading Corporation
	181	(66)	115	90	Negotiation	M/S Al Noor Trading Corporation
	181	(72)	109	139	Negotiation	M/S Al Noor Trading Corporation
	181	(72)	109	139	Negotiation	M/S Al Noor Trading Corporation
	181	(72)	109	139	Negotiation	M/S Al Noor Trading Corporation
	181	(74)	107	137	Negotiation	M/S Al Noor Trading Corporation
	175	(73)	102	98	Negotiation	M/S Al Noor Trading Corporation
	173	(92)	81	77	Negotiation	M/S Al Noor Trading Corporation
	156	(74)	82	78	Negotiation	M/S Al Noor Trading Corporation
	141	(82)	59	19	Negotiation	M/S Al Noor Trading Corporation
	141	(87)	54	51	Negotiation	M/S Al Noor Trading Corporation
	140	(84)	56	72	Negotiation	M/S Al Noor Trading Corporation
	139	(72)	67	18	Negotiation	M/S Al Noor Trading Corporation
	139	(72)	67	18	Negotiation	M/S Al Noor Trading Corporation
	137	(76)	61	50	Negotiation	M/S Al Noor Trading Corporation
	137	(81)	56	70	Negotiation	M/S Al Noor Trading Corporation
	137	(81)	56	70	Negotiation	M/S Al Noor Trading Corporation
	133	(81)	52	18	Negotiation	M/S Al Noor Trading Corporation
	132	(63)	69	3	Negotiation	M/S Pervaiz Jalal
	131	(74)	57	39	Negotiation	M/S Maqsood Barlas & Sons
	100	(50)	50	30	Negotiation	M/S Tariq & Tariq
	74	(11)	63	10	Negotiation	M/S Al Noor Trading Corporation
Vehicles						
	2,658	(2,437)	221	1,950	Company Policy	Employee (Ms. Sobia Naheed)
	1,676	(894)	782	1,650	Company Policy	Employee (Mr. Shaphan Samuel)
	1,445	(1,373)	72	361	Company Policy	Employee (Mr.Mohammad Ashraf)
	849	(736)	113	295	Company Policy	Employee (Mr.Naumaan Bin Nazir)
	160	(56)	104	8	Company Policy	Employee (Mr. Noman)
	1,348	(1,213)	135	531	Company Policy	Employee (Mr.Shaukat Ali Rana)
	988	(494)	494	755	Company Policy	Employee (Mr.Sagheer Hussain)
	897	(628)	269	596	Company Policy	Employee (Mr.Liaqat Ali)
	1,317	(1,185)	132	544	Company Policy	Employee (Mr.Rehman Sharif)
	918	(612)	306	621	Company Policy	Employee (Mr.Ejaz Ahmed)
	1,027	(342)	685	139	Company Policy	Employee (Mr.Syed Mudassir Raza Rizvi)
	160	(56)	104	8	Company Policy	Employee (Mr. Hamid)
	1,022	(341)	681	138	Company Policy	Employee (Mr.Bashir Uddin Hashmi)
	77	(19)	58	7	Company Policy	Employee (Mr.Amir Jamil Afridi)
	1,033	(344)	689	139	Company Policy	Employee (Mr.Irfan Mahmood Butt)
	1,028	(343)	685	139	Company Policy	Employee (Mr.Rizwan Mehboob)
	168	(56)	112	9	Company Policy	Employee (Mr.Akhtar Ali)
	84	(28)	56	9	Company Policy	Employee (Mr.Tahir Ayub)

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	81	(20)	61	7	Company Policy	Employee (Mr.Abid Dilpazir Janjua)
	898	(599)	299	613	Company Policy	Employee (Mr.Gul Rana)
	898	(599)	299	613	Company Policy	Employee (Ms.Shamaila Naeem)
	901	(600)	301	615	Company Policy	Employee (Ms.Asma Jawaid)
	897	(598)	299	613	Company Policy	Employee (Ms.Fasiha Aslam Afghan)
	901	(585)	316	620	Company Policy	Employee (Ms.Farhana Ghani Khokhar)
	1,022	(307)	715	877	Company Policy	Employee (Mr.Shazer Baig)
	1,027	(342)	685	876	Company Policy	Employee (Mr.Raza Mohammad)
	982	(491)	491	733	Company Policy	Employee (Mr.Ahmad Mohsin Farooqui)
	988	(494)	494	747	Company Policy	Employee (Mr.Mir Ozair Imran)
	982	(491)	491	732	Company Policy	Employee (Mr.Syed Basit Ali Shah)
	1,028	(343)	685	856	Company Policy	Employee (Mr.Hameed Ullah)
	1,034	(259)	775	899	Company Policy	Employee (Mr.Bahadar Zaib)
	1,022	(256)	766	888	Company Policy	Employee (Mr.Asad Ali)
	1,003	(451)	552	762	Company Policy	Employee (Mr.Waqar Naeem)
	1,008	(454)	554	784	Company Policy	Employee (Mr.Bilal Ahmed Khan)
	1,008	(454)	554	820	Company Policy	Employee (Mr.Umer Bin Muhammad)
	849	(778)	71	293	Company Policy	Employee (Mr.Muhammad Iqbal)
	988	(543)	445	703	Company Policy	Employee (Mr.Muhammad Shakeel)
	1,008	(504)	504	803	Company Policy	Employee (Mr.Muhammad Nadeem)
	921	(675)	246	585	Company Policy	Employee (Mr.Atif Abbas Syed)
	901	(646)	255	593	Company Policy	Employee (Ms.Madiha Bashir)
	1,008	(504)	504	760	Company Policy	Employee (Mr.Muhammad Shehzad)
	1,069	(339)	730	925	Company Policy	Employee (Mr.Hamad Afzal Khan)
	835	(765)	70	500	Company Policy	Employee (Mr.Rehan Tahir)
	1,022	(324)	698	841	Company Policy	Employee (Mr.Mohsin Zahoor Qureshi)
	917	(688)	229	593	Company Policy	Employee (Mr.Hassan Khan)
	917	(658)	259	598	Company Policy	Employee (Mr.Ammar Javed)
	917	(642)	275	603	Company Policy	Employee (Mr.Shahid Mushtaq)
	91	(14)	77	88	Company Policy	Employee (Mr.Muhammad Usman Javed)
	837	(767)	70	498	Company Policy	Employee (Mr.Shakeel Ahmad)
	1,022	(307)	715	888	Company Policy	Employee (Mr.Nauman Khan)
	81	(24)	57	67	Company Policy	Employee (Mr.Rashid Hussain)
	89	(13)	76	89	Company Policy	Employee (Mr.Awais Pervaiz)
	81	(24)	57	68	Company Policy	Employee (Mr.Muhammad Qasim)

Notes to the Financial Statements
For the year ended 31 December 2015

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Sold to
(Rupees in '000)						
	1,033	(430)	603	790	Company Policy	Employee (Mr.Muhammad Raza)
	1,052	(143)	909	912	Company Policy	Employee (Mr.Pir Taimur Tariq)
	877	(658)	219	558	Company Policy	Employee (Mr.Muhammad Ali Raza Khan)
	1,064	(355)	709	885	Company Policy	Employee (Mr.Hassan Ghaus)
	1,002	(501)	501	756	Company Policy	Employee (Mr.Faraz Zafar)
	1,003	(535)	468	660	Company Policy	Employee (Mr.Waqas Afzal)
	1,332	(222)	1,110	1,214	Company Policy	Employee (Ms.Nida Sohail)
	651	(295)	356	488	Company Policy	Employee (Mr.Muhammad Azam)
	921	(721)	200	693	Company Policy	Employee (Mr.Mohammad Ali Tariq)
	892	(803)	89	535	Company Policy	Employee (Mr.Ali Raza)
	891	(698)	193	556	Company Policy	Employee (Mr.Mohammad Nasir Masood)
	982	(622)	360	659	Company Policy	Employee (Mr.Adeel Hussain)
	1,008	(588)	420	709	Company Policy	Employee (Mr.Syed Asad Ali Shah)
	1,012	(388)	624	841	Company Policy	Employee (Mr.Rafay Naeem)
	1,043	(417)	626	830	Company Policy	Employee (Mr.Jibran Arshad Chughtai)
	1,017	(390)	627	818	Company Policy	Employee (Mr.Syed Yasir Ali Rizvi)
	1,022	(409)	613	796	Company Policy	Employee (Ms.Ayesha Bashir)
	1,057	(405)	652	833	Company Policy	Employee (Mr.Salmaan Salim)
	1,330	(288)	1,042	1,183	Company Policy	Employee (Mr.Muhammad Muddassar Asghar)
	89	(21)	68	80	Company Policy	Employee (Mr.Farhan Aslam)
	88	(29)	59	38	Company Policy	Employee (Mr.Moazzam Ali)
Assets with book value less than Rs. 50,000	853,658	(659,263)	194,395	152,360		
2015	1,188,482	(896,766)	291,716	281,304		
2014	1,073,444	(745,016)	328,428	179,653		

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
15 Capital work-in-progress			
Civil works		61,670	78,690
Plant and machinery	15.1	1,375,229	2,094,865
Others		158,222	337,551
		1,595,121	2,511,106
Less: Provision for impairment loss		(712,891)	(277,135)
		882,230	2,233,971

15.1 Borrowing cost capitalized in plant and machinery amounts to Rs. Nil (2014: Rs. 22.02 million @ average 10.65% per annum).

(Rupees in '000)	Note	2015	2014
16 Intangible assets			
Cost			
Balance as at 01 January		232,315	232,315
Addition during the year	16.1	40,340	–
Balance as at 31 December		272,655	232,315
Amortization			
Balance as at 01 January		232,315	229,923
Charge for the year	27 & 28	672	2,392
Accumulated amortization as at 31 December		232,987	232,315
Net book value as at 31 December		39,668	–
Amortization rate		20%	25%

16.1 This represents software purchased from Activewhere Technologies for Water Business Home and Office Distribution Management.

17 Goodwill

The Company acquired Infant Nutrition Business from Wyeth Pakistan Limited in November 2012 for US$ 2 million as a part of global acquisition of Pfizer Infant Nutrition Business by Nestle S.A Switzerland, the holding company. The acquisition was accounted for by applying the acquisition method and goodwill amounting to Rs. 167.55 million was recognised in the financial statements. For impairment testing, the estimated recoverable amount of Wyeth Nutrition Business has been determined on value in use basis by using discounted cash flow method. Key assumptions used in estimation of recoverable amount includes negative business growth and discount rate of 11.60%. The estimated recoverable amount determined does not exceed the carrying value of the business and resultantly the goodwill has been fully impaired.

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
18 Long term loans and advances			
To employees - secured, considered good:			
Chief executive and executives	18.3	291,971	295,748
Other employees		79,713	92,999
	18.1	371,684	388,747
To suppliers - unsecured, considered good	18.4	3,290	4,935
		374,974	393,682
Less: current portion shown under current assets		(98,775)	(76,082)
		276,199	317,600

18.1 These represent long term interest free loans to employees for the purchase of cars and motor cycles as per the Company policy and are repayable within a period of 5 years. Loans are secured by the crossed cheque from employees of the full loan amount in the name of the Company without mentioning any date as part of collateral.

The maximum amount of loans and advances to executives outstanding at the end of any month during the year was Rs. 298 million (2014: Rs. 327.75 million).

During the year, no loan or advance has been given to Chief Executive and any other director of the Company and no balance is outstanding as at 31 December 2015.

18.2 The amount of loans and advances and the period in which these will become due are as follows:

(Rupees in '000)	2015	2014
Less than one year	98,775	76,082
More than one year but not more than 3 years	103,711	165,426
More than 3 years	169,198	147,239
	371,684	388,747
18.3 Reconciliation of carrying amount of loans to executives		
Balance as at 01 January	295,748	220,172
Disbursements during the year	76,960	189,130
Loans recovered during the year	(80,737)	(113,554)
Balance as at 31 December	291,971	295,748

18.4 This represents an un-secured loan given to Sui Northern Gas Pipelines Limited for the development of infrastructure for supply of natural gas to the plant at Kabirwala. Mark-up is charged at the rate of 1.5% per annum (2014: 1.5% per annum) and is receivable annually. This amount is recoverable in 10 equal annual instalments which commenced from October 2008.

(Rupees in '000)	Note	2015	2014
19 Long term deposits and prepayments			
Long term security deposits		37,787	33,052
Long term prepayments	19.1	5,887	22,547
		43,674	55,599

19.1 This represents long term prepayments related to rent of facilities obtained by the Company on cancellable lease basis. These prepayments are amortized over the term of the lease on straight line basis.

(Rupees in '000)	Note	2015	2014
20 Stores and spares			
Stores		108,206	178,830
Spares, including in transit amounting to Rs. 10.33 million (2014: Rs. 44.04 million)		1,654,190	1,450,614
		1,762,396	1,629,444
Less: Provision for obsolete stores	20.1	(499,607)	(420,897)
		1,262,789	1,208,547
20.1 Provision for obsolete stores			
Balance as at 01 January		420,897	200,207
Addition during the year		78,710	220,690
Balance as at 31 December		499,607	420,897
21 Stock in trade			
Raw and packing materials including in transit amounting to Rs.751.48 million (2014: Rs. 1,459.99 million)		5,696,699	6,305,287
Work-in-process		1,042,516	855,537
Finished goods		2,393,877	2,403,200
Goods purchased for resale including in transit amounting to Rs. 70.49 million (2014: Rs. 86.93 million)	21.1	347,095	362,941
		9,480,187	9,926,965
Less: Provision for unusable raw and packaging material	21.2	(5,506)	(162,978)
		9,474,681	9,763,987

21.1 The amount charged to profit and loss account on account of write down of goods purchased for resale to net realizable value amounts to Rs. 6.35 million (2014: Rs. 28.13 million).

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
21.2 Provision for unusable raw and packaging material			
Balance as at 01 January		162,978	–
Addition during the year		5,506	162,978
Reversal during the year		(96,685)	–
Written off during the year		(66,293)	–
Balance as at 31 December		5,506	162,978
22 Trade debts			
Considered good - unsecured		314,836	272,321
Considered doubtful - unsecured		8,593	7,994
		323,429	280,315
Less: Provision for doubtful debts	22.1	(8,593)	(7,994)
		314,836	272,321
22.1 Provision for doubtful debts			
Balance as at 01 January		7,994	5,526
Addition during the year		599	2,468
Balance as at 31 December		8,593	7,994
23 Advances, deposits, prepayments and other receivables			
Advances to employees - unsecured,			
considered good		1,960	1,425
Advances to suppliers - unsecured, considered good		252,642	143,326
Due from related parties - unsecured, considered good		54,525	38,620
Trade deposits and prepayments - considered good		111,310	116,699
Derivative financial asset - cash flow hedge	11.2	7,500	7,114
Other receivables		400,701	451,253
		828,638	758,437
24 Cash and bank balances			
Local currency			
- Current accounts		4,584	24,274
- Savings accounts	24.1	220,771	186,576
		225,355	210,850
Foreign currency			
- Current accounts		24,214	11,669
Cash in hand		3,698	3,624
		253,267	226,143

24.1 The balances in savings accounts carry return ranging from 4.00% to 7.95% (2014: 5.00% to 8.45%) per annum.

(Rupees in '000)	Note	2015	2014
25 Sales - net			
Own manufactured			
Local		105,675,148	97,358,469
Export		5,712,325	5,972,365
		111,387,473	103,330,834
Goods purchased for resale		2,126,911	1,640,941
Less :			
Sales tax		(4,856,495)	(3,629,248)
Trade discounts		(5,671,973)	(4,884,784)
		102,985,916	96,457,743
26 Cost of goods sold			
Raw and packing materials consumed		49,880,360	50,832,340
Salaries, wages and amenities	26.1	4,510,474	4,131,797
Fuel and power		2,348,866	3,726,582
Insurance		91,516	70,391
Repairs, maintenance and stores consumption		2,796,841	2,503,965
Rent, rates and taxes		222,040	207,141
Depreciation	14.1	2,883,740	2,720,126
Expenses on information technology		278,522	354,692
Stationery expenses		59,576	50,549
Communication		75,979	66,136
Quality assurance		413,112	354,432
Royalty and technical assistance fee including duties and taxes		3,665,868	3,915,206
Others		422,124	448,339
		67,649,018	69,381,696
Increase in work in process		(186,979)	(487,339)
Cost of goods manufactured		67,462,039	68,894,357
Decrease/ (increase) in finished goods		9,323	(778,632)
Cost of goods sold - own manufactured		67,471,362	68,115,725
Cost of goods sold - purchased for resale		1,387,982	1,018,028
		68,859,344	69,133,753

26.1 Salaries, wages and amenities include Rs. 129.16 million (2014: Rs. 120.25 million) in respect of gratuity, Rs. (0.94) million (2014: Rs. 67.59 million) in respect of pension and Rs. 123.61 million (2014: Rs. 103.97 million) in respect of provident fund.

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	Note	2015	2014
27 Distribution and selling expenses			
Salaries, wages and amenities	27.1	2,578,109	2,107,296
Training		60,064	38,086
Rent, rates and taxes		61,676	54,538
Insurance		14,419	14,353
Freight outward		2,046,086	2,378,876
Depreciation	14.1	427,316	401,012
Amortization of intangible assets	16	672	–
Sales promotion and advertisement		9,492,240	5,344,183
Legal and professional charges		13,382	7,277
Vehicle running and maintenance		29,052	31,700
Utilities		59,055	82,423
Repairs and maintenance		124,720	113,523
Subscription, stationery, printing and publication		32,848	21,920
Communications		36,602	34,400
Travelling, conveyance and vehicle running		173,528	146,007
Provision for doubtful advances/debts - net		1,175	5,808
Expenses on information technology		11,765	88,750
Other expenses		248,527	215,296
		15,411,236	11,085,448

27.1 Salaries, wages and amenities include Rs. 50.76 million (2014: Rs. 44.09 million) in respect of gratuity, Rs. (1.95) million (2014: Rs. 35.83 million) in respect of pension and Rs. 82.27 million (2014: Rs. 69.18 million) in respect of provident fund.

(Rupees in '000)	Note	2015	2014
28 Administration expenses			
Salaries, wages and amenities	28.1	1,246,606	1,129,655
Training		46,543	38,779
Rent, rates and taxes		115,493	106,112
Insurance		2,583	2,934
Depreciation	14.1	115,874	113,234
Amortization	16	–	2,392
Legal and professional charges	28.2	131,089	114,644
Vehicles running and maintenance		19,273	23,600
Utilities		33,356	39,718
Repairs and maintenance		28,406	26,933
Subscription, stationery, printing and publication		42,881	35,248
Communications		87,642	75,666
Travelling and conveyance		94,894	82,683
Expenses on information technology		339,584	261,589
Other expenses		93,772	71,892
		2,397,996	2,125,079

28.1 Salaries, wages and amenities include Rs. 32.71 million (2014: Rs. 31.18 million) in respect of gratuity, Rs. (11.02) million (2014: Rs. 37.32 million) in respect of pension and Rs. 53.07 million (2014: Rs. 49.45 million) in respect of provident fund.

(Rupees in '000)	Note	2015	2014
28.2 Legal and professional charges include the following in respect of auditors' services for:			
Statutory audit		1,000	1,000
Half yearly review		180	180
Other sundry certificates		42	12
Out of pocket expenses		125	125
		1,347	1,317
29 Finance cost			
Mark-up on long term finances - secured		736,993	1,429,406
Mark-up on loan from associated company		53,443	100,454
Mark-up on short term borrowings - secured		362,939	268,027
Mark-up on short term running finances - secured		274,749	177,023
Loss on foreign exchange commitments		246,940	136,263
Bank charges		49,356	44,464
		1,724,420	2,155,637
30 Other operating expenses			
Workers' profit participation fund	11.1	673,257	591,255
Workers' welfare fund		271,762	224,677
Donations	30.1	52,241	59,400
Loss on disposal of property, plant and equipment		10,412	148,775
Impairment of goodwill	17	167,546	–
Impairment loss on			
Property, plant and equipment	14 & 15	780,460	448,443
Exchange loss on foreign currency		137,742	–
Others		117,120	–
		2,210,540	1,472,550
30.1 Donations			
Name of donee in which a director or his spouse has an interest:			
Dairy & Rural Development Foundation (DRDF),		2,500	2,500
30-E/1, Gulberg III, Lahore - Pakistan			
(Syed Yawar Ali, Director is also Governor of DRDF)			
National Management Foundation (NMF),		10,000	10,000
Defence Housing Authority, Lahore			
(Syed Babar Ali, Director is also Chairman of NMF)			
Pakistan Dairy Association (PDA)		–	1,200
30-E/1, Gulberg III, Lahore - Pakistan			
(Syed Yawar Ali, Director is also Director of PDA)			
		12,500	13,700

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	2015	2014
31 Other income		
Income from financial assets		
Return on bank accounts	14,888	18,975
Exchange gain on foreign currency	–	363,975
Others	3,500	–
	18,388	382,950
Income from non - financial assets		
Sale of scrap	119,354	140,942
	137,742	523,892
32 Taxation		
Current year		
For the year	4,324,718	3,470,398
Prior year	435,086	440,749
	4,759,804	3,911,147
Deferred	(1,000,612)	(831,250)
	3,759,192	3,079,897

32.1 During the year, the Federal Government of Pakistan through an amendment vide Finance Act, 2015 reduced the tax rate for the tax year 2016 from 33% to 32%. The current tax expense has been computed using the tax rate enacted for the tax year 2016.

%	2015	2014
32.2 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	32.00	33.00
Tax effect of amounts that are:		
Tax impact related to prior year	1.46	0.03
Tax impact of Super tax levied	2.60	–
Tax impact of presumptive tax regime	(2.97)	(2.84)
Tax impact on actuarial losses	(0.57)	(0.53)
Reduction in tax rate	(3.63)	(0.06)
Non-deductible for tax purposes	2.41	0.09
Tax credits	(1.76)	(1.59)
Permanent differences	(0.08)	(0.66)
	(2.54)	(5.56)
Average effective tax rate charged to profit and loss account	29.46	27.44

32.3 During the year, the Company has paid an interim dividend of Rs. 100 per share representing 52% of its after tax profits for the year. Accordingly, no provision for tax on undistributed reserves has been made in these financial statements under section 5A of the Income Tax Ordinance, 2001 introduced by the Finance Act, 2015.

		2015	2014
33 Earnings per share			
33.1 Basic earnings per share			
Profit after taxation available for distribution to ordinary shareholders	Rupees in '000'	8,760,930	7,929,271
Weighted average number of ordinary shares	Number in '000'	45,350	45,350
Basic earnings per share	Rupees	193.18	174.85

33.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the Company as it has no such commitments.

34 Transactions with related parties

The related parties comprise of associated companies, other related companies, key management personnel and employees retirement benefit funds. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables and remuneration to key management personnel is disclosed in note 37. Other significant transactions with related parties are as follows:

(Rupees in '000)	Note	2015	2014
34.1 Transactions during the year			
Associated companies			
- Royalty and technical assistance fee		2,872,937	2,604,732
- Purchase of goods, services and rental		12,173,676	11,927,015
- Sale of fixed assets		47,399	–
- Interest on foreign currency loan		53,443	100,454
- Repayment of foreign currency loan		2,839,072	2,748,556
Other related parties			
- Contribution to staff retirement benefit plans		577,266	483,853
- Donations		12,500	13,700
- Insurance claims		57,646	34,153

All transactions with related parties have been carried out on mutually agreed terms and conditions except for donations.

(Rupees in '000)	Note	2015	2014
35 Cash generated from operations			
Profit before taxation		12,520,122	11,009,168
Adjustment for non-cash charges and other items:			
Depreciation on property, plant and equipments		3,426,930	3,234,372
Amortization of intangible assets		672	2,392
Impairment loss on property, plant and equipment		780,460	448,443
Impairment of goodwill		167,546	–
Loss on disposal of property, plant and equipment		10,412	148,775
Exchange rate loss/ (gain) on foreign currency loan from associated company		122,027	(325,425)
Provision for workers' profit participation fund		673,257	591,255
Provision for workers' welfare fund		271,762	224,677
Provision for doubtful advances/debts - net		1,175	5,808
Provision for obsolete stores		78,710	220,690
Exchange loss/ (gain) on foreign currency transaction		16,894	(38,550)
Provision for unusable raw and packing material		5,506	162,978
Provision for staff retirement benefits		198,730	336,259
Finance cost		1,724,420	2,155,637
Profit before working capital changes		19,998,623	18,176,479
Effect on cash flow due to working capital changes:			
(Increase)/ decrease in current assets:			
Stores and spares		(132,952)	(155,699)
Stock in trade		283,800	(2,001,833)
Trade debts		(43,114)	53,321
Advances, deposits, prepayments and other receivables		(70,391)	64,544
Increase in trade and other payables		2,333,895	4,969,895
		2,371,238	2,930,228
		22,369,861	21,106,707

(Rupees in '000)	Note	2015	2014
36 Cash and cash equivalents			
Cash and bank balances	24	253,267	226,143
Short term running finance under mark-up arrangements - secured		(2,461,648)	(2,934,546)
		(2,208,381)	(2,708,403)

37 Remuneration of Chief Executive, Directors and Executives

The aggregate amounts charged in these financial statements during the year for remuneration, including certain benefits, to the Chief Executive, Executive Directors, Non-Executive Directors and Executives of the Company are as follows:

	Chairman		Chief Executive		Executive Director		Executive	
(Rupees in '000)	2015	2014	2015	2014	2015	2014	2015	2014
Fee / managerial remuneration	4,571	4,050	28,702	21,842	32,722	27,567	2,122,773	1,727,574
Bonus	–	–	6,542	7,685	8,336	9,546	433,314	400,487
Retirement benefits	–	–	–	–	2,390	2,066	369,320	303,534
Housing	–	–	11,287	10,517	2,400	2,520	11,069	10,732
Utilities	–	–	–	–	–	–	7,704	6,211
Reimbursable expenses	696	696	34,570	21,439	13,391	12,963	544,070	318,609
	5,267	4,746	81,101	61,483	59,239	54,662	3,488,250	2,767,147
Number of persons	1	1	1	1	2	2	1,258	1,021

37.1 The Chairman, Chief Executive, Executive Directors and certain Executives of the Company are provided with use of Company maintained vehicles and residential telephones.

37.2 The aggregate amount charged in these financial statements in respect of contribution to provident fund of key management personnel is Rs. 156.04 million (2014: Rs. 127.30 million).

37.3 Meeting fees amounting to Rs. 375,000 (2014: Nil) was paid to Non-Executive Directors during the year.

	Capacity		Production	
	2015	2014	2015	2014
38 Capacity and production				
Liquid products - litres in thousand	1,742,562	1,690,582	923,029	864,342
Non-liquid products - Kgs in thousand	175,252	178,261	89,892	87,637

Under utilization of capacity was mainly due to seasonal impact of fresh milk.

39 Segment reporting

Segment information is presented in respect of the Company's business. The primary format, business segment, is based on the Company's management reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities include short term and long term borrowings, employees retirement benefits and other operating liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

Notes to the Financial Statements
For the year ended 31 December 2015

The Company's operations comprise the following main business segments:

i) Milk and nutrition products

These segments comprise of following major types of products :

- Milk and nutrition products
  Milk based products and cereals

ii) Beverages

- Beverages
  Juices and water

39.1 Segment analysis and reconciliation for the year ended 31 December

	Milk and Nutrition Products		Beverages		Other Operations		Total	
(Rupees in '000)	2015	2014	2015	2014	2015	2014	2015	2014
Sales								
External sales	81,686,079	77,432,902	20,729,151	18,251,270	570,686	773,571	102,985,916	96,457,743
Inter-segment sales	–	–	–	–	–	–	–	–
Total revenue	81,686,079	77,432,902	20,729,151	18,251,270	570,686	773,571	102,985,916	96,457,743
Depreciation and amortization	2,511,548	2,402,725	832,698	739,105	83,356	97,792	3,427,602	3,239,622
Operating profit before tax and before unallocated expenses	14,683,840	10,512,161	2,333,963	3,995,231	(700,463)	(393,929)	16,317,340	14,113,463
Unallocated corporate expenses								
Finance cost							(1,724,420)	(2,155,637)
Exchange (loss)/ gain on foreign currency							(137,742)	363,975
Other operating expenses							(1,292,338)	(1,024,107)
Other operating income							137,742	159,917
Taxation							(3,759,192)	(3,079,897)
Other material non-cash items								
Impairment loss on property, plant and equipment	(451,956)	(376,360)	–	(40,552)	(328,504)	(31,531)	(780,460)	(448,443)
Profit after taxation							8,760,930	7,929,271
Segment assets	29,703,503	30,510,109	11,781,319	12,574,043	485,476	937,624	41,970,298	44,021,776
Unallocated assets							7,297,166	7,708,919
Total assets							49,267,464	51,730,695
Segment liabilities	14,538,056	11,523,190	3,910,570	2,937,023	101,568	108,004	18,550,194	14,568,217
Unallocated liabilities							18,079,508	24,534,853
Total liabilities							36,629,702	39,103,070
Segment capital expenditure	906,691	1,586,600	812,602	624,373	50,510	155,115	1,769,803	2,366,088
Unallocated capital expenditure							931,398	609,897
							2,701,201	2,975,985

Notes to the Financial Statements
For the year ended 31 December 2015

(Rupees in '000)	2015	2014
39.2 Geographical segments		
Sales are made by the Company in the following countries:		
Pakistan	97,273,591	90,485,378
Afghanistan	5,712,325	5,972,365
	102,985,916	96,457,743

The Company manages and operates manufacturing facilities and sales offices in Pakistan only.

40 Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks, market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

The Company finances its operations through equity, borrowings and management of working capital with a view to maintain an appropriate mix between various sources of finance to minimize risk. The Company follows an effective cash management and planning policy and maintains flexibility in funding by keeping committed credit lines available. Market risks are managed by the Company through the adoption of appropriate policies to cover currency risks and interest rate risks. The Company applies credit limits to its customers and obtains advances from them.

40.1 Market risk

a) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to various currencies. Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to the foreign entities. The Company's exposure to currency risk is as follows:

Particulars	Currency	2015	2014
Foreign currency bank accounts	US $	66,356	11,646
	EUR €	26,921	–
	JPY	1,120,468	–
Cash in hand			
	US $	29,915	3,003
	EUR €	6,985	852
		36,900	3,855
Receivables			
	US $	1,496,245	290,392
	GB £	2,214	2,338
	DKK	–	40
	CHF	33,176	2,162
	JPY	–	31,370
	SGP $	63,225	7,099
	EUR €	1,437,638	160,656
		3,032,498	494,057
		4,283,143	509,558
Less :			
Long term loan from associated undertaking (including current maturity)	US $	1,047,750	3,764,813
Short term borrowing from associated company-unsecured	US $	–	3,513,825
Payables	US $	7,093,593	705,317
	EUR €	1,907,581	336,747
	CHF	1,467,161	95,481
	GB £	8,480	7,597
	SGP $	1,885,599	68,093
	JPY	2,899,373	5,177
	AED	57,845	968
	AUD	10,768	884
	ZAR	298,186	–
	DKK	–	684
		15,628,586	1,220,948
		16,676,336	8,499,586
On balance sheet exposure		(12,393,193)	(7,990,028)
Outstanding letters of credit	PKR(000)	(1,381,813)	(1,409,258)
Off balance sheet exposure		(1,381,813)	(1,409,258)

The following significant exchange rates were applied during the year :

(Rupees per currency unit)	2015 Average Rate	2015 Reporting date rate	2014 Average Rate	2014 Reporting date rate
US Dollar	102.59	104.78	102.80	100.40
Euro	118.27	114.52	133.42	122.01
Swiss Franc	103.68	105.91	109.84	101.44
Great Britain Pound	155.79	155.39	164.61	156.19
Singapore Dollar	75.07	74.21	79.45	75.92
Japanese Yen	0.86	0.87	0.92	0.84
Chinese Yuan	16.17	16.13	16.81	16.21
Arab Emirates Dirham	27.93	28.52	27.96	27.33
Australian Dollar	79.37	76.56	88.06	82.18
Danish Krone	15.88	15.32	17.93	16.43
ZAR	7.74	6.73	9.39	8.74
New Zealand Dollar	75.26	71.62	82.59	78.89

Currency rate sensitivity analysis

If the functional currency, at reporting date, had increased by 10% against the foreign currencies with all other variables held constant, the impact on profit before taxation for the year and 2014 would have been as follows:

(Rupees in '000)	2015	2014
Effect on Profit and loss		
US Dollar	68,619	77,096
Euro	4,993	2,138
Swiss Franc	15,187	947
Great Britain Pound	97	82
Singapore Dollar	13,524	463
Australian Dollar	82	7
Japanese Yen	155	(2)
Arab Emirates Dirham	165	3
Danish Krone	–	1
ZAR	201	–
	103,023	80,735

The effect may be respectively lower / higher, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments.

Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

b) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency 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.

c) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates.

At the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments is:

(Rupees in '000)	2015	2014
Variable rate instruments		
Long term finances from associated undertaking - US $	(1,047,750)	(3,764,813)
Effective interest rate in %age	1.95	1.86
Long term finances from banking companies - PKR	(8,000,000)	(6,269,625)
Effective interest rate in %age	11.05	11.54
Short term borrowings from banking company - US $	–	(3,513,825)
Effective interest rate in %age	–	8.64
Short term borrowings from local banks - PKR	(5,461,648)	(5,949,914)
Effective interest rate in %age	6.48	8.76

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on loans from associates and borrowings from banks, at the year end date, fluctuate by 100 bps higher / lower with all other variables, in particularly foreign exchange rates held constant, profit before taxation for the year and 2014 would have been affected as follows:

(Rupees in '000)	2015	2014
Effect on Profit and loss of an increase	(180,611)	(228,692)
Effect on Profit and loss of a decrease	180,611	228,692

The effect may be higher / lower, mainly as a result of higher / lower mark-up income on floating rate loans / investments.

The sensitivity analysis prepared is not necessarily indicative of the effects on the profit for the year and assets / liabilities of the Company.

d) Fair value measurement of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13 'Fair Value Measurement' requires the company to classify fair value measurements and fair value hierarchy that reflects the significance of the inputs used in making the measurements of fair value hierarchy has the following levels:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)

– Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, derived from prices) (Level 2)

– Inputs for the asset or liability that are not based on observable market data (that is, unadjusted) inputs (Level 3)

Transfer between levels of the fair value hierarchy are recognised at the end of the reporting period during which the changes have occurred.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31, December 2015		Carrying amount				Fair value			
(Rupees in '000)	Note	Trade and other receivables	Cash and cash equivalents	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets - measured at fair value		7,500	–	–	7,500	–	7,500	–	7,500
Financial assets - not measured at fair value									
Trade debts	22	314,836	–	–	314,836	–	–	–	–
Loans and advances	18	374,974	–	–	374,974	–	–	–	–
Security deposits	19	37,787	–	–	37,787	–	–	–	–
Cash and bank balances	24	–	253,267	–	253,267	–	–	–	–
		727,597	253,267	–	980,864	–	–	–	–
Financial liabilities - measured at fair value		–	–	3,547	3,547	–	3,547	–	3,547
Financial liabilities - not measured at fair value									
Long term finances	6	–	–	9,047,750	9,047,750	–	9,047,750	–	9,047,750
Short term borrowings	9	–	–	3,000,000	3,000,000	–	3,000,000	–	3,000,000
Short term running finance under		–							
mark-up arrangements - secured	10	–	–	2,461,648	2,461,648	–	2,461,648	–	2,461,648
Customer security deposits -									
interest free		–	–	221,305	221,305	–	–	–	–
Trade and other payables	11	–	–	15,859,798	15,859,798	–	–	–	–
		–	–	30,590,501	30,590,501	–	14,509,398	–	14,509,398

40.2 Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's credit risk is primarily attributable to its long term deposits, trade debts, advances, deposits and other receivables and balances at banks. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

(Rupees in '000)	2015	2014
Long term deposits	37,787	33,052
Trade debts	314,836	272,321
Advances, deposits and other receivables	717,328	875,136
Bank balances	249,569	222,519
	1,319,520	1,403,028
The aging of trade debts at the reporting date is:		
Not yet due	306,076	260,883
Past due 0 - 30 days	3,581	9,454
Past due 31 - 60 days	3,957	1,121
Past due 61 - 90 days	216	32
Past due 91 - 120 days	604	249
Past due 120 days	402	582
	314,836	272,321

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company believes that it is not exposed to major concentration of credit risk as its exposure is spread over a large number of counter parties and subscribers in the case of trade debts.

The credit quality of cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rate:

	Rating 2015			Rating 2014		
	Short Term	Long Term	Agency	Short Term	Long Term	Agency
National bank of Pakistan	A1+	AAA	PACRA	A-1+	AAA	JCR-VIS
Allied Bank Limited	A1+	AA+	PACRA	A1+	AA+	PACRA
Faysal Bank Limited	A1+	AA	PACRA	A1+	AA	PACRA
Habib Bank Limited	A-1+	AAA	JCR-VIS	A-1+	AAA	JCR-VIS
MCB Limited	A1+	AAA	PACRA	A1+	AAA	PACRA
Standard Chartered Bank Limited	A1+	AAA	PACRA	A-1+	AAA	PACRA
United Bank Limited	A-1+	AA+	JCR-VIS	A-1+	AA+	JCR-VIS
Citi Bank N.A	P-1	A2	Moody's	P-1	A2	Moody's
Deutsche Bank AG	P-2	A3	Moody's	A-1	A	S&P
Bank Islami Pakistan Limited	A1	A+	PACRA	A1	A	PACRA
Meezan Bank Limited	A-1+	AA	JCR-VIS	A1+	AA	JCR-VIS
Bank Al Falah Limited	A1+	AA	PACRA	A1+	AA	PACRA
Bank Al Habib Limited	A1+	AA+	PACRA	A1+	AA+	PACRA
Bank of Punjab	A1+	AA-	PACRA	A1+	AA-	PACRA
Burj Bank Limited	A-2	A-	JCR-VIS	A-1	A	JCR-VIS
Summit Bank Limited	A-1	A	JCR-VIS	A-3	A-	JCR-VIS
Soneri Bank Limited	A+	AA-	PACRA	A1+	AA-	PACRA
Afghanistan International Bank	Not available	Not available	Not available	Not available	Not available	Not available

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

40.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Company has sufficient running finance facilities available from various commercial banks to meet its liquidity requirements. Further, liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

The following are the contractual maturity analysis of financial liabilities as at 31 December 2015:

(Rupees in '000)	Carrying value	Contractual cash flows	Less than 6 months	6 to 12 months	1 year to 5 years	Total
Financial liability						
Derivative financial liability						
- cash flow hedge	3,547	3,547	3,547	–	–	3,547
Long term finances	9,047,750	11,692,191	1,055,513	687,879	9,948,799	11,692,191
Short term borrowings	3,000,000	3,043,442	3,043,442	–	–	3,043,442
Short term running finance						
under mark-up arrangement	2,461,648	2,496,046	2,496,046	–	–	2,496,046
Customer security deposits	221,305	221,305	221,305	–	–	221,305
Trade and other payables	16,748,996	16,748,996	16,748,996	–	–	16,748,996
Interest and mark-up accrued	83,521	83,521	83,521	–	–	83,521
	31,566,767	34,289,048	23,652,370	687,879	9,948,799	34,289,048

The following are the contractual maturity analysis of financial liabilities as at 31 December 2014:

(Rupees in '000)	Carrying value	Contractual cash flows	Less than 6 months	6 to 12 months	1 year to 5 years	Total
Financial liability						
Derivative financial liability						
- cash flow hedge	28,651	28,651	28,651	–	–	28,651
Other forward exchange contracts	130,580	130,580	130,580	–	–	130,580
Long term finances	10,034,438	12,718,989	1,948,679	1,936,220	8,834,090	12,718,989
Short term borrowings	4,013,825	4,113,457	4,113,457	–	–	
Short term running finance						
under mark-up arrangement	5,949,914	5,958,930	5,958,930	–	–	5,958,930
Customer security deposits	220,957	220,957	220,957	–	–	220,957
Trade and other payables	14,202,682	14,202,682	14,202,682	–	–	14,202,682
Interest and mark-up accrued	147,652	147,652	147,652	–	–	147,652
	34,728,699	37,521,898	26,751,588	1,936,220	8,834,090	33,408,441

Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Derivative assets and liabilities designated as cash flow hedges

The cash flows associated with cash flow hedges are expected to occur within a period of six months from reporting date and are likely to have same impact on the profit and loss.

41 Capital risk management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

i) To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

ii) To provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of debt to equity ratio, calculated on the basis of total debt to equity.

The debt to equity ratio as at 31 December 2015 and 2014 were as follows:

(Rupees in '000)	2015	2014
Total borrowings	14,509,398	19,998,177
Total equity	12,637,762	12,627,625
Total debt and equity	27,147,160	32,625,802
Debt to equity ratio	53:47	61:39

There were no major changes in the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

42 Number of employees

The total average number of employees during the year and as at 31 December 2015 and 2014, are as follows:

(No. of Employees)	2015	2014
Average number of employees during the year	4,175	4,017
Number of employees as at 31 December	4,221	4,149

43 Provident Fund disclosures

The following information is based on latest audited financial statements of the Fund as of 31 December 2015:

(Rupees in '000)	2015 Audited	2014 Audited
Size of the fund - total assets	2,851,181	2,527,930
Cost of investments made	2,784,574	2,413,121
Fair value of investments	2,845,713	2,525,489
Percentage of investments made	99.81%	99.90%

Notes to the Financial Statements
For the year ended 31 December 2015

	2015		2014	
	(Rs in '000)	%	(Rs in '000)	%
43.1 The break-up of fair value of investments is:				
Pakistan investment bonds	527,088	18.49%	1,048,871	41.49%
Term finance certificates	30,885	1.08%	31,240	1.24%
Term deposit receipts	981,462	34.42%	300,081	11.87%
Investment in equity instruments	296,028	10.38%	295,465	11.69%
Mutual funds	43,960	1.54%	29,456	1.17%
Temporary interest based loans to members	446,851	15.67%	389,768	15.42%
Savings accounts with banks	519,439	18.22%	430,609	17.03%
Others	5,468	0.20%	2,440	0.09%
	2,851,181	100.00%	2,527,930	100.00%

43.2 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

44 Date of authorization for issue

These financial statements were authorized for issue on 16 February 2016 by the Board of Directors of the Company.

45 Dividend

The Board of Directors in their meeting held on 16 February 2016 have proposed a Final Cash Dividend for the year ended 31 December 2015 of Rs. 90 (2014: Rs. 90) per share, amounting to Rs. 4,081.46 million (2014: Rs. 4,081.46 million) for approval of the members at the Annual General Meeting to be held on 25 April 2016. These financial statements do not reflect this Dividend.

46 General

46.1 Corresponding figures

Previous year's figures have been re-arranged, wherever necessary for the purpose of comparison. However no material re-arrangements have been made.

46.2 Figures have been rounded off to the nearest of thousand of rupee.

JOHN MICHAEL DAVIS
Head of Finance and Control

BRUNO BORIS OLIERHOEK
Chief Executive

SYED YAWAR ALI
Chairman

Form of Proxy

Nestlé Pakistan Ltd.
308 – Upper Mall, Lahore, Pakistan.

I/We, ____, of ____________________________________, being a member of Nestlé Pakistan Ltd., holder of _____________________________ Ordinary Share(s) as per registered Folio No. _________________________________ hereby appoint Mr.___________________________________ Folio No. __________ of _________________________or failing him Mr.__________________________ Folio No. _______________ of __________________, who is also a member of Nestlé Pakistan Ltd., as my / our proxy in my / our absence to attend and vote for me / us, and on my / our behalf at the Annual General Meeting of the Company to be held on April 25, 2016 and at any adjournment thereof.

Signed under my / our hand this _______ day of ____________, 2016.

Signed by the said: _____________________________

Shareholder's Folio No.: __________________________

and / or CDC Participant I.D. No.: __________________

and Sub- Account No.: ___________________________

Shareholder's CNIC : _____________________________

In the presence of:

Signature across Rs. 5
Revenue Stamp

Signature should agree with the specimen signature registered with the company

_____________________	_____________________
Signature of Witness No. 1	Signature of Witness No. 2
Name: _________________________	Name: _________________________
CNIC No.: ______________________	CNIC No.: ______________________

NOTES:

1 This instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation either under the common seal or under the hand of an official or attorney so authorised. No person shall be appointed as proxy who is not a member of the Company qualified to vote except that a corporation being a member may appoint a person who is not a member.

2 The instrument appointing a proxy and the power of attorney or other authority (if any), under which it is signed or a notarially certified copy of that power of authority, shall be deposited at the office of the Company not less than 48 (forty eight) hours before the time for holding the meeting at which the person named in the instrument proposes to vote, and in default the instrument of a proxy shall not be treated as valid.

3. CDC Shareholders or their Proxies should bring their original Computerized National Identity Card or original Passport along with the Participant's ID Number and their Account Number to facilitate their identification. Detailed procedure is given in the Notes to the Notice of AGM.

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The Company Secretary
Nestlé Pakistan Ltd.
308 – Upper Mall, Lahore, Pakistan
Phone No. +92 42 111 637 853
Fax No. +92 42 3578 9303
www.nestle.pk

پراکسی فارم

نیسلے پاکستان لمیٹڈ، 308 -اپر مال، لاہور

میں/ہم ____________________

برائے ____________________

نیسلے پاکستان لمیٹڈ کے ممبر (ممبران) کی حیثیت سے ____________________

عمومی شیئرز کی تحویل رکھتا ہوں/رکھتے ہیں ____________________

لہٰذا بذریعہ ہذا ____________________ کے/ کی جناب/ محترمہ ____________________

کو بحوالہ فولیو/CDC اکاؤنٹ نمبر یا ان کی جگہ ____________________

کے/ کی جناب/ محترمہ ____________________ بحوالہ فولیو/CDC اکاؤنٹ نمبر ____________________ (یہ بھی نیسلے پاکستان لمیٹڈ کے/ کی ممبر ہیں) کو کمپنی کے سالانہ اجلاس عام میں اپنی جگہ شرکت، رائے اور ووٹ دینے کے لئے اپنا پراکسی تقرر کرتا/ کرتی ہوں/ کرتے ہیں۔ یہ اجلاس 25 اپریل 2016 کو التواء کی صورت میں کسی بھی دیگر وقت مقررہ پر منعقد ہوگا۔

میں/ ہم بروز ____________ بتاریخ ____________ کو اپنے دستخط/مہر کے ساتھ اس امر کی تصدیق کرتا/ کرتی ہوں/ کرتے ہیں۔

مذکورہ بالا کے دستخط ____________

ان کی موجودگی میں 1. ____________________

2. ____________________

فولیو/CDC اکاؤنٹ نمبر

پانچ روپے کی ریونیو مہر پر دستخط

یہ دستخط کمپنی کے پاس رجسٹرڈ نمونہ دستخط کے جیسے ہونے چاہئیں

اہم نکات:

1۔ باضابطہ، مکمل شدہ اور دستخط کردہ یہ پراکسی فارم کمپنی کے رجسٹرڈ آفس بمقام 308۔ اپر مال روڈ لاہور، میں اجلاس کے وقت سے 48 گھنٹے قبل پہنچ جانا چاہیئے۔

2۔ کمپنی کا ممبر نہ ہونے کی صورت میں کسی فرد کو بطور پراکسی مقرر نہیں کیا جاسکتا، ماسوائے کارپوریشن جو ممبر کے علاوہ دوسرے فرد کو پراکسی نامزد کرسکتی ہے۔

3۔ CDC شیئر ہولڈر یا انکے پراکسی کی صورت میں اجلاس کے وقت اپنا اصل سی این آئی سی یا اصل پاسپورٹ بمع CDC پارٹیسپنٹ آئی ڈی اور اکاؤنٹ نمبر اپنی شناخت کے لئے پیش کرنا ہوگا۔

4۔ کارپوریٹ ادارے کی صورت میں بورڈ آف ڈائریکٹر کی قرارداد/ پاور آف اٹارنی بمع نمونہ دستخط، پراکسی فارم کے ساتھ کمپنی کو پیش کئے جائیں (اگر وہ پہلے پیش نہ کئے گئے ہوں)۔

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The Company Secretary
Nestlé Pakistan Ltd.
308 – Upper Mall, Lahore, Pakistan
Phone No. +92 42 111 637 853
Fax No. +92 42 3578 9303
www.nestle.pk

INVESTORS' EDUCATION

In compliance with the Securities and Exchange Commission of Pakistan's SRO 924(1)/2015 dated September 9, 2015, Investors' attention is invited to the following information message:

Acronyms Used in Financial Statement

Sr.#	Abbreviation	Written Out Form
1	IAS	International Accounting Standards
2	IFRS	International Financial Reporting Standards
3	IFRIC	International Financial Reporting Interpretations Committee
4	LIBOR	London Inter-Bank Offer Rate
5	KIBOR	Karachi Inter-Bank Offer Rate
6	FIFO	First In First Out
7	OCI	Other Comprehensive Income

Nestlé 150 Years
of Good Food, Good Life

Nestlé Pakistan Limited
308 Upper Mall, Lahore Pakistan
Tel: +92 42 111 637 853
Fax: +92 42 35789303

nestle.pk